# Motor Vehicle Accident Indemnification Corporation

## Financial Statements and Supplementary Information

Years Ended December 31, 2013 and 2012

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.

# Motor Vehicle Accident Indemnification Corporation

## Financial Statements and Supplementary Information

Years Ended December 31, 2013 and 2012

# Motor Vehicle Accident Indemnification Corporation

## Contents

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# Independent Auditor's Report

The Board of Directors
Motor Vehicle Accident Indemnification Corporation

*Report on the Financial Statements*

We have audited the accompanying financial statements of Motor Vehicle Accident Indemnification Corporation (the "Corporation"), which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

*Management's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditor's 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 Motor Vehicle Accident Indemnification Corporation as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Other Matters*

*Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of general and administrative expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits 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.

BDO USA, LLP

April 22, 2014

# Motor Vehicle Accident Indemnification Corporation

## Statements of Financial Position

| *December 31,* | **2013** | 2012 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | **$ 8,193,124** | $ 5,273,003 |
| Fixed maturities, at fair value | **53,258,890** | 53,984,787 |
| Assessment receivable | **33,585** | 27,102 |
| Accrued interest receivable | **240,014** | 318,593 |
| Other assets | **311,967** | 2,001,531 |
| Fixed assets, net | **2,806,533** | 2,886,321 |
| **Total Assets** | **$64,844,113** | $64,491,337 |
| **Liabilities and Net Deficit** | | |
| **Liabilities:** | | |
| Amounts held for uncashed checks | **$ -** | $ 25,115 |
| Deferred assessment income | **88,292** | 73,299 |
| Reserve for losses and loss adjustment expenses | **61,441,489** | 59,682,841 |
| Accrued pension and postretirement benefits | **6,491,399** | 7,637,128 |
| Deferred rent and tenant allowance | **2,332,406** | 2,076,211 |
| Other liabilities | **318,122** | 800,669 |
| **Total Liabilities** | **70,671,708** | 70,295,263 |
| **Commitments and Contingencies (Notes 7, 8, and 9)** | | |
| **Net Deficit - Unrestricted** | **(5,827,595)** | (5,803,926) |
| **Total Liabilities and Net Deficit** | **$64,844,113** | $64,491,337 |

*See accompanying notes to financial statements.*

# Motor Vehicle Accident Indemnification Corporation

## Statements of Activities

| *Year ended December 31,* | **2013** | 2012 |
|---|---|---|
| **Income:** | | |
| Assessment income | **$32,258,757** | $29,270,516 |
| Net investment (loss) income | **(295,721)** | 1,758,144 |
| **Total Income** | **31,963,036** | 31,028,660 |
| **Expenses:** | | |
| Losses paid (net of $1,183,731 and $1,465,032 of subrogation recoveries in 2013 and 2012, respectively) | **18,028,374** | 17,093,943 |
| Loss adjustment expenses | **5,406,234** | 4,874,461 |
| Change in reserves for losses and loss adjustment expenses | **1,758,648** | (13,334) |
| **Losses and Loss Adjustment Expenses Incurred** | **25,193,256** | 21,955,070 |
| General and administrative expenses: | | |
| Salaries and fringe benefits | **5,698,373** | 5,298,586 |
| Occupancy | **794,232** | 1,487,794 |
| Professional fees | **689,137** | 667,845 |
| Other administrative expenses | **1,325,185** | 1,099,892 |
| **Total General and Administrative Expenses** | **8,506,927** | 8,554,117 |
| **Total Expenses** | **33,700,183** | 30,509,187 |
| **Change in Net Assets Before Change in Pension and Postretirement Unfunded Benefit Obligation** | **(1,737,147)** | 519,473 |
| **Change in Pension and Postretirement Unfunded Benefit Obligation** | **1,713,478** | (104,652) |
| **Change in Unrestricted Net Assets (Deficit)** | **(23,669)** | 414,821 |
| **Net Deficit - Unrestricted, Beginning of Year** | **(5,803,926)** | (6,218,747) |
| **Net Deficit - Unrestricted, End of Year** | **$ (5,827,595)** | $ (5,803,926) |

*See accompanying notes to financial statements.*

# Motor Vehicle Accident Indemnification Corporation

## Statements of Cash Flows

| *Year ended December 31,* | **2013** | 2012 |
|---|---|---|
| **Cash Flows From Operating Activities:** | | |
| Change in unrestricted net assets (deficit) | **$ (23,669)** | $ 414,821 |
| Adjustments to reconcile change in unrestricted net assets (deficit) to net cash provided by operating activities: | | |
| Change in pension and postretirement unfunded benefit obligation | **(1,713,478)** | 104,652 |
| Depreciation and amortization | **303,114** | 100,342 |
| Net realized investment gain | **(9,122)** | (227,572) |
| Net unrealized investment (gain) loss | **1,465,527** | (11,811) |
| Amortization of bond premium and discount, net | **229,254** | 275,225 |
| (Increase) decrease in assets: | | |
| Assessment receivable | **(6,483)** | (27,102) |
| Accrued interest receivable | **78,579** | 57,046 |
| Other assets | **1,689,564** | (1,835,994) |
| Increase (decrease) in liabilities: | | |
| Amounts held for uncashed checks | **(25,115)** | (206,511) |
| Deferred assessment income | **14,993** | 10,274 |
| Reserve for losses and loss adjustment expenses | **1,758,648** | (13,333) |
| Accrued pension and postretirement benefits | **567,749** | 504,064 |
| Deferred rent and tenant allowance | **256,195** | 2,076,211 |
| Other liabilities | **(482,547)** | 561,191 |
| **Net Cash Provided By Operating Activities** | **4,103,209** | 1,781,503 |
| **Cash Flows From Investing Activities:** | | |
| Proceeds from bonds sold or matured | **9,425,858** | 17,937,427 |
| Cost of bonds purchased | **(10,385,620)** | (16,490,617) |
| Fixed assets purchased | **(223,326)** | (2,807,580) |
| **Net Cash Used In Investing Activities** | **(1,183,088)** | (1,360,770) |
| **Net Increase in Cash and Cash Equivalents** | **2,920,121** | 420,733 |
| **Cash and Cash Equivalents, Beginning of Year** | **5,273,003** | 4,852,270 |
| **Cash and Cash Equivalents, End of Year** | **$ 8,193,124** | $ 5,273,003 |

*See accompanying notes to financial statements.*

## 1. Nature of Business

The Motor Vehicle Accident Indemnification Corporation (the "Corporation"), which began business on January 1, 1959, operates as a not-for-profit corporation. The Corporation was established to pay certain claims of innocent victims of New York motor vehicle accidents caused by uninsured motorists occurring on and after January 1, 1959. Since December 1, 1997, the Corporation also pays no-fault benefits technically referred to as Personal Injury Protection ("PIP").

In June 1995, the New York State Legislature amended Section 1, Paragraph 1, of subsection (F) of Section 3420 of the Insurance Law to increase the New York Financial Responsibility limits from $10,000 per person and $20,000 per accident to $25,000 per person and $50,000 per accident, respectively. These limits are equally applicable to uninsured claims submitted to the Corporation. This law was effective for accidents occurring after January 1, 1996.

Every insurer authorized to write liability insurance in New York in connection with motor vehicles, as a condition precedent thereto, is required to be a member of the Corporation. Each member's total assessment for the year is determined by the Board of Directors of the Corporation and is based upon the member's net written automobile premium in New York State for the year two years prior to the assessment year (i.e., 2013 assessments are based on 2011 premiums written).

## 2. Summary of Significant Accounting Policies

*(a) Basis of Presentation*

The financial statements of the Corporation have been prepared on an accrual basis. In the statement of financial position, assets and liabilities are presented in order of liquidity or conversion to cash and their maturity resulting in the use of cash, respectively.

The classification of a not-for-profit organization's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts of each of three classes of net assets, permanently restricted, temporarily restricted, and unrestricted, be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

*(i)* **Permanently Restricted** - Net assets resulting from contributions and other inflows of assets whose use by the Corporation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Corporation.

*(ii)* **Temporarily Restricted** - Net assets resulting from contributions and other inflows of assets whose use by the Corporation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Corporation pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities.

*(iii)* **Unrestricted** - The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

*(b) Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ significantly from those estimates.

*(c) Cash and Cash Equivalents*

The Corporation considers all short-term investments with a maturity date at purchase of three months or less to be cash equivalents, which principally consist of commercial paper.

*(d) Investments*

The Corporation reports its investments in fixed maturity securities at fair value with realized and unrealized gains and losses included in the accompanying statements of activities and changes in surplus.

Realized gains and losses on sales of investments are determined on the basis of the specific identification method. Investment income is recognized when earned. Premiums and discounts on purchased investments are amortized to stated maturity.

*(e) Fixed Assets*

Fixed assets are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed to allocate the cost of those assets over their expected useful lives on the straight-line method.

Capitalized software costs are limited to purchased software and enhancement to the Corporation’s information systems. The useful lives of computers and capitalized software costs are between three to five years.

Leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the related assets.

*(f) Assessments*

Assessments are periodically made of members to fund the Corporation’s operations. Assessments are recorded as income when due. Assessments receivable over 90 days past due are fully reserved. On December 6, 2013, the Board of Directors approved assessments of $35.5 million for fiscal year 2014.

*(g) Reserve for Losses and Loss Adjustment Expenses*

The reserve for losses and loss adjustment expenses (“LAE”) includes case basis estimates for reported claims and estimates for losses “incurred but not reported”. Reserves for LAE are estimates of future expenses to be incurred in investigating and settling all claims incurred prior to year-end, and are established based on recommendations of the actuarial committee of the Board of Directors. This liability is determined using case-basis evaluations and statistical analyses and represents estimates of ultimate net cost of all losses and LAE incurred but unpaid at the balance sheet date. This liability is subject to the impact of future changes in claims severity and frequency, as well as numerous other factors. Management believes that the liability is adequate, but the ultimate net cost of settling this liability may vary from the estimated amounts. Accordingly, these estimates are continually reviewed and adjustments, if any, are reflected in current operations.

If the Corporation's actual future claims experience develops adversely to the currently estimated ultimate liability and the Corporation's surplus at that time is not adequate to provide for such adverse development, the Corporation may increase prospective assessments from its members in order to provide for such adverse claim development.

*(h) Concentration of Credit Risk*

Financial instruments which potentially subject the Corporation to concentration of credit risk consist primarily of temporary cash investments. The Corporation has cash deposits at financial institutions which exceed the Federal Deposit Insurance Corporation insurance limit.

*(i) Pension and Post-Retirement Plans*

In accordance with Accounting Standards Codification ("ASC") 715, "Compensation – Retirement Benefits", the Corporation recognized the overfunded or underfunded status of its defined benefit pension and postretirement plans in the statement of financial position. Changes in actuarial gains and losses, prior service costs and transitional obligation are recognized as changes in unrestricted net assets.

*(j) Income Taxes*

The Corporation is a not-for-profit organization that is exempt from Federal, state and local income taxes under Section 501(c)(6) of the Internal Revenue Code (the "Code"), and therefore has made no provision for income taxes in the accompanying financial statements. In addition, the Corporation has been determined by the Internal Revenue Service ("IRS") not to be a "private foundation" within the meaning of Section 509(a) of the Code. There was no unrelated business income for 2013 and 2012.

Under ASC 740, "Income Taxes", an organization must recognize the financial statement effects of a tax position taken for tax return purposes when it is more likely than not that the position will not be sustained upon examination. The Corporation does not believe there are any material uncertain tax positions and, accordingly, they have not recognized any liability for unrecognized tax benefits. The Corporation has filed for and received income tax exemptions in the jurisdictions where it is required to do so. For the years ended December 31, 2013 and 2012, there were no interest or penalties recorded or included in the statements of activities.

The Corporation is subject to routine audit by a taxing authority. As of December 31, 2013 and 2012, the Corporation was not subject to any examination by a taxing authority. The Corporation believes it is no longer subject to income tax examinations for the years prior to 2010.

## 3. Fair Value Measurements

Financial instruments are carried at fair value. ASC 820, "Fair Value Measurements", clarifies the definition of fair value, prescribes methods for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and expands disclosures about the use of fair value measurements. The disclosure of fair value estimates in the ASC 820 hierarchy is based on whether the significant inputs into the valuation are observable. The three levels of hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Quoted market prices for similar assets or liabilities in active markets.

Level 3 – Valuations based on models where significant inputs are not observable. The unobservable inputs reflect an entity's own assumptions about assumptions that market participants would use.

*Valuation of Investments*

The Corporation utilizes the valuation services provided by its investment manager to estimate fair values for its investment portfolio. The investment manager receives the quoted market prices from third-party nationally recognized pricing services. The investment manager evaluates the inputs, models and processes used by the pricing services to determine the appropriate ASC 820 pricing hierarchy.

*Fair Value Hierarchy*

The fair value estimates of most fixed maturity investments are based on observable market information rather than market quotes. Accordingly, the estimates of fair value for such fixed maturities, other than U.S. Treasury securities, provided by the pricing services are included in the Level 2 disclosures. The estimated fair value of U.S. Treasury securities are included in the amount disclosed in Level 1 as the estimates are based on unadjusted market prices.

The following tables present the level within the fair value hierarchy at which the Corporation's financial assets and financial liabilities are measured on a recurring basis at December 31, 2013 and 2012, respectively:

*December 31, 2013*

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **Assets** | | | | |
| Fixed maturities: | | | | |
| U.S. Treasury securities | **$ 3,685,743** | **$3,685,743** | **$ -** | **$-** |
| Corporate bonds | **18,772,660** | **-** | **18,772,660** | **-** |
| Mortgage and asset-backed securities | **30,800,487** | **-** | **30,800,487** | **-** |
| Total fixed maturities | **$53,258,890** | **$3,685,743** | **$49,573,147** | **$-** |
| Cash equivalents: | | | | |
| Money market | **$ 1,220,298** | **$1,220,298** | **$ -** | **$-** |

*December 31, 2012*

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **Assets** | | | | |
| Fixed maturities: | | | | |
| U.S. Treasury securities | $ 1,808,625 | $1,808,625 | $ - | $- |
| Corporate bonds | 20,600,792 | - | 20,600,792 | - |
| Mortgage and asset-backed securities | 31,575,370 | - | 31,575,370 | - |
| Total fixed maturities | $53,984,787 | $1,808,625 | $52,176,162 | $- |
| Cash equivalents: | | | | |
| Money market | $ 576,047 | $ 576,047 | $ - | $- |

## 4. Investments

Fair values are based on quoted market prices. The amortized cost and carrying values of investments in fixed maturity securities are as follows:

*December 31, 2013*

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| U.S. Treasury securities | **$ 3,674,208** | **$ 30,635** | **$ (19,100)** | **$ 3,685,743** |
| Corporate bonds | **18,475,239** | **395,430** | **(98,012)** | **18,772,657** |
| Mortgage and asset-backed securities | **30,874,176** | **460,148** | **(533,834)** | **30,800,490** |
| | **$53,023,623** | **$886,213** | **$(650,946)** | **$53,258,890** |

*December 31, 2012*

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| U.S. Treasury securities | $ 1,758,599 | $ 50,026 | $ - | $ 1,808,625 |
| Corporate bonds | 19,864,856 | 737,512 | (1,576) | 20,600,792 |
| Mortgage and asset-backed securities | 30,652,004 | 933,844 | (10,478) | 31,575,370 |
| | $52,275,459 | $1,721,382 | $(12,054) | $53,984,787 |

The amortized cost and fair value of fixed maturity securities at December 31, 2013, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| *December 31, 2013* | Amortized Cost | Fair Value |
|---|---|---|
| Due in one year or less | **$ 4,160,322** | **$ 4,176,111** |
| Due after one year through five years | **16,086,100** | **16,457,951** |
| Due after five years through ten years | **1,903,025** | **1,824,338** |
| Mortgage and asset-backed securities | **30,874,176** | **30,800,490** |
| Total | **$53,023,623** | **$53,258,890** |

The net investment (loss) income earned during the years ended December 31, 2013 and 2012 is comprised of:

| *Year ended December 31,* | **2013** | 2012 |
|---|---|---|
| Interest and dividends | **$ 1,304,712** | $1,669,497 |
| Realized gains | **9,122** | 227,572 |
| | **1,313,834** | 1,897,069 |
| Unrealized (losses) gains | **(1,465,527)** | 11,811 |
| Investment fees | **(144,028)** | (150,736) |
| Net investment (loss) income | **$ (295,721)** | $1,758,144 |

Gross realized gains and (losses) from the sale of debt securities were $9,122 and $-0- for 2013 and $227,572 and $-0- for 2012, respectively.

## 5. Fixed Assets, Net

Fixed assets, net, stated at cost, consist of the following:

| *December 31,* | **2013** | 2012 |
|---|---|---|
| Computer equipment | **$ 384,240** | $ 275,719 |
| Computer software | **556,318** | 554,522 |
| Leasehold improvements | **2,387,626** | 2,319,540 |
| Furniture | **431,458** | 386,535 |
| | **3,759,642** | 3,536,316 |
| Less: Accumulated depreciation | **(953,109)** | (649,995) |
| Fixed assets, net | **$2,806,533** | $2,886,321 |

Tenant allowances have been recorded as leasehold improvements and a liability for deferred rent and tenant allowance. As part of the lease agreement with the landlord, the Corporation was provided with a tenant allowance of $1,661,201 in 2012 which was used towards the funding of the leasehold improvements.

Depreciation expense for the years ended December 31, 2013 and 2012 was $303,114 and $100,342, respectively.

## 6. Reserve for Loss and Loss Adjustment Expenses

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

| | **2013** | 2012 |
|---|---|---|
| Balance at January 1 | **$ 59,682,841** | $ 59,696,174 |
| Incurred related to: | | |
| Current year | **30,715,098** | 25,395,676 |
| Prior years | **(5,521,842)** | (3,440,606) |
| | **25,193,256** | 21,955,070 |
| Paid related to: | | |
| Current year | **(5,233,153)** | (3,312,665) |
| Prior years | **(18,201,455)** | (18,655,738) |
| | **(23,434,608)** | (21,968,403) |
| Balance, at December 31 | **$ 61,441,489** | $ 59,682,841 |

For the years ended December 31, 2013 and 2012, incurred loss and loss adjustment expense reserves attributable to insured events for prior years decreased by approximately $5.5 million and $3.5 million, respectively, as actual claim emergence was favorable to what was contemplated at the previous year-end. This decrease is generally a result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

## 7. Employee Benefits

*(a) Defined Benefit Plan*

The Corporation has in effect a noncontributory defined benefit pension plan (the “Pension Plan”) covering substantially all of its employees. The Pension Plan takes part in an Immediate Participation Guarantee (“IPG”) type funding vehicle under which there is direct participation by the Pension Plan in the fund’s mortality and investment experience.

Net periodic pension cost included the following components:

| *Year ended December 31,* | **2013** | 2012 |
|---|---|---|
| Service cost – benefits earned during the year | **$ 164,971** | $ 212,117 |
| Interest cost on projected benefit obligation | **267,806** | 273,884 |
| Expected return on plan assets | **(177,657)** | (213,507) |
| Net amortization and deferral | **145,002** | 136,931 |
| Net periodic pension cost | **$ 400,122** | $ 409,425 |

An analysis of change in fair value of plan assets is as follows:

| *December 31,* | **2013** | 2012 |
|---|---|---|
| Fair value of plan assets at beginning of the year | **$4,126,798** | $4,230,849 |
| Actual return on plan assets | **234,462** | 63,457 |
| Benefits disbursed from plan assets | **(245,439)** | (167,508) |
| Fair value of plan assets at the end of the year | **$4,115,821** | $4,126,798 |

The following table sets forth the changes in the Pension Plan's benefit obligations and related amounts:

| *December 31,* | **2013** | 2012 |
|---|---|---|
| Change in projected benefit obligation: | | |
| Benefit obligation, beginning of year | **$6,795,140** | $6,528,100 |
| Service cost | **164,971** | 212,117 |
| Interest cost | **267,806** | 273,884 |
| Actuarial gain | **(705,653)** | 265,474 |
| Benefits paid | **(245,439)** | (167,508) |
| Effect of curtailment | **-** | (316,927) |
| Benefit obligation, end of year | **$6,276,825** | $6,795,140 |
| Accumulated benefit obligation | **$5,791,110** | $6,231,298 |
| Vested benefit obligation | **$5,791,110** | $6,231,295 |

The funded status of the Pension Plan is as follows:

| *December 31,* | **2013** | 2012 |
|---|---|---|
| Benefit obligation | **$(6,276,825)** | $(6,795,140) |
| Fair value of Plan assets | **4,115,821** | 4,126,798 |
| Accrued pension obligation | **$(2,161,004)** | $(2,668,342) |

Amounts recognized in unrestricted net assets consist of:

| *December 31,* | **2013** | 2012 |
|---|---|---|
| Actuarial loss | **$(940,768)** | $(1,848,228) |

The following benefit payments which reflect expected future service, as appropriate, are expected to be paid:

| *Year ending December 31,* | |
|---|---|
| 2014 | $ 270,000 |
| 2015 | 260,000 |
| 2016 | 260,000 |
| 2017 | 280,000 |
| 2018 | 300,000 |
| 2019-2023 | 1,880,000 |

*Investment Policy and Fair Value Measurements*

The Pension Plan assets are intended, over time, to satisfy the obligation of the Corporation to provide retirement benefits in accordance with the plan's terms. The Corporation's portfolio is invested in mutual funds held in a variable annuity account and a Guaranteed Deposit Fund ("GDF"), issued by Prudential Retirement Insurance and Annuity Company ("PRIAC"). GDF is designed to provide liquidity and safety of the principal with a competitive rate of return. Principal and accumulated interest is fully guaranteed by PRIAC. GDF invests in a broadly diversified fixed income portfolio within PRIAC's general account which is primarily invested in public bonds, commercial mortgages and private placement bonds. The value of the GDF is based on contributions received, distributions and other deductions, and interest credited to the account. The market value of the GDF is determined by applying the composite market value factor, which is calculated, based on discounted cash flow methodology, to the book value. At December 31, 2013 and 2012 the book value was $2,026,662 and $1,986,642, respectively. The mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held by the Corporation's Pension Plan are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the Corporation's Pension Plan are deemed to be actively traded.

The assets and liabilities of the Corporation's Pension Plan are recorded at fair value hierarchy in accordance with ASC 820. See Note 3 for a discussion of the Corporation's policy regarding this hierarchy. The following tables present the level within the fair value hierarchy at which the Corporation's Pension Plan assets are measured on a recurring basis at December 31, 2013 and 2012:

*December 31, 2013*

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | | |
| Mutual funds: | | | | |
| Large U.S. equity | **$ 601,330** | **$ 601,330** | **$-** | **$ -** |
| International equity | **117,837** | **117,837** | **-** | **-** |
| Short-term fixed income | **94,504** | **94,504** | **-** | **-** |
| Fixed income | **1,132,570** | **1,132,570** | **-** | **-** |
| Guaranteed deposit fund | **2,169,580** | **-** | **-** | **2,169,580** |
| Total assets at fair value | **$4,115,821** | **$1,946,241** | **$-** | **$2,169,580** |

*December 31, 2012*

| | Total | Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Assets: | | | | |
| Mutual funds: | | | | |
| Large U.S. equity | $ 484,151 | $ 484,151 | $- | $ - |
| International equity | 104,950 | 104,950 | - | - |
| Short-term fixed income | 96,076 | 96,076 | - | - |
| Fixed income | 1,252,908 | 1,252,908 | - | - |
| Guaranteed deposit fund | 2,188,713 | - | - | 2,188,713 |
| Total assets at fair value | $4,126,798 | $1,938,085 | $- | $2,188,713 |

The following tables set forth a summary of changes in the Pension Plan's assets measured at fair value using Level 3 inputs on a recurring basis:

*Year ended December 31, 2013*

| | Guaranteed Account |
|---|---|
| Balance, beginning of year | **$2,188,713** |
| Benefit payments | **(147,704)** |
| Administrative charges | **(24,992)** |
| Receipts | **118,563** |
| Net investment income | **94,154** |
| Unrealized loss | **(59,154)** |
| Balance, end of year | **$2,169,580** |

*Year ended December 31, 2012*

| | Guaranteed Account |
|---|---|
| Balance, beginning of year | $ 4,230,849 |
| Benefit payments | (167,508) |
| Administrative charges | (76,788) |
| Withdrawals | (1,915,000) |
| Net investment income | 173,780 |
| Unrealized loss | (56,620) |
| Balance, end of year | $ 2,188,713 |

Assumptions used in calculations included the following:

| | **2013** | 2012 |
|---|---|---|
| Discount rate used to determine the projected benefit obligation | **4.75%** | 4.00% |
| Discount rate used to determine net periodic pension cost | **4.00** | 4.25 |
| Rate of compensation increase | **4.00** | 4.00 |
| Expected long-term rate of return on assets | **5.25** | 7.00 |

The expected long-term return on plan assets assumption was developed as a weighted average rate based on the target asset allocation of the plan and the long-term capital market assumptions. The overall return for each asset class was developed by combining a long-term inflation component and the associated expected real rates. The development of the capital market assumptions utilized a variety of methodologies, including, but not limited to, historical analysis, stock valuation models such as dividend discount models and earnings yields models, expected economic growth outlook, and market yields analysis.

*(b) 401(k) Plan*

In addition, the Corporation has in effect a contributory defined contribution plan covering substantially all of its employees. The Corporation matches up to 4.5% of salaries for all employees not in the pension plan. For the years ended December 31, 2013 and 2012, the Corporation's contributed portion was $50,516 and $43,724 and the employees' contributed portion was $138,139 and $130,458, respectively.

*(c) Supplemental Executive Retirement Plan*

The Corporation sponsors an unfunded supplemental executive retirement plan (the "Plan") covering certain members of senior management. The Plan provides a minimum level of benefits based upon years of experience and also provides benefits that may be subject to certain limitations imposed by the Internal Revenue Code.

Net periodic pension cost included the following components:

| *Year ended December 31,* | **2013** | 2012 |
|---|---|---|
| Service cost | **$124,133** | $ 94,644 |
| Interest cost | **17,278** | 16,342 |
| Net amortization and deferral | **23,853** | 23,853 |
| Effect of curtailment | **(76,193)** | - |
| Net periodic pension cost | **$ 89,071** | $134,839 |

An analysis of change in fair value of Plan assets is as follows:

| *December 31,* | **2013** | 2012 |
|---|---|---|
| Fair value of Plan assets at beginning of year | **$ -** | $ - |
| Employer contributions | **80,100** | 40,100 |
| Benefits paid | **(80,100)** | (40,100) |
| Fair value of Plan assets at the end of year | **$ -** | $ - |

The following table sets forth the changes in the Plan's benefit obligations and related amounts:

| *December 31,* | **2013** | 2012 |
|---|---|---|
| Change in projected benefit obligation: | | |
| Benefit obligation at beginning of year | **$ 431,953** | $369,726 |
| Service cost | **124,133** | 94,644 |
| Interest cost | **17,278** | 16,342 |
| Actuarial gain | **(64,093)** | (8,659) |
| Benefits paid | **(80,100)** | (40,100) |
| Special termination benefit liability | **45,744** | - |
| Effect of curtailment | **(210,770)** | - |
| Benefit obligation, end of year | **$ 264,145** | $431,953 |
| Accumulated benefit obligation | **$ 18,970** | $ 36,499 |

The funded status of the Plan is as follows:

| *December 31,* | **2013** | 2012 |
|---|---|---|
| Benefit obligation | **$(264,145)** | $(431,953) |
| Fair value of Plan assets | **-** | - |
| Accrued pension obligation | **$(264,145)** | $(431,953) |

The following benefit payments which reflect expected future service, as appropriate, are expected to be paid:

| *Year ending December 31,* | |
|---|---|
| 2014 | $35,000 |
| 2015 | - |
| 2016 | - |
| 2017 | - |
| 2018 | - |
| 2019-2023 | 74,602 |

Assumptions used in calculations included the following:

| *December 31,* | **2013** | 2012 |
|---|---|---|
| Discount rate used to determine the projected benefit obligation | **4.75%** | 4.00% |
| Discount rate used to determine net periodic pension cost | **4.00** | 4.42 |
| Rate of compensation increase | **4.00** | 4.00 |

## 8. Postretirement Benefits

In addition to the Corporation's pension plan, the Corporation sponsors a defined benefit health care plan that provides postretirement medical benefits to retired employees.

As of April 1, 2005, the Corporation ceased to sponsor retiree benefits to new employees. As of this date, employees aged 55 or above are eligible for these benefits with 5 years of service and employees aged 54 or younger require 15 years of service. In addition, the employees must be aged 62 and must be active employees at the time of retirement to qualify for these benefits. The Corporation's policy is to fund the cost of medical benefits. The plan contains cost-sharing features such as deductible items and coinsurance. The Corporation accrues the costs of postretirement benefits during the years that employees render service.

The Corporation's unfunded liability as of December 31, 2013 was $4,066,250, which was calculated using a weighted-average discount rate of 4.75%. The initial transition obligation of $959,000 is being amortized over the plan participants' future service periods (19.8 years). The gain or initial liability is $1,162,000 which is amortized over 12.1 years.

The components of postretirement benefit costs for the years ended December 31, 2013 and 2012 included the following:

| | **2013** | 2012 |
|---|---|---|
| Service cost | **$ 89,289** | $144,167 |
| Interest cost | **164,299** | 198,586 |
| Amortization of initial liability and actuarial gain | **(95,032)** | 76,287 |
| Total | **$158,556** | $419,040 |

The components of the accumulated postretirement benefit obligation ("APBO") as of December 31, 2013 and 2012 included the following:

| | **2013** | 2012 |
|---|---|---|
| Assets | **$ -** | $ - |
| Accumulated postretirement benefit obligation: | | |
| Retirees | **2,350,069** | 1,787,496 |
| Actives | **1,716,181** | 2,749,437 |
| Accrued liability | **$4,066,250** | $4,536,933 |

Impact of change in health care inflation rates is as follows:

*December 31, 2013*

| | Trend + 1% | Trend - 1% |
|---|---|---|
| Service and interest cost | **$ 51,637** | **$ (41,206)** |
| APBO | **691,827** | **(561,016)** |

| *December 31, 2012* | Trend + 1% | Trend - 1% |
|---|---|---|
| Service and interest cost | $ 29,565 | $ (32,472) |
| APBO | 611,332 | (503,582) |

The reconciliation of change in accumulated postretirement benefit obligation (“APBO”) is as follows:

| | **2013** | 2012 |
|---|---|---|
| APBO, beginning of year | **$ 4,536,933** | $4,731,161 |
| Service cost | **89,289** | 144,167 |
| Interest cost | **164,299** | 198,586 |
| Actuarial (gain) loss | **406,920** | (426,713) |
| Claims paid | **(122,496)** | (110,268) |
| Plan change | **(1,008,695)** | - |
| APBO, end of year | **$ 4,066,250** | $4,536,933 |

Amounts recognized in unrestricted net assets consist of:

| *December 31,* | **2013** | 2012 |
|---|---|---|
| Actuarial gain (loss) | **$ 642,965** | $(236,045) |
| Transition obligation | **-** | (126,000) |
| Prior service cost | **(885,080)** | - |
| | **$(242,115)** | $(362,045) |

The following is a summary of projected benefit payments in future years:

| *Year ending December 31,* | |
|---|---|
| 2014 | $ 142,086 |
| 2015 | 155,100 |
| 2016 | 163,234 |
| 2017 | 172,491 |
| 2018 | 190,988 |
| 2019-2023 | 1,134,169 |

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 4.75% and 4.00% at December 31, 2013 and 2012, respectively. The weighted average discount rate used in determining the net periodic postretirement expense was 4.75% and 4.25% at December 31, 2013 and 2012, respectively. The healthcare cost trend rate used at December 31, 2013 and 2012 was 5.0% for both years.

On December 8, 2003, the President signed into law the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the "Act"). The Act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a Federal subsidy to sponsors of retiree healthcare benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The Corporation will not be seeking a subsidy for 2013 and 2012. The impact of the Act is not reflected in the liabilities.

In March 2010, the Patient Protection and Affordable Care Act ("PPACA") was enacted. The key aspect of the PPACA affecting the Corporation's cost of providing retiree medical benefits is the excise ("Cadillac") tax on high-cost plans.

The Corporation's medical plans are expected to be subject to the tax beginning in 2018. Based on the Corporation's cost-sharing policy for medical benefits, 85% of the tax is assumed to be payable by the Corporation. The inclusion of the excise tax increases the plan's benefit obligations by $468,715.

Employer contributions expected to be paid in 2014 are $142,086.

## 9. Commitments and Contingencies

In May 2012, the Corporation entered into a new 15 year lease for office space. Under the lease, the Corporation received an incentive of one year free rent starting at the inception of the lease, along with a construction allowance of $1,661,201 for leasehold improvements. Base rent and the construction allowance is expensed on a straight-line basis over the life of the lease. At December 31, 2013 and 2012, $835,594 and $475,575, respectively, of deferred rent and $1,496,811 and $1,600,636, respectively, of construction allowance is included in deferred rent and tenant allowance on the statements of financial position.

Future minimum annual rental payments for office and several equipment leases are as follows:

| *Year ending December 31,* | |
|---|---|
| 2014 | $ 849,070 |
| 2015 | 801,651 |
| 2016 | 780,430 |
| 2017 | 780,430 |
| 2018 | 832,459 |
| Thereafter | 8,634,901 |
| | $12,678,941 |

Total rent expense for the years ended December 31, 2013 and 2012 amounted to $745,793 and $1,184,204, respectively.

The Corporation is subject to various forms of litigation in the normal course of business. It is the opinion of management that the outcome of such litigation will not have a material effect on the Corporation's financial statements.

## 10. Subsequent Events

The Corporation's management has performed subsequent event procedures through April 22, 2014, which is the date the financial statements were available to be issued, and there were no subsequent events requiring adjustments to the financial statements or disclosures as stated herein.

# Supplementary Information

# Motor Vehicle Accident Indemnification Corporation

## Schedules of General and Administrative Expenses

| *Year ended December 31,* | **2013** | 2012 |
|---|---|---|
| **General and Administrative Expenses:** | | |
| Salaries and fringe benefits: | | |
| Salaries | **$3,821,020** | $3,588,558 |
| Employee relations and welfare | **1,595,375** | 1,423,117 |
| Payroll taxes | **281,978** | 286,911 |
| | **5,698,373** | 5,298,586 |
| Occupancy: | | |
| Rent and related costs | **794,232** | 1,487,794 |
| Professional fees: | | |
| Auditing | **90,000** | 89,000 |
| Network expense | **213,735** | 175,357 |
| Legal and consulting | **385,402** | 403,488 |
| | **689,137** | 667,845 |
| Other administrative expenses: | | |
| Postage | **134,322** | 104,293 |
| Telephone | **36,126** | 39,968 |
| Printing, stationery and periodicals | **39,205** | 35,262 |
| Furniture and equipment expense | **64,880** | 60,004 |
| DMV search | **120,000** | 112,000 |
| Outside service | **26,079** | 26,794 |
| Miscellaneous | **30,337** | 21,099 |
| Special investigations unit | **39,936** | 30,857 |
| Legal Department | **143,166** | 175,597 |
| Repairs and maintenance | **84,682** | 45,245 |
| Depreciation expense | **303,114** | 100,342 |
| Insurance | **87,514** | 156,215 |
| Bank fees | **16,842** | 16,863 |
| Travel and related items | **20,021** | 24,105 |
| Arbitration fees | **178,961** | 151,248 |
| | **1,325,185** | 1,099,892 |
| **Total General and Administrative Expenses** | **$8,506,927** | $8,554,117 |