WTC CAPTIVE INSURANCE COMPANY, INC.

FINANCIAL STATEMENTS
December 31, 2017 and 2016

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Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
WTC Captive Insurance Company, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of the WTC Captive Insurance Company, Inc. (the "Company"), included as a component unit of The City of New York, New York for financial reporting purposes, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the WTC Captive Insurance Company, Inc.'s basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the WTC Captive Insurance Company, Inc. as of December 31, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

(Continued)

Other Matters

Required Supplementary Information

The accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3-10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2018 on our consideration of the Company's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Simsbury, Connecticut
March 7, 2018

The following discussion and analysis of WTC Captive Insurance Company, Inc.'s ("WTC Captive" or the "Company") financial performance provides an overview of the Company's financial activities as of and for the year ended December 31, 2017. It should be read in conjunction with the financial statements, which begin on page 11.

WTC Captive is a not-for-profit corporation formed in the State of New York in response to the events of September 11, 2001. WTC Captive was established pursuant to the Consolidated Appropriations Resolution, 2003, P.L. 108-7, signed by President Bush on February 20, 2003, and corollary enabling State of New York legislation. WTC Captive was incorporated on July 1, 2004; it was funded by the Federal Emergency Management Agency ("FEMA"), licensed as a captive insurance company by the New York State Department of Financial Services ("NYSDFS") and commenced operations on December 3, 2004.

Pursuant to a liability insurance contract (the "Contract"), WTC Captive provides specified coverage against certain third-party claims made against New York City (the "City") and approximately 145 contractors and subcontractors (collectively, "Additional Named Insureds") working on the City's FEMA-funded debris removal project. WTC Captive coverage includes general liability, environmental liability, professional liability and marine liability. Coverage is provided on both an excess of loss and first dollar basis, depending on the line of coverage. The effective dates of the Contract are with respect to exposures occurring from September 11, 2001 (post-collapse) through August 30, 2002. This period is referred to as the "Exposure Period." This is the only insurance contract that has or will be issued by WTC Captive, and all of the Company's business activities relate to its obligations under the Contract.

The insureds of the WTC Captive were sued in numerous cases alleging some harm during the exposure period as defined by the Contract. On June 23, 2010, the Settlement Process Agreement, as Amended ("Amended SPA") was reached with attorneys representing over 10,000 plaintiffs and approved by Judge Alvin Hellerstein, and by November 2010, the WTC Captive determined, based on information provided by the Amended SPA administrator, that the minimum required 95% of plaintiffs had evidenced an intention to opt in to the agreement. The Amended SPA contained several financial components to be contributed by the WTC Captive, including a contingent payment structure of up to $25 million to be paid over the course of the five years following the affirmation of final settlement. On January 5, 2011, the parties to the settlement signed the affirmation of final settlement, triggering the claims evaluation process and beginning the process of distributing payments. On January 20, 2016, the WTC Captive paid the fifth contingent payment and other previously withheld funds aggregating to $5.1 million, completing its obligations under the Amended SPA.

Apart from the settlement described above, the Company separately resolved approximately 100 individual claims between 2010 and 2014. Several additional claims were resolved in 2015. By the end of 2015, the sole remaining claim alleged that an Insured owed indemnity to a non-Insured for its defense of similar cases. One additional claim was filed in each of 2016 and 2017, and the Company resolved these claims in 2017, leaving only the single indemnity claim outstanding at year end.

Financial Highlights

The Company accounts for the Contract utilizing deposit accounting. Deposit accounting is used to account for insurance contracts that do not transfer insurance risk and its guidelines affect how certain expenditures of the Company are recognized in its financial statements. It is important for a reader of these financial statements to understand deposit accounting to appreciate fully the financial performance of the Company. Deposit accounting is explained in further detail throughout the Management's Discussion and Analysis and the notes to the audited financial statements.

(Continued)

Pursuant to a series of agreements, WTC Captive received funding of $999.9 million on December 3, 2004. Funds amounting to $899.9 million were recorded directly to "deposit liability." The Company's Board of Directors approved the designation of $100 million to satisfy the capital and surplus requirements of the NYSDFS, as required by Section 7004 of the New York Insurance Law, Article 70. The designation of $100 million was based on an assessment of factors that would impact amounts designated as capital, primarily related to potential changes in the market value of the investment portfolio, which are charged directly to operations, and the potential for interest accretion and operating expenses to exceed gross investment income in a given year, as more fully described below. WTC Captive holds the amounts designated to satisfy capital and surplus as a liability, "residual liability" on its Statements of Net Position.

Amounts designated to satisfy capital and surplus requirements are held as a liability, rather than as residual net position, due to provisions of the Company's organizational documents that require the Company to return funding that remains, if any, after all obligations have been satisfied. Additionally, any net gain or loss from operations will directly impact the Company's residual liability designated to satisfy capital and surplus requirements. As such, the net operating losses recorded for the years ended December 31, 2017, 2016 and 2015, respectively, have been reflected within the residual liability on the Company's Statements of Net Position. Designation of funds to satisfy capital and surplus requirements does not restrict the ability of the Company to use such funds to satisfy its obligations.

The Company reported net operating losses of $(1.3 million) $(4.1 million) and $(5.4 million) for the years ended December 31, 2017, 2016 and 2015, respectively. The net operating losses for the years ended December 31, 2017, 2016 and 2015, respectively, were attributable to the total operating expenses against total investment income, net of interest accretion expense.

For all years, the Company's sole source of income was investment income derived from the amount of invested assets.

Overview of the Financial Statements

This annual financial report consists of Management's Discussion and Analysis and basic financial statements. Basic financial statements consist of: Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, Statements of Cash Flows and Notes to the Financial Statements. WTC Captive is subject to accounting standards promulgated by the Governmental Accounting Standards Board, as applied by the City.

The Statements of Net Position provide an indication of WTC Captive's financial status. These statements provide information on the ability of WTC Captive to meet its obligations, primarily related to issuance of the Contract described above. As described above, no net position has been reported by the Company due to provisions of the Company's organizational documents that require the Company to return funding that remains, if any, after all obligations have been satisfied.

The Statements of Revenues, Expenses and Changes in Net Position report all of the revenues and expenses during the indicated time period. Any net operating gain or loss recognized is reflected in the residual liability account presented on the Statements of Net Position. WTC Captive reports information using the full accrual basis of accounting commonly used by private-sector companies.

The Statements of Cash Flows report the cash provided from and used by operating and investing activities. Sources and uses of cash are shown on a direct basis. Additionally, a reconciliation of the change in net position to net cash provided from operating activities is provided on an indirect basis.

(Continued)

Notes to the Financial Statements provide additional information and schedules that are essential to a complete understanding of the information provided in the financial statements, including discussion related to the Company's use of deposit accounting with respect to the Contract issued by the Company, as discussed further in Notes 2 and 4.

The following is a summary of WTC Captive's Statements of Net Position:

	December 31,		
(Dollars in thousands)	2017	2016	2015
ASSETS			
Current assets:			
Cash and cash equivalents	$ 10,014	$ 11,296	$ 6,087
Cash and cash equivalents - restricted	-	-	114
Total cash and cash equivalents	10,014	11,296	6,201
Investments, at fair value	-	-	162,712
Accrued investment income	1,157	1,057	1,106
Receivable for pending sales	9	3	8,839
Prepaid expenses	48	42	67
Total current assets	11,228	12,398	178,925
Noncurrent assets:			
Investments, at fair value	278,900	278,770	125,018
Other assets	36	36	36
Total noncurrent assets	278,936	278,806	125,054
Total assets	$ 290,164	$ 291,204	$ 303,979
LIABILITIES			
Current liabilities:			
Debris removal settlement liability	$ -	$ -	$ 114
Deposit liability	684	983	7,147
Payable for pending purchases	700	2,813	9,789
Accrued expenses	176	246	248
Total current liabilities	1,560	4,042	17,298
Noncurrent liabilities			
Deposit liability	175,541	172,816	168,211
Residual liability	113,063	114,346	118,470
Total noncurrent liabilities	288,604	287,162	286,681
Total liabilities	290,164	291,204	303,979
Net position - unrestricted	$ -	$ -	$ -

(Continued)

Nearly all of WTC Captive's assets are held as either cash or investments. As of December 31, 2017, these assets totaled approximately $289 million. Other assets of the Company included $1.2 million of accrued investment income. The liabilities of the Company included the deposit liability of $176 million, payable for pending purchases of $0.7 million, accrued expenses of $0.176 million, and a residual liability of $113 million. The net loss from operations, amounting to $(1.3 million), $(4.1 million) and $(5.4 million) for the years ended December 31, 2017, 2016 and 2015, respectively, have been reflected within the residual liability. Net losses from operations reduce the residual liability of the Company, while net gains from operations increase the residual liability. This is due to the fact that the Contract and provisions of the Company's organizational documents require the Company to utilize all of its resources to satisfy obligations under the Contract, as necessary. Any funds that remain after all obligations have been satisfied must be returned as defined by and according to the terms of the organizational documents. Hence, to the extent that the Company has net gains from operations, it has additional resources either to satisfy obligations under the Contract or to return pursuant to the terms of the organizational documents.

The composition of cash and investments as of December 31, 2017, 2016 and 2015, are as follows:

(Dollars in thousands)	2017	2016	2015
Cash and cash equivalents	$ 10,014	$ 11,296	$ 6,087
Cash and cash equivalents - restricted	-	-	114
Total	10,014	11,296	6,201
Fixed maturity securities, at fair value	278,900	278,770	287,730
Total cash and investments	$ 288,914	$ 290,066	$ 293,931

WTC Captive's Board of Directors' approved investment policy statement outlines the Company's investment objectives, policies and procedures, among other matters. WTC Captive's broad investment objective emphasizes the preservation of invested assets and maintenance of sufficient liquidity to meet the Company's obligations as defined by the Contract. As a secondary objective, the Company's investment policy seeks to achieve a total return that exceeds, after management fees, the benchmarks approved by its Board of Directors.

BlackRock Financial Management, Inc. ("BlackRock") serves as the Company's investment manager and they manage the Company's Short Duration portfolio. The Short Duration portfolio is benchmarked against the Barclay's Capital Treasury 1-5 Year Index. The Company and its investment manager believe that the Short Duration portfolio currently serves the Company's needs and objectives. Notwithstanding, the Company, its investment manager, and the Board of Directors review the investment policy and portfolio structure from time to time to ensure that it continues to be suitable. Such reviews have considered whether new portfolio asset classes should be introduced, and whether existing target asset allocation ranges continue to be appropriate, among other questions.

The WTC Captive's 2017 investment performance improved significantly over the previous several years. Investment income for the year ended December 31, 2017 totaled $5.0 million compared to investment income of $2.2 million for the year ended December 31, 2016 and $2.4 million for the year ended December 31, 2015. Rising interest rates for shorter maturity fixed income investments, brought on by Federal Reserve action, was one factor affecting investment performance. In addition, BlackRock's portfolio sector allocation and security selection choices positively affected portfolio performance.

(Continued)

The following is a summary of WTC Captive's unrestricted investment securities, at fair value, as of December 31, 2017, 2016 and 2015:

(Dollars in thousands)	2017	2016	2015
U.S. government and agency securities	$ 56,416	$ 51,844	$ 89,152
Corporate and other securities	104,762	106,040	111,906
State and municipal securities	-	6,968	1,249
Mortgage-backed and asset-backed securities	117,722	113,918	85,423
Total	$ 278,900	$ 278,770	$ 287,730

In aggregate, these investments had an average Standard & Poor's (S&P) credit rating of "AA" and an effective duration of 2.60 years as of December 31, 2017.

There were no restricted investment securities as of December 31, 2017, 2016 and 2015.

Deposit Accounting

For reasons described below, the Contract between WTC Captive, the City and the Additional Named Insureds did not transfer "insurance risk" to the Company, as that term is defined in applicable accounting guidance. Accordingly, the transfer of funds to the Company was accounted for using "deposit accounting." Deposit accounting is applied when no insurance risk is present in a contract. When considered in its entirety, the Contract contains neither underwriting risk nor timing risk, two elements fundamental to the transfer of insurance risk.

Under deposit accounting, which focuses primarily on the Statements of Net Position, all financial activity related to the Contract is recorded through a "deposit liability" on the Statements of Net Position. The deposit liability represents the accrual for loss and loss adjustment expenses to be paid under the Contract. This liability is increased to the extent funds are received subject to the terms of the Contract, less the $100 million originally designated to meet capital and surplus requirements held as a residual liability. Notwithstanding, the designation of funds to satisfy capital and surplus requirements does not restrict the ability of the Company to use such funds to satisfy its obligations.

Given the establishment of the deposit liability, no further recognition of loss or loss adjustment expense occurs. The deposit liability is reduced to the extent that loss and loss adjustment expenses are paid. Payment of such expenses does not impact the Statements of Revenues, Expenses and Changes in Net Position. The deposit liability is adjusted upward for "interest accretion" at each reporting date. Interest accretion enables the Company to recognize additional liability that will be recorded by the Company over the period of its estimated life (pursuant to the Contract) in excess of the original deposit amount. The deposit liability is accreted based on the Contract's internal rate of return ("IRR"). The IRR is the estimated rate required to discount amounts that will be paid under the Contract back to the original deposit amount. The accretion of the deposit liability is designed to match interest accretion expense against related investment income attributable to the deposit liability, thereby limiting recognition of income derived from the Contract.

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As a result of a review conducted by the Company and certain of its service providers in 2011, the Company changed to an IRR of 2.5%. The Company used this rate in its financial calculations for the year ended December 31, 2011, and made appropriate historical adjustments for 2004 through 2010, as required under its accounting model. The Company continued to use an IRR of 2.5% for 2015 through 2017 based on reviews conducted by the Company and certain of its service providers in 2015, 2016 and 2017, respectively. It is expected that the IRR will be less than the expected return on invested assets due to the cost of operating the Company that impacts the Contract limits (i.e., operating expenses are not payments under the Contract). Additionally, interest accretion is calculated only on the deposit liability, while investment yield is derived from all invested assets. The IRR is subject to significant uncertainty due to changes in the timing and amount of future cash flows, the cyclicality of general economic conditions, and fluctuations in the rate of return achieved with respect to the investment portfolio. The IRR estimate of 2.5% at December 31, 2017 was based on a number of scenarios developed at investment rates of return ranging from 1.21% to 3.43%, given varying payout patterns, settlement structures, and other factors. The IRR estimate of 2.5% at December 31, 2016 was based on a number of scenarios developed at investment rates of return ranging from 1.23% to 3.45%, given varying payout patterns, settlement structures, and other factors. The IRR estimate of 2.5% at December 31, 2015 was based on a number of scenarios developed at investment rates of return ranging from 1.45% to 3.48%, given varying payout patterns, settlement structures, and other factors.

An interest rate accretion expense of $4.4 million was recognized for the year ended December 31, 2017. An interest rate accretion expense of $4.3 million was recognized for the year ended December 31, 2016. An interest rate accretion expense of $4.6 million was recognized for the year ended December 31, 2015.

Activity within the deposit liability, including interest accretion and payments made from the deposit for the years ended December 31, 2017, 2016 and 2015, respectively, are summarized in the table below:

(Dollars in thousands)	2017	2016	2015
Liability at beginning of year	$ 173,799	$ 175,358	$ 196,591
Interest accretion	4,375	4,314	4,619
Transfer to debris removal liability account	-	(5,000)	(22,500)
LAE - adjusting paid	(81)	(91)	(83)
LAE - all other paid	(493)	(782)	(759)
Indemnity payments	(1,375)	-	(2,510)
Liability at end of year	$ 176,225	$ 173,799	$ 175,358

Loss Reserves and Estimated Ultimate Losses

Management of WTC Captive has engaged an independent actuarial consulting firm to provide an assessment of the timing of payments to be made pursuant to the Contract, to provide support in calculating the interest accretion expense described above and to provide a projection of ultimate loss when more meaningful information becomes available. The ultimate liability for loss and loss adjustment expenses has not been estimated as of December 31, 2017, 2016 and 2015.

No estimate for losses incurred but not reported ("IBNR") has been developed to date. There would be no differences to the deposit liability recorded by the Company or other related balances had an actuarial study been completed with respect to December 31, 2017, 2016 and 2015, because of the use of deposit accounting discussed above.

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Any future estimate of ultimate loss and loss adjustment expenses may be uncertain due to the potential for new claims to seek remedy within the U.S. Government's Victim Compensation Fund, limited historical reference data, uncertainty related to potential judicial decisions, the developing science surrounding the alleged injuries, the latent manifestation periods that may apply to such alleged injuries, changes in interest rates, general economic conditions and other uncertainties.

WTC Captive establishes case reserves on all open claims as they become probable and reasonably estimable. Under this methodology, reserves totaled $0.9 million as of December 31, 2017. However, it is important to recognize that given the structure and terms of both the Contract and the Company's organizational documents, together with the Company's use of deposit accounting, case reserves do not carry the importance that they do for typical insurance company operations. Of note in this regard, case reserves are not reflected in any of the Company's basic financial statements. Furthermore, case reserves do not necessarily provide any indication as to the resources of the Company available to satisfy claims covered under the Contract. Ultimately, the entirety of the financial resources of the Company is available to meet the Company's obligations under the Contract.

Statements of Revenues, Expenses and Changes in Net Position

The following is a summary of WTC Captive's Statements of Revenues, Expenses and Changes in Net Position for the years ended December 31, 2017, December 31, 2016 and December 31, 2015:

(Dollars in thousands)	2017	2016	2015
Investment income and operating revenue			
Investment income before interest accretion	$ 4,954	$ 2,159	$ 2,426
Interest accretion on deposit liability	(4,375)	(4,314)	(4,619)
Net investment income and operating revenue	579	(2,155)	(2,193)
Operating expenses			
Professional and management fees	741	781	1,984
Personnel expenses	657	657	676
General and administrative expenses	464	530	548
Total operating expenses	1,862	1,968	3,208
Net operating loss	(1,283)	(4,123)	(5,401)
Nonoperating revenue:			
Transfer from residual liability	1,283	4,123	5,401
Change in net position - unrestricted	-	-	-
Net position - unrestricted, beginning of year	-	-	-
Net position - unrestricted, end of year	$ -	$ -	$ -

(Continued)

Investment Income

Investment income consists of interest earned on the Company's money market account and investment portfolio and realized and unrealized gains (losses) on the Company's marketable securities. Investment income totaled $5.0 million, $2.2 million and $2.4 million for the years ended December 31, 2017, 2016 and 2015, respectively. These investment returns are gross of accretion expense, and equate to annualized returns of approximately 1.7%, 0.7% and 0.8%, for the years ended December 31, 2017, 2016 and 2015, respectively.

Investment income on the Company's restricted cash and investments consists of interest earned and realized and unrealized gains (losses) on marketable securities in the debris removal settlement portfolio. Investment income on restricted cash and investments does not flow through the Company's Statements of Revenues, Expenses and Changes in Net Position. For the year ended December 31, 2017 there was no investment income credited to the debris removal. Investment income credited to the debris removal settlement fund totaled $261 and $1,709 for the years ended December 31, 2016 and 2015, respectively.

As shown in the table above, interest accretion is netted against gross investment income to yield net investment income. As discussed under Deposit Accounting, the rate used to calculate interest accretion was changed in 2011 to 2.5%. The $4.4 million, $4.3 million and $4.6 million in interest accretion expense for 2017, 2016 and 2015, respectively, includes interest accretion on the deposit liability at 2.5%.

Professional and Management Fees

Professional and management fees include the expenses of third party service providers that assist in the general operation of the Company. For example, the expenses of the Company's auditor, actuary, captive manager, investment manager, custodian and corporate counsel, among others, are included in this category.

Personnel Expenses

Personnel expenses include the salaries, benefits and payroll taxes for the Company's employees.

General and Administrative Expenses

General and administrative expenses include other costs of operating the Company. Insurance, rent, office supplies, computer and telecommunications expenses are included in this category.

For Further Information

This financial report is designed to provide a general overview of WTC Captive's finances for various stakeholders of the Company. Questions concerning any of the information provided in this report should be addressed to WTC Captive Insurance Company, Inc., 225 Broadway, Suite 1870, New York, NY 10007.

WTC CAPTIVE INSURANCE COMPANY, INC.
STATEMENTS OF NET POSITION
December 31, 2017 and 2016
(In Thousands)

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 10,014	$ 11,296
Accrued investment income	1,157	1,057
Receivable for pending sales	9	3
Prepaid expenses	48	42
Total current assets	11,228	12,398
Noncurrent assets:		
Investments, at fair value	278,900	278,770
Other assets	36	36
Total noncurrent assets	278,936	278,806
Total assets	$ 290,164	$ 291,204
LIABILITIES		
Current liabilities:		
Deposit liability	$ 684	$ 983
Payable for pending purchases	700	2,813
Accrued expenses	176	246
Total current liabilities	1,560	4,042
Noncurrent liabilities:		
Deposit liability	175,541	172,816
Residual liability	113,063	114,346
Total noncurrent liabilities	288,604	287,162
Total liabilities	290,164	291,204
Net position - unrestricted	$ -	$ -

The accompanying notes are an integral part of these financial statements.

WTC CAPTIVE INSURANCE COMPANY, INC.
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended December 31, 2017 and 2016
(In Thousands)

	2017	2016
Investment income and operating revenue:		
Investment income before interest accretion	$ 4,954	$ 2,159
Interest accretion expense on deposit liability	(4,375)	(4,314)
Net investment income and operating revenue	579	(2,155)
Operating expenses:		
Professional and management fees	741	781
Personnel expenses	657	657
General and administrative expenses	464	530
Total operating expenses	1,862	1,968
Net operating loss	(1,283)	(4,123)
Nonoperating revenue:		
Transfer from residual liability	1,283	4,123
Change in net position - unrestricted	-	-
Net position - unrestricted, beginning of year	-	-
Net position - unrestricted, end of year	$ -	$ -

The accompanying notes are an integral part of these financial statements.

WTC CAPTIVE INSURANCE COMPANY, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016
(In Thousands)

	2017	2016
Cash flows from operating activities		
Cash paid for employee salaries and benefits	$ (657)	$ (657)
Losses and loss adjustment expenses paid	(1,949)	(5,987)
Professional and management fees paid	(811)	(783)
General and administrative expenses paid	(464)	(531)
Cash (paid) received related to other assets	(6)	25
Interest income collected	6,542	5,764
Net cash flows provided from (used in) operating activities	2,655	(2,169)
Cash flows from investing activities		
Purchase of investments	(411,411)	(859,034)
Sales and maturities of investments	407,474	866,298
Net cash flows (used in) provided from investment activities	(3,937)	7,264
Increase in cash and cash equivalents	(1,282)	5,095
Cash and cash equivalents, beginning of year	11,296	6,201
Cash and cash equivalents, end of year	$ 10,014	$ 11,296
Reconciliation of net operating loss to net cash flows from operating activities:		
Net operating loss	$ (1,283)	$ (4,123)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Realized losses on sales of investments	2,038	3,151
Change in unrealized (gains) losses on investments	(350)	405
Changes in operating assets and liabilities:		
Accrued investment income	(100)	49
Prepaid expenses and other assets	(6)	25
Debris removal settlement liability	-	(114)
Accrued expenses	(70)	(2)
Deposit liability	2,426	(1,560)
Net cash from operating activities	$ 2,655	$ (2,169)

The accompanying notes are an integral part of these financial statements.

NOTE 1 - ORGANIZATION

WTC Captive Insurance Company, Inc. ("WTC Captive" or the "Company") is a not-for-profit corporation formed in the State of New York in response to the events of September 11, 2001. WTC Captive was established pursuant to the Consolidated Appropriations Resolution, 2003, P.L. 108-7, signed by President Bush on February 20, 2003, and corollary enabling State of New York legislation. WTC Captive was incorporated on July 1, 2004; it was funded by the Federal Emergency Management Agency ("FEMA"), licensed as a captive insurance company by the New York State Department of Financial Services ("NYSDFS") and commenced operations on December 3, 2004.

Pursuant to a liability insurance contract, WTC Captive provides specified coverage against certain third-party claims made against New York City (the "City") and approximately 145 contractors and subcontractors (collectively, "Additional Named Insureds") working on the City's FEMA-funded debris removal project. WTC Captive coverage includes general liability, environmental liability, professional liability and marine liability. Coverage is provided on both an excess of loss and first dollar basis, depending on the line of coverage.

WTC Captive employs a President who also serves as Chief Executive Officer and as General Counsel. Additionally, a Treasurer/Secretary/Chief Financial Officer is employed by the Company. WTC Captive engages several independent service providers, under the direction of the President/CEO, Officers and the Board of Directors, to carry out various functions of the Company. Such services include third party administrative claims management, accounting, regulatory compliance, investment management, actuarial consulting, corporate legal and claims/defense counsel, among others.

WTC Captive was funded on December 3, 2004 with $999.9 million in funds. These funds originated from FEMA pursuant to the Consolidated Appropriations Resolution, 2003, P.L. 108-7. FEMA disbursed these funds to the State of New York pursuant to a grant agreement ("FEMA Grant Agreement") between FEMA and the New York State Department of Homeland Security and Emergency Services ("DHSES"). DHSES then transferred the funds to the City pursuant to a sub-grant agreement ("DHSES Sub-Grant Agreement"). Finally, the City transferred the funding to WTC Captive pursuant to an agreement (the "City/Captive Agreement"). WTC Captive used this funding to support issuance of an insurance contract (the "Contract"), the policyholders of which are the City and the Additional Named Insureds, as more fully described in Notes 2 and 4.

Funds amounting to $899.9 million were recorded directly to "deposit liability," on the Statements of Net Position, as more fully described below. The Company's Board of Directors approved the designation of $100 million to satisfy the capital and surplus requirements of the NYSDFS, as required by Section 7004 of the New York Insurance Law, Article 70. The designation of $100 million was based on an assessment of factors that would impact amounts designated as capital, primarily related to potential changes in the market value of the investment portfolio, which are charged directly to operations, and the potential for interest accretion and general and administrative expenses to exceed gross investment income in a given year, as more fully described below. WTC Captive holds the amounts designated to satisfy capital and surplus as a liability, "residual liability" on its Statements of Net Position. Amounts designated to satisfy capital and surplus requirements are held as a liability, rather than as residual net position, due to provisions of the Company's organizational documents that require the Company to return funding that remains, if any, after all obligations have been satisfied, as defined by and according to the terms of the organizational documents. Designation of funds to satisfy capital and surplus requirements does not restrict the ability of the Company to use such funds to satisfy its obligations, as more fully described in Note 4.

(Continued)

NOTE 1 - ORGANIZATION (Continued)

Any net gain or loss from operations will directly impact the Company's residual liability designated to satisfy capital and surplus requirements. As such, the net operating loss recorded for the years ended December 31, 2017 and 2016, respectively, has been reflected within the residual liability on the Company's Statements of Net Position. The Company recorded as non-operating income, a transfer from the Company's residual liability on the Statements of Revenues, Expenses, and Changes in Net Position, to offset the net loss from operations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: The financial statements of WTC Captive have been prepared using the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("GAAP"), as applied to governmental entities. WTC Captive is subject to accounting standards promulgated by the Governmental Accounting Standards Board ("GASB"), as applied by the City. GASB is recognized as the accepted standard-setting body for the promulgation of accounting and financial reporting principles applicable to U.S. state and local governmental entities. WTC Captive is included as a component unit of the City for financial reporting purposes.

Cash and Cash Equivalents: WTC Captive considers all cash and highly liquid instruments with original maturities of three months or less to be cash equivalents. This includes cash and money market accounts. Cash and cash equivalents held at December 31, 2017 and 2016 were as follows:

(In thousands)	2017	2016
Cash and Cash Equivalents:		
Cash - checking account	$ 52	$ 46
Cash - money market funds	9,962	11,250
Total cash and cash equivalents	$ 10,014	$ 11,296

Investments: In accordance with GASB Statement No. 31, *"Accounting and Financial Reporting for Certain Investments and for External Investment Pools"* ("Statement No. 31"), WTC Captive presents all investments at fair value. All investment income, including changes in the market value of investments, is recognized in the Statements of Revenues, Expenses and Changes in Net Position. Realized gains and losses on the sale of investments are recognized on the specific identification basis to determine the costs of the investments sold.

Additionally, the Company's investments are measured on a recurring basis at fair value in accordance with GASB 72, "*Fair Value Measurement and Application"*. The Company classified its investments as Level 2 in accordance with GASB 72.

Investments held by WTC Captive as of December 31, 2017 and 2016 included U.S. government and agency securities, corporate debt securities, mortgage-backed and asset-backed securities and issues of state and local governments (for 2016 only). The calculation of realized gains and losses is with respect to securities sold in the current year. This calculation is independent of the calculation of the change in the unrealized gains or losses of investments. Realized gains and losses on investments that are held in more than one year and sold in the current year are included as a change in the unrealized gains or losses of investments reported in the prior year(s). Investments are stated at fair value based on quoted market prices. The receivable for pending sales balance and payable for pending purchases balance represent investment trades pending settlement.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deposit Accounting: As more fully described in Note 4, the Contract between WTC Captive, the City and the Additional Named Insureds did not transfer "insurance risk" to the Company, as that term is defined in applicable accounting guidance. Accordingly, the transfer of funds to the Company was accounted for using "deposit accounting." Deposit accounting is applied when no insurance risk is present in a contract. When considered in its entirety, the Contract contains neither underwriting risk nor timing risk, two elements fundamental to the transfer of insurance risk.

Under deposit accounting, which focuses primarily on the balance sheet, all financial activity related to the Contract is recorded through a "deposit liability" on the Statements of Net Position. The deposit liability represents the accrual for loss and loss adjustment expenses to be paid under the Contract. This liability is increased to the extent funds are received subject to the terms of the Contract, less the $100 million originally designated to meet capital and surplus requirements held as a residual liability. Notwithstanding, the designation of funds to satisfy capital and surplus requirements does not restrict the ability of the Company to use such funds to satisfy its obligations. Given the establishment of the deposit liability, no further recognition of loss or loss adjustment expenses occurs. The deposit liability is reduced to the extent that loss and loss adjustment expenses are paid. Payment of such expenses does not impact the Statements of Revenues, Expenses and Changes in Net Position. The deposit liability is adjusted upward for "interest accretion" at each reporting date. Interest accretion enables the Company to recognize additional liability that will be recorded by the Company over the period of its estimated life (pursuant to the Contract) in excess of the original deposit amount. The deposit liability is accreted based on the Contract's internal rate of return ("IRR"). The IRR is the estimated rate required to discount amounts that will be paid under the Contract back to the original deposit amount. The accretion of the deposit liability is designed to match interest expense against related investment income attributable to the deposit liability, thereby limiting recognition of income derived from the Contract.

As a result of a review conducted by the Company and certain of its service providers in 2011, the Company changed to an IRR of 2.5%. The Company used this rate in its financial calculations for the year ended December 31, 2011, and made appropriate historical adjustments for 2004 through 2010, as required under its accounting model. The Company continued to use an IRR of 2.5% for 2017 and 2016 based on reviews conducted by the Company and certain of its service providers in 2017 and 2016, respectively. It is expected that the IRR will be less than the expected return on invested assets due to the cost of operating the Company that will impact the Contract limits (i.e., operating expenses are not payments under the Contract). Additionally, interest accretion is calculated only on the deposit liability, while investment yield is derived from all invested assets. The IRR is subject to significant uncertainty due to changes in the timing and amount of future cash flows, the cyclicality of general economic conditions, and fluctuations in the rate of return achieved with respect to the investment portfolio. The IRR estimate of 2.5% as of December 31, 2017 was based on a number of scenarios developed at investment rates of return ranging from 1.21% to 3.43%, given varying payout patterns, settlement structures, and other factors. The IRR estimate of 2.5% as of December 31, 2016 was based on a number of scenarios developed at investment rates of return ranging from 1.23% to 3.45%, given varying payout patterns, settlement structures, and other factors.

An interest rate accretion expense of $4.4 million was recognized for the year ended December 31, 2017. An interest rate accretion expense of $4.3 million was recognized for the year ended December 31, 2016. Interest accretion expense is presented as a component of net investment income as detailed in Note 3. Activity within the deposit liability, including interest accretion and payments made from the deposit, is detailed in Note 4.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Management of WTC Captive has engaged an independent actuarial consulting firm to provide an assessment of timing of payments to be made pursuant to the Contract, to provide support in calculating the interest accretion expense described above and to provide a projection of ultimate loss when more meaningful information becomes available. No estimate for losses incurred but not reported ("IBNR") has been developed to date. There would be no difference to the deposit liability recorded by the Company or other related balances had an actuarial study been completed at December 31, 2017 and 2016, because of the use of deposit accounting as discussed above.

Taxes: WTC Captive has been exempted from Federal tax pursuant to section 501(c)(4) of the Internal Revenue Code and from filing any annual or other information returns. Additionally, by statute, the Company is not subject to any New York State or local taxes or fees.

Employee Benefits: WTC Captive offers medical, dental, short-term and long-term disability, life insurance and a 401(k) defined contribution plan (the Plan) to all employees. Contributions to the Plan by WTC Captive were $.017 million and $.015 million for December 31, 2017 and 2016, respectively, and are included within personnel expenses on the Statements of Revenues, Expenses and Changes in Net Position. The Company does not offer any other post-employment benefits. The Plan covers all classes of employees of the Company. Total employees covered under the Plan are three employees. The Board of Directors has the governing authority to amend the Plan.

Non-operating Activities: Activities not related to the Company's primary purpose are considered non-operating. Investment income and the interest accretion expense on the deposit liability are considered operating activities. Non-operating activities consist solely of the transfer from the residual liability.

Use of Estimates and Assumptions: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could materially impact the amounts reported and disclosed herein.

Subsequent Events: WTC Captive has evaluated subsequent events for disclosure and recognition through March 7, 2018, the date the financial statements were available to be issued.

NOTE 3 - INVESTMENTS

The amortized cost and fair value of unrestricted investments in debt securities, as of December 31, 2017, are as follows:

(In thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Debt securities:				
U.S. government and agency securities	$ 56,863	$ -	$ (447)	$ 56,416
Corporate and other securities	105,929	138	(1,305)	104,762
Mortgage-backed and asset-backed securities	119,843	43	(2,164)	117,722
Total	$ 282,635	$ 181	$ (3,916)	$ 278,900

(Continued)

NOTE 3 - INVESTMENTS (Continued)

The amortized cost and fair value of unrestricted investments in debt securities as of December 31, 2016, are as follows:

(In thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Debt securities:				
U.S. government and agency securities	$ 52,262	$ 8	$ (426)	$ 51,844
Corporate and other securities	107,683	69	(1,712)	106,040
State and municipal securities	7,065	-	(97)	6,968
Mortgage-backed and asset-backed securities	115,845	40	(1,967)	113,918
Total	$ 282,855	$ 117	$ (4,202)	$ 278,770

The amortized cost and fair value of investments held as of December 31, 2017 and 2016, by expected maturities, are shown below. Actual maturities may vary from expected maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(In thousands)	Amortized Cost	Fair Value
December 31, 2017		
Due in one year or less	$ 10,035	$ 9,683
Due after one year through five years	148,557	147,280
Due after five years	4,200	4,215
Mortgage-backed and asset-backed securities	119,843	117,722
Total	$ 282,635	$ 278,900

(In thousands)	Amortized Cost	Fair Value
December 31, 2016		
Due in one year or less	$ 448	$ 450
Due after one year through five years	164,066	161,934
Due after five years	2,496	2,468
Mortgage-backed and asset-backed securities	115,845	113,918
Total	$ 282,855	$ 278,770

(Continued)

NOTE 3 - INVESTMENTS (Continued)

WTC Captive's Board of Directors' approved investment policy statement outlines the Company's investment objectives, policies and procedures, among other matters. WTC Captive's broad investment objective emphasizes the preservation of invested assets and maintenance of sufficient liquidity to meet the Company's obligations, as defined by the Contract. As a secondary objective, the Company's investment policy seeks to achieve a total return that exceeds, after management fees, the benchmarks approved by the Board of Directors.

The table below summarizes the average Standard & Poor's ("S&P") credit rating and effective duration by investment type, as of December 31, 2017:

(In thousands)	Fair Value	S&P Rating	Effective Duration
U.S. government and agency securities	$ 56,416	AA+	2.74
Corporate securities	104,762	A+	2.60
Mortgage-backed and asset-backed securities	117,722	AAA	2.52
Total	$ 278,900		

The table below summarizes the average Standard & Poor's ("S&P") credit rating and effective duration by investment type, as of December 31, 2016:

(In thousands)	Fair Value	S&P Rating	Effective Duration
U.S. government and agency securities	$ 51,844	AA+	3.09
Corporate securities	106,040	A+	2.72
State and municipal securities	6,968	AA	0.73
Mortgage-backed and asset-backed securities	113,918	AA+	2.64
Total	$ 278,770		

WTC Captive follows the disclosure requirements of GASB Statement No. 40, "*Deposit and Investment Risk Disclosures*" (GASB 40), and accordingly, WTC Captive has assessed the Credit Risk, Custodial Credit Risk, the Concentration of Credit Risk and the Interest Rate Risk of its cash, cash equivalents and investments.

Credit Risk: Included among the U.S. government and agency securities, in the table above as of December 31, 2016, are securities issued by the Federal National Mortgage Association that do not carry the full faith and credit guarantee of the United States Government. As of December 31, 2017 and 2016, the investments in the tables above, in aggregate, had an average S&P credit rating of "AA".

(Continued)

NOTE 3 - INVESTMENTS (Continued)

Interest Rate Risk: Effective duration is a measure of the price volatility of fixed-maturity investments to changes in interest rates, expressed in years and calculated as the time-weighted present value of future cash flows. The calculation of effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows for investments that are highly sensitive to interest rate changes, such as mortgage-backed securities and callable bonds. As of December 31, 2017 and 2016, the investments in the tables above had an effective duration of 2.60 and 2.71 years, respectively.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of counterparty, the Company will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Company does not have a policy for custodial credit risk. The Company was not subject to custodial credit risk because it did not have any uninsured and unregistered securities held by the counterparty or by its trust department or agent that were not in the name of the Company as of December 31, 2017 and 2016. As of December 31, 2017 and 2016, the carrying amount of WTC Captive's bank deposits and bank balances was $.052 million and $.046 million, respectively. These amounts are covered by the federal deposit insurance as of December 31, 2017 and 2016, respectively.

Concentration of Credit Risk: Concentration of credit risk is assumed to arise when the amount of investments with one issuer exceeds 5 percent or more of the total value of investments. Outside of obligations of the U.S. Treasury, totaling $56.4 million and $45.4 million, as of December 31, 2017 and 2016 respectively, which are included as part of U.S. government and agency securities, there were no investments with one issuer exceeding 5 percent or more, as of December 31, 2017 and 2016.

Gross realized gains on sales of investments amounted to $0.3 million and $1.2 million for the years ended December 31, 2017 and 2016, respectively. Gross realized losses on sales of investments amounted to $2.4 million and $4.4 million for the years ended December 31, 2017 and 2016, respectively. Realized gains and losses on sales of investments are included as a component of investment income before interest accretion on the Statements of Revenue, Expenses and Changes in Net Position.

Investment income recorded for the years ended December 31, 2017 and 2016, is detailed as follows:

(In thousands)	2017	2016
Interest income	$ 6,642	$ 5,715
Net realized losses on sales of investments	(2,038)	(3,151)
Change in unrealized gains (losses) on investments	350	(405)
Investment income before accretion expense	4,954	2,159
Interest accretion expense	(4,375)	(4,314)
Total	$ 579	$ (2,155)

WTC Captive estimates of fair value for financial assets are based on the framework established in GASB 72 "*Fair Value Measurement and Application*." The framework is based on the inputs used in valuation and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the fair value accounting guidance hierarchy is based on whether the significant inputs into the valuation are observable.

(Continued)

NOTE 3 - INVESTMENTS (Continued)

In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company's significant market assumptions.

The three levels of the hierarchy are as follows:

Level 1 - Inputs to the valuation methodology are quoted prices for identical assets traded in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset and market corroborated inputs.

Level 3 - Inputs to the valuation methodology are unobservable for the asset and are significant to the fair value measurement.

The following tables present the levels, within the fair value hierarchy, at which the Company's financial assets are measured on a recurring basis, as of December 31, 2017 and 2016:

(In thousands)	Level 1	Level 2	Level 3	Total
December 31, 2017				
Debt securities:				
U.S. government				
and agency securities	$ -	$ 56,416	$ -	$ 56,416
Corporate and other securities	-	104,762	-	104,762
Mortgage-backed and				
asset-backed securities	-	117,722	-	117,722
Total	$ -	$ 278,900	$ -	$ 278,900

(In thousands)	Level 1	Level 2	Level 3	Total
December 31, 2016				
Debt securities:				
U.S. government				
and agency securities	$ -	$ 51,844	$ -	$ 51,844
Corporate and other securities	-	106,040	-	106,040
State and municipal				
securities	-	6,968	-	6,968
Mortgage-backed and				
asset-backed securities	-	113,918	-	113,918
Total	$ -	$ 278,770	$ -	$ 278,770

Debt securities classified as Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

(Continued)

NOTE 4 - INSURANCE ACTIVITY

Pursuant to a liability insurance contract (the "Contract"), WTC Captive provides a wide range of coverage against third-party claims made against the City and the Additional Named Insureds. WTC Captive coverage includes general liability, environmental liability, professional liability and marine liability. Coverage is provided on both an excess of loss and first dollar basis, depending on the line of coverage. The policy effective dates are from September 11, 2001 (post-collapse) through August 30, 2002. This period is referred to as the "Exposure Period." This is the only insurance contract that has or will be issued by WTC Captive and all of the Company's business activities relate to its obligations under the Contract.

The coverage limits contained in the Contract have been defined and are limited by an "experience account" that by design is expected to fluctuate with the Company's resources. The experience account consists of funding received, plus investment returns, less loss and loss adjustment expenses and all costs associated with operating the Company. As such, these coverage limits are subject to significant uncertainty due to the amount and timing of future cash flows, investment returns achieved in the investment portfolio and other factors outside the Company's control. The policy contains sub-limits applicable to certain classes of claims, which are subject to adjustment. Additionally, the policy contains "non-acceptance of claims" and "reduced claim payment" terms. These terms serve to limit the obligation of the Company once the experience account is reduced to predetermined levels as defined in the Contract.

On June 23, 2010, the Settlement Process Agreement, as Amended ("Amended SPA") was reached with attorneys representing over 10,000 plaintiffs and approved by Judge Alvin Hellerstein, and by November 2010, the WTC Captive determined, based on information provided by the Amended SPA administrator, that the minimum required 95% of plaintiffs had evidenced an intention to opt in to the agreement. The Amended SPA contained several financial components to be contributed by the WTC Captive, including a contingent payment structure of up to $25 million to be paid over the course of the five years following the affirmation of final settlement. On January 5, 2011, the parties to the settlement signed the affirmation of final settlement, triggering the claims evaluation process and beginning the process of distributing payments. On January 20, 2016, the WTC Captive paid the fifth contingent payment and other previously withheld funds aggregating to $5.1 million, completing its obligations under the Amended SPA.

Apart from the settlement described above, the Company separately resolved approximately 100 individual claims between 2010 and 2014. Several additional claims were resolved in 2015. By the end of 2015, the sole remaining claim alleged that an Insured owed indemnity to a non-Insured for its defense of similar cases. One additional claim was filed in each of 2016 and 2017, and the Company resolved these claims in 2017, leaving only the single indemnity claim outstanding at year end.

As of December 31, 2017 and for the year then ended, there was no activity within the debris removal settlement liability related to the Amended SPA. Debris removal settlement liability activity related to the Amended SPA, for the year ended December 31, 2016, is summarized in the table below:

(In thousands)	2016
Liability at beginning of year	$ 114
Investment income	-
Transfers in	5,000
Indemnity payments	(5,114)
Liability at end of year	$ -

(Continued)

NOTE 4 - INSURANCE ACTIVITY (Continued)

Loss adjustment expenses ("LAE") have been categorized into two groups. "LAE - adjusting" represents loss adjustment expenses related to claims adjusting and handling. "LAE - all other" includes all fees, costs and expenses allocable to any specific claim or claims that are incurred by the Company in the litigation, defense, appeal or settlement of a specific claim or claims. Deposit liability activity for the years ended December 31, 2017 and 2016, is summarized in the table below:

(In thousands)	2017	2016
Liability at beginning of year	$ 173,799	$ 175,358
Interest accretion	4,375	4,314
Transfer to debris removal liability account	-	(5,000)
LAE - adjusting paid	(81)	(91)
LAE - all other paid	(493)	(782)
Indemnity payments	(1,375)	-
Liability at end of year	$ 176,225	$ 173,799

NOTE 5 - REGULATORY REQUIREMENTS

WTC Captive was formed pursuant to New York Insurance Law, Article 70, Captive Insurance Companies. The laws of the State of New York require WTC Captive to maintain minimum policyholders' surplus (net position) of $250,000. As described in Note 1, the Company has designated $100 million to satisfy the capital and surplus requirements of the NYSDFS. Amounts designated to satisfy capital and surplus requirements are held as a liability, rather than as residual net position, due to provisions of the Company's organizational documents that require the Company to return any funding that remains, if any, after all obligations have been satisfied. Additionally, any net gain or loss from operations will directly impact the Company's residual liability designated to satisfy capital and surplus requirements. WTC Captive's residual liability, designated to satisfy capital and surplus requirements, amounted to $113.1 million and $114.3 million at December 31, 2017 and 2016, respectively.

There are no differences between net position and net loss as reported in these financial statements and the corresponding amounts reported in the 2017 and 2016 New York Captive Insurance Company Annual Statements.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
WTC Captive Insurance Company, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the WTC Captive Insurance Company, Inc. (the Company), included as a component unit of The City of New York, New York for financial reporting purposes, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements, and have issued our report thereon dated March 7, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Company's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Company are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

(Continued)

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the WTC Captive Insurance Company, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Simsbury, Connecticut
March 7, 2018

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE

To the Board of Directors of
WTC Captive Insurance Company, Inc.

Report on Compliance for Each Major Federal Program

We have audited WTC Captive Insurance Company, Inc.'s (the Company) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB), Compliance Supplement that could have a direct and material effect on the Company's major federal program for the year ended December 31, 2017. The Company's major federal program is identified in the summary of auditor's results section of the accompanying federal schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Company's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Company's compliance.

Opinion on Each Major Federal Program

In our opinion, the Company complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2017.

(Continued)

Report on Internal Control over Compliance

Management of the Company is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Company's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Simsbury, Connecticut
March 7, 2018

WTC CAPTIVE INSURANCE COMPANY, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2017

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures (in thousands)
Department of Homeland Security:		
Other pass-through entities for Federal Awards (see Note 1)		
Federal Emergency Management Agency		
New York State Office of Emergency Management		
New York City:		
Program Title: Debris Removal Insurance	97.064	$ 3,811
Total Expenditures of Federal Awards		$ 3,811

See Accompanying Note to the Schedule of Expenditures of Federal Awards

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the WTC Captive under a program of the federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the WTC Captive, it is not intended to and does not present the financial position, changes in net position, or cash flows of the WTC Captive.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, the cost principles in OMB Circular A-87, *Cost Principles for State and Local Governments* wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Company has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

The following is a detailed listing of the components of the total expenditures of federal awards.

Professional and management fees	$ 741
Personnel expenses	657
General and administrative expenses	464
LAE - adjusting payments	81
LAE - all other payments	493
Settlement indemnity payments	1,375
Total expenditures of Federal Award	$ 3,811

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditors' report issued:		Unmodified
Internal control over financial reporting:		
Material weakness(es) identified?	____ Yes	X No
Significant deficiency(ies) identified?	____ Yes	X None reported
Noncompliance material to financial statements noted?	____ Yes	X No

Federal Awards:

Internal control over major programs:		
Material weakness(es) identified?	____ Yes	X No
Significant deficiency(ies) identified?	____ Yes	X None reported
Type of auditor's report issued on compliance for major programs:		Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	____ Yes	X No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster	Expenditures (in thousands)
97.064	Debris removal insurance	$ 3,811

Dollar threshold used to distinguish between type A and type B programs (in thousands):		$ 750
Auditee qualified as low-risk auditee?	X Yes	____ No

Section II - Findings Relating to the Financial Statement Audit as Required to be Reported in Accordance with Generally Accepted Auditing Standards and Government Auditing Standards

No findings were reported.

Section III - Federal Award Findings and Questioned Costs

No findings or questioned costs were reported for the current year.

Section IV – Summary Schedule of Prior Audit Findings

No findings or questioned costs were reported in the prior year.