



NY STATE OF HEALTH

(A Division operating under the New York State Department of Health)

Basic Financial Statements and
Other Supplementary Information

December 31, 2016

(With Independent Auditors' Report Thereon)

NY STATE OF HEALTH
(A Division operating under the New York State Department of Health)

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis (unaudited)	3
Basic Financial Statements:	
Governmental Funds Balance Sheet and Statement of Net Position as of December 31, 2016	9
Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and Statement of Activities for the Year Ended December 31, 2016	10
Notes to the Basic Financial Statements	11



KPMG LLP
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Independent Auditors' Report

The Executive Director of the NY State of Health
NY State of Health
(a Division operating under the New York State Department of Health):

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the general fund, and the federal special revenue fund of the NY State of Health, a Division operating under the New York State Department of Health (the Division), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements as listed in the accompanying 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 U.S. generally accepted accounting principles; 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 opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the general fund, and the federal special revenue fund of the NY State of Health, as of December 31, 2016, and the respective changes in financial position thereof for the year ended December 31, 2016, in accordance with U.S. generally accepted accounting principles.



Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles requires that the management's discussion and analysis listed in the accompanying table of contents 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.

Emphasis of Matter

As discussed in note 1, the financial statements of the NY State of Health are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, the general fund, and the federal special revenue fund of the State of New York that is attributable to the transactions of the Division. They do not purport to, and do not, present fairly the financial position of the State of New York as of December 31, 2016, or the changes in its financial position for the year ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2017, on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control over financial reporting and compliance.

KPMG LLP

Albany, New York
March 31, 2017

NY STATE OF HEALTH

(A Division operating under the New York State Department of Health)

Management's Discussion and Analysis (unaudited)

December 31, 2016

Introduction

Management's discussion and analysis (MD&A) provides a narrative overview and analysis of the financial activities of NY State of Health (NYSoH), a division operating under the New York State Department of Health (DOH), for the year ended December 31, 2016. The MD&A is intended to serve as an introduction to NYSoH's basic financial statements, which have the following components: (1) Governmental Funds Balance Sheet and Statement of Net Position, (2) Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and Statement of Activities, and (3) notes to the basic financial statements. The MD&A is designed to assist the reader in focusing on significant financial matters, and provide an overview of NYSoH's financial activities. The following presentation is by necessity highly summarized, and in order to gain a thorough understanding of NYSoH's financial condition, the following financial statements, and notes should be reviewed in their entirety.

Background

By Executive Order No. 42 dated April 12, 2012, Governor Andrew M. Cuomo established the New York Health Benefit Exchange (later renamed NY State of Health) a division operating within the DOH in conformity with the Patient Protection and Affordable Care Act (ACA). On July 9, 2012, Governor Cuomo submitted a declaration letter to the Centers for Medicare and Medicaid Services confirming New York's intent to establish a State-based Health Plan Marketplace consistent with the ACA. On December 14, 2012, the United States Department of Health and Human Services (HHS) granted New York State approval to operate a state-based exchange. On October 1, 2013, NYSoH's Marketplace was officially operational and consumers were able to begin shopping for health insurance.

NYSoH is an organized, online marketplace through which individuals and small businesses may shop for health insurance in a way that allows them to compare health plan options, calculate costs, and select coverage. Through the Marketplace website, individuals may apply for and enroll in Insurance Affordability Programs including Medicaid, Child Health Plus, the Basic Health Plan (renamed the Essential Plan) and Qualified Health Plans (QHPs) for which qualified individuals receive advanced premium tax credits and cost sharing reductions to help pay for coverage. Individuals can also enroll in QHPs at full premium. The Small Business Marketplace of the NYSoH (also known as the Small Business Health Options program or "SHOP") allows small employers to enroll in QHPs certified by the Marketplace. During the year ended December 31, 2016, small employers are defined in New York State as 100 or fewer employees. A small business may select certain plan options for their employees or they may define the coverage tier and the contribution level and allow employees to choose a QHP that best meets their needs. Employers with fewer than 25 employees and meeting certain other federal requirements may qualify for small business tax credits using a sliding scale based on number of employees and average salary. New Yorkers can complete the Marketplace application online, in-person, over the phone, or by mail.

NYSoH funding was split with Federal grant funds available for expenditures related to design, development and implementation (including outreach and advertising activities designed to attract new enrollees) and New York State funds available for the remaining costs out of the general fund, with revenue from the State's broad-based healthcare assessments.

NY STATE OF HEALTH
(A Division operating under the New York State Department of Health)
Management's Discussion and Analysis (unaudited)
December 31, 2016

The Financial Statements

This annual report contains the following financial statements of NYSoH for the year ended December 31, 2016: the Governmental Funds Balance Sheet and Statement of Net Position and the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and Statement of Activities. The basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB).

The Statement of Net Position, a government-wide financial statement, presents information on NYSoH's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of NYSoH is improving or deteriorating. One will need to consider other nonfinancial factors, however, such as changes in the funding mechanism, to assess the overall health of NYSoH.

The Statement of Activities, a government-wide financial statement, demonstrates the degree to which the direct expenses of establishing and maintaining New York State's official health plan marketplace are offset by revenues. Direct expenses are those that are clearly identifiable to NYSoH's mission, including personal and nonpersonal expenses incurred by the DOH related to the NYSoH.

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

The Governmental Funds Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances, which include the general fund and federal special revenue fund, provide additional details about the NYSoH's financial position and activities. These fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collected within the current period or are collectible within 12 months of the end of the current fiscal period. Most expenditures and related liabilities are recorded in the accounting period the liability is incurred to the extent it is expected to be paid with expendable available financial resources. Grant funding is recognized as revenue as soon as all applicable eligibility requirements for the grant have been met and amounts are measurable and available. Appropriations from state resources are recognized when the expense being funded is incurred.

For presentation purposes, the fund financial statements and the government-wide financial statements have been combined using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statements. The adjusting column reflects the different basis of accounting and measurement focus. These reconciling items are described in note 3 to the basic financial statements.

NY STATE OF HEALTH
(A Division operating under the New York State Department of Health)
Management's Discussion and Analysis (unaudited)
December 31, 2016

Government-wide Financial Information

Summarized government-wide financial information as of and for the year ended December 31, 2016 and 2015 is as follows:

Table 1 – Net Position	2016	2015
	(In thousands)	
Current assets	\$ 30,222	37,772
Capital assets	100,690	91,880
Total assets	130,912	129,652
Current liabilities	30,222	37,772
Pension contribution liability	451	—
Total liabilities	30,673	37,772
Net position:		
Net investment in capital assets	100,690	91,880
Unrestricted	(451)	—
Total net position	\$ 100,239	91,880

Table 2 – Changes in Net Position	2016	2015
	(In thousands)	
Federal grants	\$ 39,846	75,993
Expenses	61,229	106,293
Expenses in excess of revenues	(21,383)	(30,300)
Appropriations from State resources	29,741	50,679
Transfers from other funds	11,186	—
Transfers to other funds	(11,186)	—
Total other financing services	29,741	50,679
Increase in net position	8,358	20,379
Net position: January 1	91,881	71,501
Net position: December 31	\$ 100,239	91,880

- In fiscal year 2016, both the federal grant and state appropriations revenues and related expenses, including related receivables and accruals, were reduced from the fiscal year 2015 levels. NYSoH shares an enrollment system and the customer service contract as well as varied other expenses with New York State Public Programs (Medicaid and Child Health Plus) and the Essential Plan. Allocations of expenses amongst these programs is based upon the percentage of enrollment for each grouping as compares to total enrollment. As the enrollment of the Medicaid population and Essential Plan grows the allocation

NY STATE OF HEALTH
(A Division operating under the New York State Department of Health)
Management's Discussion and Analysis (unaudited)
December 31, 2016

percentage to NYSoH for the QHP enrollment decreases resulting in an overall reduction to expenses and revenue being accounted for within the financial statements from year to year. In fiscal year 2016, NYSoH updated the cost allocation consistent with updated enrollment which had a marked impact upon these items. Additionally, federal grant funds continued into 2016, however, a reduction in grant-covered expenses occurred.

- The period ended December 31, 2016 shows an increase to net position as additional development costs were incurred and placed in service for the capital asset. Software development of approximately \$20 million for NYSoH occurred in 2016. This is an ongoing process as NYSoH seeks to improve functionality and meet the evolving requirements for State-based Marketplaces. The 2016 additions of \$20 million were offset by approximately \$11 million in accumulated depreciation for the year.

Governmental Fund Financial Information

Summarized NYSoH's general fund financial information as of and for the year ended December 31, 2016 and 2015 is as follows:

Table 3 – Fund Balance	2016	2015
	(In thousands)	
Assets	\$ 16,314	16,169
Liabilities	16,314	16,169
Fund balance	\$ —	—

Table 4 – Change in Fund Balance	2016	2015
Revenues	\$ —	—
Expenditures	40,927	50,679
Excess of expenditures over revenues	(40,927)	(50,679)
Appropriations from State resources	29,741	50,679
Transfers from other funds	11,186	—
Change in fund balance	\$ —	—

- The assets and liabilities at December 31, 2016 consist of due from State resources and accrued liabilities. Due from State resources represents the receivable for accrued expenditures at year-end that are to be funded by the State general fund appropriations. The liabilities primarily represent contracted services incurred but not yet paid.
- The decrease in State expenditures within the 2016 fiscal year is directly attributable to the updating of cost allocation based upon updated enrollment caused a lower percentage of expense to be allocated.
- In a 2016 federal reimbursement of grant eligible expenditures, originally paid out of general fund appropriations in the prior fiscal year, occurred in the current fiscal year resulting in a transfer from federal special revenue fund in the amount of the reimbursement.

NY STATE OF HEALTH
(A Division operating under the New York State Department of Health)
Management's Discussion and Analysis (unaudited)
December 31, 2016

Summarized NYSoH's federal special revenue fund financial information as of and for the year ended December 31, 2016 and 2015 is as follows:

Table 5 – Fund Balance	2016	2015
	(In thousands)	
Assets	\$ 13,908	21,603
Liabilities	13,908	21,603
Fund balance	\$ —	—

Table 6 – Change in Fund Balance	2016	2015
	(In thousands)	
Revenues	\$ 39,846	75,993
Expenditures	28,660	75,993
Excess of revenue of expenditure	11,186	—
Transfers to other funds	(11,186)	—
Change in fund balance	\$ —	—

- The assets and liabilities at December 31, 2016 consist of due from Federal government and accrued liabilities. Due from Federal Government represents the receivable for accrued expenditures at year-end that are to be funded by the Federal grants. The liabilities primarily represent contracted services incurred but not yet paid which decreased from prior year due to a reduction in the allocation percentage as described on page 5 and a reduction in expenditures funded by the federal grants
- The decrease in federal expenditures within the 2016 fiscal year is directly attributable to the updating of cost allocation based upon updated enrollment data, which was reduced from the fiscal year 2015 levels. Further, there was a reduction in software developmental activities as NYSoH transitions from a developmental phase to an operational phase.

Capital Assets

As of December 31, 2016 and December 31, 2015, NYSoH had \$100,690,652 and \$91,880,414, respectively, invested in the software necessary to operate the Health Benefit Marketplace. The software forms the core of the Marketplace and handles enrollment, eligibility determinations, and relaying of enrollment/disenrollment information to carriers. It also provides the consumers with information on each health plan offering for which they are determined eligible so an informed plan selection can be made. The intangible asset recorded for this software is amortized using a straight-line method over the assets' useful life.

Economic Factors affecting New York State of Health

A combination of continued Federal grant funding and State funds are used to cover costs. Federal grants continue to only cover certain costs of NYSoH, mainly expenditures related to design, development and implementation (including outreach and advertising activities designed to attract new enrollees). The State will assume the remaining costs. NYSoH has already received a no-cost extension of grant funds to cover the federally funded expenditures through December 31, 2017. The approved State annual budget for fiscal years,

NY STATE OF HEALTH

(A Division operating under the New York State Department of Health)

Management's Discussion and Analysis (unaudited)

December 31, 2016

April 1, 2015 – March 31, 2016 and April 1, 2016 – March 31, 2017 have included funding to cover the State's share of NYSoH's expenditures.

Effective January 1, 2016, NYSoH began enrolling employer groups with up to 100 employees to purchase insurance through the small business (SHOP) portion of the marketplace. The maximum number of employees was limited to 50 in the previous years for SHOP participation. The increase to the size of allowed SHOP groups could increase deposits with third parties and accrued liabilities in future years.

Contacting the NYSoH's Financial Management

This financial report is designed to provide a general overview of NYSoH's finances and to show accountability for the funds it receives. If you have any questions about this report or need additional financial information, submit questions to the NY State of Health at Corning Tower, Empire State Plaza, Suite 2580, Albany, New York 12237. Additional information can be found on our Website at www.nystateofhealth.ny.gov.

BASIC FINANCIAL STATEMENTS

NY STATE OF HEALTH
(A Division operating under the New York State Department of Health)
Governmental Funds Balance Sheet and Statement of Net Position
December 31, 2016

<u>Assets</u>	<u>General fund</u>	<u>Federal special revenue fund</u>	<u>Total governmental funds</u>	<u>Adjustments (note 3)</u>	<u>Statement of net position</u>
Deposits with third party	\$ —	4,652,417	4,652,417	—	4,652,417
Due from Federal government	—	9,255,330	9,255,330	—	9,255,330
Due from State resources	16,313,926	—	16,313,926	—	16,313,926
Capital assets:					
Software, net of amortization	—	—	—	94,241,544	94,241,544
Development in progress	—	—	—	6,449,108	6,449,108
Total assets	<u>16,313,926</u>	<u>13,907,747</u>	<u>30,221,673</u>	<u>100,690,652</u>	<u>130,912,325</u>
Liabilities					
Accrued liabilities	16,313,926	13,907,747	30,221,673	—	30,221,673
Pension contribution liability	—	—	—	451,536	451,536
Total liabilities	<u>16,313,926</u>	<u>13,907,747</u>	<u>30,221,673</u>	<u>451,536</u>	<u>30,673,209</u>
Fund balance/net position:					
Assigned	—	—	—	—	—
Unassigned	—	—	—	—	—
Total fund balance	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total liabilities and fund balance	<u>\$ 16,313,926</u>	<u>13,907,747</u>	<u>30,221,673</u>		
Net investment in capital assets				100,690,652	100,690,652
Unrestricted				(451,536)	(451,536)
Net position				<u>\$ 100,239,116</u>	<u>100,239,116</u>

See accompanying notes to the basic financial statements.

NY STATE OF HEALTH
(A Division operating under the New York State Department of Health)

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and Statement of Activities

December 31, 2016

	General fund	Federal special revenue fund	Total governmental Funds	Adjustments (note 3)	Statement of activities
Revenues:					
Federal grants	\$ —	39,846,185	39,846,185	—	39,846,185
Total revenues	<u>—</u>	<u>39,846,185</u>	<u>39,846,185</u>	<u>—</u>	<u>39,846,185</u>
Expenditures/expenses:					
Division operations:					
Personal service	2,426,511	1,610,503	4,037,014	—	4,037,014
Nonpersonal service	37,361,286	6,429,392	43,790,678	—	43,790,678
Fringe benefits	1,139,717	868,550	2,008,267	451,536	2,459,803
Amortization expense	—	—	—	10,941,378	10,941,378
Capital outlay	—	19,751,616	19,751,616	(19,751,616)	—
Total expenditures/expenses	<u>40,927,514</u>	<u>28,660,061</u>	<u>69,587,575</u>	<u>(8,358,702)</u>	<u>61,228,873</u>
Total expenditures/expenses in excess of revenues	<u>(40,927,514)</u>	<u>11,186,124</u>	<u>(29,741,390)</u>	<u>8,358,702</u>	<u>(21,382,688)</u>
Other financing sources:					
Appropriations from State resources	29,741,390	—	29,741,390	—	29,741,390
Transfers from other funds	11,186,124	—	11,186,124	—	11,186,124
Transfers to other funds	—	(11,186,124)	(11,186,124)	—	(11,186,124)
Total other financing sources	<u>40,927,514</u>	<u>(11,186,124)</u>	<u>29,741,390</u>	<u>—</u>	<u>29,741,390</u>
Net change in fund balance/net position	—	—	—	8,358,702	8,358,702
Fund balance/net position: January 1, 2016	<u>—</u>	<u>—</u>	<u>—</u>	<u>91,880,414</u>	<u>91,880,414</u>
Fund balance/net position: December 31, 2016	<u>—</u>	<u>—</u>	<u>—</u>	<u>100,239,116</u>	<u>100,239,116</u>

See accompanying notes to the basic financial statements.

NY STATE OF HEALTH

(A Division operating under the New York State Department of Health)

Notes to the Basic Financial Statements

December 31, 2016

(1) Organization and Description of Operations

NY State of Health (NYSoH) is a division that operates under the New York State Department of Health (DOH). The purpose of NYSoH is to provide a centralized location where individuals and small businesses (fewer than 50 employees) can purchase health insurance. NYSoH was established by Executive Order. On October 1, 2013, NYSoH's Marketplace was officially operational and consumers were able to begin shopping for health insurance.

NYSoH is a large enterprise that covers many different services, including eligibility determinations, appeals of eligibility determinations, contracting with IT systems and customer service providers, maintaining enrollment systems, and monitoring insurance providers. NYSoH does not directly collect premiums from individuals that enroll in health insurance through the Marketplace, rather the Marketplace transmits enrollment information to the insurer that has been selected by the enrollee and the insurer bills the enrollee directly. Premiums for the small businesses are collected by a third party vendor on behalf of NYSoH and distributed to the insurers providing coverage on a monthly basis. The Marketplace also tracks nonpayment and enforces the dunning and termination process for small businesses.

NYSoH's operations began on October 1, 2013 when the Marketplace began accepting applications. NYSoH's activity was funded solely by the Federal State Planning and Exchange Establishment Grants made available under the Affordable Care Act (ACA) through December 31, 2014. Starting January 1, 2015 funding was split with Federal grant funds, via the federal special revenue fund, being used for expenditures related to design, development, and implementation (including outreach and advertising activities designed to attract new enrollees) and the State of New York (the State) covering the remaining costs from general fund appropriations. The basic financial statements are intended to present the financial position and changes in financial position of only that portion of the governmental activities, the general fund and the federal special revenue fund of the State that is attributable to the transactions of NYSoH.

(2) Summary of Significant Accounting Policies

(a) Measurement Focus and Basis of Accounting

The accompanying financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) for governments. Such principles are prescribed by the Governmental Accounting Standards Board (GASB), which is the standard-setting body for establishing governmental accounting and financial reporting principles in the United States of America.

The governmental funds financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting.

The governmental funds include the federal special revenue fund, which accounts for Federal grants received by the State that are earmarked for specific programs, and the general fund which accounts for those expenditures not covered by the Federal grants and are instead funded by the State resources. Revenues are recognized when earned and when they are both measurable and available. Revenues are considered available when they are collectible within the current period or within 12 months of the end of the current fiscal period. Grants are recognized as revenues as soon as all eligibility requirements have been met and amounts are available. Expenditures and related liabilities are recorded in the accounting period the liability is incurred, to the extent it is expected to be paid with expendable available financial resources.

NY STATE OF HEALTH

(A Division operating under the New York State Department of Health)

Notes to the Basic Financial Statements

December 31, 2016

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants are recognized as revenues as soon as all eligibility requirements have been met.

(b) Use of Estimates

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

(c) Deposits with Third Party

Cash collected from SHOP employers and held for distribution to insurance carriers is deposited by the third party vendor, the lockbox vendor, and held in account until distributed. While the cash is received, held, and distributed by the third party vendor, NYSoH has a contractual obligation to ensure the monies are paid to the issuers. As such, NYSoH recognizes a deposit equal to the bank balance of funds collected and held on behalf of SHOP employers, offset by a liability for the payment due to the issuers, recorded within accrued liabilities.

(d) Capital Assets

Capital assets are reported in the Statement of Net Position and include equipment, development in progress, and software and are reported at historical cost while donated assets are recorded at acquisition value. Equipment that has a cost in excess of \$40 thousand at the date of acquisition and has an expected useful life of two or more years is capitalized. Software is capitalized when the costs exceed \$1 million. The costs of modifications that do not increase the functionality or efficiency of the software or do not extend the estimated useful life of equipment are considered maintenance and are expensed as incurred. Capital assets are depreciated or amortized using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Equipment	4 – 30
Software	10

(e) Due from Federal Government

Due from Federal government represents amounts expended by NYSoH and to be reimbursed by the Federal government for the design, development, and in specific circumstances, implementation activities under the Federal State Planning and Exchange Establishment Grants.

(f) Due from State Resources/Appropriation from State Resources

Due from State resources represents amounts owed by NYSoH that will be funded through appropriations from State resources.

NY STATE OF HEALTH
(A Division operating under the New York State Department of Health)
Notes to the Basic Financial Statements
December 31, 2016

(g) Net Position

The difference between assets and liabilities is "Net Position" on NYSoH's government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Net position is reported as restricted when constraints placed on net position use are either:

- i) Externally imposed by creditors (such as debt covenants), grantors, contributors, laws or regulations of other governments; or
- ii) Imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position is the net amount of the assets and liabilities that are not included in the determination of net investment in capital assets or the restricted components of net position described above.

(h) Revenues and Expenditures

Starting January 2015, the shared expenses allocation was changed to allocate cost between NYSoH (for Qualified Health Plan costs) and Medicaid/Child Health Plus based upon percentage of enrollment, with NYSoH-specific information technology (IT) expenses allocated to NYSoH and the remainder allocated using the enrollment projections. Effective April 1, 2015, the shared expenses were allocated between NYSoH, Medicaid/Child Health Plus and the Essential Plan. Allocation percentages are determined using the annual enrollment projections for non-IT expenses, and with NYSoH-specific IT expenses allocated to NYSoH and the remainder allocated using the projected enrollment calculations. This methodology was approved by the U.S. Department of Health and Human Services.

(i) Transfers to/from other funds

Transfers constitute the transfer of resource from the fund that receives the resources to the fund that utilizes them. During 2016, eligible expenditures previously paid out of the general fund in the prior fiscal year became eligible for federal grant reimbursement. Federal grant revenues recognized in Federal special revenue fund during the year were transferred to the general fund and utilize for current expenditures.

(j) Workers Compensation

NYSoH paid \$130,781 for 2016, to cover 100% of the required employer contributions for workers compensation. These payments, made through application of the workers compensation rate within the New York State Fringe Benefit rate calculated by the State's Division of the Budget, represent 3.63% for Federal funded positions and 3.34% for State funded positions for the period of January 1, 2015 through March 31, 2015, and 3.59% for Federal funded positions and 3.84% for State funded positions for the period of April 1, 2016 through December 31, 2016.

NY STATE OF HEALTH

(A Division operating under the New York State Department of Health)

Notes to the Basic Financial Statements

December 31, 2016

(3) Reconciliation of Governmental Funds Financial Statements to Government-wide Financial Statements

As a result of the differences in measurement focus and basis of accounting between the governmental funds financial statements and the government-wide financial statements, certain amounts reported in the financial statements differ. A summary of these differences is described below.

(a) Explanation of Certain Differences between the Governmental Funds Balance Sheet and the Statement of Net Position

Capital assets reported in the statement of net position are not financial resources and, therefore, are not reported as assets of governmental funds. The pension contribution liability is not expected to be liquidated with expendable available resources and, therefore, this liability is not reported as a liability of the governmental funds. Adjustments made to the governmental funds total fund balance to arrive at government-wide net position at December 31, 2016 are as follows:

	2016
Total fund balance	\$ —
Capital assets	100,690,652
Pension contribution liability	(451,536)
Total net position	\$ 100,239,116

(b) Explanation of Certain Differences between the Governmental Fund Statements of Revenues, Expenditures, and Changes in Fund Balances and the Statement of Activities

Capital assets reported in the statement of net position are not financial resources and, therefore, are not reported as assets of governmental funds. When capital assets are purchased or developed, the resources expended for these assets are reported as expenditures in the governmental funds statement of revenues, expenditures and changes in fund balances. However, in the statement of activities, the cost of those assets is capitalized and is allocated over the estimated useful lives as depreciation/amortization expense. Pension contribution liability reported in the statement of net position is not expected to be liquidated with expendable available resources and, therefore, is not reported as liability. Therefore, expenditures related to the liability are reported in governmental funds when paid instead of when incurred. Adjustments made to the net change in fund balance of governmental funds to arrive at the net change in net position in the statement of activities for the year ended December 31, 2016 are as follows:

	2016
Net change in fund balance	\$ —
Add Capital Outlay	19,751,616
Add Fringe Benefits	(451,536)
Less Amortization Expense	(10,941,378)
Net change in net position	\$ 8,358,702

NY STATE OF HEALTH
(A Division operating under the New York State Department of Health)
Notes to the Basic Financial Statements
December 31, 2016

(4) Capital Assets

NYSOH works with a systems integrator to develop the software necessary to operate the Marketplace. The software forms the core of the Marketplace and handles enrollment, eligibility determinations, and relaying of enrollment/disenrollment information to carriers. It also provides the consumers with the information on each health plan offering for which they are determined eligible so an informed plan selection can be made.

Development costs related to the online enrollment system are capitalized with a 10-year useful life. Such costs are recognized in development in progress until placed in service.

Capital asset activity for the year ended December 31, 2016 was as follows:

	<u>Balance January 1, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance December 31, 2016</u>
Governmental activities:				
Depreciable and amortizable assets:				
Software	\$ 100,957,912	16,911,780	—	117,869,692
Less accumulated depreciation and amortization:				
Software	<u>(12,686,770)</u>	<u>(10,941,378)</u>	—	<u>(23,628,148)</u>
Total depreciable and amortizable assets, net	88,271,142	5,970,402	—	94,241,544
Nondepreciable and nonamortizable assets:				
Development in progress	<u>3,609,272</u>	<u>19,751,616</u>	<u>16,911,780</u>	<u>6,449,108</u>
Governmental activities, capital assets, net	<u>\$ 91,880,414</u>	<u>25,722,018</u>	<u>16,911,780</u>	<u>100,690,652</u>

NY STATE OF HEALTH
(A Division operating under the New York State Department of Health)
Notes to the Basic Financial Statements
December 31, 2016

(5) Accrued Liabilities

Accrued liabilities consist of the following at December 31, 2016:

	<u>General fund</u>	<u>Federal special revenue fund</u>	<u>Total governmental funds/ governmental activities</u>
Personal services:			
Salary and fringe	\$ 1,443,505	868,550	2,312,055
Accrued vacation	252,708	—	252,708
Total Personal services	<u>1,696,213</u>	<u>868,550</u>	<u>2,564,763</u>
Contractual services:			
In person assistors	339,534	—	339,534
Advertising expense	6,820,449	—	6,820,449
System integration	580,238	6,449,107	7,029,345
Call center services	5,989,174	1,435,779	7,424,953
Quality assurance	38,273	—	38,273
Total Contractual services	<u>13,767,668</u>	<u>7,884,886</u>	<u>21,652,554</u>
Other nonpersonal services:			
Funds payable to providers	—	4,652,417	4,652,417
Indirect costs	566,428	444,669	1,011,097
All other	283,617	57,225	340,842
Total	<u>\$ 16,313,926</u>	<u>13,907,747</u>	<u>30,221,673</u>

(6) Pension Benefits

Substantially all employees working for the NYSoH are members of the New York State and Local Employees' Retirement System (System), a cost-sharing, multiple employer public employee retirement system. Obligations of employers and employees to contribution and provide benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the State Comptroller serves as sole trustee and administrative head of the System. The Comptroller promulgates rules and regulations for the administration and transaction of the business of the System and for the custody and control of their monies. The System issues a publicly available financial report that includes financial statements and required supplementary information which may be obtained by writing to the New York State and Local Employees' Retirement System, 110 State Street, Albany, New York 12236.

The System provides retirement benefits as well as death and disability benefits. All benefits vest after five years of accredited service. Retirement benefits are established by the New York State Retirement and Social Security Law. Retirement benefits and contributory requirements depend upon the point in time at which an employee last joined the system. Most members of the System who joined before July 27, 1976 are enrolled in a noncontributory plan. Personnel who joined the System after July 27, 1976 are required by law to contribute some percentage of their gross salary for the first 10 years of employment.

NY STATE OF HEALTH

(A Division operating under the New York State Department of Health)

Notes to the Basic Financial Statements

December 31, 2016

Under Chapter 49 of the Law of 2003, the annual contribution rates are based on the value of the States Common Retirement Funds as of the preceding April, with a minimum contribution of 4.5%. NYSoH paid \$549,394 for 2016, to cover 100% of the required employer contributions for retirement benefits. These payments, made through application of the pension benefit rate within the New York State Fringe Benefit rate calculated by the State's Division of the Budget, represent 15.84% for Federal funded positions and 16.73% for State funded positions for the period of January 1, 2015 through March 31, 2015, and 13.45% for Federal funded positions and 16.47% for State funded positions for the period of April 1, 2016 through December 31, 2016.

RSSL Chapter 57 of the Laws of 2010 authorized the State and local employers to amortize over ten years, at 5% interest, a portion of their annual bill. The State has elected to defer a portion of its required employer contribution resulting in a noncurrent pension contribution payable as of December 31, 2016 of \$451,536 for the NYSOH.

(7) Commitments and Contingencies

The U.S. Office of the Inspector General (OIG) issued a report, "New York Misallocated Costs to Establishment Grants for a Health Insurance Marketplace," in November 2016 that recommended that the State revise its cost allocation plan and work with the Centers for Medicare and Medicaid Services (CMS) to determine a revised allocation between grant and public program funding sources. In its written response to this recommendation, the State noted that the State's cost allocation methodology was reviewed and approved CMS.

While OIG reported similar findings in other states, to date, CMS has taken no action to re-allocate funding across marketplaces and public programs or to seek recovery of any grant funds.

Per Section 1311(d)(5) of the Affordable Care Act, Marketplaces must be self-sustaining beginning January 1, 2015, and funds may not be used for ongoing operations. Marketplaces demonstrate self-sustainability by, among other things, having a source of funding other than Federal grants for ongoing operations. For NYSoH, Federal grant funding has been extended through December 31, 2017 and is limited to approved development and certain outreach/educational activities. The State will assume the remaining costs. The approved State annual budget for its fiscal year ended March 31, 2016 and March 31, 2017 has included funding to cover these costs.