

**NY TRANSPORTATION WORKERS'
COMPENSATION TRUST**

FINANCIAL STATEMENTS

December 31, 2018

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, 2018 and 2017, 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 paragraphs, 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, 2018 and 2017, 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.


April 5, 2019

NY TRANSPORTATION WORKERS' COMPENSATION TRUST

Balance Sheets

December 31,	2018	2017
Assets		
Cash	\$ 1,270,813	\$ 1,374,090
Investments (Note 3)	2,524,242	3,675,288
Assessments receivable, net (Note 4)	3,357,487	4,292,348
Second injury fund receivable (Note 1)	784,891	525,104
Reinsurance receivable (Note 1)	3,375,954	3,409,428
Income tax receivable	257,063	257,063
Accrued investment income	13,277	12,533
Prepaid expenses	132,893	193,657
Deferred income taxes	1,082,487	1,312,444
	\$ 12,799,107	\$ 15,051,955
Liabilities and Members' Equity		
Liabilities:		
Unpaid losses and loss adjustment expenses (Note 5):		
Case-basis reserves	\$ 9,161,800	\$ 10,294,100
Incurred but not reported	5,586,400	7,017,100
Unallocated loss adjustment expenses	795,200	972,300
	15,543,400	18,283,500
Accounts payable	13,289	-
Accrued Workers' Compensation Board assessments	302,000	478,000
	15,858,689	18,761,500
Members' equity:		
Accumulated deficit	(3,034,290)	(3,686,367)
Accumulated other comprehensive income (loss)	(25,292)	(23,178)
	(3,059,582)	(3,709,545)
	\$ 12,799,107	\$ 15,051,955

See accompanying notes.

NY TRANSPORTATION WORKERS' COMPENSATION TRUST

Statements of Comprehensive Income

For the years ended December 31,	2018	2017
Revenues:		
Investment income	\$ 53,288	\$ 63,122
Expenses:		
Incurred losses and loss adjustment (Note 5)	(1,712,087)	(1,217,543)
Workers' Compensation Board assessments	(138,563)	(6,095)
Administrative fees	267,909	278,062
Trustee fees	35,345	37,500
Legal, accounting, and actuary fees	77,848	99,128
Insurance	87,279	102,424
Collection fees	90,312	210,890
Bank and investment management fees	8,817	9,535
Bad debts	443,859	1,539,370
Other	7,092	6,756
	(832,189)	1,060,027
Income (loss) before income taxes	885,477	(996,905)
Provision for income taxes (Note 6)	233,400	53,300
Net income (loss)	652,077	(1,050,205)
Other comprehensive loss:		
Unrealized holding loss on investments (net of \$2,303 and \$12,343 of income taxes)	(6,554)	(29,476)
Reclassification adjustment for losses included in net income (net of \$1,560 of income taxes)	4,440	-
Comprehensive income (loss)	\$ 649,963	\$ (1,079,681)

See accompanying notes.

NY TRANSPORTATION WORKERS' COMPENSATION TRUST

Statements of Changes in Members' Equity

For the years ended December 31, 2018 and 2017

	Total	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2017	\$ (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)
Net income	652,077	652,077	-
Other comprehensive income (loss):			
Unrealized holding loss on investments (net of \$2,303 of income taxes)	(6,554)	-	(6,554)
Reclassification adjustment for losses included in net income (net of \$1,560 of income taxes)	4,440	-	4,440
Balance at December 31, 2018	\$ (3,059,582)	\$ (3,034,290)	\$ (25,292)

NY TRANSPORTATION WORKERS' COMPENSATION TRUST

Statements of Cash Flows

For the years ended December 31,	2018	2017
Operating activities:		
Net income (loss)	\$ 652,077	\$ (1,050,205)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Realized loss on sale of investments	6,000	-
Deferred income taxes	230,700	331,500
Bad debts expense	443,859	1,539,370
Changes in other operating assets and liabilities:		
Assessments receivable	491,002	2,066,014
Second injury fund receivable	(259,787)	(94,417)
Reinsurance receivable	33,474	283,329
Income tax receivable	-	(257,063)
Accrued investment income	(744)	5,841
Prepaid expenses	60,764	101,431
Unpaid losses and loss adjustment expenses	(2,740,100)	(3,123,000)
Accounts payable and accrued expenses	13,289	(31,827)
Accrued Workers' Compensation Board assessments	(176,000)	15,000
Net operating activities	(1,245,466)	(214,027)
Investing activities:		
Proceeds from sale of investments	1,578,179	2,675,000
Purchase of investments	(435,990)	(2,235,372)
Net investing activities	1,142,189	439,628
Change in cash	(103,277)	225,601
Cash - beginning	1,374,090	1,148,489
Cash - ending	\$ 1,270,813	\$ 1,374,090
Supplemental cash flows information:		
Income taxes paid (refunds received)	\$ (58,020)	\$ (107,441)

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, 2018, management believes the Trust has the ability to continue to meet the cash flow requirements of its obligations through at least May 1, 2020 primarily due to the long term nature of the actuarially determined claim liabilities. In 2014, 2015, and 2016, the Trust imposed assessments on members to help pay 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 5, 2019 (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, 2018 and 2017, 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 \$784,891 and \$525,104.

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 \$3,375,954 and \$3,409,428 at December 31, 2018 and 2017.

At December 31, 2018 and 2017, 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, 2018	Cost	Net Unrealized Holding Loss	Market Value
Available-for-sale securities:			
U.S. Government agency obligations	\$ 2,558,421	\$ (34,179)	\$ 2,524,242

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

Aggregate maturities of debt securities at December 31, 2018 are:

	Cost	Market Value
Due in less than one year	\$ 267,086	\$ 266,369
Due in one year through five years	2,291,335	2,257,873
	\$ 2,558,421	\$ 2,524,242

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

	2018	2017
Sales proceeds	\$ 1,578,179	\$ 2,675,000
Gross realized losses	\$ (6,000)	\$ -

4. Assessments Receivable:

	2018	2017
Assessments receivable	\$ 5,307,487	\$ 6,992,348
Less allowance for doubtful accounts	1,950,000	2,700,000
	\$ 3,357,487	\$ 4,292,348

5. Unpaid Losses and Loss Adjustment Expenses:

	2018	2017
Balance - beginning of year	\$ 18,283,500	\$ 21,406,500
Incurred related to:		
Current year	-	-
Prior years	(1,712,087)	(1,217,543)
Total incurred	(1,712,087)	(1,217,543)
Losses to be covered under reinsurance	151,301	(126,639)
Paid related to:		
Current year	-	-
Prior years	(1,179,314)	(1,778,818)
Total paid	(1,179,314)	(1,778,818)
Balance - end of year	\$ 15,543,400	\$ 18,283,500

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

	2018	2017
Case-basis reserves	\$ 9,161,800	\$ 10,294,100
Incurred but not reported	5,586,400	7,017,100
Unallocated loss adjustment expenses	795,200	972,300
	\$ 15,543,400	\$ 18,283,500

6. Income Taxes:

	2018	2017
Current provision (benefit):		
Federal	\$ -	\$ (257,200)
State	2,700	(21,000)
	2,700	(278,200)
Deferred provision (benefit):		
Federal	178,400	359,000
State	57,200	(64,800)
Valuation allowance adjustment	(4,900)	37,300
	230,700	331,500
	\$ 233,400	\$ 53,300

The Trust's effective tax rate varies from the statutory federal income tax rate primarily as a result of 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 maximum 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, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Assets	\$ 1,226,687	\$ 1,461,544
Valuation allowance	(144,200)	(149,100)
	<u>\$ 1,082,487</u>	<u>\$ 1,312,444</u>

At December 31, 2018, the Trust has approximately \$1,805,000 of federal and \$1,832,000 of state net operating loss carryforwards for income tax purposes. These carryforwards may be used to offset future taxable income, and expire through 2038.

Realization of a deferred tax asset is dependent on generating sufficient taxable income at the time temporary differences become deductible. 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.