

**NY TRANSPORTATION
WORKERS' COMPENSATION TRUST**

AUDITED FINANCIAL STATEMENTS

Years ended December 31, 2012 and 2011

NY TRANSPORTATION WORKERS' COMPENSATION TRUST

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees and Members of the
NY Transportation Workers' Compensation Trust

We have audited the accompanying financial statements of NY Transportation Workers' Compensation Trust, which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of comprehensive income (loss), changes in members' deficit, 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.

Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NY Transportation Workers' Compensation Trust as of December 31, 2012 and 2011, 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.

Emphasis of Matter Regarding Requirements of New York State Workers' Compensation Laws

As discussed in Note 2 to the financial statements, New York State Workers' Compensation Laws impose an asset to liability requirement on group insurers, including the Trust. At December 31, 2012, the Trust does not meet the minimum regulatory standards. Also as more fully described in Note 1 to the financial statements, the Trust has terminated its status as a group insurer and as of January 1, 2009, the Trust no longer provides workers' compensation coverage and continues to operate in run-off status until all of its claims obligations have been fulfilled. In addition, the Workers' Compensation Board policy regarding cash flow monitoring would permit the Workers' Compensation Board to assume administration of the Trust if projected cash flows fall below specified requirements.

UHY LLP

Albany, New York
April 26, 2013

**NY TRANSPORTATION
WORKERS' COMPENSATION TRUST
BALANCE SHEETS
December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and cash equivalents	\$ 920,508	\$ 1,599,418
Investments	9,651,153	14,767,406
Restricted investments	1,125,000	1,125,000
New York State assessment credits, net	339,833	534,714
Prepaid expenses and other assets	21,128	20,621
Interest receivable	129,154	179,504
Reinsurance recoverable	5,344,598	5,715,131
Total assets	<u>\$ 17,531,374</u>	<u>\$ 23,941,794</u>
LIABILITIES		
Reserve for loss and loss adjustment expenses	\$ 35,428,551	\$ 45,764,884
Accrued expenses	275,602	67,861
Total liabilities	35,704,153	45,832,745
MEMBERS' DEFICIT		
Accumulated other comprehensive income	966,028	1,527,528
Accumulated deficit	<u>(19,138,807)</u>	<u>(23,418,479)</u>
Total members' deficit	<u>(18,172,779)</u>	<u>(21,890,951)</u>
Total liabilities and members' deficit	<u>\$ 17,531,374</u>	<u>\$ 23,941,794</u>

See notes to financial statements.

**NY TRANSPORTATION
WORKERS' COMPENSATION TRUST
STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Revenues		
Contributions refunded	\$ -	\$ (11,911)
Net contributions refunded	-	(11,911)
Investment income, net	839,683	1,306,744
Other income	-	30
Total revenues	<u>839,683</u>	<u>1,294,863</u>
Expenses		
Loss and loss adjustment expenses (recovered) incurred, net of losses recoverable	(4,387,106)	1,014,312
Management, general and administrative expenses	658,136	666,484
New York State assessments	194,881	355,585
Total (recovered) expenses, net	<u>(3,534,089)</u>	<u>2,036,381</u>
Income (loss) before income taxes	4,373,772	(741,518)
Income tax expense (benefit)	94,100	(182,000)
Net income (loss)	4,279,672	(559,518)
Other comprehensive income:		
Unrealized (losses) gains on securities:		
Unrealized net holding (losses) gains arising during the year	(308,687)	27,366
Less reclassification adjustment for net gains realized during the year	<u>(252,813)</u>	<u>(385,439)</u>
Other comprehensive loss	<u>(561,500)</u>	<u>(358,073)</u>
Total comprehensive income (loss)	<u>\$ 3,718,172</u>	<u>\$ (917,591)</u>

See notes to financial statements.

**NY TRANSPORTATION
WORKERS' COMPENSATION TRUST
STATEMENTS OF CHANGES IN MEMBERS' DEFICIT
Years Ended December 31, 2012 and 2011**

	<u>Accumulated Other Comprehensive Income</u>	<u>Accumulated Deficit</u>	<u>Total Members' Deficit</u>
Balance at January 1, 2011	\$ 1,885,601	\$ (22,858,961)	\$ (20,973,360)
Net loss	-	(559,518)	(559,518)
Unrealized net holding gains arising during the year	27,366	-	27,366
Reclassification adjustment for net gains realized during the year	<u>(385,439)</u>	<u>-</u>	<u>(385,439)</u>
Balance at December 31, 2011	1,527,528	(23,418,479)	(21,890,951)
Net income	-	4,279,672	4,279,672
Unrealized net holding losses arising during the year	(308,687)	-	(308,687)
Reclassification adjustment for net gains realized during the year	<u>(252,813)</u>	<u>-</u>	<u>(252,813)</u>
Balance at December 31, 2012	<u><u>\$ 966,028</u></u>	<u><u>\$ (19,138,807)</u></u>	<u><u>\$ (18,172,779)</u></u>

See notes to financial statements.

**NY TRANSPORTATION
WORKERS' COMPENSATION TRUST
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 4,279,672	\$ (559,518)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Amortization of bond premium, net	13,559	17,495
Gain on sale of investments, net	(252,813)	(385,439)
Net change in assets and liabilities:		
New York State assessment credits	194,881	142,887
Prepaid expenses and other assets	(507)	18,896
Interest receivable	50,350	108,259
Reinsurance recoverable	370,533	(1,556,434)
Reserve for loss and loss adjustment expenses	(10,336,333)	(6,567,467)
Uncertain tax position liability	-	(182,000)
Accrued expenses	207,741	(152,905)
Net cash used in operating activities	<u>(5,472,917)</u>	<u>(9,116,226)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investments sold or matured	<u>4,794,007</u>	<u>9,450,410</u>
Net cash provided by investing activities	<u>4,794,007</u>	<u>9,450,410</u>
Net (decrease) increase in cash and cash equivalents	(678,910)	334,184
Cash and cash equivalents at beginning of year	<u>1,599,418</u>	<u>1,265,234</u>
Cash and cash equivalents at end of year	<u><u>\$ 920,508</u></u>	<u><u>\$ 1,599,418</u></u>

See notes to financial statements.

**NY TRANSPORTATION
WORKERS' COMPENSATION TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 1 — ORGANIZATION

The NY Transportation Workers' Compensation Trust (the "Trust") was organized to create a business trust comprised of transportation merchants within the State of New York as a workers' compensation self-insurance group under New York State Workers Compensation Laws Section 50, subdivision 3-a. The Trust, which commenced operations on December 1, 2000, was created to make available a self-insured workers' compensation program for transportation merchants of the State of New York, to establish, maintain, promote and enforce sound safety programs, and to provide a cost-effective market in which transportation merchants may obtain workers' compensation insurance coverage. The Trust is administered by a third party administrator (See Note 9), and is regulated by the New York State Workers' Compensation Board (the "WCB"), an instrumentality of the State of New York.

During 2008, the Board of Trustees voted to voluntarily terminate their status as an active group self-insurer for the Trust effective December 31, 2008, because of changes in New York State Workers' Compensation Laws which adversely affected the Trust's ability to provide workers' compensation coverage to its members without exposing them to financial risks associated with other self-insured groups (See Note 9). The plan to terminate was ratified by a vote of the membership on January 29, 2009. The Trust notified the NYS Workers' Compensation Board of its decision to voluntarily relinquish its license to operate an active self-insurance group on November 25, 2008, to be effective midnight December 31, 2008. Accordingly, as of December 31, 2008, the Trust no longer provides Workers' Compensation coverage. The Trust continues to operate in a run-off status until all of its claim obligations for events that occurred prior to December 31, 2008 have been fulfilled.

The Trust is governed by an independent Board of Trustees, but itself has no employees, and instead operates on a day-to-day basis through a contract with a third party administrator ("Management" or the "Administrator") to manage the assets, liabilities and operating activities of the Trust during its run off status. Effective January 1, 2012, the Trust engaged a new third party administrator to provide these services through December 2013 (See Note 9).

NOTE 2 — REGULATORY REVIEW AND MANAGEMENT'S PLANS

As of December 31, 2012 and 2011, the fiscal year end of the Trust, the Trust was not in compliance with the assets to liabilities ratio as required by New York State Workers' Compensation Law, Section 50, subdivision 3a, Part 317.9 of the regulations, as currently in effect at December 31, 2012. Group Self-insurers (trusts) who do not meet the ratio requirement are deemed under-funded and may be subject to adverse regulatory action by the New York Workers' Compensation Board.

On August 1, 2011, the WCB issued Circular 2011-#5 which stated a new policy regarding inactive self-insurance groups that have terminated coverage and are in run off status. Group self-insurers were now required to submit monthly cash flow reports to the WCB to estimate the number of months the group self-insurer could continue to pay claim obligations, based upon the WCB's trailing twelve-month average of claims payments made. According to WCB policy, if the projected available cash and investments fall below 18 months, the WCB would mandate a deficit assessment be levied on the group self-insurer's members within 3 months. In the event the group self-insurer is unable or unwilling to levy an appropriate assessment, the WCB would be authorized to assume administration of the group self-insurer. If projected unrestricted available cash and investments falls below 9 months, the WCB would be authorized to immediately assume the administration of the group self-insurer. Based on the report submitted to the WCB, as of December 31, 2012, according to the WCB's formula, the Trust has indicated it has approximately 62 months of available cash and investments to pay claim obligations.

**NY TRANSPORTATION
WORKERS' COMPENSATION TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 2 — REGULATORY REVIEW AND MANAGEMENT'S PLANS (Continued)

The Trust has recorded liabilities in excess of assets totaling \$18,172,779 and \$21,890,951 at December 31, 2012 and 2011, respectively. The Trust's Management closely monitors the claims run off process including the cash flow necessary to meet its obligations. The Trust's Board of Trustees presently believes that the Trust has sufficient resources to meet its obligations for at least the next year. If it determines the cash flow is not adequate to meet its current obligations, then the Trust will work with the WCB to determine the best course of action to remedy the situation.

NOTE 3 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Trust considers cash and cash equivalents to be cash in the bank, money market funds and highly liquid securities with an original maturity of three months or less. From time to time, the Trust has on deposit with certain financial institutions, cash and cash equivalents which exceed the amount subject to federal deposit insurance. The Trust attempts to mitigate this risk by depositing its cash and cash equivalents with high credit quality financial institutions.

Investments

Investments in fixed maturities (U.S. Government and corporate obligations) are carried at fair value, based on quoted market prices. The Trust accounts for its investments in accordance with accounting for *Investments – Debt and equity securities*. The Trust classifies all investments as available-for-sale, and as such these marketable securities are carried at fair value and unrealized holding gains and losses on investments are excluded from income and reported as a separate component of members' deficit until realized. Interest income is recognized when earned. Amortization of bond discount and premium is recorded using the straight line method over the period from purchase date to maturity. Net amortization of bond premiums and discounts resulted in a reduction of investment income of approximately \$14,000 and \$17,000 for 2012 and 2011, respectively. Realized gains and losses for investments are included in income and determined using the specific identification method.

The Trust follows the accounting for fair value measurements and disclosures for financial assets, which defines fair value and establishes a hierarchy for inputs used in measuring fair value. Investments are valued and carried at fair value on a recurring basis and at December 31, 2012 and 2011, are valued at Level 1 inputs (quoted prices in active markets for identical assets or liabilities).

**NY TRANSPORTATION
WORKERS' COMPENSATION TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 3 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

Contributions earned were computed on a pro rata basis over the term of the underlying insurance certificates. The Trust provided for contribution adjustments to its members based upon actual payroll information and accrues such contributions in the year billed. There were no amounts received or refunded during 2012 for payroll audits of previous years. Amounts refunded during the year ended December 31, 2011 totaled approximately \$11,900.

Contributions receivable deemed uncollectable are written off to bad debt expense in the year they are deemed uncollectable. Bad debt recovery was approximately \$30,000 and \$194,000 for the years ended December 31, 2012 and 2011, respectively.

Loss and Loss Adjustment Expenses

The actuarially determined reserve for loss and loss adjustment expenses includes an amount determined from loss reports of individual cases and an amount for losses incurred but not reported. The Trust discounts its reserve for loss and loss adjustment expenses. Such reserves are necessarily based on estimates (and industry trends data) and, while management believes that the amount is adequate, the ultimate liability may vary significantly from the estimated amounts in these financial statements and could have a material effect on Members' deficit in future periods. The methods for making such estimates and for establishing the resulting reserve are continually reviewed, and any adjustments are reflected in operations in the year of the change.

The reserve for loss and loss adjustment expenses includes an amount for certain New York State assessments and charges.

New York State Assessments

On June 30, 2008, New York State promulgated comprehensive legislation over self-insured groups (the "2008 Legislation"), including changing the method of certain New York State Assessments for self-insured groups. The legislation stipulated that, effective January 1, 2009, assessments for certain sections of the Workers Compensation Law would thereafter be billed to self-insured groups based on paid indemnity claims.

Under the 2008 Legislation, New York State also stipulated that self-insured groups be billed for certain assessment sections based on a premium base. The premium base for self-insured groups who cease to self-insure was based on payroll at the time the group self-insurer ceased to self-insure reduced by a factor provided by New York State Workers Compensation Board, reflecting the reduction in the group's liabilities since ceasing to self-insure.

On April 1, 2011, New York State adopted legislation (the "2011 Legislation") that stipulated that, effective January 1, 2011, an inactive self-insured group in New York State would no longer be subject to the pure premium assessments.

**NY TRANSPORTATION
WORKERS' COMPENSATION TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 3 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Trust follows guidance issued by the Financial Accounting Standards Board ("FASB") regarding accounting for uncertainty in income taxes. This guidance clarifies the accounting for income taxes by prescribing the minimum recognition threshold an income tax position is required to meet before being recognized in the financial statements and applies to all income tax positions. Each income tax position is assessed using a two-step process. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position is expected to meet the more likely than not criteria, the benefit recorded in the financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement.

The Trust records income tax and related interest and penalties as components of the provision for income tax expense. In 2012, there was no interest or penalties recognized.

In 2011, the trust reversed uncertain tax position liability of \$182,000 resulting in income tax recoveries of \$182,000. There was no interest or penalties recognized in 2011.

Deferred taxes are provided on the liability method whereby deferred taxes are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through April 26, 2013, the date the financial statements were available for issuance.

NOTE 4 — NEW YORK STATE ASSESSMENT CREDITS

At December 31, 2012 and 2011, the Trust had overpayments for assessments to the WCB of \$339,833 and \$686,646, respectively. Of these overpayments, approximately \$303,800, as of December 31, 2011, are assessed based on pure premium which the Trust is no longer subject to. The Trust had established a reserve of approximately \$151,900 as of December 31, 2011 due to uncertainty of collection. The related expense was included in the New York State assessment expense in the statement of operations. During 2012 the WCB began applying these credits to future assessment bills and consequently Management now believes that no reserve is now deemed necessary. The elimination of the allowance was applied to New York State assessment expense.

**NY TRANSPORTATION
WORKERS' COMPENSATION TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 5 — INVESTMENTS AND RESTRICTED INVESTMENTS

The amortized cost, fair value and gross unrealized gains and losses of investments by major security type at December 31, 2012 and 2011 are as follows:

	2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government obligations	\$ 8,620,194	\$ 821,593	\$ -	\$ 9,441,787
Corporate obligations	1,189,931	144,435	-	1,334,366
	<u>\$ 9,810,125</u>	<u>\$ 966,028</u>	<u>\$ -</u>	<u>\$ 10,776,153</u>
	2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government obligations	\$ 11,608,098	\$ 1,316,811	\$ -	\$ 12,924,909
Corporate obligations	2,756,780	210,717	-	2,967,497
	<u>\$ 14,364,878</u>	<u>\$ 1,527,528</u>	<u>\$ -</u>	<u>\$ 15,892,406</u>

Proceeds from the sale and maturity of investments were \$4,794,007 for the year ended December 31, 2012, resulting in gross realized gains of \$252,813 and no realized losses. Proceeds from the sale and maturity of investments were \$9,450,410 for the year ended December 31, 2011, resulting in gross realized gains of \$385,439 and no realized losses.

The scheduled maturities of fixed maturity investments at December 31, 2012 are as follows:

	Amortized Cost	Fair Value
Due within one year or less	\$ 2,522,345	\$ 2,576,648
Due after one year through five years	7,287,780	8,199,505
Total	<u>\$ 9,810,125</u>	<u>\$ 10,776,153</u>

As discussed in Note 9, during 2012 and 2011, the Trust pledged \$1,125,000 of the above investments as collateral for the surety bond as of December 31, 2012 and 2011. Collateral is classified separately as restricted investments on the balance sheet.

**NY TRANSPORTATION
WORKERS' COMPENSATION TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 6 — RESERVE FOR LOSS AND LOSS ADJUSTMENT EXPENSES

The components of the reserve for loss and loss adjustment expenses at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Reserve for reported losses	\$ 23,697,268	\$ 30,911,048
Reserve for incurred but not reported losses	<u>11,731,283</u>	<u>14,853,836</u>
Total reserve for loss and loss adjustment expenses	<u>\$ 35,428,551</u>	<u>\$ 45,764,884</u>

To reflect the time value of money, the reserve for loss and loss adjustment expenses has been discounted using an interest rate of 1.75% for both 2012 and 2011. The undiscounted reserve as of December 31, 2012 and 2011 was \$37,380,476 and \$48,483,933, respectively.

The reserve for loss and loss adjustment expenses includes approximately \$2,477,400 and \$4,378,800 related to New York State assessments for December 31, 2012 and 2011, respectively.

The following table presents an analysis of the reserve for loss and loss adjustment expenses, including an estimate of future losses and a reconciliation of beginning and ending reserve balances for 2012 and 2011. The reserve is stated on a net basis after deductions for losses recoverable from reinsurers and subrogation.

	<u>2012</u>	<u>2011</u>
Discounted reserve for loss and loss adjustment expenses, beginning of year, gross	\$ 45,764,884	\$ 52,332,351
Less: reinsurance recoverable, beginning of the year	<u>(5,715,131)</u>	<u>(4,158,697)</u>
Discounted reserve for loss and loss adjustment expenses, beginning of the year, net	<u>40,049,753</u>	<u>48,173,654</u>
Incurred provision for loss and loss adjustment expenses (Decrease) increase in provision for insured events of prior years	<u>(4,387,106)</u>	<u>1,014,312</u>
	<u>(4,387,106)</u>	<u>1,014,312</u>
Payments		
Loss and loss adjustment expenses attributable to insured events of prior years	<u>(6,240,869)</u>	<u>(9,138,213)</u>
	<u>(6,240,869)</u>	<u>(9,138,213)</u>
Proceeds from reinsurance recoveries	<u>662,175</u>	<u>-</u>
Discounted reserve for loss and loss adjustment expenses, end of year, net	30,083,953	40,049,753
Add: reinsurance recoverable, end of the year	<u>5,344,598</u>	<u>5,715,131</u>
Discounted reserve for loss and loss adjustment expenses, end of the year, gross	<u>\$ 35,428,551</u>	<u>\$ 45,764,884</u>

Included in loss and loss adjustment expenses incurred in the statement of operations is subrogation received of \$1,944,970 and \$2,195,640 for the years ended December 31, 2012 and 2011, respectively.

**NY TRANSPORTATION
WORKERS' COMPENSATION TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 6 — RESERVE FOR LOSS AND LOSS ADJUSTMENT EXPENSES (Continued)

Effective January 1, 2009, the Administrative Agreement was amended to meet the needs of the Trust based on its voluntary termination of its status as a group self-insurer (Notes 1 and 2). The agreement called for the Administrator to be paid for claims management on an annual fee per claim basis. The reserve for loss and loss adjustment expenses includes an estimate of the claims portion of the costs to administer the Trust after December 31, 2008 (the date group self-insurer status was terminated). Effective January 1, 2012, under the new Administration Agreement, the Administrator is paid on a fixed fee basis. However, a portion of this fixed fee continues to be allocated to the reserve for loss and loss adjustment expenses.

NOTE 7 — INCOME TAXES

The provision for income tax benefit consists of the following:

	<u>2012</u>	<u>2011</u>
Current		
Federal	\$ 87,500	\$ (72,315)
New York State Franchise taxes	6,600	(109,685)
	<u>\$ 94,100</u>	<u>\$ (182,000)</u>

The reconciliation of income taxes calculated at the Federal tax statutory rate to the Trust's effective rate is set forth below:

	<u>2012</u>		<u>2011</u>	
	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>
Tax at federal statutory rate	\$ 1,487,100	34%	\$ (252,100)	34%
New York State Franchise Tax	218,700	5%	(37,100)	5%
Valuation allowance (reductions) additions	(1,680,200)	(34%)	326,200	(39%)
AMT rate adjustment	76,500	(2%)	-	0%
Other	(8,000)	(1%)	(37,000)	5%
Adjustment for uncertain tax positions	-	0%	(182,000)	(1%)
	<u>\$ 94,100</u>	<u>2%</u>	<u>\$ (182,000)</u>	<u>(1%)</u>

The details of deferred tax assets are set forth below:

	<u>2012</u>	<u>2011</u>
Deferred tax assets (liabilities):		
Net operating loss carryforwards	\$ 7,367,700	\$ 9,083,000
Reserve on New York State Assessment Credits	-	59,000
AMT credit carryovers	94,100	-
Unrealized gains on investments	(376,700)	(596,000)
Gross deferred tax asset	<u>7,085,100</u>	<u>8,546,000</u>
Deferred tax asset valuation allowances	<u>(7,085,100)</u>	<u>(8,546,000)</u>
Deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

**NY TRANSPORTATION
WORKERS' COMPENSATION TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 7 — INCOME TAXES (Continued)

For the year ended December 31, 2012, the valuation allowance was decreased by approximately \$1,460,900. At December 31, 2012, the Trust has net operating losses (NOL's) carryforwards of approximately \$18,892,000 million available to offset future taxable income. Deferred tax assets at December 31, 2012 and 2011 have been fully offset by a valuation allowance due to the uncertainty as to their realizability. The NOL's begin to expire in 2028.

None of the Trust's federal or state income tax returns is currently under examination by the Internal Revenue Service ("IRS") or state authorities. However years 2009 and later remain subject to examination by the IRS and respective states.

NOTE 8 — EXCESS INSURANCE

The Trust through the Administrator, has obtained specific and aggregate excess insurance from an outside carrier for each policy year of the Trust. Under this arrangement, the Trust's losses in excess of approximately \$5,450,000 to \$36,850,000 in aggregate or \$300,000 to \$750,000 per accident per insured will be covered by the excess insurance depending on the policy year's coverage.

In the event the Trust's excess insurer is unable to meet its obligations under the excess insurance agreement, the Trust would continue to have primary liability to members for losses incurred.

NOTE 9 — COMMITMENTS AND CONTINGENCIES

Management Agreement and Commissions

The Trust entered into an Administrative Agreement with a third-party administrator ("Administrator"), which expired December 31, 2011. Effective January 1, 2009, the Administrative Agreement was amended to meet the needs of the Trust based on its terminated status (Note 1). The agreement called for the Administrator to be paid for claims management on an annual fee per claim basis. The reserve for loss and loss adjustment expenses included an estimate of the claims cost portion of the dissolution costs. Administrative services relating to accounting and billing services performed during the run off period were billed to the Trust on an hourly basis. The Trust incurred management fees and commission expense of \$590,286 and \$728,747 for the years ended December 31, 2012 and 2011, respectively.

Following the dissolution of the Trust's previous Administrator in 2011, the Trust entered into a new administration agreement with a different Administrator, effective January 1, 2012, for a two year term, at a fixed administrative service per year. All such agreements are subject to a 30-day review and approval by the WCB pursuant to the 2008 legislation.

The 2012 Administration Agreement is terminable by the Trust without penalty if the Trust is ever seized by the WCB, subject to a 90 day notice period to the new Administrator.

**NY TRANSPORTATION
WORKERS' COMPENSATION TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 9 — COMMITMENTS AND CONTINGENCIES (Continued)

Surety Bond

As is customary in a workers' compensation regulatory structure, the Trust is required to provide a surety bond (the "Surety Bond") to the Trust's state regulator as a condition to conducting workers' compensation business in the State. Accordingly, the Trust is the principal on a Surety Bond Pledged to the State of New York in the amount of \$1,125,000. Should the State have to draw on the Surety Bond, the Trust is obligated to reimburse the surety company for any losses and costs incurred by them, up to the maximum amount of the Surety Bond. The Trust pledged \$1,125,000 in investments as collateral for the surety bond during 2012 and 2011.

Indemnity Agreement

The Trust has entered into an indemnity agreement with each member to provide risk management services and workers' compensation and employer's liability coverage. The agreement stipulates, among other things, that each member is jointly and severally liable for the workers' compensation and employer's liability obligations of the Trust and its members which were incurred during the member's period of membership in the Trust, irrespective of the subsequent termination of the member's membership in the Trust, the insolvency or bankruptcy of another member of the Trust, or other facts or circumstances. However, recourse for any and all payments of workers' compensation and employer's liability benefits covered by the Trust's certificate of coverage to a member shall first be made from the Trust's assets.

New York State Assessments

Under New York State regulatory laws, the Trust is required to pay for its share of various assessments to the WCB for certain obligations, including but not limited to the costs of the WCB's operations, and defaulted self-insurers. Through an assessment under Section 50-5 of the New York State Workers' Compensation Law, the WCB had taken the position that the Trust is obligated to contribute a share of anticipated losses of self-insurance groups that are in default, have closed or have otherwise failed to meet their obligations. The WCB has not declared that there is any limit to the Trust's potential assessments for such failed self-insurance groups. An estimated reserve for the Trust's exposure to the anticipated losses of the defaulted trusts has been included in the reserve for loss and loss adjustment expenses. The Trust has exhausted all of its legal challenges to the statute, and the Trust now accepts responsibility for the assessments under Section 50-5 of the New York State Worker's Compensation Law.

The 2008 Legislation also stipulated that workers compensation self-insurance groups, including the Trust, both active and inactive, pay certain "pure premium" based assessments for other special funds administered by the WCB during any State fiscal years in which the trust made indemnity claim payments. An accrual for the future pure premium-based assessments was recorded in the financial statements as of December 31, 2009. The Trust paid the pure premium-based assessments during its initial two years of being inactive (calendar years 2009 and 2010), but challenged the WCB's assessments in the Supreme Court of New York State in two separate actions.

One portion of the assessments on which the Trust had prevailed at trial was appealed by the WCB, yet later withdrawn by the WCB. The WCB simply re-billed the very same assessment in December 2012 against the Trust, offsetting the amount due with amounts previously paid by the Trust.

**NY TRANSPORTATION
WORKERS' COMPENSATION TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 9 — COMMITMENTS AND CONTINGENCIES (Continued)

New York State Assessments (Continued)

On February 28, 2013, the Third Department of New York's Appellate Division denied the Trust's appeals of its remaining challenges to the pure premium-based assessments, and the Trust has not appealed such losses. No further legal challenges are available to the Trust for these remaining legal arguments.

Because of the 2011 Legislation, effective January 1, 2011, "pure premium"-based assessments have been permanently curtailed for inactive workers' compensation self-insurance groups such as the Trust.

NOTE 10 — RELATED PARTY TRANSACTIONS

All Trustees on the Board were employed by covered members of the Trust. Each Trustee receives a nominal fee for serving on the Board; during 2012 and 2011, these fees totaled \$68,000 and \$87,000, respectively. Trustees are also reimbursed for travel costs incurred to attend the meetings.