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**COMMUNITY RESIDENCE INSURANCE SAVINGS PLAN  
SELF-INSURANCE TRUST FOR WORKERS' COMPENSATION  
FINANCIAL REPORT  
NOVEMBER 30, 2005**



**Marvin** and  
company, p.c.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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



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**Marvin and  
company, p.c.**

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

## INDEPENDENT AUDITORS' REPORT

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

Kevin J. McCoy

Thomas W. Donovan

Frank S. Venezia

Mary Ann Racicot

James E. Amell

Carol A. Hausamann

Benjamin R. Lasher

Daniel J. Litz

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, 2005 and 2004, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2005 and 2004, 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.*

March 1, 2006

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**COMMUNITY RESIDENCE INSURANCE SAVINGS PLAN  
 SELF-INSURANCE TRUST FOR WORKERS' COMPENSATION  
 BALANCE SHEETS  
 NOVEMBER 30, 2005 AND 2004**

**ASSETS**

	<u>2005</u>	<u>2004</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,137,766	\$ 683,003
Investments	5,717,181	5,052,617
Accrued interest receivable	22,717	27,625
Contributions receivable	813,686	975,254
Prepaid expenses	154,461	50,630
Deferred tax asset	586,000	-
	\$ 8,431,811	\$ 6,789,129
<b>TOTAL ASSETS</b>	<b>\$ 8,431,811</b>	<b>\$ 6,789,129</b>

**LIABILITIES AND MEMBERS' DEFICIENCY**

<b>Current Liabilities</b>		
Liability for unpaid claims - reserves	\$ 2,835,496	\$ 3,613,593
Liability for incurred but not reported claims	4,940,284	4,697,703
Accounts payable and accrued expenses	22,416	27,197
Liability for Workers' Compensation Board assessment	1,632,914	1,655,700
Total Current Liabilities	9,431,110	9,994,193
<b>Members' Deficiency</b>		
Unreserved	(1,071,398)	(3,291,750)
Accumulated other comprehensive income	72,099	86,686
Total Members' Deficiency	(999,299)	(3,205,064)
<b>TOTAL LIABILITIES AND MEMBERS' DEFICIENCY</b>	<b>\$ 8,431,811</b>	<b>\$ 6,789,129</b>

**COMMUNITY RESIDENCE INSURANCE SAVINGS PLAN  
 SELF-INSURANCE TRUST FOR WORKERS' COMPENSATION  
 STATEMENTS OF OPERATIONS  
 FOR THE YEARS ENDED NOVEMBER 30, 2005 AND 2004**

	<u>2005</u>	<u>Percent of Total Income</u>	<u>2004</u>	<u>Percent of Total Income</u>
<b>Contributions</b>				
Contributions written	\$ 7,856,701		\$ 6,726,238	
Contribution adjustments	331,698		384,380	
Less commissions	<u>(862,903)</u>		<u>(762,699)</u>	
Net Contributions Written	7,325,496		6,347,919	
Change in unearned contributions	-		2,515,809	
Earned Contributions	<u>7,325,496</u>		<u>8,863,728</u>	
<b>Other Income</b>				
Investment income	241,759		208,604	
Realized gain/(loss) on sale of investments	<u>34,370</u>		<u>83,303</u>	
Net Other Income	<u>276,129</u>		<u>291,907</u>	
<b>TOTAL INCOME</b>	<u>7,601,625</u>	<u>100.0%</u>	<u>9,155,635</u>	<u>100.0%</u>
<b>Operating Expenses</b>				
Claims paid	4,217,840	55.5%	4,546,604	49.7%
Claims reserve	(535,517)	-7.0%	321,924	3.5%
Loss adjustment expense	274,704	3.6%	294,376	3.2%
Workers' compensation fund assessment	971,172	12.8%	1,018,573	11.1%
Insurance expense	754,121	9.9%	678,874	7.4%
Provision for doubtful accounts	-	0.0%	75,270	0.8%
General and administrative expense	240,470	3.2%	241,824	2.6%
Interest expense	15,528	0.2%	13,382	0.1%
Total Operating Expenses	<u>5,938,318</u>	<u>78.2%</u>	<u>7,190,827</u>	<u>78.4%</u>
<b>Income from Operations Before Provision for Income Taxes</b>	1,663,307	21.8%	1,964,808	21.6%
Provision for Income Taxes	28,955	0.4%	20,454	0.2%
Deferred Tax Benefit	<u>(586,000)</u>	<u>-7.7%</u>	<u>-</u>	<u>0.0%</u>
<b>NET INCOME</b>	<u>\$ 2,220,352</u>	<u>29.1%</u>	<u>\$ 1,944,354</u>	<u>21.4%</u>

**COMMUNITY RESIDENCE INSURANCE SAVINGS PLAN  
 SELF-INSURANCE TRUST FOR WORKERS' COMPENSATION  
 STATEMENTS OF CHANGES IN MEMBERS' DEFICIENCY  
 FOR THE YEARS ENDED NOVEMBER 30, 2005 AND 2004**

	<u>Members' Deficiency</u>	<u>Accumulated Other Comprehensive (Loss) Income</u>	<u>Total Members' Deficiency</u>
<b>Balance, December 1, 2003</b>	\$ (5,236,104)	\$ 31,593	\$ (5,204,511)
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>
<b>Balance, November 30, 2004</b>	<u>(3,291,750)</u>	<u>86,686</u>	<u>(3,205,064)</u>
Comprehensive Income (Loss):			
Net income	2,220,352	-	2,220,352
Other comprehensive income:			
Unrealized loss on investments arising during the period	-	(22,081)	(22,081)
Reclassification adjustment	-	7,494	7,494
Comprehensive Income	<u>2,220,352</u>	<u>(14,587)</u>	<u>2,205,765</u>
<b>Balance, November 30, 2005</b>	<u>\$ (1,071,398)</u>	<u>\$ 72,099</u>	<u>\$ (999,299)</u>

**COMMUNITY RESIDENCE INSURANCE SAVINGS PLAN  
 SELF-INSURANCE TRUST FOR WORKERS' COMPENSATION  
 STATEMENTS OF CASH FLOWS  
 FOR THE YEARS ENDED NOVEMBER 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 2,220,352	\$ 1,944,354
Adjustments to reconcile net income to net cash provided (used) by operating activities		
Amortization of premium on investments	7,152	17,057
Provision for doubtful accounts	-	69,277
Realized (gain) loss on sale of investments	(34,370)	(83,303)
Original issue discount included in investment income	(10,814)	(10,436)
Deferred taxes	(586,000)	-
(Increase) decrease in assets:		
Accrued interest receivable	4,908	12,094
Contributions receivable	161,568	47,204
Prepaid expenses	(103,831)	(3,624)
Increase (decrease) in liabilities:		
Unearned contributions	-	(2,515,809)
Liability for unpaid claims - reserves	(778,097)	(178,076)
Liability for incurred but not recorded claims	242,581	500,000
Accounts payable and accrued expenses	(4,781)	19,906
Liability for Workers' Compensation Board assessment	(22,786)	133,072
Net Cash Provided (Used) by Operating Activities	<u>1,095,882</u>	<u>(48,284)</u>
<b>Cash Flows From Investing Activities</b>		
Purchase of investments	(6,225,030)	(4,377,873)
Proceeds from sales and maturities of investments	<u>5,583,911</u>	<u>4,403,172</u>
Net Cash Provided (Used) by Investing Activities	<u>(641,119)</u>	<u>25,299</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	454,763	(22,985)
Cash and Cash Equivalents, Beginning of Year	<u>683,003</u>	<u>705,988</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 1,137,766</u>	<u>\$ 683,003</u>
<b>Supplemental Disclosures:</b>		
Interest paid	<u>\$ 15,528</u>	<u>\$ 13,382</u>
Income taxes paid	<u>\$ 19,869</u>	<u>\$ 168</u>

See accompanying notes to financial statements.

**COMMUNITY RESIDENCE INSURANCE SAVINGS PLAN  
SELF-INSURANCE TRUST FOR WORKERS' COMPENSATION  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2005 AND 2004**

**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, 2005, 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 \$8,743,904, 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, 2005 AND 2004**

**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, 2005 and 2004, 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

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 NOTES TO FINANCIAL STATEMENTS  
 NOVEMBER 30, 2005 AND 2004**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Income Taxes***

expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

***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>2005</u>	<u>2004</u>
Cash	\$ 41,914	\$ 9,754
Money market funds	<u>1,095,852</u>	<u>673,249</u>
Total Cash and Cash Equivalents	<u>\$ 1,137,766</u>	<u>\$ 683,003</u>

For the year ended November 30, 2005, 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, 2005 consist of:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Government securities	\$ 4,206,758	\$ 4,095,151	\$ (111,607)
Equity securities	<u>1,438,324</u>	<u>1,622,030</u>	<u>183,706</u>
	<u>\$ 5,645,082</u>	<u>\$ 5,717,181</u>	<u>\$ 72,099</u>

**COMMUNITY RESIDENCE INSURANCE SAVINGS PLAN  
SELF-INSURANCE TRUST FOR WORKERS' COMPENSATION  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2005 AND 2004**

**4. INVESTMENTS**

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>

**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, 2005 and 2004 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, 2005 and 2004, on both a discounted and non-discounted basis. The non-discounted estimate is \$9,255,716 and \$9,786,790 for the years ended November 30, 2005 and 2004, respectively.

On a discounted basis, the estimate is \$7,775,780 and \$8,311,296 for 2005 and 2004, 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>2005</u>	<u>2004</u>
Liability for known claims	\$ 2,835,496	\$ 3,607,646
Liability for incurred but not reported claims	<u>6,420,220</u>	<u>6,179,144</u>
Total Liability for Unpaid Claims	<u>\$ 9,255,716</u>	<u>\$ 9,786,790</u>
Discounted at 5% in 2005 and 2004	<u>\$ 7,775,780</u>	<u>\$ 8,311,296</u>

**COMMUNITY RESIDENCE INSURANCE SAVINGS PLAN  
SELF-INSURANCE TRUST FOR WORKERS' COMPENSATION  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2005 AND 2004**

**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>2005</u>	<u>2004</u>
Current		
Federal	\$ 25,018	\$ 16,183
State	3,937	4,271
Total Current Taxes	<u>28,955</u>	<u>20,454</u>
Deferred		
Provision for Income Taxes	<u>\$ 28,955</u>	<u>\$ 20,454</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>2005</u>	<u>2004</u>
Benefit at federal statutory rate	\$ 546,551	\$ 408,146
Capital losses	11,686	28,323
Change in valuation allowance	(546,551)	(456,830)
Other	17,269	40,815
Provision for Income Taxes	<u>\$ 28,955</u>	<u>\$ 20,454</u>

Beginning December 1, 2005, the Trust has available approximately \$1.7 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>2005</u>	<u>2004</u>
Net operating loss	\$ 586,000	\$ 1,132,613
Deferred Tax Asset	586,000	1,132,613
Less valuation allowance	-	(1,132,613)
Net Deferred Tax Asset	<u>\$ 586,000</u>	<u>\$ -</u>

**COMMUNITY RESIDENCE INSURANCE SAVINGS PLAN  
SELF-INSURANCE TRUST FOR WORKERS' COMPENSATION  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2005 AND 2004**

**6. INCOME TAXES**

***Deferred Tax Assets***

At November 30, 2005 the valuation allowance related to the net operating loss carryforward has been adjusted to reflect the expected realization of future tax benefits. The amount of the change in the allowance is included in the statement of operations. At November 30, 2004 the valuation allowance reduced the deferred tax asset to the amount management believed was 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, 2006. 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 \$275,000 and \$294,000 in loss adjusting expense in 2005 and 2004, respectively to PRM Claim Services, Inc. In addition, the Trust paid approximately \$431,000 and \$381,000 in program administration commissions in 2005 and 2004, to Program Risk Management, Inc., which are included in total commissions paid. PRM Claim Services, Inc. was holding \$41,914 and \$9,754 in 2005 and 2004, 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. 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, 2004.

As of November 30, 2005 one surcharge receivable of \$67,709 remains in contributions receivable and is being paid over time under a settlement agreement.

**COMMUNITY RESIDENCE INSURANCE SAVINGS PLAN  
SELF-INSURANCE TRUST FOR WORKERS' COMPENSATION  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2005 AND 2004**

**11. MANAGEMENT'S PLANS**

The Trust at November 30, 2005 and 2004 had members' deficiency (excess of liabilities over assets) of approximately \$1,000,000 and \$3,200,000, respectively. Management of the Trust has undertaken a number of initiatives designed to improve its profitability and reduce the deficit, thereby cutting the members' deficiency by approximately half during the twelve month period ended November 30, 2005. These initiatives include the following:

- The Trust continues to apply an underwriting and pricing philosophy that focuses on writing profitable new members. 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 designed 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 completed a thorough review of the Trust's operations and financial status in 2004. 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 initiatives are in place 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. At present operational levels, the initiatives and the plan are designed to eliminate the deficit in no more than the next twelve months.

**COMMUNITY RESIDENCE INSURANCE SAVINGS PLAN  
 SELF-INSURANCE TRUST FOR WORKERS' COMPENSATION  
 SCHEDULES OF EXPENSES  
 FOR THE YEARS ENDED NOVEMBER 30, 2005 AND 2004**

	<u>2005</u>	<u>Percent of Income</u>	<u>2004</u>	<u>Percent of Income</u>
<b>Insurance Expense</b>				
Trust reinsurance	\$ 678,221	8.9%	\$ 602,974	6.6%
Surety bond insurance	34,500	0.5%	34,500	0.4%
Directors and officers insurance	41,400	0.5%	41,400	0.5%
Total Insurance	<u>\$ 754,121</u>	<u>9.9%</u>	<u>\$ 678,874</u>	<u>7.4%</u>
<b>General and Administration</b>				
Actuarial services	\$ 20,000	0.3%	\$ 20,000	0.2%
Legal	16,043	0.2%	25,675	0.2%
Accounting and auditing	26,963	0.4%	23,466	0.3%
Loss control service	60,000	0.8%	60,000	0.7%
Workers' compensation audits	34,834	0.5%	36,572	0.4%
Letter of credit expense	20,928	0.3%	20,930	0.2%
Trust and investment administration	43,258	0.6%	40,007	0.4%
Office expense and other	2,815	0.0%	4,409	0.0%
Trustee fees	12,500	0.2%	8,625	0.1%
Trustee expense	3,129	0.0%	2,140	0.0%
Total General and Administration	<u>\$ 240,470</u>	<u>3.3%</u>	<u>\$ 241,824</u>	<u>2.6%</u>