

**COMMUNITY RESIDENCE INSURANCE SAVINGS PLAN
SELF-INSURANCE TRUST FOR WORKERS' COMPENSATION
FINANCIAL REPORT
NOVEMBER 30, 2004**



Marvin and
company, p.c.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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

RECEIVED
WORKERS' COMPENSATION BOARD
MAR 29 2005
SELF INSURANCE OFFICE

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Community Residence Insurance Savings Plan
Self-Insurance Trust for Workers' Compensation

We have audited the accompanying balance sheets of Community Residence Insurance Savings Plan Self-Insurance Trust for Workers' Compensation (the "Trust") as of November 30, 2004 and 2003, 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 U.S. 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 audits provide 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 Community Residence Insurance Savings Plan Self-Insurance Trust for Workers' Compensation as of November 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Based on regulatory approval from the Workers Compensation Board of the State of New York, the Trust modified member agreements effective with the year ended November 30, 2004. See note 2, *Contributions Earned*.

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 audit 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.

Marvin and Company, P.C.

February 3, 2005

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**COMMUNITY RESIDENCE INSURANCE SAVINGS PLAN
 SELF-INSURANCE TRUST FOR WORKERS' COMPENSATION
 BALANCE SHEETS
 NOVEMBER 30, 2004 AND 2003**

RECEIVED
 WORKERS' COMPENSATION BOARD
 MAR 29 2005
 SELF INSURANCE OFFICE

ASSETS

	<u>2004</u>	<u>2003</u>
Current Assets		
Cash and cash equivalents	\$ 683,003	\$ 705,988
Investments	5,052,617	4,946,141
Accrued interest receivable	27,625	39,719
Contributions receivable	975,254	930,282
Prepaid expenses	<u>50,630</u>	<u>47,006</u>
TOTAL ASSETS	<u>\$ 6,789,129</u>	<u>\$ 6,669,136</u>

LIABILITIES AND MEMBERS' DEFICIENCY

Current Liabilities		
Unearned contributions	\$ -	\$ 2,515,809
Liability for unpaid claims - reserves	3,613,593	3,791,669
Liability for incurred but not reported claims	4,697,703	4,197,703
Accounts payable and accrued expenses	27,197	7,291
Liability for Workers' Compensation Board assessment	<u>1,655,700</u>	<u>1,522,628</u>
Total Current Liabilities	<u>9,994,193</u>	<u>12,035,100</u>
Members' Deficiency		
Unreserved	(3,291,750)	(5,236,104)
Accumulated other comprehensive income	<u>86,686</u>	<u>31,593</u>
Total Members' Deficiency before surcharges receivable	<u>(3,205,064)</u>	<u>(5,204,511)</u>
Surcharges receivable	-	161,453
Total Members' Deficiency	<u>(3,205,064)</u>	<u>(5,365,964)</u>
TOTAL LIABILITIES AND MEMBERS' DEFICIENCY	<u>\$ 6,789,129</u>	<u>\$ 6,669,136</u>

See accompanying notes to financial statements.

**COMMUNITY RESIDENCE INSURANCE SAVINGS PLAN
 SELF-INSURANCE TRUST FOR WORKERS' COMPENSATION
 STATEMENTS OF OPERATIONS
 FOR THE YEARS ENDED NOVEMBER 30, 2004 AND 2003**

	<u>2004</u>	<u>Percent of Total Income</u>	<u>2003</u>	<u>Percent of Total Income</u>
Contributions				
Contributions written	\$ 6,726,238		\$ 7,077,930	
Contribution adjustments	384,380		286,652	
Less commissions	(762,699)		(747,849)	
Net Contributions Written	<u>6,347,919</u>		<u>6,616,733</u>	
Change in unearned contributions	2,515,809		(96,287)	
Earned Contributions	<u>8,863,728</u> ✓		<u>6,520,446</u> ✓	
Other Income				
Investment income	208,604		207,084	
Realized gain/(loss) on sale of investments	83,303		(52,611)	
Net Other Income	<u>291,907</u> ✓		<u>154,473</u> ✓	
TOTAL INCOME	<u>9,155,635</u>	100.0%	<u>6,674,919</u>	100.0%
Operating Expenses				
Claims paid	4,546,604	49.7%	4,638,200	69.6%
Claims reserve	321,924	3.5%	13,572	0.2%
Loss adjustment expense	294,376 ✓	3.2%	358,924 ✓	5.4%
Workers' compensation fund assessment	1,018,573	11.2%	622,550 ✓	9.3%
Insurance expense	678,874 ✓	7.4%	583,775 ✓	8.7%
Provision for doubtful accounts	75,270 ✓	0.8%	138,617	2.1%
General and administrative expense	241,824 ✓	2.6%	288,960 ✓	4.3%
Interest expense	13,382 ✓	0.1%	13,862 ✓	0.2%
Total Operating Expenses	<u>7,190,827</u>	<u>78.5%</u>	<u>6,658,460</u>	<u>99.8%</u>
Income From Operations Before Provision For Income Taxes	1,964,808	21.5%	16,459	0.2%
Provision for Income Taxes	<u>20,454</u>	<u>0.2%</u>	<u>100</u>	<u>0.0%</u>
NET INCOME	<u>\$ 1,944,354</u>	<u>21.3%</u>	<u>\$ 16,359</u>	<u>0.2%</u>

See accompanying notes to financial statements.

**COMMUNITY RESIDENCE INSURANCE SAVINGS PLAN
 SELF-INSURANCE TRUST FOR WORKERS' COMPENSATION
 STATEMENTS OF CHANGES IN MEMBERS' DEFICIENCY
 FOR THE YEARS ENDED NOVEMBER 30, 2004 AND 2003**

	<u>Members' Deficiency</u>	<u>Accumulated Other Comprehensive (Loss) Income</u>	<u>Total Members' Deficiency</u>
Balance, December 1, 2003	\$ (5,252,463)	\$ (26,566)	\$ (5,279,029)
Comprehensive Income (Loss):			
Net income	16,359	-	16,359
Other comprehensive income:			
Unrealized gains on investments arising during the period	-	75,370	75,370
Reclassification adjustment	-	(17,211)	(17,211)
Comprehensive Income	<u>16,359</u>	<u>31,593</u>	<u>74,518</u>
Balance, November 30, 2003	<u>(5,236,104)</u>	<u>31,593</u>	<u>(5,204,511)</u>
Comprehensive Income (Loss):			
Net income	1,944,354	-	1,944,354
Other comprehensive income:			
Unrealized loss on investments arising during the period	-	(40,549)	(40,549)
Reclassification adjustment	-	95,642	95,642
Comprehensive Income	<u>1,944,354</u>	<u>55,093</u>	<u>1,999,447</u>
Balance, November 30, 2004	<u>\$ (3,291,750)</u>	<u>\$ 86,686</u>	<u>\$ (3,205,064)</u>

See accompanying notes to financial statements.

**COMMUNITY RESIDENCE INSURANCE SAVINGS PLAN
 SELF-INSURANCE TRUST FOR WORKERS' COMPENSATION
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED NOVEMBER 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
Cash Flows From Operating Activities		
Net income	\$ 1,944,354	\$ 16,359
Adjustments to reconcile net income to net cash provided (used) by operating activities		
Amortization of premium on investments	17,057	30,515
Provision for doubtful accounts	69,277	138,617
Realized (gain) loss on sale of investments	(83,303)	52,611
Original issue discount included in investment income	(10,436)	(11,979)
(Increase) decrease in assets:		
Accrued interest receivable	12,094	(16,463)
Contributions receivable	47,204	124,368
Prepaid expenses	(3,624)	(9,168)
Increase (decrease) in liabilities:		
Unearned contributions	(2,515,809)	96,287
Liability for unpaid claims - reserves	(178,076)	(801,174)
Liability for incurred but not recorded claims	500,000	814,746
Accounts payable and accrued expenses	19,906	(42,747)
Liability for Workers' Compensation Board assessment	133,072	98,428
Net Cash Provided (Used) by Operating Activities	<u>(48,284)</u>	<u>490,400</u>
Cash Flows From Investing Activities		
Purchase of investments	(4,377,873)	(6,968,219)
Proceeds from sales and maturities of investments	4,403,172	5,660,269
Net Cash Provided (Used) by Investing Activities	<u>25,299</u>	<u>(1,307,950)</u>
Net Decrease in Cash and Cash Equivalents	(22,985)	(817,550)
Cash and Cash Equivalents, Beginning of Year	<u>705,988</u>	<u>1,523,538</u>
Cash and Cash Equivalents, End of Year	<u>\$ 683,003</u>	<u>\$ 705,988</u>
Supplemental Disclosures:		
Interest paid	\$ 13,382	\$ 13,862
Income taxes paid	<u>\$ 168</u>	<u>\$ 100</u>

See accompanying notes to financial statements.

**COMMUNITY RESIDENCE INSURANCE SAVINGS PLAN
SELF-INSURANCE TRUST FOR WORKERS' COMPENSATION
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2004 AND 2003**

1. DESCRIPTION OF THE TRUST

Nature of Activities

Community Residence Insurance Savings 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 residence services or community mental hygiene treatment or rehabilitation services, special needs educational services programs and other social services programs 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, 2004, approximately 200 community service providers 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 contracted 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 with Safety National Casualty Corporation. Under the excess workers' compensation policy, the retained limit for workers' compensation coverage is \$500,000 each accident. In addition, the Trust's losses in excess of the greater of \$1.75 per \$100 of total trust annual remuneration or the minimum loss fund amount of \$8,636,346, in the aggregate, will be covered by the specific and aggregate workers' compensation insurance. Under the Employers' Liability policy, the limit is \$2,000,000 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 SAVINGS PLAN
SELF-INSURANCE TRUST FOR WORKERS' COMPENSATION
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2004 AND 2003**

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. Effective with the year ended November 30, 2004, member agreements were modified to reflect that contributions are considered fully earned by the Trust on the effective date of coverage or subsequent renewal date. In prior years, contributions were earned ratably over the policy period of the member. Included in the change in unearned contributions in the statement of operations for the year ended November 30, 2004 is approximately \$2.5 million of contributions related to this change. No final adjustment has been made in these financial statements for the difference between estimated contributions and contributions calculated based on audited payroll 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 (see Note 5) 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, 2004 and 2003, respectively 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 law 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.

**COMMUNITY RESIDENCE INSURANCE SAVINGS PLAN
 SELF-INSURANCE TRUST FOR WORKERS' COMPENSATION
 NOTES TO FINANCIAL STATEMENTS
 NOVEMBER 30, 2004 AND 2003**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 reported and incurred but not reported claims.

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 fair 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.

3. CASH AND EQUIVALENTS

Cash and equivalents consists of the following at November 30:

	<u>2004</u>	<u>2003</u>
Cash	\$ 9,754	\$ 6,358
Money market funds	<u>673,249</u>	<u>699,630</u>
Total Cash and Cash Equivalents	<u>\$ 683,003</u>	<u>\$ 705,988</u>

For the year ended November 30, 2004, 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.

4. INVESTMENTS

Current Workers' Compensation Board of the State of New York regulations restrict self-insurance trust investments in equities to not more than 25% of total invested assets. Investments are classified as available for sale. Investments at November 30, 2004 consist of:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain(Loss)</u>
Government securities	\$ 4,122,435	\$ 4,078,418	\$ (44,017)
Equity securities	<u>843,496</u>	<u>974,199</u>	<u>130,703</u>
	<u>\$ 4,965,931</u>	<u>\$ 5,052,617</u>	<u>\$ 86,686</u>

**COMMUNITY RESIDENCE INSURANCE SAVINGS PLAN
 SELF-INSURANCE TRUST FOR WORKERS' COMPENSATION
 NOTES TO FINANCIAL STATEMENTS
 NOVEMBER 30, 2004 AND 2003**

4. INVESTMENTS

Investments are classified as available for sale. Investments at November 30, 2003 consist of:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Government securities	\$ 4,288,709	\$ 4,306,620	\$ 17,911
Equity securities	<u>599,273</u>	<u>639,521</u>	<u>40,248</u>
	<u>\$ 4,887,982</u>	<u>\$ 4,946,141</u>	<u>\$ 58,159</u>

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, 2004 and 2003 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.

Liability for Workers' Compensation Board assessment includes amounts due to the Workers' Compensation Board and an estimate based on the liability for reported and incurred but not reported claims.

Consulting actuaries have provided an estimate of reported claims and incurred but not reported claims as of November 30, 2004 and 2003, on both a discounted and non-discounted basis. The non-discounted estimate is \$9,786,790 and \$9,771,927 for the years ended November 30, 2004 and 2003, respectively.

On a discounted basis, the estimate is \$8,311,296 and \$7,989,372 for 2004 and 2003, respectively. Management believes these amounts fairly present the liability for estimated future claims based upon current assumptions and levels of activity. The liability for unpaid claims consists of the following at November 30:

	<u>2004</u>	<u>2003</u>
Liability for known claims	\$ 3,607,646	\$ 3,691,935
Liability for incurred but not reported claims	<u>6,179,144</u>	<u>6,079,992</u>
Total Liability for Unpaid Claims	<u>\$ 9,786,790</u>	<u>\$ 9,771,927</u>
Discounted at 5% in 2004 and 2003	<u>\$ 8,311,296</u>	<u>\$ 7,989,372</u>

**COMMUNITY RESIDENCE INSURANCE SAVINGS PLAN
 SELF-INSURANCE TRUST FOR WORKERS' COMPENSATION
 NOTES TO FINANCIAL STATEMENTS
 NOVEMBER 30, 2004 AND 2003**

6. INCOME TAXES

The provisions 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.

Provision for income tax consist of the following:

	<u>2004</u>	<u>2003</u>
Current		
Federal	\$ 16,183	\$ -
State	<u>4,271</u>	<u>100</u>
Total Current Taxes	<u>20,454</u>	<u>100</u>
Deferred		
Provision for Income Taxes	<u>\$ 20,454</u>	<u>\$ 100</u>

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:

	<u>2004</u>	<u>2003</u>
Benefit at federal statutory rate	\$ 408,146	\$ 74,107
Capital losses	28,323	(17,888)
Change in valuation allowance	(456,830)	(67,559)
Other	<u>40,815</u>	<u>11,440</u>
Provision for Income Taxes	<u>\$ 20,454</u>	<u>\$ 100</u>

Beginning December 1, 2004, the Trust has available approximately \$3.3 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 at November 30:

	<u>2004</u>	<u>2003</u>
Deferred revenue	\$ -	\$ 171,075
Allowance for doubtful accounts	-	35,700
Net operating loss	<u>1,132,613</u>	<u>1,446,838</u>
Deferred Tax Asset	1,132,613	1,653,613
Less valuation allowance	<u>(1,132,613)</u>	<u>(1,653,613)</u>
Net Deferred Tax Asset	<u>\$ -</u>	<u>\$ -</u>

**COMMUNITY RESIDENCE INSURANCE SAVINGS PLAN
SELF-INSURANCE TRUST FOR WORKERS' COMPENSATION
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2004 AND 2003**

6. INCOME TAXES

Deferred Tax Assets

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

7. LETTER OF CREDIT

The Trust has an unused \$2,300,000 irrevocable letter of credit with a bank which expires on April 30, 2005. The letter of credit is collateralized by cash and investments held at this bank.

8. TRUST ADMINISTRATOR AND CLAIMS ADJUSTER

Program Risk Management, Inc. is the Trust's administrator and PRM Claim Services, Inc. (an affiliate of the Trust's administrator) is the claims adjuster for the Trust. The Trust paid approximately \$294,000 and \$359,000 in loss adjusting expense in 2004 and 2003, respectively to PRM Claim Services, Inc. In addition, the Trust paid approximately \$378,000 and \$374,000 in program administration commissions in 2004 and 2003, to Program Risk Management, Inc., which are included in total commissions paid. PRM Claim Services, Inc. was holding \$9,754 and \$6,358 in 2004 and 2003, respectively in a claim trust account to pay claims on behalf of the Trust. This amount is included in cash and cash equivalents.

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 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.

10. SURCHARGES RECEIVABLE

The Trust billed its members a surcharge on November 30, 2001 of approximately \$1,503,000. Although most members have paid the amount of the surcharge, certain former members have not remitted the amounts due. Some former members have gone out of business and several have refused to pay. As explained in Note 1, the Trust agreement provides that a 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. The Trust provided an allowance for doubtful accounts against the remaining surcharges receivable of \$162,000 at November 30, 2003.

**COMMUNITY RESIDENCE INSURANCE SAVINGS PLAN
SELF-INSURANCE TRUST FOR WORKERS' COMPENSATION
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2004 AND 2003**

10. SURCHARGES RECEIVABLE

During March 2003, the Trust commenced an action against six of the former members, with a total surcharge receivable of \$533,079, seeking to enforce the Trust agreement and to recover the amounts due. During 2003 the Trust reached settlement agreements with three of six former members for \$149,100, which has been reclassified to Contributions Receivable. The Trust also determined that \$81,617 of the surcharges receivable were uncollectible. During 2004 the Trust reached settlement agreements with two former members for \$92,000, which has been reclassified to Contributions Receivable. During 2004 the Trust determined that the remaining surcharges receivable were uncollectible.

11. MANAGEMENT'S PLANS

The Trust at November 30, 2004 and 2003 had member's deficiency (excess of liabilities over assets) of approximately \$3,200,000 and \$5,400,000, respectively. Management of the Trust has undertaken a number of initiatives designed to improve its profitability and reduce the deficit. These initiatives include the following:

- The Trust continues to apply an underwriting and pricing philosophy that focuses on writing profitable new members when applicable. In addition, existing members with loss frequency and severity problems are identified on a continual basis. These members are provided with aggressive loss prevention services, including specific action plans to reduce loss frequency and severity, additional site visits and customized consulting services. In addition, members are implementing return-to-work programs, which reduce ultimate losses at the case level by 25-35%. Accounts who do not respond favorably to these loss reduction and prevention measures are removed from the Trust.
- Claims management tools such as Section 32 settlements, Return-To-Work counseling, transitional work programs and conservative ultimate reserving practices have greatly improved loss results for the Trust. Claim case reserves were reduced during the year through more assertive resolution and closure of claims, as well as continued reduction in claim frequency.

Consistent with regulations governing all group self-insurance trusts, the New York State Workers' Compensation Board has completed a thorough review of the Trust's operations and financial status. Currently, the Trust is considered under funded as it relates to New York State regulations. The Workers' Compensation Board and the Trust have agreed to a written plan containing the above highlighted loss prevention and claims management initiatives, controlled and profitable new growth, and continued responsible financial management policies. These elements are designed to bring the Trust to a fully funded status over a reasonable period of time.

While there can be no assurances that the initiatives and plan of deficit reduction 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 and the plan are designed to eliminate the deficit.

**COMMUNITY RESIDENCE INSURANCE SAVINGS PLAN
 SELF-INSURANCE TRUST FOR WORKERS' COMPENSATION
 SCHEDULES OF EXPENSES
 FOR THE YEARS ENDED NOVEMBER 30, 2004 AND 2003**

	<u>2004</u>	<u>Percent of Income</u>	<u>2003</u>	<u>Percent of Income</u>
Insurance Expense				
Trust reinsurance	\$ 602,974	6.5%	\$ 513,275	7.7%
Surety bond insurance	34,500	0.4%	34,500	0.5%
Directors and officers insurance	41,400	0.5%	36,000	0.5%
Total Insurance	<u>\$ 678,874</u>	<u>7.4%</u>	<u>\$ 583,775</u>	<u>8.7%</u>
General and Administration				
Actuarial services	\$ 20,000	0.2%	\$ 18,750	0.3%
Legal	25,675	0.3%	26,310	0.3%
Accounting and auditing	23,466	0.3%	76,162	1.1%
Loss control service	60,000	0.7%	60,000	0.9%
Workers' compensation audits	36,572	0.4%	32,653	0.5%
Letter of credit expense	20,930	0.2%	20,930	0.3%
Trust and investment administration	40,007	0.4%	37,761	0.6%
Office expense and other	4,409	0.0%	1,767	0.0%
Financing subsidy	-	0.0%	59	0.0%
Trustee fees	8,625	0.1%	10,875	0.2%
Trustee expense	2,140	0.0%	3,693	0.1%
Total General and Administration	<u>\$ 241,824</u>	<u>2.6%</u>	<u>\$ 288,960</u>	<u>4.3%</u>