



# Virginia Health Benefit Exchange

Financial Report

June 30, 2021

State Corporation Commission  
1300 East Main Street  
Richmond, VA 23219

Virginia Health Benefit Exchange  
A Division of the State Corporation Commission

Financial Report

For the Year Ended June 30, 2021

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## INDEPENDENT AUDITORS' REPORT

Commissioners  
Virginia Health Benefit Exchange  
Richmond, Virginia

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Virginia Health Benefit Exchange (the Exchange), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Exchange as of June 30, 2021, and the respective changes in its financial position and budgetary comparison for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Notes 1 and 2 to the financial statements, the financial statements present only the Exchange, and do not purport to, and do not, present fairly the financial position of the Commonwealth of Virginia, State Corporation Commission, as of June 30, 2021, or the changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated May 27, 2022 on our consideration of the Exchange's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the Exchange's 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 Exchange's internal control over financial reporting and compliance.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Arlington, Virginia  
May 27, 2022

## **Basic Financial Statements**

# **THE VIRGINIA HEALTH BENEFIT EXCHANGE**

## **Balance Sheet - Governmental Fund**

**At June 30, 2021**

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	<b><u>Special Revenue Fund</u></b>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 6,285,343
Accounts Receivable	53,688
Total Assets	<u>\$ 6,339,031</u>
<b>LIABILITIES</b>	
Accounts Payable	\$ 453,449
Accrued Liabilities	28,530
Due to Treasurer of Virginia	<u>6,000,000</u>
Total Liabilities	<u>6,481,979</u>
<b>FUND BALANCE</b>	
Unassigned	<u>(142,948)</u>
Total Liabilities and Fund Balance	<u>\$ 6,339,031</u>

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

# **THE VIRGINIA HEALTH BENEFIT EXCHANGE**

## **Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund Year Ended June 30, 2021**

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	<b><u>Special Revenue Fund</u></b>
<b>REVENUES</b>	
Assessments	\$ 3,481,783
Other Revenues	-
Total Revenues	<u>3,481,783</u>
<b>EXPENDITURES</b>	
Salaries and Wages	423,887
Operations and Maintenance	1,914,050
Navigator Grants	<u>1,286,794</u>
Total Expenditures	<u>3,624,731</u>
Deficiency of Revenues over Expenditures	<u>(142,948)</u>
Net Change in Fund Balance	(142,948)
Fund Balance - Beginning	-
Fund Balance - Ending	<u>\$ (142,948)</u>

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

**THE VIRGINIA HEALTH BENEFIT EXCHANGE**

**Statement of Revenues, Expenditures, and Changes in Fund Balance -  
Budget and Actual - Governmental Fund  
Year Ended June 30, 2021**

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	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<b>Variance From Final Budget Favorable/ (Unfavorable)</b>
<b>REVENUES</b>				
Assessments	\$ 2,914,000	\$ 2,914,000	\$ 3,481,783	\$ 567,783
Other Revenues	-	-	-	-
Total Revenues	<u>2,914,000</u>	<u>2,914,000</u>	<u>3,481,783</u>	<u>567,783</u>
<b>EXPENDITURES</b>				
Salaries and Wages	924,507	924,507	423,887	500,620
Operations and Maintenance	3,851,641	3,865,666	1,914,050	1,951,616
Navigator Grants	2,000,000	2,000,000	1,286,794	713,206
Total Expenditures	<u>6,776,148</u>	<u>6,790,173</u>	<u>3,624,731</u>	<u>3,165,442</u>
Deficiency of Revenues over Expenditures	<u>(3,862,148)</u>	<u>(3,876,173)</u>	<u>(142,948)</u>	<u>3,733,225</u>
Net Change in Fund Balance	<u>\$ (3,862,148)</u>	<u>\$ (3,876,173)</u>	<u>\$ (142,948)</u>	<u>\$ 3,733,225</u>

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

## **THE VIRGINIA HEALTH BENEFIT EXCHANGE**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2021

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### **Note 1 – Organization and Operations**

In 2020, the Virginia General Assembly enacted legislation (Chapter 65 of Title 38.2 of the Code of Virginia) to create the Health Benefit Exchange (the “Exchange”) as a division of the State Corporation Commission (SCC). The Exchange is charged with making qualified health plans and qualified dental plans available to individuals in the Commonwealth via a transparent and competitive marketplace that promotes consumer choice and education, assists individuals and small employers with access to health and dental insurance coverage, promotes continuity of coverage, and reduces the number of uninsured in Virginia. The Exchange is also charged with providing for the establishment of a Small Business Health Options Program (SHOP) to assist qualified small employers in the Commonwealth in facilitating enrollment of their eligible employees in qualified health plans and qualified dental plans offered in the small group market.

Following passage of the Affordable Care Act (ACA), and since its launch in 2010, Virginia has utilized the Federal Platform and marketplace. In 2020, Virginia took the first step toward establishing a state-based marketplace when the Exchange transitioned from a Federally-facilitated Exchange (FFE) to a State-based Exchange on the Federal Platform (SBE-FP) for plan years 2021 – 2023. Virginia completed its initial open enrollment period as an SBE-FP on December 15, 2020. Nine insurance carriers offered plans in Virginia through the SBE-FP for plan year 2021. Until the transition to a state-based exchange is complete, Virginia consumers and small businesses will continue to shop and enroll in ACA health plans through Healthcare.gov.

The Exchange engages assisters to work with consumers, including Navigators, Certified Application Counselor Designated Organizations (CDOs), and Certified Application Counselors (CACs). The Exchange oversees a Navigator program to help Virginians navigate, shop for and enroll in coverage.

Consumer education is a key component of Exchange activities. The Exchange established a website, located on the public SCC website, to communicate coverage options and available consumer assistance and associated services. The Exchange also established a toll-free telephone hotline to respond to consumer inquiries, provide eligibility and enrollment information, and direct them to [www.HealthCare.gov](http://www.HealthCare.gov) and relevant resources.

The State Corporation Commission is an independent agency of the Commonwealth of Virginia. Its funds are non-major, governmental-type special revenue funds. The Virginia Health Benefit Exchange (HBE) is a Division within the SCC.

### **Note 2 – Summary of Significant Accounting Policies**

#### **Measurement Focus and Basis of Accounting**

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accounting and financial reporting standard-setting body for state and local governments in the United States. The Virginia Health Benefit Exchange’s financial statements were prepared using the current financial resources measurement focus and the modified accrual basis of accounting and present the financial position attributable to the transactions of the Virginia Health Benefit Exchange only.

## **THE VIRGINIA HEALTH BENEFIT EXCHANGE**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2021

### **Note 2 – Summary of Significant Accounting Policies, Continued**

#### **Budgetary Process**

The Commonwealth of Virginia's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly. The budget is prepared on a biennial basis; however, the budgets of special revenue funds like the SCC contain separate appropriations for each year within the biennial budget, as approved by the General Assembly and signed into law by the Governor.

Appropriations for programs like HBE, funded from special revenue funds, may allow expenditures in excess of the original appropriations to the extent that revenues of the funds exceed original budget estimates, and such additional expenditures are approved by the governor through supplemental appropriations. Unexpended appropriations at the end of the fiscal year generally lapse; however, they may be reappropriated for expenditure in the following fiscal year. For management control purposes, the lowest level of budgetary control is the program level.

Budgetary amounts shown in the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual statement represent the total of the original budgeted amounts and all supplemental appropriations. The budgetary basis differs from the GAAP-compliant modified accrual basis under which the amounts in the Actual column are presented in this statement. The difference between the two bases in these financial statements is attributable to revenue and expenditure accruals required under the modified accrual basis of accounting, as shown below:

#### Fund Balance Comparison, Modified Accrual Basis to Budgetary Basis

Fund Balance, Modified Accrual	\$	(142,948)
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#### Adjustments from Modified Accrual to Budget:

Accrued Payroll		28,530
Accrued Expenditures		453,449
Accrued Revenue		(53,688)
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Fund Balance, Budgetary Basis	\$	285,343

#### **Cash and Cash Equivalents**

Cash and investments with an original maturity of ninety days or less are treated as cash and cash equivalents, respectively.

#### **Assessments Receivable**

Receivables consisted of the 0.50% assessment levied on premium income earned by insurers selling qualified health and dental plans to Virginians via the federal exchange prior to June 30, 2021, and collected within thirty days after fiscal year end. The Exchange did not begin to levy assessments until February 2021.

## THE VIRGINIA HEALTH BENEFIT EXCHANGE

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2021

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### Note 2 – Summary of Significant Accounting Policies, Continued

Refer to the [Assessment Order \(<https://www.scc.virginia.gov/getattachment/ff140ecd-7c9c-4daa-9e1b-f2f6f9c7e4be/INS-2020-00118.pdf>\)](https://www.scc.virginia.gov/getattachment/ff140ecd-7c9c-4daa-9e1b-f2f6f9c7e4be/INS-2020-00118.pdf) for more information about the Exchange's assessment rates.

#### Accounts Payable and Accrued Liabilities

Accounts payable consisted primarily of contracted services expenditures incurred that were unpaid as of June 30, 2021. Accrued liabilities represent payroll for the last half of June 2021 that was paid in July 2021.

#### Interfund Payables

The 2020 Virginia Acts of Assembly, Chapter 1289 (Appropriations Act) included provisions permitting Virginia's Secretary of Finance to authorize either an interest-free working capital advance (WCA) or treasury loan in an amount not to exceed \$40,000,000 to fund start-up costs and other costs associated with the implementation of the Virginia Health Benefit Exchange. A portion of the assessment revenues collected by the Exchange may be used to repay the WCA or loan. The SCC, in consultation with Virginia's Department of Accounts, determined the interest-free WCA was the best mechanism to fund the start-up costs of the Exchange. The estimated period of use of the WCA is ten years, with periodic, as-needed drawdowns starting in FY2021 and continuing through FY2025. Repayment of the WCA would commence in FY2026 in equal increments over five years, with the last repayment occurring in FY2030.

#### Revenues

Revenues are recognized when earned if they are both measurable and available. Revenues are considered available when billed and are considered collectible in the current period or soon enough thereafter to be used to pay liabilities of the current period. For year-end cutoff, amounts assessed prior to June 30 and collected within thirty days after fiscal year end are accrued.

#### Expenditures

Expenditures are generally recognized when the liability is incurred. Expenditures incurred by the Exchange during FY2021 primarily include salaries and wages, consulting fees, advertising costs, and Navigator grants.

#### Fund Balance

In the Exchange's basic financial statements, fund balance represents the difference between assets and liabilities. Typically, the Exchange's entire fund balance would be classified as restricted since it may be spent only for the purposes specified by enabling legislation ([§38.2-6510 A](#) of the Code of Virginia). However, during FY2021, the Exchange's first year in operation, expenditures exceeded revenues by \$142,948, resulting in a negative fund balance, which is classified as *unassigned* fund balance on the Balance Sheet in accordance with GASB Statement No. 54. This negative fund balance does not represent a going concern issue for the following reasons: the Exchange did not begin receiving revenues until February 2021 but incurred expenditures throughout the entire year during FY2021; enabling legislation (the ACA and the Code of Virginia) permit the Exchange to increase its assessment rate to fund its operations.

## THE VIRGINIA HEALTH BENEFIT EXCHANGE

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2021

### Note 2 – Summary of Significant Accounting Policies, Continued

#### Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of asset, liabilities, revenues, and expenditures. Actual results could differ from these assumptions and estimates.

#### Note 3 – Deposits and Investments

The Department of Treasury's Cash Management and Investments Divisions is responsible for the investment of state funds and the administration of banking and cash management services. Accordingly, the Exchange's cash balance is pooled with other funds' and agencies' cash balances in order to maximize the Commonwealth of Virginia's earning potential within levels of prudence established by statute and Treasury Board guidelines.

The pool operates as a demand deposit account; consequently, the balances attributable to the Exchange are classified on the Balance Sheet as Cash and Cash equivalents.

For governmental-type funds, investments in money market and in the Commonwealth sponsored investment pools are reported at amortized cost, which approximates fair value. All other investments are reported at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended by GASB Statement No. 72, *Fair Value Measurement and Application*.

Because the Exchange's funds are pooled and available on demand, there is no investment information specific to the Exchange. More information can be found in the Commonwealth of Virginia's Annual Comprehensive Financial Report for the fiscal year ended June 30, 2021 available at [FY2021 Commonwealth of Virginia ACFR \(<https://www.doa.virginia.gov/reports>\)](#), or the Department of Treasury's website (<https://www.trs.gov/Cash-Management-Investments>).

#### Note 4 – Receivables and Payables

##### Accounts Receivable – Governmental Activities

The Exchange's accounts receivable balance as of June 30, 2021, consists of assessments billed prior to June 30 and received within thirty days of fiscal year-end, as shown in the table below. There is no associated allowance for uncollectible accounts since no receivable was greater than thirty days past due.

Insurer	Receivable at June 30, 2021	
Oscar Insurance Company	\$	1,461
Optima Health Plan		51,453
Guardian Life Ins		115
DSM USA Insurance Co		267
Dentegra Ins Co		88
Dental Care Plus		304
<b>Total</b>	<b>\$</b>	<b>53,688</b>

## THE VIRGINIA HEALTH BENEFIT EXCHANGE

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2021

### Note 4 – Receivables and Payables, Continued

#### Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of salaries, contractual services, operating costs, and navigator grants that were outstanding as of June 30, 2021, as shown in the table below.

	<b>Accounts Payable</b>	<b>Accrued Liabilities</b>	<b>Total</b>
Salaries & wages	\$ -	\$ 28,530	\$ 28,530
Contractual services	180,606	-	180,606
Operating costs	2,796	-	2,796
Navigator grants	270,047	-	270,047
<b>Total</b>	<b>\$ 453,449</b>	<b>\$ 28,530</b>	<b>\$ 481,979</b>

#### Due to Treasurer of Virginia (Interfund Payables)

The Exchange drew down \$6,000,000 of the WCA in FY2021 to fund operations until revenues became available in late February 2021. The initial proposed drawdown schedule is shown below.

<b>Date</b>	<b>Drawdown Amount</b>
July 1, 2020	\$ 6,000,000
July 1, 2021	4,500,000
July 1, 2022	18,000,000
July 1, 2023	11,500,000
<b>Total</b>	<b>\$ 40,000,000</b>

The Exchange did not draw down \$4.5M on July 1, 2021, because the transition to a full state-based Exchange was delayed by one year, from plan year 2023 to plan year 2024. Actual draw down amounts and timing will depend upon the needs of the Exchange, particularly once the contracts for the platform, consumer assistance center, and website are awarded.

#### Note 5 – Navigator Grants

As required by federal statute and regulations (45 CFR §155.210), the Exchange established a Navigator program and awarded approximately \$1.3M in grants to two qualified organizations – Boat People SOS and the Virginia Poverty Law Center. These Navigators conduct duties such as public outreach and education to raise awareness about the Exchange, providing information and services that assist consumers with making informed decisions during the health coverage selection process, facilitating the selection of a qualified health plan (QHP), and referring consumers to other state agencies or organizations as needed.

## **THE VIRGINIA HEALTH BENEFIT EXCHANGE**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2021

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### **Note 6 – Risk Management**

The SCC, and by extension, the Exchange, participate in the Department of Treasury's Division of Risk Management's (DRM) risk management plans and programs. These plans and programs protect the Commonwealth of Virginia's departments, agencies, institutions, boards, commissions, officers, agents, and employees against the financial risks that result from legal liability, property damage or loss, and loss of state funds. Coverage includes liability (including automobile liability), property, automobile physical damage, and bonds (faithful performance of duty and blanket fidelity/crime bonds).

### **Note 7 – Regulatory Risk**

#### **Federal and State Laws**

The foundation of the Virginia Health Benefit Exchange is the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act (ACA). Virginia has taken steps to protect the health insurance marketplace and preserve ACA consumer protections by passing legislation that led to the creation of the Virginia HBE. However, future changes in federal and/or state laws could significantly impact the Exchange's purpose, operations, and number of eligible participants.

#### **State Innovation (ACA Section 1332) Waiver**

The Commonwealth of Virginia Health Reinsurance Program was signed into law on March 31, 2021, as Chapter 480 of the 2021 Virginia Acts of Assembly. This bill requires the SCC to submit a waiver request for federal approval to establish a reinsurance program. The purpose of this program is to pursue innovative strategies for providing Virginians with access to high quality, affordable health insurance while retaining the basic protections of the ACA. With funding from Virginia's General Fund and pass-through Federal funds which would be used to reimburse carriers in the individual insurance marketplace, this program is designed to increase affordability in the individual market by reducing premiums. Reductions in premiums will result in reductions in the Exchange's assessment revenues. More information about the reinsurance waiver can be found by visiting [Virginia SCC - Reinsurance Waiver](https://www.scc.virginia.gov/pages/Reinsurance-Waiver) (<https://www.scc.virginia.gov/pages/Reinsurance-Waiver>).

### **Note 8 – Subsequent Events**

The SCC's Bureau of Insurance submitted a State Innovation (ACA 1332) Waiver to the federal government on December 30, 2021. The application was approved on May 17, 2022. Under this reinsurance program, insurers are expected to lower their premiums by approximately 15.6% for Plan Year 2023, which begins on January 1, 2023. This reduction in premiums is expected to reduce the Exchange's assessment revenues proportionately, beginning in the second half of FY2023.

The Exchange released its most significant Request for Proposals (RFP) for the state's marketplace platform and consumer assistance center. Proposals were received on May 8, 2022 and are under evaluation. The contract has not awarded as of the date of this report.



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

Commissioners  
Virginia Health Benefit Exchange  
Richmond, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Virginia Health Benefit Exchange (the Exchange), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Virginia Health Benefit Exchange's basic financial statements, and have issued our report thereon dated May 27, 2022.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Exchange's internal control over financial reporting (internal control) as a basis for designing 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 Exchange's internal control. Accordingly, we do not express an opinion on the effectiveness of the Exchange'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.

Commissioners  
Virginia Health Benefit Exchange

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Exchange'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Arlington, Virginia  
May 27, 2022