New York State Insurance Fund Statutory Basis Financial Statements

Workers' Compensation Fund - Statements of Admitted Assets, Liabilities and Surplus

Years ended December 31, 2014 and 2013 (in thousands)

	2014	2013
Admitted assets		
Cash and invested assets		
Bonds—at NAIC carrying value	$ 11,425,737	$ 10,835,875
Preferred stocks	8,623	8,496
Common stocks	1,489,616	1,336,884
Real estate	16,691	17,272
Cash and short-term investments	810,330	1,884,157
Other invested assets		-
Receivables for securities	-	56,719
Security lending reinvested collateral assets	257,551	391,746
Total cash and invested assets	14,008,548	14,531,149
Premiums receivables	188,240	241,353
Reinsurance recoverable	87	12,267
Accrued investment income	78,002	77,521
Advance Workers' Compensation Board assessments	35,806	-
Due from affiliates	40,794	53,521
Other admitted assets	10,275	9,300
Contingent receivable from New York State	1,295,000	1,295,000
Total admitted assets	$ 15,656,752	$ 16,220,111
Liabilities and surplus		
Liabilities		
Reserve for losses	$ 8,443,439	$ 7,713,235
Reserve for loss adjustment expenses	926,633	979,286
Unearned premiums	467,226	477,968
Contingent policyholder dividends	1,289,896	979,701
Payables for securities	-	122
Payables for securities lending	266,749	402,496
Accrued expenses and other liabilities	298,294	325,900
Due to affiliates	250,000	1,750,692
Total liabilities	11,942,237	12,629,400
Surplus		
Security fluctuation surplus	400,000	400,000
Catastrophe surplus	208,155	167,055
Special surplus from retroactive reinsurance assumed		-
Foreign terrorism catastrophe surplus	413,147	364,366
Domestic terrorism catastrophe surplus	78,698	68,579
Unassigned surplus	2,614,515	2,590,711
Total surplus	3,714,515	3,590,711
Total liabilities and surplus	$ 15,656,752	$ 16,220,111

Workers’ Compensation Fund - Statements of Income

Years ended December 31, 2014 and 2013 (in thousands)

	2014	2013
Underwriting income		
Net written premium	$ 2,374,259	$ 2,283,287
Net earned premium	$ 2,353,551	$ 2,265,141
Underwriting expenses		
Losses incurred	1,960,797	176,559
Loss adjustment expenses incurred	114,408	284,064
Other underwriting expenses (income) incurred	193,368	(253,284)
Total underwriting expenses	2,268,573	207,339
Net underwriting profit	84,978	2,057,802
Investment income earned		
Investment income	417,559	433,396
Investment expenses	(26,242)	(25,586)
Net realized investment gains	158,033	358,591
Net investment income earned	549,350	766,401
Other income (expenses)		
Bad debt expense	(65,634)	(59,101)
Finance and service charges	11,693	10,341
Miscellaneous income	4,946	5,137
Special assessment New York State (Note 15)	-	(2,301,102)
Dividend expense to policyholders	(447,277)	(175,276)
Total other expenses	(496,272)	(2,520,001)
Net income	$ 138,056	$ 304,202

Workers' Compensation Fund - Statements of Surplus

Years ended December 31, 2014 and 2013 (in thousands)

	Security Fluctuation Surplus	Catastrophe Surplus	Foreign Terrorism Catastrophe Surplus	Domestic Terrorism Catastrophe Surplus	Unassigned Surplus	Total Surplus
Balance—January 1, 2013	$ 400,000	$ 225,968	$ 315,465	$ 58,567	$ 2,127,996	$ 3,127,996
Net income	-	-	-	-	304,202	304,202
Net unrealized capital gains - investments	-	-	-	-	161,559	161,559
Increase in nonadmitted assets	-	-	-	-	(3,046)	(3,046)
Appropriation of assigned to unassigned surplus	-	(58,913)	-	-	58,913	-
Appropriation of unassigned to assigned surplus	-	-	48,901	10,012	(58,913)	-
Balance—December 31, 2013	400,000	167,055	364,366	68,579	2,590,711	3,590,711
Net income	-	-	-	-	138,056	138,056
Net unrealized capital gains - investments	-	-	-	-	11,250	11,250
Increase in nonadmitted assets	-	-	-	-	(25,502)	(25,502)
Appropriation of unassigned to assigned surplus	-	41,100	48,781	10,119	(100,000)	-
Balance—December 31, 2014	$ 400,000	$ 208,155	$ 413,147	$ 78,698	$ 2,614,515	$ 3,714,515

Workers' Compensation Fund - Statements of Cash Flows

Years ended December 31, 2014 and 2013 (in thousands)

	2014	2013
Cash flows from operations		
Premiums collected, net of reinsurance	$ 2,379,071	$ 2,259,078
Net investment income	349,641	362,308
Miscellaneous expense	(1,559,786)	(560,222)
Losses and loss adjustment expenses paid, net of salvage and subrogation	(1,218,412)	(1,208,330)
Expenses paid	(364,928)	(345,710)
Dividends paid to policyholders	(137,082)	(126,843)
Net cash (used in) provided by operations	(551,496)	380,281
Cash flows from investments		
Proceeds from investments sold, matured or repaid	14,436,073	25,614,906
Cost of investments acquired	(14,968,817)	(24,320,829)
Net gain on cash, cash equivalents and short-term investments	180	143
Other proceeds	56,596	27,163
Net cash (used in) provided by investments	(475,968)	1,321,383
Cash flows from other sources		
Other cash used	(46,363)	(14,561)
Net cash used in other sources	(46,363)	(14,561)
Net change in cash and short-term investments	(1,073,827)	1,687,103
Cash and short-term investments Beginning of year	1,884,157	197,054
Cash and short-term investments End of year	$ 810,330	$ 1,884,157

Workers' Compensation Fund, Years ended December 31, 2014 and 2013 (in thousands)

NOTE 1 - ORGANIZATION AND PURPOSE

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

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

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

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

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

The Workers' Compensation Fund discounts all reserves, including pension and non-pension reserves, for loss and loss adjustment expenses at 5%. If no discounting was used, the statutory surplus would decrease by $6,332,313 and $6,517,257 as of December 31, 2014 and 2013, respectively. If the contingent receivable from the State were not prescribed as an admitted asset, total statutory surplus would be decreased by $1,295,000 as of December 31, 2014 and 2013, respectively.

The cumulative effect of prescribed practices by the DFS or as mandated by New York State Workers' Compensation Law on the Workers' Compensation Fund's total surplus and net income for the years ended December 31, 2014 and 2013 is as follows:

	2014	2013
Surplus		
Total surplus as shown on statutory statements - NY SAP	$ 3,714,515	$ 3,590,711
Discounting loss and loss adjustment expense reserves at 5% *	(6,332,313)	(6,517,257)
Contingent receivable from State of New York	(1,295,000)	(1,295,000)
Total cumulative effect	(7,627,313)	(7,812,257)
Total adjusted surplus to deficit - NAIC SAP	$ (3,912,798)	$ (4,221,546)
Net Income		
Total net income as shown on statutory statements - NY SAP	$ 138,056	$ 304,202
Discounting loss and loss adjustment expense reserves at 5% *	(184,943)	(652,901)
Total cumulative effect	(184,943)	(652,901)
Total net income adjusted to net loss - NAIC SAP	$ (46,887)	$ (348,699)

* Under NAIC SAP, certain case reserves, pension case reserves (tabular reserves), would be discounted at an appropriate interest rate. The amount of tabular discount at 3.5% as of December 31, 2014 and 2013, respectively, would be $2,806,153 and $3,164,596.

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

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

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

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

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

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

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

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

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

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

i. The reserves for losses and loss adjustment expenses are discounted to their present value using an annual effective interest rate of 5% during 2014 and 2013. Under U.S. GAAP, the interest rate would be based on market rates and earnings expectations.

j. The Board of Commissioners (the "Board") may designate a reserve for security fluctuations to provide for the difference between the amortized cost of securities and their fair value. Such a reserve is established for future contingencies, rather than allocated to specific investments. In addition, the Board may assign a reasonable portion of unassigned surplus as a reserve for catastrophes.

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

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

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

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

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

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

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

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

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

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

Preferred stocks are stated at cost, lower of cost or amortized cost or NAIC fair values depending on the assigned credit rating and the underlying characteristics of the security. The fair values for preferred stocks are based on quoted market prices where available. Perpetual preferred stocks are valued at estimated market value. Unrealized gain or loss for preferred stocks 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 specific lot method.

An investment in a debt or equity security is impaired if its fair value falls below book value and the decline is considered other than temporary. Factors considered in determining whether a loss is other than temporary include the length of time and extent to which fair value has been below cost; the financial condition and near term prospects of the issuer; and the Workers' Compensation Fund's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. A debt security is impaired if it is probable that the Workers' Compensation Fund will not be able to collect all the amounts due under the security contractual terms. Equity investments are impaired when it becomes apparent that the Workers' Compensation Fund will not recover its cost over the expected holding period. Other-than-temporary declines in fair value of investments are included in realized losses. The amount recorded through the statutory basis statements of income in 2014 and 2013 for realized losses related to Workers' Compensation Fund for impairment losses was $12,178 and $6,749, respectively.

C. Real Estate:
The Workers' Compensation Fund records buildings at cost less accumulated depreciation calculated over estimated useful life of 25 years, using the straight-line method. All property owned by the Workers' Compensation Fund is used substantially for its own operations. In accordance with statutory accounting practices, the Workers' Compensation Fund records both rental income and rental expense representing the imputed rent for office space occupied in buildings owned by the Workers' Compensation Fund. The amount of rental income and expense recorded in the statutory basis statements of income in 2014 and 2013 was $9,999 and $9,477, respectively.

Maintenance and repairs are charged to expense as incurred.

D. Premiums Revenue and Related Accounts:
The Workers' Compensation Fund records written premiums when billed to policyholders and earns the related income over the life of the policy.

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

At December 31, 2014 and 2013, the outstanding premium receivable net admitted balance recorded in the statutory basis statements of admitted assets, liabilities and surplus for the Workers' Compensation Fund was $188,240 and $241,353. To reduce credit risk, the Workers' Compensation Fund performs ongoing evaluations of its customers' financial condition, but does not generally require collateral. The Workers' Compensation Fund routinely assesses the collectability of these receivables. Based upon Workers' Compensation Fund experience, less than 4% of net written premium may become uncollectable and the potential loss is not material to the Workers' Compensation Fund's financial condition. The Workers' Compensation Fund performs an analysis of uncollectable premiums receivable and realized write offs of $65,634 and $59,101, for the years ended December 31, 2014 and 2013, respectively, in the statutory basis statements of income.

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

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

E. Expenses of Workers' Compensation Board ("WCB"):
Prior to January 1, 2014, WCB assessments charged by the Fund to policyholders were a component of written premium. The amounts the Fund paid to the WCB were recorded as losses incurred and other underwriting expenses on the income statement.

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

The Fund carried an asset of $5,831 related to advance assessment payments to the Workers' Compensation Board as of December 31, 2014. Assessments due from policyholders billed through December 31, 2014, were $29,975, and are recorded on the statutory basis statements of admitted assets, liabilities and surplus.

Assessments billed for the year ended December 31, 2014 were $243,367 and the estimated payments made to the Workers' Compensation Board were $259,902. The Workers' Compensation Fund granted $46,805 in additional discounts to policyholders during 2014 to help subsidize the cost during the transition of charging assessments directly to the policyholders, which is recorded as a reduction in premium written in the statutory basis statements of income.

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

The reserves for losses and loss adjustment expenses of the Workers' Compensation Fund are discounted to present value using an annual effective rate of interest of 5%. The liability for losses and loss adjustment expenses of the Workers' Compensation Fund has been reduced by $6,332,313 and $6,517,257 as of December 31, 2014 and 2013, respectively, as a result of the 5% discounting. This accounting practice is mandated by Section 86 of the New York State Workers' Compensation Law.

Loss and loss adjustment expense reserves are significant in relation to surplus and a change in the timing of future payments could have a material impact on surplus. A change of 1% of discount reserves would decrease surplus by 4%. Uncertainty also exists related to the impact of the Workers' Compensation Reform as described in Note 14.

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

Workers' Compensation Fund, Years ended December 31, 2014 and 2013 (in thousands)

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

As described above, the Board may designate a portion of unassigned surplus for security fluctuation and catastrophes as specifically prescribed by the DFS. Security fluctuation surplus remained unchanged at $400,000 as of December 31, 2014 and 2013.

The review of the catastrophe surplus in conjunction with a risk assessment of the Workers' Compensation Fund's exposures resulted in the Board increasing the catastrophe surplus by $41,100 and decreasing the catastrophe surplus by $58,913 as of December 31, 2014 and 2013, respectively.

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

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

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

Once subject losses have reached the $100 billion aggregate in a Terrorism Program year, there is no additional reimbursement from the U.S. Treasury and an insurer that has met its deductible for the Terrorism Program year is not liable for any losses (or portion thereof) that exceed the $100 billion cap. The Workers' Compensation Fund is responsible for a deductible of $453,028 and $375,604 for December 31, 2014 and 2013, respectively. The Workers' Compensation Fund assigned $413,417 and $364,366 of surplus, which represents the estimated premium attributable to the foreign terrorism premium charge at December 31, 2014 and 2013, respectively. Beginning on October 1, 2005, the Workers' Compensation Fund began assigning a portion of premium to domestic terrorism, which totaled $78,698 and $68,579 as of December 31, 2014 and 2013, respectively.

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

Activity in contingent policyholder dividends is summarized as follows:

	2014	2013
Balance - January 1	$ 979,701	$ 931,268
Incurred contingent policyholder earnings to latest anniversary date	271,489	148,098
Change in estimated contingent policyholder earnings from latest anniversary date to Dec 31	175,788	27,178
Dividends paid to policyholders	(137,082)	(126,843)
Balance - December 31	$ 1,289,896	$ 979,701

I. Fringe Benefits:

Based on actual costs billed by various State agencies, the Workers' Compensation Fund incurred $74,292 and $72,017 of fringe benefits and indirect costs in 2014 and 2013, respectively, recorded through other underwriting expenses in the statutory basis statements of income.

All employees of the Workers' Compensation Fund are covered under a retirement plan administered by the New York State Employees Retirement System. For employees hired prior to July 27, 1976, the plan is noncontributory. For employees hired on or after July 27, 1976, but before 2010, the plan is partially contributory in the first 10 years of employment and noncontributory thereafter. For employees hired on or after January 1, 2010, the plan is contributory for all years of service. The portion of the fringe benefits attributed to the retirement plan for the Workers' Compensation Fund was $31,958 and $31,264 in 2014 and 2013, respectively.

J. Post-employment Benefits:

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

Health insurance premiums for retired employees are equal to the premiums charged for active Workers' Compensation Fund employees. The dollar value of accumulated sick leave credits at the time of retirement is used to offset the health insurance premiums paid directly by retirees. The Workers' Compensation Fund pays the portion of the retirees' health insurance premiums covered by accumulated sick leave credits.

There were an average of 1,424 and 1,386 retirees participating in the plan for the years ended December 31, 2014 and 2013, respectively. The Workers' Compensation Fund is billed by the Department of Civil Service monthly. Expenses are recognized when paid and totaled $13,212 and $12,532 for the Workers' Compensation Fund for the years ended December 31, 2014 and 2013, respectively, and recorded as a component of other underwriting expenses in the statutory basis statements of income.

K. Income Tax:

The Workers' Compensation Fund is exempt from federal income taxes. However, the Workers' Compensation Fund is subject to a New York State franchise tax. The Workers' Compensation Fund's franchise tax is calculated using a written premium-based method and is a component of other underwriting expenses. The New York State franchise tax expense was $44,688 and $43,069 in 2014 and 2013, respectively, and recorded through the statutory basis statements of income.

As the Workers' Compensation Fund maintains an office and does business in the metropolitan New York area, it is also subject to the Metropolitan Transit Authority ("MTA") surcharge. The MTA surcharge is based on premiums written on businesses in the metropolitan area and wages paid to employees in the metropolitan area and is a component of other underwriting expenses. The MTA surcharge in 2014 and 2013 was $5,694 and $5,376, respectively, and recorded through the statutory basis statements of income.

L. Concentrations of Credit Risk:

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

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

M. Risks and Uncertainties:

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

N. Use of Estimates:

The preparation of these statutory basis financial statements in conformity with statutory accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statutory basis financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant estimates included in these statutory basis financial statements are the liability for loss and loss adjustment expenses and earned but unbilled premiums.

O. Reclassification:

Reclassifications from the miscellaneous income into finance and service charges were made in the prior year's statutory basis statements of income to conform to the current year's presentation.

Workers' Compensation Fund, Years ended December 31, 2014 and 2013 (in thousands)

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

NOTE 3 - INVESTMENTS
Section 87 of the New York State Workers' Compensation Law specifically states the type of securities authorized for investment by the Workers' Compensation Fund. Section 87 further provides that the Commissioner of Taxation and Finance is the sole custodian of the Workers' Compensation Fund. J.P. Morgan Chase serves as the Workers' Compensation Fund's custodian for investments. The Workers' Compensation Fund has security lending agreements with J.P. Morgan Chase and Key Bank. All bank deposits are entirely insured or collateralized with securities held by J.P. Morgan Chase at December 31, 2014 and 2013, in accordance with Section 105 of the New York State Finance Law.

Chapter 473 of the Laws of 2000 and Chapter 6 of the Laws of 2007 broadened the Workers' Compensation Fund's investment authority to include certain common and preferred stocks and expanded the range of fixed income issues in which the Workers' Compensation Fund may invest. The amortized cost, gross unrealized gains, gross unrealized losses and estimated market value of investments in bonds and stocks at December 31, 2014 and 2013 are as follows:

	2014			
	Cost or Book Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government and government agency obligations	$ 6,164,604	$ 349,434	$ (18,398)	$ 6,495,640
Foreign government	509,082	8,173	(1,724)	515,531
States, territories, possessions and political subdivisions	352,814	33,716	(785)	385,745
Corporate bonds and public utilities	3,978,027	370,598	(12,085)	4,336,540
Mortgage-backed securities	348,989	12,549	(991)	360,547
Hybrid securities	72,221	36,518	-	108,739
Total bonds	11,425,737	810,988	(33,983)	12,202,742
Preferred stocks held at cost	26	-	-	370
Preferred stocks held at book value	8,597	984	-	8,597
Common stocks	1,087,962	413,510	(11,856)	1,489,616
Total stocks	1,096,585	414,494	(11,856)	1,498,583
Total investments	$ 12,522,322	$ 1,225,482	$ (45,839)	$ 13,701,325

	2013			
	Cost or Book Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government and government agency obligations	$ 6,086,612	$ 99,177	$ (341,727)	$ 5,844,062
Foreign government	478,973	4,717	(14,892)	468,798
States, territories, possessions and political subdivisions	369,966	13,268	(21,072)	362,162
Corporate bonds and public utilities	3,595,147	249,800	(72,465)	3,772,482
Mortgage-backed securities	232,467	11,204	(3,505)	240,166
Hybrid securities	72,710	37,044	-	109,754
Total bonds	10,835,875	415,210	(453,661)	10,797,424
Preferred stocks	8,280	1,511	(752)	9,039
Common stocks	945,700	392,715	(1,531)	1,336,884
Total stocks	953,980	394,226	(2,283)	1,345,923
Total investments	$ 11,789,855	$ 809,436	$ (455,944)	$ 12,143,347

The amortized cost and market value of bonds at December 31, 2014 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	$ 236,155	$ 238,754
Due after one year through five years	3,228,803	3,337,012
Due after five years through ten years	1,406,088	1,457,237
Due after ten years	6,554,691	7,169,739
Total bonds	$ 11,425,737	$ 12,202,742

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

	2014	2013
Bonds	$ 377,819	$ 395,420
Stocks	26,923	26,271
Cash, and short-term investments	523	343
Real Estate- Home office	9,999	9,477
Other	2,295	1,885
Investment income earned	417,559	433,396
Investment expenses	(26,242)	(25,586)
Net realized investment gains	158,033	358,591
Net investment income earned	$ 549,350	$ 766,401

Net realized investment gains on investments, determined on the specific lot method in 2014 and 2013, consist of the following:

	2014	2013
Bonds	$ 43,710	$ 126,142
Stocks	114,143	230,452
Real estate	180	1,963
Cash and short-term investments	-	34
Net realized investment gains	$ 158,033	$ 358,591

For the Workers' Compensation Fund, proceeds from investments sold, matured or repaid during the years ended December 31, 2014 and 2013 were $14,436,073 and $25,614,906, respectively. These sales resulted in gross realized gains of $192,268 and $463,531, and gross realized losses of $22,057 and $100,154 in 2014 and 2013, respectively.

Workers' Compensation Fund, Years ended December 31, 2014 and 2013 (in thousands)

The following table represents the Workers' Compensation Fund's unrealized loss, fair value and amortized cost for bonds and stocks aggregated by investment category and length of time individual securities have been in a continuous unrealized loss position as of December 31, 2014 and 2013, respectively.

2014	Less Than 12 Months Amortized Cost	Less Than 12 Months Fair Value	Less Than 12 Months Unrealized Losses	12 Months or More Amortized Cost	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Amortized Cost	Total Fair Value	Total Unrealized Losses
U.S. Government and government agency obligations	$ 469,871	$ 467,614	$ 2,257	$ 840,079	$ 823,153	$ 16,926	$ 1,309,950	$ 1,290,767	$ 19,183
States, territories, possessions and political subdivisions			-	-	-	-	-	-	-
Foreign government	59,784	59,718	66	134,712	133,054	1,658	194,496	192,772	1,724
Corporate bonds and public utilities	442,307	439,001	3,306	393,127	384,348	8,779	835,434	823,349	12,085
Mortgage-backed securities	-	-	-	-	-	-	-	-	-
Hybrid securities	32,389	32,301	88	35,720	34,817	903	68,109	67,118	991
Total fixed maturities	1,004,351	998,634	5,717	1,403,638	1,375,372	28,266	2,407,989	2,374,006	33,983
Preferred stocks	-	-	-	-	-	-	-	-	-
Common and preferred stocks	89,795	78,609	11,186	10,802	10,132	670	100,597	88,741	11,856
Total stocks	89,795	78,609	11,186	10,802	10,132	670	100,597	88,741	11,856
Total temporarily impaired investments	$ 1,094,146	$ 1,077,243	$ 16,903	$ 1,414,440	$ 1,385,504	$ 28,936	$ 2,508,586	$ 2,462,747	$ 45,839

2013	Less Than 12 Months Amortized Cost	Less Than 12 Months Fair Value	Less Than 12 Months Unrealized Losses	12 Months or More Amortized Cost	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Amortized Cost	Total Fair Value	Total Unrealized Losses
U.S. Government and government agency obligations	$ 3,115,432	$ 2,925,388	$ 190,044	$ 1,227,930	$ 1,055,176	$ 172,754	$ 4,343,362	$ 3,980,564	$ 362,798
States, territories, possessions and political subdivisions			-	-	-	-	-	-	-
Foreign government	269,226	254,334	14,892	-	-	-	269,226	254,334	14,892
Corporate bonds and public utilities	1,237,531	1,181,872	55,659	160,546	143,739	16,807	1,398,077	1,325,611	72,466
Mortgage-backed securities	75,492	73,249	2,243	15,322	14,060	1,262	90,814	87,309	3,505
Hybrid securities	-	-	-	-	-	-	-	-	-
Total fixed maturities	4,697,681	4,434,843	262,838	1,403,798	1,212,975	190,823	6,101,479	5,647,818	453,661
Preferred stocks	-	-	-	-	-	-	-	-	-
Common and preferred stocks	36,072	33,838	2,234	728	679	49	36,800	34,517	2,283
Total stocks	36,072	33,838	2,234	728	679	49	36,800	34,517	2,283
Total temporarily impaired investments	$ 4,733,753	$ 4,468,681	$ 265,072	$ 1,404,526	$ 1,213,654	$ 190,872	$ 6,138,279	$ 5,682,335	$ 455,944

Gross unrealized losses represented 0.4% and 4.2% of cost or amortized cost for the Workers' Compensation Fund as of December 31, 2014 and 2013, respectively. Fixed maturities represented 74% and 99% of the Workers' Compensation Fund's unrealized losses as of December 31, 2014 and 2013, respectively. The group of securities in an unrealized loss position for less than twelve months was comprised of 198 and 318 securities for the Workers' Compensation Fund as of December 31, 2014 and 2013, respectively. The group of securities depressed for twelve months or more were comprised of 112 and 47 securities, for the Workers' Compensation Fund as of December 31, 2014 and 2013, respectively.

The fixed income securities in an unrealized loss position are primarily investment grade securities with extended maturity dates, which have been adversely impacted by an increase in interest rates after the purchase date. As part of the Workers' Compensation Fund's ongoing security monitoring process by a committee of investment and accounting professionals, the Workers' Compensation Fund has reviewed its investment portfolio and concluded that there were no additional other-than-temporary impairments as of December 31, 2014 and 2013. Due to the issuers' continued satisfaction of the securities' obligations in accordance with their contractual terms and the expectation that they will continue to do so, management's ability and intent to hold these securities, as well as the evaluation of the fundamentals of the issuer's financial condition and other objective evidence, the Workers' Compensation Fund believes that the securities identified above were temporarily impaired.

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

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

The amount included in 2014 and 2013 for realized losses related to the Workers' Compensation Fund for impairment losses related to SSAP No. 43R investments was $0 and $152, respectively, and was recognized on the Fund's intent to sell. There were no additional impairments recorded in 2014 and 2013 on the basis that the present value of future expected cash flows is less than the amortized cost basis of the security as losses were identified on the basis that the Workers' Compensation Fund was unable to retain the security until recovery of amortized cost.

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

The Workers' Compensation Fund had reinvested collateral assets in the amount of $257,551 and $391,746 as of December 31, 2014 and 2013, respectively. For the years ended December 31, 2014 and 2013, the Workers' Compensation Fund received fees of $1,128 and $798, respectively. The fees for the current year have been included in investment income earned in the statutory basis statements of income. During 2014 and 2013, the Workers' Compensation Fund recorded OTTI in the amount of $0 and $109, in the statutory basis statements of income, respectively.

The Workers' Compensation Fund recorded total OTTI of $12,178 and $6,749 as of December 31, 2014 and 2013, respectively, as a component of net realized investment gains through the statutory basis statements of income.

A. Fair Value of Financial Instruments:

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

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

The statement value and estimated fair value of financial instruments at December 31, 2014 and 2013 are as follows:

	2014		2013	
	Statement Value	Estimated Fair Value	Statement Value	Estimated Fair Value
Financial assets:				
Bonds	$ 11,425,737	$ 12,202,742	$ 10,835,875	$ 10,797,424
Preferred stocks	8,623	8,967	8,496	9,039
Common stocks	1,489,616	1,489,616	1,336,884	1,336,884
Cash and short-term investments	721,701	721,701	1,898,179	1,898,179

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

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

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

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

Workers' Compensation Fund, Years ended December 31, 2014 and 2013 (in thousands)

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

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

The levels of the fair value hierarchy are as follows:

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

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

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

The following table provides information as of December 31, 2014 about the Workers' Compensation Fund's assets measured at fair value along with a brief description of the valuation technique for each type of asset.

Assets at fair value:	Level 1	Level 2	Level 3	Total
Hybrids- Issuer Obligations	$ -	$ -	$ -	$ -
Perpetual Preferred stocks	$ 8,597	$ -	$ -	$ 8,597
Common stocks	1,489,616	-	-	1,489,616
Total assets at fair value	$ 1,498,213	$ -	$ -	$ 1,498,213

The following table provides information as of December 31, 2013 about the Workers' Compensation Fund's assets measured at fair value along with a brief description of the valuation technique for each type of asset.

Assets at fair value:	Level 1	Level 2	Level 3	Total
Hybrids- Issuer Obligations	$ -	$ 201	$ -	$ 201
Perpetual Preferred stocks	8,471	-	-	8,471
Common stocks	1,336,884	-	-	1,336,884
Total assets at fair value	$ 1,345,355	$ 201	$ -	$ 1,345,556

Low grade fixed maturity investments where fair value is lower than cost and common stocks are recorded at fair value. Securities classified into Level 1 included primarily corporate bonds and common stocks where there are quoted prices in active markets for identical securities and the source of the pricing. Unadjusted quoted prices for these securities are provided to the Workers' Compensation Fund by independent pricing services. Level 2 securities include corporate bonds and other common stock securities where pricing is based on bid evaluations. Quote prices for these securities are provided to the Workers' Compensation Fund using independent pricing services. There were no changes in valuation techniques during 2014 and 2013.

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

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

There were no significant transfers into or out of Level 2 or 3 during 2014 and 2013. There were no changes in valuation techniques during 2014 and 2013.

The Workers' Compensation Fund's policy is to recognize transfers in and out of Level 3 as of the end of the reporting period. There were no transfers in or out of Level 3 during 2014.

The following table provides information as of December 31, 2014 about the Workers' Compensation Fund's financial instruments disclosed at fair value along with a brief description of the valuation technique for each type of assets.

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3
Bonds	$ 12,094,003	$ 11,353,516	$ -	$ 12,094,003	$ -
Hybrids	108,739	72,221	-	108,739	-
Short-term investments	712,701	712,701	-	712,701	-
Cash Equivalents	8,499	8,499	8,499	-	-
Preferred stocks at cost	370	26	370	-	-
Preferred stocks at book value	8,597	8,597	8,597	-	-
Common stocks	1,489,616	1,489,616	1,489,616	-	-
Security lending collateral assets	260,711	257,551	251,445	4,493	4,773
Total	$ 14,683,236	$ 13,902,727	$ 1,758,527	$ 12,919,936	$ 4,773

The following table provides information as of December 31, 2013 about the Workers' Compensation Fund's financial instruments disclosed at fair value along with a brief description of the valuation technique for each type of assets.

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3
Bonds	$ 10,687,670	$ 10,763,165	$ -	$ 10,687,670	$ -
Hybrids	109,754	72,710	-	109,754	-
Short-term investments	279,259	279,259	-	279,259	-
Preferred stocks	9,039	8,496	9,039	-	-
Common stocks	1,336,884	1,336,884	1,336,884	-	-
Money market mutual funds	1,618,920	1,618,920	1,618,920	-	-
Security lending collateral assets	394,722	391,746	384,255	4,979	5,488
Total	$ 14,436,248	$ 14,471,180	$ 3,349,098	$ 11,081,662	$ 5,488

Securities classified into level 1 included primarily common stocks, preferred stocks and money market mutual funds where there are quoted prices in active markets for identical securities and the source of the pricing. Unadjusted quoted prices for these securities are provided to the Workers' Compensation Fund by independent pricing services. Quoted prices for these securities are provided to the Workers' Compensation Fund using independent pricing services. Level 2 securities include all bonds, mortgage-backed securities including hybrid securities with pricing using bid evaluations or matrix pricing. Matrix pricing takes quoted prices of bonds with similar features and applies analytic methods to determine the fair value of bonds held. Features that are inputs into the analysis include duration, credit quality, tax status and call and sinking fund features. Quoted prices for these securities are provided to the Workers' Compensation Fund by independent pricing services. Securities classified in Level 3 for 2014 and 2013 represents a structured investment vehicle that is measured based on analysis performed by the Workers' Compensation Fund's investment manager which analyzes the underlying collateral in addition to bid/ask pricing received from brokers to estimate a price. The valuation methodology has been applied consistently from 2013 to 2014.

There were no significant transfers into or out of Level 2 or 3 during 2014 and 2013. There were no changes in valuation techniques during 2014 and 2013.

Workers' Compensation Fund, Years ended December 31, 2014 and 2013 (in thousands)

B. Subprime Mortgage Exposure:
The Workers' Compensation Fund has no direct subprime exposure through investments in subprime mortgage loans.

The Workers' Compensation Fund has no indirect subprime exposure in mortgage-backed securities.

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

C. Wash Sales:
In the course of the Workers' Compensation Fund's management of investment portfolio, securities may be sold at a loss and repurchased within 30 days of the sale date to enhance the Workers' Compensation Fund's yield on its investment portfolio. The Workers' Compensation Fund did not sell any securities at a loss or in a loss position with a NAIC designation from 3 to 6 for the years ended December 31, 2014 and 2013 that were reacquired within 30 days of the sale date.

NOTE 4 - REAL ESTATE

The investment in real estate includes various locations in New York State occupied by the Workers' Compensation Fund's employees. Depreciation expense recorded in the statutory basis statements of income during 2014 and 2013 was $1,362 and $1,359, respectively.

The Workers' Compensation Fund owned real estate at December 31, 2014 and 2013 as follows:

	2014	2013
Office buildings and improvements, at cost	$ 34,705	$ 33,924
Accumulated depreciation	(22,777)	(21,415)
Office buildings and improvements—net of accumulated depreciation	11,928	12,509
Land	2,735	2,735
Land improvement	2,028	2,028
Total real estate	$ 16,691	$ 17,272

NOTE 5 - NON-ADMITTED ASSETS

The non-admitted assets of the Workers' Compensation Fund at December 31, 2014 and 2013 were as follows:

	2014	2013
Premium in course of collection outstanding over 90 days	$ 162,825	$ 137,530
Electronic Data Equipment/Software	1,984	1,720
Furniture and equipment, net of accumulated depreciation	1,661	1,600
Other	8,061	8,179
Total non-admitted assets	$ 174,531	$ 149,029

NOTE 6 - TRANSACTIONS WITH NEW YORK STATE

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

NOTE 7 - REINSURANCE

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

The Workers' Compensation Fund purchased no reinsurance for 2014 and 2013. The Workers' Compensation Fund has reinsurance contracts to limit the impact of excess losses with a layer of $100,000 in excess of $100,000 of full terrorism coverage for all Workers' Compensation Fund employees for 2005. There were no premiums ceded, as shown in the Workers' Compensation Fund statutory basis statements of income in 2014 and 2013.

The reserves for losses and loss adjustment expenses have been reduced by $1,566 and $1,184 for losses recoverable under reinsurance contracts as of December 31, 2014 and 2013, respectively.

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

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

The Workers' Compensation Fund does not have an unsecured aggregate recoverable for losses, paid and unpaid including IBNR, loss adjustment expenses and unearned premium with any individual reinsurers, authorized or unauthorized, that exceeds 3% of the Workers' Compensation Fund's surplus at December 31, 2014 and 2013.

B. Retroactive Reinsurance:

The Workers' Compensation Fund entered into an assumption retroactive reinsurance transaction from the Liquidation Bureau of the DFS. The total amount of reinsurance reserves transferred and consideration paid to the Workers' Compensation Fund, as of the date of the transaction was $9,919. The estimates for total unpaid losses related to retroactive reinsurance contracts as of December 31, 2014 and 2013 were $1,999 and $2,229, 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, 2014 and 2013 was $305 and $395, 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

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

The expenses allocated to the Disability Benefits Fund were $1,339 in 2014 and 2013, respectively. The amount owed to the Workers' Compensation Fund from the DBF is $321 and $292 as of December 31, 2014 and 2013, respectively.

The Workers' Compensation Fund acts as the administrator of the Aggregate Trust Fund ("ATF") by paying losses on behalf of the ATF. The ATF was created under New York State Worker's Compensation Law and is the disbursing agency for certain death and permanent disability claims exclusive of claims applicable to the Workers' Compensation Fund. The Workers' Compensation Fund charges the ATF an administrative fee of 3% of paid losses for such services. The total administration fees charged to the ATF during 2014 and 2013, were $927 and $838, respectively. The amount owed to the Workers' Compensation Fund from the ATF is $103 and $80 as of December 31, 2014 and 2013, respectively.

The Workers' Compensation Fund administers the claims for the State, which self-insures its liability for workers' compensation claims. The Workers' Compensation Fund is reimbursed for losses, allocated loss adjustment expenses, reinsurance and administrative expenses paid on behalf of the State. During 2014 and 2013, the State reimbursed the Workers' Compensation Fund $401,940 and $458,234, respectively, for such costs and are recorded through underwriting expenses in the statutory basis statements of income. The amount owed to the Workers' Compensation Fund from the State is $40,370 and $53,149 as of December 31, 2014 and December 31, 2013, respectively.

Beginning January 1, 2014, in accordance with the 2013 reforms, the Workers' Compensation Fund administers payments to the Workers' Compensation Board on behalf of policyholders. Assessments administered to the Workers' Compensation Board ("WCB") are estimated based on premium written in the prior quarter, as well as assessment adjustments to policies previously reported. The Workers' Compensation Fund is reimbursed for assessments administered to the fund through premium billing. During 2014, policyholders reimbursed the Workers' Compensation Fund $243,367, and estimated payments made to the Workers' Compensation Board were $259,902. The Workers' Compensation Fund recorded an asset of $5,831 for advance 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 through December 31, 2014 was $29,975 and recorded through the statutory basis statements of admitted assets, liabilities and surplus.

Workers' Compensation Fund, Years ended December 31, 2014 and 2013 (in thousands)

In 2013, the amount incurred of ($424,066) included the release of the liability due to the WCB related to administrative expenses in the amount of approximately $450 million which was no longer required to be held as a result of the changes in the law disclosed in Note 14. The amounts incurred in 2014 and 2013 to the WCB to contribute toward their expenses were $0 and ($424,066), respectively, recording in other underwriting expenses in the statutory basis statements of income.

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

	2014	2013
Due from affiliates		
Aggregate Trust Fund	$ 103	$ 80
Disability Benefits Fund	321	292
New York State	40,370	53,149
Total due from affiliates	$ 40,794	$ 53,521
Due to affiliates		
New York State	$ 250,000	$ 1,750,692

NOTE 9 - COMMITMENTS

The Workers' Compensation Fund leases offices, warehouse space and vehicles under non-cancellable operating leases generally varying from one to fifteen years. The Workers' Compensation Fund's aggregate minimum commitments under non-cancelable operating leases at December 31, 2014, are as follows:

2015	$ 4,868
2016	4,962
2017	4,424
2018	3,477
2019	3,574
Thereafter	2,846
Net min.commitments	$ 24,151

Rental expense (including the imputed rental income for the Workers' Compensation Fund occupied buildings of $9,999 and $9,477) was $15,307 and $14,674 in 2014 and 2013, respectively, and recorded through investment income earned.

NOTE 10 - RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

Activity in the reserves for losses and loss adjustment expenses, net of reinsurance recoveries of $1,566 and $1,184 for 2014 and 2013, respectively, is summarized as follows:

	2014	2013
Balance—January 1 (net of reinsurance recoveries)	$ 8,692,521	$ 9,588,822
Incurred claims related to:		
Current year	1,625,656	1,738,233
Prior years	449,549	(1,277,610)
Total incurred	2,075,205	460,623
Paid claims related to:		
Current year	227,486	215,077
Prior years	1,170,168	1,141,847
Total paid	1,397,654	1,356,924
Balance—December 31 (net of reinsurance recoveries)	$ 9,370,072	$ 8,692,521

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 2014 and 2013 as a result of changes in estimates of events insured in prior years.

The incurred claims related to the prior years change of approximately $1.3 billion in 2013 includes a $1.85 billion release of the loss-based assessments related to Section 15.8 and 25A that were no longer required to be held as a result of the changes in the Chapter 57 of the Laws of 2014 disclosed in Note 14.

NOTE 11 - SURPLUS

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

Changes in balances of special surplus funds from December 31, 2013 to December 31, 2014, are due to appropriations to the catastrophe, foreign terrorism reserves, and domestic terrorism reserves, as discussed in Note 2 (G).

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

	2014	2013
Unrealized gains	$ 402,638	$ 391,388
Nonadmitted assets	174,531	149,029
Retroactive reinsurance assumed	-	-
Total	$ 577,169	$ 540,417

NOTE 12 - OTHER UNDERWRITING EXPENSES

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

	2014	2013
Advertising	$ 190	$ 48
Boards, bureaus and associations	6,116	12,447
Audit of assured's records	236	209
Salaries and payroll taxes	76,789	76,051
Employee relations and welfare	32,743	31,351
Insurance	108	122
Travel and travel items	946	1,039
Rent and rent items	6,735	6,457
Equipment	362	225
Cost or depreciation of EDP		
equipment and software	6,540	5,004
Printing and stationery	529	475
Postage and telephone	3,529	2,613
Legal and auditing	1,910	1,659
Taxes, licenses and fees:		
Franchise taxes and other fees	51,146	49,197
Expenses to WCB (Note 8)		(424,066)
Reimbursements by uninsured plans	-	(21,284)
Miscellaneous expenses	5,489	5,169
Total	$ 193,368	$ (253,284)

NOTE 13 - CONTINGENCIES

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

NOTE 14 - WORKERS' COMPENSATION REFORM (THE "REFORM")

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

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

The significant aspects of the Reform, pertaining to the estimate of loss and loss adjustment expense reserves and the Workers' Compensation Fund, are the durational limits on PPD awards, the increase in the minimum and maximum benefit levels and the elimination of the Second Injury Fund. As of December 31, 2014 and 2013, the classification of the claims between pension and non-pension has been developing very slowly which has made it difficult to estimate the impact of the provision of the Reforms. As a result, management of the Workers' Compensation Fund has been utilizing pre-reform levels of the classification between pension and non-pension to develop the estimate for loss and loss adjustment expenses which results in a significant uncertainty in the reserve for loss and loss adjustment expenses.

NOTE 15 - SUBSEQUENT EVENTS

Subsequent events have been reviewed in accordance with SSAP No. 9, Subsequent Events, for both annual statement reporting and through issuance of these audited statutory basis financial statements. Subsequent events were initially reviewed through February 28, 2015 when the annual statement was originally filed, which is the date when the annual statements was issued and filed with the NAIC and the DFS. After that date, subsequent events have been reviewed through June 1, 2015, the date which these audited statements were available to be issued.

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

Type II - The Workers' Compensation Fund did not experience an event that provided evidence with respect to conditions that did not exist at the date of the statutory basis statements of admitted assets, liabilities and surplus, but arose subsequent to December 31, 2014.

INDEPENDENT AUDITORS' REPORT

EisnerAmper
ACCOUNTANTS & ADVISORS

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

Report on the Financial Statements
We have audited the accompanying statutory basis financial statements of the State Insurance Fund Workers' Compensation Fund (a New York state disbursing agency), which comprise the statutory basis statements of admitted assets, liabilities and surplus as of December 31, 2014 and 2013, and the related statutory basis statements of income, surplus, and cash flows for each of the years then ended, and the related notes to the statutory basis financial statements.

Management's Responsibility for the 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 State Insurance Fund Workers' Compensation Fund'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 State Insurance Fund Workers' Compensation Fund'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 2, the statutory basis financial statements are prepared by the State Insurance Fund Workers' Compensation Fund in conformity with the accounting practices 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, to comply with the requirements of the New York State Department of Financial Services. The effects on the statutory basis financial statements of the variances between the regulatory basis of accounting described in Note 2 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, 2014 and 2013, or the results of its operations or its cash flows for each of the years then ended.

Opinion on Statutory 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, 2014 and 2013, and the results of its operations and its cash flows for each of the years then ended on the basis of accounting described in Note 2.

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

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

Our opinion is not modified with respect to these matters.

New York, New York
June 1, 2015

EisnerAmper LLP

Disability Benefits Fund - Statements of Admitted Assets, Liabilities and Surplus

Years ended December 31, 2014 and 2013 (in thousands)

	2014	2013
Admitted assets		
Cash and invested assets		
Bonds—at NAIC carrying value	$ 161,543	$ 158,974
Preferred stocks	116	101
Common stocks, at market value	30	31
Receivable for securities	-	22,543
Cash and short-term investments	9,681	(514)
Total cash and invested assets	171,370	181,135
Premiums receivables	2,987	2,749
Accrued investment income	808	829
Other assets	95	-
Receivable for securities		
Total admitted assets	$ 175,260	$ 184,713
Liabilities and surplus		
Liabilities		
Reserve for losses	$ 3,503	$ 2,581
Reserve for loss adjustment expenses	197	190
Unearned premiums	26,401	26,894
Due to affiliate	321	500
Due to Worker's Compensation Board	-	-
Payable for securities	-	14,307
Accrued expenses and other liabilities	2,129	1,686
Total liabilities	32,551	46,158
Surplus		
Security fluctuation surplus	4,000	4,000
Catastrophe surplus	4,000	4,000
Unassigned surplus	134,709	130,555
Total surplus	142,709	138,555
Total liabilities and surplus	$ 175,260	$ 184,713

Years ended December 31, 2014 and 2013 (in thousands)

	2014	2013
Underwriting income		
Net written premium	$ 16,405	$ 15,763
Net earned premium	$ 16,899	$ 15,541
Underwriting expenses		
Losses incurred	16,400	11,866
Loss adjustment expenses incurred	1,116	1,007
Other underwriting expenses incurred	2,647	2,769
Total underwriting expenses	20,163	15,642
Net underwriting loss	(3,264)	(101)
Investment income earned		
Investment income	4,424	4,567
Investment expenses	(164)	(157)
Net realized investment gains	3,176	5,966
Net investment income earned	7,436	10,376
Other income (expenses)		
Bad debt expense	(175)	(411)
Miscellaneous income	136	150
Total other income (expenses)	(39)	(261)
Net income	$ 4,133	$ 10,014

Disability Benefits Fund - Statements of Surplus

Years ended December 31, 2014 and 2013 (in thousands)

	2014	2013
Balance - January 1	$ 138,555	$ 128,626
Net income	4,133	10,014
Net unrealized capital gains (losses) - investments	14	(12)
Change in nonadmitted assets	7	(73)
Net increase in surplus	4,154	9,929
Balance - December 31	$ 142,709	$ 138,555

Disability Benefits Fund - Statements of Cash Flows

Years ended December 31, 2014 and 2013 (in thousands)

	2014	2013
Cash flows from operations		
Premiums collected, net of reinsurance	$ 16,571	$ 14,846
Net investment income	4,255	4,550
Miscellaneous expenses	(38)	(260)
Losses and loss adjustment expenses paid, net of salvage and subrogation	(15,478)	(13,788)
Expenses paid	(3,929)	(3,509)
Net cash provided by operations	1,381	1,839
Cash flows from investments		
Proceeds from investments sold, matured or repaid	1,148,892	2,457,864
Cost of investments acquired	(1,148,254)	(2,460,134)
Other proceeds	8,326	-
Net cash provided by (used in) investments	8,964	(2,270)
Cash flows from other sources		
Other applications	(60)	374
Net cash (used in) provided by other sources	(60)	374
Net change in cash and short-term investments	10,285	(57)
Cash and short-term investments		
Beginning of year	(514)	(457)
Cash and short-term investments		
End of year	$ 9,771	$ (514)

NOTE 1 - ORGANIZATION AND PURPOSE

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 results 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 specific lot method in 2014 and 2013, respectively.

An investment in a debt or equity security is impaired if its fair value falls below book value and the decline is considered other than temporary. Factors considered in determining whether a loss is other than temporary include the length of time and extent to which fair value has been below cost; the financial condition and near term prospects of the issuer; and the Disability Benefits Fund's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. A debt security is impaired if it is probable that the Disability Benefits Fund will not be able to collect all the amounts due under the security contractual terms. Equity investments are impaired when it becomes apparent that the Disability Benefits Fund will not recover its cost over the expected holding period. Other-than-temporary declines in fair value of investments are included in realized losses. There was no amount included in 2014 and 2013 for realized losses related to impairment losses.

C. Premium Revenue and Related Accounts:
The Disability Benefits Fund records written premiums on the effective date of the policy and earns premium over the life of the policy.

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

The outstanding premium receivable net admitted balance in the Disability Benefits Fund was $2,987 and $2,749 at December 31, 2014 and 2013, respectively. To reduce credit risk, the Disability Benefits Fund performs ongoing evaluations of its customers' financial condition but does not generally require collateral. The Disability Benefits Fund routinely assesses the collectability of its receivables. Based upon the Disability Benefits Fund's experience, less than 2% of net written premium may become uncollectable and the potential loss is not material to the Disability Benefits Fund's financial condition.

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

Also included in the reserve for unearned premiums are estimates for Return of Premium Program and the Premium Adjustment Plan. The Return of Premium Program is a program whereby policyholders with 49 or fewer employees become members of a group of policyholders and a premium credit is estimated based on the groups' loss ratio that is not in excess of the industry standard as established by DFS. The Premium Adjustment Plan is a program whereby policyholders with annual premium greater than $1,000 may qualify for an annual credit based on policyholder's individual claim performance. If the total annual premium is greater than the total claims paid, after all claims are closed for that same period, multiplied by a factor of 1.2, a Premium Adjustment Plan credit is awarded. Other qualifications for both the Return of Premium Program and the Premium Adjustment Plan are that the policyholder must maintain an active status with the Disability Benefits Fund throughout the policy year and have payroll report(s) submitted 30 days from the end of the policy period.

The Disability Benefits Fund performs an analysis of uncollectable premium receivable and realized write offs of $175 and $411 for the years ended December 31, 2014 and 2013, respectively, through the statutory basis statements of income.

D. Expenses of the Workers' Compensation Board:
Based on the payrolls covered through written premiums, the Disability Benefits Fund contributes a proportional share of the cost of payments to disabled unemployed individuals administered by the Workers' Compensation Board ("WCB"). The amounts paid in 2014 and 2013 to the WCB to contribute to their expenses were $111 and $318, respectively.

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

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

F. Security Fluctuation and Catastrophic Surplus:
The Board may designate a portion of unassigned surplus for security fluctuation and catastrophes as specifically prescribed by the DFS. A review of the security fluctuation surplus in conjunction with the Disability Benefits Fund's portfolio remained unchanged at

$4,000 as of December 31, 2014 and 2013. The review of the catastrophe surplus in conjunction with a risk assessment of the Disability Benefits Fund's exposures resulted in the Board maintaining the catastrophe surplus at $4,000 as of December 31, 2014 and 2013.

G. Fringe Benefits:
Based on actual costs billed by various State agencies, the Disability Benefits Fund incurred $717 and $510 of fringe benefits and indirect costs in 2014 and 2013, respectively, recorded through other underwriting expenses.

All employees of the Disability Benefits Fund are covered under a retirement plan administered by the New York State Employees Retirement System. For employees hired prior to July 27, 1976, the plan is noncontributory. For employees hired on or after July 27, 1976, but before 2010, the plan is partially contributory in the first 10 years of employment and noncontributory thereafter. For employees hired on or after January 1, 2010, the plan is contributory for all years of service. The portion of the fringe benefits attributed to the retirement plan for the Disability Benefits Fund was $274 and $221 in 2014 and 2013, respectively.

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

Health insurance premiums for retired employees are equal to the premiums charged for active Disability Benefits Fund's employees. The dollar value of accumulated sick leave credits at the time of retirement is used to offset the health insurance premiums paid directly by retirees. The Disability Benefits Fund pays the portion of the retirees' health insurance premiums covered by accumulated sick leave credits.

The Disability Benefits Fund is billed by the Department of Civil Service monthly. Expenses are recognized when paid and totaled $120 and $88 for the Disability Benefits Fund for the years ended December 31, 2014 and 2013, respectively.

I. Income Tax:
The Disability Benefits Fund is exempt from federal income taxes. However, the Disability Benefits Fund is subject to a New York State franchise tax. The Disability Benefits Fund's franchise tax is calculated using a written premium-based method and is a component of other underwriting expenses. The New York State franchise tax expense was $287 and $276 in 2014 and 2013, respectively, and recorded through the statutory basis statements of income.

The Disability Benefits Fund maintains an office and does business in the metropolitan New York area and is subject to the Metropolitan Transit Authority ("MTA") surcharge. The MTA surcharge is based on premiums written on businesses in the metropolitan area and wages paid to employees in the metropolitan area and is a component of other underwriting expenses. The MTA surcharge in 2014 and 2013 was $38 and $36, respectively, for the Disability Benefits Fund and recorded through the statutory basis statements of income.

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

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

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

L. Use of Estimates:
The preparation of these statutory basis financial statements in conformity with statutory basis accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statutory basis financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant estimates included in these statutory basis financial statements are the liability for loss and loss adjustment expenses and the return of premium and premium adjustment plan estimates in unearned premiums.

M. Reclassification:
There were no reclassifications made to the prior year's statutory basis financial statements amounts to conform to the current year's presentation.

Disability Benefits Fund, Years ended December 31, 2014 and 2013 (in thousands)

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

NOTE 3 - INVESTMENTS

Section 87 of the New York State Workers' Compensation Law specifically states the type of securities authorized for investment by the Disability Benefits Fund. Section 87 further provides that the Commissioner of Taxation and Finance is the sole custodian of the Disability Benefits Fund. J.P. Morgan Chase serves as the Disability Benefits Fund's custodian for investments. All bank deposits are entirely insured or collateralized with securities held by J.P. Morgan Chase at December 31, 2014 and 2013, in accordance with Section 105 of the New York State Finance Law.

Chapter 473 of the Laws of 2000 and Chapter 6 of the Laws of 2007 broadened the Disability Benefits Fund's investment authority to include certain common and preferred stocks and expanded the range of fixed income issues in which the Disability Benefits Fund may invest. The amortized cost, gross unrealized gains, gross unrealized losses and estimated market value of investments in bonds and stocks at December 31, 2014 and 2013 are as follows:

		2014		
	Cost or Book Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government and government agency obligations	$ 69,257	$ 2,217	$ (37)	$ 71,437
All other governments	25,416	651	(102)	25,965
Corporate bonds and public utilities	65,497	2,380	(105)	67,772
Hybrid securities	1,373	597	-	1,970
Total bonds	161,543	5,845	(244)	167,144
Preferred stocks	72	44	-	116
Common stocks	31	-	(1)	30
Total stocks	103	44	(1)	146
Total investments	$ 161,646	$ 5,889	$ (245)	$ 167,290

		2013		
	Cost or Book Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government and government agency obligations	$ 77,320	$ 2,604	$ (107)	$ 79,817
All other governments	24,900	426	(841)	24,485
Corporate bonds and public utilities	55,381	1,672	(780)	56,273
Hybrid securities	1,373	528	-	1,901
Total bonds	158,974	5,230	(1,728)	162,476
Preferred stocks	72	29	-	101
Common stocks	31	-	-	31
Total stocks	103	29	-	132
Total investments	$ 159,077	$ 5,259	$ (1,728)	$ 162,608

The amortized cost and market value of bonds at December 31, 2014 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	$ 16,246	$ 16,363
Due after one year through five years	101,566	104,450
Due after five years through ten years	27,544	28,555
Due after ten years	16,187	17,776
Total bonds	$ 161,543	$ 167,144

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

	2014	2013
Bonds	$ 4,398	$ 4,554
Stocks	5	2
Cash and short-term investments	3	1
Other	18	10
Investment income	4,424	4,567
Investment expenses	(164)	(157)
Net realized capital gains	3,176	5,966
Net investment income earned	$ 7,436	$ 10,376

Net realized investment gains on investments, determined on the specific lot method in 2014 and 2013.

	2014	2013
Bonds	$ 3,176	$ 5,966
Stocks	-	-
Net realized investment gains	$ 3,176	$ 5,966

For the Disability Benefits Fund, proceeds from investments sold, matured or repaid during the years ended December 31, 2014 and 2013 were $1,148,892 and $2,457,864, respectively. These sales resulted in gross realized gains of $3,202 and $7,167 and gross realized losses of $26 and $1,201 in 2014 and 2013, respectively.

The following table represents the Disability Benefits Fund's unrealized loss, fair value and amortized cost for bonds and stocks aggregated by investment category and length of time individual securities have been in a continuous unrealized loss position as of December 31, 2014 and 2013, respectively.

2014	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	$ 9,988	$ 9,976	$ 12	$ 2,496	$ 2,471	$ 25	$ 12,484	$ 12,447	$ 37
Foreign Government	4,982	4,977	5	7,483	7,386	97	12,465	12,363	102
Corporate bonds and public utilities	5,111	5,090	21	4,990	4,906	84	10,101	9,996	105
Total fixed maturities	20,081	20,043	38	14,969	14,763	206	35,050	34,806	244
Common stocks	31	30	1	-	-	-	31	30	1
Total stocks	31	30	1	-	-	-	31	30	1
Total temporarily impaired investments	$ 20,112	$ 20,073	$ 39	$ 14,969	$ 14,763	$ 206	$ 35,081	$ 34,836	$ 245

Disability Benefits Fund, Years ended December 31, 2014 and 2013 (in thousands)

2013

	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	$ 16,028	$ 15,921	$ 107	$ -	$ -	$ -	$ 16,028	$ 15,921	$ 107
Foreign Government	17,468	16,627	841	-	-	-	17,468	16,627	841
Corporate bonds and public utilities	30,029	29,249	780	-	-	-	30,029	29,249	780
Total temporarily impaired investments	$ 63,525	$ 61,797	$ 1,728	$ -	$ -	$ -	$ 63,525	$ 61,797	$ 1,728

Gross unrealized losses represented 1.2% and 2.7% of cost or amortized cost for the Disability Benefits Fund as of December 31, 2014 and 2013, respectively. Fixed maturities represented 100% of the Disability Benefits Fund's unrealized losses as of December 31, 2014 and 2013. The group of securities in an unrealized loss position for less than twelve months was comprised of 10 and 25 securities for the Disability Benefits Fund as of December 31, 2014 and 2013, respectively. There were 6 and 0 securities which were depressed for twelve months or more for the Disability Benefits Fund as of December 31, 2014 and 2013, respectively.

The fixed income securities in an unrealized loss position are primarily investment grade securities with extended maturity dates, which have been adversely impacted by an increase in interest rates after the purchase date. As part of the Disability Benefits Fund's ongoing security monitoring process by a committee of investment and accounting professionals, the Disability Benefits Fund has reviewed its investment portfolio and concluded that there were no additional other-than-temporary impairments as of December 31, 2014 and 2013. Due to the issuers' continued satisfaction of the securities' obligations in accordance with their contractual terms and the expectation that they will continue to do so, management's ability and intent to hold these securities, as well as the evaluation of the fundamentals of the issuers' financial condition and other objective evidence, the Disability Benefits Fund believes that the securities in the sectors identified above were temporarily impaired.

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

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

There were no impairment losses related to SSAP No. 43R investments. There were no additional impairments recorded in 2014 and 2013 on the basis that the present value of future expected cash flows is less than the amortized cost basis of the security as losses were identified on the basis that the Disability Benefits Fund was unable to retain the security until recovery of amortized cost.

The Disability Benefits Fund recorded no OTTI during 2014 and 2013 as a component of net realized investment gains through the statutory basis statements of income.

A. Fair Value of Financial Instruments:

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

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

The statement value and estimated fair value of financial instruments at December 31, 2014 and 2013 are as follows:

	2014		2013	
	Statement Value	Estimated Fair Value	Statement Value	Estimated Fair Value
Financial assets:				
Bonds	$ 161,543	$ 167,144	$ 158,974	$ 162,476
Preferred stocks	116	116	101	101
Common stocks	30	30	31	31
Short-term investments	9,546	9,546	-	-

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

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

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

When available, the Disability Benefits Fund used quoted market prices to determine the fair values of aforementioned investment securities. When quoted market prices are not readily available or representative of fair value, pricing determinations are made based on the results of valuation models using observable market data such as recently reported trades, bid and offer information and benchmark securities. There were no investments with unobservable inputs held by the Disability Benefits Fund as of December 31, 2014 and 2013. Unobservable inputs reflect the Disability Benefits Fund's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

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

The levels of the fair value hierarchy are as follows:

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

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

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

Disability Benefits Fund, Years ended December 31, 2014 and 2013 (in thousands)

The following table provides information as of December 31, 2014 about the Disability Benefits Fund's assets measured at fair value along with a brief description of the valuation technique for each type of asset.

Assets at fair value:	Level 1	Level 2	Level 3	Total
Preferred stocks	$ 116	$ -	$ -	$ 116
Common stocks	30	-	-	30
Total assets at fair value	$ 146	$ -	$ -	$ 146

The following table provides information as of December 31, 2013 about the Disability Benefits Fund's assets measured at fair value along with a brief description of the valuation technique for each type of asset.

Assets at fair value:	Level 1	Level 2	Level 3	Total
Preferred stocks	$ 101	$ -	$ -	$ 101
Common stocks	31	-	-	31
Total assets at fair value	$ 132	$ -	$ -	$ 132

Low grade fixed maturity investments where fair value is lower than cost and common stocks are recorded at fair value. Securities classified into level 1 included primarily stocks where there are quoted prices in active markets for identical securities and the source of the pricing. Unadjusted quoted prices for these securities are provided to the Disability Benefits Fund by independent pricing services. Quoted prices for these securities are provided to the Disability Benefits Fund using independent pricing services. The Disability Benefits Fund did not have any Level 2 and Level 3 securities that were carried at fair value. There were no changes in valuation techniques during 2014 and 2013.

The following table provides information as of December 31, 2014 about the Disability Benefits Fund's financial instruments disclosed at fair value along with a brief description of the valuation technique for each type of assets.

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3
Bonds	$ 165,174	$ 160,170	$ -	$ 165,174	$ -
Hybrids	1,970	1,373	-	1,970	-
Short term investments	9,546	9,546	9,546		
Preferred stocks	116	116	116	-	-
Common stocks	30	30	30	-	-
Total	$ 176,836	$ 171,235	$ 9,692	$ 167,144	$ -

The following table provides information as of December 31, 2013 about the Disability Benefits Fund's financial instruments at fair value along with a brief description of the valuation technique for each type of assets.

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3
Bonds	$ 160,575	$ 157,601	$ -	$ 160,575	$ -
Hybrids	1,901	1,373	-	1,901	-
Preferred stocks	101	101	101	-	-
Common stocks	31	31	31	-	-
Total	$ 162,608	$ 159,106	$ 132	$ 162,476	$ -

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

There were no significant transfers into or out of Level 2 or 3 during 2014 and 2013. There were no changes in valuation techniques during 2014 and 2013.

B. Subprime Mortgage Exposure:
The Disability Benefits Fund had no exposures to subprime mortgage loans at December 31, 2014 and 2013.

C. Wash Sales:
In the course of the Disability Benefits Fund's management of investment portfolio, securities may be sold at a loss and repurchased within 30 days of the sale date to enhance the Disability Benefits Fund's yield on its investment portfolio. The Disability Benefits Fund did not sell any securities at a loss or in a loss position with a NAIC designation from 3 to 6 for the years ended December 31, 2014 and 2013 that were reacquired within 30 days of the sale date.

NOTE 4 - NON-ADMITTED ASSETS

The non-admitted assets of the Disability Benefits Fund at December 31, 2014 and 2013 were as follows:

	2014	2013
Premium in course of collection outstanding over 90 days	$ 147	$ 170
Other	73	57
Total non-admitted assets	$ 220	$ 227

NOTE 5 - RELATED PARTY TRANSACTIONS

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

The Workers' Compensation Fund allocates the cost of services rendered to the Disability Benefits Fund based on a percentage of the Disability Benefits Fund's direct and indirect salary to total salary expense. The expenses allocated to the Disability Benefits Fund were $1,339 in 2014 and 2013. For each of the years December 31, 2014 and 2013, $1,240 is recorded through other underwriting expenses and $101 is allocated to investment expense on the statutory basis statements of income. The amount owed to the Workers' Compensation Fund at December 31, 2014 and 2013 from the Disability Benefits Fund is $321 and $292.

The Disability Benefits Fund makes payments to the New York State Workers' Compensation Board for various assessments and administrative expenses. Based on the payrolls covered through written premiums, the Disability Benefits Fund contributes a proportional share of the cost of payments to disabled unemployed individuals administered by the Workers' Compensation Board. The amounts incurred in 2014 and 2013 to the Workers' Compensation Board to contribute to their expenses were $111 and $318, respectively. At December 31, 2014 and 2013, the Disability Benefits Fund recorded a liability due to the WCB for $0 and $208, respectively.

As a result of the changes noted in the Chapter 57 of the Laws of 2013 dated March 29, 2013, assessments and administrative expenses related to the Workers' Compensation Board are now borne by the policyholders. The law instructs the Disability Benefits Fund to remit to the Workers' Compensation Board any funds accrued for these assessments, which represents the liability due to the WCB of $0 and $208 at December 31, 2014 and 2013, respectively.

The following schedule summarizes all affiliate balances as of December 31, 2014 and 2013:

	2014	2013
Due to affiliate		
Workers' Compensation Board	$ -	$ 208
Workers' Compensation Fund	321	292
Due to affiliate	$ 321	$ 500

Disability Benefits Fund, Years ended December 31, 2014 and 2013 (in thousands)

NOTE 6 - RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

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

	2014	2013
Balance—January 1	$ 2,771	$ 4,675
Incurred claims related to		
Current year	16,896	14,646
Prior years	620	(1,773)
Total incurred	17,516	12,873
Paid claims related to		
Current year	13,308	11,945
Prior years	3,279	2,832
Total paid	16,587	14,777
Balance—December 31	$ 3,700	$ 2,771

In 2014, the Disability Benefits Fund incurred claims increased as a result of the development of enhanced benefits. In 2013, the Disability Benefits Fund released $2.5 million of reserves for the Disabled Unemployed Fund, related to incurred claims in prior years.

NOTE 7 - SURPLUS

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

There were no changes in balances of special surplus funds as of December 31, 2014 and December 31, 2013. Unassigned surplus reflects the accumulated balances for the items listed below:

	2014	2013
Unrealized Gains	$ 43	$ 29
Nonadmitted Assets	(220)	(227)
Total	$ (177)	$ (198)

NOTE 8 - OTHER UNDERWRITING EXPENSES

The components of other underwriting expenses are as follows:

	2014	2013
Salaries and payroll taxes	$ 601	$ 595
Employee relations and welfare	316	224
Travel and travel items	-	1
Postage, telephone, etc.	5	6
Taxes, licenses and fees	468	688
Allocation from WCF	1,240	1,240
Miscellaneous expense	17	15
Total	$ 2,647	$ 2,769

NOTE 9 - CONTINGENCIES

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

NOTE 10 - SUBSEQUENT EVENTS

Subsequent events have been reviewed in accordance with SSAP No. 9R, Subsequent Events, for both annual statement reporting and through issuance of these audited statutory basis financial statements. Subsequent events were initially reviewed through February 28, 2015 for annual statement reporting, which is the date when the annual statement was issued and filed with the NAIC and the DFS. After this date, subsequent events have been reviewed through June 1, 2015, the date which these audited statements were available to be issued.

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

Type II - The Disability Benefits Fund did experience an event that provided evidence with respect to conditions that did not exist at the date of the statutory basis statements of admitted assets, liabilities, and surplus but arose subsequent to December 31, 2014.

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
The State Insurance Fund Disability Benefits Fund

Report on the Financial Statements

We have audited the accompanying statutory basis financial statements of the State Insurance Fund Disability Benefits Fund (a New York state nonprofit agency), which comprise the statutory basis statements of admitted assets, liabilities and surplus as of December 31, 2014 and 2013, and the related statutory basis statements of income, surplus, and cash flows for each of the years then ended, and the related notes to the statutory basis financial statements.

Management's Responsibility for the 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 inthe 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 State Insurance Fund Disability Benefits Fund'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 State Insurance Fund Disability Benefits Fund'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 2, the statutory basis financial statements are prepared by the State Insurance Fund Disability Benefits Fund in conformity with the accounting practices 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, to comply with the requirements of the New York State Department of Financial Services. The effects on the statutory basis financial statements of the variances between the regulatory basis of accounting described in Note 2 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, 2014 and 2013, or the results of its operations or its cash flows for each of the years then ended.

Opinion on Statutory 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, 2014 and 2013, and the results of its operations and its cash flows for each of the years then ended on the basis of accounting described in Note 2.

New York, New York
June 1, 2015

EisnerAmper LLP