



NEW YORK STATE OF HEALTH

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

Basic Financial Statements
and Other Supplementary Information

For the Year Ended December 31, 2014
and for the Period from Inception
(October 1, 2013) Through December 31, 2013

(With Independent Auditors' Report Thereon)

NEW YORK STATE OF HEALTH
(A Division Operating under the New York State Department of Health)
For the Year Ended December 31, 2014
and for the Period from Inception (October 1, 2013) through December 31, 2013

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Independent Auditors' Report

The Executive Director of the New York State of Health
New York 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 and the federal special revenue fund of the New York State of Health, a Division operating under the New York Department of Health (the Division), as of and for the year ended December 31, 2014 and as of and for the period from inception (October 1, 2013) through December 31, 2013, 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 audits 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 and the federal special revenue fund of the New York State of Health, as of December 31, 2014 and 2013, and the respective changes in financial position thereof for the year ended December 31, 2014, and for the period from inception (October 1, 2013) through December 31, 2013 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 inquires of management about the methods of preparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Division's basic financial statements. The other supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Emphasis of Matter

As discussed in Note 1, the financial statements of the New York State of Health are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and the federal special revenue fund of New York State that is attributable to the transactions of the Division. They do not purport to, and do not, present fairly the financial position of New York State as of December 31, 2014, and 2013, or the changes in its financial position for the year ended December 31, 2014, and for the period from the inception (October 1, 2013) through December 31, 2013, 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 April 5, 2016, 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, NY
April 5, 2016

NEW YORK STATE OF HEALTH
(A Division Operating under the New York State Department of Health)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended December 31, 2014
and for the Period from Inception (October 1, 2013) through December 31, 2013

Introduction

Management's discussion and analysis (MD&A) provides a narrative overview and analysis of the financial activities of New York State of Health (NYSoH), a division operating under the New York State Department of Health (DOH), for the year ended December 31, 2014 and for the period from inception (October 1, 2013) through December 31, 2013. The MD&A is intended to serve as an introduction to NYSoH's basic financial statements, which have the following components: (1) Federal Special Revenue Fund Balance Sheet and Statement of Net Position, (2) Federal Special Revenue Fund Statement of Revenues, Expenditures and Changes in Fund Balance 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 the NY State of Health) 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 & 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 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, 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 (currently defined in New York as 50 or fewer employees) to enroll in QHPs certified by the Marketplace. A small business may define the coverage tier and the contribution level, and employees may choose a QHP that best meets their needs. Employers with fewer than 25 employees and meeting certain other 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 has been funded via planning and establishment grants made available under the ACA through December 31, 2014.

NEW YORK STATE OF HEALTH
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended December 31, 2014
and for the Period from Inception (October 1, 2013) through December 31, 2013

The Financial Statements

This annual report contains the following financial statements of NYSoH for the year ended December 31, 2014 and for the period ended December 31, 2013: the Federal Special Revenue Fund Balance Sheet and Statement of Net Position and the Federal Special Revenue Fund Statement of Revenues, Expenditures and Changes in Fund Balance 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 non-personal expenses incurred by the New York State Department of Health 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 most expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grant funding is recognized as revenue as soon as all applicable eligibility requirements for the grant have been met.

The Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balance are prepared for the Federal Special Revenue Fund and provide additional details about 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 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 current available financial resources.

For presentation purposes, the federal special revenue fund and the government-wide financial statements have been combined using a columnar format that reconciles individual line items of federal special revenue 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 basis financial statements.

Financial Highlights

- The period from inception through December 31, 2013 represents the first period NYSoH was in existence. Net position as of December 31, 2013 totaled \$24,098,471, representing development costs incurred to design and build the Marketplace, NYSoH's web-based health plan enrollment system.
- The year ended December 31, 2014 shows an increase of \$47,402,399 to net position as more development costs for the system integration were incurred and capitalized.

NEW YORK STATE OF HEALTH
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Year Ended December 31, 2014
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Summarized government-wide financial information for the year ended December 31, 2014 and for the period from inception through December 31, 2013 is as follows:

Table 1 — Net Position (in thousands)

	<u>2014</u>	<u>2013</u>
Current assets	\$ 58,110	50,685
Capital assets	71,501	24,098
Total assets	<u>129,611</u>	<u>74,783</u>
Current liabilities	<u>\$ 58,110</u>	<u>50,685</u>
Net position:		
Net investment in capital assets	<u>\$ 71,501</u>	<u>24,098</u>

Table 2 — Changes in Net Position (in thousands)

	<u>2014</u>	<u>2013</u>
Revenue:		
Federal Grants	\$ 213,027	84,092
Capital Contribution	—	10,587
Total Revenue	<u>213,027</u>	<u>94,679</u>
Expenses	<u>165,625</u>	<u>70,581</u>
Increase in net position	<u>\$ 47,402</u>	<u>24,098</u>

Software development for NYSoH's Marketplace is an ongoing process. The first stage was to get a working online portal operational by the October 1, 2013 go-live date. Additional development continued through 2014 relating to improving functionality and meeting evolving requirements for State-based marketplace.

Summarized Federal Special Revenue Fund financial information for inception through December 31, 2013, and for the year ended December 31, 2014 is as follows:

NEW YORK STATE OF HEALTH
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended December 31, 2014
and for the Period from Inception (October 1, 2013) through December 31, 2013

Table 3— Fund Balance (in thousands)

	<u>2014</u>	<u>2013</u>
Assets	\$ 58,110	50,685
Liabilities	\$ 58,110	50,685
Fund Balance	—	—

Table 4 — Changes in Fund Balance (in thousands)

	<u>2014</u>	<u>2013</u>
Revenues	\$ 213,028	84,092
Expenditures	213,028	84,092
Revenues in excess of expenditures	\$ <u>—</u>	<u>—</u>

- Majority of the current assets and current liabilities consist of Due from Federal Government as the expenditures for the two periods are fully reimbursed with Federal Funds. The accrued liabilities remained relatively consistent due to similar operating expenditure incurred, including expenditures for the systems integration, Navigator and call services, and advertising expenditure.
- The period ended December 31, 2013 represents the first period NYSoH was in existence and does not reflect a full 12 months of revenue and expenditures which impacts comparability with year ended December 31, 2014.

Capital Assets

As of December 31, 2014 and December 31, 2013, NYSoH had \$71,500,870 and \$24,098,471, respectively, invested in the software used 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 software asset is amortized on a straight-line basis over its estimated useful life of 10 years from the date it is placed in service.

NYSoH's 2015 fiscal year budget calls for the organization to invest another \$30 million in its software, principally for the continued development of CMS-required functionality. NYSoH has been granted a No Cost Extension of previously awarded Federal grant funds that will be utilized for this purpose.

Economic Factors Affecting NYSoH

NYSoH has operated exclusively under Federal grant funding through December 31, 2014. Beginning January 1, 2015, Federal grants will cover only certain costs of NYSoH, limited to development and outreach/educational activities and functions; New York State will assume the remaining costs. The approved New York State annual budget for its fiscal year 2015 and 2016 includes funding to cover these costs.

NEW YORK STATE OF HEALTH

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended December 31, 2014

and for the Period from Inception (October 1, 2013) through December 31, 2013

Contacting 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, contact the New York State of Health at Corning Tower, Empire State Plaza, Suite 2580, Albany, New York 12237 or visit our website at www.nystateofhealth.ny.gov.

BASIC FINANCIAL STATEMENTS

New York State of Health
(A Division Operating under the New York State Department of Health)
Federal Special Revenue Fund Balance Sheet and Statement of Net Position
December 31, 2014

	<u>Federal Special Revenue Fund</u>	<u>Adjustments (note 3)</u>	<u>Statement of Net Position</u>
Assets:			
Deposit with third party	\$ 4,425,113	\$ -	\$ 4,425,113
Due from other divisions	7,541,204	-	7,541,204
Due from Federal government	46,143,770	-	46,143,770
Capital assets:			
Software, net of amortization	-	66,772,532	66,772,532
Development in progress	-	4,728,338	4,728,338
Total assets	<u>\$ 58,110,087</u>	<u>71,500,870</u>	<u>129,610,957</u>
Liabilities:			
Accrued liabilities	50,568,883	-	50,568,883
Due to Federal government	7,541,204	-	7,541,204
Total liabilities	<u>58,110,087</u>	<u>-</u>	<u>58,110,087</u>
Fund balance / net position:			
Assigned	-	-	-
Total fund balance	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 58,110,087</u>		
Net investment in capital assets		71,500,870	71,500,870
Net position		<u>\$ 71,500,870</u>	<u>\$ 71,500,870</u>

See accompanying notes to the basic financial statements.

New York State of Health
(A Division Operating under the New York State Department of Health)
Federal Special Revenue Fund Balance Sheet and Statement of Net Position
December 31, 2013

	Federal Special Revenue Fund	Adjustments (note 3)	Statement of Net Position
Assets:			
Deposit with third party	\$ 1,324,195	\$ -	\$ 1,324,195
Due from other divisions	1,678,733	-	1,678,733
Due from Federal government	47,681,724	-	47,681,724
Capital assets:			
Software, net of amortization	-	7,798,115	7,798,115
Development in progress	-	16,300,356	16,300,356
Total assets	\$ 50,684,652	24,098,471	74,783,123
Liabilities:			
Accrued liabilities	49,005,919	-	49,005,919
Due to Federal government	1,678,733	-	1,678,733
Total liabilities	50,684,652	-	50,684,652
Fund balance / net position:			
Assigned	-	-	-
Total fund balance	-	-	-
Total liabilities and fund balance	\$ 50,684,652		
Net investment in capital assets		24,098,471	24,098,471
Net position		\$ 24,098,471	\$ 24,098,471

See accompanying notes to the basic financial statements.

New York State of Health
(A Division Operating under the New York State Department of Health)
Federal Special Revenue Fund Statement of Revenues, Expenditures and Changes in Fund Balance
and Statement of Activities
For the Year Ended December 31, 2014

	Federal Special Revenue Fund	Adjustments (note 3)	Statement of Activities
Revenues:			
Federal grants	\$ 213,027,604	\$ -	\$ 213,027,604
Expenditures/expenses:			
Division operations:			
Personal service	7,902,773	-	7,902,773
Non-personal service	149,858,588	-	149,858,588
Fringe benefits	3,922,815	-	3,922,815
Amortization expense	-	3,941,029	3,941,029
Capital outlay	51,343,428	(51,343,428)	-
Total expenditures/expenses	213,027,604	(47,402,399)	165,625,205
Net change in fund balance / net position	-	47,402,399	47,402,399
Fund balance/net position: January 1, 2014	-	-	24,098,471
Fund balance/net position: December 31, 2014	\$ -	\$ -	\$ 71,500,870

See accompanying notes to the basic financial statements.

New York State of Health
(A Division Operating under the New York State Department of Health)
Federal Special Revenue Fund Statement of Revenues, Expenditures and Changes in Fund Balance
and Statement of Activities
For the Period from Inception (October 1, 2013) Through December 31, 2013

	<u>Federal Special Revenue Fund</u>	<u>Adjustments (note 3)</u>	<u>Statement of Activities</u>
Revenues:			
Federal grants	\$ 84,092,406	\$ -	\$ 84,092,406
Capital contribution	-	10,587,558	10,587,558
Total revenues	<u>84,092,406</u>	<u>10,587,558</u>	<u>94,679,964</u>
Expenditures/expenses:			
Division operations:			
Personal service	1,635,434	-	1,635,434
Non-personal service	67,832,533	-	67,832,533
Fringe benefits	959,081	-	959,081
Amortization expense	-	154,445	154,445
Capital outlay	13,665,358	(13,665,358)	-
Total expenditures/expenses	<u>84,092,406</u>	<u>(13,510,913)</u>	<u>70,581,493</u>
Net change in fund balance / net position	-	24,098,471	24,098,471
Fund balance/net position: October 1, 2013	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance/net position: December 31, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,098,471</u>

See accompanying notes to the basic financial statements.

NEW YORK STATE OF HEALTH

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Year Ended December 31, 2014

and for the Period from Inception (October 1, 2013) through December 31, 2013

NOTE 1 – Organization and Description of Operations

New York 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 to operate the New York State Exchange. On October 1, 2013, NYSoH's Exchange was officially operational and consumers were able to begin shopping for health insurance.

NYSoH is a large enterprise that covers many different services, including appeals of eligibility determinations, contracting with IT system integrators 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 software titled the Marketplace; rather the Marketplace transmits enrollment information to the Qualified Health Plan (QHP) issuer that has been selected and the issuer bills the enrollee directly. Premiums for small businesses are collected by Computer Science Corporation (CSC) on behalf of NYSoH and distributed to the insurers providing coverage on a monthly basis. The Marketplace also tracks non-payment and enforces the dunning and termination process.

NYSoH's operations began on October 1, 2013 when the Marketplace began accepting applications. From inception through December 31, 2014, all NYSoH's activity was funded by Federal grants through the State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges. As such, all funding activity related to NYSoH was recorded by New York State within the federal special revenue fund and then allotted to NYSoH. These basic financial statements are intended to present the financial position and changes in financial position of only that portion of the governmental activities and the federal special revenue fund of New York State that is attributable to the transactions of NYSoH.

NOTE 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 federal special revenue fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. The federal special revenue fund accounts for grants received by New York State that are earmarked for NYSoH activities. Revenues are recognized 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.

NEW YORK STATE OF HEALTH

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NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Year Ended December 31, 2014

and for the Period from Inception (October 1, 2013) through December 31, 2013

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 and amounts are available.

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, liabilities and 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. Deposit with Third Party

Cash collected from SHOP customers and held for distribution to insurance carriers is deposited by CSC, the lockbox vendor, and held in account until distributed. While the cash is received, held, and distributed by CSC, NYSoH has a contractual obligation to ensure the monies are paid to the carriers. NYSoH therefore recognizes a deposit equal to the bank balance of funds collected and held on behalf of SHOP customers, offset by a liability for the payment due to the carriers, 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. 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 functionality, efficiency of the software nor extend the estimated useful lives 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, implementation and operation of the Marketplace under the state-based health exchange grant program.

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NOTES TO THE BASIC FINANCIAL STATEMENTS

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f. 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.

g. Revenue and Expenditures

Certain shared expenditures incurred in designing, developing and operating the Marketplace are allocated between NYSoH and NYS Public Programs (e.g., Medicaid / Child Health Plus). The cost-share ratio for these expenses through December 31, 2014 was 70% NYSoH and 30% Public Programs and was determined based upon projected enrollment calculations that were approved in the grant applications by the U.S. Department of Health and Human Services (HHS).

NOTE 3. Reconciliation of Federal Special Revenue Fund to Government-wide Financial Statements

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

NEW YORK STATE OF HEALTH
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NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Year Ended December 31, 2014
and for the Period from Inception (October 1, 2013) through December 31, 2013

a. Explanation of Certain Differences between the Federal Special Revenue Fund Balance Sheets and the Statements of Net Position

Capital assets reported in the statement of net position are not financial resources and therefore are not reported as federal special revenue fund assets. Therefore, adjustments made to the federal special revenue fund balance to arrive at government-wide net position at December 31, 2014 and 2013 were as follows:

		2014	2013
Total Fund Balance	\$	—	—
Capital Assets		71,500,870	24,098,471
Total Net Position	\$	71,500,870	24,098,471

b. Explanation of Certain Differences between the Federal Special Revenue Fund Statements of Revenues, Expenditures, and Changes in Fund Balance and the Statements of Activities

Capital assets reported in the statement of net position are not financial resources and therefore are not reported as federal special revenue fund assets. When capital assets are purchased or developed, the resources expended for these assets are reported as expenditures in the statement of revenues, expenditures and changes in fund balance. However, in the statements of activities, the cost of those assets is allocated over the estimated useful lives and reported as depreciation/amortization expense. Likewise, contributions of capital assets are reported as revenues in the statements of activities but not in the statement of revenues, expenditures and changes in fund balance. Therefore, adjustments made to the net change in fund balance to arrive at the net change in net position in the statements of activities for the year ended December 31, 2014 and the period from inception through December 31, 2013 were as follows:

		2014	2013
Net Change in Fund Balance	\$	—	—
Add: Capital Outlay		51,343,428	13,665,358
Add: Capital Contribution		—	10,587,558
Less: Amortization Expense		(3,941,029)	(154,445)
Net Change In Net Position	\$	47,402,399	24,098,471

NOTE 4 – Capital Assets

NYSOH works with a system 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 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.

NEW YORK STATE OF HEALTH
(A Division Operating under the New York State Department of Health)

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Year Ended December 31, 2014
and for the Period from Inception (October 1, 2013) through December 31, 2013

Capital asset activity for the year ended December 31, 2014 was as follows:

	<u>Balance January 1, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance December 31, 2014</u>
Governmental Activities:				
Depreciable and amortizable assets:				
Software	\$ 7,952,560	62,915,446	—	70,868,006
Less accumulated depreciation and amortization:				
Software	<u>(154,445)</u>	<u>(3,941,029)</u>	—	<u>(4,095,474)</u>
Total depreciable and amortizable assets, net	7,798,115	58,974,417	—	66,772,532
Non-depreciable and non-amortizable assets:				
Development in progress	<u>16,300,356</u>	<u>4,728,338</u>	<u>16,300,356</u>	<u>4,728,338</u>
Governmental activities, capital assets, net	<u>\$ 24,098,471</u>	<u>63,702,755</u>	<u>16,300,356</u>	<u>71,500,870</u>

Capital asset activity for the period from inception through December 31, 2013 was as follows:

	<u>Balance October 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance December 31, 2013</u>
Governmental Activities:				
Depreciable and amortizable assets:				
Software	\$ —	7,952,560	—	7,952,560
Less accumulated depreciation and amortization:				
Software	<u>—</u>	<u>(154,445)</u>	—	<u>(154,445)</u>
Total depreciable and amortizable assets, net	—	7,798,115	—	7,798,115
Non-depreciable and non-amortizable assets:				
Development in progress	<u>—</u>	<u>16,300,356</u>	—	<u>16,300,356</u>
Governmental activities, capital assets, net	<u>\$ —</u>	<u>24,098,471</u>	—	<u>24,098,471</u>

NOTE 5 - Commitments and Contingencies

NYSOH receives financial assistance from the Federal government principally in the form of grants. As a grant recipient, NYSOH is responsible for compliance with terms and conditions of grant agreements and applicable Federal regulations, including the expenditure of resources for eligible purposes. All Federal grants received are subject to audit under the requirements of the Federal Single Audit Act and subject to audit by Federal agencies. During the period from inception through December 31, 2013 and the year ended December 31, 2014, NYSOH incurred significant expenditures related to the implementation of a state-based Health Insurance Marketplace in accordance with the Affordable Care Act (ACA). The spending was primarily for period costs, contractual services and internal costs related to the implementation, and the remainder was for capital costs.

The NYSOH as a division of the NYS enters into various related party transactions with the State. All significant or material transactions have been properly disclosed in the accompanying financial statements.

NEW YORK STATE OF HEALTH

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Year Ended December 31, 2014

and for the Period from Inception (October 1, 2013) through December 31, 2013

During the year ended December 31, 2014 and the period from inception through December 31, 2013, NYSoH inadvertently submitted for federal reimbursement for charges associated with the State's Statewide Call Center that were not related to NYSoH's Marketplace. The State's and the NYSoH's call

center third party contractor included charges for the Statewide Call Center (SWCC) in their invoices to NYSoH submitted these expenditures for Federal Reimbursement during the period they were incurred despite these charges not relating in NYSoH's Marketplace. Centers for Medicare and Medicaid Services (CMS) disallowed these costs in 2015, accordingly, NYSoH has recorded a due from other divisions and a due to federal government at December 31, 2014 and 2013 related to these costs.

NOTE 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 ten years of employment.

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 to \$1,149,660 for 2014 and \$273,440 for 2013, 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 15.79% of payroll costs for the period of April 1, 2014 through March 31, 2015 and 16.75% of payroll costs for the period of April 1, 2013 through March 31, 2014.

NOTE 7 - Subsequent Events

Starting January 1, 2015, the allocation of shared expenses between NYSoH and Public Programs (Medicaid / Child Health Plus) will be changed. For its first fiscal quarter January 1, 2015 through March 31, 2015, NYSoH will begin allocating those expenses not covered by grants that require application of the traditional 70/30 split by using the annual enrollment ratios for non IT expenses. For IT expenses, which

NEW YORK STATE OF HEALTH

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NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Year Ended December 31, 2014

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contain a NYSoH specific component, the NYSoH specific percentage is allocated to NYSoH and the remainder allocated using the enrollment ratios.

Effective April 1, 2015 and for the balance of 2015, New York State will begin offering a reduced cost share benefit option to individuals with income between 138% and 200% of the Federal Poverty Level (FPL). This new program, referred to as the Basic Health Plan, will share in expenses with NYSoH and Public Programs (Medicaid / Child Health Plus). Cost share will be determined using the annual enrollment ratios for non IT expenses. For IT expenses, which contain a NYSoH specific component, the NYSoH specific percentage is allocated to NYSoH and the remainder allocated using the enrollment ratios.

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 will be limited to approved development and outreach/educational activities and functions. New York State will assume the remaining costs. The approved New York State annual budget for its fiscal year 2015 and 2016 has included funding to cover these costs.

OTHER SUPPLEMENTARY INFORMATION
(UNAUDITED)

See independent auditors' report.

New York State of Health
 (A division operating under the New York State Department of Health)
Detail of Expenses
 FOR THE YEAR ENDED DECEMBER 31, 2014

2014 Government-wide expenses:

Mainframe computers and related	\$ 2,416
Phone service	5,975
Temporary service	8,729
Supplies and amterials	17,981
Workstation computers and related	27,381
Travel	51,444
Conference and training	224,008
Policy studies	332,477
Information technology services and support	1,101,905
Indirect Expense	2,236,447
Quality assurance cognizant	2,686,179
Fringe benefit	3,922,815
Amortization	3,941,029
Personal service	7,902,773
All payor Database	8,584,947
In person assitors	14,713,966
Advertising expense	18,426,045
System operation (Notifications/Postage)	24,557,054
Call center services	<u>76,881,634</u>
Total Government-wide expenses	\$ <u>165,625,205</u>

New York State of Health
 (A division operating under the New York State Department of Health)
 Detail of Expenses
 FOR THE PERIOD FROM INCEPTION (October 1, 2013) THROUGH DECEMBER 31, 2013

2013 Government-wide expenses:

Administrative and clerical	\$ 8,263
Supplies and materials	10,332
Operating software	10,426
Conference and training	11,228
Transcription services	13,141
Temporary service	19,296
Travel	27,592
Policy studies	146,785
Amortization	154,445
Workstation computers and related	259,943
Information technology services and support	443,271
Quality assurance cognizant	660,716
Fringe benefit	959,081
Case management services	1,265,083
Personal service	1,635,434
In person assistants	2,477,517
System operation (Notification/postage)	4,424,472
Advertising expense	23,076,953
Call center services	<u>34,977,516</u>
Total Government-wide expenses	\$ <u>70,581,493</u>

New York State of Health
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Summary of SHOP Activity
For the Period ended December 31, 2014

Premiums Billed	\$	51,287,650	
Premiums Received SHOP customers			\$ 49,108,555
Premiums Payable Beginning of Year			\$ (176,414)
Premiums Payable End of Year			\$ 2,355,509
Premiums Received SHOP customers	\$	49,108,555	
Premiums Paid to Carriers			\$ 46,007,637
Accrued liabilities/Deposits with Third Party; Beginning of Year			\$ (1,324,195)
Accrued liabilities/Deposits with Third Party; End of Year			\$ 4,425,113

Summary of SHOP Activity
For the Period from Inception (October 1, 2013) through December 31, 2013

Premiums Billed	\$	1,500,609	
Premiums Received SHOP customers			\$ 1,324,195
Premiums Receivable SHOP customers			\$ 176,414
Deposits with SHOP customers	\$	1,324,195	
Accrued liabilities to Carriers			\$ 1,324,195

New York State of Health
(A division operating under the New York State Department of Health)
Schedule of Carrier Payments
FOR THE YEAR ENDED DECEMBER 31, 2014

Vendor Name	Total Paid
DENTEGRA	\$ 4,881
DENTCARE	7,909
HEALTHPLEX	20,989
HEALTHNOW	23,761
SOLSTICE	23,991
METROPOLITAN	67,051
DELTA DENTAL	105,117
GUARDIAN	220,381
NORTHSHORE	441,035
METROPLUS	2,735,860
CDPHP	2,769,375
IND HEALTH	2,889,071
MVP	4,322,673
OXFORD	7,099,124
EXCELLUS	10,578,331
HEALTH REPUBLIC	14,698,088
TOTAL	<u>\$ 46,007,637</u>