

Financial Statements

**TEAM TRANSPORTATION
WORKERS' COMP TRUST**

September 30, 2013

Financial Statements

TEAM TRANSPORTATION WORKERS' COMP TRUST

September 30, 2013

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INDEPENDENT AUDITOR'S REPORT

New York State Workers' Compensation Board
Team Transportation Workers' Comp Trust
Albany, New York

Report on the Financial Statements

We have audited the accompanying financial statements of Team Transportation Workers' Comp Trust (the "Trust"), which comprise the balance sheet as of September 30, 2013, and the related statements of income and changes in members' deficit and cash flows for the nine months then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management, the New York State Workers' Compensation Board (the "Board") and the Trust's administrator, are 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 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 of 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Team Transportation Workers' Comp Trust as of September 30, 2013, and the results of its operations and its cash flows for the nine months then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

As discussed in Note F to the financial statements, uncertainty exists regarding the ultimate timing and realization of reinsurance recoverable balances of approximately \$3,380,000 recorded in the Trust's balance sheet at September 30, 2013, due from Reliance Insurance Company (in Liquidation), an insolvent reinsurer placed in liquidation by order of the Commonwealth Court of Pennsylvania. Our opinion is not modified with respect to this matter.

Xirley, Moran, Green & Esser, CPA, P.C.

East Syracuse, New York
January 21, 2014

BALANCE SHEET

TEAM TRANSPORTATION WORKERS' COMP TRUST

September 30, 2013

ASSETS

Balances due from the NYS Workers' Compensation Board	\$ 375,551
Contributions and assessments receivable, net	171,335
Reinsurance receivable	199,354
Reinsurance recoverable	14,386,332
Prepaid income taxes	72,618
Deferred income taxes	<u>12,185,000</u>

TOTAL ASSETS \$ 27,390,190

LIABILITIES AND MEMBERS' DEFICIT

LIABILITIES

Unpaid losses and loss adjustment expenses:	
Case-basis reserves	\$ 23,618,220
Unallocated loss adjustment expenses	2,100,000
Incurred but not reported claims	<u>14,834,340</u>
TOTAL UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES, NET	40,552,560

Accounts payable and accrued expenses	231,508
Due to NYS Workers' Compensation Board assessment account funds	2,324,281
NYS Workers' Compensation Board assessments payable--current	547,131
Accrued NYS Workers' Compensation Board assessments	<u>1,999,533</u>

TOTAL LIABILITIES 45,655,013

MEMBERS' DEFICIT (18,264,823)

\$ 27,390,190

See notes to financial statements.

STATEMENT OF INCOME AND CHANGES IN MEMBERS' DEFICIT

TEAM TRANSPORTATION WORKERS' COMP TRUST

Nine months ended September 30, 2013

Revenues:

Income from NYS Workers' Compensation Board	\$ 360,717
Interest income	61
TOTAL REVENUES	<u>360,778</u>

Expenses (offsets to expenses):

Claims	(3,031,705)
NYS Workers' Compensation Board assessments	(72,974)
Professional and administrative fees	245,193
TOTAL OFFSETS TO EXPENSES	<u>(2,859,486)</u>
INCOME BEFORE INCOME TAXES	3,220,264

Income tax provision:

Current	45,000
Deferred	955,000
	<u>1,000,000</u>

NET INCOME 2,220,264

Members' deficit--beginning of period (20,485,087)

MEMBERS' DEFICIT AT END OF PERIOD \$(18,264,823)

See notes to financial statements.

STATEMENT OF CASH FLOWS

TEAM TRANSPORTATION WORKERS' COMP TRUST

Nine months ended September 30, 2013

CASH FLOWS USED IN OPERATING ACTIVITIES

Net income	\$ 2,220,264
Adjustments to reconcile net income to net cash used in operating activities:	
Deferred income tax provision	955,000
Decrease (increase) in assets:	
Balances due from NYS Workers' Compensation Board	94,375
Reinsurance receivable	7,498
Reinsurance recoverable	2,391,891
Prepaid income taxes	(72,618)
(Decrease) increase in liabilities:	
Unpaid losses and loss adjustment expenses, net	(7,085,579)
Accounts payable and accrued expenses	8,402
Due to NYS Workers' Compensation Board assessment account funds	1,553,741
Accrued NYS Workers' Compensation Board assessments	(72,974)
NET CASH USED IN OPERATING ACTIVITIES	<u>-0-</u>
NET CHANGE IN CASH	<u>-0-</u>
Cash at beginning of period	<u>-0-</u>
CASH AT END OF PERIOD	<u><u>\$ -0-</u></u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Non-cash operating activities:	
Activity in NYS Workers' Compensation Board owned accounts representing receipts and disbursements made on the Trust's behalf:	
Collection of contributions and assessments	<u>\$ 360,127</u>
Interest income received	<u>\$ 61</u>
Claims paid, net of recoveries	<u>\$ (1,685,551)</u>
Professional and administrative	<u>\$ (228,907)</u>
Income taxes paid	<u><u>\$ (131,301)</u></u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

TEAM TRANSPORTATION WORKERS' COMP TRUST

September 30, 2013

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

Organization: The Team Transportation Workers' Comp Trust (the "Trust") is a group self-insurance trust that provided Workers' Compensation coverage in the State of New York to employers involved in the transportation industry. Contributions paid by members are used to pay covered losses, claims administration and costs associated with the management of the group, such as loss control, legal, accounting, actuarial, and excess insurance. Any excess of contributions over expenses are returned to the Trust members as dividends on a pro rata share basis. The Trust began providing coverage to its members in October 1995.

The Trust terminated in force policies effective December 31, 2010; however, the Trust is responsible for paying all claims incurred prior to 12:01 a.m. January 1, 2011, which will likely take several years. Effective February 1, 2012, as a result of the deterioration of the Trust's liquid assets to claims reserve ratio, the New York State Workers' Compensation Board (the "Board") took possession of the Trust and began to authorize payments of claims on behalf of the Trust. The Board has contracted a third party administrator (the "Trust Administrator") to carry out the day to day operations of the Trust. As of September 30, 2013, the Trust's liabilities are greater than its assets. The Board is currently in the process of seeking deficit contributions from members of the Trust, since they are jointly and severally liable. In the event the Trust's assets are inadequate to fund future operations, the Board is required to fund future remaining claims and related obligations of the Trust. The Board will be reimbursed for the funding provided to the Trust through collections on the deficit assessment billing issued to members by the Board.

Significant Accounting Policies: The Trust follows the accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB establishes accounting principles generally accepted in the United States of America ("GAAP") that are followed to ensure consistent reporting of the financial condition, results of operations and cash flows of the Trust. References to GAAP issued by the FASB in these notes to financial statements are to the FASB Accounting Standards Codification ("FASB ASC").

Use of Estimates: Management uses estimates and assumptions in preparing the financial statements in accordance with GAAP. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

NOTES TO FINANCIAL STATEMENTS--Continued

TEAM TRANSPORTATION WORKERS' COMP TRUST

September 30, 2013

NOTE A--SIGNIFICANT ACCOUNTING POLICIES--Continued

Balances Due From the NYS Workers' Compensation Board: Balances due from the Board represent amounts maintained and held by the Board on behalf of the Trust, in a bank account owned by the Board. Subsequent to the Board taking possession of the Trust, cash and investment accounts owned by the Trust were liquidated and transferred to accounts owned and controlled by the Board on the Trust's behalf. Portions of the Trust's cash receipts and cash disbursements are received or paid by the Board out of this account.

Recognition of Income from NYS Workers' Compensation Board: Funds received from deficit assessment billings are collected and maintained in cash accounts owned by the Board and are not included in the financial statements. The Trust recognizes revenue on funds received from deficit assessment billings once the Board makes them available to pay obligations of the Trust.

Contributions and Assessments Receivable: The Trust is currently in run-off status and payments for future claims and administrative expenses will be funded from member payments to the Board or its administrator. Contributions and assessment receivables represent amounts that were outstanding prior to the Board taking possession of the Trust and are presented in the balance sheet net of the allowance for doubtful accounts.

Contributions and assessments receivable are written off when they are determined to be uncollectible. The allowance for doubtful accounts is estimated based on the Board's ability to enforce and pursue collection. The allowance for doubtful accounts approximated \$540,000 at September 30, 2013.

Unpaid Losses and Loss Adjustment Expenses and Reinsurance Recoverable: Liabilities for unpaid losses and loss adjustment expenses are estimates of ultimate future payments to be made to settle all claims for reported losses and estimates of incurred but not reported losses based on past experience. Estimates of liability for claims are established on an undiscounted basis of expected ultimate payment amounts (see Note C). Management believes that the liability for unpaid losses and loss adjustment expenses is adequate to cover the ultimate cost of claims incurred; however, such estimates may be more or less than the amount ultimately paid when the claims are settled. Changes in the estimated liability are reflected in expenses as the estimates are revised. It is at least reasonably possible that the Trust's recorded estimates will change within the near term.

NOTES TO FINANCIAL STATEMENTS--Continued

TEAM TRANSPORTATION WORKERS' COMP TRUST

September 30, 2013

NOTE A--SIGNIFICANT ACCOUNTING POLICIES--Continued

Unpaid Losses and Loss Adjustment Expenses and Reinsurance Recoverable--Continued:

Litigation costs with respect to claims arising from insurance coverage, as well as expenses related to processing of unprocessed claims are considered in establishing the estimated liability for unpaid losses and loss adjustment expenses. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured business. The recoverability of these assets depends on the reinsurers' ability to perform under the reinsurance agreements. Management utilizes an actuarial service in its calculation of this estimated liability and the related reinsurance recoverable.

Due to NYS Workers' Compensation Board Assessment Account Funds: Group and individual self-insurers pay assessments to the Board assessment account funds. Through September 30, 2013, the Trust received advances from these assessment account funds. These amounts will be paid back from future revenue received from the Board.

Accrued NYS Workers' Compensation Board Assessment: The Trust has an accrued assessment liability which reflects an estimate of the ultimate cost expected to be paid by the Trust for all of the Board's legally mandated assessments. As of September 30, 2013, the Board has calculated this accrued assessment on the basis of approximately 5.2% of the estimated reserve for losses and allocated loss adjustment expenses, plus an additional amount calculated by the Board. It is at least reasonably possible that the Trust's estimated liability for these assessments will change within the near term. See Note D for calculation of the accrued assessment.

Income Taxes: The Trust is taxed as a mutual property and casualty insurance company for federal income tax purposes and as a C corporation for state income tax purposes. Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences, operating loss and tax credit carryforwards 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 are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

NOTES TO FINANCIAL STATEMENTS--Continued

TEAM TRANSPORTATION WORKERS' COMP TRUST

September 30, 2013

NOTE A--SIGNIFICANT ACCOUNTING POLICIES--Continued

Income Taxes--Continued: The Trust follows FASB ASC Topic 740-10 which addresses accounting for uncertainty in income taxes and prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on various related matters such as derecognition, interest and penalties, and disclosure. The Trust recognizes accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense. There was no impact to the accompanying financial statements attributable to the uncertainties in income taxes portion of FASB ASC Topic 740-10.

Events Occurring After Report Date: The Trust has evaluated events and transactions that occurred between September 30, 2013 and January 21, 2014, which is the date the financial statements were available to be issued, for possible disclosure and recognition in the financial statements. There were no such events or transactions identified by the Trust with the exception of the matter disclosed in Note D.

NOTE B--REINSURANCE

The Trust purchased excess liability insurance (reinsurance) as required by the State of New York to meet statutory requirements for Workers' Compensation. These reinsurance policies do not relieve the Trust from its obligation to policyholders. The insurance coverage is for excess of the retention as follows:

Specific retention: \$ 300,000 for October 15, 1995 to December 31, 2001
350,000 for January 1, 2002 to December 31, 2002
400,000 for January 1, 2003 to December 31, 2003
500,000 for January 1, 2004 to December 31, 2010

Aggregate retention: \$4,981,180 for October 1, 1995 to December 31, 1997 with a \$2,000,000 limit
4,366,316 for January 1, 1998 to December 31, 1998 with a \$2,000,000 limit
4,550,351 for January 1, 1999 to December 31, 1999 with a \$5,000,000 limit
5,621,720 for January 1, 2000 to December 31, 2000 with a \$5,000,000 limit
6,629,261 for January 1, 2001 to December 31, 2001 with a \$5,000,000 limit
5,402,082 for January 1, 2002 to December 31, 2002 with a \$10,000,000 limit
6,047,683 for January 1, 2003 to December 31, 2003 with a \$10,000,000 limit
8,863,442 for January 1, 2004 to December 31, 2004 with a \$10,000,000 limit
6,517,513 for January 1, 2005 to December 31, 2005 with a \$10,000,000 limit
7,358,486 for January 1, 2006 to December 31, 2006 with a \$10,000,000 limit

NOTES TO FINANCIAL STATEMENTS--Continued

TEAM TRANSPORTATION WORKERS' COMP TRUST

September 30, 2013

NOTE B--REINSURANCE--Continued

At September 30, 2013, reinsurance recoverable amounted to \$14,386,332. The reinsurance receivable and recoverable are due from three reinsurance companies under specific excess and aggregate policies. Estimated recoveries for claims incurred but not reported ("IBNR") approximated \$3,000,000 at September 30, 2013, per the independent actuarial report.

Failure of the reinsurers to honor their obligations could result in losses to the Trust. The Trust evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvency. At September 30, 2013 there are no losses recorded or anticipated due to failure of the reinsurers to honor their obligations, with the exception of the matter disclosed in Note F.

NOTE C--UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

Activity in the reserve for unpaid losses and loss adjustment expenses is summarized as follows:

Reserve balance at beginning of period	\$ 47,638,139
Losses to be covered under reinsurance	(16,778,223)
Net reserve balance at beginning of period	<u>30,859,916</u>
Incurred claims improvement	(3,031,705)
Paid	(1,661,983)
Net reserve balance at end of period	<u>26,166,228</u>
Losses to be covered under reinsurance	<u>14,386,332</u>
Reserve balance at end of period	<u><u>\$ 40,552,560</u></u>
Reserve reconciliation:	
Case-basis reserves	\$ 23,618,220
Unallocated loss adjustment expenses	2,100,000
Incurred but not reported claims	<u>14,834,340</u>
Reserve balance at end of period	<u><u>\$ 40,552,560</u></u>
Claims improvement reconciliation:	
Incurred claims improvement	\$ 2,731,705
Decrease in ULAE reserve	<u>300,000</u>
Claims improvement	<u><u>\$ 3,031,705</u></u>

NOTES TO FINANCIAL STATEMENTS--Continued

TEAM TRANSPORTATION WORKERS' COMP TRUST

September 30, 2013

NOTE C--UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES--Continued

At September 30, 2013 the liability for unpaid losses and loss adjustment expenses, including incurred but not reported claims, has been actuarially determined on an undiscounted basis. Management selected this liability from the high end of a range of actuarially estimated outcomes. As a result of changes in estimates of insured events in prior periods, the loss and loss adjustment expenses decreased by \$3,031,705 in the nine months ended September 30, 2013.

NOTE D--ACCRUED WORKERS' COMPENSATION ASSESSMENT AND SUBSEQUENT EVENT

Unpaid losses and loss adjustment expenses:

Case-basis reserves	\$ 23,618,220
Incurred but not reported claims	14,834,340
	<u>38,452,560</u>

NYS assessment rate	5.2%
	<u>1,999,533</u>

Board calculated portion of assessment payable--current	<u>547,131</u>
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Total accrued Workers' Compensation Board assessments \$ 2,546,664

This liability is comprised of two components in the September 30, 2013 balance sheet: NYS Workers' Compensation Board assessments payable--current (liability related to activity subsequent to 2010 assessment cycle--April 1, 2010 - March 31, 2011) and Accrued Workers' Compensation Board assessments.

Effective December 30, 2013, the Board reduced the assessment rate charged to insolvent and inactive trusts from 5.2% to 2.2%. The change is estimated to reduce the accrued workers' compensation assessments balance included in the September 30, 2013 balance sheet by approximately \$1,150,000. The impact of this change will be reflected in the Trust's financial statements for the year ending December 31, 2013.

NOTE E--INCOME TAXES

The income tax provision differs from the amount of income tax determined by applying the U.S. federal income tax rate of 34% to the pretax income for the nine months ended September 30, 2013 primarily due to state taxes.

NOTES TO FINANCIAL STATEMENTS--Continued

TEAM TRANSPORTATION WORKERS' COMP TRUST

September 30, 2013

NOTE E--INCOME TAXES--Continued

The deferred tax asset consists of the following components as of September 30, 2013:

Unpaid losses and loss adjustment expenses, net	\$ 2,300,000
Accrued NYS assessment	225,000
Alternative minimum tax credits	50,000
Net operating loss carryforwards (expiring in 2029 to 2031)	9,100,000
Allowance for doubtful accounts	<u>510,000</u>
	<u>\$12,185,000</u>

Although the Trust has ceased writing policies and is in run-off status, the Board is required to fund future remaining claims and related obligations of the Trust. The Board will be reimbursed for the funding provided to the Trust through collections on the deficit assessment billing issued to members by the Board. As a result, management has concluded that the deferred income tax asset is ultimately realizable based on their estimation of the Trust's ability to generate future taxable income within the carryforward periods for the net operating losses.

The current provision for federal and state income taxes, otherwise payable for the year ended September 30, 2013, was reduced by the utilization of net operating loss carryforwards at an after tax benefit of approximately \$800,000. The statute of limitations for potential federal and state tax audits has expired for years ended December 31, 2008 and prior.

NOTE F--UNCERTAINTY WITH REINSURER

Reliance Insurance Company: The Trust purchased excess liability insurance (reinsurance) from Reliance Insurance Company ("Reliance") to reinsure against specific claims in excess of \$300,000 that may be incurred from October 1, 1996 to December 31, 2000. At September 30, 2013, approximately \$3,380,000 is estimated to be due from Reliance and is included in the Trust's balance sheet under the caption "Reinsurance recoverable". In addition, approximately \$180,000 due from Reliance is included in the balance sheet under the caption "Reinsurance receivable".

NOTES TO FINANCIAL STATEMENTS--Continued

TEAM TRANSPORTATION WORKERS' COMP TRUST

September 30, 2013

NOTE F--UNCERTAINTY WITH REINSURER

Reliance Insurance Company--Continued: Reliance was placed into rehabilitation by order of the Commonwealth Court of Pennsylvania ("the Court") on May 29, 2001. On October 3, 2001, Reliance was declared insolvent by order ("the Order") of the Court. The Order appointed the Insurance Commissioner of Pennsylvania as Liquidator of the Company ("the Liquidator"). Representatives of the Liquidator oversee the daily operations of Reliance. The entity is now known as Reliance Insurance Company (in Liquidation) ("Reliance") or ("the Estate"). The principal activities since the date of liquidation consist of the collection and marshalling of assets and determination of claims. All creditor claims submitted to Reliance must be evaluated through the Proof of Claim process to determine and assign the proper class priority and dollar value. The largest class of creditors represents claims for losses under policies issued prior to liquidation. Ultimately, the net assets of the Estate are expected to be distributed to creditors. Currently Reliance is statutorily insolvent.

The Liquidator has yet to determine if it will honor the Trust's agreements with Reliance. The Board asserts that the agreements between the Trust and Reliance will be honored by the Liquidator as excess insurance policies, as the Board has successfully argued this position for other trusts under its control. In addition, although the Liquidator acknowledges that they have been informed by the Trust of claims that are currently reserved and estimated to exceed Reliance's retention points, they have not yet evaluated those claims for acceptance and will not do so until the payments on these claims reach the retention points, which is not expected to occur in the near term.

Due to the uncertainty that exists as a result of the matter disclosed in the preceding paragraphs, the ultimate timing and realization of the \$180,000 receivable balance and the estimated \$3,380,000 recoverable balance due from Reliance cannot presently be determined. Accordingly, no provision for any losses that may result has been made in the financial statements. Nevertheless, due to the uncertainty with the realization of this reinsurance receivable and recoverable, it is at least reasonably possible that management's view of the outcome will change in the near term.

NOTE G--COMMITMENTS AND CONTINGENCIES

The Trust provided employer liability coverage to its members as required by the Board. The Trust has one open employer liability claim with incurred loss of approximately \$150,000, including \$110,000 of case reserves as of September 30, 2013. Management of the Trust has represented that they are not aware of any other asserted or pending claims against any members of the Trust under this coverage.