



**NY STATE OF HEALTH**

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

Financial Statements

December 31, 2019

(With Independent Auditors' Report Thereon)

**NY STATE OF HEALTH  
(A DIVISION OPERATING UNDER THE NEW YORK STATE DEPARTMENT OF HEALTH)**

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KPMG LLP  
515 Broadway  
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 the NY State of Health Fund (the Fund or NYSoH), as of and for the year ended December 31, 2019, 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 opinion.

#### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund, as of December 31, 2019, and the changes in its financial position 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 New York State Department of Health that is attributed to the Fund. The Fund does not purport to, and does not, present fairly the financial position of the New York State Department of Health as of December 31, 2019, or the changes in its financial position for the year ended December 31, 2019, in accordance 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, 2020, 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, 2020

## **NY STATE OF HEALTH**

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

Management's Discussion and Analysis (unaudited)

December 31, 2019

### **Introduction**

Management's discussion and analysis (MD&A) provides a narrative overview and analysis of the financial activities of NY State of Health as captured within the NY State of Health Fund (Fund or NYSoH) for the year ended December 31, 2019. 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**

NY State of Health, the official health plan Marketplace of New York State, authorized by the Federal Patient Protection and Affordable Care Act of 2010, was established in April 2012 by Governor Cuomo's Executive Order 42, and codified in Article 2, Title VII of the NY Public Health Law in 2019.

NY State of Health 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 NY State of Health 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 NY State of Health (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.

Effective January 1, 2018, NYSoH is funded exclusively with revenue from the State's broad-based healthcare assessments.

### **The Financial Statements**

NY State of Health expenses are accounted for and tracked using the Fund.

This annual report contains the following financial statements of the Fund for the year ended December 31, 2019: The Balance Sheet and Funds Statement of Revenues, Expenditures and Changes in Fund Balances. 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

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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, 2019 and 2018 is as follows:

**Table 1 – Condensed Balance Sheet**

|                                    | <u>2019</u>    | <u>2018</u>    |
|------------------------------------|----------------|----------------|
|                                    | (In thousands) | (In thousands) |
| Current assets                     | \$ 15,043      | 20,402         |
| Total assets                       | 15,043         | 20,402         |
| Current liabilities                | 15,043         | 20,402         |
| Total liabilities                  | 15,043         | 20,402         |
| Fund Balance                       |                |                |
| Total Liabilities and Fund Balance | \$ —           | —              |

**Table 2 – Changes in Fund Balance**

|  | <u>2019</u> | <u>2018</u> |
|--|-------------|-------------|
| Expenditures   | 47,070      | 43,274      |
| Expenditures in excess of revenues                                 | (47,070)    | (43,274)    |
| Appropriations from State resources/total other financing services | 47,070      | 43,274      |
| (Decrease)/increase in net position                                | \$ —        | —           |

- The assets and liabilities at December 31, 2019 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 current assets is related to the winding down of SHOP collection activities, accounting for \$1.2 Million of the reduction and a reduction in related accrued liabilities accounting for the remainder.

### Economic Factors affecting NY State of Health

The approved State annual budget for fiscal year April 1, 2019 – March 31, 2020 and the proposed budget for fiscal year April 1, 2020 – March 31, 2021 have included funding to cover the Funds expenditures.

### NY State of Health 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

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receive federal small business tax credits. In April 2018, NY State of Health began transitioning to the direct enrollment model by having existing SHOP business enroll directly with the related insurer upon their annual renewal. This transition was completed in mid-2019. New employer groups could begin enrolling directly with insurers as of April 2018.

### **Contacting the NY State of Health's Financial Management**

This financial report is designed to provide a general overview of NY State of Health'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**  
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Balance Sheet

December 31, 2019

|   | <u>2019</u>         |
|---|---------------------|
| <b>Assets:</b>                            |                     |
| Deposits with third party                 | \$ 28,901           |
| Due from State resources                  | <u>15,014,522</u>   |
| <b>Total assets</b>                       | <u>15,043,423</u>   |
| <b>Liabilities:</b>                       |                     |
| Accrued liabilities                       | <u>(15,043,423)</u> |
| <b>Total liabilities</b>                  | <u>(15,043,423)</u> |
| <b>Fund balance:</b>                      |                     |
| Assigned                                  | —                   |
| Unassigned                                | <u>—</u>            |
| <b>Total fund balance</b>                 | <u>—</u>            |
| <b>Total liabilities and fund balance</b> | <u>\$ —</u>         |

See accompanying notes to the basic financial statements.

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Statement of Revenues, Expenditures and Changes in Fund Balances

December 31, 2019

|  | <b>2019</b>  |
|--|--------------|
| Revenues:                                | \$ —         |
| Expenditures:                            |              |
| Division operations:                     |              |
| Personal service                         | 4,175,805    |
| Nonpersonal service                      | 40,103,859   |
| Fringe benefits                          | 2,790,000    |
| Total expenditures                       | 47,069,664   |
| Total expenditures in excess of revenues | (47,069,664) |
| Other financing Sources:                 |              |
| Appropriations from State resources      | 47,069,664   |
| Total other financing sources            | 47,069,664   |
| Net change in fund balance               | —            |
| Fund balance: January 1, 2018            | —            |
| Fund balance: December 31, 2019          | \$ —         |

See accompanying notes to the basic financial statements.

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Notes to Basic Financial Statements

December 31, 2019

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

The NY State of Health Fund (the Fund or NYSoH) was established by NY State of Health a division that operates within the New York State Department of Health (DOH). The purpose of NY State of Health is to provide a centralized location where individuals and small businesses (fewer than 100 employees) can purchase health insurance. NY State of Health, the official health plan Marketplace of New York State, authorized by the Federal Patient Protection and Affordable Care Act of 2010, was established in April 2012 by Governor Cuomo's Executive Order 42, and codified in Article 2, Title VII of the NY Public Health Law in 2019. On October 1, 2013, NY State of Health's Marketplace was officially operational and consumers were able to begin shopping for health insurance.

NY State of Health 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. NY State of Health 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 NY State of Health and distributed to the insurers providing coverage on a monthly basis. The Marketplace also tracked nonpayment and enforces the dunning and termination process for small businesses. Starting April 2018, small business premiums are paid directly to insurers. NY State of Health discontinued premium collection processes, including tracking nonpayment, dunning, and termination, completely in mid-2019 when the transition of current groups was completed.

NY State of Health's operations began on October 1, 2013 when the Marketplace began accepting applications. NY State of Health'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 NY State of Health reporting transitioned to a fund basis of accounting. 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.

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### Notes to Basic Financial Statements

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

#### **(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 the Small Business Options Program (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, NY State of Health 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. Current balance in the cash collected account represents final payments to carriers or refunds to employee groups that are still outstanding. Remaining funds are in the process of being reconciled and all funds will be dispersed mid-2020.

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 \$29,000. The custodial credit risk is the risk that, in the event of the failure of a depository financial institution, NY State of Health 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) Expenditures**

For the Fund fiscal year ended December 31, 2019, shared expenses were allocated between NY State of Health programs: Qualified Health Plans (QHP), Medicaid/Child Health Plus and the Essential Plan. Allocation percentages are determined using the annual enrollment projections for all expenses. The allocation methodology is approved annually by CMS. Shared expenses include the customer service center, maintenance and development of the enrollment system, enrollment assistance programs, quality assurance programs and certain labor and related fringe/indirect costs. Non shared costs are paid solely by the Fund and include consulting, advertising/marketing as well as certain labor and related fringe/indirect costs.

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### **(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. Under an agreement with the State Insurance Fund the Fund, paid \$125,316 for 2019, to 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 4.35% for the period of January 1, 2019 through March 31, 2019 and 4.53% for the period of April 1, 2019 through December 31, 2019.

### **(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%. The Fund paid \$501,607 for 2019, 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 18.86% for the period of January 1, 2019 through March 31, 2019, and 17.74% for the period of April 1, 2019 through December 31, 2019.

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**(3) Accrued Liabilities**

Accrued liabilities consist of the following at December 31, 2019:

|                                  |    |                          |
|----------------------------------|----|--------------------------|
| Personal services:               |    |                          |
| Salary and fringe                | \$ | 752,515                  |
| Accrued vacation                 |    | <u>363,633</u>           |
| Total Personal services          |    | 1,116,148                |
| Contractual services:            |    |                          |
| Advertising expense              |    | 9,106,428                |
| System integration               |    | 571,883                  |
| Call center services             |    | 2,505,709                |
| Quality assurance                |    | 19,400                   |
| All other                        |    | <u>736,447</u>           |
| Total Contractual services       | \$ | 12,939,867               |
| Other nonpersonal services:      |    |                          |
| Funds payable to providers       |    | 28,901                   |
| Indirect costs                   |    | 876,784                  |
| All other                        |    | <u>81,723</u>            |
| Total other nonpersonal services | \$ | 987,408                  |
| Total                            | \$ | <u><u>15,043,423</u></u> |

**(4) Commitments and Contingencies**

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 NY State of Health, 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, 2019 and March 31, 2020 has included funding to cover these costs. The Executive Budget for April 1, 2020 through March 31, 2021 includes funding to cover these costs through the next year.