2018 Annual Report
Financial Highlights

Workers' Compensation Fund
(in thousands)

	2018	2017
Net Written Premium	$ 2,256,138	$ 2,277,778
Net Earned Premium	$ 2,226,409	$ 2,295,572
Net Investment Income	$ 719,772	$ 645,346
Net Income	$ 1,066,651	$ 843,431
Total Admitted Assets	$ 19,388,838	$ 18,629,825
Total Surplus	$ 7,096,066	$ 5,943,619

Disability Benefits Fund
(in thousands)

	2018	2017
Net Written Premium	$ 75,189	$ 21,226
Net Earned Premium	$ 56,707	$ 19,655
Net Investment Income	$ 5,049	$ 7,712
Net Income	$ 10,578	$ 7,320
Total Admitted Assets	$ 255,828	$ 206,356
Total Surplus	$ 185,408	$ 174,512

INDEPENDENT AUDITORS' REPORT

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

EISNERAMPER

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 agency), which comprise the statutory basis statements of admitted assets, liabilities and surplus as of December 31, 2018 and 2017, 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 accounting practices prescribed or permitted by the 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 to the statutory basis financial statements, the State Insurance Fund Workers' Compensation Fund prepared these statutory basis financial statements using accounting principles prescribed or permitted by the 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. The effects on the statutory basis financial statements of the variances between the 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, 2018 and 2017, 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, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, on the basis of accounting 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.

Our opinion is not modified with respect to this matter

EisnerAmper LLP
New York, New York
November 1, 2019

EisnerAmper LLP

NEW YORK STATE INSURANCE FUND
WORKERS' COMPENSATION FUND

Statutory Basis Statements of Admitted Assets, Liabilities and Surplus
As of December 31, 2018 and 2017 (in thousands)

	2018	2017
Admitted assets		
Cash and invested assets:		
Bonds—at NAIC carrying value	$ 15,900,108	$ 14,666,409
Preferred stocks	-	4,951
Common stocks	1,417,855	2,048,548
Real estate	97,304	61,112
Cash, cash equivalents and short-term investments	160,482	215,370
Receivables for securities and security lending reinvested collateral assets	185,589	41,229
Total cash and invested assets	17,761,338	17,037,619
Premium receivables	122,730	97,208
Reinsurance recoverable	-	-
Accrued investment income	102,920	95,515
Advance Workers' Compensation Board assessments	82,076	78,642
Due from affiliates	15,247	16,740
Other admitted assets	9,527	9,101
Contingent receivable from New York State	1,295,000	1,295,000
Total admitted assets	$ 19,388,838	$ 18,629,825
Liabilities and surplus		
Liabilities:		
Reserve for losses	$ 9,044,703	$ 9,041,083
Reserve for loss adjustment expenses	950,512	1,028,786
Unearned premiums	396,644	407,471
Contingent policyholder dividends	1,504,475	1,670,983
Payables for securities and securities lending	186,175	42,308
Accrued expenses and other liabilities	210,263	245,575
Due to affiliates	-	250,000
Total liabilities	12,292,772	12,686,206
Surplus:		
Appropriated surplus funds:		
Security fluctuation surplus	1,350,000	1,050,000
Catastrophe surplus	399,561	399,561
Foreign terrorism catastrophe surplus	605,339	559,561
Domestic terrorism catastrophe surplus	114,596	106,535
Postemployment benefits surplus	680,428	506,624
Unassigned surplus	3,946,142	3,321,338
Total surplus	7,096,066	5,943,619
Total liabilities and surplus	$ 19,388,838	$ 18,629,825

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, 2018 and 2017 (in thousands)

	2018	2017
Underwriting income:		
Net written premium	**$ 2,256,138**	$ 2,277,778
Net earned premium	**$ 2,226,409**	$ 2,295,572
Underwriting expenses:		
Losses incurred	**1,391,543**	1,316,484
Loss adjustment expenses incurred	**158,767**	191,673
Other underwriting expenses incurred	**201,919**	213,476
Total underwriting expenses	**1,752,229**	1,721,633
Net underwriting profit	**474,180**	573,939
Investment income earned:		
Investment income	**536,399**	517,201
Investment expenses	**(33,017)**	(32,099)
Net realized capital gains	**216,390**	160,244
Net investment income earned	**719,772**	645,346
Other income (expenses):		
Bad debt expense	**(110,458)**	(70,389)
Finance and service charges	**15,568**	12,652
Miscellaneous income	**3,565**	5,156
Dividend expense to policyholders	**(35,976)**	(323,273)
Total other expenses	**(127,301)**	(375,854)
Net income	**$ 1,066,651**	$ 843,431

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, 2018 and 2017 (in thousands)

	Appropriated Surplus Funds						
	Security Fluctuation Surplus	Catastrophe Surplus	Foreign Terrorism Catastrophe Surplus	Domestic Terrorism Catastrophe Surplus	Postemployment Fringe Benefits	Unassigned Surplus	Total Surplus
Balance—January 1, 2017	$ 1,050,000	$ 399,561	$ 512,493	$ 97,946	$ -	$ 2,437,416	$ 4,497,416
Net income	-	-	-	-	-	843,431	843,431
Net unrealized capital gain - investments	-	-	-	-	-	258,766	258,766
Increase in nonadmitted assets	-	-	-	-	-	(10,722)	(10,722)
Appropriated surplus adjustment - Postemployment fringe benefits	-	-	-	-	354,728	-	354,728
Appropriation of unassigned to (from) appropriated surplus	-	-	47,068	8,589	151,896	(207,553)	-
Balance—December 31, 2017	1,050,000	399,561	559,561	106,535	506,624	3,321,338	5,943,619
Net income	-	-	-	-	-	1.066.651	1.066.651
Net unrealized capital loss - investments	-	-	-	-	-	(305.695)	(305.695)
Decrease in nonadmitted assets	-	-	-	-	-	71,920	71,920
Contributed Surplus - State of New York	-	-	-	-	-	209,399	209,399
Appropriated surplus adjustment - Postemployment fringe benefits	-	-	-	-	110,172	-	110,172
Appropriation of unassigned to (from) appropriated surplus	300,000		45,778	8,061	63,632	(417,471)	-
Balance—December 31, 2018	**$ 1,350,000**	**$ 399,561**	**$ 605,339**	**$ 114,596**	**$ 680,428**	**$3,946,142**	**$ 7,096,066**

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, 2018 and 2017 (in thousands)

	2018	2017
Cash flows from operations:		
Premiums collected, net of reinsurance	**$ 2,240,869**	$ 2,342,531
Net investment income	**460,164**	436,428
Miscellaneous expense	**(93,488)**	(184,336)
Losses and loss adjustment expenses paid, net of salvage and subrogation	**(1,387,923)**	(1,369,193)
Expenses paid	**(363,027)**	(356,878)
Dividends paid to policyholders	**(202,484)**	(222,347)
Net cash provided by operations	**654,111**	646,205
Cash flows from investments:		
Proceeds from investments sold, matured or repaid	**5,243,467**	2,949,259
Cost of investments acquired	**(5,929,957)**	(3,608,027)
Other (applications) proceeds	**(143,592)**	51,115
Net cash used in investments	**(830,082)**	(607,653)
Net cash flows from other sources	**121,083**	(68,883)
Net change in cash and short-term investments	**(54,888)**	(30,331)
Cash and short-term investments: Beginning of year	**215,370**	245,701
Cash and short-term investments: End of year	**$ 160,482**	$ 215,370

See accompanying notes to statutory basis financial statements.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2018 and 2017 (in thousands)

NOTE 1 - ORGANIZATION AND PURPOSE

The New York State Insurance Fund (NYSIF), which includes the operations of the Workers' Compensation Fund (WCF) and the Disability Benefits Fund (DBF), is a nonprofit agency of the State of New York (the State). NYSIF also administers the Aggregate Trust Fund (ATF). By statute, NYSIF maintains separate records for each fund.

In *Methodist Hospital of Brooklyn v. State Insurance Fund (1985)*, The New York State Court of Appeals held that NYSIF is "a State agency for all of whose liabilities the State is responsible…".

The home office properties are occupied jointly by all three funds. Because of this relationship, WCF incurs joint operating expenses subject to allocation based on the level of services provided. Management believes the method of allocating such expenses is fair and reasonable. WCF allocates the cost of services rendered to DBF based on a percentage of DBF employees, salaries and square footage occupied.

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation:

The accompanying statutory basis financial statements of WCF are presented in conformity with accounting practices prescribed by the New York State Department of Financial Services (DFS). 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.

Differences between NAIC SAP and NY SAP:

The State has adopted certain prescribed accounting practices that differ from those found in NAIC SAP. Such differences are identified herein as NY SAP where applicable. 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 DFS has the right to permit other specific practices that may deviate from prescribed practices. WCF, 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 and records the contingent receivable from the State as an admitted asset.

WCF discounts all reserves, including pension and non-pension reserves, for loss and loss adjustment expenses at 5%. If no discounting was used, statutory surplus would decrease by $6,799,532 and $6,839,331 as of December 31, 2018 and 2017, respectively. If the contingent receivable from the State was not prescribed as an admitted asset, total statutory surplus would be decreased by $1,295,000 as of both December 31, 2018 and 2017.

The cumulative effect of prescribed practices by NY SAP or as mandated by New York State Workers' Compensation Law on WCF's total surplus and net income for the years ended December 31, 2018 and 2017 is as follows:

	2018	2017
Surplus		
Total surplus as shown on statutory statements - NY SAP	$ 7,096,066	$ 5,943,619
Discounting of loss and loss adjustment expense reserves at 5% *	(6,799,532)	(6,839,331)
Contingent receivable from State of New York	(1,295,000)	(1,295,000)
Total cumulative effect	(8,094,532)	(8,134,331)
Total adjusted deficit - NAIC SAP	$ (998,466)	$ (2,190,712)
Net Income		
Total net income as shown on statutory statements - NY SAP	$ 1,066,651	$ 843,431
Discounting of loss and loss adjustment expense reserves at 5% *	39,799	125,211
Total cumulative effect	39,799	125,211
Total adjusted net income - NAIC SAP	$ 1,106,450	$ 968,642

* Under NAIC SAP, certain pension tabular case reserves would be discounted at an appropriate interest rate. The amount of tabular discount at 3.5% as of December 31, 2018 and 2017, would be $2,339,298 and $2,493,374, respectively.

Differences between NY SAP and U.S. GAAP:
The accounting practices and procedures of NY SAP and NAIC SAP (collectively referred to as SAP) comprise a comprehensive basis of accounting other than generally accepted accounting principles in the United States (U.S. GAAP). The more significant differences between SAP and U.S. GAAP, which are applicable to WCF, 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 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. WCF 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 their useful lives.

h. WCF'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 2018 and 2017. Under U.S. GAAP, the interest rate would be based on market rates and earnings expectations.

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

SAP allows the appropriation of unassigned surplus for these purposes. Under U.S. GAAP, no such appropriations are established.

k. For real estate owned and occupied by NYSIF, rental income and corresponding rental expense is recorded. Under U.S. GAAP, no such income or expense is recorded.

l. The balance sheet under 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 Accounting Standards Codification (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 JPMorgan Chase, primarily.

For mortgage-backed fixed maturity securities, WCF 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.

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.

Redeemable 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. Perpetual preferred stocks are valued at estimated market value. The fair values for preferred stocks are based on quoted market prices where available. Unrealized gain or loss for preferred stocks are 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 WCF'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 WCF will not be able to collect all the amounts due under the security contractual terms. Equity investments are impaired when it becomes apparent that WCF 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 in the statutory basis statements of income in 2018 and 2017 for realized impaired losses was $63,509 and $31,378, respectively.

C. Real Estate:
WCF records buildings at cost less accumulated depreciation calculated over estimated useful life of 25 years, using the straight-line method. All property owned by NYSIF is used primarily for its own operations. In accordance with statutory accounting practices, WCF records both rental income and rental expense for office space occupied in buildings owned by NYSIF. The amount of rental income and expense recorded in the statutory basis statements of income in 2018 and 2017 was $11,937 and $10,635, respectively.

Maintenance and repairs are charged to expense as incurred.

D. Premium Revenue and Related Accounts:
WCF records written premiums when billed to policyholders and earns the related income over the life of the policy.

WCF 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, 2018 and 2017, the outstanding premium receivable net admitted balance recorded in the statutory basis statements of admitted assets, liabilities and surplus for WCF was $122,730 and $97,208, respectively. Based upon WCF experience, less than 5% of net written premium may become uncollectable and the potential loss is not material to WCF's financial condition. WCF performs an analysis of uncollectable premiums receivable and recorded write offs of $110,458 and $70,389, for the years ended December 31, 2018 and 2017, respectively, as bad debt expense in the statutory basis statements of income.

For WCF, unearned premiums represent the pro-rata portion of premiums and endorsements billed that are applicable to the unexpired terms of policies in force at year end.

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):

WCF carried a liability of $5,625 and $519, respectively, related to assessment payments due to the Workers' Compensation Board as of December 31, 2018 and 2017.

The amount of assessments due from policyholders billed as of December 31, 2018 and 2017 was $87,701 and $79,161, respectively, and recorded through the statutory basis statements of admitted assets, liabilities and surplus.

Assessments billed for the years ended December 31, 2018 and 2017 were $268,647 and $276,803, respectively, and the estimated payments made to the Workers' Compensation Board were $262,851 and $289,368, 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.

F. Reserves for Losses and Loss Adjustment Expenses:

The reserves for losses and loss adjustment expenses (LAE) for WCF 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 WCF are discounted to present value using an annual effective rate of interest of 5%. The liability for losses and loss adjustment expenses of WCF has been reduced by $6,799,532 and $6,839,331 as of December 31, 2018 and 2017, 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 impact surplus by 1.4% and 1.7% as of December 31, 2018 and 2017, respectively.

WCF'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. WCF'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, WCF's actual future experience may not conform to the assumptions inherent in the determination of the liability. Accordingly, the ultimate settlement value may vary materially from the amounts included in the statutory basis financial statements.

Amounts relating to New York State losses, loss adjustment expenses and underwriting expenses have been excluded from these financial statements (See Note 8).

G. Appropriated Surplus Funds:

As described above, WCF may designate a portion of unassigned surplus to provide for contingencies as permitted under NAIC SAP.

Security fluctuation surplus

Security fluctuation increased from $1,050,000 at December 31, 2017 to $1,350,000 at December 31, 2018.

Catastrophe surplus

The review of the catastrophe surplus in conjunction with a risk assessment of WCF's exposures resulted in WCF maintaining the catastrophe surplus at $399,561 as of both December 31, 2018 and 2017.

Foreign terrorism and domestic terrorism catastrophe surplus

WCF 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.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2018 and 2017 (in thousands)

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. WCF is responsible for a deductible of $459,114 and $495,987 for December 31, 2018 and 2017, respectively. WCF assigned $605,339 and $559,561 of surplus which represents the estimated premium attributable to the foreign terrorism premium charge at December 31, 2018 and 2017, respectively. Beginning on October 1, 2005, WCF began assigning a portion of premium to domestic terrorism catastrophe surplus, which totaled $114,596 and $106,535 as of December 31, 2018 and 2017, respectively.

Postemployment benefits surplus

During the year ended December 31, 2017, WCF established an appropriation of surplus for a portion of the contingency for other postemployment benefits (OPEB) that had not been recognized as an OPEB obligation. Also during 2017, WCF transferred $354,728 of the obligation previously recorded as a liability to the appropriated surplus fund for postemployment benefits. During 2018, WCF segregated an additional $151,896 from its unassigned surplus to its appropriated surplus for postemployment benefits. See Note 2[J].

Pension benefits surplus

During the year ended December 31, 2018, WCF established an appropriation of surplus for the contingency for pension benefits that has not been recognized as an obligation. During 2018, WCF transferred a net amount of $18,132 to the appropriated surplus fund for pension benefits. See Note 2[I].

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 WCF to safety groups. The estimated dividends that may be payable recorded by WCF 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:

	2018	2017
Balance - January 1	$ 1,670,983	$ 1,570,057
Calendar year accrued Safety Group dividend liability	232,788	323,273
Adjustment of estimated liability	(196,812)	-
Dividends paid to policyholders	(202,484)	(222,347)
Balance - December 31	$ 1,504,475	$ 1,670,983

I. Postemployment Fringe Benefits - Pension:

All employees of WCF are eligible to be 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 term of employment.

Based on actual costs billed by various State agencies, WCF incurred $105,789 and $120,304 of fringe benefits and indirect costs in 2018 and 2017, respectively, recorded in other underwriting expenses in the statutory basis statements of income.

WCF, in the course of business, reimburses the State for pension related charges under the New York State Plan. Under Statement of Statutory Accounting Principles (SSAP) No. 102, *Pensions*, WCF records the difference between amounts billed by the State and amounts paid to the State as a liability. WCF also estimates a contingent liability for the net pension obligation as of December 31 of each calendar year based on the State's latest available Actuarial Valuation Report, which is as of March 31 of the same calendar year.

During the year ended December 31, 2018, WCF appropriated surplus to provide for the net pension obligation costs as permitted by SSAP No. 72, *Surplus and Quasi-Reorganizations.* Future obligations may vary significantly due to potential future changes in various key assumptions, such as WCF's ultimate allocated share of the obligation, investment earning and actuarial projections. WCF updates the estimate each year-end.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2018 and 2017 (in thousands)

At December 31, 2018 and 2017, WCF's pro-rata portion of its New York State Employees' net pension obligation was $18,132 and $110,172, respectively. The pension obligation was measured by the State as of March 31, 2018 and 2017 with WCF's portion of the obligation based on a ratio of its employees to State employees. At March 31, 2018, and 2017, WCF's approximate proportionate share was 0.567%.

The activity in the appropriated surplus for pension benefits during 2018 is as follows:

	2018
Appropriated pension benefits surplus, beginning of year	$ -
Appropriated surplus adjustment for pension benefits	110,172
Current year appropriation of unassigned surplus for pension benefits	(92,040)
Appropriated pension benefits surplus, end of year	$ 18,132

In 2018 and 2017, WCF recorded pension expense of $24,471 and $43,733, respectively.

WCF has a prepaid asset for pension benefits in the amount of $6,133 and $6,425 as of December 31, 2018 and 2017, respectively.

Prior to January 1, 2018, WCF recorded a liability for the actuarially determined net pension liability based on the State's latest available Actuarial Valuation Report. However, during 2018, WCF determined that they are not directly liable for this obligation and as such, in accordance with SSAP No. 102, *Pensions*, WCF began recording its obligation based on amounts billed by the State. As of January 1, 2018, WCF reclassified the net pension liability to appropriated surplus.

J. Post-employment Fringe Benefits – Other Postemployment Benefits:

WCF's employees are employees of the State. New York State Civil Service Law, Section 163.2, provides for health insurance coverage for retired employees of WCF including their spouses and dependent children (The State Plan). 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 (NYSHIP) 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.

The State's Actuarial Valuation Reports are prepared as of March 31 (the State's fiscal year end) and segregate balances relating to the various state agencies, including NYSIF, under GASB 45 and GASB 75.

NYSIF, in the course of business, reimburses the State for certain Other Postemployment Benefits (OPEB) related charges under the State's Plan. Under SSAP No. 92, *Postretirement Benefits Other Than Pensions*, WCF estimates its Normal Cost as of December 31 of each calendar year based on the State's latest available Actuarial Valuation Report, which is as of March 31 of the same calendar year.

WCF carries its net OPEB obligation (i.e., the Normal Cost less the amount WCF has funded to the State for retirees) as a liability. WCF recognizes in the statement of income only its annual Normal Cost, as this is WCF's current year expense for the plan for the period, in accordance with statutory accounting principles.

Projected benefits for financial reporting purposes are based on the State's actuarial calculations and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between employer and plan members to that point. The actuarial calculations reflect a long-term perspective. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revisions as results are compared to past expectations and new estimates are made about the future. During the year ended December 31, 2017, WCF established an appropriated surplus account to provide for the portion of the contingency for OPEB costs that have not already been recognized as a net OPEB obligation, as permitted by SSAP No. 72, *Surplus and Quasi-Reorganizations*. Future obligations may vary significantly due to potential future changes in various key assumptions, such as WCF's ultimate allocated share of the liability, discount rate used to develop the present value of future benefits, healthcare inflation, projected healthcare claims, and the likelihood an employee retires, elects healthcare coverage, and survives after retirement. WCF updates the estimate each year-end.

The activity in the appropriated surplus for postemployment benefits during 2018 and 2017 is as follows:

	2018	2017
Appropriated postemployment benefits surplus, beginning of year	$ 506,624	$ -
Appropriated surplus adjustment for postemployment benefits	-	354,728
Current year appropriation of unassigned to assigned surplus	155,672	151,896
Appropriated postemployment benefits surplus, end of year	$ 662,296	$ 506,624

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2018 and 2017 (in thousands)

WCF paid the State retiree OPEB charges of $19,261 and $17,128 for the years ended December 31, 2018 and 2017, respectively. The following table shows the components of WCF's assigned values relating to OPEB expense (normal cost) under the State's plan, the amount credited to the plan, and changes in the net OPEB obligation as of December 31, 2018 and 2017:

	2018	2017
Net OPEB obligation, beginning of year	$ 49,967	$ 381,170
Annual OPEB expense (Normal Cost)	26,123	40,653
Estimated contribution credit (retiree premiums paid)	(19,261)	(17,128)
Increase in net OPEB obligation	6,862	23,525
OPEB obligation end of year	56,829	404,695
Surplus appropriation	-	(354,728)
Net OPEB obligation, end of year	$ 56,829	$ 49,967

In 2018 and 2017, WCF recorded OPEB expense of $26,123 and $40,653, respectively.

WCF has an accrued liability for employee' compensation for future absences in the amount of $16,771 and $17,996 as of December 31, 2018 and 2017, respectively

K. Income Tax:
WCF is exempt from federal income taxes. However, WCF is subject to a New York State franchise and MTA taxes. WCF'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 $39,916 and $42,676 in 2018 and 2017, respectively, and recorded through the statutory basis statements of income.

As WCF 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 2018 and 2017 was $5,059 and $5,495, respectively, and recorded through the statutory basis statements of income.

L. Concentrations of Credit Risk:
Financial instruments that potentially subject WCF 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 demand deposit accounts in the United States are fully insured by the Federal Deposit Insurance Corporation, (FDIC) up to $250. The term 'demand deposits' means both interest-bearing and noninterest bearing deposits that are payable on demand and for which the depository institution does not reserve the right to require advance notice of an intended withdrawal.

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:
WCF 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, earned but unbilled premiums and WCF's portion of the pension and OPEB costs estimated by WCF based on the current actuarial valuation prepared for the State, which includes WCF's employees.

O. Reclassifications:
Certain reclassifications have been made to the prior year's statutory basis financial statements to conform to the current year presentation.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2018 and 2017 (in thousands)

NOTE 3 - INVESTMENTS

Section 87 of the New York State Workers' Compensation Law specifically states the type of securities authorized for investment by WCF. Section 87 further provides that the Commissioner of Taxation and Finance is the sole custodian of WCF. JPMorgan Chase serves as WCF's custodian for investments. All bank deposits are entirely insured or collateralized with securities held by JPMorgan Chase at December 31, 2018 and 2017, in accordance with Section 105 of the New York State Finance Law.

The amortized cost, gross unrealized gains, gross unrealized losses and estimated market value of investments in bonds and stocks at December 31, 2018 and 2017 are as follows:

	2018			
	Cost or Book Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government and government agency obligations	$ 4,872,081	$ 200,586	$ (45,063)	$ 5,027,604
Foreign government	170,040	342	(1,360)	169,022
States, territories, possessions and political subdivisions	248,851	4,019	(4,188)	248,682
Corporate bonds and public utilities	8,538,386	124,330	(179,562)	8,483,154
Mortgaged-backed securities	2,070,735	4,146	(14,414)	2,060,467
Hybrid securities	15	10	-	25
Total bonds	15,900,108	333,433	(244,587)	15,988,954
Common stock	1,189,930	289,661	(61,736)	1,417,855
Total stocks	1,189,930	289,661	(61,736)	1,417,855
Total investments	$ 17,090,038	$ 623,094	$ (306,323)	$ 17,406,809

	2017			
	Cost or Book Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government and government agency obligations	$ 4,220,516	$ 322,566	$ (25,476)	$ 4,517,606
Foreign government	274,917	1,962	(1,323)	275,556
States, territories, possessions and political subdivisions	401,502	30,269	(1,899)	429,872
Corporate bonds and public utilities	8,275,294	361,305	(37,932)	8,598,667
Mortgage-backed securities	1,460,657	5,565	(9,567)	1,456,655
Hybrid securities	33,523	28,541	-	62,064
Total bonds	14,666,409	750,208	(76,197)	15,340,420
Preferred stocks	4,951	517	-	5,468
Common stocks	1,515,916	544,170	(11,538)	2,048,548
Total stocks	1,520,867	544,687	(11,538)	2,054,016
Total investments	$ 16,187,276	$ 1,294,895	$ (87,735)	$ 17,394,436

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2018 and 2017 (in thousands)

The amortized cost and market value of bonds at December 31, 2018 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.

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	$ 983,911	$ 981,226
Due after one year through five years	5,688,821	5,637,235
Due after five years through ten years	3,010,797	3,084,430
Due after ten years	6,216,579	6,286,063
Total bonds	$ 15,900,108	$ 15,988,954

WCF participates in securities lending programs whereby certain securities from WCF's portfolio are loaned to other institutions for short periods of time. Under the terms of the lending agreements, WCF receives a fee from the borrower and requires collateral with a market value of at least 102% of the market value of securities loaned. WCF maintains ownership rights to securities loaned and has the ability to sell securities while they are on loan. WCF has an indemnification agreement with lending agents in the event a borrower becomes insolvent or fails to return securities. As of December 31, 2018 and 2017, $370,253 and $40,797 of WCF investments were on loan, supported by collateral of $379,486 and $44,861, respectively.

WCF had reinvested collateral assets in the amount of $183,816 and $40,645 as of December 31, 2018 and 2017, respectively. For the years ended December 31, 2018 and 2017, WCF received fees of $2,093 and $457, 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, 2018 by contractual maturity are shown below:

	Amortized Cost	Fair Value
30 days or less	$ 183,816	$ 183,964
31 to 180 days	-	-
Total collateral received	$ 183,816	$ 183,964

The amortized cost and market value of the reinvested collateral assets at December 31, 2017 by contractual maturity are shown below:

	Amortized Cost	Fair Value
30 days or less	$ 40,393	$ 40,394
31 to 180 days	252	418
Total collateral received	$ 40,645	$ 40,812

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

WCF security lending agreement is with JPMorgan Chase. All bank deposits are entirely insured or collateralized with securities held by JPMorgan Chase at December 31, 2018 and 2017, in accordance with Section 105 of the New York State Finance Law.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2018 and 2017 (in thousands)

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

	2018	2017
Bonds	$ 478,503	$ 468,595
Stocks	36,876	35,647
Cash, cash equivalents and short-term investments	4,827	1,475
Real estate - home office	15,051	10,772
Securities lending	2,402	457
Other	(1,260)	255
Investment income earned	536,399	517,201
Investment expenses	(27,406)	(29,346)
Depreciation on real estate and other invested assets	(5,611)	(2,753)
Net realized capital gains	216,390	160,244
Net investment income	$ 719,772	$ 645,346

Net realized capital gains on investments, determined on the first-in, first-out method in 2018 and 2017, consist of the following:

	2018	2017
Bonds	$ 3,092	$ 90,316
Stocks	213,262	69,903
Securities lending	36	25
Net realized capital gains	$ 216,390	$ 160,244

Proceeds from investments sold, matured or repaid during the years ended December 31, 2018 and 2017 were $5,243,467 and $2,949,259, respectively. These sales resulted in gross realized capital gains of $363,626 and $209,514, and gross realized capital losses of $83,728 and $17,893 in 2018 and 2017, respectively.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2018 and 2017 (in thousands)

The following table represents WCF'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, 2018 and 2017, respectively.

2018

	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	$ 775,019	$ 759,047	$ (15,972)	$ 951,910	$ 918,631	$ (33,279)	$ 1,726,929	$ 1,677,678	$ (49,251)
Foreign Government	-	-	-	109,908	108,548	(1,360)	109,908	108,548	(1,360)
Corporate and Public Utilities	3,613,432	3,518,000	(95,432)	2,680,174	2,596,044	(84,130)	6,293,606	6,114,044	(179,562)
Mortgage Backed Securities	757,445	755,083	(2,362)	708,843	696,791	(12,052)	1,466,288	1,451,874	(14,414)
Total Fixed Maturities	5,145,896	5,032,130	(113,766)	4,450,835	4,320,014	(130,821)	9,596,731	9,352,144	(244,587)
Common Stock	419,974	358,468	(61,506)	1,543	1,313	(230)	421,517	359,781	(61,736)
Total Equity	419,974	358,468	(61,506)	1,543	1,313	(230)	421,517	359,781	(61,736)
Total Temporarily Impaired investments	$ 5,565,870	$ 5,390,598	$ (175,272)	$ 4,452,378	$ 4,321,327	$ (131,051)	$ 10,018,248	$ 9,711,925	$ (306,323)

2017

	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	$ 584,613	$ 579,614	$ (4,999)	$ 645,350	$ 622,974	$ (22,376)	$ 1,229,963	$ 1,202,588	$ (27,375)
Foreign Government	44,879	44,125	(754)	110,009	109,440	(569)	154,888	153,565	(1,323)
Corporate and Public Utilities	2,121,586	2,109,740	(11,846)	1,293,907	1,267,821	(26,086)	3,415,493	3,377,561	(37,932)
Mortgage Backed Securities	791,860	787,275	(4,585)	330,530	325,548	(4,982)	1,122,390	1,112,823	(9,567)
Total Fixed Maturities	3,542,938	3,520,754	(22,184)	2,379,796	2,325,783	(54,013)	5,922,734	5,846,537	(76,197)
Common Stock	140,318	128,987	(11,331)	358	151	(207)	140,676	129,138	(11,538)
Total Equity	140,318	128,987	(11,331)	358	151	(207)	140,676	129,138	(11,538)
Total Temporarily Impaired investments	$ 3,683,256	$ 3,649,741	$ (33,515)	$ 2,380,154	$ 2,325,934	$ (54,220)	$ 6,063,410	$ 5,975,675	$ (87,735)

Gross unrealized losses represented 1.9% and 0.6% of cost or amortized cost of total investments for WCF as of December 31, 2018 and 2017, respectively. Fixed maturities represented 79.8% and 86.8% of WCF's unrealized losses as of December 31, 2018 and 2017, respectively. The group of securities in an unrealized loss position for less than twelve months was comprised of 1,827 and 304 securities for WCF as of December 31, 2018 and 2017, respectively. The group of securities depressed for twelve months or more were comprised of 402 and 186 securities for WCF as of December 31, 2018 and 2017, 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 WCF's ongoing security monitoring process by a committee of investment and accounting professionals, WCF has reviewed its investment portfolio and concluded that there were no additional other-than-temporary impairments as of December 31, 2018 and 2017. 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, WCF 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.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2018 and 2017 (in thousands)

SSAP No. 43R - *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) WCF intends to sell the security; or (ii) WCF 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 WCF 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 amounts included in 2018 and 2017 for realized impairment losses related to SSAP No. 43R investments. There were no additional impairments recorded in 2018 and 2017 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 WCF was unable to retain the security until recovery of amortized cost.

During 2018 and 2017, WCF recorded OTTI related to bonds in the amount of $13,822 and $0 in the statutory basis statements of income, respectively. WCF recorded total OTTI of $49,687 and $31,378 related to common stock as of December 31, 2018 and 2017, 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.

WCF 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, 2018 and 2017 are as follows:

	2018		2017	
	Statement Value	Estimated Fair Value	Statement Value	Estimated Fair Value
Financial assets:				
Bonds	$ 15,900,108	$ 15,988,954	$ 14,666,409	$ 15,340,420
Preferred stocks	-	-	4,951	5,468
Common stocks	1,417,855	1,417,855	2,048,548	2,048,548
Cash equivalents and short-term investments	109,043	109,043	169,243	169,243
Security lending collateral assets	183,816	183,964	40,645	40,812

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, WCF 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. 100R 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, WCF 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 WCF'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, 2018 and 2017 (in thousands)

WCF'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. 100R 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 WCF'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, 2018 about WCF'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
Common stocks	$ 1,417,854	$ -	$ 1	$ 1,417,855
Total assets at fair value	$ 1,417,854	$ -	$ 1	$ 1,417,855

The following table provides information as of December 31, 2017 about WCF'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	$ 4,951	$ -	$ -	$ 4,951
Common stocks	2,048,526	-	22	2,048,548
Total assets at fair value	$ 2,053,477	$ -	$ 22	$ 2,053,499

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 WCF by independent pricing services. Level 2 securities include corporate bonds and other common stock securities where pricing is based on bid evaluations. Quoted prices for these securities are provided to WCF using independent pricing services. There were no changes in valuation techniques during 2018 and 2017.

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.

WCF 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.

WCF'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 2018 and 2017.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2018 and 2017 (in thousands)

The following table provides information as of December 31, 2018 about WCF'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	$15,988,929	$15,900,093	$ -	$15,988,929	$ -
Hybrids	25	15	-	25	-
Cash Equivalents and short term investments	109,046	109,043	109,046	-	-
Preferred stocks	-	-	-	-	-
Common stocks	1,417,855	1,417,855	1,417,854	-	1
Security lending collateral assets	183,964	183,816	183,577	387	-
Total	$17,699,819	$17,610,822	$1,710,477	$15,989,341	$ 1

The following table provides information as of December 31, 2017 about WCF'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	$15,278,355	$14,632,886	$ -	$15,278,355	$ -
Hybrids	62,065	33,523	-	62,065	-
Cash Equivalents and short-term investments	169,222	169,243	169,222	-	-
Preferred stocks	5,468	4,951	5,468	-	-
Common stocks	2,048,548	2,048,548	2,048,526	-	22
Security lending collateral assets	40,812	40,645	40,394	418	-
Total	$17,604,470	$16,929,796	$2,263,610	$15,340,838	$ 22

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 WCF by independent pricing services. Quoted prices for these securities are provided to WCF 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 WCF by independent pricing services. Securities classified in Level 3 for 2018 represent a structured investment vehicle that is measured based on analysis performed by WCF'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.

There were no significant transfers into or out of Level 2 or 3 during 2018 and 2017. There were no changes in valuation techniques during 2018 and 2017.

B. Subprime Mortgage Exposure:

WCF has no direct subprime exposure through investments in subprime mortgage loans.

WCF has indirect subprime exposure in 2 mortgage-backed securities in the reinvested collateral assets in the amount of $916 and $965 in 2018 and 2017, respectively. None of these securities were deemed to have any issues that would lead management to believe that they were other-than-temporarily impaired.

WCF has no underwriting exposure to subprime mortgage risk through Mortgage Guaranty or Financial Guaranty insurance coverage.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2018 and 2017 (in thousands)

C. Wash Sales:

In the course of WCF's management of investment portfolio, securities may be sold at a loss and repurchased within 30 days of the sale date to enhance WCF's yield on its investment portfolio. WCF 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, 2018 and 2017 that were reacquired within 30 days of the sale date.

NOTE 4 - REAL ESTATE

Investment in real estate includes various locations in New York State occupied by NYSIF's employees. Depreciation expense recorded in the statutory basis statements of income during 2018 and 2017 was $5,610 and $2,753, respectively.

During 2017, NYSIF began renovations of its New York City location. The costs associated with these renovations, which amounted to $43,594 as of December 31, 2018, have been recorded within office buildings and improvements.

NYSIF owned real estate recorded by WCF at December 31, 2018 and 2017 is as follows:

	2018	2017
Office buildings and improvements, at cost	$ 126,019	$ 84,249
Accumulated depreciation	(33,699)	(28,089)
Office buildings and improvements—net of accumulated depreciation	92,320	56,160
Land	2,735	2,735
Land improvement	2,249	2,217
Total real estate	$ 97,304	$ 61,112

NOTE 5 - NON-ADMITTED ASSETS

Non-admitted assets at December 31, 2018 and 2017 are as follows:

	2018	2017
Premium in course of collection outstanding over 90 days	$ 159,457	$ 228,215
EBUB	6,565	10,620
Electronic data equipment/software	2,183	3,213
Furniture and equipment, net of accumulated depreciation	5,160	2,954
Prepaid expenses and other	6,145	6,428
Total non-admitted assets	$ 179,510	$ 251,430

NOTE 6 - TRANSACTIONS WITH NEW YORK STATE

Over the course of several years, WCF 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 WCF 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 WCF to transfer an additional $325,000 to the general fund of the State. Chapter 47 of the New York State Laws of 1987 required WCF 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 WCF 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, WCF 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, WCF has no assets in excess of its reserves available to pay claims under its Workers' Compensation policies. These statutes specifically require the contingent receivable to be carried as an admitted asset.

NOTE 7 - REINSURANCE

As part of a prior reinsurance program, WCF reinsured certain risks with other companies. Such arrangements served to limit WCF'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, WCF would be liable for its respective participation in such defaulted amounts. The reserves for losses and loss adjustment expenses are $947 and $1,034 for losses recoverable under reinsurance contracts as of December 31, 2018 and 2017, respectively. WCF purchased no reinsurance for 2018 and 2017.

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

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

WCF 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 WCF's surplus at December 31, 2018 and 2017.

B. Retroactive Reinsurance:

WCF entered into an assumption retroactive reinsurance transaction from the Liquidation Bureau of the State. The total amount of reinsurance reserves transferred and consideration paid to WCF, 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, 2018 and 2017 are $1,150 and $2,044, 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, 2018 and 2017 is $(658) and $(83), 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.

NOTE 8 - RELATED PARTY TRANSACTIONS

Expenses allocated to DBF are $4,184 and $1,707 in 2018 and 2017, respectively. The amount owed to WCF from DBF is $3,125 and $356 as of December 31, 2018 and 2017, respectively.

NYSIF acts as the administrator of 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 WCF. NYSIF charges ATF an administrative fee based on paid losses for such services at a rate of 3% for awards adjudicated prior to July 1, 2017 and 6% for awards adjudicated on or after July 1, 2017. The total administration fees charged to ATF during 2018 and 2017 are $1,808 and $1,348, respectively. The amount owed to NYSIF, recorded in WCF from ATF is $218 and $127 as of December 31, 2018 and 2017, respectively.

WCF administers the claims for the State, which self-insures its liability for workers' compensation claims. WCF is reimbursed for losses, allocated loss adjustment expenses, reinsurance and administrative expenses paid on behalf of the State. During 2018 and 2017, the State reimbursed WCF $511,269 and $474,833, respectively, for such costs. Amounts relating to New York State losses, loss adjustment expenses and underwriting expenses have been excluded from these financial statements. The amount owed to WCF from the State is $11,903 and $16,257 as of December 31, 2018 and 2017, respectively.

Beginning January 1, 2014, in accordance with the 2013 reforms, WCF administers payments to the Workers' Compensation Board on behalf of policyholders. Assessments administered to the WCB are estimated based on premium written in the prior quarter, as well as assessment adjustments to policies previously reported. WCF is reimbursed for assessments administered to WCF through premium billing. Policyholders reimbursed WCF $268,647 and $276,803, and estimated payments made to the Workers' Compensation Board were $262,851 and $289,368 for the years ended December 31, 2018 and 2017, respectively. WCF recorded a liability of $5,625 and $519 as of December 31, 2018 and 2017, respectively, 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, 2018 and 2017 is $87,701 and $79,161, 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, 2018 and 2017 (in thousands)

During the year ended December 31, 2018, WCF was able to settle amounts due to the State by offsetting receivables of $40,601 and a permanent forgiveness/surplus contribution by the State for the remaining balance of $209,399. The forgiveness has been recorded as a contribution of surplus from the State on the statutory basis statements of surplus as of December 31, 2018.

Amounts due to/from affiliated were as follows as of December 31:

	2018	2017
Due from affiliates		
Aggregate Trust Fund	$ 218	$ 127
DBF	3,125	356
New York State	11,904	16,257
Total due from affiliates	$ 15,247	$ 16,740
Due to affiliates		
New York State:		
Funds held for payment of future assessments	$ -	$ 250,000
Total due to affiliates	$ -	$ 250,000

NOTE 9 - COMMITMENTS

NYSIF leases offices, warehouse space and vehicles under non-cancellable operating leases, generally varying from one to fifteen years. WCF's aggregate minimum commitments under non-cancelable operating leases at December 31, 2018, are as follows:

2019	$ 2,206
2020	2,900
2021	2,912
2022	2,977
2023	3,078
Thereafter	23,430
Net minimum commitments	$ 41,503

Rental expense (which includes a calculated amount of rent expense allocated to its owned building for WCF of $11,937 and $10,772, respectively) was $20,736 and $21,064 in 2018 and 2017, respectively, and is recorded through investment income earned.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2018 and 2017 (in thousands)

NOTE 10 - RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

Activity in the reserves for losses and loss adjustment expenses, net of reinsurance recoveries of $947 and $1,034 for 2018 and 2017, respectively, is summarized as follows:

	2018	2017
Balance—January 1 (net of reinsurance recoveries)	$10,069,869	$10,004,147
Incurred claims related to:		
Current year	2,059,441	1,947,753
Prior years	(509,131)	(439,596)
Total incurred	1,550,310	1,508,157
Paid claims related to:		
Current year	209,825	207,270
Prior years	1,415,139	1,235,165
Total paid	1,624,964	1,442,435
Balance—December 31 (net of reinsurance recoveries)	$ 9,995,215	$10,069,869

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 2018 and 2017 as a result of changes in estimates of events insured in prior years.

NOTE 11 - SURPLUS

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

Changes in balances of appropriated surplus funds from December 31, 2017 to December 31, 2018, are due to appropriations to the catastrophe, foreign terrorism appropriations, domestic terrorism appropriations, and postemployment benefits as discussed in Note 2 (G).

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

	2018	2017
Unrealized gains	$ 227,925	$ 533,621
Nonadmitted assets	$ 179,510	$ 251,430

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2018 and 2017 (in thousands)

NOTE 12 - OTHER UNDERWRITING EXPENSES

The components of other underwriting expenses are as follows:

	2018	2017
Advertising	$ 190	$ 126
Boards, bureaus and associations	4,879	5,366
Audit of assured's records	376	330
Salaries and payroll taxes	75,837	79,752
Employee relations and welfare	46,930	53,024
Insurance	88	148
Travel and travel items	646	702
Rent and rent items	9,141	9,285
Equipment	415	450
Cost or depreciation of EDP		
equipment and software	6,063	5,931
Printing and stationery	949	585
Postage and telephone	3,144	2,902
Legal and auditing	2,297	2,033
Taxes, licenses and fees:		
Franchise taxes and other fees	45,070	48,250
Miscellaneous expenses	5,894	4,592
Total	$ 201,919	$ 213,476

NOTE 13 - CONTINGENCIES

From time to time, WCF 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 WCF.

NOTE 14 - 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 March 1, 2019 when the annual statement was originally filed, which is the date when the annual statements was issued and filed with the NAIC and DFS. After that date, subsequent events have been reviewed through November 1, 2019, the date which these audited statements were available to be issued.

INDEPENDENT AUDITORS' REPORT

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

EISNERAMPER

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 agency), which comprise the statutory basis statements of admitted assets, liabilities and surplus as of December 31, 2018 and 2017, 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 accounting practices prescribed or permitted by the 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 to the statutory basis financial statements, the State Insurance Fund Disability Benefits Fund prepared these statutory basis financial statements using accounting principles prescribed or permitted by the 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. The effects on the statutory basis financial statements of the variances between the 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, 2018 and 2017, 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 Disability Benefits Fund as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 2A.

EisnerAmper LLP
New York, New York
November 1, 2019

EisnerAmper LLP

NEW YORK STATE INSURANCE FUND
DISABILITY BENEFITS FUND

Statutory Basis Statements of Admitted Assets, Liabilities and Surplus
As of December 31, 2018 and 2017 (in thousands)

	2018	2017
Admitted assets		
Cash and invested assets		
Bonds—at NAIC carrying value	$ 163,445	$ 169,093
Cash, cash equivalents and short-term investments	71,246	28,685
Securities lending reinvested collateral	8,118	2,688
Total cash and invested assets	242,809	200,466
Premium receivables	12,215	5,307
Accrued investment income	804	522
Other assets	-	61
Total admitted assets	$ 255,828	$ 206,356
Liabilities and surplus		
Liabilities		
Reserve for losses	$ 17,638	$ 3,652
Reserve for loss adjustment expenses	2,443	1,607
Unearned premiums	29,962	11,480
Advance premium	1,663	8,025
Due to affiliate	3,125	356
Payables for securities lending	8,118	2,688
Accrued expenses and other liabilities	7,471	4,036
Total liabilities	70,420	31,844
Surplus		
Appropriated surplus funds:		
Security fluctuation surplus	1,890	6,570
Catastrophe surplus	4,000	4,000
Postemployment benefits surplus	7,374	5,441
Unassigned surplus	172,144	158,501
Total surplus	185,408	174,512
Total liabilities and surplus	$ 255,828	$ 206,356

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, 2018 and 2017 (in thousands)

	2018	2017
Underwriting income		
Net written premium	**$ 75,189**	$ 21,226
Net earned premium	**$ 56,707**	$ 19,655
Underwriting expenses:		
Losses incurred	**40,393**	14,223
Loss adjustment expenses incurred	**5,606**	2,127
Other underwriting expenses incurred	**5,259**	3,716
Total underwriting expenses	**51,258**	20,066
Net underwriting profit (loss)	**5,449**	(411)
Investment income earned:		
Investment income	**4,981**	4,608
Investment expenses	**(318)**	(245)
Net realized capital gains	**386**	3,349
Net investment income earned	**5,049**	7,712
Other income (expenses):		
Bad debt expense	**(1,038)**	(308)
Miscellaneous income	**1,118**	327
Total other income	**80**	19
Net income	**$ 10,578**	$ 7,320

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, 2018 and 2017 (in thousands)

	Appropriated Surplus Funds				
	Security Fluctuation Surplus	Catastrophe Surplus	Postemployment Fringe Benefits	Unassigned Surplus	Total Surplus
Balance—January 1, 2017	$ 6,570	$ 4,000	$ -	$ 135,993	$ 146,563
Correction of an error	-	-	-	17,088	17,088
Net income	-	-	-	7,320	7,320
Increase in nonadmitted assets	-	-	-	(15)	(15)
Appropriated surplus adjustment - Postemployment benefits	-	-	3,556	-	3,556
Appropriation of unassigned to (from) unassigned surplus	-	-	1,885	(1,885)	$ -
Balance—December 31, 2017	6,570	4,000	5,441	158,501	174,512
Net income	-	-	-	10,578	10,578
Increase in nonadmitted assets	-	-	-	(782)	(782)
Appropriated surplus adjustment - Postemployment fringe benefits	-	-	1,100	-	1,100
Appropriation of unassigned to (from) unassigned surplus	(4,680)		833	3,847	-
Balance—December 31, 2018	**$ 1,890**	**$ 4,000**	**$ 7,374**	**$ 172,144**	**$ 185,408**

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, 2018 and 2017 (in thousands)

	2018	2017
Cash flows from operations		
Premiums collected	**$ 64,567**	$ 27,316
Net investment income	**4,337**	4,773
Miscellaneous income	**80**	19
Losses and loss adjustment expenses paid, net of salvage and subrogation	**(26,408)**	(14,453)
Expenses paid	**(8,970)**	(5,174)
Net cash provided by operations	**33,606**	12,481
Cash flows from investments		
Proceeds from investments sold, matured or repaid	**60,339**	109,299
Cost of investments acquired	**(54,240)**	(120,908)
Other uses	**(5,430)**	(2,688)
Net cash provided by (used in) investments	**669**	(14,297)
Cash flows from other sources	**8,286**	2,665
Net change in cash and short-term investments	**42,561**	849
Cash and short-term investments Beginning of year	**28,685**	27,836
Cash and short-term investments End of year	**$ 71,246**	$ 28,685

See accompanying notes to statutory basis financial statements.

NOTE 1 - ORGANIZATION AND PURPOSE

The New York State Insurance Fund (NYSIF), which includes the operations of Disability Benefits Fund (DBF) and Workers' Compensation Fund (WCF), is a nonprofit agency of the State of New York (the State). NYSIF also administers the Aggregate Trust Fund (ATF). By statute, NYSIF maintains separate records for each fund.

In *Methodist Hospital of Brooklyn v. State Insurance Fund (1985)*, The New York State Court of Appeals held that NYSIF is "a State agency for all of whose liabilities the State is responsible….".

DBF provides mandatory New York State Statutory Disability Benefits insurance for most employees in New York State, including domestic workers. Statutory disability benefits are equal to one half the average weekly wage of the employee, up to a maximum benefit of $170 for 26 weeks within a 52 week period. Disability benefit insurance covers off the job injury, sickness and disability arising from pregnancy, but not medical care payments.

Effective January 1, 2018, DBF added an endorsement to policies to cover employees for mandatory New York State Paid Family Leave (PFL), which is funded through employee payroll deductions. PFL provides job-protected, paid leave to bond with a new child, care for a family member with a serious condition or help relieve a family pressures when someone is called to active military service.

The home office properties are occupied jointly by all three funds. Because of this relationship, DBF incurs operating expenses allocated to DBF by WCF based on the level of services provided. Management believes the method of allocating such expenses is fair and reasonable. WCF allocates the cost of services rendered to DBF based on a percentage of DBF employees, salaries and square footage occupied.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation:

The accompanying statutory basis financial statements of DBF are presented in conformity with accounting practices prescribed by the New York Department of Financial Services (DFS). 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.

Differences between NAIC SAP and NY SAP:

The State has adopted certain prescribed accounting practices that differ from those found in NAIC SAP. Such differences are identified herein as NY SAP where applicable. 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 DFS has the right to permit other specific practices that may deviate from prescribed practices. DBF, as mandated by New York State Workers' Compensation Law, is not required to calculate Risk Based Capital.

Differences between NY SAP and U.S. GAAP:

The accounting practices and procedures of NY SAP and NAIC SAP (collectively referred to as SAP) comprise a comprehensive basis of accounting other than generally accepted accounting principles in the United States (U.S. GAAP). The more significant differences between SAP and U.S. GAAP which are applicable to DBF 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. Cash and short-term investments in the statutory basis statements 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.

c. 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.

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

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

SAP allows the appropriation of surplus for these purposes. Under U.S. GAAP, no such appropriations of surplus are established.

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

g. 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.

h. 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 Accounting Standards Codifications (ASC) Topic 810, *Consolidation of Variable Interest Entities*.

i. 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 JP Morgan Chase primarily.

For mortgage-backed fixed maturity securities, DBF 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.

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. Interest is recognized on an accrual basis. 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 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 DBF'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 DBF will not be able to collect all the amounts due under the security contractual terms. Other-than-temporary declines in fair value of investments are included in realized losses. There were no realized losses related to impairment losses during 2018 and 2017.

C. Premium Revenue and Related Accounts:

DBF records written premiums on the effective date of the policy and earns premium over the life of the policy.

DBF 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, 2018 and 2017, the outstanding premium receivable net admitted balance recorded in the statutory basis statements of admitted assets, liabilities and surplus for DBF was $12,215 and $5,307 respectively. DBF performs an analysis of uncollectable premiums receivable and recorded write offs of $1,038 and $308, for the years ended December 31, 2018 and 2017, respectively, as bad debt expense in the statutory basis statements of income.

PFL installments collected in 2018 (prior to January 1, 2018 effective date) are included in advance premium and amounted to $7,223 as of December 31, 2017.

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

Also included in the reserve for unearned premiums are estimates for Return of Premium Program (ROP) in the amount of $1,409 and $107 at December 31, 2018 and 2017, respectively, and the Premium Adjustment Plan (PAP) in the amount of $2,779 and $1,762 at December 31, 2018 and 2017, respectively (See Note 2L). ROP 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. PAP 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 PAP credit is awarded. Other qualifications for both ROP and the PAP are that the policyholder must maintain an active status with DBF throughout the policy year and have payroll reports submitted after the end of the policy period.

D. Reserves for Losses and Loss Adjustment Expenses:

The reserves for losses and loss adjustment expenses (LAE) of DBF 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.

DBF's reserves for losses and LAE 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. DBF'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, DBF'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.

DBF does not cede or assume any reinsurance. DBF does not participate in any voluntary or involuntary pools.

The reserves for loss and LAE of DBF are not discounted.

E. Appropriated Surplus Funds:

As described above, DBF may designate a portion of unassigned surplus to provide for contingencies as permitted under NAIC SSAP No. 72.

Security fluctuation surplus

Security fluctuation surplus decreased from $6,570 at December 31, 2017 to $1,890 at December 31, 2018.

Catastrophe surplus

The review of the catastrophe surplus in conjunction with a risk assessment of DBF's exposures resulted in DBF maintaining the catastrophe surplus at $4,000 as of both December 31, 2018 and 2017.

Postemployment fringe benefits surplus

During the year ended December 31, 2017, DBF established an appropriation of surplus for a portion of the contingency for other postemployment benefits (OPEB) that had not already been recognized as an OPEB obligation totaling $1,885. Also during 2017, DBF transferred $3,556 of the obligation previously recorded as a liability to the appropriated surplus fund for postemployment benefits. During 2018 DBF segregated an additional $1,731 from its unassigned surplus to appropriated surplus for postemployment benefits. See Note 2[G].

During the year ended December 31, 2018, DBF established an appropriation of surplus for the contingency for pension benefits that had not been recognized as an obligation. During 2018, DBF transferred a net amount of $202 to the appropriated surplus fund for pension benefits. See Note 2[F].

F. Postemployment Fringe Benefits - Pension:

All employees of DBF are eligible to be 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 term of employment.

Based on actual costs billed by various State agencies, DBF incurred $1,874 and $1,348 of fringe benefits and indirect costs in 2018 and 2017, respectively, recorded through other underwriting expenses in the statutory basis statements of income.

DBF, in the course of business, reimburses the State for pension related charges under the New York State Plan. Under Statement of Statutory Accounting (SSAP) No. 102, *Pensions*, DBF records the difference between amounts billed by the State and amounts paid to the State as a liability. DBF also estimates a contingent liability for the net pension liability as of December 31 of each calendar year based on the State's latest available Actuarial Valuation Report, which is as of March 31 of the same calendar year.

During the year ended December 31, 2018, DBF appropriated surplus to provide for the net pension obligation costs as permitted by SSAP No. 72, *Surplus and Quasi-Reorganizations*. Future obligations may vary significantly due to potential future changes in various key assumptions, such as DBF's ultimate allocated share of the obligation, investment earning and actuarial projections. DBF updates the estimate each year-end.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2018 and 2017 (in thousands)

At December 31, 2018 and 2017, DBF's pro-rata portion of its New York State Employees' net pension obligation was $202 and $1,100, respectively. The pension obligation was measured by the State as of March 31, 2018 and 2017 with DBF's portion of the obligation based on a ratio of its employees to State employees. At March 31, 2018, and 2017, DBF's approximate proportionate share was 0.01%.

The activity in the appropriated surplus for pension benefits during 2018 is as follows:

	2018
Appropriated pension benefits surplus, beginning of year	$ -
Appropriated surplus adjustment for pension benefits	1,100
Current year appropriation of unassigned surplus for pension benefits	(898)
Appropriated pension benefits surplus, end of year	$ 202

In 2018 and 2017, DBF recorded pension expense of $485 and $449, respectively.

DBF has a prepaid asset for pension benefits in the amount of $67 and $71 as of December 31, 2018 and 2017, respectively.

Prior to January 1, 2018, DBF recorded a liability for the actuarially determined net pension liability based on the State's latest available Actuarial Valuation Report. However, during 2018, DBF determined that they are not directly liable for this obligation and as such, in accordance with SSAP No. 102 *Pensions*, DBF began recording its obligation based on amounts billed by the State. As of January 1, 2018, DBF reclassified the net pension liability to opening surplus.

G. Postemployment Fringe Benefits – Other Postemployment Benefits:

DBF's employees are employees of the State. New York State Civil Service Law, Section 163.2, provides for health insurance coverage for retired employees of DBF including their spouses and dependent children (The State Plan). 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 (NYSHIP) 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.

The State's Actuarial Valuation Reports are prepared as of March 31 (the State's fiscal year end) and segregate balances relating to the various state agencies, including NYSIF, under GASB 45 and GASB 75.

NYSIF, in the course of business, reimburses the State for certain Other Postemployment Benefits (OPEB) related charges under the State's Plan. Under SSAP No. 92, *Postretirement Benefits Other Than Pensions*, DBF estimates its Normal Cost as of December 31 of each calendar year based on the State's latest available Actuarial Valuation Report, which is as of March 31 of the same calendar year.

DBF carries its net OPEB obligation (i.e., the Normal Cost less the amount DBF has funded to the State for retirees) as a liability. DBF recognizes in the statement of income only its annual Normal Cost, as this is DBF's current year expense for the plan for the period, in accordance with statutory accounting principles.

Projected benefits for financial reporting purposes are based on the State's actuarial calculations and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between employer and plan members to that point. The actuarial calculations reflect a long-term perspective. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revisions as results are compared to past expectations and new estimates are made about the future.

During the year ended December 31, 2017, DBF established an appropriated surplus account to provide for the portion of the contingency for OPEB costs that have not already been recognized as a net OPEB obligation, as permitted by SSAP No. 72, *Surplus and Quasi-Reorganizations*. Future obligations may vary significantly due to potential future changes in various key assumptions, such as DBF's ultimate allocated share of the liability, discount rate used to develop the present value of future benefits, healthcare inflation, projected healthcare claims, and the likelihood an employee retires, elects healthcare coverage, and survives after retirement. DBF updates the estimate each year-end.

The activity in the appropriated surplus for postemployment benefits during 2018 and 2017 is as follows:

	2018	2017
Appropriated postemployment benefits surplus, beginning of year	$ 5,441	$ -
Appropriated surplus adjustment for postemployment benefits	-	3,556
Current year appropriation of unassigned to assigned surplus	1,731	1,885
Appropriated postemployment benefits surplus, end of year	$ 7,172	$ 5,441

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2018 and 2017 (in thousands)

DBF paid OPEB charges of $7,172 and $5,441 for the years ended December 31, 2018 and 2017, respectively. The following table shows the components of DBF's assigned values relating to OPEB expense (normal cost) under the State's plan, the amount credited to the plan, and changes in the net OPEB obligation as of December 31, 2018 and 2017:

	2018	2017
Net OPEB obligation, beginning of year	$ 555	$ 3,850
Annual OPEB expense (Normal Cost)	291	452
Estimated contribution credit (retiree premiums paid)	(212)	(191)
Increase in net OPEB obligation	79	261
OPEB obligation end of year	634	4,111
Surplus appropriation	-	(3,556)
Net OPEB obligation, end of year	$ 634	$ 555

In 2018 and 2017, DBF recorded OPEB expense of $729 and $452, respectively.

DBF has an accrued liability for employee' compensation for future absences in the amount of $291 and $295 as of December 31, 2018 and 2017, respectively.

H. Income Tax:

DBF is exempt from federal income taxes. However, DBF is subject to a New York State franchise tax. DBF'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 $1,316 and $371 in 2018 and 2017, respectively, and was recorded through the other underwriting expenses incurred on the statutory basis statements of income.

As DBF 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 2018 and 2017 was $188 and $49, respectively, 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 DBF 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 demand deposit accounts in the United States are fully insured by the Federal Deposit Insurance Corporation, (FDIC) up to $250. The term demand deposit means both interest and non-interest bearing deposits that are payable on demand and for which the depository institution does not reserve the right to require advance notice of an intended withdrawal.

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:

DBF 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 LAE, ROP and PAP estimates in unearned premiums, and DBF's portion of the pension and OPEB costs estimated by DBF based on the current actuarial valuation prepared for New York State which includes DBF's employees.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2018 and 2017 (in thousands)

L. Prior Period Adjustment, Correction of Error:

During the preparation of the 2017 Financial Statements for DBF, it was determined that a calculation error resulted in an overstatement of the ROP program unearned premium reserves.

The reserve overstatement, amounting to approximately $17,088 at January 1, 2017 has been corrected by means of a prior period adjustment to unassigned surplus as provided by Statement of Statutory Accounting Principles number 3, Accounting Changes and Correction of Errors. DBF's total assets, liabilities and unassigned surplus and results of operations as of and for the year ended December 31, 2016 have not been adjusted as a result of the error.

Below is a summary of the effect of the correction on DBF's total assets, liabilities and surplus as of December 31, 2016:

	December 31, 2016 As Reported	January 1, 2017 After Correction	Increase (Decrease)
Total Assets	$ 186,591	$ 186,591	$ -
Total Liabilities	$ 40,028	$ 22,940	$ (17,088)
Total Surplus	$ 146,563	$ 163,651	$ 17,088

NOTE 3. INVESTMENTS

Section 87 of the New York State Workers' Compensation Law specifically states the type of securities authorized for investment by DBF. Section 87 further provides that the Commissioner of Taxation and Finance is the sole custodian of DBF. J.P. Morgan Chase serves as DBF's custodian for investments. All bank deposits are entirely insured or collateralized with securities held by J.P. Morgan Chase at December 31, 2018 and 2017, in accordance with Section 105 of the New York State Finance Law.

The amortized cost, gross unrealized gains, gross unrealized losses and estimated market value of investments in bonds, at December 31, 2018 and 2017 are as follows:

2018	Cost or Book Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government and government agency obligations	$ 14,621	$ 150	$ (28)	$ 14,743
All other governments	5,996	42	-	6,038
State, territory, and possession general obligations	500	-	-	500
Corporate bonds and public utilities	86,141	34	(553)	85,622
Mortgage backed securities	56,187	-	(460)	55,727
Total investments	$ 163,445	$ 226	$ (1,041)	$ 162,630

2017	Cost or Book Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government and government agency obligations	$ 19,878	$ 371	$ (8)	$ 20,241
All other governments	9,494	106	(5)	9,595
State, territory, and possession general obligations	500	-	-	500
Corporate bonds and public utilities	82,317	134	(178)	82,273
Mortgage backed securities	56,077	8	(207)	55,878
Hybrid securities	827	452	-	1,279
Total investments	$ 169,093	$ 1,071	$ (398)	$ 169,766

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2018 and 2017 (in thousands)

The amortized cost and market value of bonds at December 31, 2018 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	$ 38,082	$ 37,961
Due after one year through five years	106,763	106,343
Due after five years through ten years	3,832	3,786
Due after ten years	14,768	14,540
Total bonds	$ 163,445	$ 162,630

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

As of December 31, 2018 and 2017, $8,328 and $2,644 of DBF investments were on loan, supported by collateral of $8,452 and $2,688, respectively.

DBF had reinvested collateral assets in the amount of $8,118 and $2,688 as of December 31, 2018 and 2017, respectively. For the years ended December 31, 2018 and 2017, DBF received fees of $81 and $42, 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, 2018 by contractual maturity are shown below:

	Amortized Cost	Fair Value
30 days or less	$ 8,118	$ 8,118
Total collateral received	$ 8,118	$ 8,118

The amortized cost and market value of the reinvested collateral assets at December 31, 2017 by contractual maturity are shown below:

	Amortized Cost	Fair Value
30 days or less	$ 2,688	$ 2,688
Total collateral received	$ 2,688	$ 2,688

DBF 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.

DBF has security lending agreements with J.P. Morgan Chase. All bank deposits are entirely insured or collateralized with securities held by J.P. Morgan Chase at December 31, 2018, 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:

	Year Ended December 31, 2018	Year Ended December 31, 2017
Bonds	$ 4,273	$ 4,090
Cash and cash equivalents	689	476
Security lending	19	42
Investment income	4,981	4,608
Investment expenses	(318)	(245)
Net realized capital gains	386	3,349
Net investment income earned	$ 5,049	$ 7,712

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2018 and 2017 (in thousands)

Net realized capital gains on investments, determined on the first-in, first-out method in 2018 and 2017.

	Year Ended December 31, 2018	Year Ended December 31, 2017
Bonds	$ 387	$ 3,349
Cash and short-term investments	(1)	-
Net realized capital gains	$ 386	$ 3,349

Proceeds from investments sold, matured or repaid during the years ended December 31, 2018 and 2017 were $60,339 and $109,299, respectively. These sales resulted in gross realized capital gains of $409 and $4,003 and gross realized capital losses of $22 and $654 in 2018 and 2017, respectively.

The following tables represents DBF's unrealized loss, fair value and amortized cost for bonds aggregated by investment category and length of time individual securities have been in a continuous unrealized loss position as of December 31, 2018 and 2017, respectively.

2018

	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	$ 5,950	$ 5,940	$ (10)	$ 2,998	$ 2,980	$ (18)	$ 8,948	$ 8,920	$ (28)
All other governments	500	500	-	-	-	-	500	500	-
Corporate bonds and public utilities	49,961	49,743	(218)	33,577	33,242	(335)	83,538	82,985	(553)
Mortgaged backed securities	18,890	18,831	(59)	37,064	36,663	(401)	55,954	55,494	(460)
Total fixed maturities	75,301	75,014	(287)	73,639	72,885	(754)	148,940	147,899	(1,041)
Total temporarily impaired investments	$ 75,301	$ 75,014	$ (287)	$ 73,639	$ 72,885	$ (754)	$148,940	$ 147,899	$ (1,041)

2017

	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	$ 7,994	$ 7,986	$ (8)	$ -	$ -	$ -	$ 7,994	$ 7,986	$ (8)
All other governments	2,000	2,000	-	2,000	1,995	(5)	4,000	3,995	(5)
Corporate bonds and public utilities	49,924	49,749	(175)	2,500	2,497	(3)	52,424	52,246	(178)
Mortgaged backed securities	53,118	52,911	(207)	-	-	-	53,118	52,911	(207)
Total fixed maturities	113,036	112,646	(390)	4,500	4,492	(8)	117,536	117,138	(398)
Total temporarily impaired investments	$ 113,036	$ 112,646	$ (390)	$ 4,500	$ 4,492	$ (8)	$117,536	$117,138	$ (398)

Gross unrealized losses represented 0.6% and 0.2% of the total cost or amortized cost of total investments for DBF as of December 31, 2018 and 2017, respectively. Fixed maturities represented 100% of DBF's unrealized losses as of December 31, 2018 and 2017. The group of securities in an unrealized loss position for less than twelve months was comprised of 55 and 80 securities for DBF as of December 31, 2018 and 2017, respectively. The group of securities depressed for twelve months or more were comprised of 63 and 2 securities for DBF as of December 31, 2018 and 2017, respectively.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2018 and 2017 (in thousands)

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 DBF's ongoing security monitoring process by a committee of investment and accounting professionals, DBF has reviewed its investment portfolio and concluded that there were no additional other-than-temporary impairments as of December 31, 2018 and 2017. 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 fundamentals of the issuers' financial condition and other objective evidence, DBF 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.

SSAP No. 43R - *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) DBF intends to sell the security; or (ii) DBF 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 DBF 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 amounts included in 2018 and 2017 for realized losses related to DBF for impairment losses related to SSAP No. 43R investments. There were no additional impairments recorded in 2018 and 2017 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 DBF was unable to retain the security until recovery of amortized cost.

DBF recorded no impairments during 2018 or 2017 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.

DBF 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, 2018 and 2017 are as follows:

	2018		2017	
	Statement Value	Estimated Fair Value	Statement Value	Estimated Fair Value
Financial assets:				
Bonds	$ 163,445	$ 162,630	$ 169,093	$ 169,766
Short-term investments	$ 60,523	$ 60,523	$ 4,979	$ 4,979

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, DBF 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.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2018 and 2017 (in thousands)

SSAP No. 100R 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 when NAIC designations fall below a 2 and, therefore, are carried at the lower of cost or market.

When available, DBF 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 DBF as of December 31, 2018 and 2017. Unobservable inputs reflect DBF's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

DBF'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. 100R 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 DBF's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Low grade fixed maturity investments where fair value is lower than cost are recorded at fair value. Securities classified into Level 1 included primarily 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 DBF by independent pricing services. Level 2 securities include corporate bonds where pricing is based on bid evaluations. Quoted prices for these securities are provided to DBF using independent pricing services. DBF did not have any securities that were carried at fair value. There were no changes in valuation techniques during 2018 and 2017.

The following table provides information as of December 31, 2018 about DBF'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	$ 162,630	$ 163,445	$ -	$ 162,630	$ -
Cash equivalent	10,411	10,411	10,411	-	-
Short-term investments	60,523	60,523	-	60,523	-
Security lending collateral assets	8,118	8,118	8,118	-	-
Total	$ 241,682	$ 242,497	$ 18,529	$ 223,153	$ -

The following table provides information as of December 31, 2017 about DBF'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	$ 168,487	$ 168,266	$ -	$ 168,487	$ -
Hybrids	1,279	827	-	1,279	-
Cash equivalent	22,722	22,722	22,722	-	-
Short-term investments	4,979	4,979	-	4,979	-
Security lending collateral assets	2,688	2,688	2,688	-	-
Total	$ 200,155	$ 199,482	$ 25,410	$ 174,745	$ -

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2018 and 2017 (in thousands)

Securities classified into Level 1 included primarily cash equivalents and treasury notes (collateral assets) 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 DBF by independent pricing services. Quoted prices for these securities are provided to DBF 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 DBF by independent pricing services. DBF does not have any Level 3 securities. The valuation methodology has been applied consistently.

There were no significant transfers into or out of Level 3 during 2018 and 2017. There were no changes in valuation techniques during 2018 and 2017.

B. Subprime Mortgage Exposure:

DBF had no exposures to subprime mortgage loans at December 31, 2018 and 2017.

C. Wash Sales:

In the course of DBF's management of investment portfolio, securities may be sold at a loss and repurchased within 30 days of the sale date to enhance DBF's yield on its investment portfolio. DBF 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, 2018 and 2017 that were reacquired within 30 days of the sale date.

NOTE 4 - NON-ADMITTED ASSETS

The non-admitted assets of DBF at December 31, 2018 and 2017 were as follows:

	2018	2017
Premium in course of collection outstanding over 90 days	$ 981	$ 195
Other	67	70
Total non-admitted assets	$ 1,048	$ 265

NOTE 5 - RELATED PARTY TRANSACTIONS

Expenses allocated to DBF were $4,184 and $1,707, respectively, in 2018 and 2017. The amount owed to WCF at December 31, 2018 and 2017 from DBF is $3,125 and $356.

NOTE 6 - RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

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

	2018	2017
Balance—January 1	$ 5,259	$ 4,088
Incurred claims related to		
Current year	47,268	17,617
Prior years	(1,269)	(1,267)
Total incurred	45,999	16,350
Paid claims related to		
Current year	27,539	13,140
Prior years	3,638	2,039
Total paid	31,177	15,179
Balance—December 31	$ 20,081	$ 5,259

The incurred claims related to prior years have changed in 2018 and 2017 as a result of changes in estimate of events insured in prior years.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2018 and 2017 (in thousands)

NOTE 7 - SURPLUS

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

Changes in balances of appropriated surplus funds from December 31, 2017 to December 31, 2018, are due to appropriations to the catastrophe, security fluctuation, and postemployment benefits as discussed in Note 2 (E).

Unassigned surplus reflects the accumulated balances for the item listed below:

	2018	2017
Nonadmitted assets	$ (1,048)	$ (265)

NOTE 8 - OTHER UNDERWRITING EXPENSES

The components of other underwriting expenses are as follows:

	2018	2017
Salaries and payroll taxes	$ 1,598	$ 882
Employee relations and welfare	828	593
Insurance	15	-
Rent and rent items	158	-
Equipment	1	-
Taxes, licenses and fees	1,558	407
Allocation from WCF	-	1,578
Cost of depreciation of EDP equipment and software	717	211
Printing and stationery	20	-
Postage, telephone and telegraph	82	2
Legal and auditing	43	21
Miscellaneous expense	239	22
Total	$ 5,259	$ 3,716

NOTE 9 - CONTINGENCIES

From time to time DBF 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 DBF.

NOTE 10 - 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 March 1, 2019 for annual statement reporting. After this date, subsequent events have been reviewed through November 1, 2019, the date which these audited statements were available to be issued.

Contacting NYSIF

Customer Service

Workers' Comp general inquiry
CustomerService@nysif.com
Workers' Comp Claims & Service
1-888-875-5790

Disability Benefits & Paid Family Leave
https://dbl.nysif.com
Disability Benefits Claims & Service
1-866-NYSIFDB (697-4332)

Tech Support 1-888-435-7743 M-F, 8-6
webmaster@nysif.com
Report Fraud (Confidential)
1-877-WCNYSIF (926-9743)

NYSIF Business Offices

Albany
1 Watervliet Avenue Ext.
Albany, NY 12206-1629
Phone: 518-437-6400

Binghamton
2001 Perimeter Road East
Building 16, 4th Floor
Endicott, NY 13760-7390
Phone: 607-741-5000

Buffalo
225 Oak Street
Buffalo, NY 14203-1609
Phone: 716-851-2000

Long Island
8 Corporate Center Drive
Melville, NY 11747
Phone: 631-756-4000

New York City
199 Church Street
New York, NY 10007-1100
Phone: 212-587-5435

Rochester
100 Chestnut Street, Suite 400
Rochester, NY 14604-2421
Phone: 585-258-2000

Safety Group Office
199 Church Street
New York, NY 10007-1100
Phone: 212-587-7358

Syracuse
1045 7th North Street
Liverpool, NY 13088-3100
Phone: 315-453-6500

White Plains
Westchester One
44 South Broadway, 10th Floor
White Plains, NY 10601-4411
Phone: 914-701-2120

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