WTC Captive Insurance Company, Inc.

Independent Auditors' Report, Financial Statements
and Additional Information

As of and for the Years Ended
December 31, 2012 and 2011

Saslow Lufkin & Buggy, LLP
Certified Public Accountants and Consultants

WTC Captive Insurance Company, Inc.
Independent Auditors' Report, Management's Discussion and Analysis, Financial Statements, and OMB Circular A-133 Report
As of and for the Years Ended December 31, 2012 and 2011

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Saslow Lufkin & Buggy, LLP
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Independent Auditors' Report

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

We have audited the accompanying financial statements of WTC Captive Insurance Company, Inc. ("the Company"), which comprise the statement of net position as of December 31, 2012, the related statements of activities and cash flows for the year then ended, and the related notes to the financial statement.

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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 WTC Captive Insurance Company, Inc. as of December 31, 2012, and the activities and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of WTC Captive Insurance Company, Inc., as of December 31, 2011, were audited by other auditors whose report dated March 21, 2012, expressed an unmodified opinion on those financial statements.

10 Tower Lane
Avon, Connecticut 06001
Phone 860.678.9200

4600 E. Washington Street, Suite 300
Phoenix, Arizona 85034
Phone 602.252.7373

30 Main Street, Suite 215
Burlington, Vermont 05401
Phone 802.865.9300

The accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3-13 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.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2013 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations.* This schedule is not a required part of the basic 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.

Saslow Lufkin & Buggy, LLP

March 7, 2013
Avon, CT

WTC Captive Insurance Company, Inc.
Management's Discussion and Analysis

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 for the year ended December 31, 2012. It should be read in conjunction with the financial statements, which begin on page 14.

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. At the peak, there were over 10,000 plaintiffs who had sued one or more of the WTC Captive's insureds alleging exposure to toxins at the World Trade Center site following the terrorist attacks on 9/11. Thousands of additional claims were pending on behalf of the spouses of those claiming exposure. The WTC Captive defended nearly all of these cases under the terms of its insurance policy.

The cases, all venued in the US District Court for the Southern District of New York, were organized by the court into three separate dockets, or "Master Calendars" ("MC"). The primary litigation against insureds of the WTC Captive was in the "debris removal" docket, MC 100 ("MC 100"), with allegations by workers involved in the rescue, recovery, and debris removal operations associated with the attacks on the World Trade Center. Additional litigation against WTC Captive's insureds was included in the "off site" docket, MC 102 ("MC 102"), which largely consists of claims of building cleaners who were responsible for removing dust and debris from inside office buildings near the Word Trade Center. Finally, a smaller group of plaintiffs made allegations regarding both on-site and off-site work; these claims were placed in the "straddle" docket, MC 103 ("MC 103").

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. This began a period of work by the plaintiffs' attorneys to seek opt-in to the agreement by their clients. By November 2010, the WTC Captive determined based on information provided by the Allocation Neutral that the minimum required 95% of plaintiffs had evidenced an intention to opt in to the agreement. Pursuant to the Amended SPA, the Allocation Neutral is the primary party tasked with administering the settlement, including assessing each plaintiff's injuries and determining their resultant payments according to the medical criteria and other terms and conditions of the Amended SPA.

The Amended SPA contained several financial components to be contributed by the WTC Captive: i) a base settlement contribution of $625 million; ii) opt-in bonus payments of 2% of the settlement amount for every one percent in excess of the 95% opt-in requirement, and if the opt-in threshold exceeds 98%, additional opt-in bonus payments of one-fifth of one percent (0.20%) for every tenth of one percent (0.10%) above the 98% opt-in rate. At a 100% opt-in rate the bonus payments would total 10% of the settlement amount; iii) a contingent payment structure of up to $25 million; iv) a contribution of $3.5 million towards the costs of administering the settlement; and v) contribution of the WTC Captive's interest in an underlying marine insurance policy.

In May 2011 the parties signed a settlement agreement concerning this underlying marine policy and on June 9, 2011, $28 million was transferred to the Amended SPA settlement account. Pursuant to the agreement, $500,000 of the $28 million was to be applied towards the costs of administering the Amended SPA while the balance was to be distributed to claimants with marine claims.

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. The first round of payments under the settlement was made on January 27, 2011. On March 4, 2011, WTC Captive determined that the opt-in percentage to the settlement exceeded 96%. This triggered a bonus payment of $12.5 million that WTC Captive deposited into the settlement account on March 7, 2011. Pursuant to the terms of a settlement reached on July 21, 2011 with an underlying insurer, the WTC Captive received $326,000 that it pledged to use towards the costs of administering the Amended SPA. In January 2012, based on payment instructions received from the Allocation Neutral, WTC Captive processed the Permanent Disability Fund ("PDF") and final distribution payments under the settlement agreement totaling over $350 million.

The WTC Captive's insureds have appealed a series of rulings and actions by Judge Hellerstein relative to the settlement, including his determination that the involuntary dismissal of plaintiffs should reduce the denominator for the opt-in calculations, which would result in greater opt-in "bonus" payments under the settlement. On September 8, 2011, Judge Hellerstein issued a final order concerning calculation of the settlement opt-in percentage, updating his December 30, 2010 order on the matter. The WTC Captive continues to disagree with the logic and calculation in this ruling. However, $42.5 million has been placed in a separate account pending a ruling on the matter by the Second Circuit. In light of this separation of funds, the Company was able to obtain a stay of the September 8, 2011 order pending appeal.

The appeal on the opt-in percentage has been consolidated with an appeal regarding the first contingent payment. As part of the Amended SPA, the WTC Captive agreed to make payments of up to $5 million per year for each of the first five years following the affirmation of final settlement dependent upon a number of factors, including the number of new claims filed and the cost of resolving those claims. The first date for review of those criteria was January 5, 2012. Upon advice of counsel, there was no payment due because the number of post-settlement claims exceeded the threshold for payment as set forth in the Amended SPA. However, Judge Hellerstein issued an order dated July 13, 2012 interpreting the contingent payment terms of the Amended SPA such that the first contingent payment of $5 million, calculated based on the number of new claims filed each year, was to be paid notwithstanding previous agreement by the parties that no such payment was due. Judge Hellerstein also directed that plaintiffs' counsel should not receive any fee on the contingent payments. The WTC Captive continues to dispute the issue and has taken an appeal, and plaintiffs' counsel has appealed the ruling on fees. The amount in question was deposited into the separate account pending the results of the appeal, and the order was stayed.

The issue returned in January 2013 when the second contingent payment was due. Based on calculations according to the WTC Captive's appellate position, $3.8 million was due in 2013 out of the possible $5 million in contingent payments under the Amended SPA. The parties reached agreement that the WTC Captive would pay the actual plaintiffs' portion of this $3.8 million, or about $2.85 million, according to the terms of the Amended SPA, setting aside the attorneys' fees and the remaining $1.2 million to be addressed according to the results of the appeal. The agreement is without prejudice to either side's position in the appeal. As a result, another $3.8 million was placed into the settlement account on January 15, 2013. The amount agreed to for individual plaintiffs, $2.85 million, was paid out on January 16, 2013 according to instructions from the Allocation Neutral, while fees of about $950,000 subject to appeal remained in the settlement account. The remaining $1.2 million in dispute was placed into the separate account pending results of the appeal. Briefing is complete on the consolidated appeals and a ruling is not anticipated before late 2013.

Apart from the settlement described above, there were about 100 cases naming at least one WTC Captive insured as a defendant, not including various cases in which the plaintiff has filed a notice of withdrawal seeking dismissal in favor of the re-opened Victim Compensation Fund ("VCF"). These cases were all in active discovery in 2012, and the WTC Captive sought to resolve them where possible at appropriate amounts. While plaintiffs' counsel was very interested in pursuing settlement discussions, Judge Hellerstein's ambitious discovery schedule put pressure on the parties. WTC Captive management maintained a steady pace throughout 2012 with regular meetings with plaintiffs' counsel. Ninety-two cases were settled in principle in 2012, 87 of them including significant claims of respiratory injury, the other five were non-respiratory cases. Total settlement value for the 87 cases is approximately $20 million.

The WTC Captive inherited the defense of several orthopedic injury cases against various insureds as a result of its settlements with the Liberty and London GL carriers. During the course of 2011, the WTC Captive awaited the deadline for the re-opened VCF to see what plaintiffs would remain rather than actively pursuing settlements. The WTC Captive settled five of these non-respiratory cases in principle, including one through mediation, during 2012. The total settlement value of these five cases is $1,235,000. The WTC Captive is consulting with counsel presently regarding the remaining cases and will take steps to resolve claims if reasonable settlements can be reached.

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.

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 assets, 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. 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 loss recorded for the years ended December 31, 2012, 2011 and 2010, 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 $(7.1 million), $(33.1 million) and $(2.7 million) for the years ended December 31, 2012, 2011 and 2010, respectively. The net operating loss for the year ended December 31, 2012 was attributable to the excess of the sum of operating expenses and the recognition of accretion expense, which was netted against investment income, over the amount of investment income. The net operating loss for the year ended December 31, 2011 was primarily attributable to the recognition of a $27.3 million life-to-date interest accretion expense adjustment (a component of the overall interest accretion expense totaling $34.2 million).

The net operating loss for the year ended December 31, 2010 was attributable to the excess of the sum of operating expenses and the recognition of interest accretion expense, which was netted against investment income, over investment income. 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 (this section) and basic financial statements. Basic financial statements consist of: *Statements of Net Position, Statements of Activities, Statements of Cash Flows* and *Notes to 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 assets are 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 Activities* report all of the revenues and expenses during the indicated time period. Any net operating gain or loss recognized is closed into 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 net operating loss to net cash provided from operating activities is provided on an indirect basis.

Notes to 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 5.

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

(*Dollars in thousands*)	December 31, 2012	2011	2010
Assets			
Cash and investments	$ 351,559	$ 402,325	$ 441,348
Cash and investments - restricted	4,608	384,791	625,316
Total cash and investments	356,167	787,116	1,066,664
Other assets	976	1,058	1,362
Other assets - restricted	-	2	223
Total other assets	976	1,060	1,585
Total assets	$ 357,143	$ 788,176	$ 1,068,249
Liabilities			
Debris removal settlement liability	$ 4,608	$ 384,793	$ 625,539
Accrued liabilities	270	554	254
Non-current liabilities			
Deposit liability	213,887	257,313	263,846
Residual liability	138,378	145,516	178,610
Total liabilities	$ 357,143	$ 788,176	$ 1,068,249

Nearly all of WTC Captive's assets are held as either cash or investments. As of December 31, 2012, these assets totaled approximately $356.2 million. Other assets of the Company included $976,000 of accrued investment income. The liabilities of the Company included the debris removal settlement liability of $4.6 million, the deposit liability of $213.9 million and a residual liability of $138.4 million. The net (loss) income from operations, amounting to $(7.1 million), $(33.1 million) and $(2.7 million) for the years ended December 31, 2012, 2011 and 2010, respectively, have been reflected within the residual liability. Net losses from operations reduce total liabilities of the Company, while net gains increase total liabilities. 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 at December 31, 2012, 2011 and 2010 are as follows:

(*Dollars in thousands*)	2012	2011	2010
Cash and cash equivalents	$ 6,272	$ 32,675	$ 26,693
Cash and cash equivalents - restricted	4,608	384,291	158,641
Total	10,880	416,966	185,334
Fixed maturity securities, at fair value	345,287	369,650	414,655
Fixed maturity securities, at fair value - restricted	-	500	466,675
Total	345,287	370,150	881,330
Total cash and investments	$ 356,167	$ 787,116	$ 1,066,664

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") has served as the Company's investment manager since 2005. Early in its tenure, BlackRock split the Company's investment funds equally between a Liquidity portfolio and a Short Duration portfolio. The Liquidity portfolio is benchmarked against the Bank of America Merrill Lynch USD LIBID 6-Month Constant Maturity Index. The Short Duration portfolio is benchmarked against the Barclays Capital Treasury 1-3 Year Index. Over the course of investment operations to date, WTC Captive and its investment manager have found it possible to achieve the Company's investment objectives within this original two-portfolio structure, moving funds between the Liquidity and Short Duration portfolios and adjusting duration as appropriate. 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 responsive to the Company's needs and objectives. 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.

2012 saw lower levels of investment income commensurate with fixed income investment rates for short maturity investments, and in line with the Company's expectations. Gross investment income for the year ended December 31, 2012 totaled $3.5 million compared to investment income of $6.3 million for the year ended December 31, 2011. The lower level of investment income year over year is primarily attributable to two factors. First, interest rates for short maturity fixed income investments continue to be extremely low by historical standards. To illustrate how theses rates have impacted our portfolio, the market yield on our aggregate portfolio was 0.86% on January 1, 2012, while it had declined to 0.56% by December 31, 2012. Second, the expected and continued decline in Company assets leaves fewer assets available upon which to earn a return.

The following is a summary of WTC Captive's unrestricted investment securities, at fair value, as of December 31, 2012, 2011 and 2010:

(*Dollars in thousands*)	2012	2011	2010
Commercial paper	$ 5,839	$ 8,187	$ 10,945
U.S. govt. and agency securities	205,939	192,983	202,046
Corporate and other securities	79,862	80,713	89,544
State and municipal securities	10,321	30,064	11,790
Mortgage and asset backed securities	43,326	57,703	100,330
Total	$ 345,287	$ 369,650	$ 414,655

In aggregate, these investments had an average Standard & Poor's (S&P) credit rating of "AA-" and an effective duration of 1.50 years as of December 31, 2012. As of December 31, 2012, included among the U.S. government and agency securities, in the table above, are securities issued by Fannie Mae, Freddie Mac, the Federal Home Loan Bank and the Federal Home Loan Mortgage Corporation that do not carry the full faith and credit guarantee of the United States Government.

The following is a summary of WTC Captive's restricted investment securities, at fair value, as of December 31, 2012, 2011 and 2010:

(*Dollars in thousands*)	2012	2011	2010
Commercial paper	$ -	$ -	$ 73,977
U.S. govt. and agency securities	-	-	114,962
Corporate securities and other	-	-	27,536
State and municipal securities	-	500	250,200
Total	$ -	$ 500	$ 466,675

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 Activities*. 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. This treatment is appropriate given the nature of the economic relationship, as described above.

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 for 2012 based on a review conducted by the Company and certain of its service providers in 2012. For the year ended December 31, 2010, the IRR was estimated by the Company's management, in consultation with its service providers, at 2.0%. 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% at December 31, 2012 was based on a number of scenarios developed at investment rates of return ranging from 0.75% to 3.25%, given varying payout patterns, settlement structures, and other factors. The IRR estimate of 2.5% at December 31, 2011 was based on a number of scenarios developed at investment rates of return ranging from 1.0% to 3.5%, given varying payout patterns, settlement structures, and other factors. The IRR estimate of 2.0% at December 31, 2010 was based on a number of scenarios developed at investment rates of return ranging from 1.25% to 3.75%, given varying payout patterns, settlement structures, and other factors. The increase in the IRR from 2.0% to 2.5% in 2011 was primarily a result of more heavily weighting payment scenarios that approximate the terms of the Amended SPA and interest rates achieved or expected from inception through 2012 (when the final payments were expected on the settlement liability).

An interest rate accretion expense of $6.0 million was recognized for the year ended December 31, 2012. An interest accretion expense of $6.9 million, together with an interest accretion expense rate adjustment of $27.3 million, was recognized for the year ended December 31, 2011. An interest accretion expense of $13.8 million was recognized for the year ended December 31, 2010.

As noted above, under deposit accounting all activity related to the Contract is recorded through the deposit liability. Payment of such expenses does not impact the *Statements of Activities*. Activity within the deposit liability, including interest accretion and payments made from the deposit for the years ended December 31, 2012, 2011 and 2010, respectively are summarized in the table below:

(*Dollars in thousands*)	2012	2011	2010
Liability at beginning of year	$ 257,313	$ 263,846	$ 741,698
Interest accretion	5,982	34,185	13,815
LAE - adjusting (paid) recovered	(1,457)	(3,039)	9,435
LAE - all other (paid) recovered	(28,787)	(25,129)	125,480
Indemnity payments	(19,164)	(50)	(1,595)
Debris removal settlement liability transfer	-	(12,500)	(624,987)
Liability at end of year	$ 213,887	$ 257,313	$ 263,846

A $200 million settlement received in 2010 has been netted against loss adjustment expenses. These recoveries cause the loss adjustment expenses in 2010 to be positive in the table above.

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, 2012, 2011 and 2010.

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, 2012, 2011 and 2010, because of the use of deposit accounting discussed above. Any future estimate of ultimate loss and loss adjustment expenses may be uncertain due to 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.

From 2005 through 2010, WTC Captive set case reserves based on a methodology it developed in 2005. The Company's considerations in establishing this methodology were to: i) count and track the number of individual plaintiffs, as opposed to individual claims (defined as individual plaintiffs suing multiple insureds), ii) recognize that, at the then early stage of the litigation, the Company would not have sufficient information upon which to establish meaningful reserves for individual cases, and iii) set an initial reserve for loss adjustment expenses generally of $10,000 and a $1,000 reserve for the loss itself as a "placeholder." Given the Amended SPA and the separation of over $625 million in restricted funds established to fulfill the Company's obligation under the settlement, WTC Captive modified this procedure. In 2011, the Company recognized that reserves for the settlement participants consisted of the restricted assets separated pursuant to the Amended SPA, while we established placeholder reserves in the amounts indicated above for those open claims not a part of the debris removal settlement. Under this methodology, placeholder reserves have been established for 18 plaintiffs as of December 31, 2012. Finally, 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 Activities

The following is a summary of WTC Captive's *Statements of Activities* for the years ended December 31, 2012, December 31, 2011 and December 31, 2010:

(*Dollars in thousands*)	2012	2011	2010
Investment income and operating revenue			
Investment income before interest accretion	$ 3,487	$ 6,266	$ 19,805
Interest accretion on deposit liability	(5,982)	(34,185)	(13,815)
Net investment (loss) income and operating revenue	(2,495)	(27,919)	5,990
Operating expenses			
Professional and management fees	3,082	3,643	7,114
Personnel expenses	972	959	920
General and administrative expenses	589	573	676
Total operating expenses	4,643	5,175	8,710
Net operating loss	$ (7,138)	$ (33,094)	$ (2,720)

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 $3.5 million, $6.3 million and $19.8 million for the years ended December 31, 2012, 2011 and 2010 respectively. These investment returns are gross of accretion expense, and equate to annualized returns of approximately 0.9%, 1.5% and 2.0%, for the years ended December 31, 2012, 2011 and 2010 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 Activities. Investment income credited to the debris removal settlement fund totaled $5,000, $1.1 million and $0.6 million for the years ended December 31, 2012, 2011 and 2010 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 from 2.0% to 2.5%. The $6.0 million in interest accretion expense for 2012 includes interest accretion on the deposit liability at 2.5%. The $34.2 million in interest accretion expense for 2011 includes $6.9 million in interest accretion expense on the deposit liability at 2.5% for 2011, as well as a $27.3 million life to date interest accretion expense adjustment for previous years to bring accretion expense for those years from their original amounts to the new rate of 2.5%. The $13.8 million in interest accretion expense for 2010 includes interest accretion on the deposit liability at 2.0%.

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, and corporate counsel, among others, are included in this category. The decrease in professional and management fees from 2010 to 2011 is primarily driven by decreased demands on the Company's corporate counsel and consultants related to underlying insurance litigation.

Personnel Expenses

Personnel expenses include the salaries and benefits 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., 100 William Street, Suite 2001, New York, NY 10038.

WTC Captive Insurance Company, Inc.
Statements of Net Position
December 31, 2012 and 2011
(*In Thousands*)

	2012	2011
Assets		
Cash and cash equivalents	**$ 6,272**	$ 32,675
Cash and cash equivalents - restricted	**4,608**	384,291
Total cash and cash equivalents	**10,880**	416,966
Investments, at fair value	**345,287**	369,650
Investments, at fair value - restricted	**-**	500
Total investments, at fair value	**345,287**	370,150
Accrued investment income	**938**	1,020
Accrued investment income - restricted	**-**	2
Total accrued investment income	**938**	1,022
Prepaid expenses	**33**	33
Other assets	**5**	5
Total prepaid expenses and other assets	**38**	38
Total assets	**$ 357,143**	$ 788,176
Liabilities		
Debris removal settlement liability	**$ 4,608**	$ 384,793
Accrued expenses	**270**	554
Non-current liabilities:		
Deposit liability	**213,887**	257,313
Residual liability	**138,378**	145,516
Total liabilities	**$ 357,143**	$ 788,176

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

WTC Captive Insurance Company, Inc.
Statements of Activities
For the Years Ended December 31, 2012 and 2011
(*In Thousands*)

	2012	2011
Investment income and operating revenues:		
Investment income before interest accretion	**$ 3,487**	$ 6,266
Interest accretion expense on deposit liability	**(5,982)**	(34,185)
Net investment income and operating revenues	**(2,495)**	(27,919)
Operating expenses:		
Professional and management fees	**3,082**	3,643
Personnel expenses	**972**	959
General and administrative expenses	**589**	573
Total operating expenses	**4,643**	5,175
Net operating loss	**(7,138)**	(33,094)
Residual liability, beginning of year	**145,516**	178,610
Residual liability, end of year	**$ 138,378**	$ 145,516

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

WTC Captive Insurance Company, Inc.
Statements of Cash Flows
For the Years Ended December 31, 2012 and 2011
(*In Thousands*)

	2012	2011
Cash flows from operating activities:		
Cash paid for employee salaries and benefits	**$ (972)**	$ (959)
Losses and loss adjustment expenses paid	**(427,718)**	(282,574)
Professional and management fees paid	**(3,365)**	(4,479)
General and administrative expenses paid	**(589)**	(491)
Interest income collected	**3,546**	8,453
Interest income collected - restricted funds	**5**	2,163
Net cash flows from operating activities	**(429,093)**	(277,887)
Cash flows from investing activities:		
Purchase of investments	**(810,314)**	(5,586,707)
Sales and maturities of investments	**833,321**	6,096,226
Net cash flows from investment activities	**23,007**	509,519
(Decrease) increase in cash and cash equivalents	**(406,086)**	231,632
Cash and cash equivalents, beginning of year	**416,966**	185,334
Cash and cash equivalents, end of year	**$ 10,880**	$ 416,966
Reconciliation of net operating loss to net cash flows from operating activities:		
Net operating loss	**$ (7,138)**	$ (33,094)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Add (deduct) items not affecting cash:		
Realized gains on sales of investments	**(261)**	(2,358)
Unrealized losses on investments	**2,117**	3,189
Non-cash increase of settlement liability	**-**	831
Changes in operating assets and liabilities:		
Accrued investment income	**84**	443
Prepaid expenses and other assets	**-**	82
Debris removal settlement liability	**(380,185)**	(240,746)
Accrued expenses	**(284)**	300
Deposit liability	**(43,426)**	(6,534)
Net cash from operating activities	**$ (429,093)**	$ (277,887)

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. Additionally, a Treasurer/Chief Financial Officer and General Counsel/Secretary are 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 Office of Emergency Management ("SOEM"). SOEM then transferred the funds to the City pursuant to a sub-grant agreement ("SOEM 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 5. 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 assets, 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. 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 loss recorded for the years ended December 31, 2012 and 2011, 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, as more fully described in Note 5.

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 ("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.

WTC Captive entered into the Settlement Process Agreement, as Amended ("Amended SPA") in June 2010, which includes a base settlement amount of $625 million. These funds were placed into a separately managed account, still under WTC Captive's control, in early September 2010. As a result of the Amended SPA and the segregation of these funds, certain cash and invested asset disclosures shown herein are indicated as unrestricted or restricted.

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, money market accounts and short-term commercial paper. Cash and cash equivalents held at December 31, 2012 and 2011 were as follows:

(*In thousands*)	**2012**	2011
Cash and Cash Equivalents:		
Cash - checking account	**$ 44**	$ 43
Cash - money market funds	**4,228**	27,239
Commercial paper	**2,000**	5,393
Total	**6,272**	32,675
Cash and Cash Equivalents - Restricted:		
Cash - money market funds	**4,608**	384,291
Total cash and cash equivalents	**$ 10,880**	$ 416,966

Investments - Investments are recorded in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* ("Statement No. 31"). Statement No. 31 establishes fair value standards on accounting for all investments held by governmental entities. All investment income, including changes in the market value of investments, is recognized in the *Statements of Activities*. Realized gains and losses on the sale of investments are recognized on the specific identification basis to determine the costs of the investments sold.

Note 2 - Summary of Significant Accounting Policies (continued)

Investments held by WTC Captive as of December 31, 2012 and 2011 included commercial paper, U.S. Government and Agency securities, corporate debt securities, issues of state and local governments, mortgage-backed securities and asset-backed securities. 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.

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.

Deposit Accounting **-** As more fully described in Note 5, 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 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 Activities*. 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. This is appropriate given the nature of the economic relationship, as described above.

Note 2 - Summary of Significant Accounting Policies (continued)

As a result of a review conducted by the Company and certain of its service providers, the Company utilized an IRR of 2.5% for 2012 and 2011 due to consistent developments in prior year. 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. For the year ended December 31, 2010, the IRR was estimated by the Company's management, in consultation with its service providers, at 2.0%. 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% at December 31, 2012 was based on a number of scenarios developed at investment rates of return ranging from 0.75% to 3.25%, given varying payout patterns, settlement structures, and other factors. The IRR estimate of 2.5% at December 31, 2011 was based on a number of scenarios developed at investment rates of return ranging from 1.0% to 3.5%, given varying payout patterns, settlement structures, and other factors. The increase in the IRR from 2.0% to 2.5% in 2011 was primarily a result of more heavily weighting payment scenarios that approximate the terms of the Amended SPA and interest rates achieved or expected from inception through 2012 (when the final payments were expected on the settlement liability).

An interest accretion expense of $6.0 million was recognized for the year ended December 31, 2012. An interest accretion expense of $6.9 million, together with an interest accretion expense rate adjustment of $27.3 million, was recognized for the year ended December 31, 2011. 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 5.

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, 2012 and 2011, 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 to all employees. Contributions to the 401(k) plan by WTC Captive were $21,980 and $21,651, for the years ended December 31, 2012 and 2011, respectively, and are included within personnel expenses on the Statements of Activities. The Company does not offer any other post-employment benefits.

Subsequent Events - WTC Captive has evaluated subsequent events for disclosure and recognition through March 7, 2013, the date the financial statements were available to be issued. Other than Note 7 and 8, management believes there are no subsequent events having an impact on the financial statements.

Note 2 - Summary of Significant Accounting Policies (continued)

Recent accounting standards **-** In 2012, the WTC Captive adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and American Institute of Certified Public Accountants (AICPA) Pronouncements* (GASB No. 62). This standard improves financial reporting by incorporating into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the Financial Accounting Standards Board (FASB) and the AICPA pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. The adoption of this new standard did not have a significant impact on the WTC Captive.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The objective of this standard is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of net position. Amounts that are required to be reported as deferred outflows should be reported in a statement of net position in a separate section following assets. Similarly, amounts to be reported as deferred inflows of resources should be reported in a separate section following liabilities. The statement of net position should report the residual amount as net position, rather than net assets. The provisions of this standard are effective for financial statements for periods beginning after December 15, 2011. The adoption of this new standard did not have a significant impact on the WTC Captive.

Note 3 - Investments

The amortized cost and fair value of unrestricted investments in debt securities, as of December 31, 2012 are as follows:

(*In thousands*)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Commercial paper	$ 5,839	$ -	$ -	$ 5,839
U.S. government and agency securities	205,892	188	(141)	205,939
Corporate and other securities	80,467	457	(1,062)	79,862
State and municipal securities	10,285	36	-	10,321
Mortgage and asset-backed securities	43,175	450	(299)	43,326
Total	$ 345,658	$ 1,131	$ (1,502)	$ 345,287

Note 3 - Investments (continued)

The amortized cost and fair value of unrestricted investments in debt securities as of December 31, 2011 are as follows:

(*In thousands*)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Commercial paper	$ 8,195	$ -	$ (8)	$ 8,187
U.S. government and agency securities	192,924	245	(186)	192,983
Corporate and other securities	79,752	1,498	(537)	80,713
State and municipal securities	30,332	204	(472)	30,064
Mortgage and asset-backed securities	56,701	1,383	(381)	57,703
Total	$ 367,904	$ 3,330	$ (1,584)	$ 369,650

The amortized cost and fair value of investments held as of December 31, 2012, 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
Due in one year or less	$ 63,078	$ 62,489
Due after one year through five years	221,221	221,233
Due after five years through ten years	4,766	4,781
Due after ten years through twenty years	3,132	3,137
Due after twenty years	10,286	10,321
Mortgage and asset-backed securities	43,175	43,326
Total	$ 345,658	$ 345,287

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.

Note 3 - Investments (continued)

The table below summarizes the average Standard & Poor's ("S&P") credit rating and effective duration by investment type, as of December 31, 2012:

(*In thousands*)	Fair Value	S&P Rating	Effective Duration
Commercial paper	$ 5,839	AA	0.11
U.S. government and agency securities	205,939	A+	1.62
Corporate and other securities	79,862	A+	1.62
State and municipal securities	10,321	A+	0.36
Mortgage and asset-backed-securities	43,326	AA+	1.64
Total	$ 345,287		

Included among the U.S. government and agency securities, in the table above, are securities issued by Fannie Mae, Freddie Mac, the Federal Home Loan Bank and the Federal Home Loan Mortgage Corporation that do not carry the full faith and credit guarantee of the United States Government. As reflected in the table above, the Company's investment portfolio included approximately $43 million in mortgage and asset-backed securities, comprising approximately 12% of the Company's total investments at December 31, 2012. This broad category had an overall average S&P credit rating of AA+ and an effective duration of 1.64 years, and included both agency-guaranteed and non-agency residential mortgage-backed securities, collateralized mortgage obligation securities, commercial mortgage-backed securities, and other asset-backed securities.

As of December 31, 2012, these investments, in aggregate, had an average S&P credit rating of "AA-" and an effective duration of 1.50 years.

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.

Gross realized gains on sales of investments amounted to $2.8 million and $5.9 million for the years ended December 31, 2012 and 2011, respectively. Gross realized losses on sales of investments amounted to $2.5 million and $3.5 million for the years ended December 31, 2012 and 2011, respectively. Realized gains and losses on sales of investments are included as a component of investment income before interest accretion on the *Statements of Activities*.

Note 3 - Investments (continued)

Investment income recorded for the years ended December 31, 2012 and 2011, is detailed as follows:

(In thousands)	**2012**	2011
Interest income	**$ 5,956**	$ 8,233
Net realized gains on sales of investments	**261**	2,358
Change in unrealized losses on investments	**(2,117)**	(3,189)
Investment management fees	**(613)**	(1,136)
Investment income before accretion expense	**3,487**	6,266
Interest accretion expense	**(5,982)**	(34,185)
Total	**$ (2,495)**	$ (27,919)

Fair Value Measurements **-** WTC Captive has chosen to use the fair value measurements and disclosures based on the guidance promulgated by the FASB Accounting Standards Codification. This guidance defines fair value, establishes a framework and hierarchy for measuring fair value, and expands disclosures about fair value measurements.

WTC Captive estimates of fair value for financial assets and financial liabilities are based on the framework established in the fair value measurements and disclosures accounting guidance. 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. 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 or liabilities traded in active markets.

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

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

Fair values are based on quoted market prices when available (Level 1). When market prices are not available, fair value is generally estimated using current market inputs for similar financial instruments with comparable terms and credit quality, commonly referred to as matrix pricing (Level 2). All of the Company's investments as of December 31, 2012 and 2011 have been valued using pricing inputs consistent with Level 1 or Level 2 categorization.

Note 3 - Investments (continued)

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, 2012 and 2011:

December 31, 2012 (*In thousands*)	**Level 1**	**Level 2**	**Level 3**	**Total**
Commercial paper	$ -	$ 5,839	$ -	$ 5,839
U.S. government and agency securities	168,245	37,694	-	205,939
Corporate and other securities	-	79,862	-	79,862
State and municipal securities	-	10,321	-	10,321
Mortgage and asset-backed securities	-	43,326	-	43,326
Total	$ 168,245	$ 177,042	$ -	$ 345,287

December 31, 2011 (*In thousands*)	**Level 1**	**Level 2**	**Level 3**	**Total**
Commercial paper	$ -	$ 8,187	$ -	$ 8,187
U.S. government and agency securities	153,604	39,379	-	192,983
Corporate and other securities	-	80,713	-	80,713
State and municipal securities	-	30,064	-	30,064
Mortgage and asset-backed securities	-	57,703	-	57,703
Total	$ 153,604	$ 216,046	$ -	$ 369,650

Note 4 - Investments - Restricted

In accordance with the Amended SPA, as more fully described in Notes 2 and 5, the Company transferred funds into a separate investment account during 2010. Although these funds were restricted in accordance with the Amended SPA, WTC Captive directed the investment allocation of the funds. At December 31, 2011, investment holdings within the restricted fund consisted of one state and municipal security. The amortized cost and fair value of this investment was $500,000 as of December 31, 2011. The stated maturity of this investment was in 2037. This investment carried an S&P credit rating of "A" and an effective duration of 0.02 years. This investment was redeemed on January 1, 2012 with proceeds totaling $500,000.

Note 4 - Investments - Restricted (continued)

Gross realized gains on sales of restricted investments amounted to $90,000 for the year ended December 31, 2011. Gross realized losses on sales of restricted investments amounted to $903,000 for the year ended December 31, 2011. There were no realized gains or losses reported on restricted investments as of December 31, 2012 since the only restricted investment, discussed above, was redeemed in 2012 for $500,000 with an amortized cost of $500,000, resulting in $0 realized gains or losses. Realized gains and losses on sales of restricted investments are included as a component of the Debris Removal Settlement Liability, as reported on the *Statements of Net Position*.

Investment Income **-** Investment income recorded on restricted cash and investments for the years ended December 31, 2012 and 2011 is detailed as follows:

(*In thousands*)	**2012**	2011
Interest income	**$ 5**	$ 1,940
Net realized gains on investments	-	(813)
Change in unrealized gains on investments	-	(18)
Net investment income - restricted	**$ 5**	$ 1,109

Fair Value Measurements - As of December 31, 2011, the Company's restricted investment asset was classified as Level 2 within the fair value framework, as discussed in Note 3. As of December 31, 2012, no restricted investments were held.

Note 5 - 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.

Note 5 - Insurance Activity (continued)

On June 23, 2010, the Settlement Process Agreement, as Amended (the "Amended SPA") was reached with attorneys representing over 10,000 plaintiffs and approved by Judge Hellerstein. The Amended SPA contained several financial components to be contributed by the WTC Captive: i) a base settlement contribution of $625 million; ii) opt-in bonus payments of 2% of the settlement amount for every one percent in excess of the 95% opt-in requirement, and if the opt-in threshold exceeds 98%, additional opt-in bonus payments of one-fifth of one percent (0.20%) for every tenth of one percent (0.10%) above the 98% opt-in rate. At a 100% opt-in rate the bonus payments would total 10% of the settlement amount; iii) a contingent payment structure of up to $25 million; iv) a contribution of $3.5 million towards the costs of administering the settlement; and v) a contribution of the WTC Captive's interest in an underlying marine insurance policy. In May 2011 the parties signed a settlement agreement concerning this underlying marine policy and on June 9, 2011, $28 million was transferred to the Amended SPA settlement account. Pursuant to the agreement, $500,000 of the $28 million was to be applied towards the costs of administering the Amended SPA while the balance was to be distributed to claimants with marine claims.

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. The first round of payments under the settlement was made on January 27, 2011. On March 4, 2011, WTC Captive determined that the opt-in percentage to the settlement exceeded 96%. This triggered a bonus payment of $12.5 million that WTC Captive deposited into the settlement account on March 7, 2011. Pursuant to the terms of a settlement reached on July 21, 2011 with an underlying insurer, the WTC Captive received $326,000 that it pledged to use towards the costs of administering the Amended SPA. In January 2012, based on payment instructions received from Allocation Neutral, WTC Captive processed the Permanent Disability Fund ("PDF") and final distribution payments under the settlement agreement totaling over $350 million.

The WTC Captive's insureds have appealed a series of rulings and actions by Judge Alvin Hellerstein relative to the settlement, including his determination that the involuntary dismissal of plaintiffs should reduce the denominator for the opt-in calculations, which would result in greater opt-in "bonus" payments under the settlement. On September 8, 2011, Judge Hellerstein issued a final order concerning calculation of the settlement opt-in percentage, updating his December 30, 2010 order on the matter. The WTC Captive continues to disagree with the logic and calculation in this ruling. However, $42.5 million has been placed in a separate account pending a ruling on the matter by the Second Circuit. In light of this separation of funds, the Company was able to obtain a stay of the September 8, 2011 order pending appeal.

The appeal on the opt-in percentage has been consolidated with an appeal regarding the first contingent payment. As part of the Amended SPA, the WTC Captive agreed to make payments of up to $5 million per year for each of the first five years following the affirmation of final settlement dependent upon a number of factors, including the number of new claims filed and the cost of resolving those claims. The first date for review of those criteria was January 5, 2012. Upon advice of counsel, there was no payment due because the number of post-settlement claims exceeded the threshold for payment as set forth in the Amended SPA. However, Judge Hellerstein issued an order dated July 13, 2012 interpreting the contingent payment terms of the Amended SPA such that the first contingent payment of $5 million, calculated based on the number of new claims filed each year, was to be paid notwithstanding previous agreement by the parties that no such payment was due. Judge Hellerstein also directed that plaintiffs' counsel should not receive any fee on the contingent payments. The WTC Captive continues to dispute the issue and has taken an appeal, and plaintiffs' counsel has appealed the ruling on fees. The amount in question was deposited into the separate account pending the results of the appeal and the order was stayed.

Note 5 - Insurance Activity (continued)

The issue returned in January 2013 when the second contingent payment was due. Based on calculations according to the WTC Captive's appellate position, $3.8 million was due in 2013 out of the possible $5 million in contingent payments under the Amended SPA. The parties reached agreement that the WTC Captive would pay the actual plaintiffs' portion of this $3.8 million, or about $2.85 million, according to the terms of the Amended SPA, setting aside the attorneys' fees and the remaining $1.2 million to be addressed according to the results of the appeal. The agreement is without prejudice to either side's position in the appeal. As a result, another $3.8 million was placed into the settlement account on January 15, 2013. The $2.85 million agreed to be due to individual plaintiffs was paid out on January 16, 2013 according to instructions from the Allocation Neutral, while fees of about $950,000 subject to appeal remained in the settlement account. The remaining $1.2 million in dispute was placed into the separate account pending results of the appeal. Briefing is complete on the consolidated appeals and a ruling is not anticipated before late 2013.

Apart from the settlement described above, there were about 100 cases naming at least one WTC Captive insured as a defendant, not including various cases in which the plaintiff has filed a notice of withdrawal seeking dismissal in favor of the re-opened Victim Compensation Fund ("VCF"). These cases were all in active discovery in 2012, and the WTC Captive sought to resolve them where possible at appropriate amounts. While plaintiffs' counsel was very interested in pursuing settlement discussions, Judge Hellerstein's ambitious discovery schedule put pressure on the parties. WTC Captive management maintained a steady pace throughout 2012 with regular meetings with plaintiffs' counsel. Ninety-two cases were settled in principle in 2012, 87 of them including significant claims of respiratory injury, the other five being non-respiratory cases Total settlement value for the 87 cases is approximately $20 million.

The WTC Captive inherited the defense of several orthopedic injury cases against various insureds as a result of its settlements with the Liberty and London GL carriers. During the course of 2011, the WTC Captive awaited the deadline for the re-opened VCF to see what plaintiffs would remain rather than actively pursuing settlements. The WTC Captive settled five of these non-respiratory cases in principle, including one through mediation, during 2012. The total settlement value of these five cases is $1,235,000. The WTC Captive is presently consulting with counsel regarding the remaining cases and will take steps to resolve claims if reasonable settlements can be reached.

Debris removal settlement liability activity related to the Amended SPA, for the years ended December 31, 2012 and 2011, is summarized in the table below:

(*In thousands*)	**2012**	2011
Liability at beginning of year	**$ 384,793**	$ 625,539
Investment income	**5**	1,109
Settlement recovered transfer	**-**	28,000
Indemnity payments	**(380,190)**	(282,355)
Opt-in bonus funding	**-**	12,500
Liability at end of year	**$ 4,608**	$ 384,793

Note 5 - 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, 2012 and 2011, is summarized in the table below:

(In thousands)	**2012**	2011
Liability at beginning of year	**$ 257,313**	$ 263,846
Interest accretion	**5,982**	34,185
LAE - adjusting paid	**(1,457)**	(3,039)
LAE - all other paid	**(28,787)**	(25,129)
Indemnity payments	**(19,164)**	(50)
Debris removal settlement liability transfer	**-**	(12,500)
Liability at end of year	**$ 213,887**	$ 257,313

Note 6 - Regulatory Requirements

WTC Captive was formed pursuant to New York Insurance Law, Article 70, Captive Insurance Companies. In accordance with this law, the New York State Department of Financial Services requires WTC Captive to submit its financial statements to the NYSDFS using the GAAP basis of accounting, with the exception of variances prescribed by New York State laws and regulations or as permitted by the NYSDFS. The laws of the State of New York require WTC Captive to maintain minimum policyholders' surplus (net assets) 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 assets, 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 $138.4 million and $145.5 million at December 31, 2012 and 2011, respectively.

There are no differences between net assets and net loss as reported in these financial statements and the corresponding amounts reported in the 2012 and 2011 New York Captive Insurance Company Annual Statement.

Note 7 - Contingencies

On December 30, 2010 Judge Alvin Hellerstein issued orders directing that opt-in calculations for bonus payments under the Amended SPA reflect his dismissal of over 400 plaintiffs for failure to prosecute. On September 8, 2011, Judge Hellerstein issued a final order concerning calculation of the settlement opt-in percentage. The WTC Captive continues to disagree with the logic and calculation in this ruling. However, $42.5 million has been placed in a separate account pending a ruling on the matter by the Second Circuit. In light of this separation of funds, the Company was able to obtain a stay of the September 8, 2011 order pending appeal.

Note 7 - Contingencies (continued)

The appeal on the opt-in percentage has been consolidated with an appeal regarding the first contingent payment. As part of the Amended SPA, the WTC Captive agreed to make payments of up to $5 million per year for each of the first five years following the affirmation of final settlement dependent upon a number of factors, including the number of new claims filed and the cost of resolving those claims. The first date for review of those criteria was January 5, 2012. Upon advice of counsel, there was no payment due because the number of post-settlement claims exceeded the threshold for payment as set forth in the Amended SPA. However, Judge Hellerstein issued an order dated July 13, 2012 interpreting the contingent payment terms of the Amended SPA such that the first contingent payment of $5 million, calculated based on the number of new claims filed each year, was to be paid notwithstanding previous agreement by the parties that no such payment was due. Judge Hellerstein also directed that plaintiffs' counsel should not receive any fee on the contingent payments. The WTC Captive continues to dispute the issue and has taken an appeal, and plaintiffs' counsel has appealed the ruling on fees. The amount in question was deposited into a separate account pending the results of the appeal and the order was stayed.

The issue returned in January 2013 when the second contingent payment was due. Based on calculations according to the WTC Captive's appellate position, $3.8 million was due in 2013 out of the possible $5 million in contingent payments under the Amended SPA. The parties reached agreement that the WTC Captive would pay the actual plaintiffs' portion of this $3.8 million, or about $2.85 million, according to the terms of the Amended SPA, setting aside the attorneys' fees and the remaining $1.2 million to be addressed according to the results of the appeal. The agreement is without prejudice to either side's position in the appeal. As a result, another $3.8 million was placed into the settlement account on January 15, 2013. The $2.85 million agreed to be due to individual plaintiffs was paid out on January 16, 2013 according to instructions from the Allocation Neutral, while fees of about $950,000 subject to appeal remained in the settlement account. The remaining $1.2 million in dispute was placed into the separate account pending results of the appeal.

Briefing is complete on the consolidated appeals and a ruling is not anticipated before late 2013.

Note 8 - Subsequent Events

As noted in Note 5 and Note 7, the WTC Captive agreed to make annual payments of up to $5 million per year for each of the first five years following the affirmation of final settlement, per the Amended SPA. The interpretation of this portion of the Amended SPA is currently on appeal to the US Court of Appeals for the Second Circuit. Based on calculations according to the WTC Captive's appellate position, $3.8 million was due in 2013 out of the possible $5 million in contingent payments under the Amended SPA. The parties reached agreement that the WTC Captive would pay the actual plaintiffs' portion of this $3.8 million, or about $2.85 million, according to the terms of the Amended SPA, setting aside the attorneys' fees and the remaining $1.2 million to be addressed according to the results of the appeal. The agreement is without prejudice to either side's position in the appeal. As a result, another $3.8 million was placed into the settlement account on January 15, 2013. The $2.85 million agreed to be due to individual plaintiffs was paid out on January 16, 2013 according to instructions from the Allocation Neutral, while fees of about $950,000 subject to appeal remained in the settlement account. The remaining $1.2 million in dispute was placed into the separate account pending results of the appeal.

Saslow Lufkin & Buggy, LLP
Certified Public Accountants and Consultants

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 the financial statements of WTC Captive Insurance Company, Inc. ("WTC Captive" or the "Company") as of and for the year ended December 31, 2012, and have issued our report thereon dated March 7, 2013. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of WTC Captive is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered WTC Captive's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of WTC Captive 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*.

This report is intended solely for the information and use of the Board of Directors, management, and applicable federal, state, and city agencies and is not intended to be and should not be used by anyone other than these specified parties.

Saslow Lufkin & Buggy, LLP

March 7, 2013
Avon, CT

10 Tower Lane
Avon, Connecticut 06001
Phone 860.678.9200

4600 E. Washington Street, Suite 300
Phoenix, Arizona 85034
Phone 602.252.7373

30 Main Street, Suite 215
Burlington, Vermont 05401
Phone 802.865.9300

Independent Auditors' Reporting on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited WTC Captive Insurance Company, Inc.'s ("WTC Captive" or the "Company") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement*, that could have a direct and material effect on its major federal program for the year ended December 31, 2012. WTC Captive's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of WTC Captive's management. Our responsibility is to express an opinion on WTC Captive's compliance based on our audit.

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 OMB Circular A-133. Those standards and OMB Circular A-133 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 the major federal program occurred. An audit includes examining, on a test basis, evidence about WTC Captive's compliance with those requirements and performing such other procedures as considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide legal determination of WTC Captive's compliance with those requirements.

In our opinion, WTC Captive complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2012.

Internal Control Over Compliance

The Management of WTC Captive is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to the federal program. In planning and performing our audit, we considered WTC Captive's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133 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.

10 Tower Lane
Avon, Connecticut 06001
Phone 860.678.9200

4600 E. Washington Street, Suite 300
Phoenix, Arizona 85034
Phone 602.252.7373

30 Main Street, Suite 215
Burlington, Vermont 05401
Phone 802.865.9300

Saslow Lufkin & Buggy, LLP
Certified Public Accountants and Consultants

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 the type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, and others within the entity and applicable federal, state, and city agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Saslow Lufkin & Buggy, LLP

March 7, 2013
Avon, CT

WTC Captive Insurance Company, Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2012

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number		Federal Expenditures
Department of Homeland Security:			
Other pass-through entities for Federal Award (see Note 1)			
Federal Emergency Management Agency			
New York State Office of Emergency Management			
New York City:			
Program Title: Debris Removal Insurance	97.064	$	434,855
Total Expenditures of Federal Award		$	434,855

WTC Captive Insurance Company, Inc.
Note to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2012

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "*Audits of States, Local Governments, and Non-Profit Organizations.*"

(In thousands)

Professional and management fees	$	3,696	*
General and administrative expenses		589	
Personnel expenses		972	
LAE - adjusting		1,457	
LAE - all other		28,787	
Settlement indemnity payments		379,658	
Settlement adjusting expenses		532	
Claim indemnity payments		19,164	
Total expenditures of Federal Award	$	434,855	

* Amount includes investment management fees of $614,000, which are netted against investment income in the *Statements of Activities* as of December 31, 2012.

WTC Captive Insurance Company, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2012

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency(ies) identified that are not considered to to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major program:	
Material weakness identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Type of auditors report issued on compliance for the major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	No
Identification of major program: CFDA - 97.064 - Establish captive insurance company for the coverage of various claims relating to the removal of debris as a result of the events of September 11, 2001.	
Dollar threshold used to distinguish between Type A and B programs: (greater of $300,000 or 3% of expenditures of total awards)	$ 13,046,000
Does the audited qualify as low risk auditee?	Yes

Section II – Financial Statement Findings Reported in Accordance with Generally Accepted Auditing Standards and Government Auditing Standards

No matters were reported

Section III – Federal Award Findings and Questioned Costs

No matters were reported.