NY TRANSPORTATION WORKERS' COMPENSATION TRUST

FINANCIAL STATEMENTS

December 31, 2016

Lumsden McCormick LLP
CERTIFIED PUBLIC ACCOUNTANTS

Cyclorama Building | 369 Franklin Street | Buffalo, NY 14202
p: 716.856.3300 | f: 716.856.2524 | www.LumsdenCPA.com

INDEPENDENT AUDITORS' REPORT

The Trustees
NY Transportation Workers' Compensation Trust

We have audited the accompanying balance sheets of NY Transportation Workers' Compensation Trust (the Trust) as of December 31, 2016 and 2015, and the related statements of comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 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 Trust'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 Trust'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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

As more fully described in Note 1 to the financial statements, the Trustees voluntarily terminated all in force policies of the Trust as of December 31, 2008. The accompanying financial statements have been prepared in accordance with accounting principles applicable to a going concern, and include the amounts applicable to a trust able to continue operations indefinitely into the future. Accounting principles generally accepted in the United States of America require that assets and liabilities be carried on a liquidation basis, and that future revenues and expenses expected to be realized be accrued for when a trust is in the process of liquidation or liquidation is imminent. The principal effects of that departure from U.S. generally accepted accounting principles on the financial statements has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Trust as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Lumsden & McCormick, LLP

April 18, 2017

Balance Sheets

December 31,	2016	2015
Assets		
Cash	$ 1,148,489	$ 1,124,538
Investments (Note 3)	4,156,735	4,148,585
Assessments receivable, net (Note 4)	7,897,732	6,758,922
Second injury fund receivable (Note 1)	430,687	491,223
Reinsurance receivable (Note 1)	3,692,757	4,141,617
Accrued investment income	18,374	28,643
Prepaid expenses	295,088	121,945
Deferred income taxes	1,631,601	3,363,902
	$ 19,271,463	$ 20,179,375
Liabilities and Members' Equity		
Liabilities:		
Unpaid losses and loss adjustment expenses (Note 5):		
Case-basis reserves	$ 11,706,300	$ 12,026,600
Incurred but not reported	8,540,300	11,872,300
Unallocated loss adjustment expenses	1,159,900	987,500
	21,406,500	24,886,400
Accounts payable	31,827	230,253
Accrued income taxes	-	42,270
Accrued Workers' Compensation Board assessments	463,000	654,000
	21,901,327	25,812,923
Members' equity:		
Accumulated deficit	(2,636,162)	(5,684,695)
Accumulated other comprehensive income	6,298	51,147
	(2,629,864)	(5,633,548)
	$ 19,271,463	$ 20,179,375

See accompanying notes.

Statements of Comprehensive Income

For the years ended December 31,	**2016**	2015
Revenues:		
Deficit assessments	**$ 5,666,992**	$ 5,814,854
Investment income	**106,637**	113,740
Other income	**-**	17,841
	5,773,629	5,946,435
Expenses:		
Incurred losses and loss adjustment (Note 5)	**(1,157,048)**	(1,633,364)
Workers' Compensation Board assessments	**(236,717)**	(78,248)
Administrative fees	**288,750**	300,000
Trustee fees	**32,689**	31,500
Legal, accounting, and actuary fees	**115,568**	81,866
Insurance	**82,258**	87,781
Collection fees	**186,065**	96,083
Bank and investment management fees	**7,078**	9,201
Bad debts	**1,541,360**	1,542,000
Other	**10,593**	9,890
	870,596	446,709
Income before income taxes	**4,903,033**	5,499,726
Provision for income taxes (Note 6)	**1,854,500**	2,289,300
Net income	**3,048,533**	3,210,426
Other comprehensive loss:		
Unrealized holding loss on investments (net of $29,899 and $39,830 of income taxes)	**(44,849)**	(59,744)
Comprehensive income	**$ 3,003,684**	$ 3,150,682

See accompanying notes.

Statements of Changes in Members' Equity

For the years ended December 31, 2016 and 2015

	Total	Accumulated Deficit	Accumulated Other Comprehensive Income
Balance at January 1, 2015	$ (8,784,230)	$ (8,895,121)	$ 110,891
Net income	3,210,426	3,210,426	-
Other comprehensive loss:			
Unrealized holding loss on investments (net of $39,830 of income taxes)	(59,744)	-	(59,744)
Balance at December 31, 2015	**(5,633,548)**	**(5,684,695)**	**51,147**
Net income	**3,048,533**	**3,048,533**	**-**
Other comprehensive loss:			
Unrealized holding loss on investments (net of $29,899 of income taxes)	**(44,849)**	**-**	**(44,849)**
Balance at December 31, 2016	**$ (2,629,864)**	**$ (2,636,162)**	**$ 6,298**

See accompanying notes.

Statements of Cash Flows

For the years ended December 31,	2016	2015
Operating activities:		
Net income	$ 3,048,533	$ 3,210,426
Adjustments to reconcile net income to net cash flows from operating activities:		
Deferred income taxes	1,762,200	2,102,200
Bad debts expense	1,541,360	1,542,000
Changes in other operating assets and liabilities:		
Assessments receivable	(2,680,170)	(2,957,426)
Second injury fund receivable	60,536	109,730
Reinsurance receivable	448,860	1,332,307
Accrued investment income	10,269	15,130
Prepaid expenses	(173,143)	-
Unpaid losses and loss adjustment expenses	(3,479,900)	(4,831,400)
Accounts payable and accrued expenses	(240,696)	7,578
Accrued Workers' Compensation Board assessments	(191,000)	(236,000)
Net operating activities	106,849	294,545
Investing activities:		
Proceeds from sale of investments	2,255,177	17,437,469
Purchase of investments	(2,338,075)	(17,559,875)
Net investing activities	(82,898)	(122,406)
Change in cash	23,951	172,139
Cash - beginning	1,124,538	952,399
Cash - ending	$ 1,148,489	$ 1,124,538
Supplemental cash flows information:		
Income taxes paid	$ 293,500	$ 306,353

See accompanying notes.

Notes to Financial Statements

1. Summary of Significant Accounting Policies:

Organization:

NY Transportation Workers' Compensation Trust (the Trust) is a self-insurance trust established on December 1, 2000. Its member employers consist of transportation merchants in the State of New York. The Trust provided workers' compensation insurance for employees of its members and is administered by SAFE, LLC, an unrelated organization.

The Trust is not responsible for any claim obligations incurred by its members prior to entering the Trust.

Cessation of Providing Workers' Compensation Insurance:

The Trustees voluntarily terminated all in force policies of the Trust as of December 31, 2008 due to changes in the workers' compensation insurance regulatory environment in New York State. Despite the Trust's deficit position at December 31, 2016, management believes the Trust has the ability to continue to meet the cash flow requirements of its obligations through at least May 1, 2018, primarily due to the long term nature of the actuarially determined claim liabilities. In 2014, 2015, and 2016, the Trust imposed assessments on members for the purpose of paying existing and future obligations related to claims incurred through December 31, 2008. If necessary, the Trust will impose additional assessments on members in future years. In the event the Trust cannot meet its obligations, the Trustees will resign, and the Trust will transfer administration of the Trust to the New York State Workers' Compensation Board (WCB).

Subsequent Events:

The Trust has evaluated events and transactions for potential recognition or disclosure in the financial statements through April 18, 2017 (the date the financial statements were available to be issued).

Cash:

Cash in financial institutions may exceed insured limits at various times during the year and subject the Trust to concentrations of credit risk.

Investments:

Investments include "available for sale" U.S. government agency bonds stated at fair value on a recurring basis as determined by quoted prices in active markets. Unrealized holding gains and losses are presented as a separate component of accumulated other comprehensive income, net of deferred income taxes. Realized gains and losses on the sale of investments are determined using the specific identification method.

Assessments Receivable:

Assessments receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to bad debts expense and a credit to allowance for doubtful accounts based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to allowance for doubtful accounts and a credit to assessments receivable.

Second Injury Fund Receivable:

When a claim is approved as eligible under New York State's second injury fund (Section 15-8), the Trust is reimbursed for additional losses for previously injured employees. At December 31, 2016 and 2015, amounts which have yet to be repaid by New York State to the Trust on paid losses eligible for reimbursement under the second injury fund totaled $430,687 and $491,223.

Unpaid Losses and Loss Adjustment Expense:

Unpaid losses and loss adjustment expense represents undiscounted estimates of future payments necessary to settle all insurance claims for reported losses and estimates of incurred but not reported losses, including both allocated and unallocated loss adjustment expenses. These unpaid losses have been determined in consultation with independent actuaries and are based on industry experience and trends. However, such estimates may be more or less than the amount ultimately paid when the claims are settled. Changes in the estimated liability are charged or credited to operations as the estimates are revised.

Management believes the liability for unpaid losses and loss adjustment expense is adequate to cover the ultimate cost of claims incurred through December 31, 2008.

Litigation costs with respect to claims arising from insurance coverages are considered in establishing the estimated liability for unpaid losses and loss adjustment expenses.

Reinsurance:

The Trust reinsured certain portions of its liability with insurance coverages to limit the amount of individual and aggregate losses. The liability of the Trust is limited on an individual loss basis to the first $300,000 per occurrence for accidents occurring prior to January 1, 2002. For accidents occurring from January 1, 2002 through December 31, 2003, the self-insurance retention was $400,000 per occurrence. For accidents occurring from January 1, 2004 through December 31, 2005, the self-insurance retention was $600,000 per occurrence. For accidents occurring from January 1, 2006 through December 31, 2008, the self-insurance retention was $750,000 per occurrence.

The Trust also reinsured certain portions of its liability to limit the amount of aggregate losses per policy year. The liability of the Trust is limited on an aggregate loss basis from December 1, 2000 through December 31, 2008 based on a percentage of total annual members' covered payroll (aggregate retention). Aggregate annual losses that exceed the aggregate retention are insured for unlimited amounts (statutory) for accidents occurring prior to January 1, 2002, $10,000,000 for accidents occurring January 1, 2002 through December 31, 2003, and $5,000,000 for accidents occurring January 1, 2004 through December 31, 2008.

Insurance ceded by the Trust does not relieve the Trust of its primary liability for claims. Accordingly, a contingent liability exists with respect to reinsurance which would become an actual liability in the event the reinsuring company might be unable to meet its obligation to the Trust under existing reinsurance agreements.

Recoverable incurred losses and loss adjustment expenses under the reinsurance contracts totaled $3,692,757 and $4,141,617 at December 31, 2016 and 2015.

At December 31, 2016 and 2015, the liability for unpaid losses and loss adjustment expenses was not reduced as a result of insurance ceded.

Workers' Compensation Board Assessments:

In April 2011, the New York State Governor enacted legislation that reduced WCB assessments due from insolvent and inactive trusts. Specifically, the new legislation eliminated assessments for 151, 15-8, 25-A and IDP for periods subsequent to December 31, 2010. However, the amendments to the law did not eliminate the self-insurance assessment pursuant to Section 50-5 of the Workers' Compensation Law. Accordingly, the Trust has reflected a liability on the accompanying balance sheets for estimated amounts to be paid for Section 50-5 in subsequent years relative to the unpaid losses and loss adjustment expense.

Income Taxes:

The Trust provides currently for income taxes applicable to all items included in the financial statements, regardless of when such taxes are payable. Deferred assets and liabilities are recognized for the expected future tax consequences of temporary differences between the tax and financial statement bases of assets and liabilities. Temporary differences arise from using different methods of accounting for bad debts, WCB assessments, and incurred losses and loss adjustment expense. Additionally, the Trust recognizes future tax benefits of net operating loss carryforwards and federal alternative minimum taxes paid to the extent that realization of such benefits is more likely than not.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. Letter of Credit:

The Trust has a $1,125,000 surety bond to provide security for payment of workers' compensation claims, which is collateralized by the Trust's investments balance. This surety bond is required by the WCB in lieu of the Trust having a cash deposit of the same amount with the WCB.

3. Investments:

December 31, 2016	Cost	Net Unrealized Holding Gains	Market Value
Available-for-sale securities:			
U.S. Government agency obligations	$ 4,146,238	$ 10,497	$ 4,156,735

December 31, 2015	Cost	Net Unrealized Holding Gains	Market Value
Available-for-sale securities:			
U.S. Government agency obligations	$ 4,063,340	$ 85,245	$ 4,148,585

Aggregate maturities of debt securities at December 31, 2016 are:

	Cost	Market Value
Due in less than one year	$ 2,928,632	$ 2,944,262
Due in one year through five years	1,217,606	1,212,473
	$ 4,146,238	$ 4,156,735

Sales proceeds and gross realized gains on securities classified as available for sale were:

	2016	2015
Sales proceeds	$ 2,255,177	$ 17,437,469
Gross realized gains	$ -	$ -

4. Assessments Receivable:

	2016	2015
Assessments receivable	$ 10,602,732	$ 9,463,922
Less allowance for doubtful accounts	2,705,000	2,705,000
	$ 7,897,732	$ 6,758,922

5. Unpaid Losses and Loss Adjustment Expenses:

	2016	2015
Balance - beginning of year	$ 24,886,400	$ 29,717,800
Incurred related to:		
Current year	-	-
Prior years	(1,157,048)	(1,633,364)
Total incurred	(1,157,048)	(1,633,364)
Losses to be covered under reinsurance	(254,778)	(814,604)
Paid related to:		
Current year	-	-
Prior years	(2,068,074)	(2,383,432)
Total paid	(2,068,074)	(2,383,432)
Balance - end of year	$ 21,406,500	$ 24,886,400

The unpaid losses and loss adjustment expense is composed of the following:

	2016	2015
Case-basis reserves	$ 11,706,300	$ 12,026,600
Incurred but not reported	8,540,300	11,872,300
Unallocated loss adjustment expenses	1,159,900	987,500
	$ 21,406,500	$ 24,886,400

6. Income Taxes:

	2016	2015
Current provision:		
Federal	$ 80,700	$ 121,700
State	11,600	65,400
	92,300	187,100
Deferred provision:		
Federal	1,356,700	1,690,700
State	386,000	319,200
Valuation allowance adjustment	19,500	92,300
	1,762,200	2,102,200
	$ 1,854,500	$ 2,289,300

The Trust's effective tax rate varies from the statutory federal income tax rate primarily as a result of progressive tax rates, state taxes net of federal benefits, alternative minimum taxes, and adjustments to valuation allowances relative to deferred tax assets.

Deferred income taxes on the balance sheets at December 31, 2016 and 2015 are as follows:

	2016	2015
Assets	**$ 1,747,600**	$ 3,490,300
Liabilities	**(4,199)**	(34,098)
Valuation allowance	**(111,800)**	(92,300)
	$ 1,631,601	$ 3,363,902

Realization of a deferred tax asset is dependent on generating sufficient taxable income at the time temporary differences become deductible. The amount of the deferred tax asset considered to be realizable could be reduced if estimates of future taxable income are reduced. The Trust provides a valuation allowance to the extent that deferred tax assets may not be realized. The amount of the deferred tax asset considered to be realizable could be adjusted if estimates of future taxable income are changed.

7. Contingencies:

The Trust provided employer liability insurance to its members. The Trust is not aware of any asserted or pending claims against any of its members.