NY TRANSPORTATION WORKERS' COMPENSATION TRUST

FINANCIAL STATEMENTS

December 31, 2017

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, 2017 and 2016, 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.

Additionally, the accompanying financial statements do not disclose certain information relative to the liability for unpaid losses and loss adjustment expenses. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the effects of the matters 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, 2017 and 2016, 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 25, 2018

Balance Sheets

December 31,	2017	2016
Assets		
Cash	$ 1,374,090	$ 1,148,489
Investments (Note 3)	3,675,288	4,156,735
Assessments receivable, net (Note 4)	4,292,348	7,897,732
Second injury fund receivable (Note 1)	525,104	430,687
Reinsurance receivable (Note 1)	3,409,428	3,692,757
Income tax receivable	257,063	-
Accrued investment income	12,533	18,374
Prepaid expenses	193,657	295,088
Deferred income taxes	1,312,444	1,631,601
	$ 15,051,955	$ 19,271,463
Liabilities and Members' Equity		
Liabilities:		
Unpaid losses and loss adjustment expenses (Note 5):		
Case-basis reserves	$ 10,294,100	$ 11,706,300
Incurred but not reported	7,017,100	8,540,300
Unallocated loss adjustment expenses	972,300	1,159,900
	18,283,500	21,406,500
Accounts payable	-	31,827
Accrued Workers' Compensation Board assessments	478,000	463,000
	18,761,500	21,901,327
Members' equity:		
Accumulated deficit	(3,686,367)	(2,636,162)
Accumulated other comprehensive income (loss)	(23,178)	6,298
	(3,709,545)	(2,629,864)
	$ 15,051,955	$ 19,271,463

See accompanying notes.

Statements of Comprehensive Income

For the years ended December 31,	2017	2016
Revenues:		
Deficit assessments	$ -	$ 5,666,992
Investment income	63,122	106,637
	63,122	5,773,629
Expenses:		
Incurred losses and loss adjustment (Note 5)	(1,217,543)	(1,157,048)
Workers' Compensation Board assessments	(6,095)	(236,717)
Administrative fees	278,062	288,750
Trustee fees	37,500	32,689
Legal, accounting, and actuary fees	99,128	115,568
Insurance	102,424	82,258
Collection fees	210,890	186,065
Bank and investment management fees	9,535	7,078
Bad debts	1,539,370	1,541,360
Other	6,756	10,593
	1,060,027	870,596
Income (loss) before income taxes	(996,905)	4,903,033
Provision for income taxes (Note 6)	53,300	1,854,500
Net income (loss)	(1,050,205)	3,048,533
Other comprehensive loss:		
Unrealized holding loss on investments (net of $12,343 and $29,899 of income taxes)	(29,476)	(44,849)
Comprehensive income (loss)	$ (1,079,681)	$ 3,003,684

See accompanying notes.

Statements of Changes in Members' Equity

For the years ended December 31, 2017 and 2016

	Total	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2016	$ (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**
Net loss	**(1,050,205)**	**(1,050,205)**	**-**
Other comprehensive loss:			
Unrealized holding loss on investments (net of $12,343 of income taxes)	**(29,476)**	**-**	**(29,476)**
Balance at December 31, 2017	**$ (3,709,545)**	**$ (3,686,367)**	**$ (23,178)**

See accompanying notes.

Statements of Cash Flows

For the years ended December 31,	2017	2016
Operating activities:		
Net income (loss)	$ (1,050,205)	$ 3,048,533
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Deferred income taxes	331,500	1,762,200
Bad debts expense	1,539,370	1,541,360
Changes in other operating assets and liabilities:		
Assessments receivable	2,066,014	(2,680,170)
Second injury fund receivable	(94,417)	60,536
Reinsurance receivable	283,329	448,860
Income tax receivable	(257,063)	-
Accrued investment income	5,841	10,269
Prepaid expenses	101,431	(173,143)
Unpaid losses and loss adjustment expenses	(3,123,000)	(3,479,900)
Accounts payable and accrued expenses	(31,827)	(240,696)
Accrued Workers' Compensation Board assessments	15,000	(191,000)
Net operating activities	(214,027)	106,849
Investing activities:		
Proceeds from sale of investments	2,675,000	2,255,177
Purchase of investments	(2,235,372)	(2,338,075)
Net investing activities	439,628	(82,898)
Change in cash	225,601	23,951
Cash - beginning	1,148,489	1,124,538
Cash - ending	$ 1,374,090	$ 1,148,489
Supplemental cash flows information:		
Income taxes paid (refunds received)	$ (107,441)	$ 293,500

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, 2017, management believes the Trust has the ability to continue to meet the cash flow requirements of its obligations through at least May 1, 2019, 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 25, 2018 (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, 2017 and 2016, 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 $525,104 and $430,687.

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 $3,409,428 and $3,692,757 at December 31, 2017 and 2016.

At December 31, 2017 and 2016, 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 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, 2017	Cost	Net Unrealized Holding Loss	Market Value
Available-for-sale securities:			
U.S. Government agency obligations	$ 3,706,610	$ (31,322)	$ 3,675,288

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

Aggregate maturities of debt securities at December 31, 2017 are:

	Cost	Market Value
Due in less than one year	$ 1,097,531	$ 1,092,393
Due in one year through five years	2,609,079	2,582,895
	$ 3,706,610	$ 3,675,288

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

	2017	2016
Sales proceeds	$ 2,675,000	$ 2,255,177
Gross realized gains	$ -	$ -

4. Assessments Receivable:

	2017	2016
Assessments receivable	$ 6,992,348	$ 10,602,732
Less allowance for doubtful accounts	2,700,000	2,705,000
	$ 4,292,348	$ 7,897,732

5. Unpaid Losses and Loss Adjustment Expenses:

	2017	2016
Balance - beginning of year	$ 21,406,500	$ 24,886,400
Incurred related to:		
Current year	-	-
Prior years	(1,217,543)	(1,157,048)
Total incurred	(1,217,543)	(1,157,048)
Losses to be covered under reinsurance	(126,639)	(254,778)
Paid related to:		
Current year	-	-
Prior years	(1,778,818)	(2,068,074)
Total paid	(1,778,818)	(2,068,074)
Balance - end of year	$ 18,283,500	$ 21,406,500

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

	2017	2016
Case-basis reserves	$ 10,294,100	$ 11,706,300
Incurred but not reported	7,017,100	8,540,300
Unallocated loss adjustment expenses	972,300	1,159,900
	$ 18,283,500	$ 21,406,500

6. Income Taxes:

	2017	2016
Current provision (benefit):		
Federal	$ (257,200)	$ 80,700
State	(21,000)	11,600
	(278,200)	92,300
Deferred provision (benefit):		
Federal	359,000	1,356,700
State	(64,800)	386,000
Valuation allowance adjustment	37,300	19,500
	331,500	1,762,200
	$ 53,300	$ 1,854,500

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, and adjustments to valuation allowances relative to deferred tax assets. Additionally, on December 22, 2017, the President of the United States of America signed tax reform legislation (the 2017 Act), which includes a broad range of tax reform proposals affecting businesses, including corporate tax rates, business deductions, and international tax provisions. Among the changes, the 2017 Act reduces the corporate rate from 34% to 21% for periods beginning after December 31, 2017, and allows for alternative minimum tax credit carryforwards to be fully refunded by 2022. Because of these changes, the Company recognized in 2017 incremental deferred tax expense of $607,000 because of the rate change, and an incremental current tax benefit of $257,000 for recognized refundable alternative minimum tax credits.

Deferred income taxes on the balance sheets at December 31, 2017 and 2016 are as follows:

	2017	2016
Assets	**$ 1,461,544**	$ 1,747,600
Liabilities	**-**	(4,199)
Valuation allowance	**(149,100)**	(111,800)
	$ 1,312,444	$ 1,631,601

At December 31, 2017, the Trust has approximately $1,547,000 of federal and state net operating loss carryforwards for income tax purposes. These carryforwards may be used to offset future taxable income, and expire in 2037.

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.