



**NY STATE OF HEALTH FUND**

Financial Statements and  
Other Supplementary Information

December 31, 2018

(With Independent Auditors' Report Thereon)

## NY STATE OF HEALTH FUND

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KPMG LLP  
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Albany, NY 12207-2974

## Independent Auditors' Report

The Executive Director of the NY State of Health,  
NY State of Health Fund

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of the NY State of Health Fund (the Fund), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Fund's 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 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 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 opinions.

#### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Fund, as of December 31, 2018, and the respective changes in fund balance thereof for the year then ended in accordance with U.S. generally accepted accounting principles.



*Other Matters*

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis listed in the accompanying table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 Fund are intended to present the financial position and the changes in financial position of only that portion of the governmental activities of the Fund of the State of New York. They do not purport to, and do not, present fairly the financial position of the State of New York as of December 31, 2018, or the changes in its financial position for the year ended December 31, 2018, 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 27, 2019 on our consideration of the Fund'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 the Fund'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 Fund's internal control over financial reporting and compliance.

**KPMG LLP**

Albany, New York  
March 27, 2019

## **NY STATE OF HEALTH**

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

Management's Discussion and Analysis (unaudited)

December 31, 2018

### **Introduction**

Management's discussion and analysis (MD&A) provides a narrative overview and analysis of the financial activities of NY State of Health (NYSoH) as captured within the NY State of Health Fund (Fund) for the year ended December 31, 2018. The MD&A is intended to serve as an introduction to NYSoH's financial statements, which have the following components: (1) Balance Sheet, (2) Statement of Revenues, Expenditures and Changes in Fund Balances, and (3) notes to the 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 (NYSoH) a Division operating within the New York State Department of Health (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 marketplace. 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 NYSoH website, individuals may apply for and enroll in Insurance Affordability Programs including Medicaid, Child Health Plus, the Basic Health Plan (branded 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 (defined as 100 or fewer employees) to enroll in QHPs certified by the Marketplace. Employers with fewer than 25 employees and meeting certain other federal requirements may qualify for federal small business tax credits using a sliding scale based on number of employees and average salary. As of April 2018, small employers can enroll in SHOP-certified products directly through health plans and certified brokers. New Yorkers can complete the Marketplace application online, in-person, over the phone, or by mail.

Through December 31, 2017, NYSoH funding was comprised of Federal grant funds, available for expenditures related to design, development and implementation of the marketplace information technology system; 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. Effective January 1, 2018, NYSoH is funded exclusively with revenue from the State's broad-based healthcare assessments.

### **The Financial Statements**

NYSoH expenses are accounted for and tracked using the NYSoH Fund (Fund).

This annual report contains the following financial statements of the Fund for the year ended December 31, 2018: The Balance Sheet and Funds Statement of Revenues, Expenditures and Changes in Fund Balances.

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The 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 Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances provide additional details about the Fund'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. Appropriations from state resources are recognized when the expense being funded is incurred.

**Financial Information**

Summarized financial information as of and for the year ended December 31, 2018 and 2017 is as follows:

<b>Table 1 – Condensed Balance Sheet</b>	<b>2018</b>	<b>2017</b>
	(In thousands)	(In thousands)
Current assets	\$ 20,402	21,596
Total assets	20,402	21,596
Current liabilities	20,402	21,596
Total liabilities	20,402	21,596
Fund Balance		
Total Liabilities and Fund Balance	\$ —	—

<b>Table 2 – Changes in Fund Balance</b>	<b>2018</b>	<b>2017</b>
	(In thousands)	(In thousands)
Federal grants	\$ —	15,790
Expenditures	43,274	50,091
Expenditures in excess of revenues	(43,274)	(34,301)
Appropriations from State resources/total other financing services	43,274	34,301
(Decrease)/increase in net position	—	—

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- The assets and liabilities at December 31, 2018 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 increase in State appropriations within the 2018 fiscal year is directly attributable to the winding down of the federal grants which occurred throughout 2017.
- The Changes in Fund Balance reflect the expiration of Federal Grants bringing that amount to \$0 for 2018. The decrease in expenditures is caused by the winding down of development activities and the change to enrollment based allocation for development effective October 1, 2018, as described in footnote (2)(e)

### **Economic Factors affecting NYSoH**

Federal grants were available to NYSoH in 2017 covering certain costs, mainly expenditures related to IT system design, development and implementation. The State assumed the remaining share of costs. All Federal Grants for NYSoH expired on December 31, 2017. The approved State annual budget for fiscal years April 1, 2017 – March 31, 2018 and April 1, 2018 – March 31, 2019 have included funding to cover the State's share of NYSoH's expenditures.

### **NYSoH Program Changes**

Federal regulations as related to the Small Business Health Options Marketplace promulgated by CMS and released in October 2017 allow small businesses to enroll in coverage directly with insurance carriers and still receive federal small business tax credits. In April 2018, NYSoH began transitioning to the direct enrollment model by having existing SHOP business enroll directly with the related insurer upon their annual renewal. This transition is expected to be completed in mid-2019. New employer groups could begin enrolling directly with insurers as of April 2018.

### **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](http://www.nystateofhealth.ny.gov).

## **FINANCIAL STATEMENTS**



**NY STATE OF HEALTH FUND**

Balance Sheet

December 31, 2018

	<b>Assets</b>	<u><b>2018</b></u>
Deposits with third party		\$ 1,234,897
Due from State resources		<u>19,167,262</u>
Total assets		20,402,159
	<b>Liabilities</b>	
Accrued liabilities		<u>(20,402,159)</u>
Total liabilities		(20,402,159)
	<b>Fund balance</b>	
Assigned		—
Unassigned		—
Total fund balance		<u>—</u>
Total liabilities and fund balance		<u>\$ —</u>

See accompanying notes to the basic financial statements.

**NY STATE OF HEALTH FUND**

Statement of Revenues, Expenditures and Changes in Fund Balances

December 31, 2018

	<u>2018</u>
Revenues:	\$ —
Expenditures:	
Division operations:	
Personal service	4,524,914
Nonpersonal service	35,907,549
Fringe benefits	<u>2,841,107</u>
Total expenditures	<u>43,273,570</u>
Total expenditures in excess of revenues	(43,273,570)
Other financial sources:	
Appropriations from State resources	<u>43,273,570</u>
Total other financing sources	43,273,570
Net change in fund balance	—
Fund balance January 1, 2018	<u>—</u>
Fund balance December 31, 2018	<u>\$ —</u>

See accompanying notes to the basic financial statements.

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Notes to Basic Financial Statements

December 31, 2018

### **(1) Organization and Description of Operations**

The NYSoH Fund (the Fund) was established by NY State of Health (NYSoH) a division that operates within 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 100 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. Until April 2018, premiums for the small businesses were 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. Starting April 2018, small business premiums are paid directly to insurers. NYSoH will discontinue premium collection processes, including tracking nonpayment, dunning, and termination, completely in mid-2019 when the transition of current groups is completed.

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 between Federal grant funds (the federal special revenue fund), which supported 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), which covers the remaining costs from general fund appropriations. Effective December 31, 2017, Federal Grant funds were no longer available, and NYSoH reporting transitioned to a Fund basis. The financial statements are intended to present the financial position and changes in financial position of only that portion that is attributable to the transactions of the Fund

### **(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 fund's financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting.

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. Expenditures and related liabilities are recorded in the accounting period

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the liability is incurred, to the extent it is expected to be paid with expendable available financial resources.

The 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.

#### **(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 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, the Fund 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.

The cash deposits are held in an uninsured, except the portion up to the FDIC limit, non-interest-bearing account of a major national bank. The value of these deposits are approximately \$1.3 million. The custodial credit risk is the risk that, in the event of the failure of a depository financial institution, NYSoH will not be able to recover deposits that are in the possession of the outside third party vendor.

#### **(d) Due from State Resources/Appropriation from State Resources**

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

#### **(e) Revenues and Expenditures**

Effective April 1, 2015 through December 31, 2018, shared expenses were allocated between NYSoH programs: Qualified Health Plans (QHP), Medicaid/Child Health Plus and the Essential Plan. Before October 1, 2018, allocation percentages were determined using the annual enrollment projections for non-IT expenses, QHP-specific IT expenses were allocated to the Fund, and the remainder of IT expenses were allocated using the projected enrollment calculations. This methodology was approved by the U.S. Department of Health and Human Services. Effective October 1, 2018, allocation percentages are determined using the annual enrollment projections for all expenses.

#### **(f) Workers Compensation**

Workers Compensation is provided with the NY State Insurance Fund acting as the State administrator and claims processing agent. Under an agreement with the State Insurance Fund, the State pays only what is necessary to fund claims. NYSoH, a department within the State, paid \$117,753 for 2018, to

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### Notes to Basic Financial Statements

December 31, 2018

cover 100% of their required employer contributions for workers compensation. These payments are 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. The workers compensation rate was 3.39% for the period of January 1, 2018 through March 31, 2018 and 4.35% for the period of April 1, 2018 through December 31, 2018.

#### **(g) Pension Contribution**

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 \$535,407 for 2018, to cover 100% of the required employer contributions for retirement benefits. These payments are 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. The pension benefit rate was 18.79% for the period of January 1, 2018 through March 31, 2018, and 18.86% for the period of April 1, 2018 through December 31, 2018.

#### **(3) Accrued Liabilities**

Accrued liabilities consist of the following at December 31, 2018:

Personal services:		
Salary and fringe	\$	3,319,588
Accrued vacation		<u>411,394</u>
Total Personal services		3,730,982
Contractual services:		
All Other		825,181
Advertising expense		5,000,000
System integration		897,945
Call center services		6,420,169
Quality assurance		<u>74,381</u>
Total Contractual services	\$	13,217,676
Other nonpersonal services:		
Funds payable to providers		1,234,897
Indirect costs		2,218,604
Total other nonpersonal services	\$	<u>3,453,501</u>
Total	\$	<u>20,402,159</u>

## **NY STATE OF HEALTH**

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### **(4) Commitments and Contingencies**

The U.S. Office of the Inspector General (OIG) issued a report, "New York Did Not Comply with Federal Grant Requirements For Allocating And Claiming Marketplace Contract Costs," in December 2017 that recommended that the State revise its cost allocation plan for the customer service center 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 by 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 grant 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 ended December 31, 2017. The State has assumed the remaining costs. The approved State annual budget for its fiscal year ended March 31, 2017 and March 31, 2018 has included funding to cover these costs. The Executive Budget for April 1, 2018 through March 31, 2019 includes funding to cover these costs through the next year.