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Urbach Kahn & Werlin PC  
CERTIFIED PUBLIC ACCOUNTANTS

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

**FINANCIAL REPORT**

**NOVEMBER 30, 1999**

# Community Residence Insurance Saving Plan Self-Insurance Trust for Workers' Compensation

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## Independent Auditor's Report

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, 1999, and the related statements of operations, changes in members' deficiency, and cash flows for the year then ended. 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. The financial statements of the Trust as of November 30, 1998, were audited by other auditors whose report dated January 20, 1999 expressed an unqualified opinion on those statements.

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 statement. 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 1999 financial statements referred to above present fairly, in all material aspects, the financial position of Community Residence Insurance Saving Plan Self-Insurance Trust for Workers' Compensation as of November 30, 1999, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

As described in Note 9 to the financial statements, the Trust changed its method of recording the liability for unpaid claims from an undiscounted basis to a discounted basis effective for the year ended November 30, 1999.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements for the year ended November 30, 1999 taken as a whole. The 1999 schedule of expenses on page 13 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 1999 financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic 1999 financial statements taken as a whole. The 1998 schedule of expenses was audited by other auditors whose report, dated January 20, 1999, expressed an unqualified opinion on such information in relation to the basic financial statements taken as a whole.

Albany, New York  
January 14, 2000

**Community Residence Insurance Saving Plan  
Self-Insurance Trust For Workers' Compensation**

**Balance Sheets  
November 30, 1999 and 1998**

	1999	1998
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 318,258	\$ 193,339
Investments	2,693,412	2,285,832
Accrued interest receivable	26,588	23,996
Contributions receivable	128,880	50,442
Prepaid expenses	31,532	10,027
Deferred income taxes	190,039	163,394
<b>Total Current Assets</b>	<b>3,388,709</b>	<b>2,727,030</b>
Other Assets		
Organization costs, net of accumulated amortization of \$8,000 and \$6,000	2,000	4,000
<b>Total Assets</b>	<b>\$ 3,390,709</b>	<b>\$ 2,731,030</b>
<b>LIABILITIES AND MEMBERS' DEFICIENCY</b>		
Current Liabilities		
Unearned contributions	\$ 987,832	\$ 732,581
Liability for reported as well as incurred but not reported claims	2,435,000	2,155,000
Liability for claims adjustment expenses	86,842	58,398
Accounts payable	9,390	2,573
Income taxes payable	19,016	325
Accrued expenses	175,015	104,399
<b>Total Current Liabilities</b>	<b>3,713,095</b>	<b>3,053,276</b>
Members' Deficiency		
Unreserved	(298,888)	(325,830)
Accumulated other comprehensive income (loss)	(23,498)	3,584
<b>Total Members' Deficiency</b>	<b>(322,386)</b>	<b>(322,246)</b>
<b>Total Liabilities and Members' Deficiency</b>	<b>\$ 3,390,709</b>	<b>\$ 2,731,030</b>

See Notes to Financial Statements.

# Community Residence Insurance Saving Plan Self-Insurance Trust For Workers' Compensation

Statements of Operations  
Years Ended November 30, 1999 and 1998

	1999	Percent of Total Income	1998	Percent of Total Income
<b>CONTRIBUTIONS</b>				
Contributions written	\$ 2,821,506		\$ 2,269,168	
Less program administration commissions	(180,632)		(145,265)	
Less marketing and promotion commissions	(180,631)		(145,264)	
Contribution adjustments	68,582		55,062	
Net contributions written	2,528,825		2,033,701	
Change in unearned contributions	(255,251)		(62,204)	
Earned contributions	2,273,574		1,971,497	✓
<b>OTHER INCOME</b>				
Investment income	130,625		109,101	
Realized loss on sale of investments	(8,566)		(25,407)	
Interest expense	(5,772)		(8,334)	SB 75360
Total income	2,389,861	100.0	2,046,857	100.0
<b>OPERATING EXPENSES</b>				
Reported claims	1,201,061	50.3	833,422	40.7
Claims reserve	676,519	28.3	655,000	32.0
Loss adjustment expenses	236,668	9.9	198,509	9.7
Workers' compensation fund assessment	155,806	6.5	89,294	4.4
Insurance expense	326,277	13.6	268,220	13.1
General and administrative expenses	158,962	6.7	126,406	6.2
Total operating expenses	2,755,293	115.3	2,170,851	106.1
<b>LOSS FROM OPERATIONS BEFORE BENEFIT</b>				
FROM INCOME TAXES	(365,432)	(15.3)	(123,994)	(6.1)
Benefit from income taxes	(130,671)	(5.5)	(31,746)	(1.5)
<b>INCOME BEFORE CUMULATIVE EFFECT OF A</b>				
<b>CHANGE IN ACCOUNTING PRINCIPLE</b>	(234,761)	(9.8)	(92,248)	(4.6)
<b>CUMULATIVE EFFECT ON PRIOR YEARS OF</b>				
<b>ACCOUNTING CHANGE (net of applicable taxes of \$134,817)</b>	261,703		-	
<b>NET INCOME (LOSS)</b>	\$ 26,942		\$ (92,248)	
<b>Pro forma net loss assuming the change in the method of recording the liability for unpaid claims and claims adjustment expenses was applied retroactively</b>				
			\$ (18,269)	

See Notes to Financial Statements.

**Community Residence Insurance Saving Plan  
Self-Insurance Trust For Workers' Compensation**

**Statements of Changes in Members' Deficiency  
Years Ended November 30, 1999 and 1998**

	Members' Deficiency	Accumulated Other Comprehensive Income	Total Members' Deficiency
Balance, December 1, 1997	\$ (233,582)	\$ 1,535	<u>\$ (232,047)</u>
Comprehensive income (loss)			
Net loss 1998	(92,248)	-	(92,248)
Other comprehensive income:			
Unrealized gains on investments arising during the period	-	2,049	<u>2,049</u>
Comprehensive loss	-	-	<u>(90,199)</u>
Balance, November 30, 1998	(325,830)	3,584	<u>(322,246)</u>
Comprehensive income (loss)			
Net income 1999	26,942	-	26,942
Other comprehensive income:			
Unrealized losses on investments arising during the period	-	(35,648)	(35,648)
Plus: reclassification adjustment	-	8,566	<u>8,566</u>
Comprehensive loss	-	-	<u>(140)</u>
Balance, November 30, 1999	\$ (298,888)	\$ (23,498)	<u>\$ (322,386)</u>

See Notes to Financial Statements.

# Community Residence Insurance Saving Plan Self-Insurance Trust For Workers' Compensation

## Statements of Cash Flows Years Ended November 30, 1999 and 1998

	1999	1998
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 26,942	\$ (92,248)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of organization costs	2,000	2,000
Amortization of discount on investments	2,041	-
Realized loss on sale of investments	8,566	25,407
Deferred income taxes	(26,645)	(44,636)
(Increase) decrease in assets		
Accrued interest receivable	(2,592)	59
Contributions receivable	(78,438)	34,007
Prepaid expenses	(21,505)	33,206
Increase (decrease) in liabilities		
Unearned contributions	255,251	62,203
Liability for unpaid claims and claims adjustment expenses	308,444	692,188
Accounts payable	6,817	1,495
Income taxes payable	18,691	228
Accrued expenses	70,616	50,068
Net cash provided by operating activities	570,188	763,977
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(1,893,963)	(2,848,470)
Proceeds from sale of investments	1,448,694	1,541,000
Net cash used by investing activities	(445,269)	(1,307,470)
Net increase (decrease) in cash	124,919	(543,493)
Cash and equivalents, beginning of year	193,339	736,832
Cash and equivalents, end of year	\$ 318,258	\$ 193,339
<b>SUPPLEMENTAL DISCLOSURES</b>		
Interest paid	\$ 5,772	\$ 8,334
Income taxes paid	\$ 12,098	\$ 18,897

See Notes to Financial Statements.

# Community Residence Insurance Saving Plan Self-Insurance Trust For Workers' Compensation

Notes to Financial Statements  
November 30, 1999 and 1998

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## Note 1. Description of the Trust

### 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 seven 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 year ended November 30, 1999 and 1998, approximately 143 and 135 community service providers, respectively, participated in the Trust.

### 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.

### 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 each accident. In addition, the Trust's losses in excess of the greater of 100% of the trust contribution amount or the minimum loss fund amount of \$2,500,000, in the aggregate, will be covered by the specific and aggregate workers' compensation insurance. 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 Plan Self-Insurance Trust For Workers' Compensation

Notes to Financial Statements  
November 30, 1999 and 1998

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## Note 2. Summary of Significant Accounting Policies

### 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.

### 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 and are reported at their estimated present value commencing in the year ended November 30, 1999. 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.

### 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, 1999 and 1998 for reinsurance.

# Community Residence Insurance Saving Plan Self-Insurance Trust For Workers' Compensation

Notes to Financial Statements  
November 30, 1999 and 1998

## Note 2. Summary of Significant Accounting Policies, Continued

### 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.

### Cash and Equivalents

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

### Investments

Investments, classified as available for sale, are recorded at market value. Unrealized gains and losses are recognized as a separate component of members' deficiency. Realized gains and losses on investments are determined by specific identification and are charged or credited to current earnings.

## Note 3. Cash and Equivalents

At November 30 cash and equivalents consists of:

	1999	1998
Cash	\$ 72,983	\$ 36,208
Money Market Funds	245,275	157,131
Total cash and equivalents	\$ 318,258	\$ 193,339

For the years ended November 30, 1999 and 1998, the Trust had cash balances in financial institutions which exceeded Federal Depository Insurance limits. These financial institutions have strong credit ratings and management believes that credit risk related to these deposits is minimal.

# Community Residence Insurance Saving Plan Self-Insurance Trust For Workers' Compensation

Notes to Financial Statements  
November 30, 1999 and 1998

## Note 4. Investments

Investments are classified as available for sale. Investments at November 30 consist of:

	1999		Unrealized Gain (Loss)
	Cost	Market	
Debt securities	\$ 2,000,721	\$ 1,954,378	\$ (46,343)
Equity securities	716,189	739,034	22,845
	\$ 2,716,910	\$ 2,693,412	\$ (23,498)

  

	1998		Unrealized Gain (Loss)
	Cost	Market	
Debt securities	\$ 1,759,882	\$ 1,775,306	\$ 15,424
Equity securities	522,366	510,526	(11,840)
	\$ 2,282,248	\$ 2,285,832	\$ 3,584

## Note 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. The Trust management believes that it has recorded a liability for unpaid claims and claim adjustment expenses as of November 30, 1999 and 1998 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. Effective at the beginning of the current year, the Trust also takes into account the time value of money by reporting these liabilities at their present value (Note 9).

Consulting actuaries have provided a high, best estimate and low range of future claims incurred, on both a discounted and non-discounted basis. These non-discounted estimates range from a low of \$2,680,000 and a high of \$3,280,000 for 1999 and a low of \$1,940,000 to a high of \$2,370,000 for 1998.

# Community Residence Insurance Saving Plan Self-Insurance Trust For Workers' Compensation

Notes to Financial Statements  
November 30, 1999 and 1998

**Note 5. Liability for Unpaid Claims and Claims Adjustment Expenses, Continued**

On a discounted basis, these estimates range from a low of \$2,190,000 to a high of \$2,680,000 for 1999. The Trust changed its method of accounting for claims during 1999 (Note 9) and used the discounted estimate of \$2,435,000 for the current year. The non-discounted estimate of \$2,155,000 was used in arriving at estimated future claims incurred for 1998. Management believes these amounts fairly present the liability for estimated future claims based upon current assumptions and levels of activity. At November 30 the liability for unpaid claims and claims adjustment expenses consists of:

	1999	1998
Liability for known claims	\$ 1,500,000	\$ 835,000
Liability for incurred but not reported claims	1,480,000	1,320,000
Total liability for unpaid claims	\$ 2,980,000	\$ 2,155,000
Discounted at 6%	\$ 2,435,000	N/A

**Note 6. Income Taxes**

The provisions (benefits) for federal income tax differ 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.

Income tax provisions (benefits) consist of the following:

	1999	1998
<b>Current</b>		
Federal	\$ 30,691	\$ 11,774
State	100	325
Total current income tax	30,791	12,099
<b>Deferred</b>		
Federal	(26,645)	(44,636)
Total income tax provision (benefit)	4,146	(32,537)
<b>Accounted for as follows:</b>		
Income tax (benefit)	(130,671)	(31,746)
Attributable to change in accounting principle (Note 9)	134,817	-
Attributable to unrealized gains on investments	-	(791)
Income tax provision (benefit)	\$ 4,146	\$ (32,537)

# Community Residence Insurance Saving Plan Self-Insurance Trust For Workers' Compensation

Notes to Financial Statements  
November 30, 1999 and 1998

**Note 6. Income Taxes, Continued**

Differences between the provision for income tax expense at statutory income tax rates and the provision in the statement of operations and changes in members' deficiency follows:

	1999	1998
Provision at federal statutory rate	\$ (124,247)	\$ (42,158)
Difference in rates	(4,022)	8,050
Capital losses	(2,912)	8,639
Change in valuation allowance	(3,095)	(2,314)
Other	3,605	(3,963)
Benefit from income taxes	\$ (130,671)	\$ (31,746)

**Deferred Tax Assets**

Financial accounting presentation requirements and tax basis regulations result in differences between the basis of certain assets and liabilities for financial reporting purposes and tax purposes. The tax effects of these differences, to the extent they are temporary, are recorded as deferred tax assets and liabilities under SFAS 109, and consist of the following:

	1999	1998
Deferred revenue	\$ 67,172	\$ 49,816
Liability for unpaid claims and claims adjustment expenses	163,822	151,438
Deferred tax asset	230,994	201,254
Less valuation allowance	40,955	37,860
Net deferred tax asset	\$ 190,039	\$ 163,394

A valuation allowance has been provided to reduce deferred tax assets to amounts management believes are likely to be realizable in the near term.

**Note 7. Letter-Of-Credit**

The Trust has an unused \$600,000 irrevocable letter of credit with a bank which expires on December 1, 2000.

# Community Residence Insurance Saving Plan Self-Insurance Trust For Workers' Compensation

Notes to Financial Statements  
November 30, 1999 and 1998

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## Note 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.

## Note 9. Change in Accounting Principle

At the beginning of the current year, the Trust changed its method of recording the liability for unpaid claims from a non-discounted to a discounted basis in order to more appropriately reflect this estimate and better match costs. In addition, proposed regulations expected to be implemented in the year 2000 by the Workers Compensation Board for Group Self-Insurance would require the Trust to report its claims liabilities on a discounted basis.

This change in accounting has been recognized by recording the cumulative effect (through November 30, 1998) as a current period item. Net income for the year ended November 30, 1999 increased by approximately \$98,000, net of taxes, because of this change. The pro forma effects of this change in accounting as if the method were applied as of December 1, 1997, have been presented on the face of the statement of operations for 1998.

## Supplementary Information

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# Community Residence Insurance Saving Plan Self-Insurance Trust For Workers' Compensation

Schedules of Expenses  
Years Ended November 30, 1999 and 1998

	1999	Percent of Income	1998	Percent of Income
<b>INSURANCE EXPENSE</b>				
Trust reinsurance	\$ 306,277	12.8%	\$ 250,500	12.2%
Surety bond insurance	12,000	0.5%	12,000	0.6%
Directors and officers insurance	8,000	0.3%	5,720	0.3%
<b>Total insurance</b>	<b>\$ 326,277</b>	<b>13.7%</b>	<b>\$ 268,220</b>	<b>13.1%</b>
<b>GENERAL AND ADMINISTRATION</b>				
Actuarial services	\$ 19,668	0.8%	\$ 18,000	0.9%
Legal	17,018	0.7%	16,321	0.8%
Accounting and auditing	13,471	0.6%	11,726	0.6%
Loss control service	30,000	1.3%	30,000	1.5%
Workers' compensation audits	13,582	0.6%	12,232	0.6%
Amortization	2,000	0.1%	2,000	0.1%
Letter of credit expense	3,200	0.1%	3,000	0.1%
Trust and investment administration	25,254	1.1%	17,908	0.9%
Printing	7,495	0.3%	5,036	0.2%
Loss control seminars	-	-	6,209	0.3%
Office expense and other	1,659	0.1%	3,009	0.1%
Trustee Fees	24,000	1.0%	-	-
Trustee expense	1,615	0.1%	965	0.0%
<b>Total general and administration</b>	<b>\$ 158,962</b>	<b>6.7%</b>	<b>\$ 126,406</b>	<b>6.2%</b>

The Program Specialists

April 12, 2000

Ms. Suzanne Lengio  
Self-Insurance Office  
NYS Workers' Compensation Board  
20 Park Street  
Room 201  
Albany, NY 12207

RECEIVED  
WCI  
APR 13 2000  
SELF INSURANCE OFFICE

Re: Community Residence Insurance Saving Plan  
Audited Financials

Dear Suzanne,

Please find enclosed two (2) copies of the CRISP SIT 1999 Annual Report as of the end of their fiscal year, 11/30/99. We will be preparing an Annual Report to the participants and will send you copies of that report when it is completed.

Please let me know if you have any questions or need additional copies.

Yours truly,



Thomas B. Arney  
President  
Program Administrator