

**DEFICIT RECONSTRUCTION AND
2016 ASSESSMENT**

of

MERCANTILE SELF-INSURANCE TRUST

for

THE NEW YORK STATE WORKERS' COMPENSATION BOARD

by

SaxBST LLP

January 26, 2016

**DEFICIT RECONSTRUCTION AND
2016 ASSESSMENT**

of

MERCANTILE SELF-INSURANCE TRUST

CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY	1
I. METHODOLOGY	3
A. Audited Members' Deficit	3
B. Adjusted Members' Deficit	4
C. Re-Allocated Members' Deficit	5
D. 2016 Deficit Assessment by Year	6
E. Members' Deficit Allocation Worksheet	6
II. AMOUNTS OWED BY MEMBERS	8
III. SOURCES OF INFORMATION	9
SCHEDULES	

EXECUTIVE SUMMARY

Effective February 29, 2008, the Mercantile Self-Insurance Trust (Mercantile) ceased operations. The New York State Workers' Compensation Board (WCB) assumed control of Mercantile as a result of its deteriorated financial condition. The WCB required assistance in the reconstruction of Mercantile's historical operating results and members' deficits. Additionally, the WCB desired support in reasonably determining each member's proportionate share of the reconstructed members' deficits and in computing a 2016 deficit assessment.

SaxBST LLP, CPAs (SaxBST) was engaged by WCB to provide assistance. SaxBST has completed its work which has resulted in a reconstructed members' deficit and a 2016 deficit assessment, in total and by member. The information, methodology, and assumptions used to reconstruct and assess the members' deficit are outlined in detail herein. Based upon the procedures performed, and information provided to date, it is our opinion, within a reasonable degree of professional certainty that the reconstructed members' deficit, by fiscal year, is as follows:

<u>Fiscal Year</u>		<u>Reconstructed Members' Deficit</u>
12/31/94		\$ 18,111
12/31/95		37,549
12/31/96	(a)	(99,562)
12/31/97		124,809
12/31/98	(a)	(469,628)
12/31/99	(a)	(37,224)
12/31/00		10,219
12/31/01		1,270,364
12/31/02		4,534,096
12/31/03		3,698,757
12/31/04		2,384,383
12/31/05		1,037,780
12/31/06		6,366,770
12/31/07		1,129,924
12/31/08		<u>1,569,742</u>
Net Deficit		21,576,090
Add: Surplus Years	(a)	<u>606,414</u>
Gross Deficit		<u>\$ 22,182,504</u>

If additional information is provided we reserve the right to revise our opinion, as necessary, after review of the additional information.

An ALP transaction effective February 1, 2014 was executed with a commercial insurance carrier. Accordingly effective February 1, 2014, the Trust is no longer responsible to pay any claims expenses, and a liability to the NYS Workers' Compensation Board assessment account funds was established on the December 31, 2014 balance sheet for the payment of the transaction. Part R of Chapter 56 of the Laws of 2010 allows self- insurers to execute an assumption of compensation liability (ALP), which would transfer the tail of claims incurred while self- insured to an assuming carrier. Additionally, an exit fee relating to this transaction has been accrued on the balance sheet.

The Mercantile 2016 gross deficit assessment (excluding surplus), as determined by SaxBST, is **\$22,182,504**.

I. METHODOLOGY

A. Audited Members' Deficit

Schedule 1 presents the revenues, expenses and other deficit adjustments reported in the audited financial statements over the life of Mercantile through December 31, 2014. The schedule reveals total revenues of \$59,940,074 and total expenses, other income and expenses adjustments and other deficit adjustments of \$78,319,961, resulting in a reported cumulative members' deficit of \$18,379,887. Within each fiscal year, items of revenues and expenses have been separately stated or grouped together to identify and quantify them for re-allocation purposes as part of the deficit reconstruction process. Re-allocation of these items is reflected on Schedule 3. Such items are as follows:

- Losses and LAE – The expenses include a line item which combines claims losses and loss adjustment expenses (LAE) into a single line item with a cumulative total of \$46,049,887.
- NYS Assessments – The expense for NYS assessments have a cumulative total of \$3,772,474.
- ALP Exit Fee – The \$339,380 represents the surcharge or ALP exit fee to execute the transfer to the commercial carrier. The total of \$678,760 reflects the recording of the ALP Exit fee in both the February 28, 2014 audited financial statement and the December 31, 2014 audited financial statement. The adjustment is on Schedule 2 to remove the February 28, 2014 amount.
- Guaranty Fee – The \$308,527 represents the guaranty fee represents the surcharge paid to ensure that the claims covered by the ALP will receive the benefit of the Workers' Compensation Guaranty Fund in the event that the acquiring carrier were to become insolvent. The total of \$617,054 reflects the recording of the guaranty fee in both the February 28, 2014 audited financial statement and the December 31, 2014 audited financial statement. The adjustment is on Schedule 2 to remove the February 28, 2014 amount.

Other income and expense adjustments increased the deficit by \$789,604 and consist of: (1) a cumulative effect for restatement of NYS assessment accruals recognizing the expense as claims were incurred vs. recognizing the expense as billed by the WCB. As a result, the trust recognized \$760,699 in income from the change in accounting estimate and (2) represents the cumulative effect of change in accounting method for unpaid losses and loss adjustment expense from a net present value to an undiscounted value and trust recognized an expense of \$1,550,303.

Other deficit adjustments decreased the deficit by \$3,028,798 and consist of: (1) current income taxes of (\$119,515) for income taxes based primarily on graduated tax rates, state taxes net of federal benefits, and alternative minimum income taxes, (2) recognition of various elements of other comprehensive income (loss) pertaining primarily to the Mercantile investment portfolio and unrealized gains and losses which net out to \$178,848 and (3) an Adjustment of Estimated Values resulting from a change in accounting policy which amounts to \$2,969,465.

B. Adjusted Members' Deficit

Schedule 2 presents the adjustments that were made to Schedule 1 – Audited Members' Deficit amounts to determine the Adjusted Members' Deficit that requires re-allocation.

The Audited Members' Deficit of \$18,379,887 was increased and decreased by the following items:

- Remove January and February 2014 from February 28, 2014 audited financial statements – The December 31, 2014 audited financial statements included the entire year and as a result we removed the January and February 2014 income and expenses including the LAE and Assessments from the February 28, 2014 audited financial statements based on the trial balance report. This cumulative adjustment decreased the deficit by \$1,871,065 in the February 28, 2014 audit year.
- Prior Deficit Assessments - The Trust assessed all active and inactive members with operating businesses assessments totaling \$13,776,995. This income has been reversed to determine the adjusted members' deficit for re-allocation and 2016 deficit assessment purposes. Each member will be given credit for their prior deficit assessment payments as part of the 2016 deficit assessment process. This adjustment increased the deficit.
- Bad Debts – The bad debts of \$9,174,474 recorded on the financial statements of the Trust are being reversed and this decreased the deficit.
- Administrative Expenses – This adjustment reflects the cost of certain administrative expenses of \$130,271. The administrative expenses include the actual and estimated expenses incurred by Mercantile for actuarial services, forensic accounting and compilation services after December 31, 2014. This increased the deficit.
- Future Tax Liability of Trust – The future tax liability of the trust is the estimated tax liability based on future income of the trust. The estimated future tax liability is \$334,476

which is not included in the December 31, 2014 financial statement and thus recorded as an adjustment. This increased the deficit.

The adjustment of the aforementioned items to the Audited Members' Deficit resulted in an Adjusted Members' Deficit of \$21,576,090 which is detailed, by fiscal year, on Schedule 2.

C. Re-Allocated Members' Deficit

Schedule 3 presents the Re-Allocated Members' Deficit. Part of the deficit reconstruction process requires re-allocation of certain items to reflect a more appropriate recording of the items over the life of the trust. Items re-allocated and related re-allocation methodology follows:

- Losses and LAE – Prior ALP – The total of the Losses and LAE over the life of the trust amount to \$46,321,522. The estimated amount that relates to the period prior the ALP is \$30,895,171 which includes the other expense of \$1,550,303 on Schedule 1. The re-allocation of the \$30,895,171 was based on the paid losses as of January 31, 2014, the date prior to the effective ALP date of February 1, 2014.
- Losses and LAE – Post ALP – The total of the Losses and LAE over the life of the trust amount to \$46,321,522. The estimated amount that relates to the period after the ALP is \$15,426,351. The re-allocation of the \$15,426,351 was based on the estimated required reserves as detailed in the December 31, 2013 actuarial report prepared by Casualty Actuarial Consultants and dated February 17, 2014.
- NYS Assessments – Prior ALP – The total of the NYS Assessments over the life of the trust amount to \$3,095,308. The entire amount is estimated to be prior to the ALP. Including the other income on Schedule 1 of \$760,699, the total amount of NYS Assessment to be re-allocated is \$3,095,308. The re-allocation was based on the paid losses as of January 31, 2014, the date prior to the effective ALP date of February 1, 2014.
- ALP Exit and Guaranty Fee – Post ALP – The total of \$647,907 which consists of the ALP Exit Fee of \$339,380 and the Guaranty Fund Surcharge of \$308,527 and relates to period after the ALP was reallocated based on the estimated required reserves as detailed in the December 31, 2013 actuarial report prepared by Casualty Actuarial Consultants and dated February 17, 2014.
- Other Income and Expenses – Prior ALP – Other income and certain expenses netting to \$(1,717,866) for the years ended December 31, 2008 through December 31, 2013 have been

re-allocated based on the paid losses as of January 31, 2014, the date prior to the effective ALP date of February 1, 2014.

- Other Income and Expenses – Post ALP – Other income and certain expenses netting to \$646,274 for the period February 28, 2014 through December 31, 2014 have been re-allocated based on the estimated required reserves as detailed in the December 31, 2013 actuarial report prepared by Casualty Actuarial Consultants and dated February 17, 2014.

D. 2016 Deficit Assessment by Year

Schedule 4 presents the 2016 Gross Deficit Assessment of \$22,182,504 by year. The Gross Deficit Assessment was determined starting with the 2016 Net Deficit Assessment of \$21,576,090, reflected on Schedule 3 as the Re-Allocated Members' Equity Deficit. This amount was increased by \$606,414, which represents an add back for the surplus attained by Mercantile during the fiscal years ended December 31, 1996, 1998 and 1999. Since Mercantile is insolvent, most years are deficits and funds are needed for those years now. A potential surplus year cannot be used to offset deficit years. Therefore, the surplus attributable to fiscal years ended December 31, 1996, 1998 and 1999 will be credited or refunded to the members participating in Mercantile during the year after all of the obligations of Mercantile for that particular year have been satisfied.

E. Members' Deficit Allocation Worksheet

The Gross Deficit Assessment of \$22,182,504, as reflected on Schedule 4, was used to determine the assessment for individual members for each year. Each member has an individual worksheet (See Schedule 5) that allocates the trust deficit using the following methodology:

The individual members' annual deficit was determined by multiplying the amount of the re-allocated annual deficit by a fraction, the numerator of which was the individual participating employer's total premium contribution for each fiscal year and the denominator for which was the total premium contribution for all participating employers for the fiscal year.

The worksheet for each member, for each fiscal year, includes: 1) the member's annual premium contribution; 2) the total members' annual premium contributions; 3) the member's percentage of total members' annual premium contributions; 4) the annual re-allocated members' deficit and 5) the member's share of the re-allocated annual members' deficit. Please note that in all cases the member's annual deficit allocation was rounded to the nearest dollar. As a result, and in some cases, the sum of the member's annual deficit allocation may be off from their total deficit

allocation. Regardless, the sum of all the member's totals (as noted in the total column on Schedule 5) agrees to the cumulative net deficit as noted on Schedule 6 and represents each member's actual net deficit allocation. In using this methodology the members are only responsible for their pro-rata share of trust's deficits for the years in which they participated in the trust.

Information for a member's name and enrollment term was taken from records on file with the Workers' Compensation Board for each individual member and from the NYS Department of State records. Annual premium contributions were taken from the payroll audit summary worksheets or final payroll audit statements for each individual member, for each enrollment term (policy period) a member participated in the trust. In instances where payroll audit reports were incomplete or missing, a member's application, billed invoice, renewal, endorsement, quote or the payroll auditors' work papers were used.

II. AMOUNTS OWED BY MEMBERS

Schedule 6 presents, by member, each member's respective share of the reconstructed members' gross deficit of \$22,182,504 as of December 31, 2014.

In addition, we have provided on the Schedule 6 the accounts receivable amount for each member as of December 31, 2015. These figures were provided by NCAComp.

However, any payments made on previous assessments to date are not reflected in these amounts. We understand these payments will be reflected on the invoices to members that will be issued for the 2016 deficit assessment.

III. SOURCES OF INFORMATION

Numerous sources of information were utilized in the reconstruction and assessment of the members' deficit for Mercantile. The most significant data included:

- Mercantiles' audited financial statements for the years ended December 31, 1995 through December 31, 2014;
- Mercantiles' actuarial report as of December 31, 2013 prepared by Casualty Actuarial Consultants, Inc.;
- Mercantiles' trial balance and general ledger for the year ended December 31, 1994;
- Accounts receivable subsidiary ledgers provided by NCA Comp Inc.; and
- Mercantile Trust members' underwriting files.

Mercantile Self-Insurance Trust
2016 Deficit Reconstruction

Audited Members' Deficit as of December 31, 2014																						
	12/31/1994 ⁽⁸⁾	12/31/95	12/31/96	12/31/97	12/31/98	12/31/99	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12	2/28/2014 ⁽⁹⁾	12/31/2014 ⁽⁹⁾	Cumulative @ 12/31/2014
Revenues																						
Earned Contributions	\$ 48,526	\$ 423,633	\$ 641,810	\$ 689,983	\$ 1,090,862	\$ 834,491	\$ 970,313	\$ 1,752,731	\$ 3,616,044	\$ 5,721,231	\$ 7,878,851	\$ 7,332,976	\$ 8,860,277	\$ 4,039,776	\$ 775,799	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44,677,303
Assessments ⁽¹⁾	-	-	-	-	-	-	-	-	-	-	-	-	300,283	2,948,384	8,191,127	34,133	-	-	2,303,068	-	-	13,776,995
Investment Income	2,897	32,463	45,442	30,333	34,576	40,019	71,164	34,883	27,300	39,037	55,679	111,298	164,098	229,925	192,393	121,973	40,750	113,979	92,161	3,780	1,626	1,485,776
NYS Workers' Compensation Board	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	51,423	456,096	687,252	720,316	1,125,438	874,510	1,041,477	1,787,614	3,643,344	5,760,268	7,934,530	7,444,274	9,324,658	7,218,085	9,159,319	156,106	40,750	113,979	2,395,229	3,780	1,626	59,940,074
Expenses																						
Losses and LAE	2,137	316,323	394,918	520,629	911,855	558,199	935,132	725,661	2,071,370	5,704,477	6,397,503	6,208,134	4,490,582	2,676,817	1,537,864	398,003	627,761	5,417,532	4,257,349	634,643	1,262,998	46,049,887
NYS Assessments	-	-	2,836	10,793	23,538	59,562	54,312	12,999	36,276	152,298	305,265	576,142	496,819	744,694	334,821	365,133	11,265	2,021,486	(639,642)	(431,271)	(364,822)	3,772,474
ALP Exit Fee ⁽²⁾	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	339,380	678,760
Guaranty Fee ⁽²⁾	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	308,527	617,054
Professional and Administrative	33,900	86,127	150,945	161,253	202,207	190,577	177,079	586,752	900,063	1,249,748	1,966,919	1,841,640	2,123,805	997,836	755,105	400,115	316,702	382,031	204,845	420,843	178,697	13,327,189
Insurance	10,129	21,306	42,836	64,962	38,246	69,510	39,107	139,318	182,572	225,465	393,451	843,362	2,435,752	943,601	160,742	-	-	-	-	-	-	5,610,359
Bad Debt Expense	-	-	-	-	-	-	-	24,712	193,552	86,024	23,248	85,316	458,116	1,287,404	5,573,470	-	-	-	1,038,971	463,661	(71,520)	9,162,954
Other expenses ⁽³⁾	502	56,422	39,872	2,280	2,318	11,333	62,824	10,431	17,831	10,839	11,587	366,539	429,006	274,360	-	-	-	-	34,733	5,170	4,431	1,340,478
	46,668	480,178	631,407	759,917	1,178,164	889,181	1,268,454	1,499,873	3,401,664	7,428,851	9,097,973	9,921,133	10,434,080	6,924,712	8,362,002	1,163,251	955,728	7,821,019	4,896,256	1,740,953	1,657,691	80,559,155
Other Income and Expense																						
Income from Change in Accounting Estimate - 2007 ⁽⁴⁾	-	-	-	-	-	-	-	-	-	-	-	-	-	760,699	-	-	-	-	-	-	-	760,699
Loss from Change in Accounting - 2011 ⁽⁵⁾	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,550,303)	-	-	-	(1,550,303)
Income (Loss) Before Income Taxes	4,755	(24,082)	55,845	(39,601)	(52,726)	(14,671)	(226,977)	287,741	241,680	(1,668,583)	(1,163,443)	(2,476,859)	(1,109,422)	1,054,072	797,317	(1,007,145)	(914,978)	(9,257,343)	(2,501,027)	(1,737,173)	(1,656,065)	(21,408,685)
Other Deficit Adjustments																						
Current Income Taxes ⁽⁶⁾	(1,550)	(797)	(32,031)	6,271	(7,546)	(6,849)	(80)	(568)	(11,529)	(100)	(100)	(100)	(100)	(25,938)	(17,301)	(15,297)	(1,875)	(4,300)	300	-	(25)	(119,515)
Comprehensive income (loss) - Pretax	-	-	-	-	-	-	-	-	-	-	7,712	15,623	82,624	72,889	-	-	-	-	-	-	-	178,848
Adjustments of Estimated Values ⁽⁷⁾	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(121,846)	1,971,946	1,147,946	(28,581)	-	-	-	2,969,465
Change in Audited Members' Equity (Deficit)	\$ 3,205	\$ (24,879)	\$ 23,814	\$ (33,330)	\$ (60,272)	\$ (21,520)	\$ (227,057)	\$ 287,173	\$ 230,151	\$ (1,668,683)	\$ (1,155,831)	\$ (2,461,336)	\$ (1,026,898)	\$ 1,101,023	\$ 658,170	\$ 949,504	\$ 231,093	\$ (9,290,224)	\$ (2,500,727)	\$ (1,737,173)	\$ (1,656,090)	\$ (18,379,887)

Notes:

⁽¹⁾ Trust Assessments were combined with Earned Contributions for the 2006, 2007 and 2008 financial statements. These assessments were backed out of Earned Contributions based on prior TPA workpapers and reported separately on Schedule 1.

⁽²⁾ Effective February 1, 2014, Mercantile Self-Insurance Trust is no longer responsible to pay any claim expenses since the claims have been transferred to a carrier via an (ALP). Part R of Chapter 56 of the Laws of 2010 allows self insurers to execute an assumption of workers' compensation liability (ALP), which would transfer the tail of claims incurred while self-insured to an assuming carrier. The \$339,380 represents the surcharge or ALP exit fee to execute this transfer. The \$308,527 represents the Guaranty fee for this transfer.

⁽³⁾ Other expenses include reinsurance premiums, other underwriting expenses, general and administrative expenses, forensic accounting fees, actuary fees, audit fees and collateral surrendered.

⁽⁴⁾ Effective March 2007, New York State enacted legislation changing the way assessments are calculated for group self insurers.

This represents the cumulative effect for restatement of NYS assessment accruals recognizing the expense as claims were incurred vs. recognizing the expense as billed by the WCB. As a result, the trust recognized \$760,699 in income from the change in accounting estimate.

⁽⁵⁾ This represents the cumulative effect of change in accounting method for unpaid losses and loss adjustment expense from a net present value to an undiscounted value.

⁽⁶⁾ The Trust incurs income taxes based primarily on graduated tax rates, state taxes net of federal benefits, and alternative minimum income taxes.

⁽⁷⁾ Beginning January 1, 2008, the Trust adopted the liquidation basis of accounting. As a result of the adoption of this accounting policy, adjustments to the carrying amounts of assets are made at year end, as represented by the "Adjustments of Estimated Value." The portion of the adjustment that related to Losses and LAE for the 2009 and 2010 adjustment have been allocated to that specific row.

⁽⁸⁾ No audit was performed for 1994. The figures were from the Trust accounting records.

⁽⁹⁾ The amounts reported pertain to the February 28, 2014 and December 31, 2014 audited financial statements. Adjustments will be made on Schedule 2 to back out January and February 2014 from the February 28, 2014 audit as these months are reflected in the December 31, 2014 audited financial statements.

Adjusted Members' Deficit																						
	12/31/94	12/31/95	12/31/96	12/31/97	12/31/98	12/31/99	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12	2/28/2014 ⁽⁶⁾	12/31/2014 ⁽⁶⁾	Cumulative @ 12/31/2014
Change in Audited Members' Equity (Deficit) ⁽¹⁾	\$ 3,205	\$ (24,879)	\$ 23,814	\$ (33,330)	\$ (60,272)	\$ (21,520)	\$ (227,057)	\$ 287,173	\$ 230,151	\$ (1,668,683)	\$ (1,155,831)	\$ (2,461,336)	\$ (1,026,898)	\$ 1,101,023	\$ 658,170	\$ 949,504	\$ 231,093	\$ (9,290,224)	\$ (2,500,727)	\$ (1,737,173)	\$ (1,656,090)	\$ (18,379,887)
Remove January and February 2014 income ⁽²⁾	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(486)	-	(486)
Remove January and February 2014 LAE expenses ⁽³⁾	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,278,668	-	1,278,668
Remove January and February 2014 Assessment expenses ⁽³⁾	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	564,374	-	564,374
Remove January and February 2014 other expenses ⁽³⁾	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	28,509	-	28,509
Prior Deficit Assessments ⁽⁴⁾	-	-	-	-	-	-	-	-	-	-	-	-	(300,283)	(2,948,384)	(8,191,127)	(34,133)	-	-	(2,303,068)	-	-	(13,776,995)
Bad Debt Expense ⁽⁵⁾	-	-	-	-	-	-	-	24,712	193,552	86,024	23,248	85,316	458,116	1,287,404	5,573,470	-	-	-	1,038,971	475,181	(71,520)	9,174,474
Administrative Expenses ⁽⁶⁾	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(130,271)	(130,271)
Future Tax Liability of Trust ⁽⁷⁾	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(334,476)	(334,476)
Adjusted Members' Equity (Deficit)	<u>\$ 3,205</u>	<u>\$ (24,879)</u>	<u>\$ 23,814</u>	<u>\$ (33,330)</u>	<u>\$ (60,272)</u>	<u>\$ (21,520)</u>	<u>\$ (227,057)</u>	<u>\$ 311,885</u>	<u>\$ 423,703</u>	<u>\$ (1,582,659)</u>	<u>\$ (1,132,583)</u>	<u>\$ (2,376,020)</u>	<u>\$ (869,065)</u>	<u>\$ (559,957)</u>	<u>\$ (1,959,487)</u>	<u>\$ 915,371</u>	<u>\$ 231,093</u>	<u>\$ (9,290,224)</u>	<u>\$ (3,764,824)</u>	<u>\$ 609,073</u>	<u>\$ (2,192,357)</u>	<u>\$ (21,576,090)</u>

Notes:

⁽¹⁾ Change in Audited Members' Equity (Deficit) amounts represent the balances that have been carried forward from Schedule 1.

⁽²⁾ The January and February income reported on the February 28, 2014 audit was removed based on the trial balance report. These months are reported with the December 31, 2014 financial statement audit.

⁽³⁾ The January and February expenses for LAE, Assessments and Other Expenses reported on the February 28, 2014 audit was removed based on the trial balance report. These months are reported with the December 31, 2014 financial statement audit.

⁽⁴⁾ Prior deficit assessment income has been reversed in order to determine an overall cumulative members' deficit for re-allocation and final deficit assessment purposes. Members will be given credit for their respective prior deficit assessment payments as part of the final deficit assessment process.

⁽⁵⁾ The bad debt recorded on the financial statement of the trust has been reversed and added to the total members' deficit.

⁽⁶⁾ Administrative expenses of \$130,271 reflect the anticipated costs incurred, after December 31, 2014, for actuarial, forensic accounting, and auditing services. The costs have been allocated based on the "Estimated Required Reserves" detailed in the December 31, 2013 actuarial report prepared by Casualty Actuarial Consultants and dated February 17, 2014.

⁽⁷⁾ The future tax liability of the trust is the estimated tax liability based on future income of the trust. This liability is not recorded in the December 31, 2014 financial statement. The costs have been allocated based on the "Estimated Required Reserves" detailed in the December 31, 2013 actuarial report prepared by Casualty Actuarial Consultants and dated February 17, 2014.

⁽⁸⁾ The amounts reported pertain to the February 28, 2014 and December 31, 2014 audited financial statements. Adjustments will be made on Schedule 2 to back out January and February 2014 from the February 28, 2014 audit as these months are reflected in the December 31, 2014 audited financial statements.

Re-Allocated Members' Deficit																					Cumulative @ 12/31/2014		
	12/31/94	12/31/95	12/31/96	12/31/97	12/31/98	12/31/99	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12	2/28/2014 ⁽⁸⁾	12/31/2014 ⁽⁸⁾		
Change in Adjusted Members' Equity (Deficit) ⁽¹⁾	\$ 3,205	\$ (24,879)	\$ 23,814	\$ (33,330)	\$ (60,272)	\$ (21,520)	\$ (227,057)	\$ 311,885	\$ 423,703	\$ (1,582,659)	\$ (1,132,583)	\$ (2,376,020)	\$ (869,065)	\$ (559,957)	\$ (1,959,487)	\$ 915,371	\$ 231,093	\$ (9,290,224)	\$ (3,764,824)	\$ 609,073	\$ (2,192,357)	\$ (21,576,090)	
Losses and LAE - Prior ALP ⁽²⁾																							
Previously reported	2,137	316,323	394,918	520,629	911,855	558,199	935,132	725,661	2,071,370	5,704,477	6,397,503	6,208,134	4,490,582	2,676,817	1,537,864	398,003	627,761	6,967,835	4,257,349	(644,025)	(14,163,353)	30,895,171	
Re-Allocation	(22,452)	(287,030)	(308,263)	(580,707)	(388,187)	(535,158)	(739,630)	(2,048,557)	(4,337,614)	(5,283,636)	(5,301,983)	(4,288,652)	(4,462,870)	(1,760,906)	(549,526)	-	-	-	-	-	-	(30,895,171)	
Net Annual Impact	(20,315)	29,293	86,655	(60,078)	523,668	23,041	195,502	(1,322,896)	(2,266,244)	420,841	1,095,520	1,919,482	27,712	915,911	988,338	398,003	627,761	6,967,835	4,257,349	(644,025)	(14,163,353)	-	
Losses and LAE - Post ALP ⁽³⁾																							
Previously reported	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	15,426,351	15,426,351	
Re-Allocation	-	(26,909)	-	(15,041)	-	-	-	(167,008)	(2,338,276)	(2,263,757)	(2,229,187)	(891,397)	(5,372,540)	(1,283,673)	(838,563)	-	-	-	-	-	-	(15,426,351)	
Net Annual Impact	-	(26,909)	-	(15,041)	-	-	-	(167,008)	(2,338,276)	(2,263,757)	(2,229,187)	(891,397)	(5,372,540)	(1,283,673)	(838,563)	-	-	-	-	-	-	15,426,351	-
NYS Assessments - Prior ALP ⁽⁴⁾																							
Previously reported	-	-	2,836	10,793	23,538	59,562	54,312	12,999	36,276	152,298	305,265	576,142	496,819	(16,005)	334,821	365,133	11,265	2,021,456	(639,642)	(347,738)	(364,822)	3,095,308	
Re-Allocation	(2,249)	(28,757)	(30,884)	(58,180)	(388,891)	(533,616)	(74,102)	(205,240)	(434,574)	(529,354)	(531,192)	(429,669)	(447,123)	(176,421)	(55,056)	-	-	-	-	-	-	(3,095,308)	
Net Annual Impact	(2,249)	(28,757)	(28,048)	(47,387)	(15,353)	5,946	(19,790)	(192,241)	(398,298)	(377,056)	(225,927)	146,473	49,696	(192,426)	279,765	365,133	11,265	2,021,456	(639,642)	(347,738)	(364,822)	-	
ALP Exit and Guaranty Fee - Post ALP ⁽⁵⁾																							
Previously reported	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	647,907	647,907	
Re-Allocation	-	(1,130)	-	(632)	-	-	-	(7,014)	(98,208)	(95,078)	(93,626)	(37,439)	(225,646)	(53,914)	(35,220)	-	-	-	-	-	-	(647,907)	
Net Annual Impact	-	(1,130)	-	(632)	-	-	-	(7,014)	(98,208)	(95,078)	(93,626)	(37,439)	(225,646)	(53,914)	(35,220)	-	-	-	-	-	-	647,907	
Re-Allocation of Other Income & Expenses - Prior ALP ⁽⁶⁾	1,248	15,960	17,141	32,289	21,585	29,757	41,126	113,907	241,187	293,790	294,810	238,465	248,152	97,913	30,556	(1,678,507)	(870,119)	300,933	147,117	382,690	-	-	
Re-Allocation of Other Income & Expenses - Post ALP ⁽⁷⁾	-	(1,127)	-	(630)	-	-	-	(6,997)	(97,960)	(94,838)	(93,390)	(37,344)	(225,079)	(53,778)	(35,131)	-	-	-	-	-	-	646,274	
Re-Allocated Members' Equity (Deficit)	\$ (18,111)	\$ (37,549)	\$ 99,562	\$ (124,809)	\$ 469,628	\$ 37,224	\$ (10,219)	\$ (1,270,364)	\$ (4,534,096)	\$ (3,698,757)	\$ (2,384,383)	\$ (1,037,780)	\$ (6,366,770)	\$ (1,129,924)	\$ (1,569,742)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (21,576,090)	

Notes:

⁽¹⁾ Change in Adjusted Members' Equity (Deficit) amounts represent the balances that have been carried forward from Schedule 2.

⁽²⁾ Losses and LAE prior to the ALP have been re-allocated based on the paid losses as of January 31, 2014. Please note the amount is net of \$1,550,303 of expense on Schedule 1 which is the result from the cumulative effect of change in accounting for reserve for losses and loss adjustment expenses by eliminating the discount to estimated present value.

⁽³⁾ Losses and LAE associated with the ALP have been re-allocated based on the "Estimated Required Reserves" detailed in the December 31, 2013 actuarial report prepared by Casualty Actuarial Consultants and dated February 17, 2014.

⁽⁴⁾ NYS Assessments have been re-allocated based on the paid losses as of January 31, 2014. Please note the amount is net of \$760,699 of income on Schedule 1 which is the income resulting from the cumulative effect of change in accounting estimates of NYS assessment for insolvent/inactive trusts.

⁽⁵⁾ The ALP Exit and Guaranty Fees associated with the ALP have been re-allocated based on the "Estimated Required Reserves" detailed in the December 31, 2013 actuarial report prepared by Casualty Actuarial Consultants and dated February 17, 2014.

⁽⁶⁾ Certain items of other income and expense for the years ended December 31, 2008, 2009, 2010, 2011, 2012, 2013 and prior to the ALP have been re-allocated based on the paid losses as of January 31, 2014.

⁽⁷⁾ Certain items of other income and expense for the years ended December 31, 2014 have been re-allocated based on the "Estimated Required Reserves" detailed in the December 31, 2013 actuarial report prepared by Casualty Actuarial Consultants and dated February 17, 2014.

⁽⁸⁾ The amounts reported pertain to the February 28, 2014 and December 31, 2014 audited financial statements. Adjustments were made on Schedule 2 to back out January and February 2014 from the February 28, 2014 audit as these months are reflected in the December 31, 2014 audited financial statements.

Mercantile Self-Insurance Trust
2016 Deficit Reconstruction

2015 Deficit Assessment by Year

	12/31/94	12/31/95	12/31/96	12/31/97	12/31/98	12/31/99	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12	2/28/2014 ⁽³⁾	12/31/2014 ⁽³⁾	Cumulative @ 12/31/2014	
2016 Net Deficit Assessment ⁽¹⁾	\$ (18,111)	\$ (37,549)	\$ 99,562	\$ (124,809)	\$ 469,628	\$ 37,224	\$ (10,219)	\$ (1,270,364)	\$ (4,534,096)	\$ (3,698,757)	\$ (2,384,383)	\$ (1,037,780)	\$ (6,366,770)	\$ (1,129,924)	\$ (1,569,742)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (21,576,090)
Add: Surplus Years ⁽²⁾	-	-	(99,562)	-	(469,628)	(37,224)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$ (606,414)
2016 Gross Deficit Assessment	\$ (18,111)	\$ (37,549)	\$ -	\$ (124,809)	\$ -	\$ -	\$ (10,219)	\$ (1,270,364)	\$ (4,534,096)	\$ (3,698,757)	\$ (2,384,383)	\$ (1,037,780)	\$ (6,366,770)	\$ (1,129,924)	\$ (1,569,742)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (22,182,504)

Notes:

⁽¹⁾ The 2016 Deficit Assessment amounts represent the Re-Allocated Members' Equity (Deficit) amounts that have been carried from Schedule 3.

⁽²⁾ Surplus years cannot be used to offset deficit years. Surpluses will be credited or refunded to participating members during the year after all obligations applicable to that year have been satisfied.

