

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

**FINANCIAL STATEMENTS**

**December 31, 2011**

## **INDEPENDENT AUDITORS' REPORT**

New York State Workers' Compensation Board  
Community Residence Insurance Savings Plan Self-Insurance Trust for Workers' Compensation

We have audited the accompanying balance sheet of Community Residence Insurance Savings Plan Self-Insurance Trust for Workers' Compensation (the Trust) as of December 31, 2011, and the related statements of income, changes in members' equity, and cash flows for the year then ended. These financial statements are the responsibility of the New York State Workers' Compensation Board and the Trust's Administrator. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraphs, we conducted our audit 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 audit provides a reasonable basis for our opinion.

We believe contribution revenue recognized prior to January 1, 2011 is not correct. The accounting records required to calculate the difference at December 31, 2010 were not available for our use, and we could not apply other auditing procedures to calculate the deemed difference as of December 31, 2010. The proper calculation of deferred contribution revenue at December 31, 2010 materially affects the determination of the results of operations and cash flows for the year ended December 31, 2011.

Because of the matter discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the results of operations, changes in member's equity, and cash flows for the year ended December 31, 2011.

We could not obtain written representations from current management of the Trust, who did not manage the Trust for the entire year.

As more fully described in Note 1 to the financial statements, the Trust reinsured certain portions of its liability on an individual and aggregate loss basis, which resulted in a corresponding cumulative receivable asset and contra-liability from the reinsurance carriers of \$30,373,849. We could not satisfy ourselves as to the existence and proper valuation of this balance by direct confirmation with the reinsurance carriers or by means of other auditing procedures.

We could not obtain confirmation of the contributions receivable balance totaling \$1,151,912 by direct correspondence with the members. We also could not satisfy ourselves as to the balance by means of other auditing procedures.

The accompanying balance sheet presents reinsurance recoverable as a reduction of unpaid losses and loss adjustment expenses. Accounting principles generally accepted in the United States of America require that reinsurance recoverable be presented as an asset rather than a contra-liability. This presentation departure has no impact on members' equity.

In our opinion, except for such adjustments, if any, as might have been determined to be necessary had the confirmation of contributions and reinsurance receivable and recoverable noted in the sixth and seventh paragraphs been obtained, the written representations referred to in the fifth paragraph been furnished to us by management, and the correction of the presentation departure noted in the eighth paragraph, the balance sheet referred to in the first paragraph presents fairly, in all material respects, the financial position of the Trust as of December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.



November 7, 2012

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

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**Balance Sheet**

December 31, 2011

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**Assets:**

Cash	\$ 2,932,577
Contributions receivable	1,151,912
Second injury fund receivable (Note 3)	390,450
Retention plan receivable	652,610
Reinsurance receivable (Note 1)	1,937,731
Prepaid insurance	101,430
Deferred income taxes	22,158,300
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	\$ 29,325,010

**Liabilities and Members' Equity**

**Liabilities:**

Unpaid losses and loss adjustment expenses:	
Case-basis reserves (Note 4)	\$ 36,950,200
Incurred but not reported (Note 4)	36,716,000
Unallocated loss adjustment expenses (Note 4)	6,627,200
Reinsurance recoverable (Note 1)	(28,436,118)
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	51,857,282
Accounts payable and accrued expenses	4,406,615
Workers' Compensation Board assessments payable - current	284,863
Accrued Workers' Compensation Board assessments	7,440,279
Due to NYS Workers' Compensation Board assessment account funds (Note 5)	1,455,389
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	65,444,428

**Members' equity:**

Accumulated deficit	(36,119,418)
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	\$ 29,325,010

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COMMUNITY RESIDENCE INSURANCE SAVINGS PLAN SELF-INSURANCE TRUST FOR  
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**Statement of Income**

For the year ended December 31, 2011

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Revenues:

Contributions earned	\$ (2,070,431)
Contributions ceded (Note 1)	(41,031)
Assessments	2,516,612
Income from Workers' Compensation Board (Note 6)	2,256,083
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	2,661,233

Investment income	641,888
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	3,303,121

Expenses:

Incurred losses and loss adjustment (Note 4)	34,047,489
Workers' Compensation Board assessments	7,256,856
Collateral surrendered	2,300,000
Other administrative expenses	522,706
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	44,127,051

**Loss before income taxes** (40,823,930)

Provision for income taxes (benefit) (Note 7) 

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 (16,298,800)

**Net loss** 

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 \$ (24,525,130)

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**Statement of Changes in Members' Equity**

For the year ended December 31, 2011

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	<b>Total</b>	Accumulated Deficit	Accumulated Other Comprehensive Income
<b>Balance at January 1, 2011</b>	<b>\$ (11,113,227)</b>	<b>\$ (11,594,288)</b>	<b>\$ 481,061</b>
Net loss	(24,525,130)	(24,525,130)	-
Other comprehensive income:			
Reclassification adjustment for gains included in net loss	(481,061)		(481,061)
Total comprehensive loss	(25,006,191)		
<b>Balance at December 31, 2011</b>	<b>\$ (36,119,418)</b>	<b>\$ (36,119,418)</b>	<b>\$ -</b>

COMMUNITY RESIDENCE INSURANCE SAVINGS PLAN SELF-INSURANCE TRUST FOR  
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**Statement of Cash Flows**

For the year ended December 31, 2011

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**Operating activities:**

Net loss	\$ (24,525,130)
Adjustments to reconcile net loss to net cash flows from operating activities:	
Realized gain on sale of investments	(569,983)
Deferred income taxes	(16,300,300)
Changes in other operating assets and liabilities:	
Contributions, second injury fund, retention plan, and other receivables	(1,119,691)
Reinsurance receivable and recoverable	(27,017,269)
Prepaid expenses	6,986
Unpaid losses and loss adjustment expenses	51,756,820
Accounts payable and accrued expenses	4,214,558
Workers' Compensation Board assessments	7,256,856
Due to NYS Workers' Compensation Board assessment account funds	1,455,389

**Net operating activities** (4,841,764)

**Investing activities:**

Net proceeds from sale of investments	<u>6,725,157</u>
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Net change in cash 1,883,393

Cash - beginning 1,049,184

Cash - ending \$ 2,932,577

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Supplemental cash flows information:

Income taxes paid	<u>\$ 1,750</u>
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COMMUNITY RESIDENCE INSURANCE SAVINGS PLAN SELF-INSURANCE TRUST FOR WORKERS' COMPENSATION

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**Notes to Financial Statements**

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**1. Summary of Significant Accounting Policies:**

**Organization:**

Community Residence Insurance Savings Plan Self-Insurance Trust for Workers' Compensation (the Trust) is a self-insurance trust established in 1995. Its member employers were social service providers in the State of New York. The Trust provided workers' compensation insurance for employees of its members through December 31, 2010. The Trust is not responsible for any claim obligations incurred by its members prior to entering the Trust.

The Trust is currently in run-off status. Payments for future claims and administrative expenses will be made from contributions from the New York State Workers' Compensation Board (the WCB) and advances from the WCB assessment account funds. The WCB will primarily fund its contributions to the Trust from member payments on the November 2011 WCB issued estimated deficit assessment billing, and the final deficit assessment billing to be issued based on forensic accounting procedures.

The Trust is currently administered by NCAComp, Inc., an unrelated organization hired by the WCB to provide third party administrative services. Prior to August 9, 2011, the Trust was administered by Program Risk Management, Inc. In accordance with the Trust agreements, participants may share in profits of the Trust through program dividends, and are responsible for deficits.

Pursuant to title 12 of New York State Codes, Rules and Regulations Section 317.20, the WCB determined the financial stability of the Trust could not be restored in a timely and appropriate manner, and accordingly, on August 9, 2011, initiated steps for the future dissolution of the Trust. The WCB has effectively assumed the responsibility for all administrative duties of the Trust, including the payment of claims for accidents incurred through December 31, 2010. In the event the Trust's assets are inadequate to fund future operations, the WCB is required to fund future remaining claims and related obligations of the Trust.

**Subsequent Events:**

The Trust has evaluated events and transactions for potential recognition or disclosure in the financial statements through November 7, 2012 (the date the financial statements were available to be issued).

In October 2012, the WCB reduced the 50-5 assessment rate charged to insolvent and inactive trusts. This reduction from 10.1% to 5.2% was because the WCB calculated a decrease in the projected cash needs of the 50-5 fund. The change is effective as of October 1, 2012, and is estimated to reduce the accrued WCB assessments balance due as of December 31, 2011 by \$3,610,000. The impact of this change will be reflected in the Trust's financial statements for the year ending December 31, 2012.

**Cash:**

Cash in financial institutions may exceed insured limits at various times during the year and subject the Trust to concentrations of credit risk.

**Investments:**

Investments included "available for sale" common stock and fixed income securities stated at fair value on a recurring basis using quoted prices in active markets. Unrealized holding gains or losses were presented as a separate component of accumulated other comprehensive income. Realized gains and losses on the sale of investments are determined using the specific identification method. Sales proceeds and net realized gains and losses during the year on securities classified as available for sale were:

Sales proceeds	<u>\$ 6,725,157</u>
Net realized gains	<u>\$ 569,983</u>

### **Contributions Receivable:**

Contributions receivable represent amounts applicable to periods through December 31, 2010, and will be incorporated into the deficit assessment billings to the members. Contributions are written off when they are determined to be uncollectible. The allowance for doubtful accounts is estimated based on the WCB's ability to enforce and pursue collection. The WCB believes no allowance for doubtful accounts is necessary at December 31, 2011.

### **Unpaid Losses and Loss Adjustment Expense:**

Unpaid losses and loss adjustment expenses represent estimates of ultimate future payments to be made to settle all insurance claims for reported losses and estimates of incurred but not reported losses including both allocated and unallocated loss adjustment expenses. These unpaid losses have been determined in consultation with independent consulting actuaries and are based on industry experience and trends. However, such estimates may be more or less than the amount ultimately paid when the claims are settled. Changes in the estimated liability are charged or credited to operations as the estimates are revised.

Management believes the liability for unpaid losses and loss adjustment expense is adequate to cover the ultimate cost of claims incurred through December 31, 2010.

Litigation costs with respect to claims arising from insurance coverages are considered in establishing the estimated liability for unpaid losses and loss adjustment expenses.

### **Reinsurance:**

The Trust reinsured certain portions of its liability to limit the amount of individual losses. The liability of the Trust is limited on an individual loss basis to the first \$500,000 per occurrence for accidents occurring from December 1, 2003 through December 31, 2010. For accidents occurring from December 1, 2002 through November 30, 2003, the self-insurance retention was \$400,000 per occurrence. For accidents occurring from December 1, 2001 through November 30, 2002, the self-insurance retention was \$300,000 per occurrence. For accidents occurring from December 15, 1995 through November 30, 2001, the self-insurance retention was \$250,000 per occurrence.

The Trust also reinsured certain portions of its liability to limit the amount of aggregate losses per policy year. The liability of the Trust is limited on an aggregate loss basis from December 15, 1995 through November 30, 2008 based on a percentage of total annual members' covered payroll (aggregate retention). Aggregate losses that exceed the aggregate retention are insured for \$5,000,000 for accidents occurring December 1, 2001 through November 30, 2008, unlimited (statutory) amount for accidents occurring December 1, 1999 through November 30, 2001, \$2,000,000 for accidents occurring December 1, 1998 through November 30, 1999, and \$1,000,000 for accidents occurring December 15, 1995 through November 30, 1998.

Insurance ceded by the Trust does not relieve the Trust of its primary liability for claims. Accordingly, a contingent liability exists with respect to reinsurance which would become an actual liability in the event the reinsuring company might be unable to meet its obligations to the Trust under existing reinsurance agreements.

For the year ended December 31, 2011, contributions earned were reduced by \$41,031 for amounts ceded to the reinsurer. At December 31, 2011, the liability for unpaid losses and loss adjustment expenses was not reduced as a result of insurance ceded.

Recoverable incurred losses and loss adjustment expenses under the reinsurance contracts not yet paid by the Trust totaled \$28,436,118. This amount is presented as a reduction of unpaid losses and loss adjustment expenses on the accompanying balance sheet. Recoverable incurred losses and loss adjustment expenses under the reinsurance contracts that have been paid out by the Trust totaled \$1,937,731. This amount is presented as an asset on the accompanying balance sheet.

### **Workers' Compensation Board Assessments:**

In April 2011, the New York State Governor enacted legislation that reduced WCB assessments due from insolvent and inactive trusts. Specifically, the new legislation eliminated assessments for 151, 15-8, 25-A and IDP for periods subsequent to December 31, 2010. However, the amendments to the law did not eliminate the self insurance assessment pursuant to Section 50-5 of the Workers' Compensation Law.

Therefore, the Trust has calculated the WCB assessment liability at 10.1% of the estimated loss and allocated loss adjustment expenses as of December 31, 2011 in addition to unbilled amounts the Trust owes through December 31, 2011.

This liability is comprised of two components on the accompanying balance sheet: Workers' Compensation Board assessments payable – current (liability related to activity subsequent to the 2010 assessment cycle) and accrued Workers' Compensation Board assessments.

### Income Taxes:

The Trust provides currently for income taxes applicable to all items included in the financial statements, regardless of when such taxes are payable. Deferred assets and liabilities are recognized for the expected future tax consequences of temporary differences between the tax and financial statement bases of assets and liabilities. Temporary differences arise from using different methods of accounting for New York State Workers' Compensation Board assessments and incurred losses and loss adjustment expenses. Additionally, the Trust recognizes future tax benefits of net operating loss carryforwards to the extent that realization of such benefits is more likely than not. The Trust believes it is no longer subject to examination by Federal and State taxing authorities for years prior to fiscal year ended November 30, 2009.

### Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

## 2. Deficit Assessment Billings:

During November 2011, the WCB issued estimated deficit assessments to all members totaling \$17,737,000. Forensic accounting procedures are being performed by an outside party to determine the actual deficit and allocation to each member. When the forensic accounting procedures are completed, a new deficit assessment will be issued by the WCB to all members to replace the estimated billing. As further discussed in Note 6, funds received from the WCB on its deficit assessment billing are recorded as income from the WCB when received from the WCB.

## 3. Second Injury Fund Receivable:

When an eligible claim is approved under New York State's second injury fund (Section 15-8), the Trust is reimbursed for additional losses for previously injured employees. At December 31, 2011, amounts submitted for reimbursement and yet to be repaid by New York State to the Trust on paid losses eligible for reimbursement under the second injury fund totaled \$390,450.

## 4. Unpaid Losses and Loss Adjustment Expenses:

Balance - beginning of year	\$ 28,536,580
Less reinsurance recoverables	3,356,580
Net balance - beginning of year	<u>25,180,000</u>
Incurred related to:	
Current year	-
Prior years	34,047,489
	<u>34,047,489</u>
Net paid related to:	
Current year	-
Prior years	(9,307,938)
	<u>(9,307,938)</u>
Net balance - end of year	49,919,551
Add reinsurance recoverables	30,373,849
Balance - end of year	<u>\$ 80,293,400</u>

The case-basis reserves, incurred but not reported, and unallocated loss adjustment expenses components of unpaid losses and loss adjustment expenses are:

Case-basis reserves	\$ 36,950,200
Incurred but not reported	36,716,000
Unallocated loss adjustment expenses	6,627,200
	<u>\$ 80,293,400</u>

Net paid consists of:	
Total paid during the year	\$ 9,307,938
Less proceeds received on reinsurance claims	-
	<u>\$ 9,307,938</u>

## 5. Due to NYS Workers' Compensation Board Assessment Account Funds:

Group and individual self-insurers pay assessments into WCB assessment account funds. Through December 31, 2011, the Trust received advances from WCB assessment account funds. These amounts will be paid back from future revenue received from the WCB.

## 6. Income from Workers' Compensation Board:

Funds the Trust receives from the WCB which came from a security deposit the WCB received from a surety bond, and collections on the WCB issued deficit assessment billings are recognized as contribution income from the WCB.

## 7. Income Taxes:

Current provision:	
State	<u>\$ 1,500</u>
Deferred provision (benefit):	
Federal	<u>(13,294,900)</u>
State	<u>(3,005,400)</u>
	<u>(16,300,300)</u>
	<u>\$ (16,298,800)</u>

The Trust's effective tax rate varies from the statutory federal tax rate primarily as a result of graduated tax rates and state taxes net of federal benefits.

Deferred income taxes on the balance sheet at December 31, 2011 consist entirely of assets.

At December 31, 2011, the Trust has approximately \$48,221,000 of federal and \$48,522,000 of state net operating loss carryforwards for income tax reporting purposes. These carryforwards may be used to offset future taxable income, and expire in varying amounts through 2031.

A valuation allowance has not been recorded against the deferred tax asset since management believes the Trust will generate sufficient taxable income in the future to realize all the recorded benefit of the deferred tax asset. Future taxable income will primarily result from income from the WCB sufficient to pay down all Trust liabilities. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period were reduced.

## 8. Contingencies:

The Trust provided employer liability insurance to its members. At December 31, 2011, the Trust is not aware of any asserted or pending claims against any of its members.