EISNERAMPER
ACCOUNTANTS & ADVISORS

# HEALTH REPUBLIC INSURANCE OF NEW YORK, CORP.

STATUTORY BASIS FINANCIAL STATEMENTS

DECEMBER 31, 2015

HEALTH REPUBLIC INSURANCE OF NEW YORK, CORP.

Contents

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## INDEPENDENT AUDITORS' REPORT

Superintendent of the New York State Department of Financial Services as Receiver and the Management of the Health Republic Insurance of New York, Corp.

### Report on the Statutory Basis Financial Statements

We have audited the accompanying statutory basis financial statements of Health Republic Insurance of New York, Corp. ("HRINY") (a New York corporation), which comprise the statutory basis statement of admitted assets, liabilities and deficit as of December 31, 2015, and the related statutory basis statement of operations and changes in surplus (deficit), and cash flows for the year then ended, and the related notes to the statutory basis financial statements.

#### *Management's Responsibility for the Statutory Basis Financial Statements*

Management is responsible for the preparation and fair presentation of these statutory basis financial statements in accordance with the financial reporting provisions of the New York State Department of Financial Services. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of statutory basis financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these statutory basis financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statutory basis financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory basis financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory basis 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 statutory basis 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 statutory basis financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the statutory basis financial statements referred to in the first paragraph present fairly, in all material respects, the admitted assets, liabilities, and deficit of Health Republic Insurance of New York, Corp. as of December 31, 2015, and the results of its operations and its cash flows for the year then ended, on the basis of financial reporting provisions of New York State Department of Financial Services as described in Note A.

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### *Basis of Accounting*

We draw attention to Note A of the statutory basis financial statements, which describes the basis of accounting. The statutory basis financial statements were prepared in conformity with accounting practices prescribed or permitted by the New York State Department of Financial Services, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the New York State Department of Financial Services. Our opinion is not modified with respect to that matter.

### Restriction on Use

This report is intended solely for the information and use of the board of directors and the management of the Company and the state insurance departments to whose jurisdiction the Company is subject and is not intended to be and should not be used by anyone other than these specified parties.

### Emphasis of Matter

The accompanying statutory basis financial statements have been prepared assuming that HRINY will continue as a going concern. As discussed in Note N to the statutory basis financial statements, HRINY was placed into liquidation on May 10, 2016 and has a net capital deficiency that raises substantial doubt about its ability to continue as a going concern. The statutory basis financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

EisnerAmper LLP

Iselin, New Jersey
January 17, 2017

## HEALTH REPUBLIC INSURANCE OF NEW YORK, CORP.

**Statutory Basis Statement of Admitted Assets, Liabilities and Deficit**
**December 31, 2015**

| | | |
|---|---|---|
| **ADMITTED ASSETS** | | |
| Cash and short-term investments | | $ 53,746,561 |
| Other assets: | | |
| Amounts recoverable from federal reinsurance (Note G) | | 51,736,709 |
| Health care receivable | | 7,223,002 |
| Accrued retrospective premiums receivable – Risk Corridors (Note G) | $ 401,949,828 | |
| Less: Allowance for uncollectible retrospective premiums receivable | 399,883,535 | |
| Net accrued retrospective premiums receivable | | 2,066,293 |
| Amounts recoverable from commercial reinsurer | | 3,297,501 |
| Amounts receivable from cost sharing refund | | 615,500 |
| Other receivables | | 10,274 |
| Computer equipment, net of accumulated depreciation | | 15,000 |
| Total admitted assets | | $ 118,710,840 |
| **LIABILITIES AND DEFICIT** | | |
| Liabilities: | | |
| Claims unpaid | | $ 209,364,878 |
| Claims adjustment expenses unpaid | | 3,774,504 |
| Risk adjustment payable (Note G) | | 191,338,780 |
| Accounts payable and accrued expenses | | 46,806,220 |
| Start-up loan | | 23,600,400 |
| Premiums received in advance | | 1,657,633 |
| Federal reinsurance premiums payable | | 6,338,508 |
| Other liabilities | | 3,685 |
| Total liabilities | | 482,884,608 |
| Surplus (deficit): | | |
| Section 9010 ACA assessment | | 8,739,293 |
| NY State statutory reserve requirement | | 134,783,321 |
| Solvency loan | | 241,366,000 |
| Net deficit – unreserved and undesignated | | (749,062,382) |
| Total deficit | | (364,173,768) |
| Total liabilities and policyholders' deficit | | $ 118,710,840 |

*See accompanying notes to statutory basis financial statements*

# HEALTH REPUBLIC INSURANCE OF NEW YORK, CORP.

## Statutory Basis Statement of Operations and Changes in Surplus (Deficit)
## Year Ended December 31, 2015

| | |
|---|---|
| **Revenues:** | |
| Net premiums income | $ 537,547,950 |
| **Underwriting expenses:** | |
| Hospital and medical benefits | 795,870,469 |
| Prescription drugs | 157,824,490 |
| | 953,694,959 |
| Less: reinsurance recoveries | (71,240,085) |
| Total medical costs | 882,454,874 |
| Claims adjustment expenses | 71,715,347 |
| General administrative expenses | 105,461,282 |
| Decrease in premium deficiency reserves | (21,900,000) |
| Total underwriting expenses | 1,037,731,503 |
| Net underwriting loss | (500,183,553) |
| **Net investment income:** | |
| Net investment income | 583,751 |
| **Net loss** | (499,599,802) |
| Change in non-admitted assets | 1,172,505 |
| Solvency loan | 70,512,852 |
| Change in surplus | (427,914,445) |
| Surplus, beginning of year | 63,740,677 |
| **Deficit, end of year** | $ (364,173,768) |

*See accompanying notes to statutory basis financial statements*

## HEALTH REPUBLIC INSURANCE OF NEW YORK, CORP.

**Statutory Basis Statement of Cash Flows**
**Year Ended December 31, 2015**

| | |
|---|---|
| **Cash flows from operations:** | |
| Premiums collected, net of reinsurance | $ 774,548,856 |
| Benefit and loss related payments | (812,786,325) |
| Administrative expenses paid | (162,210,828) |
| Cash used in underwriting | (200,448,297) |
| Net investment income | 583,751 |
| Net cash flows used in operations | (199,864,546) |
| **Cash flows from investments:** | |
| Net disposal of bonds | 93,225,214 |
| Net cash flows provided by investments | 93,225,214 |
| **Cash flows from financing and other:** | |
| Proceeds from start-up loan | 486,600 |
| Proceeds from solvency loan | 108,794,435 |
| Other cash applied | 1,788,266 |
| Net cash flows provided by financing and other | 111,069,301 |
| **Net increase in cash and short-term investments** | 4,429,969 |
| **Cash and short-term investments:** | |
| Beginning of the year | 49,316,592 |
| **End of the year** | $ 53,746,561 |

*See accompanying notes to statutory basis financial statements*

## NOTE A - NATURE OF THE BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### [1] Nature of business:

Health Republic Insurance of New York, Corp. ("HRINY" or the "CO-OP") is incorporated as a nonprofit corporation under the laws of the State of New York and is subject to regulation by the State of New York, Department of Financial Services ("NYSDFS"), as an Article 43 non-profit health insurer. Effective October 2014, the Consumer Operated and Oriented Plan officially changed its name to Health Republic Insurance of New York, Corp. The CO-OP was incorporated on October 13, 2011 in order to apply for funding as a Consumer Operated and Oriented Plan under Section 1322 of the Affordable Care Act ("ACA"). The CO-OP was awarded a contract from the Centers for Medicare and Medicaid Services ("CMS") for funding as a Consumer Operated and Oriented Plan on February 17, 2012 but had no prior operations or financial transactions before the award. The terms of the award required that the CO-OP (a) offer health insurance to eligible New York residents through the state exchange, NY State of Health, effective on January 1, 2014; and (b) when fully operational, a majority of the Board of Directors must be covered members, elected by all individuals covered by the plan. The award includes funding of (a) a start-up loan up to $23,767,000 to fund all required development activities of the organization; and (b) a solvency loan of up to $150,678,000 to provide statutory capital required to operate an insurance company in New York. On September 26, 2014, CMS approved an additional $90,688,000 to the total available solvency funding. With the additional $90,688,000 of solvency funding, the total solvency funding amount is $241,366,000.

The NYSDFS ordered HRINY to cease writing new health insurance policies on September 25, 2015 due to the financial condition of the company and announced that HRINY, in the best interest of consumers, will terminate all HRINY policies, both individual and small groups, on November 30, 2015.

### [2] Basis of presentation:

The accompanying statutory basis financial statements have been prepared in conformity with accounting practices prescribed or permitted by the NYSDFS. The NYSDFS recognizes only statutory accounting practices prescribed or permitted by the NYSDFS for determining and reporting the financial condition and results of operations of an insurance company in order to determine its solvency under the New York State Insurance Law. The National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures Manual ("NAIC SAP") has been adopted as a component of prescribed or permitted practices by the NYSDFS. For purposes of preparing the statutory basis financial statements of the CO-OP, no differences exist between the accounting practices prescribed by the NYSDFS and the NAIC.

## NOTE A - NATURE OF THE BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### [2] Basis of presentation: (continued)

The statutory accounting practices vary in some respects from accounting principles generally accepted in the United States of America ("GAAP"). The significant differences are as follows:

- Certain assets, primarily office furniture and fixtures, leasehold improvements, prepaids, intangible assets and certain past due premiums are non-admitted and, as such, are not included in statutory net deficit-unreserved and undesignated.
- Short-term investments purchased with an original maturity of ninety days or less and certificates of deposit with maturities of up to one year are classified as cash equivalents under GAAP.
- Investments in bonds are generally reported at amortized cost. Under GAAP, investments in bonds classified as "available-for-sale" are reported at fair value, with unrealized gains and losses reported as a separate component of shareholders' equity.
- Certain statutory reserves are established by a direct charge to net deficit - unreserved and undesignated.
- Solvency loans are included in surplus unreserved and undesignated rather than reported as a liability as required under GAAP.
- The costs of acquiring and renewing business are expensed when incurred rather than capitalized and amortized over the term of the related policies.
- Lessees account for all leases as operating leases. Under GAAP, lessees should classify all leases at the inception date either as capital or operating leases in accordance with the terms of the agreements.
- The statutory basis statement of cash flows is prepared in accordance with NAIC guidelines as opposed to Accounting Standards Codification ("ASC") 230, *Statement of Cash Flows*.

#### a) Investments:

Net investment income earned consists primarily of interest less investment-related expenses. Interest is recognized on an accrual basis. Net realized capital gains (losses) are recognized on a specific identification basis when securities are sold, redeemed or otherwise disposed. Realized capital losses include write-downs for impairments considered to be other than temporary.

#### b) Cash and short-term investments:

The CO-OP defines cash to include all highly liquid instruments purchased with a maturity of three months or less from the acquisition date. Short-term investments include any other investments with remaining maturities of one year or less at the time of acquisition and are carried at amortized cost, which approximates fair value.

#### c) Admitted assets:

Assets are stated at admitted asset values and exclude certain assets designated as non-admitted. "Admitted asset value" refers to the value at which the respective assets are permitted to be reported in the statutory basis financial statements submitted to regulatory agencies. Non-admitted assets are charged against net deficit-unreserved and undesignated.

NOTE A - NATURE OF THE BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**[2] Basis of presentation: (continued)**

**d) Solvency loans:**

Solvency loans are recorded as surplus unreserved and undesignated. Accrued interest is not recognized.

**e) Revenue recognition:**

Health premiums received are recognized as income in the month of coverage. Premium revenue include premiums from members, individuals and employer groups, and advanced premium tax credits ("APTC") paid by the U.S. Department of Health and Human Services ("HHS") to subsidize premiums for low-income individual members under the ACA. Premiums collected from members and APTC premium subsidies are recognized as revenue during the month of coverage. Premiums applicable to the unexpired portion of the coverage are recorded as premiums received in advance in the accompanying statutory basis financial statements. Medical Loss Ratio ("MLR") rebates are mandated by the Public Health Service Act. Rebates are issued to policyholders if the ratio of medical losses to the premiums is below the specified minimum for individuals and small groups. Premiums are reported net of reinsurance and MLR rebates.

**f) Claims unpaid and claim adjustment expenses unpaid:**

Claims unpaid and claims adjustment expenses unpaid include claims submitted by members, health care professionals, and providers and facilities that provided health care services to members, and is based on an amount determined from individual case estimates and loss reports and an amount based on past experience, for adverse development on case reserves and for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates, and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability is continually reviewed and any adjustments are reflected in the period determined.

**g) Premium deficiency reserves:**

The CO-OP evaluates its health care contracts to determine if it is probable that a loss will be incurred. A premium deficiency loss is recognized when it is probable that expected future paid claims, administrative expenses and reserves will exceed existing reserves plus anticipated future premiums on existing contracts. The CO-OP does not anticipate investment income in the calculation of premium deficiency losses. Due to HRINY being placed into liquidation there was a decrease in the premium deficiency reserves, which is reflected in underwriting expenses on the statement of operations.

**h) Pharmaceutical rebate receivables:**

The CO-OP receives pharmaceutical rebates under an agreement with a Pharmacy Benefit Manager ("PBM"). Estimates of rebate receivables are based on historical collections. The CO-OP records pharmaceutical rebates as a reduction of benefits incurred during the period that the rebates are earned. Pharmaceutical rebates are recognized for rebates earned, but not yet received.

## NOTE A - NATURE OF THE BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### [2] Basis of presentation: (continued)

#### i) Use of estimates:

The preparation of statutory basis financial statements in conformity with statutory accounting principles requires management of the New York Liquidation Bureau ("NYLB" or the "Bureau") to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the statutory basis financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates relate to claims unpaid, reinsurance recoverables, retrospective premium adjustments and risk adjustments. The CO-OP adjusts these estimates each period as more current information becomes available. The impact of any changes in estimates is included in the determination of net loss in the period in which the estimate is adjusted.

## NOTE B - INVESTED ASSETS

There were no investments at December 31, 2015.

Net investment income for the year ended December 31, 2015, consists of the following:

| | |
|---|---|
| Bonds | $ 33,221 |
| Cash and short-term investments | 686,307 |
| Loss on sale of investments | (645) |
| Gross investment income | 718,883 |
| Less: Investment expenses | (135,132) |
| | $ 583,751 |

## NOTE C - START-UP AND SOLVENCY LOANS

On February 17, 2012, the CO-OP entered into a loan agreement with CMS for up to approximately $23.8 million in funding to enable the CO-OP to develop a health insurance company that will operate in New York. Under the terms of the agreement, funding is disbursed in quarterly installments throughout 2012 and continuing until 2015 based on completion of certain milestones agreed to among the parties. The start-up loan carries an interest rate of -0-% and balloon repayments are due five (5) years from the date of disbursement. As of December 31, 2015, the CO-OP received $23,600,400 in disbursement on this start-up loan.

The start-up loan at December 31, 2015, matures as follows:

| Year ending December 31, | |
|---|---|
| 2017 | $ 10,338,700 |
| 2018 | 12,591,900 |
| 2019 | 183,200 |
| 2020 | 486,600 |
| | $ 23,600,400 |

## NOTE C - START-UP AND SOLVENCY LOANS (CONTINUED)

On February 17, 2012, the CO-OP entered into a loan agreement with CMS to provide a solvency loan of up to $150,678,000 to provide statutory capital required to operate an insurance company in New York. On September 26, 2014, CMS approved an additional $90,688,000 to the total available solvency funding. With the additional $90,688,000, the total solvency funding amount is $241,366,000, to be drawn as required to meet the net worth requirements of a New York health insurance company. The solvency loan is structured as a "Surplus Note" under Statutory Accounting definitions and can only be repaid with the expressed written approval from the NYSDFS.

As of December 31, 2015, the CO-OP has received $241,366,000 in disbursements on this solvency loan. The solvency loan has an interest rate of 0.37% and the following key provisions: Prior to 2019, principal and interest is deferred. During 2019 through 2020, interest only payments are due. During 2021 through 2033, principal and interest payments are due.

The start-up and solvency loans provide the lender with a security interest in the cash flow and reserves of the CO-OP that is subordinate to (a) claim payments, (b) basic operating expenses, and (c) maintenance of required reserve funds while the CO-OP is operating under state insurance laws.

## NOTE D - ADMINISTRATIVE AGREEMENT

The CO-OP was sponsored by Freelancers Union 501(c)4 organization under the Internal Revenue Code ("IRC"). Freelancers Union provided resources and support throughout the application process that enabled the CO-OP to obtain approval and funding. Consistent with the program requirements, the CO-OP is a wholly independent organization. Neither Freelancers Union nor any of its affiliates owns any interest in the CO-OP or has the right to appoint any of the directors on the CO-OP's Board of Directors. There is no overlap among the directors or officers of the CO-OP and the directors or officers of Freelancers Union or of any of its affiliates.

## NOTE E - REGULATORY MATTERS

### [1] Risk-based capital:

The NAIC has promulgated Risk-Based Capital ("RBC") requirements for insurance companies. RBC is a method of measuring the minimum amount of capital appropriate for a reporting entity to support its overall business operation in consideration of its size and risk profile. RBC limits the amount of risk a company can take. It requires a company with a higher amount of risk to hold a higher amount of capital. RBC is not designed to be used as a stand-alone tool in determining financial solvency of an insurance company; rather it is one of the tools that give regulators legal authority to take control of an insurance company. Regulatory compliance is determined by a ratio of the company's adjusted capital, as defined by the NAIC, to its authorized control level, as defined by the NAIC. There are four control levels: Company Action Level, Regulatory Action Level, Authorized Control Level and Mandatory Control Level. HRINY did not file a 2015 NAIC Statutory Annual Statement, therefore the RBC calculation was not performed; however, given the level of deficit and the fact that the CO-OP has been put into liquidation, the CO-OP would likely have a RBC calculation which would indicate Mandatory Control.

### [2] Restrictions on unassigned funds:

The CO-OP is required to reclassify from unassigned surplus to special surplus an amount equal to the CO-OP's estimated Section 9010 fee of the ACA for the subsequent year's assessment. The CO-OP is also required by the NYSDFS to reclassify from unassigned surplus to special surplus, an amount equal to 12.5% of the net premium earned.

## NOTE E - REGULATORY MATTERS (CONTINUED)

[3] **Licensure:**

The CO-OP received its license to operate as an Article 43 New York State corporation on July 22, 2013.

[4] **Health insurance marketplace:**

Under the ACA, each state was afforded the option to establish its own Health Insurance Marketplace (the "Exchange") as a clearinghouse for residents to purchase individual coverage on a guaranteed issue basis. The Exchange operates as a regulated entity offering individuals and small groups insurance plans with standardized values on a guaranteed issue basis and regulated premium rates. New York elected to establish and operate its own Exchange, known as New York State of Health.

## NOTE F - CONCENTRATIONS OF CREDIT RISK

At December 31, 2015, the CO-OP had cash balances in financial institutions that exceeded FDIC limits. FDIC insurance covers up to $250,000 per depositor at each financial institution. Management believes that credit risk related to those deposits is minimal.

## NOTE G - RISK SHARING PROVISIONS OF THE AFFORDABLE CARE ACT

Effective January 1, 2014, the ACA imposed fees and premium stabilization provisions on health insurance issuers offering commercial health insurance. The three premium stabilization programs are commonly referred to as the 3Rs - reinsurance, risk corridors, and risk adjustment.

*Amounts Recoverable from Federal Reinsurance (Reinsurance)* -The federal reinsurance program supplements the risk adjustment program and compensates plans when they have enrollees with especially high claims. The program was designed to protect issuers from an expected increase in large claims due to the elimination of the preexisting condition limitation. The federal reinsurance program is effective from 2014 through 2016 and applies to all issuers of major medical commercial products and third-party administrators. The federal reinsurance program was designed to reduce the incentives for plans to avoid high-cost individual and to stabilize premiums during the initial years. As of December 31, 2015, the CO-OP had amounts recoverable from federal reinsurance of $51,736,709.

*Accrued Retrospective Premiums Receivable (Risk Corridors)* -The risk corridors program have been established to mitigate the pricing risk that insurers faced because of limited data to estimate who would enroll in plans operating under the ACA rules and what the health spending would be. These temporary risk corridors limit the gains and losses insurers receive. Insurers receive a payment from HHS if their losses exceed a certain threshold. An objective of risk corridors is to encourage health insurance competition by limiting the risk for insurers entering the exchange market during the early years of implementation. This provision applies to qualified health plans in the individual and small group markets. Premium adjustments pursuant to the risk corridors program are accounted for as premium adjustments for retrospectively rated contracts and totaled $401,949,828 as of December 31, 2015. In preparing the statutory financial statements, management makes estimates of amounts recoverable from the reinsurers, which include consideration of amounts, if any, estimated to be uncollectible based on an assessment of factors including the creditworthiness of the reinsurers. Management has established a reserve for the accrued retrospective premiums receivable in the amount of $399,883,535, which represents its best estimate and management believes its estimates are reasonable and adequate. The estimates are continually reviewed and adjusted as necessary.

**NOTE G - RISK SHARING PROVISIONS OF THE AFFORDABLE CARE ACT (CONTINUED)**

*Risk Adjustment Payable* -The risk adjustment program was designed to reduce the incentives for health insurance plans to avoid enrolling people with higher than average costs by shifting premiums among reinsurers based on the risk of the people they enrolled. Insurers with higher shares of low cost enrollees would contribute to a fund that made payments to insurers with larger shares of high cost enrollees. All non-grandfathered plans in the individual and small group market participated in the risk adjustment program, whether they were inside or outside of the exchange. Premium adjustments pursuant to the risk adjustment program are accounted for as premium subject to redetermination and user fees are accounted for as assessments. As of December 31, 2015 the CO-OP's risk adjustment payable totaled $191,338,780.

The following table presents the current year impact of risk-sharing provisions of the ACA on assets, liabilities and revenue:

| | | |
|---|---|---|
| a. Permanent ACA Risk Adjustment Program Assets: | | |
| 1. Premium adjustments receivable due to ACA risk adjustment | $ | - |
| Liabilities | | |
| 2. Risk adjustment user fees payable for ACA risk adjustment | | - |
| Liabilities | | |
| 3. Premium adjustments payable due to ACA risk adjustment | $ | 191,338,780 |
| Operations (revenue and expense) | | |
| 4. Reported as revenue in premium for accident and health contracts (written/collected) due to ACA risk adjustment | $ | 191,338,780 |
| 5. Reported in expenses as ACA risk adjustment user fees (incurred/paid) | | - |
| b. Transitional ACA Reinsurance Program Assets: | | |
| 1. Amounts recoverable for claims paid due to ACA reinsurance | $ | 51,736,710 |
| 2. Amounts recoverable for claims unpaid due to ACA insurance (contra liability) | | - |
| 3. Amounts receivable relating to uninsured plans for contributions for ACA reinsurance | $ | 2,112,836 |
| Liabilities | | |
| 4. Liabilities for contributions payable due to ACA reinsurance – not reported as ceded premium | $ | 1,730,684 |
| 5. Ceded reinsurance premiums payable due to ACA reinsurance | $ | 6,338,508 |
| 6. Liability for amounts held under uninsured plan contributions for ACA reinsurance | | - |
| Operations (revenue and expense) | | |
| 7. Ceded reinsurance premiums due to ACA reinsurance | $ | 6,338,508 |
| 8. Reinsurance recoveries (income statement) due to ACA reinsurance payments or expected payments | | 51,736,710 |
| 9. ACA reinsurance contributions – not reported as ceded premium | $ | 1,730,684 |
| c. Temporary ACA Risk Corridors Program Assets: | | |
| 1. Accrued retrospective premium due to ACA risk corridors | $ | 2,066,293 |
| Liabilities | | |
| 2. Reserve for the credits or policy experience rating refunds due to ACA risk corridors | | - |
| Operations (revenue and expense) | | |
| 3. Effect of ACA risk corridors on net premium income (paid/received) | $ | 2,066,293 |
| 4. Effect of ACA risk corridors on change in reserves for rate credits | | - |

The ACA risk-sharing programs became effective January 1, 2014.

## NOTE H - REINSURANCE

The CO-OP participates in the federal reinsurance program. Under this program, claims greater than $45,000 and up to a $250,000 maximum are eligible for 80% coinsurance/ reimbursement from the federal government's program.

In addition to the federal reinsurance program, the CO-OP had an attachment point commercial reinsurance contract with $400,000 retention per member, and 90% coinsurance for coverages greater than $400,000.

| | December 31, 2015 |
|---|---|
| Premiums: | |
| Direct | $ 552,126,519 |
| Ceded: | |
| Federal reinsurance | (6,121,971) |
| Commercial reinsurance | (8,456,598) |
| Net premium income | $ 537,547,950 |
| Hospital, medical and pharmacy expenses: Direct | $ 953,694,959 |
| Ceded: | |
| Federal reinsurance | (62,958,667) |
| Commercial reinsurance | (8,281,418) |
| Net hospital, medical and prescription expenses | $ 882,454,874 |

The CO-OP recognized reinsurance recoveries related to reinsurance agreements of $71,240,085 in 2015, which is recorded in the statutory basis statement of operations. In addition, reinsurance recoverables related to reinsurance agreements of $0 for unpaid losses are recorded as a reduction to claims unpaid in the 2015 statutory basis statement of admitted assets, liabilities and capital and surplus. The reinsurance agreements do not relieve the CO-OP of its obligation to subscribers.

## NOTE I - HEALTH CARE AND OTHER AMOUNTS RECEIVABLE

Pharmacy rebates receivable are recorded when reasonably estimated or billed by the affiliated PBM in accordance with pharmacy rebate contract provisions. Information used to support rebates billed to the manufacturer is based on utilization information gathered by the PBM and adjusted for significant changes in the pharmacy contract.

The CO-OP evaluates admissibility of all pharmacy rebates receivable based on the administration of each underlying pharmaceutical benefit management agreement. The CO-OP has non-admitted all pharmacy rebates receivable that do not meet the admissibility criteria from the statutory basis statement of admitted assets, liabilities and deficit.

## NOTE I - HEALTH CARE AND OTHER AMOUNTS RECEIVABLE (CONTINUED)

| Quarter | Estimated Pharmacy Rebates as Reported on Financial Statements | Pharmacy Rebates as Billed or Otherwise Confirmed | Actual Rebates Received Within 90 Days of Billing | Actual Rebates Received Within 91 to 180 Days of Billing | Actual Rebates Received More Than 180 Days After Billing |
|---|---|---|---|---|---|
| 12/31/2015 | $880,428 | $880,428 | $- | $- | $- |
| 9/30/2015 | $2,440,584 | $2,440,584 | $- | $- | $- |
| 6/30/2015 | $- | $- | $- | $- | $- |
| 3/31/2015 | $- | $- | $- | $- | $- |

## NOTE J - CLAIMS UNPAID AND CLAIMS ADJUSTMENT EXPENSES UNPAID

The following table discloses the change in claims unpaid, net of reinsurance, for the year ended December 31, 2015:

| | | |
|---|---|---|
| Claims unpaid, beginning of year | $ | 139,385,781 |
| Incurred claims – current year | | 882,454,874 |
| Paid claims – current year | | (812,475,777) |
| Claims unpaid, end of year | $ | 209,364,878 |

The following table discloses the change in claims adjustment expenses unpaid, net of reinsurance, for the year ended December 31, 2015:

| | | |
|---|---|---|
| Claims adjustment expenses unpaid, beginning of year | $ | 2,859,803 |
| Incurred claims adjustment expenses – current year | | 71,715,347 |
| Paid claims adjustment expenses – current year | | (70,800,646) |
| Claims adjustment expenses unpaid, end of year | $ | 3,774,504 |

## NOTE K - COMMITMENTS AND CONTINGENCIES

The CO-OP leased office space under an operating non-cancelable sublease agreement with Gotham Broad, LLC for the rental of office space at 30 Broad Street, New York, New York which commenced on September 15, 2013. The term of the lease is for 123 months. On March 19, 2014, July 1, 2014 and December 15, 2014, lease amendments were added to the existing agreement with Gotham Broad, LLC for the rental of additional office space at 30 Broad Street. The term of the amendments to the lease is for 120 months. Office space, temporary for 2014 only, has also been leased at 80 Broad Street, New York, New York. Rental expense for the period ended December 31, 2015 was $1,338,347.

## NOTE L - TAXES

The ACA established Section 501(c) 29 of the IRC as a new tax-exempt category specifically for qualified nonprofit health insurance issuers ("QNHIIs") that have received a loan or grant under the CMS Consumer Operated and Oriented Plan for periods that meet both the requirements of Section 1322 of the ACA and of any loan agreement with CMS. The CO-OP received its determination letter from the Internal Revenue Service ("IRS") dated March 15, 2013. The 2015 tax return has been placed on extension and will be filed upon the completion of the 2015 audit.

## NOTE M - DEFINED CONTRIBUTION PLAN

The CO-OP provided a defined contribution 401(k) plan through BlueStar Retirement Services, Inc., the third-party administrator and record-keeper, TD Ameritrade Trust Company, the custodian of the plan assets, and Fiduciary Partners Investment Consulting, the plan investment advisor. Eligible employees age 21 and older with 3 months of service may make salary deferral contributions on a post-tax and/or pretax basis.

The minimum deferral is 1% of compensation with a maximum deferral of 90% of compensation. Under the Safe Harbor provision, HRINY will make matching contribution for all eligible participating employees in an amount equal to the sum of 100% of the amount of the Participant's Elective Deferrals that do not exceed 3% of the Participant's Compensation, plus 50% of the amount of the Participant's Elective Deferrals that exceed 3% of the Participant's Compensation but do not exceed 5% of the Participant's Compensation. Company contributions vest 100% with participants immediately. Employer contribution expenses for the years ended December 31, 2015 and 2014 were $854,300 and $87,074, respectively.

## NOTE N - SUBSEQUENT EVENTS

Management, as defined below, has performed subsequent event procedures through January 17, 2017, which is the date the statutory basis financial statements were available to be issued.

a) In March 2016, CMS issued a letter to HRINY stating that, at the request of the United States Department of Justice, CMS has implemented an administrative hold on all payables due to HRINY including those authorized under the ACA, its implementing regulations and any other amounts owed to the issuers under any law or program.

b) In March 2016, the NYSDFS issued a letter to HRINY pursuant to Insurance Law Section 307(b)(3) granting HRINY an exemption from the requirement to file an annual audited financial statement for the calendar year ended December 31, 2015. Further, HRINY is granted an exemption from the actuarial opinion filing requirement for the year ended December 31, 2015 on the basis of financial hardship.

c) On May 10, 2016, the New York Supreme Court ("Receivership Court") placed HRINY into liquidation and the Superintendent of Financial Services of the State of New York was appointed as liquidator. The order of liquidation was filed with the New York County Clerk on May 11, 2016.

d) The NYLB is the office that carries out the duties of the Superintendent of the Department of Financial Services of the State of New York ("Superintendent") in its capacity as receiver ("Receiver") of impaired or insolvent insurance companies ("Estates") under New York Insurance Law ("Insurance Law") Article 74. The NYLB reports to the Superintendent in its capacity as Receiver rather than in its capacity as regulator and head of the NYSDFS. The NYLB operates separately from the NYSDFS. The Superintendent as Receiver has the authority under Insurance Law Section 7422 to make such appointments (including a Special Deputy Superintendent ("Special Deputy") and others (collectively, with Special Deputy, "Agents")) as are necessary to carry out its functions as Receiver. The Agents, along with division directors and senior managers of the NYLB, are collectively referred to herein as "Management". Management carries out, through the NYLB, the responsibilities of the Receiver with regard to the Estates. The Superintendent is appointed Receiver by the Receivership Court. Therefore, the Receivership Court approves the actions of the Receiver and, by extension, the NYLB. Acting on behalf of the Receiver, the NYLB marshals the assets of HRINY, maximizes such assets, and resolves the liabilities of the Estates in an effort to either rehabilitate the CO-OP or liquidate it in order to distribute its assets to creditors, and policyholders.

e) The defined contribution 401(k) plan (Note M) is in the process of being terminated.

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