

**COMMUNITY RESIDENCE INSURANCE SAVING
PLAN SELF-INSURANCE TRUST
FOR WORKERS' COMPENSATION
FINANCIAL REPORT
NOVEMBER 30, 1996**

**COMMUNITY RESIDENCE INSURANCE SAVING
PLAN SELF-INSURANCE TRUST
FOR WORKERS' COMPENSATION**

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Community Residence Insurance Saving Plan
Self-Insurance Trust
for Workers' Compensation

We have audited the accompanying balance sheet of Community Residence Insurance Saving Plan Self-Insurance Trust for Workers' Compensation (the "Trust") as of November 30, 1996, and the related statements of operations and members' deficiency and cash flows for the period from inception (December 15, 1995) to November 30, 1996. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Community Residence Insurance Saving Plan Self-Insurance Trust for Workers' Compensation as of November 30, 1996, and the results of its operations and its cash flows for the period then ended in conformity with generally accepted accounting principles.

As discussed in Note 5, the Trust management believes that it has recorded a liability for unpaid claims and claim adjustment expenses as of November 30, 1996 that is reasonable in the circumstances. However, because the Trust does not yet have sufficient historical loss experience to determine whether actual incurred claims and claim adjustment expenses will reasonably conform to the assumptions used in the determination of the estimated liability for unpaid claims and claim adjustment expenses, the ultimate amount of unpaid claims and claim adjustment expenses may vary significantly from the estimated amounts included in the accompanying financial statements.

CHARLES L. MARVIN AND COMPANY, P.C.

February 6, 1997

**COMMUNITY RESIDENCE INSURANCE SAVING
PLAN SELF-INSURANCE TRUST
FOR WORKERS' COMPENSATION
BALANCE SHEET
NOVEMBER 30, 1996**

ASSETS

Current Assets	
Cash and equivalents	\$ 943,983
Accrued interest receivable	4,343
Contributions receivable	28,539
Prepaid expenses	<u>36,371</u>
Total Current Assets	1,013,236
Other Assets	
Organization costs, net of accumulated amortization of \$2,000	<u>8,000</u>
TOTAL ASSETS	<u>\$ 1,021,236</u>

LIABILITIES AND MEMBERS' DEFICIENCY

Current Liabilities	
Unearned contributions	\$ 458,790
Liability for unpaid claims and claim adjustment expenses	691,165
Accounts payable	105,214
Income taxes payable	333
Accrued expenses	<u>23,897</u>
Total Current Liabilities	1,279,399
Members' Deficiency	
Unreserved	<u>(258,163)</u>
TOTAL LIABILITIES AND MEMBERS' DEFICIENCY	<u>\$ 1,021,236</u>

See accompanying notes to financial statements.

**COMMUNITY RESIDENCE INSURANCE SAVING
PLAN SELF-INSURANCE TRUST
FOR WORKERS' COMPENSATION
STATEMENT OF OPERATIONS AND MEMBERS' DEFICIENCY
FOR THE PERIOD ENDED NOVEMBER 30, 1996**

	<u>1996</u>	<u>Percent of Total Income</u>
Contributions		
Contributions written	\$ 1,554,378	
Less program administration commissions	(97,181)	
Less marketing and promotion commissions	(97,181)	
Contribution adjustments	<u>518</u>	
Net Contributions Written	1,360,534	
Change in unearned contributions	<u>(458,790)</u>	
Earned Contributions	<u>901,744</u>	
Other Income		
Interest	<u>29,248</u>	
TOTAL INCOME	<u>930,992</u>	<u>100.0</u>
Operating Expenses		
Claims Incurred		
Claims	121,020	13.0
Claims reserve	<u>670,185</u>	<u>71.9</u>
Total Claims Incurred	791,205	84.9
Loss adjustment expense	<u>65,793</u>	<u>7.1</u>
Incurred Claims and Adjustment Expense	<u>856,998</u>	<u>92.0</u>
Workers' Compensation Fund Assessment	<u>25,213</u>	<u>2.7</u>
Insurance Expense		
Trust reinsurance	223,824	24.0
Surety bond insurance	11,567	1.2
Directors and officers insurance	<u>5,200</u>	<u>0.6</u>
Total Insurance	<u>240,591</u>	<u>25.8</u>
General and Administration		
Actuarial services	23,333	2.5
Legal	14,548	1.6
Accounting and auditing	7,120	0.8
Loss control service	7,500	0.8
Workers' compensation audits	74	0.0
Interest	4,992	0.6
Amortization	2,000	0.2
Letter of Credit expense	2,045	0.2
Trust and investment administration	1,744	0.2
Printing	1,692	0.1
Office expense	114	0.0
Trustee meeting expense	<u>858</u>	<u>0.1</u>
Total General and Administration	<u>66,020</u>	<u>7.1</u>

See accompanying notes to financial statements.

**COMMUNITY RESIDENCE INSURANCE SAVING
 PLAN SELF-INSURANCE TRUST
 FOR WORKERS' COMPENSATION
 STATEMENT OF OPERATIONS AND MEMBERS' DEFICIENCY
 FOR THE PERIOD ENDED NOVEMBER 30, 1996**

	<u>1996</u>	<u>Percent of Total Income</u>
Total Operating Expenses	<u>\$ 1,188,822</u>	<u>127.6</u>
Loss From Operations	(257,830)	(27.6)
Income Taxes	<u>333</u>	<u>0.0</u>
NET LOSS	(258,163)	<u>(27.6)</u>
Members' Deficiency, Beginning of Period	<u>-</u>	
Members' Deficiency, End of Period	<u>\$ (258,163)</u>	

See accompanying notes to financial statements.

**COMMUNITY RESIDENCE INSURANCE SAVING
PLAN SELF-INSURANCE TRUST
FOR WORKERS' COMPENSATION
STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED NOVEMBER 30, 1996**

Cash Flows From Operating Activities	
Net loss	\$ (258,163)
Adjustments to reconcile net loss to net cash provided by operating activities	
Amortization	2,000
Increase in assets:	
Accrued interest receivable	(4,343)
Contributions receivable	(28,539)
Prepaid expenses	(36,371)
Increase in liabilities:	
Unearned contributions	458,790
Liability for unpaid claims and claim adjustment expenses	691,165
Accounts payable	105,214
Income taxes payable	333
Accrued expenses	<u>23,897</u>
Net Cash Provided By Operating Activities	<u>953,983</u>
 Cash Flows From Investing Activities	
Investment in organization costs	<u>(10,000)</u>
 Cash Flows From Financing Activities	
Proceeds of short-term debt	170,000
Payment of short-term debt	<u>(170,000)</u>
Net Cash Used By Financing Activities	<u>-</u>
 Net Increase in Cash	 943,983
 Cash and Equivalents, Beginning of Period	 <u>-</u>
 Cash and Equivalents, End of Period	 <u>\$ 943,983</u>
 Supplemental Disclosures:	
Interest paid	<u>\$ 4,992</u>

See accompanying notes to financial statements.

**COMMUNITY RESIDENCE INSURANCE SAVING
PLAN SELF-INSURANCE TRUST
FOR WORKERS' COMPENSATION
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 1996**

1. DESCRIPTION OF THE TRUST

A. *Reporting Entity and Nature of Operations*

The Community Residence Insurance Saving Plan (CRISP) Self-Insurance Trust for Workers' Compensation (the Trust) was established October 31, 1995 and became operational on December 15, 1995. The Trust was established pursuant to the provisions of Subdivision 3-a of Section 50 of the Workers' Compensation Law. The Trust is governed by a Trust Agreement administered by a Board of Trustees, consisting of five Trustees. The Trust receives the majority of its revenue from member contributions. Membership in the Trust is open to employers engaged in providing community services who are financially solvent; have an expected loss rate within set parameters; satisfy all other requirements of the Trust's excess carrier(s) and the Workers' Compensation Board of the State of New York and adhere to the safety policies and practices of the Trust. Voluntary termination of membership may only occur on the anniversary date of such membership. Upon termination of membership, such member shall remain liable for any and all dues and assessments applicable during any period during which the member was a participant in the Trust. During the period ended November 30, 1996, approximately 85 community service providers participated in the Trust.

B. *Purpose of the Trust*

The Trust was established for the purpose of meeting and fulfilling an employer's obligations and liabilities under Article 2 of the Workers' Compensation Law which provides for Workers' Compensation coverage and benefits; to form an overall Self-Insurance Trust pursuant to such Law, to provide maximum allowable advance discounts on contribution payments made by employers for Workers' Compensation coverage; and to minimize the cost of providing Workers' Compensation coverage by developing and refining specialized claim services and a loss prevention program for employers offering community services. A Program Administrator is employed by the Trust.

C. *Plan Benefits*

Workers' compensation benefits are provided by the Trust and administered under contract with the Trust's administrator. The Trust also has specific excess workers' compensation and employers' liability indemnity coverage. Under the excess workers' compensation policy, the retained limit for workers' compensation coverage is \$250,000 per accident and per employee. In addition, the Trust's losses in excess of the greater of 125% of the trust contribution amount, (\$1,922,855 for the period ended November 30, 1996) or the minimum loss fund amount of \$1,250,000, in the aggregate, will be covered by the specific and aggregate workers' compensation insurance. Subsequent to November 30, 1996, the Trust changed its coverage to 100% of the trust contribution amount, subject to a minimum loss fund amount of \$3,150,000. Under the Employers' Liability policy, the limit is \$1,000,000 in the aggregate per policy year. The Trust pays annual premiums for the insurance coverage. Fees for claims administration are based on the number of claims incurred and are included in claims adjustment expenses.

**COMMUNITY RESIDENCE INSURANCE SAVING
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NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 1996**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Contributions Earned*

Contributions are billed to the members based on experience ratings and estimated covered payrolls of the participating members. Contributions are considered short-duration contracts and revenue is recognized as earned ratably over the coverage period and the balance is recorded as unearned contributions. No final adjustment has been made in these financial statements for the difference between estimated contributions and contributions calculated based on audited payrolls of the members. Such final adjustments will be made prospectively upon completion of such audits.

B. *Unpaid Claims Liability*

The Trust establishes claims liabilities based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the nature of the claim. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

C. *Reinsurance*

The Trust uses reinsurance agreements to reduce its exposure to large losses on insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Trust and the members as direct insurer of the risks reinsured. To the extent that the reinsurance company should be unable to meet its obligations under the existing agreements, the Trust would be liable for such defaulted amounts. The Trust does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. No amount was deducted from claims liabilities as of November 30, 1996 for reinsurance.

D. *Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The significant estimate included in these financial statements is the liability for unpaid claims and claim adjustment expenses.

**COMMUNITY RESIDENCE INSURANCE SAVING
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NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 1996**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

E. Cash and Equivalents

For financial statement purposes, all highly liquid investments are considered cash equivalents.

F. Accounting Method

The financial statements of the Trust have been prepared on the accrual basis of accounting.

3. CASH AND EQUIVALENTS

At November 30, 1996 cash and equivalents consists of:

Cash	\$ (35,293)
Chase Manhattan Bank Investment Portfolio - Money Market Funds	<u>979,276</u>
Total Cash and Equivalents	<u>\$ 943,983</u>

4. CONCENTRATION OF CREDIT RISK

At November 30, 1996 the Trust had \$979,276 invested in money market accounts with Chase Manhattan Bank. This balance was subject to credit risk.

5. LIABILITY FOR UNPAID CLAIMS AND CLAIMS ADJUSTMENT EXPENSES

Liabilities for reported claims and incurred but not reported claims are estimated by the Trust with input from consulting actuaries. The Trust's policy is to establish reserves for losses for reported claims on a case basis and for incurred but not reported claims on a basis of historically established industry statistical data and the Trust's own historical experience.

Since the Trust was recently organized, sufficient historical claims experience does not exist to support its estimate of amounts ultimately payable for future claims incurred as of November 30, 1996. However, management believes the recorded amounts fairly present the liability for estimated future claims based upon current assumptions and levels of activity.

At November 30, 1996 the liability for unpaid claims and claims adjustment expenses consists of:

Liability for known claims	\$ 247,165
Liability for incurred but not reported claims	<u>444,000</u>
Total Liability for Unpaid Claims and Claims Adjustment Expenses	<u>\$ 691,165</u>

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NOVEMBER 30, 1996**

6. INCOME TAXES

Federal income tax provisions are based on the asset and liability method. The provisions for federal income tax differs from the amount of income tax determined by applying the federal statutory rate to pre-tax income. The differences are primarily due to certain expenses deductible for financial reporting purposes that are not deductible for tax purposes.

At November 30, 1996 the Trust has a net operating loss carryforward of approximately \$28,700 which expires in 2009.

7. LETTER OF CREDIT

The Trust has a \$300,000 irrevocable letter of credit with Chase Manhattan Bank, N.A. which was issued on June 15, 1996 and expires on June 15, 1997. The letter of credit can be automatically extended without amendment for successive one year periods, subject to approval by Chase Manhattan Bank, N.A. The Trust incurred letter of credit charges of \$2,045 during the period ended November 30, 1996.

8. COMMITMENTS AND CONTINGENCIES

The Trust has entered into a participation agreement with each member to provide risk management services, workers' compensation and employer's liability coverage. The agreement stipulates, among other things, that each member is jointly and severally liable for the workers' compensation and employer's liability obligations of the Trust and its members which were incurred during the member's period of membership in the Trust, irrespective of the subsequent termination of the membership in the Trust, the insolvency or bankruptcy of another member of the Trust, or other facts or circumstances. Accordingly, the financial viability of the Trust is contingent upon the financial viability of the individual members.