



# **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, 2015

(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, 2015

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KPMG LLP  
515 Broadway  
Albany, NY 12207-2974

## 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, the general fund, 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, 2015, 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, the general fund, and the federal special revenue fund of the New York State of Health, as of December 31, 2015, and the respective changes in financial position thereof for the year ended December 31, 2015, in accordance with U.S. generally accepted accounting principles.

## ***Other Matters***

### ***Required Supplementary Information***

U.S. generally accepted accounting principles requires that the management's discussion and analysis listed in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***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, the general fund, 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, 2015, or the changes in its financial position for the year ended December 31, 2015, 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 May 20, 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  
May 20, 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, 2015

## **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, for the year ended December 31, 2015. The MD&A is intended to serve as an introduction to NYSoH's basic financial statements, which have the following components: (1) Governmental Funds Balance Sheet and Statement of Net Position, (2) Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and Statement of Activities, and (3) notes to the basic financial statements. The MD&A is designed to assist the reader in focusing on significant financial matters, and provide an overview of NYSoH's financial activities. The following presentation is by necessity highly summarized, and in order to gain a thorough understanding of NYSoH's financial condition, the following financial statements, and notes should be reviewed in their entirety.

## **Background**

By Executive Order No.42 dated April 12, 2012, Governor Andrew M. Cuomo established the New York Health Benefit Exchange (later renamed 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 and Medicaid Services confirming New York's intent to establish a State-based Health Plan Marketplace consistent with the ACA. On December 14, 2012, the United States Department of Health and Human Services (HHS) granted New York State approval to operate a state-based exchange. On October 1, 2013, NYSoH's Marketplace was officially operational and consumers were able to begin shopping for health insurance.

NYSoH is an organized, online marketplace through which individuals and small businesses may shop for health insurance in a way that allows them to compare health plan options, calculate costs, and select coverage. Through the Marketplace website, individuals may apply for and enroll in Insurance Affordability Programs including Medicaid, Child Health Plus, Basic Health Plan and Qualified Health Plans (QHPs) for which qualified individuals receive advanced premium tax credits and cost sharing reductions to help pay for coverage. Individuals can also enroll in QHPs at full premium. The Small Business Marketplace of the NYSoH (also known as the Small Business Health Options program or "SHOP") allows small employers to enroll in QHPs certified by the Marketplace. During the year ended December 31, 2015 small employers are defined in New York State as 50 or fewer employees. 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 continued to be available through December 31, 2014. Starting January 1, 2015, funding was split with Federal grant funds available for expenditures related to design, development and implementation (including outreach and advertising activities designed to attract new enrollees) and New York State funds available for the remaining costs out of the general fund, with revenue from the State's broad-based healthcare assessments.

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**The Financial Statements**

This annual report contains the following financial statements of NYSoH for the year ended December 31, 2015: the Governmental Funds Balance Sheet and Statement of Net Position and the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and Statement of Activities. The basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB).

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

The Statement of Activities, a government-wide financial statement, demonstrates the degree to which the direct expenses of establishing and maintaining New York State's official health plan marketplace are offset by revenues. Direct expenses are those that are clearly identifiable to NYSoH's mission, including personal and 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 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. Appropriations from state resources are recognized when the expense being funded is incurred.

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

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

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**Government-wide Financial Information**

Summarized government-wide financial information as of and for the year ended December 31, 2015 and 2014 is as follows:

**Table 1 — Net Position (in thousands)**

	<u>2015</u>	<u>2014</u>
Current assets	\$ 37,772	58,110
Capital assets	91,880	71,501
Total assets	129,652	129,611
Current liabilities	\$ 37,772	58,110
Net position:		
Net investment in capital assets	\$ <u>91,880</u>	<u>71,501</u>

**Table 2 — Changes in Net Position (in thousands)**

	<u>2015</u>	<u>2014</u>
Federal grants	\$ 75,993	213,027
Expenses	106,293	165,625
(Expenses in excess of revenues) Revenues in excess of expenses	(30,300)	47,402
Appropriations from State resources	50,679	—
Increase in net position	\$ 20,379	47,402
Net position: January 1	71,501	24,099
Net position: December 31	<u>91,880</u>	<u>71,501</u>

- NYSoH uses an enrollment based allocation to capture its share of the expenses. In fiscal year 2014, the exchange establishment grants approved a 70% allocation. Starting in fiscal year 2015, New York State updated the cost allocation based upon updated enrollment data. Due to this change, the federal grant revenues and related expenses, including related receivables and accruals, were reduced from the fiscal year 2014 levels.
- Fiscal year 2015 is the first year Federal grant funds were not the sole source of financing for NYSoH with State funding was also being provided. Total revenue and appropriations from State resource decreased from the prior year due to the software development in fiscal year 2014 winding down in 2015.
- The period ended December 31, 2015 shows an increase to Net Position as additional development costs were incurred and placed in service for the capital asset. Software development for NYSoH is an ongoing process as NYSoH seeks to improve functionality and meet the evolving requirements for State-based marketplaces.

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**Governmental Fund Financial Information**

Summarized NYSoH general fund financial information as of and for the year ended December 31, 2015 and 2014 is as follows:

**Table 3— Fund Balance (in thousands)**

	<u>2015</u>	<u>2014</u>
Assets	\$ 16,169	—
Liabilities	<u>16,169</u>	<u>—</u>
Fund balance	<u>\$ —</u>	<u>—</u>

**Table 4 — Changes in Fund Balance (in thousands)**

	<u>2015</u>	<u>2014</u>
Revenues	\$ —	—
Expenditures	<u>50,679</u>	<u>—</u>
Excess of expenditures over revenues	(50,679)	—
Appropriations from State resources	<u>50,679</u>	<u>—</u>
Change in fund balance	<u>\$ —</u>	<u>—</u>

- The assets at December 31, 2015 consist of due from State resources. Fiscal year 2015 is the first year State appropriations were used to cover NYSoH expenditures and the due from State resources represents the receivable for accrued expenses and due to Federal government at year-end that are to be funded by the general fund, with revenue from the State's board-based healthcare assessments.
- General fund expenditures represent the NYSoH non-federally reimbursed expenditures incurred by the State, with revenue from the State's broad-based healthcare assessment. In fiscal year 2014 these expenditures were federally funded in the federal special revenue fund.

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Summarized federal special revenue fund financial information as of and for the year ended December 31, 2015 and 2014 is as follows:

**Table 5 — Fund Balance (in thousands)**

	<u>2015</u>	<u>2014</u>
Assets	\$ 21,603	58,110
Liabilities	<u>21,603</u>	<u>58,110</u>
Fund balance	<u>\$ —</u>	<u>—</u>

**Table 6 — Changes in Fund Balance (in thousands)**

	<u>2015</u>	<u>2014</u>
Revenues	\$ 75,993	213,028
Expenditures	<u>75,993</u>	<u>213,028</u>
Change in fund balance	<u>\$ —</u>	<u>—</u>

- The majority of assets consists of due from other divisions. These funds represent monies due to be reimbursed to NYSoH for expenses paid for other program areas as a result of disallowances disclosed in Note 6. Due from Federal government represents the receivable for accrued expenses at year-end that are to be funded by Federal grant revenue.
- Fiscal year 2015 is the first year Federal grant funds were not the sole source of financing for NYSoH and state appropriations were used to fund certain expenditures. This contributes to a reduction in Federal revenues and expenditures in the federal special revenue fund as compared to fiscal year 2014.
- NYSoH uses an enrollment based allocation to capture its share of the expenditures. In fiscal year 2014, the exchange establishment grants approved a 70% allocation. Starting in 2015, New York State updated the cost allocation based upon updated enrollment data. Due to this change the federal grant revenues and expenditures, including related receivables and accruals, were reduced from the fiscal year 2014 levels.

**Capital Assets**

As of December 31, 2015 and December 31, 2014, NYSoH had \$91,880,414 and \$71,500,870, respectively, invested in the software necessary to operate the Health Benefit Marketplace. The software forms the core of the Marketplace and handles enrollment, eligibility determinations, and relaying of enrollment/disenrollment information to carriers. It also provides the consumers with information on each health plan offering for which they are determined eligible so an informed plan selection can be made. The intangible asset recorded for this software is amortized using a straight-line method over the assets' useful life.

NYSoH's 2016 calendar year budget calls for NYSoH to spend another \$42 million for intangible assets, principally for the continued development of Centers of Medicare and Medicaid Services (CMS) required functionality of its software. NYSoH has been granted a no-cost extension of previously awarded Federal grant funds that will be utilized for this purpose.

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**Economic Factors affecting New York State of Health**

NYSOH operated exclusively under Federal Grants through December 31, 2014. Starting January 1, 2015, a combination of continued Federal grant funding and State funds were used to cover costs. In 2016, Federal grants will continue to only cover certain costs of NYSOH, mainly expenditures related to design, development and implementation (including outreach and advertising activities designed to attract new enrollees). New York State will assume the remaining costs. NYSOH has already received a no-cost extension of grant funds to cover the federally funded expenditures through December 31, 2016. The approved New York State annual budget for fiscal years, April 1, 2014 – March 31, 2015 and April 1, 2015 – March 31, 2016 has included funding to cover the State's share of expenditures.

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

**Contacting the NYSOH's Financial Management**

This financial report is designed to provide a general overview of NYSOH's finances and to show accountability for the funds it receives. If you have any questions about this report or need additional financial information, 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](http://www.nystateofhealth.ny.gov).

## BASIC FINANCIAL STATEMENTS

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**NEW YORK STATE OF HEALTH**  
(A Division Operating under the New York State Department of Health)  
Governmental Funds Balance Sheet and Statement of Net Position  
December 31, 2015

	<u>General Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Total Governmental Funds</u>	<u>Adjustments (note 3)</u>	<u>Statement of Net Position</u>
<b>Assets:</b>					
Deposits with third party	\$ -	\$ 5,982,383	\$ 5,982,383	\$ -	\$ 5,982,383
Due from other divisions	-	10,218,811	10,218,811	-	10,218,811
Due from Federal government	-	5,402,028	5,402,028	-	5,402,028
Due from State resources	16,168,527	-	16,168,527	-	16,168,527
Capital assets:					
Software, net of amortization	-	-	-	88,271,142	88,271,142
Development in progress	-	-	-	3,609,272	3,609,272
<b>Total assets</b>	<b>\$ 16,168,527</b>	<b>21,603,222</b>	<b>37,771,749</b>	<b>91,880,414</b>	<b>129,652,163</b>
<b>Liabilities:</b>					
Accrued liabilities	15,420,925	11,384,411	26,805,336	-	26,805,336
Due to Federal government	747,602	10,218,811	10,966,413	-	10,966,413
<b>Total liabilities</b>	<b>16,168,527</b>	<b>21,603,222</b>	<b>37,771,749</b>	<b>-</b>	<b>37,771,749</b>
<b>Fund balance/net position:</b>					
Assigned	-	-	-	-	-
<b>Total fund balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total liabilities and fund balance</b>	<b>\$ 16,168,527</b>	<b>\$ 21,603,222</b>	<b>\$ 37,771,749</b>		
Net investment in capital assets				91,880,414	91,880,414
<b>Net position</b>				<b>\$ 91,880,414</b>	<b>\$ 91,880,414</b>

See accompanying notes to the basic financial statements.

**NEW YORK STATE OF HEALTH**  
(A Division Operating under the New York State Department of Health)  
Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and Statement of Activities  
For the Year Ended December 31, 2015

	<u>General Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Total Governmental Funds</u>	<u>Adjustments (note 3)</u>	<u>Statement of Activities</u>
<b>Revenues:</b>					
Federal grants	\$ -	\$ 75,993,136	\$ 75,993,136	\$ -	\$ 75,993,136
<b>Total revenues</b>	<b>-</b>	<b>75,993,136</b>	<b>75,993,136</b>	<b>-</b>	<b>75,993,136</b>
<b>Expenditures:</b>					
Division operations:					
Personal service	1,829,523	2,894,105	4,723,628	-	4,723,628
Non-personal service	36,647,711	53,749,613	90,397,324	-	90,397,324
Fringe benefits	1,016,116	1,564,702	2,580,818	-	2,580,818
Amortization expense	-	-	-	8,591,296	8,591,296
Capital outlay	11,186,124	17,784,716	28,970,840	(28,970,840)	-
<b>Total expenditures/expenses</b>	<b>50,679,474</b>	<b>75,993,136</b>	<b>126,672,610</b>	<b>(20,379,544)</b>	<b>106,293,066</b>
<b>Total expenditures/expenses in excess of revenues</b>	<b>(50,679,474)</b>	<b>-</b>	<b>(50,679,474)</b>	<b>20,379,544</b>	<b>(30,299,930)</b>
<b>Other Financing Sources:</b>					
Appropriations from State resources	50,679,474	-	50,679,474	-	50,679,474
<b>Total other financing sources</b>	<b>50,679,474</b>	<b>-</b>	<b>50,679,474</b>	<b>-</b>	<b>50,679,474</b>
<b>Net change in fund balance/net position</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20,379,544</b>	<b>20,379,544</b>
<b>Fund balance/net position: January 1, 2015</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>71,500,870</b>	<b>71,500,870</b>
<b>Fund balance/net position: December 31, 2015</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 91,880,414</b>	<b>\$ 91,880,414</b>

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, 2015

### **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 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 Qualified Health Plan (QHP) issuer that has been selected and the issuer bills the enrollee directly. Premiums for the 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 nonpayment and enforces the dunning and termination process for small businesses.

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

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

#### **a. Measurement Focus and Basis of Presentation**

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

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

The governmental funds include the federal special revenue fund, which accounts for Federal grants received by New York State that are earmarked for specific programs, and the general fund which accounts for those expenditures not covered by the Federal grants and are instead funded for by New York State resources. 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

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

Notes to the Basic Financial Statements

For the Year Ended December 31, 2015

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

## b. Use of Estimates

The preparation of the basic financial statements in conformity with U.S. generally accepted accounting principles (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 employers 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. As such, NYSoH recognizes a deposit equal to the bank balance of funds collected and held on behalf of SHOP employers, offset by a liability for the payment due to the 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 the functionality or efficiency of the software or do not extend the estimated useful life of equipment are considered maintenance and are expensed as incurred. Capital assets are depreciated or amortized using the straight-line method over the following estimated useful lives:

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

## e. Due from Federal Government

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

## f. Due from State Resources/Appropriation from State Resources

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

**NEW YORK STATE OF HEALTH**  
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Notes to the Basic Financial Statements

For the Year Ended December 31, 2015

**g. Net Position**

The difference between assets and liabilities is “Net Position” on NYSoH’s government-wide financial statements.

Net investment in capital assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Net position is reported as restricted when constraints placed on net position use are either:

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

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

**h. Revenue and Expenditures**

Starting January 2015, the shared expenses allocation was changed to allocate between NYSoH and the Public Programs (Medicaid/Child Health Plus) based upon percentage of enrollment with NYSoH specific information technology (IT) expenses allocated to NYSoH and the remainder allocated using the enrollment projections. Effective April 1, 2015, the shared expenses will be allocated between NYSoH, NYS Public Program (e.g. Medicaid/Child Health Plus) and a new NYS Public Program, the Basic Health Plan. Cost-share ratio will be determined using the annual enrollment projections for non-IT expenses and with NYSoH-specific IT expenses allocated to NYSoH and the remainder allocated using projected enrollment calculations that were approved by the U.S. Department of Health and Human Services.

**NOTE 3 – Reconciliation of Governmental Funds Financial Statements to Government-wide Financial Statements**

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

**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, 2015

**a. Explanation of Certain Differences between the Governmental Funds Balance Sheet and the Statement of Net Position**

Capital assets reported in the statement of net position are not financial resources and, therefore, are not reported as assets of governmental funds. Therefore, adjustments made to the governmental funds total fund balance to arrive at government-wide net position at December 31, 2015 are as follows:

	<u>2015</u>
Total fund balance	\$ —
Capital assets	<u>91,880,414</u>
Total net position	<u>\$ 91,880,414</u>

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

Capital assets reported in the statement of net position are not financial resources and, therefore, are not reported as assets of governmental funds. When capital assets are purchased or developed, the resources expended for these assets are reported as expenditures in the governmental funds statement of revenues, expenditures and changes in fund balances. However, in the statement of activities, the cost of those assets is capitalized and is allocated over the estimated useful lives as depreciation/amortization expense. Therefore, adjustments made to the net change in fund balance to arrive at the net change in net position in the statement of activities for the year ended December 31, 2015 are as follows:

	<u>2015</u>
Net change in fund balance	\$ —
Add: Capital outlay	28,970,840
Less: Amortization expense	<u>(8,591,296)</u>
Net Change in net position	<u>\$ 20,379,544</u>

**Note 4 – Capital Assets**

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

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Notes to the Basic Financial Statements

For the Year Ended December 31, 2015

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

Capital asset activity for the year ended December 31, 2015 was as follows:

	<b>Balance January 1, 2015</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance December 31, 2015</b>
Governmental activities:				
Depreciable and amortizable assets:				
Software	\$ 70,868,006	30,089,906	—	100,957,912
Less accumulated depreciation and amortization:				
Software	(4,095,474)	(8,591,296)	—	(12,686,770)
Total depreciable and amortizable assets, net	66,772,532	21,498,610	—	88,271,142
Nondepreciable and nonamortizable assets:				
Development in progress	4,728,338	3,609,272	4,728,338	3,609,272
Governmental activities, capital assets, net	\$ 71,500,870	25,107,882	4,728,338	91,880,414

**NOTE 5 – Accrued Liabilities**

Accrued liabilities consist of the following at December 31, 2015:

	<b>General Fund</b>	<b>Federal Special Revenue Fund</b>	<b>Total Governmental Funds/Governmental Activities</b>
Personal services:			
Salary and fringe	\$ 1,099,505	1,576,397	2,675,902
Contractual services			
In person assistors	1,084,828	—	1,084,828
Advertising expense	2,608,576	1,283,747	3,892,323
System integration	4,834,277	—	4,834,277
Call center services	5,117,632	706,759	5,824,391
Other nonpersonal services			
Funds payable to providers	—	5,982,383	5,982,383
Indirect costs	604,471	981,615	1,586,086
All other	71,636	853,510	925,146
Total	\$ 15,420,925	11,384,411	26,805,336

**NOTE 6 – 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. During the year ended December 31, 2015, NYSOH incurred significant expenditures related to the implementation of 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.

## NEW YORK STATE OF HEALTH

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For the Year Ended December 31, 2015

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

NYSoH inadvertently submitted for federal reimbursement for expenditures associated with the State's Statewide Call Center that were not related to NYSoH's Marketplace. The State's Statewide Call Center (SWCC) and the NYSoH's call center third-party contractor included charges related to the State's SWCC in NYSoH's invoices. NYSoH submitted these expenditures for Federal Reimbursement during the period they were incurred despite these expenditures not relating to NYSoH's Marketplace. Centers for Medicare and Medicaid Services (CMS) disallowed these expenditures, accordingly, NYSoH has recorded a due from other divisions and a due to federal government at December 31, 2015 in the amount of \$859,521. The disallowed expenditures at December 31, 2014 and 2013 were \$5,862,471 and \$1,678,733, respectively.

Payroll expenditures for the last quarter of the fiscal year had been submitted for Federal reimbursement. These payroll expenditures were charged 100% to the Federal State Planning and Exchanges Establishment Grant instead of being split based upon eligibility to New York State Public Programs. Accordingly, NYSoH has recorded a due from other divisions and a due to federal government at December 31, 2015 in the amount of \$1,378,329.

The State's All Payer Claims Database project is a multi-year project that will benefit multiple programs and, accordingly, is funded by federal grants, state funds, and state and federal public program funds. Early phases of the project were focused on the Qualified Health Plan activities were fully funded by federal Exchange Establishment grants. Later project phases also include public programs and funding is allocated across state funds and state and federal public program funds. However, during the year ended December 31, 2015, NYSoH inadvertently charged federal exchange establishment grants for 100 percent of the costs associated with this project instead of allocating a portion of costs (30 percent) to state and federal public program funding sources. Accordingly, NYSoH has recorded a due from other divisions and a due to federal government as of December 31, 2015 in the amount of \$1,187,358.

### **NOTE 7 – Pension Benefits**

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

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

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Notes to the Basic Financial Statements

For the Year Ended December 31, 2015

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 \$749,042 for 2015, 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% for the period of January 1, 2015 through March 31, 2015 and 15.84% for the period of April 1, 2015 through December 31, 2015.

### **NOTE 8 – Subsequent Events**

Per Section 1311(d)(5) of the Affordable Care Act, Marketplaces must be self-sustaining beginning January 1, 2015, and funds may not be used for ongoing operations. Marketplaces demonstrate self-sustainability by, among other things, having a source of funding other than Federal grants for ongoing operations. For NYSoH, Federal grant funding has been extended through December 31, 2016 and is 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 ended March 31, 2016 and March 31, 2017 has included funding to cover these costs.

OTHER SUPPLEMENTARY INFORMATION  
(UNAUDITED)

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*Unaudited - See independent auditors' report.*

**NEW YORK STATE OF HEALTH**  
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Detail of Expenses

For the Year Ended December 31, 2015

**2015 Government-wide Expenses**

Temporary service	\$ 420
Administrative and clerical	2,592
Late payment charges	6,955
Phone	7,368
Auditing	29,547
Supplies and materials	30,232
Travel	43,803
Workstation computers and related	45,658
Conference and trainings	195,091
Policy studies	496,143
All Payor database	708,862
Indirect costs	1,564,831
Quality assurance	2,153,902
Fringe benefit	2,580,818
Case management services	4,104,033
Information technology services and support	4,385,834
Personal services	4,723,629
In person assistors	7,638,436
Amortization	8,591,296
Advertising expense	10,719,123
System operation (notification/portage)	15,953,524
Call center services	42,310,969
<b>Total government-wide expenses</b>	<b>\$ <u>106,293,066</u></b>

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Summary of SHOP Activity

For the Year Ended December 31, 2015

Premiums billed	\$	72,596,117	
Premiums received SHOP customers			\$ 72,965,335
Premiums receivable beginning of year			\$ (2,355,509)
Premiums receivable end of year			\$ 1,986,291
Premiums received SHOP customers	\$	72,965,335	
Premiums paid to carriers			\$ 71,408,065
Accrued liabilities/Deposits with third party; beginning of year			\$ (4,425,113)
Accrued liabilities/Deposits with third party; end of year			\$ 5,982,383

**NEW YORK STATE OF HEALTH**  
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Schedule of Carrier Payments  
For the Year Ended December 31, 2015

<b>Vendor Name</b>	<b>Total Paid</b>
Dentegra	\$ 4,849
Dentcare	14,775
Healthplex	30,015
Healthnow	40,382
Solstice	41,805
Metropolitan	95,099
Delta dental	139,533
Guardian	280,597
Northshore	1,634,645
BCBS WNY	1,884,215
Oxford	2,634,932
Emblem	2,846,098
Metroplus	3,020,551
Independent Health	3,362,281
CDPHP	4,391,488
MVP	6,907,457
Excellus	20,265,230
Health Republic	23,814,113
TOTAL	\$ 71,408,065