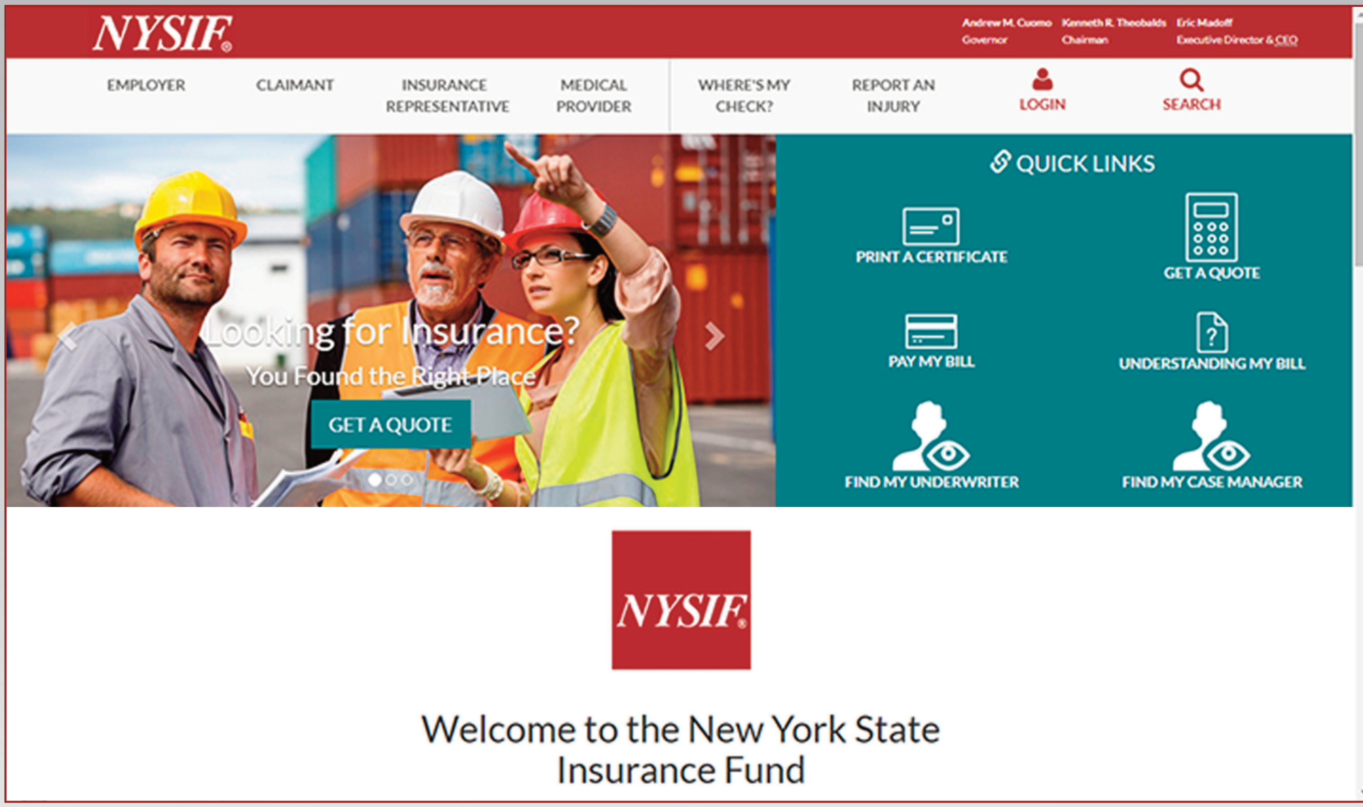
Envisioning the Future

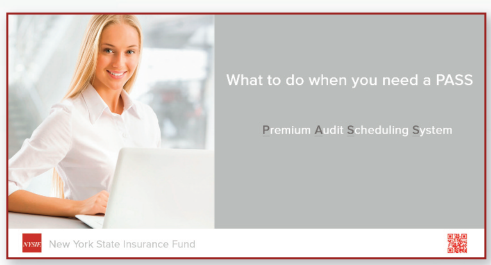
NYSIF Annual Report 2016

NYSIF®



A Focus On Service

NYSIF focused on improving service, working more efficiently and driving down costs in 2016. Beginning with a redesigned website, NYSIF launched projects to make it easier for customers to do business with us. Interactive features and a responsive web design now offer every stakeholder anywhere access to more online services at nysif.com than at any time. Our new site won a top award for best state insurance fund websites.*



*The 2016-17 communications contest held by the American Association of State Compensation Insurance Funds awarded nysif.com second place in the website category.

Financial Highlights

Workers' Compensation Fund
(in thousands)

	2016	2015
Net Written Premium	**$ 2,437,552**	$ 2,437,325
Net Earned Premium	**$ 2,479,933**	$ 2,486,751
Net Investment Income	**$ 645,864**	$ 615,559
Net Income	**$ 810,979**	$ 519,089
Total Admitted Assets	**$ 17,657,313**	$ 16,579,544
Total Surplus	**$ 4,497,416**	$ 3,977,205

Disability Benefits Fund
(in thousands)

	2016	2015
Net Written Premium	**$ 19,240**	$ 17,723
Net Earned Premium	**$ 18,722**	$ 17,644
Net Investment Income	**$ 6,163**	$ 5,494
Net Income	**$ 4,366**	$ 3,129
Total Admitted Assets	**$ 186,591**	$ 180,812
Total Surplus	**$ 146,563**	$ 145,823

From the Board Chairman

The Board of Commissioners is pleased to present the 2016 Annual Report of the New York State Insurance Fund.

NYSIF executed major portions of an ambitious strategic business plan in 2016 to increase operational efficiency and to provide better service for all stakeholders. Our Executive team established strategic objectives with senior managers in all business units and made steady progress to implement key initiatives.

Executing Our Mission

These efforts and other projects help us maintain our role as a competitive insurance carrier in the New York workers' compensation and disability benefits insurance markets. They enable NYSIF to set premiums at the lowest possible cost as mandated, and to carry on its mission as a guaranteed source of insurance for hundreds of thousands of businesses that have turned to us since 1914.

For over a century, employers have relied on NYSIF for our industry expertise. We take pride in our reputation as a trusted insurance carrier, and we are honored to be the carrier of choice for more than 200,000 policyholders, serving New York employers and injured workers alike. In addition to providing coverage, we offer our policyholders complimentary workplace safety and loss-control programs that enhance the value of having insurance with NYSIF.

Honoring Our Commitment

NYSIF is pleased to remain an established presence in the ever-changing New York landscape. In the years ahead, we will maintain our commitment to providing a competitively priced product, excellent customer service, value-added programs and much more. We look forward to serving our customers for decades to come.

On behalf of the Board of Commissioners, I want to thank Governor Andrew Cuomo and the State Legislature, and NYSIF management and staff for their dedication to our efforts.

Kenneth R. Theobalds
Chairman
NYSIF Board of Commissioners

Seated (l.-r.): Vice Chairman **Barry Swidler** *CEO* Long Island Carpet Cleaners Inc., Chairman **Kenneth R. Theobalds** *Vice President Government & Regulatory Affairs* Entergy, **Alexis E. Thomas** *Principal* The Williams Capital Group LP. Standing (l.-r.): **Ryan Delgado** New York State AFL-CIO, **Louis J. Roberti** *President/Principal* Arroway Chevrolet/Chrysler Dodge Jeep, **Navneet Kathuria** MD *Senior Vice President Population Health Management* Hackensack Meridian Health, **Eileen A. Frank** *President* J.P. West Inc., **Sheila A. Stamps** *Former Executive Vice President* Dreambuilder Investments LLC, **Mario Musolino** *Executive Deputy Commissioner* New York State Department of Labor*, **Charles B. MacLeod** *Principal/Owner* SMM Advertising, **David E. Ourlicht** GAMCO Asset Management. Inset: **Roberta Reardon** *Commissioner* New York State Department of Labor (ex-officio). *State Department of Labor representative

From the Executive Director

NYSIF provides a unique level of trust and value to our stakeholders. Our thorough and complex knowledge of workers' compensation and disability insurance is built on our 100-year history of experience and expertise.

In 2016, we were able to move closer to our enhanced vision for the future. Through strategic planning and goal alignment, we made significant progress, focusing on four key areas: providing excellent customer service, exercising financial discipline, using data to make smarter decisions, and improving business processes.

Reflecting on 2016

Here is a more detailed look at some of our 2016 accomplishments:

- Launched last fall, our redesigned website has created an intuitive gateway to self-service. Claimants, employers, insurance representatives, and medical providers alike can go online to quickly and conveniently review policy information, renew insurance certificates, secure quotes, report payroll, and more. Those efforts have resulted in more satisfied stakeholders.
- Our Premium Auditing Scheduling System (PASS) offers policyholders greater flexibility to schedule and reschedule audits at convenient dates and times. Creating that connection between policyholder and auditor facilitates the efficient completion of audits, reduces the number of estimated audits, saving time and additional costs.
- NYSIF's mobile certificate app enables policyholders to create insurance certificates directly from their mobile phones. The online system also allows policyholders to transmit certificates and to review account information by policy period.
- Our Instant Quote feature enables employers of domestic workers to receive immediate workers' compensation quotes after completing a simple and brief application process.
- The establishment of the Producers' Advisory Council (PAC) has made it easier for producers to conduct business with NYSIF. Creating liaisons between brokers, clients, and NYSIF has provided an opportunity for us to better understand the impact of our practices on our stakeholders.

Planning for the Future

NYSIF has exciting plans for the year ahead, which include:

- Implementing the 2018 New York Paid Family Leave initiative as a component of our disability policy, offering employees options for balancing work and family.
- Expanding our electronic processing capabilities to provide more self-serve options for customers, including e-bill, e-application, and direct deposit initiatives.

As we look toward the future, we remain steadfast in our commitment to our stakeholders and to the high quality of service we provide to them. We continue to monitor our expenses and streamline our business operations. We view our data as our ultimate compass, a critical tool for improvement that we leverage to enable NYSIF to make smarter decisions. Each day, we count on the efforts of our talented team to bring us closer to the realization of our goals. We look forward to continuing to serve you.

Eric Madoff
Executive Director & CEO

(L.-r.) Chief Investments Officer **Gregory Francis**, Chief Fiscal Officer **Nancy Reuss**, Assistant Deputy Director **Robert Sammons**, Director of Policyholder Services and Business Operations **John Massetti**, Executive Director/CEO **Eric Madoff**, Deputy Executive Director and Chief of Staff **Shirley Stark**, General Attorney **William O'Brien**, Secretary to the Board of Commissioners **Francine James**, Director of Administration **Joseph Mullen**, Director of Strategic Finance **William Gratrix**

2016 Highlights

Overview

For the year ended December 31, 2016, NYSIF insured approximately 158,000 workers' compensation policyholders. NYSIF is the largest workers' compensation insurance carrier in New York State on earned premium of $2.47 billion, and seventh among all workers' compensation insurance carriers in the United States as ranked by the National Association of Insurance Commissioners.

Approximately 60,000 employers held NYSIF disability benefits insurance policies, for earned premium of $18.7 million.

NYSIF's safety group program distributed $214 million in dividends to workers' compensation policyholders, for an average dividend of approximately 23%. Under the program, workers' compensation policyholders in the same industry who pool their premiums can earn a group dividend for a strong safety performance. The program has declared uninterrupted dividends since 1923.

Disability benefits policyholders earned a combined $3,404,543 in premium credits through NYSIF's Return of Premium and Premium Adjustment programs.

Investments

As of December 31, 2016, the Workers' Compensation Fund and the Disability Benefits Fund had a total of $16.4 billion in assets under management. Nearly 70% of NYSIF's externally managed assets were managed by Minority-and Women-Owned Business Enterprises (MWBE). Approximately 100 MWBE asset managers and brokers attended NYSIF's Sixth Annual MWBE Investment Symposium, designed to expand opportunities to diverse financial firms.

Responding to the Needs of Our Stakeholders

In 2016, in alignment with our strategic plan, NYSIF was able to make strides in key areas, including customer service, process improvement, financial discipline, and strategic use of data and metrics.

Customer Service

Last year, NYSIF introduced our redesigned website, which provided a wide range of self-serve options for our stakeholders. Since the launch of the site at the end of 2016, we are encouraging our clients to take advantage of the intuitive online processing and 24/7 access that the redesigned site offers.

As a result of scheduling improvements to our Premium Audit Scheduling System, we saw a significant reduction in the number of estimated audits. We achieved progress in making our audit process more efficient and less challenging for our policyholders.

The establishment of our Producers Advisory Council has enabled NYSIF to better understand the perspective of our stakeholders. Their valuable feedback has resulted in several system enhancements, including online access to prefilled audit exit interview forms, authorized multiple-user accounts for brokers and their staff, and enhanced online account security protocols.

Improvements to the eCertificate system resulted in a fully electronic process, allowing for the convenient online creation and issuance of insurance certificates, to which our customers have 24/7 access. Our development of a mobile certificate app for policyholders has enabled them to create, review and transmit insurance certificates directly from their mobile phones.

In order to effectively communicate process improvements and updates, we increased customer outreach, conducting more in-person and web-based presentations for our stakeholders. By doing so, we opened the lines of communication between auditors, underwriters, policyholders and representatives.

Streamlining Business Processes to Optimize Resources and Facilitate Transactions

Process Improvement

In 2016, NYSIF examined ways to make conducting business with us simpler and easier.

We completed a record number of business processing efficiency projects to improve operations, earning two distinctions. NYSIF was named the top LEAN agency in New York State, and our LEAN deployment manager was named LEAN Deployment Manager of the Year.

We introduced secure electronic signature processing to execute forms and applications more rapidly, thereby reducing processing time. Automating specific aspects of payroll processing allowed underwriters to focus on other demands. In addition, enabling policyholders to use eSignature for payroll reporting decreased estimated audits and saved paper and postage costs.

We extended direct deposit options to disability benefit claimants and medical providers to ensure worry-free delivery of payments and to

reduce processing costs associated with checks. For workers' compensation claimants, for whom direct deposit was already an option, we enhanced the enrollment process by making it paperless. In addition to increasing payments made via direct deposit, we implemented an information retrieval feature on our website, allowing claimants to determine payment status. Accessed by over 17,000 users per week, this online feature has increased self-service options for claimants and has enabled us to reallocate more case manager resources.

Cost-Saving Measures

Among other cost-saving measures, NYSIF has initiated straight-through processing in underwriting some segments of our business. We also enabled online payroll reporting capability for our policyholders, saving costs, reducing time, and decreasing the likelihood of errors.

For added convenience and to decrease the cost of mailing multi-page policies, we made secure, electronic versions of these documents available to our safety group managers and brokers with NYSIF online accounts. Our objective is to make any updates to policies—changes to individual pages or other revisions—accessible online to policyholders as well in the near future.

Our medical bill review of 1,101,311 invoices resulted in a 12.5% reduction in medical claim costs for a net savings of $35,703,187. The decrease was achieved through internal repricing in line with the New York State Workers' Compensation Medical Fee Schedule, and discounts applied by our medical provider network.

Using Data to Improve Service and Performance

Data and Metrics

We have been able to use our data to guide our approach and to make smarter decisions.

In 2016, NYSIF placed greater emphasis on data and performance metrics to ensure our ability to achieve defined business objectives. We focused on the importance of data and on our efforts to maximize its potential. In addition to using data to guide our decisions, we employed methods for safeguarding our data. We will continue to launch new data loss prevention initiatives to secure and protect our data assets.

Overall, 2016 offered us new avenues for growth and unique ways of remaining a competitive force in an ever-changing marketplace. At NYSIF, we are continuously improving our customer service, expanding our offerings, increasing efficiency, and using our data to your best advantage. We thank you for sharing this journey with us.

INDEPENDENT AUDITORS' REPORT

New York State Insurance Fund Workers' Compensation Fund

To the Board of Commissioners of
The State Insurance Fund Workers' Compensation Fund
New York, New York

EISNERAMPER
ACCOUNTANTS & ADVISORS

Report on the Statutory Basis Financial Statements

We have audited the accompanying statutory basis financial statements of the State Insurance Fund Workers' Compensation Fund (a New York state disbursing agency), which comprise the statutory basis statements of admitted assets, liabilities and surplus as of December 31, 2016 and 2015, and the related statutory basis statements of income, surplus, and cash flows for the years then ended, and the related notes to the statutory basis financial statements.

Management's Responsibility for the Statutory Basis Financial Statements

Management is responsible for the preparation and fair presentation of these statutory basis financial statements in accordance with the financial reporting provisions of New York State Department of Financial Services. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of statutory basis 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 statutory basis 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 audits to obtain reasonable assurance about whether the statutory basis financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory basis financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory basis 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 statutory basis 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 statutory basis financial statements.

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

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2A, the statutory basis financial statements are prepared by the State Insurance Fund Workers' Compensation Fund on the basis of the financial reporting provisions of New York State Department of Financial Services, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of New York State Department of Financial Services. The effects on the statutory basis financial statements of the variances between the regulatory basis of accounting described in Note 2A and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the statutory basis financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the State Insurance Fund Workers' Compensation Fund as of December 31, 2016 and 2015, or the results of its operations or its cash flows for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the statutory basis financial statements referred to in the first paragraph present fairly, in all material respects, the admitted assets, liabilities, and surplus of the State Insurance Fund Workers' Compensation Fund as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended, on the basis of financial reporting provisions of New York State Department of Financial Services as described in Note 2A.

Emphasis of Matter

As described in Note 2A, the State Insurance Fund Workers' Compensation Fund has significant prescribed accounting practices that are mandated by New York State Workers' Compensation Law in accordance with the financial reporting provisions of the New York State Department of Financial Services.

As described in Note 14, there is insufficient data for the development of the reserve for loss and loss adjustment expenses due to recent changes in the provision of the Workers' Compensation Reform.

Our opinion is not modified with respect to these matters.

Other Matter

As described in Note 2J, the State Insurance Fund Workers' Compensation Fund reported an estimate of its proportionate share of other post-employment benefits liability, principally employer funded health care and death benefits, based on amounts provided by the State of New York.

Our opinion is not modified with respect to this matter.

EisnerAmper LLP

New York, New York
May 31, 2017

NEW YORK STATE INSURANCE FUND
WORKERS' COMPENSATION FUND

Statutory Basis Statements of Admitted Assets, Liabilities and Surplus
As of December 31, 2016 and 2015 (in thousands)

	2016	2015
Admitted assets		
Cash and invested assets		
Bonds—at NAIC carrying value	$ 13,951,451	$ 12,750,263
Preferred stocks	6,795	8,921
Common stocks	1,679,915	1,477,080
Real estate	17,460	16,169
Cash, cash equivalents and short-term investments	245,701	466,500
Receivables for securities	1,830	-
Security lending reinvested collateral assets	90,366	174,143
Total cash and invested assets	15,993,518	14,893,076
Premiums receivables	180,420	197,630
Reinsurance recoverable	150	186
Accrued investment income	92,674	85,882
Advance Workers' Compensation Board assessments	72,805	51,826
Due from affiliates	9,594	46,846
Other admitted assets	13,152	9,098
Contingent receivable from New York State	1,295,000	1,295,000
Total admitted assets	$ 17,657,313	$ 16,579,544
Liabilities and surplus		
Liabilities		
Reserve for losses	$ 9,093,942	$ 8,952,965
Reserve for loss adjustment expenses	910,205	943,137
Unearned premiums	450,826	475,440
Contingent policyholder dividends	1,570,057	1,472,454
Payables for securities lending	91,931	182,087
Accrued expenses and other liabilities	658,537	191,857
Due to affiliates	384,399	384,399
Total liabilities	13,159,897	12,602,339
Surplus		
Security fluctuation surplus	1,050,000	400,000
Catastrophe surplus	399,561	189,998
Foreign terrorism catastrophe surplus	512,493	461,493
Domestic terrorism catastrophe surplus	97,946	88,509
Unassigned surplus	2,437,416	2,837,205
Total surplus	4,497,416	3,977,205
Total liabilities and surplus	$ 17,657,313	$ 16,579,544

See accompanying notes to statutory basis financial statements.

NEW YORK STATE INSURANCE FUND
WORKERS' COMPENSATION FUND

Statutory Basis Statements of Income
for the Years Ended December 31, 2016 and 2015 (in thousands)

	2016	2015
Underwriting income		
Net written premium	$ 2,437,552	$ 2,437,325
Net earned premium	$ 2,479,933	$ 2,486,751
Underwriting expenses		
Losses incurred	1,456,920	1,786,046
Loss adjustment expenses incurred	202,695	185,843
Other underwriting expenses (income) incurred	251,222	195,840
Total underwriting expenses	1,910,837	2,167,729
Net underwriting profit	569,096	319,022
Investment income earned		
Investment income	483,330	450,017
Investment expenses	(30,567)	(25,181)
Net realized investment gains	193,101	190,723
Net investment income earned	645,864	615,559
Other income (expenses)		
Bad debt expense	(111,352)	(73,413)
Finance and service charges	12,983	12,447
Miscellaneous income	6,691	3,942
Dividend expense to policyholders	(312,303)	(358,468)
Total other expenses	(403,981)	(415,492)
Net income	$ 810,979	$ 519,089

See accompanying notes to statutory basis financial statements.

NEW YORK STATE INSURANCE FUND
WORKERS' COMPENSATION FUND

Statutory Basis Statements of Surplus
for the Years Ended December 31, 2016 and 2015 (in thousands)

	Security Fluctuation Surplus	Catastrophe Surplus	Foreign Terrorism Catastrophe Surplus	Domestic Terrorism Catastrophe Surplus	Unassigned Surplus	Total Surplus
Balance—December 31, 2014	$ 400,000	$ 208,155	$ 413,147	$ 78,698	$ 2,614,515	$ 3,714,515
Net income	-	-	-	-	519,089	519,089
Net unrealized capital gains - investments	-	-	-	-	(193,339)	(193,339)
Increase in nonadmitted assets	-	-	-	-	(63,060)	(63,060)
Appropriation of unassigned to (from) assigned surplus	-	(18,157)	48,346	9,811	(40,000)	-
Balance—January 1, 2016 as reported	400,000	189,998	461,493	88,509	2,837,205	3,977,205
Change in accounting principle:						
NYS Pension and OPEB adjustment	-	-	-	-	(353,207)	(353,207)
Balance—Janauary 1, 2016 as restated	400,000	189,998	461,493	88,509	2,483,998	3,623,998
Net income	-	-	-	-	810,979	810,979
Net unrealized capital gain - investments	-	-	-	-	65,555	65,555
Increase in nonadmitted assets	-	-	-	-	(3,116)	(3,116)
Appropriation of unassigned to (from) assigned surplus	650,000	209,563	51,000	9,437	(920,000)	-
Balance—December 31, 2016	$ 1,050,000	$ 399,561	$ 512,493	$ 97,946	$ 2,437,416	$ 4,497,416

See accompanying notes to statutory basis financial statements.

NEW YORK STATE INSURANCE FUND
WORKERS' COMPENSATION FUND

Statutory Basis Statements of Cash Flows
for the Years Ended December 31, 2016 and 2015 (in thousands)

	2016	2015
Cash flows from operations		
Premiums collected, net of reinsurance	$ 2,476,701	$ 2,433,976
Net investment income	431,288	381,417
Miscellaneous expense	(93,570)	(58,135)
Losses and loss adjustment expenses paid, net of salvage and subrogation	(1,315,906)	(1,276,620)
Expenses paid	(398,346)	(345,929)
Dividends paid to policyholders	(214,700)	(175,910)
Net cash provided by operations	885,467	958,799
Cash flows from investments		
Proceeds from investments sold, matured or repaid	4,472,117	3,596,099
Cost of investments acquired	(5,577,210)	(4,876,113)
Net gain on cash, cash equivalents and short-term investments	-	287
Other proceeds	84,116	-
Net cash used in investments	(1,020,977)	(1,279,727)
Cash flows from other sources		
Other cash used	(85,289)	(22,902)
Net cash used in other sources	(85,289)	(22,902)
Net change in cash and short-term investments	(220,799)	(343,830)
Cash and short-term investments Beginning of year	466,500	810,330
Cash and short-term investments End of year	$ 245,701	$ 466,500

See accompanying notes to statutory basis financial statements.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2016 and 2015 (in thousands)

1 - ORGANIZATION AND PURPOSE

The State Insurance Fund (the "Fund"), which includes the operations of the Workers' Compensation Fund and Disability Benefits Fund, is a nonprofit agency of the State of New York (the "State"). By statute, the Fund maintains separate records for the Workers' Compensation Fund and Disability Benefits Fund.

The Workers' Compensation Fund was established by law in 1914 to provide workers' compensation insurance for employers in the State of New York. In Methodist Hospital of Brooklyn v. State Insurance Fund (1985), The New York State Court of Appeals held the Fund is “a State agency for all of whose liabilities the State is responsible…”

Workers' compensation insurance covers job-related disabilities and includes the cost of medical treatment.

The Workers' Compensation Fund also administers the Workers' Compensation Program for the State, which self-insures.

The Workers' Compensation Fund has exposure to catastrophes, which are an inherent risk of the property casualty insurance business, that have contributed, and may contribute, to material year-to-year fluctuations in the Workers' Compensation Fund's results of operations and financial position.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation:

The accompanying statutory basis financial statements of the Workers' Compensation Fund, a nonprofit agency of the State, are presented in conformity with accounting practices prescribed by the New York State Department of Financial Services (DFS). The DFS recognizes only New York Statutory Accounting Practices (NY SAP) for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under New York State Insurance Law. The National Association of Insurance Commissioners' (NAIC) Accounting Practices and Procedures Manual (NAIC SAP), effective January 1, 2001 and subsequent revisions, have been adopted as a component of NY SAP. The State of New York has adopted certain prescribed accounting practices that differ from those found in NAIC SAP. Specifically, Electronic Data Processing (EDP) and related equipment, constituting a data processing, record keeping or accounting system with a cost of $50 and greater shall be depreciated over a period not to exceed 10 years under NY SAP. In addition, the Superintendent of the DFS has the right to permit other specific practices that may deviate from prescribed practices. The Workers' Compensation Fund, as prescribed by the DFS or as mandated by New York State Workers' Compensation Law, discounts all loss and loss adjustment expense reserves at 5%, is not required to calculate Risk Based Capital calculations and records the contingent receivable from the State as an admitted asset.

The Workers' Compensation Fund discounts all reserves, including pension and non-pension reserves, for loss and loss adjustment expenses at 5%. If no discounting were used, the statutory surplus would decrease by $6,964,542 and $6,973,361 as of December 31, 2016 and 2015, respectively. If the contingent receivable from the State were not prescribed as an admitted asset, total statutory surplus would be decreased by $1,295,000 as of December 31, 2016 and 2015, respectively.

The cumulative effect of prescribed practices by the DFS or as mandated by New York State Workers' Compensation Law on the Workers' Compensation Fund's total surplus and net income for the years ended December 31, 2016 and 2015 is as follows:

	2016	2015
Surplus		
Total surplus as shown on statutory statements - NY SAP	$ 4,497,416	$ 3,977,205
Discounting loss and loss adjustment expense reserves at 5% *	(6,964,542)	(6,973,361)
Contingent receivable from State of New York	(1,295,000)	(1,295,000)
Total cumulative effect	(8,259,542)	(8,268,361)
Total adjusted surplus to deficit - NAIC SAP	$ (3,762,126)	$ (4,291,156)
Net Income		
Total net income as shown on statutory statements - NY SAP	$ 810,979	$ 519,089
Discounting loss and loss adjustment expense reserves at 5% *	8,819	(641,048)
Total cumulative effect	8,819	(641,048)
Total net income adjusted to net loss - NAIC SAP	$ 819,798	$ (121,959)

* Under NAIC SAP, certain case reserves, pension case reserves (tabular reserves), would be discounted at an appropriate interest rate. The amount of tabular discount at 3.5% as of December 31, 2016 and 2015, respectively, would be $2,607,088 and $2,816,141.

The accounting practices and procedures of NY SAP comprise a comprehensive basis of accounting other than generally accepted accounting principles in the United States (U.S. GAAP). The more significant variances between NY SAP and U.S. GAAP, which are applicable to the Workers' Compensation Fund, are set forth below:

a. Bonds are generally carried at amortized cost. Under U.S. GAAP, such securities are classified into "held to maturity" and reported at amortized cost, or "trading" and reported at fair value with unrealized gains and losses included in earnings, or "available for sale" and reported at fair value with unrealized gains and losses reported as a separate component of surplus.

All single class and multi-class mortgage-backed/asset-backed securities are adjusted for the effects of changes in prepayment assumptions on the related accretion of discount or amortization of premium of such securities using either the retrospective or prospective methods. If it is determined that a decline in fair value is other-than-temporary, the cost basis of the security is written down to the discounted estimated future cash flows. Under U.S. GAAP, all securities, purchased or retained, that represent beneficial interests in securitized assets (e.g., collateralized mortgage obligations or asset-backed securities), other than high-credit quality securities, are adjusted using the prospective method when there is a change in estimated future cash flows. If it is determined that a decline in fair value is other-than-temporary, the cost basis of the security is written down to the discounted fair value.

b. Common stocks are reported at fair value, as determined by the NAIC's Securities Valuation Office (SVO) and other independent pricing sources and the related net unrealized capital gains and losses are reported in unassigned surplus. Under U.S. GAAP, common stocks are classified as either "trading" and reported at fair value with unrealized gains and losses included in earnings, or "available for sale" and reported at fair value with unrealized gains and losses reported as a separate component of surplus.

c. Cash and short-term investments in the statement of cash flows represent cash balances and investments with initial maturities of one year or less. Under U.S. GAAP, the corresponding caption of cash and cash equivalents includes cash balances and investments with initial maturities of three months or less.

d. Policy acquisition costs (principally underwriting and marketing related costs) are expensed as incurred, whereas under U.S. GAAP these costs are capitalized and amortized to income on the same basis as premium income is recognized.

e. The Workers' Compensation Fund records written premiums when billed to policyholders and earns the related income over the life of the policy. Under U.S. GAAP, premiums would be recognized as written premium on the effective date of the policy and earned over the life of the policy.

f. Certain assets designated as non-admitted assets (principally premiums in the course of collection outstanding over 90 days, 10% of earned but unbilled premium and office furniture and equipment) are charged directly against surplus. Under U.S. GAAP, such non-admitted assets would be included in total assets, less valuation allowances.

g. EDP and related equipment with a cost of $2 and greater are depreciated over an estimated useful life up to 3 years. Under U.S. GAAP, all EDP and related equipment would be recorded as assets, less accumulated depreciation over its useful lives.

h. The Workers' Compensation Fund's contingent receivable (Note 6) of $1,295,000 from the State does not have a due date. This contingent receivable is carried at the amount transferred to the State without consideration for collectability or imputed interest. Under U.S. GAAP, such an amount would be included on the balance sheet at the amount transferred to the State, net of an applicable allowance.

i. The reserves for losses and loss adjustment expenses are discounted to their present value using an annual effective interest rate of 5% during 2016 and 2015. Under U.S. GAAP, the interest rate would be based on market rates and earnings expectations.

j. A reserve for security fluctuations has been established for the difference between the amortized cost of securities and their fair value. Such a reserve is established for future contingencies, rather than allocated to specific investments. In addition, a reasonable portion of unassigned surplus has been established as a reserve for catastrophes.

The DFS allows the appropriation of unassigned surplus for these purposes. Under U.S. GAAP, no such reserves are established.

k. For real estate owned and occupied by the Workers' Compensation Fund, rental income and corresponding rental expense is recorded. Under U.S. GAAP, no such income or expense is recorded.

l. The balance sheet under NAIC SAP is reported net of reinsurance, while under U.S. GAAP, the balance sheet reports reinsurance recoverables, including amounts related to ceded losses incurred but not reported and prepaid reinsurance premiums, as an asset.

m. Comprehensive income and its components are not presented in the statutory basis financial statements.

n. The net amount of all cash accounts is reported jointly. Cash accounts with positive balances are not reported separately from cash accounts with negative balances. If in the aggregate, the reporting entity has a net negative cash balance, it is reported as a negative asset. Under U.S. GAAP, positive cash balances are reported as assets while net negative cash balances are reported as liabilities.

o. The statutory basis financial statements do not include certain disclosures about and/or the consolidation of certain variable interest entities as required by U.S. GAAP under Financial Accounting Standards Board Interpretation ASC Topic 810, Consolidation of Variable Interest Entities.

p. The aggregate effect of the foregoing variances on the accompanying statutory basis financial statements has not been determined, however, it is presumed to be material.

B. Investments:

Investments are generally valued in accordance with the valuation procedures of the NAIC.

Bonds are valued in accordance with the requirements of the NAIC's SVO. Bonds are principally carried at amortized cost. Discount or premium on bonds is amortized using the scientific method, which is a variation of the effective interest method. Short-term investments consist of bonds purchased within a year of the maturity date, which are stated at amortized cost. Market value is based on market prices obtained from the SVO, and SS&C Technologies, Inc. primarily.

For mortgage-backed fixed maturity securities, the Workers' Compensation Fund recognizes income using constant effective yield based on anticipated prepayments over the economic life of the security. Mortgage-backed securities are accounted for under the retrospective method and prepayment assumptions are based on market conditions. When actual payments differ significantly from anticipated prepayments, the effective yield is recalculated to reflect actual payments to date and anticipated future payments and any resulting adjustment are included in net investment income.

Common stocks are carried at fair value, which is obtained from the SVO and other pricing sources. Unrealized gain or loss for common stocks is the change in fair value from the prior year-end. Unrealized gains and losses resulting from fair value fluctuations are reflected as a separate component of unassigned surplus. Realized gains and losses are calculated based on the difference between cost and the consideration received at the time of sale and are included in the statutory basis statements of income.

Preferred stocks are stated at cost, lower of cost or amortized cost or NAIC fair values depending on the assigned credit rating and the underlying characteristics of the security. The fair values for preferred stocks are based on quoted market prices where available. Perpetual preferred stocks are valued at estimated market value. Unrealized gain or loss for preferred stocks is presented in the unassigned surplus in the statutory basis statements of surplus. Unrealized gain or loss includes the change in fair value from the prior year-end for those preferred stocks carried at fair value; the difference between the current year amortized cost and current year fair value for redeemable preferred stocks that were carried at amortized cost in the prior year and fair value in the current year; and the reversal of previous cumulative unrealized losses for redeemable preferred stocks that were carried at fair value in the prior year and at amortized cost in the current year.

Receivable and payable for securities represent sales and purchases of securities that are unsettled at year-end.

Realized gains and losses on the sale of investments are calculated based on the difference between the carrying value and the consideration received at the time of sale and are included in the statutory basis statements of income.

Investment income earned consists primarily of interest and dividends. Interest is recognized on an accrual basis and dividends are recorded as earned at the ex-dividend date. Interest income on mortgage-backed and asset-backed securities is determined on the effective yield method based on estimated principal repayments. Accrual of income is suspended for bonds and mortgage loans that are in default or when the receipt of interest payments is in doubt. Realized capital gains and losses are determined using the first-in, first-out, method.

An investment in a debt or equity security is impaired if its fair value falls below book value and the decline is considered other than temporary. Factors considered in determining whether a loss is other than temporary include the length of time and extent to which fair value has been below cost; the financial condition and near term prospects of the issuer; and the Workers' Compensation Fund's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. A debt security is impaired if it is probable that the Workers' Compensation Fund will not be able to collect all the amounts due under the security contractual terms. Equity investments are impaired when it becomes apparent that the Workers' Compensation Fund will not recover its cost over the expected holding period. Other-than-temporary declines in fair value of investments are included in realized losses. The amount recorded through the statutory basis statements of income in 2016 and 2015 for realized losses related to Workers' Compensation Fund for impairment losses was $26,334 and $51,407, respectively.

C. Real Estate:

The Workers' Compensation Fund records buildings at cost less accumulated depreciation calculated over estimated useful life of 25 years, using the straight-line method. All property owned by the Workers' Compensation Fund is used substantially for its own operations. In accordance with statutory accounting practices, the Workers' Compensation Fund records both rental income and rental expense representing the imputed rent for office space occupied in buildings owned by the Workers' Compensation Fund. The amount of rental income and expense recorded in the statutory basis statements of income in 2016 and 2015 was $9,809 and $9,085, respectively.

Maintenance and repairs are charged to expense as incurred.

D. Premiums Revenue and Related Accounts:

The Workers' Compensation Fund records written premiums when billed to policyholders and earns the related income over the life of the policy.

The Workers' Compensation Fund records premium receivable as an admitted asset if the following three conditions are met: (1) a bill for the premium amount is no more than 90 days past due, (2) the bill date is within six months after the expiration of the policy year, and (3) no other bill for the same policy is considered non-admitted.

At December 31, 2016 and 2015, the outstanding premium receivable net admitted balance recorded in the statutory basis statements of admitted assets, liabilities and surplus for the Workers' Compensation Fund was $180,420 and $197,630. To reduce credit risk, the Workers'

Compensation Fund performs ongoing evaluations of its customers' financial condition, but does not generally require collateral. The Workers' Compensation Fund routinely assesses the collectability of these receivables. Based upon Workers' Compensation Fund experience, less than 5% of net written premium may become uncollectable and the potential loss is not material to the Workers' Compensation Fund's financial condition. The Workers' Compensation Fund performs an analysis of uncollectable premiums receivable and realized write offs of $111,352 and $73,413, for the years ended December 31, 2016 and 2015, respectively, as bad debt expense in the statutory basis statements of income. For the Workers' Compensation Fund, unearned premiums represent the pro-rata portion of premiums and endorsements billed that are applicable to the unexpired terms of policies in force at the end of the year.

The estimate for earned but unbilled premium (EBUB) is recognized through the statutory basis statements of income as an adjustment to premium earned. EBUB premium represents in-force and auditable policies on which premium has been earned but not yet been billed to the insured. Ten percent of EBUB, in excess of collateral specifically held as identifiable on a policy basis, is non-admitted.

E. Expenses of Workers' Compensation Board (WCB):

Prior to January 1, 2014, WCB assessments charged by the Fund to policyholders were a component of written premium. The amounts the Fund paid to the WCB were recorded as losses incurred and other underwriting expenses on the income statements.

During calendar year 2013, legislation was written that, beginning January 1, 2014, changed the Workers' Compensation Board (WCB) assessments charged to policyholders from being a component of premium to an employer surcharge. This change in classification requires the Workers' Compensation Fund to bill and collect assessments from policyholders on behalf of the WCB. The Workers' Compensation Fund is required to remit to the WCB on a quarterly prospective basis, the estimated annual assessments for all policies written in the prior quarter as well as assessment adjustments to policies previously reported. Accordingly, beginning January 1, 2014, the amounts charged to policyholders for WCB assessments as well as the amounts paid to the WCB are no longer components of net income. The amounts paid on behalf of policyholders by the Fund to the WCB in excess of the amounts collected from policyholders, or the amounts collected by the Fund in excess of the amounts paid to the WCB on behalf of policyholders are carried on the balance sheet as an asset or liability, respectively.

The Fund carried a liability of $4,529 and $10,330 related to assessment payments to the Workers' Compensation Board as of December 31, 2016 and 2015.

The amount of assessments due from policyholders billed as of December 31, 2016 and 2015 was $77,334 and $62,156, respectively, and recorded through the statutory basis statements of admitted assets, liabilities and surplus.

Assessments billed for the years ended December 31, 2016 and 2015 were $313,618 and $326,586, respectively, and the estimated payments made to the Workers' Compensation Board were $319,419 and $310,425, respectively. These assessments billed and estimated payments to the Workers' Compensation Board were recorded as a reduction in premium written in the statutory basis statements of income.

The Workers' Compensation Fund granted $13,974 and $52,295 in additional discounts to policyholders during 2016 and 2015, respectively, to help subsidize the cost during the transition of charging assessments directly to the policyholders, which is recorded as a reduction in premium written in the statutory basis statements of income.

F. Reserves for Losses and Loss Adjustment Expenses:

The reserves for losses and loss adjustment expenses (LAE) for the Workers' Compensation Fund are based on individual case estimates and formula reserves. Additional reserves are provided for losses incurred but not reported (IBNR) based on past experience, modified for current trends.

The reserves for losses and loss adjustment expenses of the Workers' Compensation Fund are discounted to present value using an annual effective rate of interest of 5%. The liability for losses and loss adjustment expenses of the Workers' Compensation Fund has been reduced by $6,964,542 and $6,973,361 as of December 31, 2016 and 2015, respectively, as a result of the 5% discounting. This accounting practice is mandated by Section 86 of the New York State Workers' Compensation Law.

Loss and loss adjustment expense reserves are significant in relation to surplus and a change in the timing of future payments could have a material impact on surplus. A change of 1% of discount reserves would decrease surplus by 2%. Uncertainty also exists related to the impact of the Workers' Compensation Reform as described in Note 14.

The Workers' Compensation Fund's reserves for losses and loss adjustment expenses are estimated by using recognized actuarial techniques. The methods for making such estimates and for establishing the resulting liability is continually reviewed and any adjustments are reflected in the period determined. An independent actuarial consulting firm reviews the estimated liability. The Workers' Compensation Fund's management believes that the assumptions used in determining this liability are reasonable and that the amount recorded represents its best estimate of the ultimate cost of investigating, defending and settling claims.

However, the Workers' Compensation Fund's actual future experience may not conform to the assumptions inherent in the determination of the liability. Accordingly, the ultimate settlement value may vary significantly from the amounts included in the statutory basis financial statements and the difference may be material.

G. Security Fluctuation, Catastrophic, Foreign Terrorism and Domestic Terrorism Surplus:

As described above, the Board may designate a portion of unassigned surplus for security fluctuation and catastrophes as specifically prescribed by the DFS. Security fluctuation surplus increased to $1,050,000 from $400,000 as of December 31, 2016 and 2015.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2016 and 2015 (in thousands)

The review of the catastrophe surplus in conjunction with a risk assessment of the Workers' Compensation Fund's exposures resulted in the Board increasing the catastrophe surplus by $209,563 to $399,561 and decreasing the catastrophe surplus by $18,157 to $189,998 as of December 31, 2016 and 2015, respectively.

The Workers' Compensation Fund has exposure to significant losses from terrorism. The Terrorism Risk Insurance Act of 2002, (TRIA) was enacted into Federal law and established a temporary Federal program through the Department of the Treasury providing a system of shared public and private compensation for insured losses resulting from foreign terrorism.

In order for a loss to be covered under TRIA, the loss must result from an event that is certified as an act of terrorism by the U.S. Secretary of the Treasury. If Congress has declared war, then only workers' compensation losses would be covered by TRIA. The Terrorism Insurance Program (Terrorism Program) generally requires that all property casualty insurers licensed in the United States participate in the Terrorism Program. The Terrorism Program became effective upon enactment and in December 2005 was extended through December 31, 2007. In December 2007, the President signed into law the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA), extending TRIA for another seven years through December 31, 2014. In January 2015, the President signed into law an extension, which expires December 31, 2020, with certain changes. TRIPRA adds domestic terrorism to the list of covered acts, triggers a year-long study of a proposal to mandate coverage for nuclear, biological, chemical and radiological attacks and retains the government's share of insured losses for a major attack at $100 billion.

The amount of compensation paid to participating insurers under the Terrorism Program is 85% of certified losses after the insurer's deductible portion, subject to a cap. The deductible portion under the Terrorism Program is 1% for 2002, 7% for 2003, 10% for 2004, 15% for 2005, 17.5% for 2006, and 20% for 2007 through 2014. In each year, the deductible percentage is applied to the insurer's direct earned premium from the calendar year immediately preceding the applicable deductible year. The Terrorism Program also caps the annual losses to $100 billion in aggregate per Terrorism Program year.

Once subject losses have reached the $100 billion aggregate in a Terrorism Program year, there is no additional reimbursement from the U.S. Treasury and an insurer that has met its deductible for the Terrorism Program year is not liable for any losses (or portion thereof) that exceed the $100 billion cap. The Workers' Compensation Fund is responsible for a deductible of $497,350 and $470,710 for December 31, 2016 and 2015, respectively. The Workers' Compensation Fund assigned $512,493 and $461,493 of surplus, which represents the estimated premium attributable to the foreign terrorism premium charge at December 31, 2016 and 2015, respectively. Beginning on October 1, 2005, the Workers' Compensation Fund began assigning a portion of premium to domestic terrorism catastrophe surplus, which totaled $97,946 and $88,509 as of December 31, 2016 and 2015, respectively.

H. Contingent Policyholder Dividends:

Section 90 of the New York State Workers' Compensation Law provides in substance that dividends may be paid in the discretion of the Fund to safety groups. The estimated dividend liability recorded by the Workers' Compensation Fund is based on the contingent balances of the safety groups as of the most recent group accounting date and an estimate of the contingent balance for the period since the last group accounting. The contingent balance is calculated by adding premiums billed and applicable investment income less reported losses, expenses and previous dividends. The dividends paid during the year and the change in the contingent balances during the year are reflected in the statutory basis statements of income.

Activity in contingent policyholder dividends is summarized as follows:

	2016	2015
Balance - January 1	$ 1,472,454	$ 1,289,896
Incurred contingent policyholder earnings to latest anniversary date	429,779	301,153
Change in estimated contingent policyholder earnings from latest anniversary date to Dec 31	(117,476)	57,315
Dividends paid to policyholders	(214,700)	(175,910)
Balance - December 31	$ 1,570,057	$ 1,472,454

I. Fringe Benefits:

Based on actual costs billed by various State agencies, the Workers' Compensation Fund incurred $74,648 and $76,651 of fringe benefits and indirect costs in 2016 and 2015, respectively, recorded through other underwriting expenses in the statutory basis statements of income.

All employees of the Workers' Compensation Fund are covered under a retirement plan administered by the New York State Employees Retirement System. For employees hired prior to July 27, 1976, the plan is noncontributory. For employees hired on or after July 27, 1976, but before 2015, the plan is partially contributory in the first 10 years of employment and noncontributory thereafter. For employees hired on and after January 1, 2015, the plan is partially contributory for the entire length of employment.

Prior to January 1, 2016, the Fund recorded defined benefit plan expenses based on amounts actually billed by the various state agencies. During 2016, the Fund was allocated an amount approximating its share of the liability related to the defined benefit plan as determined by the State. As such, the Fund recorded an adjustment to opening surplus (change in accounting principle) as of January 1, 2016 to reflect the opening balance liability of $18,943.

At December 31, 2016, the Fund's allocated portion of its New York State Employees' pension liability was $91,926. The pension liability was measured by the State as of March 31, 2016 with the Fund's portion of the liability based on a ratio of its employees to a ratio of New York State employees. At March 31, 2016, and 2015, the Fund's approximate proportionate share was 0.47%.

J. Post-employment Benefits:

New York State Civil Service Law, Section 163.2, provides for health insurance coverage for retired employees of the Workers' Compensation Fund including their spouses and dependent children. Eligibility is determined by the membership in the New York State and Local Employees' Retirement System, enrollment in the New York State Health Insurance Program at the time of retirement, and the completion of a minimum number of years of service as required by the employees' membership tier in the retirement system.

As an agency of the State of New York, the Fund contributes to the New York State Health Insurance Plan. Prior to January 1, 2016, the Fund paid expense amounts allocated from the Department of Civil Service of the State of New York, which were expensed as paid. During 2016, the Fund was allocated an amount approximating its share of the liability related to Post-Employment Benefits and Compensated Absences as determined by the State. As such, the Fund recorded an adjustment to opening surplus (change in accounting principle) as of January 1, 2016 to reflect the opening balance liability of $334,264.

The Fund reported in its financial statements as of December 31, 2016 and January 1, 2016 a proportionate share of its other post-employment benefits liability (OPEB), principally employer funded health care and death benefits of $381,781 and $334,264, respectively. The OPEB liability was estimated based on amounts provided by the State of New York measured as of March 31, 2016.

The Fund has an accrued liability for employee' compensation for future absences in the amount of $17,826 and $18,349 as of December 31, 2016 and 2015, respectively.

K. Income Tax:

The Workers' Compensation Fund is exempt from federal income taxes. However, the Workers' Compensation Fund is subject to a New York State franchise tax. The Workers' Compensation Fund's franchise tax is calculated using a written premium-based method and is a component of other underwriting expenses. The New York State franchise tax expense was $44,416 and $45,184 in 2016 and 2015, respectively, and recorded through the statutory basis statements of income.

As the Workers' Compensation Fund maintains an office and does business in the metropolitan New York area, it is also subject to the Metropolitan Transit Authority (MTA) surcharge. The MTA surcharge is based on premiums written on businesses in the metropolitan area and wages paid to employees in the metropolitan area and is a component of other underwriting expenses. The MTA surcharge in 2016 and 2015 was $5,871 and $5,830, respectively, and recorded through the statutory basis statements of income.

L. Concentrations of Credit Risk:

Financial instruments that potentially subject the Workers' Compensation Fund to concentrations of credit risk are primarily cash and cash equivalents. Cash equivalents include investments in commercial paper of companies with high credit ratings, investments in money market securities and securities backed by the U.S. Government. Balances maintained in non-interest bearing transaction accounts in the United States are fully insured by the Federal Deposit Insurance Corporation (FDIC) up to $250.

Cash and cash equivalents are held with high credit quality financial institutions in the United States and from time to time may have balances that exceed the amount of insurance provided by the FDIC on such deposits.

M. Risks and Uncertainties:

The Workers' Compensation Fund invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market risk and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term and that changes could materially affect the amounts reported in the statutory basis financial statements.

N. Use of Estimates:

The preparation of these statutory basis financial statements in conformity with statutory accounting principles 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 statutory basis financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant estimates included in these statutory basis financial statements are the liability for loss and loss adjustment expenses and earned but unbilled premiums.

O. Changes in Accounting Principles:

Accounting changes adopted to conform to the provisions of NAIC SAP are reported as changes in accounting principles. The cumulative effect of changes in accounting principles is reported as an adjustment to unassigned funds (surplus) in the period of the change in accounting principle. Generally, the cumulative effect is the difference between the amount of capital and surplus at the beginning of the year and the amount of capital and surplus that would have been reported at that date if the new accounting principles had been applied retroactively for all prior periods.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2016 and 2015 (in thousands)

The Workers' Compensation Fund recorded an adjustment to unassigned funds (surplus) at January 1, 2016 relating to an allocation of liabilities from the state of New York as follows:

Defined Benefit Retirement Fund	$ (18,943)
Post-Employment Benefits	(334,264)
Total Surplus Adjustment	$ (353,207)

3 - INVESTMENTS

Section 87 of the New York State Workers' Compensation Law specifically states the type of securities authorized for investment by the Workers' Compensation Fund. Section 87 further provides that the Commissioner of Taxation and Finance is the sole custodian of the Workers' Compensation Fund. J.P. Morgan Chase serves as the Workers' Compensation Fund's custodian for investments.

Chapter 473 of the Laws of 2000 and Chapter 6 of the Laws of 2007 broadened the Workers' Compensation Fund's investment authority to include certain common and preferred stocks and expanded the range of fixed income issues in which the Workers' Compensation Fund may invest. The amortized cost, gross unrealized gains, gross unrealized losses and estimated market value of investments in bonds and stocks at December 31, 2016 and 2015 are as follows:

	2016			
	Cost or Book Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government and government agency obligations	$ 4,407,110	$ 193,909	$ (40,277)	$ 4,560,742
Foreign government	374,553	3,854	(1,560)	376,847
States, territories, possessions and political subdivisio	367,262	24,040	(5,181)	386,121
Corporate bonds and public utilities	7,809,311	249,035	(121,935)	7,936,411
Mortgaged-backed securities	959,692	9,026	(9,266)	959,452
Hybrid securities	33,523	21,913	-	55,436
Total bonds	13,951,451	501,777	(178,219)	14,275,009
Preferred stocks	6,795	546	(56)	7,285
Common stock	1,405,661	294,735	(20,481)	1,679,915
Total stocks	1,412,456	295,281	(20,537)	1,687,200
Total investments	$ 15,363,907	$ 797,058	$ (198,756)	$ 15,962,209

	2015			
	Cost or Book Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government and government agency obligations	$ 6,046,391	$ 209,846	$ (44,138)	$ 6,212,099
Foreign government	459,256	4,936	(2,154)	462,038
States, territories, possessions and political subdivisio	354,858	27,825	(1,023)	381,660
Corporate bonds and public utilities	5,396,284	233,877	(71,966)	5,558,195
Mortgage-backed securities	422,372	7,255	(3,986)	425,641
Hybrid securities	71,102	32,784	-	103,886
Total bonds	12,750,263	516,523	(123,267)	13,143,519
Preferred stocks	8,921	258	-	9,179
Common stocks	1,269,063	236,918	(28,901)	1,477,080
Total stocks	1,277,984	237,176	(28,901)	1,486,259
Total investments	$ 14,028,247	$ 753,699	$ (152,168)	$ 14,629,778

The amortized cost and market value of bonds at December 31, 2016, by contractual maturity are shown on the next page. Actual maturities may differ from contractual maturities because certain issuers may have the right to call or prepay obligations with or without penalties.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2016 and 2015 (in thousands)

Mortgage-backed securities and collateralized mortgage obligations are distributed to maturity year-based on an estimate of the rate of future prepayments of principal over the remaining lives of the securities. Prepayment assumptions are based on market expectations. Actual prepayment experience may vary from these estimates.

	Amortized Cost	Market Value
Due in one year or less	$ 744,819	$ 748,503
Due after one year through five years	3,891,824	3,935,654
Due after five years through ten years	2,128,468	2,165,957
Due after ten years	7,186,340	7,424,895
Total bonds	$ 13,951,451	$ 14,275,009

The Workers' Compensation Fund participates in securities lending programs whereby certain securities from the Workers' Compensation Fund's portfolio are loaned to other institutions for short periods of time. Under the terms of the lending agreements, the Workers' Compensation Fund receives a fee from the borrower and requires collateral with a market value of at least 102% of the market value of securities loaned. The Workers' Compensation Fund maintains ownership rights to securities loaned and has the ability to sell securities while they are on loan. The Workers' Compensation Fund has an indemnification agreement with lending agents in the event a borrower becomes insolvent or fails to return securities.

The Workers' Compensation Fund had reinvested collateral assets in the amount of $90,366 and $174,143 as of December 31, 2016 and 2015, respectively. For the years ended December 31, 2016 and 2015, the Workers' Compensation Fund received fees of $660 and $1,012, respectively. The fees for the current year have been included in investment income earned in the statutory basis statements of income.

The amortized cost and market value of the reinvested collateral assets at December 31, 2016 by contractual maturity are shown below:

	Amortized Cost	Fair Value
Open	$ -	$ -
30 days or less	90,105	90,105
31 to 180 days	-	-
181 to 365 days	-	-
1 to 3 years	-	-
Greater than 3 years	261	427
Total collateral received	$ 90,366	$ 90,532

The amortized cost and market value of the reinvested collateral assets at December 31, 2015 by contractual maturity are shown below:

	Amortized Cost	Fair Value
Open	$ 17,935	$ 17,935
30 days or less	151,018	151,018
31 to 180 days	-	-
181 to 365 days	2,469	3,950
1 to 3 years	-	-
Greater than 3 years	2,721	4,210
Total collateral received	$ 174,143	$ 177,113

The Fund has sufficient tradable securities that could be sold and used to pay for the collateral calls that could come due under a worst-case scenario.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2016 and 2015 (in thousands)

The Workers' Compensation Fund has security lending agreements with J.P. Morgan Chase and Key Bank. All bank deposits are entirely insured or collateralized with securities held by J.P. Morgan Chase at December 31, 2016 and 2015, in accordance with Section 105 of the New York State Finance Law.

Net investment income earned consists principally of interest and dividends on investments as follows:

	2016	2015
Bonds	$ 438,256	$ 407,129
Stocks	33,797	31,279
Cash, cash equivalents and short-term investments	740	740
Real estate - home office	9,809	9,085
Securities lending	660	1,012
Other	68	772
Investment income earned	483,330	450,017
Investment expenses	(29,286)	(23,903)
Depreciation on real estate and other invested asset	(1,281)	(1,278)
Net realized investment gain	193,101	190,723
Net investment income	$ 645,864	$ 615,559

Net realized investment gains on investments, determined on the first-in, first-out method in 2016 and 2015, consist of the following:

	2016	2015
Bonds	$ 87,211	$ 41,617
Stocks	104,549	147,565
Real estate	-	287
Securities lending	1,341	1,254
Net realized investment gains	$ 193,101	$ 190,723

For the Workers' Compensation Fund, proceeds from investments sold, matured or repaid during the years ended December 31, 2016 and 2015 were $4,472,117 and $3,596,099, respectively. These sales resulted in gross realized gains of $244,761 and $271,390, and gross realized losses of $25,326 and $29,260 in 2016 and 2015, respectively.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2016 and 2015 (in thousands)

The following table represents the Workers' Compensation Fund's unrealized loss, fair value and amortized cost for bonds and stocks aggregated by investment category and length of time individual securities have been in a continuous unrealized loss position as of December 31, 2016 and 2015, respectively.

2016

	Less than 12 Months			12 Months or More			Total		
	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses
U.S. Government and government agency obligations	$ 1,795,955	$ 1,753,924	$ 42,031	$ 78,402	$ 74,975	$ 3,427	$ 1,874,357	$ 1,828,899	$ 45,458
Foreign Government	184,859	183,299	1,560	-	-	-	184,859	183,299	1,560
Corporate and Public Utilities	3,971,452	3,852,453	118,999	37,085	34,149	2,936	4,008,537	3,886,602	121,935
Hybrid Securities	-	-	-	-	-	-	-	-	-
Mortgage Backed Securities	575,784	566,535	9,249	3,324	3,307	17	579,108	569,842	9,266
Total Fixed Maturities	6,528,050	6,356,211	171,839	118,811	112,431	6,380	6,646,861	6,468,642	178,219
Preferred Stock	-	-	-	3,292	3,236	56	3,292	3,236	56
Common Stock	98,562	88,882	9,680	159,312	148,511	10,801	257,874	237,393	20,481
Total Equity	98,562	88,882	9,680	162,604	151,747	10,857	261,166	240,629	20,537
Total Temporarily Impaired investments	$ 6,626,612	$ 6,445,093	$ 181,519	$ 281,415	$ 264,178	$ 17,237	$ 6,908,027	$ 6,709,271	$ 198,756

2015

	Less than 12 Months			12 Months or More			Total		
	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses
U.S. Government and government agency obligations	$ 2,259,843	$ 2,224,426	$ 35,417	$ 273,889	$ 265,168	$ 8,721	$ 2,533,732	$ 2,489,594	$ 44,138
Foreign Government	164,681	162,527	2,154	-	-	-	164,681	162,527	2,154
States, territories, possessions and political subdivisions	13,620	12,986	634	15,810	15,421	389	29,430	28,407	1,023
Corporate and Public Utilities	2,470,674	2,405,429	65,245	156,578	149,857	6,721	2,627,252	2,555,286	71,966
Hybrid Securities	-	-	-	-	-	-	-	-	-
Mortgage Backed Securities	219,591	216,049	3,542	24,186	23,742	444	243,777	239,791	3,986
Total Fixed Maturities	5,128,409	5,021,417	106,992	470,463	454,188	16,275	5,598,872	5,475,605	123,267
Preferred Stock	-	-	-	-	-	-	-	-	-
Common Stock	548,508	519,657	28,851	989	939	50	549,497	520,596	28,901
Total Equity	548,508	519,657	28,851	989	939	50	549,497	520,596	28,901
Total Temporarily Impaired investments	$ 5,676,917	$ 5,541,074	$ 135,843	$ 471,452	$ 455,127	$ 16,325	$ 6,148,369	$ 5,996,201	$ 152,168

Gross unrealized losses represented 1.4% and 1.1% of cost or amortized cost of total investments for the Workers' Compensation Fund as of December 31, 2016 and 2015, respectively. Fixed maturities represented 89.7% and 81% of the Workers' Compensation Fund's unrealized losses as of December 31, 2016 and 2015, respectively. The group of securities in an unrealized loss position for less than twelve months was comprised of 1,236 and 655 securities for the Workers' Compensation Fund as of December 31, 2016 and 2015, respectively. The group of securities depressed for twelve months or more was comprised of 206 and 32 securities, for the Workers' Compensation Fund as of December 31, 2016 and 2015, respectively.

The fixed income securities in an unrealized loss position are primarily investment grade securities with extended maturity dates, which have been adversely impacted by an increase in interest rates after the purchase date. As part of the Workers' Compensation Fund's ongoing security monitoring process by a committee of investment and accounting professionals, the Workers' Compensation Fund has reviewed its investment portfolio and concluded that there were no additional other-than-temporary impairments as of December 31, 2016 and 2015. Due to the issuers' continued satisfaction of the securities' obligations in accordance with their contractual terms and the expectation that they will continue to do so, management's ability and intent to hold these securities, as well as the evaluation of the fundamentals of the issuer's financial condition and other objective evidence, the Workers' Compensation Fund believes that the securities identified above were temporarily impaired.

The evaluation for other-than-temporary impairments (OTTI) is a quantitative and qualitative process, which is subject to risks and uncertainties in the determination of whether declines in the fair value of investments are other-than-temporary. The risks and uncertainties include changes in general economic conditions, the issuer's financial condition or near term recovery prospects and the effects of changes in interest rates.

Statement of Statutory Accounting Principles No. 43 - Revised Loan-backed and Structured Securities (SSAP No. 43R) requires that OTTI be recognized in earnings for a loan-backed or structured security in an unrealized loss position when it is anticipated that the amortized basis will not be recovered. In such situations, the OTTI recognized in earnings is the entire difference between the security's amortized cost and its fair value either (i) the Workers' Compensation Fund intends to sell the security; or (ii) the Workers' Compensation Fund does not have the intent and ability to retain the security for the time sufficient to recover the amortized cost basis. If neither of these two conditions exists, and the Workers' Compensation Fund has the intent and ability to hold the security but does not expect to recover the entire amortized cost, the difference between the amortized cost basis of the security and the present value of projected future cash flows expected to be collected is recognized as an OTTI in earnings.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2016 and 2015 (in thousands)

The amount included in 2016 and 2015 for realized losses related to the Workers' Compensation Fund for impairment losses related to SSAP No. 43R investments was $0 and $0, respectively, and was recognized on the Fund's intent to sell. There were no additional impairments recorded in 2016 and 2015 on the basis that the present value of future expected cash flows is less than the amortized cost basis of the security as losses were identified on the basis that the Workers' Compensation Fund was unable to retain the security until recovery of amortized cost.

During 2016 and 2015, the Workers' Compensation Fund recorded OTTI, related to bonds, in the amount of $3,400 and $0, in the statutory basis statements of income, respectively. The Workers' Compensation Fund recorded total OTTI of $22,934 and $51,407, related to common stock, as of December 31, 2016 and 2015, respectively, as a component of net realized investment gains through the statutory basis statements of income.

A. Fair Value of Financial Instruments:

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the end of the reporting period.

The Workers' Compensation Fund evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to the total investment portfolio.

The statement value and estimated fair value of financial instruments at December 31, 2016 and 2015 are as follows:

	2016		2015	
	Statement Value	Estimated Fair Value	Statement Value	Estimated Fair Value
Financial assets:				
Bonds	$ 13,951,451	$ 14,275,009	$ 12,750,263	$ 13,143,519
Preferred stocks	6,795	7,285	8,921	9,179
Common stocks	1,679,915	1,679,915	1,477,080	1,477,080
Cash equivalents and short-term investments	87,588	87,588	374,737	374,483
Security lending collateral assets	90,366	90,531	174,143	177,113

The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. The fair value of a liability is the amount at which that liability could be incurred or settled in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

Fair values are based on quoted market prices when available. When market prices are not available, fair value is generally estimated using discounted cash flow analysis, incorporating current market inputs for similar financial instruments with comparable terms and credit quality (matrix pricing). In instances where there is little or no market activity for the same or similar instruments, the Workers' Compensation Fund estimates fair value using methods, models and assumptions that management believes market participants would use to determine a current transaction price. These valuation techniques involve some level of management's estimation and judgment, which becomes significant with increasingly complex instruments or pricing models. Where appropriate, adjustments are included to reflect the risk inherent in a particular methodology, model or input used.

SSAP No. 100 defines fair value, establishes a framework for measuring fair value and establishes disclosure requirements about fair value.

Included in various investment related line items in the statutory basis financial statements are certain financial instruments carried at fair value. Other financial instruments are periodically measured at fair value, such as when impaired, or, for certain bonds and preferred stocks when NAIC designations fall below a 2 and, therefore, are carried at the lower of cost or market.

When available, the Workers' Compensation Fund uses quoted market prices to determine the fair values of aforementioned investment securities. When quoted market prices are not readily available or representative of fair value, pricing determinations are made based on the results of valuation models using observable market data such as recently reported trades, bid and offer information and benchmark securities. Unobservable inputs reflect the Workers' Compensation Fund's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2016 and 2015 (in thousands)

The Workers' Compensation Fund's financial assets and liabilities carried at fair value, as well as where fair value is disclosed, have been classified, for disclosure purposes, based on the SSAP No. 100 hierarchy. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or a liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3).

The levels of the fair value hierarchy are as follows:

Level 1 - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2 - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Workers' Compensation Fund's best estimate of what hypothetical market participants would use to determine a transaction price for the asset and liability at the reporting date.

The following table provides information as of December 31, 2016 about the Workers' Compensation Fund's assets measured at fair value along with a brief description of the valuation technique for each type of asset.

Assets at fair value:	Level 1	Level 2	Level 3	Total
Perpetual preferred stocks	$ 6,714	$ -	$ -	$ 6,714
Common stocks	1,679,893	-	22	1,679,915
Total assets at fair value	$ 1,686,607	$ -	$ 22	$ 1,686,629

The following table provides information as of December 31, 2015 about the Workers' Compensation Fund's assets measured at fair value along with a brief description of the valuation technique for each type of asset.

Assets at fair value:	Level 1	Level 2	Level 3	Total
Perpetual preferred stocks	$ 8,807	$ -	$ -	$ 8,807
Common stocks	1,477,080	-	-	1,477,080
Total assets at fair value	$ 1,485,887	$ -	$ -	$ 1,485,887

Low grade fixed maturity investments where fair value is lower than cost and common stocks are recorded at fair value. Securities classified into Level 1 included primarily corporate bonds and common stocks where there are quoted prices in active markets for identical securities and the source of the pricing. Unadjusted quoted prices for these securities are provided to the Workers' Compensation Fund by independent pricing services. Level 2 securities include corporate bonds and other common stock securities where pricing is based on bid evaluations. Quote prices for these securities are provided to the Workers' Compensation Fund using independent pricing services. There were no changes in valuation techniques during 2016 and 2015.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

The Workers' Compensation Fund evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total net assets available for plan benefits.

The Workers' Compensation Fund's policy is to recognize transfers in and out of Levels 2 and 3 as of the end of the reporting period. There were no significant transfers in or out of Level 2 or 3 during 2016 and 2015. There were no changes in the valuation techniques during 2016 and 2015.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2016 and 2015 (in thousands)

The following table provides information as of December 31, 2016 about the Workers' Compensation Fund's financial instruments disclosed at fair value along with a brief description of the valuation technique for each type of assets.

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3
Bonds	$ 14,219,573	$ 13,917,928	$ -	$ 14,219,573	$ -
Hybrids	55,436	33,523	-	55,436	-
Cash Equivalents and short term investments	87,588	87,588	87,588	-	-
Preferred stocks	7,285	6,795	7,285	-	-
Common stocks	1,679,915	1,679,915	1,679,893	-	22
Security lending collateral assets	90,531	90,366	90,104	427	-
Total	$ 16,140,328	$ 15,816,115	$ 1,864,870	$ 14,275,436	$ 22

The following table provides information as of December 31, 2015 about the Workers' Compensation Fund's financial instruments disclosed at fair value along with a brief description of the valuation technique for each type of assets.

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3
Bonds	$ 13,039,633	$ 12,679,161	$ -	$ 13,039,633	$ -
Hybrids	103,886	71,102	-	103,886	-
Short-term investments	86,137	86,125	-	86,137	-
Cash Equivalents	288,346	288,612	288,346	-	-
Preferred stocks	9,179	8,921	9,179	-	-
Common stocks	1,477,080	1,477,080	1,477,080	-	-
Security lending collateral assets	177,113	174,143	168,953	4,210	3,950
Total	$ 15,181,374	$ 14,785,144	$ 1,943,558	$ 13,233,866	$ 3,950

Securities classified into level 1 included primarily common stocks, preferred stocks and money market mutual funds where there are quoted prices in active markets for identical securities and the source of the pricing. Unadjusted quoted prices for these securities are provided to the Workers' Compensation Fund by independent pricing services. Quoted prices for these securities are provided to the Workers' Compensation Fund using independent pricing services. Level 2 securities include all bonds, mortgage-backed securities including hybrid securities with pricing using bid evaluations or matrix pricing. Matrix pricing takes quoted prices of bonds with similar features and applies analytic methods to determine the fair value of bonds held. Features that are inputs into the analysis include duration, credit quality, tax status and call and sinking fund features. Quoted prices for these securities are provided to the Workers' Compensation Fund by independent pricing services. Securities classified in Level 3 for 2015 represent a structured investment vehicle that is measured based on analysis performed by the Workers' Compensation Fund's investment manager which analyzes the underlying collateral in addition to bid/ask pricing received from brokers to estimate a price. The valuation methodology has been applied consistently.

B. Subprime Mortgage Exposure:

The Workers' Compensation Fund has no direct subprime exposure through investments in subprime mortgage loans.

The Workers' Compensation Fund has indirect subprime exposure in 2 mortgage-backed securities in the reinvested collateral assets in the amount of $999 and $1,037 in 2016 and 2015, respectively.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2016 and 2015 (in thousands)

The Workers' Compensation Fund has no underwriting exposure to subprime mortgage risk through Mortgage Guaranty or Financial Guaranty insurance coverage. None of these securities were deemed to have any issues that would lead management to believe that they were other than temporarily impaired.

C. Wash Sales:

In the course of the Workers' Compensation Fund's management of investment portfolio, securities may be sold at a loss and repurchased within 30 days of the sale date to enhance the Workers' Compensation Fund's yield on its investment portfolio. The Workers' Compensation Fund did not sell any securities at a loss or in a loss position with a NAIC designation from 3 to 6 for the years ended December 31, 2016 and 2015 that were reacquired within 30 days of the sale date.

4 - REAL ESTATE

The investment in real estate includes various locations in New York State occupied by the Workers' Compensation Fund's employees. Depreciation expense recorded in the statutory basis statements of income during 2016 and 2015 was $1,281 and $1,278, respectively.

The Workers' Compensation Fund owned real estate at December 31, 2016 and 2015 as follows:

	2016	2015
Office buildings and improvements, at cost	$ 38,034	$ 35,463
Accumulated depreciation	(25,336)	(24,055)
Office buildings and improvements—net of accumulated depreciation	12,698	11,408
Land	2,735	2,735
Land improvement	2,027	2,026
Total real estate	$ 17,460	$ 16,169

5 - NON-ADMITTED ASSETS

The non-admitted assets of the Workers' Compensation Fund at December 31, 2016 and 2015 were as follows:

	2016	2015
Premium in course of collection outstanding over 90 days	$ 215,297	$ 213,535
EBUB	13,177	11,400
Electronic data equipment/software	2,746	3,283
Furniture and equipment, net of accumulated depreciation	2,993	2,088
Other	6,495	7,285
Total non-admitted assets	$ 240,708	$ 237,591

6 - TRANSACTIONS WITH NEW YORK STATE

Over the course of several years, the Workers' Compensation Fund was required to transfer to the State an aggregate of $1,295,000, which is noninterest bearing and is included in the accompanying statutory basis statements of admitted assets, liabilities and surplus as a contingent receivable due to the repayment conditions. Chapter 55 of the New York State Laws of 1982 required the Workers' Compensation Fund to transfer $190,000 out of its surplus to the general fund of the State. Chapter 28 of the New York State Laws of 1986 authorized and directed the Workers' Compensation Fund to transfer an additional $325,000 to the general fund of the State. Chapter 47 of the New York State Laws of 1987 required the Workers' Compensation Fund to pay an additional $300,000 ($150,000 to the general fund of the State and $150,000 to the State's capital fund). Chapter 7 of the New York State Laws of 1989 required the Workers' Compensation Fund to pay an additional $250,000 to the general fund of the State. As required by Chapter 41 of the New York State Laws of 1990, the Workers' Compensation Fund transferred $230,000 to the State's general fund. The statutes require the State to appropriate $1,295,000 annually for the potential repayment of any portion of the aggregate contingent receivable. Such repayment by the State is required only if, in substance, the Workers' Compensation Fund has no assets outside its reserves available to pay claims under its Workers' Compensation policies. These statutes specifically direct the contingent receivable to be an admitted asset.

7 - REINSURANCE

As part of a prior reinsurance program, the Workers' Compensation Fund reinsures certain risks with other companies. Such arrangements serve to limit the Workers' Compensation Fund's maximum loss from catastrophes, large risks and unusually hazardous risks. To the extent that any reinsuring company might be unable to meet its obligations, the Workers' Compensation Fund would be liable for its respective participation in such defaulted amounts.

The Workers' Compensation Fund purchased no reinsurance for 2016 and 2015. The Workers' Compensation Fund has reinsurance contracts to limit the impact of excess losses with a layer of $100,000 in excess of $100,000 of full terrorism coverage for all Workers' Compensation Fund employees for 2005. There were no premiums ceded, as shown in the Workers' Compensation Fund statutory basis statements of income in 2016 and 2015.

The reserves for losses and loss adjustment expenses have been reduced by $1,034 and $1,062 for losses recoverable under reinsurance contracts as of December 31, 2016 and 2015, respectively.

See Note 2G on reinsurance afforded through the Terrorism Risk Insurance Act of 2002.

A. Unsecured Reinsurance Recoverables in Excess of 3% of Surplus:

The Workers' Compensation Fund does not have an unsecured aggregate recoverable for losses, paid and unpaid including IBNR, loss adjustment expenses and unearned premium with any individual reinsurers, authorized or unauthorized, that exceeds 3% of the Workers' Compensation Fund's surplus at December 31, 2016 and 2015.

B. Retroactive Reinsurance:

The Workers' Compensation Fund entered into an assumption retroactive reinsurance transaction from the Liquidation Bureau of the DFS. The total amount of reinsurance reserves transferred and consideration paid to the Workers' Compensation Fund, as of the date of the transaction was $9,919. The estimates for total unpaid losses related to retroactive reinsurance contracts as of December 31, 2016 and 2015 were $2,426 and $1,790, respectively, and are recorded in accrued expenses and other liabilities in the statutory basis statements of admitted assets, liabilities and surplus. The total expense incurred related to retroactive reinsurance contracts for the years ended December 31, 2016 and 2015 was $1,012 and $320, respectively, and is recorded in miscellaneous income in the statutory basis statements of income. All contracts of reinsurance covering losses that have occurred prior to the inception of the contract have been accounted for in conformity with the instructions contained in the NAIC SAP.

8 - RELATED PARTY TRANSACTIONS

The home office properties are occupied jointly by the Workers' Compensation Fund and certain affiliates. Because of this relationship, the Workers' Compensation Fund incurs joint operating expenses subject to allocation through agreed-upon arrangements based on the level of services provided. Management believes the method of allocating such expenses is fair and reasonable. The Workers' Compensation Fund allocates the cost of services rendered to the Disability Benefits Fund based on a percentage of the Disability Benefits Fund's direct and indirect salary to total salary expense.

The expenses allocated to the Disability Benefits Fund were $1,339 in 2016 and 2015. The amount owed to the Workers' Compensation Fund from the DBF is $288, and $693 as of December 31, 2016 and 2015, respectively.

The Workers' Compensation Fund acts as the administrator of the Aggregate Trust Fund (ATF) by paying losses on behalf of the ATF. The ATF was created under New York State Worker's Compensation Law and is the disbursing agency for certain death and permanent disability claims exclusive of claims applicable to the Workers' Compensation Fund. The Workers' Compensation Fund charges the ATF an administrative fee of 3% of paid losses for such services. The total administration fees charged to the ATF during 2016 and 2015 were $1,113 and $1,059, respectively. The amount owed to the Workers' Compensation Fund from the ATF is $99 and $101 as of December 31, 2016 and 2015, respectively.

The Workers' Compensation Fund administers the claims for the State, which self-insures its liability for workers' compensation claims. The Workers' Compensation Fund is reimbursed for losses, allocated loss adjustment expenses, reinsurance and administrative expenses paid on behalf of the State. During 2016 and 2015, the State reimbursed the Workers' Compensation Fund $483,117 and $410,871, respectively, for such costs and are recorded through underwriting expenses in the statutory basis statements of income. The amount owed to the Workers' Compensation Fund from the State is $9,207 and $46,052 as of December 31, 2016 and December 31, 2015, respectively. The amount due to New York State, for billed assessments collected on behalf of the State, is $134,399 and $134,399 at December 31, 2016 and 2015. This balance was paid in full in 2017 by agreement with New York State to offset certain payments due from the State.

Beginning January 1, 2014, in accordance with the 2013 reforms, the Workers' Compensation Fund administers payments to the Workers' Compensation Board on behalf of policyholders. Assessments administered to the Workers' Compensation Board (WCB) are estimated based on premium written in the prior quarter, as well as assessment adjustments to policies previously reported. The Workers' Compensation Fund is reimbursed for assessments administered to the fund through premium billing. Policyholders reimbursed the Workers' Compensation Fund $313,618 and $326,586, and estimated payments made to the Workers' Compensation Board were $319,419 and $310,425 for the years ended December 31, 2016 and 2015 respectively. The Workers' Compensation Fund recorded a liability of $4,529 and $10,330 as of December 31, 2016 and 2015 for payments to the Workers' Compensation Board, which is recorded through the statutory basis statements of admitted assets, liabilities and surplus. The amount of assessments due from policyholders billed as of December 31, 2016 and 2015 was $77,334 and $62,156, respectively, and recorded through the statutory basis statements of admitted assets, liabilities and surplus.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2016 and 2015 (in thousands)

The 2013 reforms required the Workers' Compensation Fund to transfer to the WCB all funds held in reserve for payment of future assessments, as discussed in Note 14. At December 31, 2016 and 2015, and as of the date of this report, NYSIF has transferred all but $250 million of the sums required to be transferred by the 2013 reforms.

	2016	2015
Due from affiliates		
Aggregate Trust Fund	$ 99	$ 101
Disability Benefits Fund	288	693
New York State	9,207	46,052
Total due from affiliates	$ 9,594	$ 46,846
Due to affiliates		
New York State	$ 384,399	$ 384,399

9 - COMMITMENTS

The Workers' Compensation Fund leases offices, warehouse space and vehicles under non-cancellable operating leases generally varying from one to fifteen years. The Workers' Compensation Fund's aggregate minimum commitments under non-cancelable operating leases at December 31, 2016, are as follows:

2017	$ 4,282
2018	4,397
2019	4,511
2020	1,664
2021	1,678
Thereafter	12,927
Net minimum commitments	$ 29,459

Rental expense (including the imputed rental income and expense for the Workers' Compensation Fund occupied buildings of $9,809 and $9,085) was $16,573 and $14,371 in 2016 and 2015, respectively, and recorded through investment income earned.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2016 and 2015 (in thousands)

10 - RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

Activity in the reserves for losses and loss adjustment expenses, net of reinsurance recoveries of $1,034 and $1,062 for 2016 and 2015, respectively, is summarized as follows:

	2016	2015
Balance—January 1 (net of reinsurance recoveries)	$ 9,896,102	$ 9,370,072
Incurred claims related to:		
Current year	1,552,570	1,637,908
Prior years	107,045	333,981
Total incurred	1,659,615	1,971,889
Paid claims related to:		
Current year	240,370	220,219
Prior years	1,311,200	1,225,640
Total paid	1,551,570	1,445,859
Balance—December 31 (net of reinsurance recoveries)	$ 10,004,147	$ 9,896,102

These amounts reflect discounting pursuant to prescribed practices that depart from NAIC SAP. See Note 2, Summary of Significant Accounting Policies.

The incurred claims relating to prior years have changed in 2016 and 2015 as a result of changes in estimates of events insured in prior years.

11 - SURPLUS

There were no restrictions placed on the Workers' Compensation Fund's surplus, including for whom the surplus is being held.

Changes in balances of special surplus funds from December 31, 2015 to December 31, 2016, are due to appropriations to the catastrophe, foreign terrorism reserves, and domestic terrorism reserves, as discussed in Note 2 (G).

Unassigned surplus reflects the accumulated balance for the items listed below:

	2016	2015
Unrealized gains	$ 274,854	$ 209,299
Nonadmitted assets	240,708	237,591
Total	$ 515,562	$ 446,890

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2016 and 2015 (in thousands)

12 - OTHER UNDERWRITING EXPENSES

The components of other underwriting (income) expenses are as follows:

	2016	2015
Advertising	$ 167	$ 172
Boards, bureaus and associations	5,562	6,719
Audit of assured's records	374	323
Salaries and payroll taxes	78,597	77,244
Employee relations and welfare	85,720	33,798
Insurance	110	111
Travel and travel items	781	978
Rent and rent items	7,303	6,325
Equipment	287	256
Cost or depreciation of EDP equipment and software	6,410	6,418
Printing and stationery	393	452
Postage and telephone	3,214	3,626
Legal and auditing	2,335	2,162
Taxes, licenses and fees:		
Franchise taxes and other fees	54,435	51,552
Expenses to WCB (Note 8)	-	-
Miscellaneous expenses	5,534	5,704
Total	$ 251,222	$ 195,840

13 - CONTINGENCIES

From time to time the Workers' Compensation Fund is involved in pending and threatened litigation in the normal course of business in which claims for monetary damages are asserted and are considered as part of the estimation of loss and loss adjustment expenses. In the opinion of management, the ultimate liability, if any, arising from such pending or threatened litigation is not expected to have material effect on the results of operations, liquidity, or financial position of the Workers' Compensation Fund.

14 - WORKERS' COMPENSATION REFORM (THE REFORM)

On March 29, 2013 (Chapter 57 of the Laws of 2013), significantly changed and simplified the assessment calculation and billing process going forward as of January 1, 2014. It created one unified assessment rate determined by the WCB for which all employers, including Workers' Compensation Fund policyholders, will be liable. Workers' compensation insurers, including the Workers' Compensation Fund, will be required to remit assessment payments to the WCB on a prospective basis, such assessments are charged and collected from policyholders based on premiums. Previously, assessments incurred by the Workers' Compensation Fund were based on indemnity payments and the assessments for private insurers were based on premiums. Included in this change, assessment reserves held by the Workers' Compensation Fund for the payment of future assessments were no longer required (including loss and administrative). At March 31, 2013, the Workers' Compensation Fund estimated that the liability for assessments that are no longer due to the WCB were approximately $2.3 billion, and was comprised of $1.85 billion of loss-based assessments related to Section 15.8 and 25A and $450 million of assessments related to the administrative expenses of the Workers' Compensation Board. At December 31, 2016 and 2015, $250 million remain due and unpaid. See Note 8, Related Party Transactions.

On March 13, 2007, comprehensive legislation reforming the workers' compensation system was signed into law. The legislation included provisions to increase the maximum weekly benefit level, and then index it to two-thirds of the average weekly wage; provide a cap for non-scheduled permanent partial disability awards by applying a 525-week durational limit; promote return to work rates by creating a Return to Work program and incentives; close the Second Injury Fund and create the Waiver Agreement Management Organization to help settle second injury cases; require the promulgation of regulations instituting pharmaceutical fee schedules and authorize pharmaceutical and diagnostic networks; and mandate private insurance carriers to pay the present value of benefits to the ATF.

The significant aspects of the Reform, pertaining to the estimate of loss and loss adjustment expense reserves and the Workers' Compensation Fund, are the durational limits on PPD awards, the increase in the minimum and maximum benefit levels and the elimination of the Second Injury Fund. As of December 31, 2016 and 2015, the classification of the claims between pension and non-pension has been developing very slowly which has made it difficult to estimate the impact of the provision of the Reforms. As a result, management of the Workers' Compensation Fund has been utilizing pre-reform levels of the classification between pension and non-pension to develop the estimate for loss and loss adjustment expenses which results in a significant uncertainty in the reserve for loss and loss adjustment expenses.

On April 10, 2017, New York State enacted 2017 Workers' Compensation Reforms designed to generate cost savings for employers while providing enhanced protection for injured workers. The Fund is evaluating the impact of these reforms on future results, however management does not believe the impact will be significant.

15 - SUBSEQUENT EVENTS

Subsequent events have been reviewed in accordance with SSAP No. 9, Subsequent Events, for both annual statement reporting and through issuance of these audited statutory basis financial statements. Subsequent events were initially reviewed through February 28, 2017 when the annual statement was originally filed, which is the date when the annual statements was issued and filed with the NAIC and the DFS. After that date, subsequent events have been reviewed through May 31, 2017, the date which these audited statements were available to be issued.

Type I

The Workers' Compensation Fund did not experience an event that provided additional evidence with respect to conditions that existed at the date of the statutory basis statements of admitted assets, liabilities and surplus and affected estimated estimates in the process of preparing the statutory basis financial statements.

Type II

The Workers' Compensation Fund did not experience an event that provided evidence with respect to conditions that did not exist at the date of the statutory basis statements of admitted assets, liabilities and surplus, but arose subsequent to December 31, 2016.

INDEPENDENT AUDITORS' REPORT

New York State Insurance Fund Disability Benefits Fund

To the Board of Commissioners
The State Insurance Fund Disability Benefits Fund
New York, New York

EISNERAMPER
ACCOUNTANTS & ADVISORS

Report on the Statutory Basis Financial Statements

We have audited the accompanying statutory basis financial statements of the State Insurance Fund Disability Benefits Fund (a New York state nonprofit agency), which comprise the statutory basis statements of admitted assets, liabilities and surplus as of December 31, 2016 and 2015, and the related statutory basis statements of income, surplus, and cash flows for the years then ended, and the related notes to the statutory basis financial statements.

Management's Responsibility for the Statutory Basis Financial Statements

Management is responsible for the preparation and fair presentation of these statutory basis financial statements in accordance with the financial reporting provisions of New York State Department of Financial Services. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of statutory basis 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 statutory basis 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 audits to obtain reasonable assurance about whether the statutory basis financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory basis financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory basis 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 statutory basis 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 statutory basis financial statements.

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

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2A, the statutory basis financial statements are prepared by the State Insurance Fund Disability Benefits Fund on the basis of the financial reporting provisions of New York State Department of Financial Services, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of New York State Department of Financial Services. The effects on the statutory basis financial statements of the variances between the regulatory basis of accounting described in Note 2A and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the statutory basis financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the State Insurance Fund Disability Benefits Fund as of December 31, 2016 and 2015, or the results of its operations or its cash flows for each of the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the statutory basis financial statements referred to in the first paragraph present fairly, in all material respects, the admitted assets, liabilities, and surplus of the State Insurance Fund Disability Benefits Fund as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended, on the basis of financial reporting provisions of New York State Department of Financial Services as described in Note 2A.

Other Matter

As described in Note 2G, the State Insurance Fund Disability Benefits Fund reported an estimate of its proportionate share of other post-employment benefits liability, principally employer funded health care and death benefits, based on amounts provided by the State of New York.

Our opinion is not modified with respect to this matter.

New York, New York
May 31, 2017

EisnerAmper LLP

NEW YORK STATE INSURANCE FUND
DISABILITY BENEFITS FUND

Statutory Basis Statements of Admitted Assets, Liabilities and Surplus
As of December 31, 2016 and 2015 (in thousands)

	2016	2015
Admitted assets		
Cash and invested assets		
Bonds—at NAIC carrying value	$ 154,082	$ 173,993
Preferred stocks	-	120
Cash and cash equivalents	27,836	2,310
Total cash and invested assets	181,918	176,423
Premiums receivables	3,654	3,259
Accrued investment income	966	1,130
Other assets	53	-
Total admitted assets	$ 186,591	$ 180,812
Liabilities and surplus		
Liabilities		
Reserve for losses	$ 3,882	$ 3,960
Reserve for loss adjustment expenses	206	218
Unearned premiums	26,548	26,078
Advance premium	450	401
Due to affiliate	288	693
Accrued expenses and other liabilities	8,654	3,639
Total liabilities	40,028	34,989
Surplus		
Security fluctuation surplus	6,570	4,000
Catastrophe surplus	4,000	4,000
Unassigned surplus	135,993	137,823
Total surplus	146,563	145,823
Total liabilities and surplus	$ 186,591	$ 180,812

See accompanying notes to statutory basis financial statements.

NEW YORK STATE INSURANCE FUND
DISABILITY BENEFITS FUND

Statutory Basis Statements of Income
for the Years Ended December 31, 2016 and 2015 (in thousands)

	2016	2015
Underwriting income		
Net written premium	$ 19,240	$ 17,723
Net earned premium	$ 18,722	$ 17,644
Underwriting expenses		
Losses incurred	15,345	15,928
Loss adjustment expenses incurred	1,828	1,231
Other underwriting expenses incurred	3,219	2,672
Total underwriting expenses	20,392	19,831
Net underwriting loss	(1,670)	(2,187)
Investment income earned		
Investment income	5,261	5,011
Investment expenses	(205)	(170)
Net realized investment gains	1,107	653
Net investment income earned	6,163	5,494
Other income (expenses)		
Bad debt expense	(277)	(323)
Miscellaneous income	150	145
Total other expenses	(127)	(178)
Net income	$ 4,366	$ 3,129

See accompanying notes to statutory basis financial statements.

NEW YORK STATE INSURANCE FUND
DISABILITY BENEFITS FUND

Statutory Basis Statements of Surplus
for the Years Ended December 31, 2016 and 2015 (in thousands)

	2016	2015
Balance - December 31, as reported	$ 145,823	$ 142,709
Change in accounting principle:		
NYS Pension and OPEB adjustment	(3,567)	-
Balance - January 1, as restated	142,256	142,709
Net income	4,366	3,129
Net unrealized capital gains - investments	(48)	5
Change in nonadmitted assets	(11)	(20)
Net increase in surplus	4,307	3,114
Balance - December 31	$ 146,563	$ 145,823

See accompanying notes to statutory basis financial statements.

NEW YORK STATE INSURANCE FUND
DISABILITY BENEFITS FUND

Statutory Basis Statements of Cash Flows
for the Years Ended December 31, 2016 and 2015 (in thousands)

	2016	2015
Cash flows from operations		
Premiums collected, net of reinsurance	$ 19,119	$ 18,803
Net investment income	5,337	4,522
Miscellaneous expenses	(127)	(179)
Losses and loss adjustment expenses paid, net of salvage and subrogation	(15,422)	(15,471)
Expenses paid	(4,047)	(3,740)
Net cash provided by operations	4,860	3,935
Cash flows from investments		
Proceeds from investments sold, matured or repaid	36,747	49,432
Cost of investments acquired	(15,651)	(61,200)
Other proceeds	-	3
Net cash provided by (used in) investments	21,096	(11,765)
Cash flows from other sources		
Other (uses) applications	(430)	459
Net cash provided by (used in) other sources	(430)	459
Net change in cash and cash equivalents	25,526	(7,371)
Cash and cash equivalents		
Beginning of year	2,310	9,681
Cash and cash equivalents		
End of year	$ 27,836	$ 2,310

See accompanying notes to statutory basis financial statements.

1 - ORGANIZATION AND PURPOSE

The State Insurance Fund (the Fund), which includes the operations of the Workers' Compensation Fund and the Disability Benefits Fund, is a nonprofit agency of the State of New York (the "State"). By statute, the Fund maintains separate records for the Workers' Compensation Fund and Disability Benefits Fund.

The Disability Benefits Fund received authority to write disability benefits insurance in 1950. In Methodist Hospital of Brooklyn v. State Insurance Fund (1985), the New York State Court of Appeals held the Fund is "a State agency for all of whose liabilities the State is responsible..."

The Fund provides mandatory disability benefit insurance in New York. Disability benefit insurance covers off-the-job injury, sickness, and disability arising from pregnancy, but not medical care payments. On April 1, 2010, the Disability Benefits Fund began selling enhanced coverage.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation:

The accompanying statutory basis financial statements of the Disability Benefits Fund, a nonprofit agency of the State, are presented in conformity with accounting practices prescribed by the New York Department of Financial Services (DFS). The DFS recognizes only New York Statutory Accounting Practices (NY SAP) for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under New York State Insurance Law. The National Association of Insurance Commissioners' (NAIC) Accounting Practices and Procedures Manual (NAIC SAP), effective January 1, 2001 and subsequent revisions, have been adopted as a component of NY SAP. The State of New York has adopted certain prescribed accounting practices that differ from those found in NAIC SAP. Specifically, Electronic Data Processing (EDP) and related equipment, constituting a data processing, record keeping or accounting system with a cost of $50 and greater shall be depreciated over a period not to exceed 10 years under NY SAP. In addition, the Superintendent of the DFS has the right to permit other specific practices that may deviate from prescribed practices. The Disability Benefits Fund, as prescribed by the DFS or as mandated by New York State Workers' Compensation Law, is not required to calculate Risk Based Capital calculations.

The accounting practices and procedures of NY SAP comprise a comprehensive basis of accounting other than accounting principles generally accepted in the United States (U.S. GAAP). The more significant variances between NY SAP and U.S. GAAP that are applicable to the Disability Benefits Fund are set forth below:

a. Bonds are generally carried at amortized cost. Under U.S. GAAP, such securities are classified into "held to maturity" and reported at amortized cost, or "trading" and reported at fair value with unrealized gains and losses included in earnings, or "available for sale" and reported at fair value with unrealized gains and losses reported as a separate component of surplus.

All single class and multi-class mortgage-backed/asset-backed securities are adjusted for the effects of changes in prepayment assumptions on the related accretion of discount or amortization of premium of such securities using either the retrospective or prospective methods. If it is determined that a decline in fair value is other-than-temporary, the cost basis of the security is written down to the discounted estimated future cash flows. Under U.S. GAAP, all securities, purchased or retained, that represent beneficial interests in securitized assets (e.g., collateralized mortgage obligations or asset-backed securities), other than high-credit quality securities, are adjusted using the prospective method when there is a change in estimated future cash flows. If it is determined that a decline in fair value is other-than-temporary, the cost basis of the security is written down to the discounted fair value.

b. Common stocks are reported at fair value, as determined by the NAIC's Securities Valuation Office (SVO) and other independent pricing sources and the related net unrealized capital gains and losses are reported in unassigned surplus. Under U.S. GAAP, common stocks are classified as either "trading" and reported at fair value with unrealized gains and losses included in earnings, or "available for sale" and reported at fair value with unrealized gains and losses reported as a separate component of surplus.

c. Cash and short-term investments in the statutory basis statements of admitted assets, liabilities and surplus represent cash balances and investments with initial maturities of one year or less. Under U.S. GAAP, the corresponding caption of cash and cash equivalents includes cash balances and investments with initial maturities of three months or less.

d. Policy acquisition costs (principally underwriting and marketing related costs) are expensed as incurred, whereas under U.S. GAAP these costs are capitalized and amortized to income on the same basis as premium income is recognized.

e. Certain assets designated as non-admitted assets (principally premiums in the course of collection outstanding over 90 days and office furniture and equipment) are charged directly against surplus. Under U.S. GAAP, all non-admitted EDP and related equipment would be included in total assets, less valuation allowances.

f. EDP and related equipment with a cost of $2 and greater are depreciated over an estimated useful life up to 3 years. Under U.S. GAAP, all non-admitted EDP and related equipment would be recorded as assets, less accumulated depreciation.

g. The Board of Commissioners (the "Board") may designate a reserve for security fluctuations to provide for the difference between the amortized cost of securities and their fair value. Such a reserve is established for future contingencies, rather than allocated to specific investments. In addition, the Board may assign a reasonable portion of unassigned surplus as a reserve for catastrophes. NY SAP specifically permits the appropriation of unassigned surplus for these purposes. Under U.S. GAAP, no such reserves are established.

h. Comprehensive income and its components are not presented in the statutory basis financial statements.

i. The net amount of all cash accounts is reported jointly. Cash accounts with positive balances are not reported separately from cash accounts with negative balances. If in the aggregate, the reporting entity has a net negative cash balance, it is reported as a negative asset. Under U.S. GAAP, this net negative cash balance is recorded as a liability.

j. The statutory basis financial statements do not include certain disclosures about and/or the consolidation of certain variable interest entities as required by U.S. GAAP under Financial Accounting Standards Board Interpretation ASC Topic 810, Consolidation of Variable Interest Entities.

The aggregate effect of the foregoing variances on the accompanying statutory basis financial statements has not been determined, however, it is presumed to be material.

B. Investments:

Investments are generally valued in accordance with the valuation procedures of the NAIC.

Bonds are valued in accordance with the requirements of the NAIC's SVO. Bonds are principally carried at amortized cost. Discount or premium on bonds is amortized using the scientific method, which is a variation of the effective interest method. Short-term investments consist of bonds purchased within a year of the maturity date, which are stated at amortized cost. Market value is based on market prices obtained from the SVO and SS&C Technologies, Inc. primarily.

For mortgage-backed fixed maturity securities, the Disability Benefits Fund recognizes income using constant effective yield based on anticipated prepayments over the economic life of the security. Mortgage-backed securities are accounted for under the retrospective method and prepayment assumptions are based on market conditions. When actual payments differ significantly from anticipated prepayments, the effective yield is recalculated to reflect actual payments to date and anticipated future payments and any resulting adjustment is included in net investment income.

Preferred stocks are stated at cost, lower of cost or amortized cost or NAIC fair values depending on the assigned credit rating and the underlying characteristics of the security. The fair values for preferred stocks are based on quoted market prices where available. Perpetual preferred stocks are valued at estimated market value. If unavailable, the fair value was determined by the Disability Benefits Fund using discounted cash flow models using discount rates of securities of similar maturity and credit characteristics. Unrealized gain or loss presented in unassigned surplus for preferred stocks includes the change in fair value from the prior year-end for those preferred stocks carried at fair value; the difference between the current year amortized cost and current year fair value for redeemable preferred stocks that were carried at amortized cost in the prior year and fair value in the current year; and the reversal of previous cumulative unrealized losses for redeemable preferred stocks that were carried at fair value in the prior year and at amortized cost in the current year.

Receivable and payable for securities represent sales and purchases of securities that are unsettled at year-end.

Investment income earned consists primarily of interest and dividends. Interest is recognized on an accrual basis and dividends are recorded as earned at the ex-dividend date. Interest income on mortgage-backed and asset-backed securities is determined on the effective yield method based on estimated principal repayments. Accrual of income is suspended for bonds and mortgage loans that are in default or when the receipt of interest payments is in doubt. Realized capital gains and losses are determined using the first-in, first-out method in 2016 and 2015, respectively.

An investment in a debt or equity security is impaired if its fair value falls below book value and the decline is considered other than temporary. Factors considered in determining whether a loss is other than temporary include the length of time and extent to which fair value has been below cost; the financial condition and near term prospects of the issuer; and the Disability Benefits Fund's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. A debt security is impaired if it is probable that the Disability Benefits Fund will not be able to collect all the amounts due under the security contractual terms. Equity investments are impaired when it becomes apparent that the Disability Benefits Fund will not recover its cost over the expected holding period. Other-than-temporary declines in fair value of investments are included in realized losses. There was $0 and $2 included in 2016 and 2015 for realized losses related to impairment losses, respectively.

C. Premium Revenue and Related Accounts:

The Disability Benefits Fund records written premiums on the effective date of the policy and earns premium over the life of the policy.

The Disability Benefits Fund records premium receivable as an admitted asset if the following three conditions are met: (1) a bill for the premium amount is no more than 90 days past due, (2) the bill date is within six months after the expiration of the policy year and (3) no other bill for the same policy is considered non-admitted.

For the Disability Benefits Fund, unearned premiums represent the pro rata portion of premiums and endorsements written that are applicable to the unexpired term of policies in force at the end of the year.

Also included in the reserve for unearned premiums are estimates for Return of Premium Program in the amount of $17,088 and $16,886 at December 31, 2016 and 2015, respectively, and the Premium Adjustment Plan in the amount of $1,364 and $1,583 at December 31, 2016 and 2015, respectively. The Return of Premium Program is a program whereby policyholders with 49 or fewer employees become members of a group of policyholders and a premium credit is estimated based on the groups' loss ratio that is not in excess of the industry standard as established by DFS. The Premium Adjustment Plan is a program whereby policyholders with annual premium greater than $1 may qualify for an annual credit based on policyholder's individual claim performance. If the total annual premium is greater than the total claims paid, after all claims are closed for that same period, multiplied by a factor of 1.2, a Premium Adjustment Plan credit is awarded. Other qualifications for both the Return of Premium Program and the Premium Adjustment Plan are that the policyholder must maintain an active status with the Disability Benefits Fund throughout the policy year and have payroll report(s) submitted 30 days from the end of the policy period.

The Disability Benefits Fund performs an analysis of uncollectable premium receivable and realized write offs of $277 and $323 for the years ended December 31, 2016 and 2015, respectively, as bad debt expense in the statutory basis statements of income.

D. Reserves for Losses and Loss Adjustment Expenses:

The reserves for losses and loss adjustment expenses of the Disability Benefits Fund are based on individual case estimates for losses attributable to policy years prior to the current year, and on an average cost basis for the current year and for incurred but not reported (IBNR) amounts. These liabilities also include expenses for investigating and settling claims. The Disability Benefits Fund's reserves for losses and loss adjustment expenses are estimated by using recognized actuarial techniques. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed and any adjustments are reflected in the period determined. An independent actuarial consulting firm reviews the estimated liability. The Disability Benefits Fund's management believes that the assumptions used in determining this liability are reasonable and that the amount recorded represents its best estimate of the ultimate cost of investigating, defending and settling claims. However, the Disability Benefits Fund's actual future experience may not conform to the assumptions inherent in the determination of the liability. Accordingly, the ultimate settlement value may vary significantly from the amounts included in the statutory basis financial statements and the difference may be material.

The Disability Benefits Fund does not cede or assume any reinsurance. The Fund does not participate in any voluntary or involuntary pools.

E. Security Fluctuation and Catastrophic Surplus:

The Board may designate a portion of unassigned surplus for security fluctuation and catastrophes as specifically prescribed by the DFS. A review of the security fluctuation surplus in conjunction with the Disability Benefits Fund's portfolio was $6,570 and $4,000, respectively as of December 31, 2016 and 2015. The review of the catastrophe surplus in conjunction with a risk assessment of the Disability Benefits Fund's exposures resulted in the Board maintaining the catastrophe surplus at $4,000 as of December 31, 2016 and 2015.

F. Fringe Benefits:

All employees of the Fund are covered under a defined benefit retirement plan administered by the New York State Employees Retirement System. For employees hired prior to 1976 the plan is noncontributory. For employees hired after 1976 and before January 1, 2015, the plan is partially contributory in the first 10 years of employment and noncontributory thereafter. For employees hired on and after January 1, 2015, the plan is partially contributory for the entire length of employment. Prior to January 1, 2016, the Fund recorded defined benefit plan expenses based on amounts actually billed by the various state agencies. During 2016, the Fund was allocated an amount approximating its share of the liability related to the defined benefit plan as determined by the State. As such, the Fund recorded an adjustment to opening surplus as of January 1, 2016 to reflect the opening balance liability of $191.

At December 31, 2016, the Fund's allocated portion of its New York State Employee pension liability was $918. The pension liability was measured by the State as of March 31, 2016, with the Fund's portion of the liability based on a ratio of its employees to a ratio of New York State employees. At March 31, 2016, and 2015, the Fund's approximate proportionate share was 0.01%.

G. Post-employment Benefits:

New York State Civil Service Law, Section 163.2, provides for health insurance coverage for retired employees of the Disability Benefits Fund including their spouses and dependent children. Eligibility is determined by the membership in the New York State and Local Employees' Retirement System, enrollment in the New York State Health Insurance Program at the time of retirement, and the completion of a minimum number of years of service as required by the employees' membership tier in the retirement system.

As an agency of the State of New York, the Fund contributes to the New York State Health Insurance Plan. Prior to January 1, 2016, the Fund paid expense amounts allocated from the Department of Civil Service of the State of New York, which were expensed as paid. During 2016, the Fund was allocated an amount approximating its share of the liability related to Post-Employment Benefits and Compensated Absences as determined by the State. As such, the Fund recorded an adjustment to opening surplus (change in accounting principle) as of January 1, 2016 to reflect the opening balance liability of $3,376.

The Fund reported in its financial statements as of December 31, 2016 and 2015 a proportionate share of its other post-employment benefits liability, ("OPEB"), principally employer funded health care and death benefits of $3,850 and $3,376, respectively. The OPEB liability was estimated based on amounts provided by the State of New York measured as of March 31, 2016.

The Fund has an accrued liability for employee compensation for future absences in the amount of $226 and $207 as of December 31, 2016 and 2015, respectively.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2016 and 2015 (in thousands)

H. Income Tax:

The Disability Benefits Fund is exempt from federal income taxes. However, the Disability Benefits Fund is subject to a New York State franchise tax. The Disability Benefits Fund's franchise tax is calculated using a written premium-based method and is a component of other underwriting expenses. The New York State franchise tax expense was $337 and $310 in 2016 and 2015, respectively, and recorded through the other underwriting expenses incurred on the statutory basis statements of income.

The Disability Benefits Fund maintains an office and does business in the metropolitan New York area and is subject to the Metropolitan Transit Authority (MTA) surcharge. The MTA surcharge is based on premiums written on businesses in the metropolitan area and wages paid to employees in the metropolitan area and is a component of other underwriting expenses. The MTA surcharge in 2016 and 2015 was $45 and $42, respectively, for the Disability Benefits Fund and recorded through the other underwriting expenses incurred on the statutory basis statements of income.

I. Concentrations of Credit Risk:

Financial instruments that potentially subject the Disability Benefits Fund to concentrations of credit risk are primarily cash and cash equivalents. Cash equivalents include investments in money market securities and securities backed by the U.S. Government. Balances maintained in non-interest bearing transaction accounts in the United States are fully insured by the Federal Deposit Insurance Corporation, (FDIC) up to $250.

Cash and cash equivalents are held with high credit quality financial institutions in the United States and from time to time may have balances that exceed the amount of insurance provided by the FDIC on such deposits.

J. Risks and Uncertainties:

The Disability Benefits Fund invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market risk and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the statutory basis financial statements.

K. Use of Estimates:

The preparation of these statutory basis financial statements in conformity with statutory basis accounting principles 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 statutory basis financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant estimates included in these statutory basis financial statements are the liability for loss and loss adjustment expenses and the return of premium and premium adjustment plan estimates in unearned premiums.

L. Changes in Accounting Principles:

Accounting changes adopted to conform to the provisions of NAIC SAP are reported as changes in accounting principles. The cumulative effect of changes in accounting principles is reported as an adjustment to unassigned funds (surplus) in the period of the change in accounting principle. Generally, the cumulative effect is the difference between the amount of capital and surplus at the beginning of the year and the amount of capital and surplus that would have been reported at that date if the new accounting principles had been applied retroactively for all prior periods.

The Disability Benefits Fund recorded an adjustment to unassigned funds (surplus) at January 1, 2016 relating to an allocation of liabilities from the State of New York as follows:

Defined benefit retirement plan	$ (191)
Post-employment benefits	(3,376)
Total surplus adjustment	$ (3,567)

3 - INVESTMENTS

Section 87 of the New York State Workers' Compensation Law specifically states the type of securities authorized for investment by the Disability Benefits Fund. Section 87 further provides that the Commissioner of Taxation and Finance is the sole custodian of the Disability Benefits Fund. J.P. Morgan Chase serves as the Disability Benefits Fund's custodian for investments. All bank deposits are entirely insured or collateralized with securities held by J.P. Morgan Chase at December 31, 2016 and 2015, in accordance with Section 105 of the New York State Finance Law.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2016 and 2015 (in thousands)

Chapter 473 of the Laws of 2000 and Chapter 6 of the Laws of 2007 broadened the Disability Benefits Fund's investment authority to include certain common and preferred stocks and expanded the range of fixed income issues in which the Disability Benefits Fund may invest. The amortized cost, gross unrealized gains, gross unrealized losses and estimated market value of investments in bonds and stocks at December 31, 2016 and 2015 are as follows:

2016	Cost or Book Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government and government agency obligations	$ 50,576	$ 906	$ -	$ 51,482
All other governments	12,958	301	(71)	13,188
Corporate bonds and public utilities	88,638	2,384	(1,209)	89,813
Mortgage backed securities	1,083	-	(20)	1,063
Hybrid securities	827	390		1,217
Total bonds	154,082	3,981	(1,300)	156,763
Preferred stocks	-	-	-	-
Total stocks	-	-	-	-
Total investments	$ 154,082	$ 3,981	$ (1,300)	$ 156,763

2015	Cost or Book Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government and government agency obligations	$ 55,542	$ 1,499	$ (41)	$ 57,000
All other governments	20,858	366	(642)	20,582
Corporate bonds and public utilities	94,818	2,225	(1,284)	95,759
Mortgage backed securities	1,591	-	(20)	1,571
Hybrid securities	1,184	552	-	1,736
Total bonds	173,993	4,642	(1,987)	176,648
Preferred stocks	72	48	-	120
Total stocks	72	48	-	120
Total investments	$ 174,065	$ 4,690	$ (1,987)	$ 176,768

The amortized cost and market value of bonds at December 31, 2016 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because certain issuers may have the right to call or prepay obligations with or without penalties.

	Amortized Cost	Market Value
Due in one year or less	$ 31,251	$ 31,498
Due after one year through five years	71,405	72,559
Due after five years through ten years	12,463	12,651
Due after ten years	38,963	40,055
Total bonds	$ 154,082	$ 156,763

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2016 and 2015 (in thousands)

Net investment income earned consists principally of interest and dividends on investments as follows:

	2016	2015
Bonds	$ 5,205	$ 4,988
Stocks	2	5
Cash and cash equivalents	52	7
Other	2	11
Investment income	5,261	5,011
Investment expenses	(205)	(170)
Net realized capital gains	1,107	653
Net investment income earned	$ 6,163	$ 5,494

Net realized investment gains on investments, determined on the first-in, first-out method in 2016 and 2015.

	2016	2015
Bonds	$ 1,055	$ 663
Stocks	52	(13)
Cash and short-term investments	-	3
Net realized investment gains	$ 1,107	$ 653

For the Disability Benefits Fund, proceeds from investments sold, matured or repaid during the years ended December 31, 2016 and 2015 were $36,747 and $49,432, respectively. These sales resulted in gross realized gains of $1,436 and $664 and gross realized losses of $329 and $9 in 2016 and 2015, respectively.

The following table represents the Disability Benefits Fund's unrealized loss, fair value and amortized cost for bonds and stocks aggregated by investment category and length of time individual securities have been in a continuous unrealized loss position as of December 31, 2016 and 2015, respectively.

	2016								
	Less Than 12 Months			12 Months or More			Total		
	Amortized Cost	Estimated Fair Value	Unrealized Losses	Amortized Cost	Estimated Fair Value	Unrealized Losses	Amortized Cost	Estimated Fair Value	Unrealized Losses
U.S. Government and government agency obligations	$ 2,498	$ 2,498	$ -	$ -	$ -	$ -	$ 2,498	$ 2,498	$ -
All other governments	7,488	7,417	(71)	-	-	-	7,488	7,417	(71)
Corporate bonds and public utilities	44,689	43,558	(1,131)	1,538	1,460	(78)	46,227	45,018	(1,209)
Mortgaged backed securities	1,083	1,063	(20)	-	-	-	1,083	1,063	(20)
Total fixed maturities	55,758	54,536	(1,222)	1,538	1,460	(78)	57,296	55,996	(1,300)
Total temporarily impaired investments	$ 55,758	$ 54,536	$ (1,222)	$ 1,538	$ 1,460	$ (78)	$ 57,296	$ 55,996	$ (1,300)

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2016 and 2015 (in thousands)

	2015								
	Less Than 12 Months			12 Months or More			Total		
	Amortized Cost	Estimated Fair Value	Unrealized Losses	Amortized Cost	Estimated Fair Value	Unrealized Losses	Amortized Cost	Estimated Fair Value	Unrealized Losses
U.S. Government and government agency obligations	$ 14,988	$ 14,947	$ (41)	$ -	$ -	$ -	$ 14,988	$ 14,947	$ (41)
All other governments	12,904	12,262	(642)	-	-	-	12,904	12,262	(642)
Corporate bonds and public utilities	44,414	43,147	(1,267)	2,498	2,481	(17)	46,912	45,628	(1,284)
Mortgage backed securities	1,591	1,571	(20)	-	-	-	1,591	1,571	(20)
Total fixed maturities	73,897	71,927	(1,970)	2,498	2,481	(17)	76,395	74,408	(1,987)
Total temporarily impaired investments	$ 73,897	$ 71,927	$ (1,970)	$ 2,498	$ 2,481	$ (17)	$ 76,395	$ 74,408	$ (1,987)

Gross unrealized losses represented 0.8% and 1.1% of the total carrying value of bonds and stocks held by the Disability Benefits Fund as of December 31, 2016 and 2015, respectively. Fixed maturities represented 100% and 100% of the Disability Benefits Fund's unrealized losses as of December 31, 2016 and 2015, respectively. The group of securities in an unrealized loss position for less than twelve months was comprised of 19 and 25 securities for the Disability Benefits Fund as of December 31, 2016 and 2015, respectively. There was 1 security that was depressed for twelve months or more for the Disability Benefits Fund as of December 31, 2016 and 2015, respectively.

The fixed income securities in an unrealized loss position are primarily investment grade securities with extended maturity dates, which have been adversely impacted by an increase in interest rates after the purchase date. As part of the Disability Benefits Fund's ongoing security monitoring process by a committee of investment and accounting professionals, the Disability Benefits Fund has reviewed its investment portfolio and concluded that there were no additional other-than-temporary impairments as of December 31, 2016 and 2015. Due to the issuers' continued satisfaction of the securities' obligations in accordance with their contractual terms and the expectation that they will continue to do so, management's ability and intent to hold these securities, as well as the evaluation of the fundamentals of the issuers' financial condition and other objective evidence, the Disability Benefits Fund believes that the securities in the sectors identified above were temporarily impaired.

The evaluation for other-than-temporary impairments (OTTI) is a quantitative and qualitative process, which is subject to risks and uncertainties in the determination of whether declines in the fair value of investments are other-than-temporary. The risks and uncertainties include changes in general economic conditions, the issuer's financial condition or near term recovery prospects and the effects of changes in interest rates.

Statement of Statutory Accounting Principles, No. 43R - Revised Loan-backed and Structured Securities (SSAP No. 43R) requires that OTTI be recognized in earnings for a loan-backed or structured security in an unrealized loss position when it is anticipated that the amortized basis will not be recovered. In such situations, the OTTI recognized in earnings is the entire difference between the security's amortized cost and its fair value either (i) the Disability Benefits Fund intends to sell the security; or (ii) the Disability Benefits Fund does not have the intent and ability to retain the security for the time sufficient to recover the amortized cost basis. If neither of these two conditions exists, and the Disability Benefits Fund has the intent and ability to hold the security but does not expect to recover the entire amortized cost, the difference between the amortized cost basis of the security and the present value of projected future cash flows expected to be collected is recognized as an OTTI in earnings.

There were no impairment losses related to SSAP No. 43R investments. There were no additional impairments recorded in 2016 and 2015 on the basis that the present value of future expected cash flows is less than the amortized cost basis of the security as losses were identified on the basis that the Disability Benefits Fund was unable to retain the security until recovery of amortized cost.

The Disability Benefits Fund recorded $2 of impairments during 2015 as a component of net realized investment gains through the statutory basis statements of income. There was no OTTI recorded during 2016.

A. Fair Value of Financial Instruments:

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the end of the reporting period.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2016 and 2015 (in thousands)

The Disability Benefits Fund evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to the total investment portfolio.

The statement value and estimated fair value of financial instruments at December 31, 2016 and 2015 are as follows:

	2016		2015	
	Statement Value	Estimated Fair Value	Statement Value	Estimated Fair Value
Financial assets:				
Bonds	$ 154,082	$ 156,763	$ 173,993	$ 176,648
Preferred stocks	-	-	120	120

The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. The fair value of a liability is the amount at which that liability could be incurred or settled in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

Fair values are based on quoted market prices when available. When market prices are not available, fair value is generally estimated using discounted cash flow analysis, incorporating current market inputs for similar financial instruments with comparable terms and credit quality (matrix pricing). In instances where there is little or no market activity for the same or similar instruments, the Disability Benefits Fund estimates fair value using methods, models and assumptions that management believes market participants would use to determine a current transaction price. These valuation techniques involve some level of management's estimation and judgment that becomes significant with increasingly complex instruments or pricing models. Where appropriate, adjustments are included to reflect the risk inherent in a particular methodology, model or input used.

SSAP No. 100 defines fair value, establishes a framework for measuring fair value and establishes disclosure requirements about fair value.

When available, the Disability Benefits Fund used quoted market prices to determine the fair values of aforementioned investment securities. When quoted market prices are not readily available or representative of fair value, pricing determinations are made based on the results of valuation models using observable market data such as recently reported trades, bid and offer information and benchmark securities. There were no investments with unobservable inputs held by the Disability Benefits Fund as of December 31, 2016 and 2015. Unobservable inputs reflect the Disability Benefits Fund's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The Disability Benefits Fund's financial assets and liabilities carried at fair value, as well as where fair value is disclosed, have been classified, for disclosure purposes, based on the SSAP No. 100 hierarchy. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or a liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3).

The levels of the fair value hierarchy are as follows:

Level 1 - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2 - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Disability Benefits Fund's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The Disability Benefits Fund had no assets measured at fair value as of December 31, 2016.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2016 and 2015 (in thousands)

The following table provides information as of December 31, 2015 about the Disability Benefits Fund's assets measured at fair value along with a brief description of the valuation technique for each type of asset.

Assets at fair value:	Level 1	Level 2	Level 3	Total
Preferred stocks	$ -	$ 120	$ -	$ 120
Total assets at fair value	$ -	$ 120	$ -	$ 120

Low grade fixed maturity investments where fair value is lower than cost and common stocks are recorded at fair value. Securities classified into level 1 included primarily stocks where there are quoted prices in active markets for identical securities and the source of the pricing. Unadjusted quoted prices for these securities are provided to the Disability Benefits Fund by independent pricing services. Quoted prices for these securities are provided to the Disability Benefits Fund using independent pricing services. The Disability Benefits Fund did not have any Level 2 and Level 3 securities that were carried at fair value. There were no changes in valuation techniques during 2016 and 2015.

The following table provides information as of December 31, 2016 about the Disability Benefits Fund's financial instruments disclosed at fair value along with a brief description of the valuation technique for each type of assets.

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3
Bonds	$ 155,546	$ 153,255	$ -	$ 155,546	$ -
Hybrids	1,217	827	-	1,217	-
Cash equivalent	27,069	27,069	27,069	-	-
Total	$ 183,832	$ 181,151	$ 27,069	$ 156,763	$ -

The following table provides information as of December 31, 2015 about the Disability Benefits Fund's financial instruments at fair value along with a brief description of the valuation technique for each type of assets.

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3
Bonds	$ 174,912	$ 172,809	$ -	$ 174,912	$ -
Hybrids	1,736	1,184	-	1,736	-
Cash equivalent	1,507	1,508	1,507	-	-
Preferred stocks	120	120	-	120	-
Total	$ 178,275	$ 175,621	$ 1,507	$ 176,768	$ -

Securities classified into level 1 included primarily cash and cash equivalents where there are quoted prices in active markets for identical securities and the source of the pricing. Unadjusted quoted prices for these securities are provided to the Disability Benefits Fund by independent pricing services. Quoted prices for these securities are provided to the Disability Benefits Fund using independent pricing services. Level 2 securities include all bonds, mortgage-backed securities including hybrid securities with pricing using bid evaluations or matrix pricing. Matrix pricing takes quoted prices of bonds with similar features and applies analytic methods to determine the fair value of bonds held. Features that are inputs into the analysis include duration, credit quality, tax status and call and sinking fund features. Quoted prices for these securities are provided to the Disability Benefits Fund by independent pricing services. The Disability Benefits Fund does not have any Level 3 securities.

There were no significant transfers into or out of Level 2 or 3 during 2016 and 2015. There were no changes in valuation techniques during 2016 and 2015.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2016 and 2015 (in thousands)

B. Subprime Mortgage Exposure:

The Disability Benefits Fund had no exposures to subprime mortgage loans at December 31, 2016 and 2015.

C. Wash Sales:

In the course of the Disability Benefits Fund's management of investment portfolio, securities may be sold at a loss and repurchased within 30 days of the sale date to enhance the Disability Benefits Fund's yield on its investment portfolio. The Disability Benefits Fund did not sell any securities at a loss or in a loss position with a NAIC designation from 3 to 6 for the years ended December 31, 2016 and 2015 that were reacquired within 30 days of the sale date.

4 - NON-ADMITTED ASSETS

The non-admitted assets of the Disability Benefits Fund at December 31, 2016 and 2015 were as follows:

	2016	2015
Premium in course of collection outstanding over 90 days	$ 193	$ 174
Other	57	66
Total non-admitted assets	$ 250	$ 240

5 - RELATED PARTY TRANSACTIONS

The home office properties are occupied jointly by the Workers' Compensation Fund and Disability Benefits Fund. Because of this relationship, the Disability Benefits Fund incurs joint operating expenses subject to allocation through agreed upon arrangements based on the level of services provided. Management believes the method of allocating such expenses is fair and reasonable.

The Workers' Compensation Fund allocates the cost of services rendered to the Disability Benefits Fund based on a percentage of the Disability Benefits Fund's direct and indirect salary to total salary expense. The expenses allocated to the Disability Benefits Fund were $1,339 in 2016 and 2015. For each of the years December 31, 2016 and 2015, $1,238 is recorded through other underwriting expenses and $101 is allocated to investment expense on the statutory basis statements of income. The amount owed to the Workers' Compensation Fund at December 31, 2016 and 2015 from the Disability Benefits Fund is $288 and $693.

As a result of the changes noted in the Chapter 57 of the Laws of 2013 dated March 29, 2013, assessments and administrative expenses related to the Workers' Compensation Board are now borne by the policyholders. The law instructs the Disability Benefits Fund to remit to the Workers' Compensation Board any funds accrued for these assessments, which was settled during 2013 with no remaining liability due as a result of this change.

The following schedule summarizes all affiliate balances as of December 31, 2016 and 2015:

	2016	2015
Due to affiliate		
Workers' Compensation Fund	$ 288	$ 693
Due to affiliate	$ 288	$ 693

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2016 and 2015 (in thousands)

6 - RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

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

	2016	2015
Balance—January 1	$ 4,178	$ 3,700
Incurred claims related to		
Current year	17,671	17,565
Prior years	(498)	(406)
Total incurred	17,173	17,159
Paid claims related to		
Current year	13,808	13,532
Prior years	3,455	3,149
Total paid	17,263	16,681
Balance—December 31	$ 4,088	$ 4,178

In 2016 and 2015, the Disability Benefits Fund incurred claims decreased due to favorable development from prior years.

7 - SURPLUS

There were no restrictions placed on the Disability Benefits Fund's surplus, including for whom the surplus is being held.

There were no changes in balances of special surplus funds as of December 31, 2016 and December 31, 2015. Unassigned surplus reflects the accumulated balances for the items listed below:

	2016	2015
Unrealized gains	$ -	$ 48
Nonadmitted assets	(250)	(240)
Total	$ (250)	$ (192)

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2016 and 2015 (in thousands)

8 - OTHER UNDERWRITING EXPENSES

The components of other underwriting expenses are as follows:

	2016	2015
Salaries and payroll taxes	$ 697	$ 664
Employee relations and welfare	823	335
Travel and travel items	2	3
Postage, telephone, etc.	4	7
Taxes, licenses and fees	429	399
Allocation from WCF	1,244	1,240
Miscellaneous expense	20	24
Total	$ 3,219	$ 2,672

9 - CONTINGENCIES

From time to time the Disability Benefits Fund is involved in pending and threatened litigation in the normal course of business in which claims for monetary damages are asserted. In the opinion of management, the ultimate liability, if any, arising from such pending or threatened litigation is not expected to have material effect on the results of operations, liquidity, or financial position of the Disability Benefits Fund.

10 - SUBSEQUENT EVENTS

Subsequent events have been reviewed in accordance with SSAP No. 9R, Subsequent Events, for both annual statement reporting and through issuance of these audited statutory basis financial statements. Subsequent events were initially reviewed through March 1, 2016 for annual statement reporting, which is the date when the annual statement was issued and filed with the NAIC and the DFS. After this date, subsequent events have been reviewed through May 31, 2017, the date which these audited statements were available to be issued.

Type I

The Disability Benefits Fund did not experience an event that provided additional evidence with respect to conditions that existed at the date of the statutory basis statements of admitted assets, liabilities and surplus and affected estimated inherent in the process of preparing the statutory basis financial statements.

Type II

The Disability Benefits Fund did experience an event that provided evidence with respect to conditions that did not exist at the date of the statutory basis statements of admitted assets, liabilities, and surplus but arose subsequent to December 31, 2016.

Contacting NYSIF

Customer Service 24/7

Workers' Compensation Claims & Service
1-888-875-5790

Disability Benefits Claims & Service
1-866-NYSIFDB (697-4332)

Report Fraud (Confidential)
1-877-WCNYSIF (926-9743)

NYSIF Business Offices

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Westchester One
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White Plains, NY 10601-4411
Business Manager Carl Heitner
Email: box109WhitePlains@nysif.com
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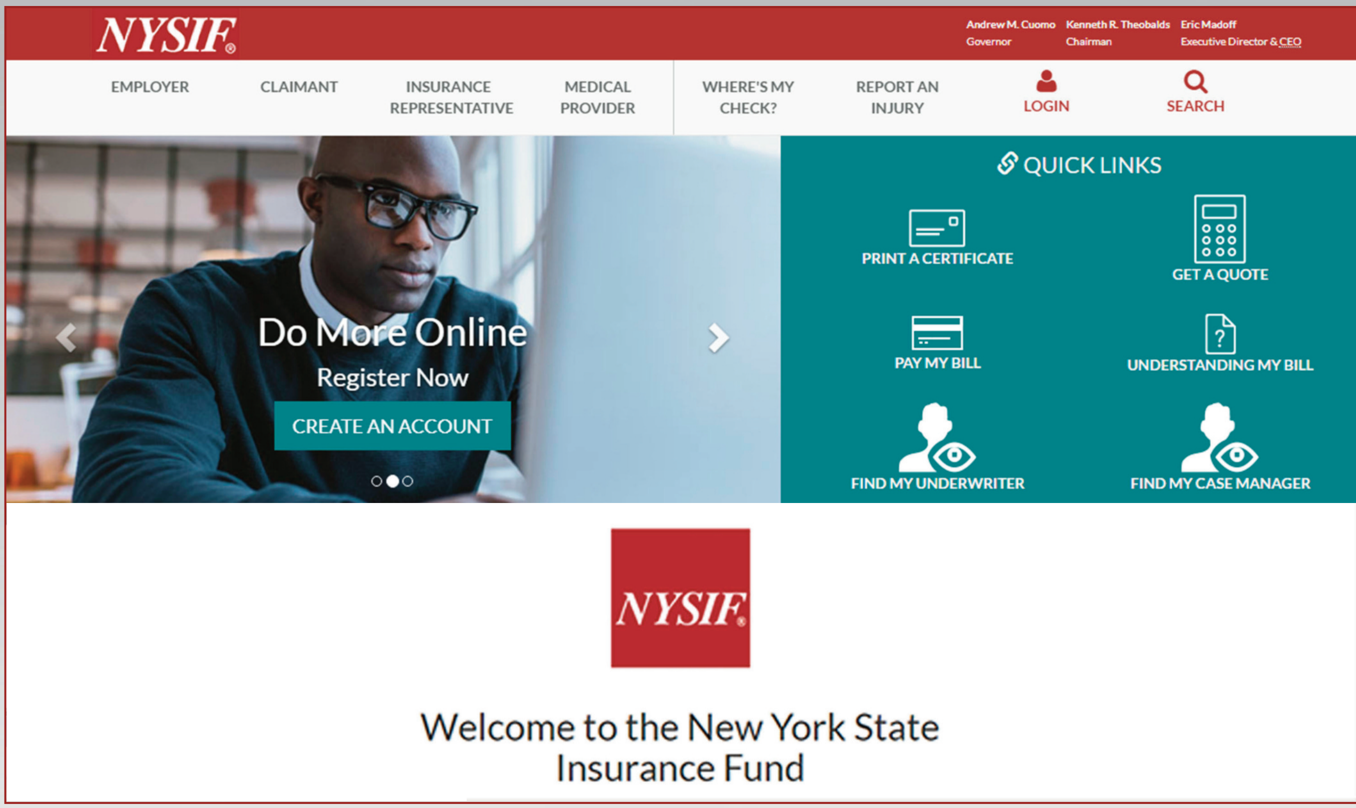

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- Digital Documents - Access declaration pages, renewals, rebills and more
- Claims Search - Track claims activity
- NYSIF PAYGO - Make premium payments through approved payroll service providers
- eCHECK - Make electronic premium payments
- eBILL - Access your account
- PASS (Premium Audit Scheduling System) - Schedule your initial audit or reschedule an appointment
- Audit Worksheets - Access audit worksheets and audit exit forms
- Medical Provider Portal - Check billing status and Explanation Of Benefits
- Where's My Check? - Check the status of your claimant benefits
- Direct Deposit - Receive claimant or provider benefit payments electronically
- Contact your case manager
- Contact your underwriter
- Report your payroll
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2016 Annual Report

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