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

FINANCIAL REPORT

NOVEMBER 30, 2001

Draft

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UK&W Urbach Kahn & Werlin LLP
CERTIFIED PUBLIC ACCOUNTANTS

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 sheets of Community Residence Insurance Saving Plan Self-Insurance Trust for Workers' Compensation (the "Trust") as of November 30, 2001 and 2000, and the related statements of operations, changes in members' deficiency, and cash flows for the years 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 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the 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, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of expenses on page 13 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Albany, New York
January 11, 2002

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

Balance Sheets
November 30, 2001 and 2000

	2001	2000
ASSETS		
Cash and cash equivalents	$ 1,097,653	$ 943,295
Investments	2,671,201	2,340,738
Accrued interest receivable	13,202	23,735
Contributions receivable, net of allowance for doubtful accounts of $105,000 in 2001	1,737,387	213,003
Prepaid expenses	17,053	81,488
Deferred income taxes	-	210,141
Total Assets	$ 5,536,496	$ 3,812,400
LIABILITIES AND MEMBERS' DEFICIENCY		
Current Liabilities		
Unearned contributions	$ 1,996,505	$ 1,483,200
Liability for reported and incurred but not reported claims	7,051,093	4,947,000
Liability for claims adjustment expenses	45,054	143,904
Accounts payable	4,916	63,022
Accrued expenses and other liabilities	630,906	422,276
Total Liabilities	9,728,474	7,059,402
Members' Deficiency		
Unreserved	(4,180,713)	(3,233,322)
Accumulated other comprehensive loss	(11,265)	(13,680)
Total Members' Deficiency	(4,191,978)	(3,247,002)
Total Liabilities and Members' Deficiency	$ 5,536,496	$ 3,812,400

See Notes to Financial Statements.

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

Statements of Operations
Years Ended November 30, 2001 and 2000

	2001	Percent of Total Income	2000	Percent of Total Income
CONTRIBUTIONS				
Contributions written	$ 6,552,079		$ 3,713,856	
Less program administration commissions	(321,559)		(257,209)	
Less marketing and promotion commissions	(321,559)		(257,209)	
Contribution adjustments	317,627		148,888	
Net contributions written	6,226,588		3,348,326	
Change in unearned contributions	(513,307)		(495,368)	
Earned contributions	5,713,281		2,852,958	
OTHER INCOME				
Investment income	146,069		148,042	
Realized loss on sale of investments	(16,267)		(47,157)	
Interest expense	(9,362)		(6,652)	
Total income	5,833,721	100.0	2,947,191	100.0
OPERATING EXPENSES				
Claims paid	3,001,443	51.4	2,282,446	77.4
Claims reserve	2,104,093	36.1	2,512,000	85.2
Loss adjustment expenses	334,300	5.7	317,309	10.8
Workers' compensation fund assessment	526,354	9.0	346,877	11.8
Insurance expense	291,554	5.0	328,019	11.1
Provision for doubtful accounts	105,000	1.8	-	-
General and administrative expenses	208,127	3.6	157,440	5.3
Total operating expenses	6,570,871	112.6	5,944,091	201.7
LOSS FROM OPERATIONS BEFORE PROVISION FOR INCOME TAXES	(737,150)	(12.6)	(2,996,900)	(101.7)
Provision for income taxes	210,241	3.6	(62,466)	(2.1)
NET LOSS	$ (947,391)	(16.2)	$ (2,934,434)	(99.6)

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, 2001 and 2000

	Members' Deficiency	Accumulated Other Comprehensive Loss	Total Members' Deficiency
Balance, December 1, 1999	$ (298,888)	$ (23,498)	$ (322,386)
Comprehensive income (loss):			
Net loss 2000	(2,934,434)	-	(2,934,434)
Other comprehensive income:			
Unrealized losses on investments arising during the period	-	(13,957)	(13,957)
Reclassification adjustment	-	23,775	23,775
Comprehensive loss			(2,924,616)
Balance, November 30, 2000	(3,233,322)	(13,680)	(3,247,002)
Comprehensive income (loss):			
Net loss 2001	(947,391)	-	(947,391)
Other comprehensive income:			
Unrealized gains on investments arising during the period	-	16,142	16,142
Reclassification adjustment	-	(13,727)	(13,727)
Comprehensive loss			(944,976)
Balance, November 30, 2001	$ (4,180,713)	$ (11,265)	$ (4,191,978)

See Notes to Financial Statements.

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

Statements of Cash Flows
Years Ended November 30, 2001 and 2000

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (947,391)	$ (2,934,434)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization of organization costs	-	2,000
Amortization of discount on investments	(860)	(1,441)
Realized loss on sale of investments	16,267	47,157
Deferred income taxes	210,141	(20,102)
(Increase) decrease in assets		
Accrued interest receivable	10,533	2,853
Contributions receivable	(1,524,384)	(84,123)
Prepaid expenses	64,435	(49,956)
Increase (decrease) in liabilities		
Unearned contributions	513,305	495,368
Liability for unpaid claims and claims adjustment expenses	2,005,243	2,569,062
Accounts payable	(58,106)	53,632
Accrued expenses and other liabilities	208,630	228,245
Net cash provided by operating activities	497,813	308,261
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(4,744,710)	(1,867,370)
Proceeds from sale of investments	4,401,255	2,184,146
Net cash provided by (used in) investing activities	(343,455)	316,776
Net increase in cash and cash equivalents	154,358	625,037
Cash and equivalents, beginning of year	943,295	318,258
Cash and equivalents, end of year	$ 1,097,653	$ 943,295
SUPPLEMENTAL DISCLOSURES		
Interest paid	$ 9,362	$ 6,652
Income taxes paid	$ -	$ 57,380

See Notes to Financial Statements.

Note 1. Description of the Trust

Reporting Entity and Nature of Operations

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 eight 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, 2001 and 2000, approximately 184 and 160 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.

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.

Liability for Reported and Incurred but Not Reported Claims

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. 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, 2001 and 2000 for reinsurance.

Income Taxes

Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

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.

The Trust places its cash balances with high credit quality institutions. At times, such amounts may be in excess of the FDIC insurance limit.

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:

	2001	2000
Cash	$ 570,064	$ 50,592
Money Market Funds	527,589	892,703
Total cash and equivalents	$ 1,097,653	$ 943,295

For the years ended November 30, 2001 and 2000, 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.

Note 4. Investments

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

	2001		
	Cost	Market	Unrealized Gain (Loss)
Debt securities	$ 1,982,211	$ 2,015,655	$ 33,444
Equity securities	700,254	655,546	(44,708)
	$ 2,682,465	$ 2,671,201	$ (11,264)

	2000		
	Cost	Market	Unrealized Gain (Loss)
Debt securities	$ 1,623,095	$ 1,626,478	$ 3,383
Equity securities	731,323	714,260	(17,063)
	$ 2,354,418	$ 2,340,738	$ (13,680)

Note 5. Liability for Reported and Incurred but Not Reported Claims

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, 2001 and 2000 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. The Trust also takes into account the time value of money by reporting claims liabilities at their present value.

Consulting actuaries have provided an estimate of reported claims and incurred but not reported claims as of November 20, 2001 and 2000, on both a discounted and non-discounted basis. The non-discounted estimate is $8,944,000 for 2001 and $6,383,000 for 2000.

Note 5. Liability for Reported As Well As Incurred but Not Reported Claims, Continued

On a discounted basis, the estimate is $7,051,000 for 2001 and $4,947,000 for 2000. 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 consists of:

	2001	2000
Liability for known claims	$ 4,600,000	$ 3,300,000
Liability for incurred but not reported claims	4,344,000	3,083,000
Total liability for unpaid claims	$ 8,944,000	$ 6,383,000
Discounted at 6%	$ 7,051,000	$ 4,947,000

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 difference is primarily due to the valuation allowance on deductible temporary differences and the net operating loss carryforward.

Income tax provisions (benefits) consist of the following:

	2001	2000
Current		
Federal (refunds)	$ -	$ (42,464)
State	100	100
Total current income tax (benefit)	100	(42,364)
Deferred		
Federal	210,141	(20,102)
Total income tax provision (benefit)	$ 210,241	$ (62,466)

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:

	2001	2000
Benefit at federal statutory rate	$ (250,631)	$ (1,018,946)
Difference in rates	-	(21,706)
Capital losses	(5,531)	(16,033)
Change in valuation allowance	457,097	992,713
Other	9,266	1,506
Benefit from income taxes	$ 210,201	$ (62,466)

Note 6. Income Taxes, Continued

The Trust has available approximately $3.4 million of net operating loss carryforwards which can be used to reduce future taxable income. The net operating loss carryforwards begin to expire in 2020.

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 and consist of the following:

	2001	2000
Deferred revenue	$ 139,123	$ 100,858
Allowance for doubtful accounts	35,700	-
Net operating loss	1,156,214	954,776
Liability for unpaid claims and claims adjustment expenses	117,265	145,712
Deferred tax asset	1,448,302	1,201,346
Less valuation allowance	1,448,302	991,205
Net deferred tax asset	$ -	$ 210,141

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 $2,300,000 irrevocable letter of credit with a bank which expires on April 30, 2002. The letter of credit is collateralized by cash and investments held at this bank.

Note 8. Trust Administrator and Claims Adjuster

Program Risk Management, Inc. is the Trust's administrator and PRM Claim Services, Inc. is the claims adjuster for the Trust. The Trust paid approximately $206,000 in loss adjusting expense in 2001 and none in 2000 to PRM Claim Services, Inc. In addition, the Trust paid approximately $322,000 in program administration commissions in 2001 and $257,000 in 2000, respectively, to Program Risk Management, Inc.

Note 9. 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, among other factors, upon the financial viability of the individual members.

Note 10. Managements' Plans

The Trust incurred a significant loss in the year ended November 30, 2001, and at that date had a members' deficiency (excess of liabilities over assets) of approximately $4,192,000. In response, management of the Trust has undertaken a number of initiatives designed to improve its profitability and financial viability. These initiatives include the following steps:

- The Trust continues to implement a new underwriting and pricing program that will focus on members with a poor ratio of claims to contributions. Rates will either be increased or coverage terminated upon renewal.
- On May 1, 2001, the Trust replaced the third party administrator who previously handled its claims administration. The new third party administrator, which is an affiliate of the Trust's Administrator, believes that it can be more efficient in the handling of claims, thereby reducing the ultimate cost of each claim.
- The Trust changed one of the investment advisors who managed most of its funds to the advisor who previously managed some of its funds. The Trust believes that this investment advisor can generate better investment earnings than its previous investment manager.
- On November 30, 2001, the Trust billed its members a surcharge (included in earned contributions for the year ended November 30, 2001) of approximately $1,503,000. The amount of the surcharge was based on the amount of the deficit, each participant's loss history, and the length of time each participant was a member of the Trust.

While there can be no assurances that all of these initiatives will be successful, management believes that their impact will be sufficient to support operations and provide sufficient resources to discharge its obligations as they become due, for at least the next twelve months. Over the long term, these initiatives are designed to eliminate the deficit. In addition, the Trust has the ability to assess its members, who are jointly and severally liable, for additional funds to eliminate its deficit.

Supplementary Information

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

Schedules of Expenses
Years Ended November 30, 2001 and 2000

	2001	Percent of Income	2000	Percent of Income
INSURANCE EXPENSE				
Trust reinsurance	$ 262,247	4.5%	$ 311,019	10.6%
Surety bond insurance	20,807	0.4%	9,000	0.3%
Directors and officers insurance	8,500	0.1%	8,000	0.3%
Total insurance	$ 291,554	5.0%	$ 328,019	11.1%
GENERAL AND ADMINISTRATION				
Actuarial services	$ 20,000	0.3%	$ 20,000	0.7%
Legal	17,977	0.3%	12,000	0.4%
Accounting and auditing	24,195	0.4%	15,055	0.5%
Loss control service	60,000	1.0%	30,000	1.0%
Workers' compensation audits	19,459	0.3%	16,636	0.6%
Amortization	-	0.0%	2,000	0.1%
Letter of credit expense	13,427	0.2%	7,074	0.2%
Trust and investment administration	25,801	0.4%	26,693	0.9%
Printing	905	0.0%	4,540	0.2%
Loss control seminars	-	0.0%	4,221	0.1%
Office expense and other	2,691	0.0%	2,145	0.1%
Trustee Fees	18,500	0.3%	13,500	0.5%
Trustee expense	5,172	0.1%	3,576	0.1%
Total general and administration	$ 208,127	3.6%	$ 157,440	5.3%