NY TRANSPORTATION WORKERS' COMPENSATION TRUST

FINANCIAL STATEMENTS

December 31, 2014

Lumsden McCormick LLP
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

The Trustees
NY Transportation Workers' Compensation Trust

We have audited the accompanying balance sheet of NY Transportation Workers' Compensation Trust (the Trust) as of December 31, 2014, and the related statements of comprehensive income, changes in members' equity, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 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 are not reasonably determinable.

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, 2014, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Lumsden & McCormick, LLP

April 13, 2015

Balance Sheet

December 31, 2014

Assets	
Cash	$ 952,399
Investments (Note 3)	4,125,753
Assessments receivable, net (Note 4)	5,343,496
Second injury fund receivable (Note 1)	600,953
Reinsurance receivable (Note 1)	5,473,924
Accrued investment income	43,773
Prepaid expenses	121,945
Deferred income taxes	5,426,272
	$ 22,088,515
Liabilities and Members' Equity	
Liabilities:	
Unpaid losses and loss adjustment expenses (Note 5):	
Case-basis reserves	$ 14,759,500
Incurred but not reported	13,785,300
Unallocated loss adjustment expenses	1,173,000
	29,717,800
Accounts payable	103,446
Accrued income taxes	161,499
Accrued Workers' Compensation Board assessments	890,000
	30,872,745
Members' equity:	
Accumulated deficit	(8,895,121)
Accumulated other comprehensive income	110,891
	(8,784,230)
	$ 22,088,515

See accompanying notes.

Statement of Comprehensive Income

For the year ended December 31, 2014

Revenues:	
Deficit assessments	$ 8,580,370
Investment income	213,043
	8,793,413
Expenses:	
Incurred losses and loss adjustment (Note 5)	3,713,042
Workers' Compensation Board assessments	50,791
Administrative fees	300,000
Trustee fees	60,168
Legal, accounting, and actuary fees	68,566
Insurance	83,164
Collection fees	9,640
Bank and investment management fees	8,618
Bad debts	1,147,700
Miscellaneous	13,899
	5,455,588
Income before income taxes	3,337,825
Provision for income taxes (benefit) (Note 6)	(5,324,700)
Net income	8,662,525
Other comprehensive income:	
Unrealized holding loss on investments (net of $155,741 of income taxes)	(233,611)
Reclassification adjustment for gains included in net income (net of $14,556 of income taxes)	(21,834)
Comprehensive income	$ 8,407,080

See accompanying notes.

Statement of Changes in Members' Equity

For the year ended December 31, 2014

	Total	Accumulated Deficit	Accumulated Other Comprehensive Income
Balance at January 1, 2014	**$ (17,191,310)**	**$ (17,557,646)**	**$ 366,336**
Net income	**8,662,525**	**8,662,525**	**-**
Other comprehensive income:			
Unrealized holding loss on investments (net of $155,741 of income taxes)	**(233,611)**	**-**	**(233,611)**
Reclassification adjustment for gains included in net income (net of $14,556 of income taxes)	**(21,834)**	**-**	**(21,834)**
Balance at December 31, 2014	**$ (8,784,230)**	**$ (8,895,121)**	**$ 110,891**

See accompanying notes.

Statement of Cash Flows

For the year ended December 31, 2014

Operating activities:	
Net income	$ 8,662,525
Adjustments to reconcile net income to net cash flows from operating activities:	
Realized gain on sale of investments	(36,390)
Deferred income taxes	(5,500,200)
Bad debts expense	1,147,700
Changes in other operating assets and liabilities:	
Assessments receivable	(6,491,196)
Second injury fund receivable	(600,953)
Reinsurance receivable	(1,443,341)
Accrued investment income	16,745
Prepaid expenses	(1,033)
Unpaid losses and loss adjustment expenses	3,701,851
Accounts payable and accrued expenses	184,099
Accrued Workers' Compensation Board assessments	(25,491)
Net operating activities	(385,684)
Investing activities:	
Proceeds from sale of investments	6,492,751
Purchase of investments	(5,580,993)
Net investing activities	911,758
Change in cash	526,074
Cash - beginning	426,325
Cash - ending	$ 952,399
Supplemental cash flows information:	
Income taxes paid	$ 41,196

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, 2014, management believes the Trust has the ability to continue to meet the cash flow requirements of its obligations through at least January 1, 2016, primarily due to the long term nature of the actuarially determined claim liabilities. In June 2014, 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 13, 2015 (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 and certificates of deposit 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, 2014, 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 $600,953.

Unpaid Losses and Loss Adjustment Expense:

Unpaid losses and loss adjustment expense represents 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 $5,473,924 at December 31, 2014.

At December 31, 2014, 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.

In October 2012 and November 2013, the WCB reduced the 50-5 assessment rate charged to insolvent and inactive trusts. These reductions occurred because the WCB calculated a decrease in the projected cash needs of the 50-5 fund. The liability recorded on the accompanying balance sheet is calculated based on management’s current understanding of the legislative changes. Further WCB regulations or legislation could further clarify, and potentially change the methodology to calculate future accrued WCB assessment liabilities.

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, New York State Workers’ Compensation Board 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. The Trust believes it is no longer subject to examination by Federal and State taxing authorities for years prior to 2011.

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:

	Cost	Net Unrealized Holding Gains	Market Value
Available-for-sale-securities:			
U.S. Government agency obligations	$ 3,251,887	$ 184,819	$ 3,436,706
Certificates of deposit	689,047	-	689,047
	$ 3,940,934	$ 184,819	$ 4,125,753

Aggregate maturities of debt securities at December 31, 2014 are:

	Cost	Market Value
Due in less than one year	$ 1,790,388	$ 1,796,919
Due in one year through five years	2,150,546	2,328,834
	$ 3,940,934	$ 4,125,753

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

Sales proceeds	$ 6,492,751
Gross realized gains	$ 36,390

4. Assessments Receivable:

Assessments receivable	$ 6,506,496
Less allowance for doubtful accounts	1,163,000
	$ 5,343,496

5. Unpaid Losses and Loss Adjustment Expenses:

Balance - beginning of year	$ 26,015,949
Incurred related to:	
Current year	-
Prior years	3,713,042
Total incurred	3,713,042
Losses to be covered under reinsurance	1,443,341
Paid related to:	
Current year	-
Prior years	(1,454,532)
Total paid	(1,454,532)
Balance - end of year	$ 29,717,800

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

Case-basis reserves	$ 14,759,500
Incurred but not reported	13,785,300
Unallocated loss adjustment expenses	1,173,000
	$ 29,717,800

6. Income Taxes:

Current provision:	
Federal	$ 163,200
State	12,300
	175,500
Deferred provision (benefit):	
Federal	1,192,500
State	276,600
Valuation allowance adjustment	(6,969,300)
	(5,500,200)
	$ (5,324,700)

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 valuation adjustments recorded against deferred income tax assets.

Deferred income taxes on the balance sheet at December 31, 2014 are as follows:

Assets	**$ 5,500,200**
Liabilities	**(73,928)**
	$ 5,426,272

At December 31, 2014, the Trust has approximately $9,300,000 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 varying amounts through 2031.

A valuation allowance has not been recorded against the deferred tax asset at December 1, 2014 since management believes the Trust will generate sufficient taxable income in the future to realize all the recorded benefit of the deferred tax asset. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period were reduced.

7. Contingencies:

The Trust provided employer liability insurance to its members. At December 31, 2014, there is one employer liability claim outstanding. An estimate of $177,000 has been included in unpaid losses and loss adjustment expenses on the accompanying balance sheet.