

THE NEW YORK HEALTH CARE FACILITIES
WORKERS' COMPENSATION TRUST

FINANCIAL STATEMENTS

DECEMBER 31, 2002

RECEIVED
WORKERS' COMPENSATION BOARD
APR 29 2003
SELF INSURANCE OFFICE

THE NEW YORK HEALTH CARE FACILITIES
WORKERS' COMPENSATION TRUST

TABLE OF CONTENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

	<u>Page</u>
Independent Auditors' Report	1-2
Balance Sheets	3
Statements of Operations and Members' Deficit	4
Statements of Cash Flows	5
Notes to Financial Statements	6-16
Independent Auditors' Report on Supplementary Information	17
Supplementary Information	18-20

BERENSON & COMPANY LLP

CERTIFIED PUBLIC ACCOUNTANTS

135 WEST 50TH STREET
NEW YORK, NY 10020
(212) 977-6800

INDEPENDENT AUDITORS' REPORT

Board of Trustees
The New York Health Care Facilities
Workers' Compensation Trust
New York, NY

We have audited the accompanying balance sheets of The New York Health Care Facilities Workers' Compensation Trust as of December 31, 2002 and 2001, and the related statements of operations and members' deficit 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 respects, the financial position of The New York Health Care Facilities Workers' Compensation Trust as of December 31, 2002 and 2001, 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.

The accompanying financial statements have been prepared assuming that the Trust will continue as a going concern. As discussed in note 13 to the financial statements, the Trust has suffered recurring losses from operations and has a net capital deficiency that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in note 13. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Berenson LLP

New York, NY
April 2, 2004

THE NEW YORK HEALTH CARE FACILITIES
WORKERS' COMPENSATION TRUST

BALANCE SHEETS

ASSETS	December 31,	
	2002	2001
Cash and cash equivalents	\$1,149,937	\$5,794,168
Investments (notes 3 and 10c)	5,629,473	-
Contributions receivable, net of allowance for doubtful accounts of \$30,000; \$-0-2001	1,324,258	919,869
Prepaid expenses and other assets	101,465	105,616
Deposit, claims fund	200,000	-
Deferred commission costs	108,132	81,042
Deferred program administration	235,137	189,505
	\$8,748,402	\$7,090,200
LIABILITIES AND MEMBERS' DEFICIENCY		
Liabilities:		
Unearned contributions (note 4)	\$1,844,496	\$1,540,690
Reserves for losses and loss adjustment expenses (note 6)	9,367,254	5,085,042
Program administration fee payable	455,145	388,593
Commissions payable	56,735	83,177
Claims and loss adjustment expenses payable	846,973	498,368
Accrued expenses and other current liabilities	743,172	137,236
	13,313,775	7,733,106
Contingencies		
Members' deficiency:		
Members' deficit	(4,793,459)	(642,906)
Accumulated other comprehensive income (note 13)	228,086	-
	(4,565,373)	(642,906)
	\$8,748,402	\$7,090,200

The accompanying notes are an integral part of the financial statements.

THE NEW YORK HEALTH CARE FACILITIES
WORKERS' COMPENSATION TRUST

STATEMENTS OF OPERATIONS AND MEMBERS' DEFICIT

	Years ended December 31,	
	<u>2002</u>	<u>2001</u>
Contributions written	\$ 6,019,388	\$5,808,940
Change in unearned contributions	<u>(303,806)</u>	<u>(276,276)</u>
Contributions earned	<u>5,715,582</u>	<u>5,532,664</u>
Losses and loss adjustment expenses	8,302,417	4,115,356
Reinsurance premium	347,568	291,292
Other underwriting expenses	<u>1,027,651</u>	<u>999,948</u>
Total underwriting expenses	<u>9,677,636</u>	<u>5,406,596</u>
Net underwriting gain (loss)	<u>(3,962,054)</u>	<u>126,068</u>
Other income (expense):		
Investment income	191,384	133,068
Net realized gains and losses	13,339	-
General and administrative expenses	<u>(393,222)</u>	<u>(245,918)</u>
	<u>(188,499)</u>	<u>(112,850)</u>
Net income (loss)	(4,150,553)	13,218
Members' deficit, beginning of year	<u>(642,906)</u>	<u>(656,124)</u>
Members' deficit, end of year	<u><u>\$(4,793,459)</u></u>	<u><u>\$ (642,906)</u></u>

The accompanying notes are an integral part of the financial statements.

THE NEW YORK HEALTH CARE FACILITIES
WORKERS' COMPENSATION TRUST

STATEMENTS OF CASH FLOWS

	Years ended December 31,	
	2002	2001
Cash flows from operating activities:		
Members' cash contributions	\$6,261,352	\$5,297,858
Interest received	128,549	28,477
Loss and loss adjustment expenses paid	(3,671,600)	(2,216,374)
Commissions paid	(398,913)	(281,716)
Program administration fees paid	(661,350)	(576,623)
Reinsurance cost	(394,383)	(204,787)
Deposit, claim fund	(200,000)	-
General and administrative expenses paid	(347,134)	(316,088)
Net cash provided by operating activities	<u>716,521</u>	<u>1,730,747</u>
Cash flows from investing activities:		
Cost of investments acquired	(6,379,822)	(17,075,298)
Proceeds from investments sold	1,019,070	20,200,000
Net cash provided (used) by investing activities	<u>(5,360,752)</u>	<u>3,124,702</u>
Net increase (decrease) in cash and cash equivalents	(4,644,231)	4,855,449
Cash and cash equivalents, beginning of year	<u>5,794,168</u>	<u>938,719</u>
Cash and cash equivalents, end of year	<u>\$1,149,937</u>	<u>\$5,794,168</u>

The accompanying notes are an integral part of the financial statements.

THE NEW YORK HEALTH CARE FACILITIES
WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

1. Organization and description of Trust:

The New York Health Care Facilities Workers' Compensation Trust (the "Trust") is a not-for-profit association of employers in the health care industry. The Trust is under the jurisdiction of the New York State Workers' Compensation Board which granted approval for the Trust to begin accepting members on July 1, 1997. The Trust was created, to make available a self-insured workers' compensation program for employers in the health care industry. The Trust provides a cost-effective market in which health care facilities in New York State may obtain workers' compensation as well as specialized claims services. The Trust is the first workers' compensation program in New York State to use a Preferred Provider Organization and case management. This provides medical care that is more closely supervised and return to work programs that are enhanced due to trained occupational therapists. Program administrators under the jurisdiction of the New York Workers' Compensation Board manage the Trust.

2. Summary of significant accounting policies:

The Trust operates in conformity with the New York Workers' Compensation Law, Section 50, Subdivision 3-a Part 317 – Group Self-Insurance. The accompanying financial statements have been prepared in accordance with generally accepted accounting principles. The significant accounting policies of the Trust are as follows:

a. Investments:

The Trusts investments are segregated into either one of the following categories: held to maturity or available-for-sale. Debt securities may be designated as held to maturity only if the Trust has the specific intent and ability to hold these securities to maturity. The Trust may not classify a security as held to maturity if it has the intent to hold the security only for an indefinite period. The Trust classified all debt securities as available-for-sale at December 31, 2002. Available-for-sale securities are carried at their fair values and held-to-maturity are carried at amortized cost. Changes in unrealized gains and losses from investments in available-for-sale securities are reflected as a separate component of accumulated other comprehensive income.

THE NEW YORK HEALTH CARE FACILITIES
WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

2. Summary of significant accounting policies: (Continued)

a. Investments: (Continued)

Premiums and discounts are amortized over the life of the respective bonds. The fair value of debt securities is determined by dealer quotations. Realized gains or losses on the sale of investments are reflected in results of operations. Realized investment gains and losses are calculated on the basis of specific identification.

b. Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management reevaluates its assumptions and the method of calculating its estimates. Actual results could differ from those estimates.

c. Cash and cash equivalents, certificate of deposit:

The Trust maintains its cash and cash equivalents and certificate of deposit accounts at Citibank, N.A. and UBS Paine Webber, Inc. The Federal Deposit Insurance Corporation (FDIC) insures the balances up to \$100,000.

The Trust considers all short-term investments with an original maturity of three months or less to be cash equivalents.

THE NEW YORK HEALTH CARE FACILITIES
WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

2. Summary of significant accounting policies: (Continued)

d. Contributions:

Contributions are recorded based on the estimated payroll of the participating members. The Trust provides for contribution adjustments to its-policyholders based upon actual payroll information. Contributions are calculated by applying rates promulgated by the New York Compensation Insurance Rating Board to the payroll of each member. The Trust audits the payroll records of its members and has billed members for the difference between actual contributions and contributions based on audited payrolls of the members. Included in contributions written as of December 31, 2002 and 2001, is approximately \$333,000 and \$716,000, respectively, of contributions relating to these audits.

Contributions from members are considered short-duration contracts and are recognized as income over the period of the contract.

e. Loss and loss adjustment expenses:

The claims reserve liability includes amounts for reported losses, incurred but not reported losses, allocated and unallocated loss adjustment expenses and mandatory required New York State assessments under the workers' compensation laws. The liability is based on estimates made by the Trust claims payer, Specialty Risk Services, Inc. (a wholly-owned subsidiary of The Hartford Casualty Insurance Company) (Network Adjusters Inc. prior to July 31, 2002), and the opinion of consulting actuaries Milliman USA ("Milliman") with input from Trust management. Such liabilities are based on estimates, and while management believes that the amounts recorded are adequate, the ultimate liability may vary from the estimated amounts in these financial statements. The methods of making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in operations in the year of the change. The liability is reflected in the financial statements on a discounted basis based upon the payout by year projected for the claims (note 6).

THE NEW YORK HEALTH CARE FACILITIES
WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

2. Summary of significant accounting policies: (Continued)

f. Income taxes:

The Trust is applying for tax exempt status under Section 501(c)(3) of the Internal Revenue Code.

g. Deferred commission costs and program administration fees:

Commission costs and program administration fees are recorded based on the written contributions and are amortized over the period of the underlying contract.

h. Concentration of credit risk:

Financial instruments that potentially subject the Trust to concentration of credit risk are primarily cash and cash equivalents, investments, and premiums receivable. Cash equivalents include investments in money market securities. Investments are diversified through the use of money managers at UBS Paine Webber who employ different investment strategies. At December 31, 2002, the outstanding contributions receivable balance is generally diversified due to the number of entities composing the Trust's participants' base. To reduce credit risk, the Trust performs ongoing evaluations of its participants' financial condition and establishes reserves for amounts deemed uncollectible.

i. Assessments:

Liabilities for assessments, required under New York State Workers Compensation laws, are included in reserve for losses and loss adjustment expenses.

THE NEW YORK HEALTH CARE FACILITIES
WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

3. Investments:

Accumulated other comprehensive income for the year ended December 31, 2002 includes a net unrealized holding gain on available-for-sale securities of \$228,086, comprised of the following:

	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value
U.S. Government securities	\$3,851,793	\$207,033	\$(1,297)	\$4,057,529
Certificates of deposit	1,549,594	23,417	(1,067)	1,571,944
	<u>\$5,401,387</u>	<u>\$230,450</u>	<u>\$(2,364)</u>	<u>\$5,629,473</u>

A summary of the amortized cost and fair value of the Trust's investments in debt securities at December 31, 2002, by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or repayment penalties.

	Amortized cost	Fair value
Due in one year or less	\$ 157,478	\$ 157,503
Due after one through five years	1,370,335	1,408,045
Due after five through ten years	2,786,342	2,948,694
Due after ten years	1,087,232	1,115,231
	<u>\$5,401,387</u>	<u>\$5,629,473</u>

Proceeds from the sale of investments during 2002 and 2001 were \$1,019,070 and \$20,200,000, respectively.

THE NEW YORK HEALTH CARE FACILITIES
WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

3. Investments: (Continued)

Realized gains and losses:

The table below summarizes gross realized gains and losses for the year ended December 31, 2002:

	<u>Gross gains on sales</u>	<u>Gross losses on sales</u>
U.S. Government	\$14,102	\$763

4. Unearned contributions:

Member contributions are billed in advance and over the respective coverage periods. The unearned portion of these contributions is recorded as a liability in the accompanying balance sheets.

5. Joint and several liability:

In the event that trust funds, including reinsurance, are not sufficient to cover operating costs, the Trust's members could be assessed additional contributions proportionate to the period of their membership to support its continued operations. Also, in the event a member, or former member, is unable to pay their respective obligation, the Trust would be responsible for satisfying all obligations of that member by assessing the other members:

THE NEW YORK HEALTH CARE FACILITIES
WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

6. Reserve for losses and loss adjustment expenses:

The reserve for losses and loss adjustment expenses have been reported in the accompanying financial statements on a discounted basis using a discount rate of 5%.

The liability in the accompanying financial statements include amounts for reported losses and incurred but not reported losses and is comprised as follows:

	Undiscounted		Discounted	
	2002	2001	2002	2001
Indemnity losses	\$ 5,311,460	\$3,097,129	\$4,662,651	\$2,118,124
Medical losses	2,035,526	1,925,416	1,833,877	1,251,912
Loss adjustment expenses:				
Allocated	682,843	637,599	604,808	589,369
Unallocated	416,121	365,989	368,555	336,799
Assessments	2,469,402	1,904,044	2,081,709	1,637,657
	<u>10,915,352</u>	<u>7,930,177</u>	<u>9,551,600</u>	<u>5,933,861</u>
Less: recoverable under specific excess insurance	263,216	2,134,870	184,346	848,819
Total	<u>\$10,652,136</u>	<u>\$5,795,307</u>	<u>\$9,367,254</u>	<u>\$5,085,042</u>

Assessments include amounts due to New York State for ultimate indemnity losses including those losses both paid and reserved.

The Trust's direct ultimate claim liability for the years ended December 31, 2002 and 2001, has been reduced by amounts recoverable under a specific excess insurance policy (note 8).

THE NEW YORK HEALTH CARE FACILITIES
WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

6. Reserve for losses and loss adjustment expenses: (Continued)

Activity in the liability for unpaid claims and claim adjustment expenses is summarized as follows:

	2002	2001
Balance at January 1	\$6,432,229	\$4,848,040
Less: reinsurance recovered and recoverable	848,819	839,312
	<u>5,583,410</u>	<u>4,008,728</u>
Incurred related to:		
Current year	3,694,082	1,781,548
Prior year	4,608,335	2,333,808
	<u>8,302,417</u>	<u>4,115,356</u>
Total incurred		
Paid related to:		
Current year	793,963	597,932
Prior year	2,877,637	1,942,742
	<u>3,671,600</u>	<u>2,540,674</u>
Total paid		
Net balance at December 31,	10,214,227	5,583,410
Plus reinsurance recoverable	184,346	848,819
	<u>10,398,573</u>	<u>\$6,432,229</u>
Balance at December 31,		

7. Contracted services:

The Trust pays a management fee to an unrelated party, The Hamilton Wharton Group, Inc., for administration services equal to 12.3% of member contributions. The Hamilton Wharton Group, Inc. provides underwriting and coordination between the Trust and investment advisors, actuaries, and insurance brokers and in addition provides all administrative services including office space, telephone, copying, faxing, postage and shipping, computer and software programs, marketing and promotion, and conference attendance. Program administration fee expense for the years ending December 31, 2002 and 2001 were approximately \$682,000 and \$681,000, respectively, and are included in other underwriting expenses.

THE NEW YORK HEALTH CARE FACILITIES
WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

7. Contracted services: (Continued)

The Trust has also contracted with two unrelated parties, Milliman USA, Inc., for actuarial consulting, and Specialty Risk Services, Inc., a wholly-owned subsidiary of the Hartford Casualty Insurance Company for claims administration and loss control (Network Adjusters Inc. prior to July 31, 2002).

8. Reinsurance:

The Trust is covered under a specific excess insurance policy written by The Hartford Casualty Insurance Company (A.M. Best rating: A+) that will pay all workers' compensation claims greater than \$350,000 (\$250,000 prior to July 1, 2002). The Trust also has excess aggregate insurance with The Hartford which will pay an additional \$5,000,000 in claims after the Trust has paid \$13,000,000 in the contract period.

Reinsurance does not discharge or diminish the primary liability of the Trust; however it does permit recovery of losses on such risks from the reinsurer. A liability could exist with respect to such recoveries in the event the reinsurer was unable to meet their obligations.

9. Surety Bond:

The Trust, as required by New York State, maintained a \$550,000 Surety Bond with Frontier Insurance Company to be used to pay any outstanding claims in the event the Trust is unable to pay its claim liabilities. This surety bond was replaced on July 29, 2002, with a Letter of Credit issued by Citibank, N.A. (note 10).

10. Contingencies:

a. Loss contingency:

During 2001 the Trust terminated its relationship with its third party claims administrator ("TPA"). As of December 31, 2002, there were disputed amounts due to this TPA approximating \$900,000. Of this amount, the Trust has accrued approximately \$200,000 which management believes is a reasonable estimate of the actual amount due.

THE NEW YORK HEALTH CARE FACILITIES
WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

10. Contingencies: (Continued)

b. Contribution receivable:

During 2002 the Trust assessed one of its former members approximately \$808,000 in audit premiums resulting from audits performed on contract years 1997 through 2001. The Trust has elected not to recognize any of this income due to the uncertainty of its collectibility.

c. Letter of Credit:

As of December 31, 2002 the Company was contingently liable for a stand-by letter of credit of \$624,000 that is collateralized by a certificate of deposit held with Citibank.

11. Funding requirements:

The Trust is governed under the rules and regulations of the State of New York Workers' Compensation Board governing group self insurance Trusts. Under these rules and regulations, the Trust is required to maintain a required level of net assets. Trust assets for purposes of this computation are defined in the current regulations. As of December 31, 2002 and 2001 the Trust did not meet this requirement (note 14).

12. Dividend restriction:

The Trust is subject to regulatory restrictions, applicable to self insured trusts, imposed by the State of New York Workers' Compensation Board, which limit the amount of cash dividends or distributions that it may pay. The Trust did not pay any dividends in 2002 and 2001.

THE NEW YORK HEALTH CARE FACILITIES
WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

13. Other comprehensive income:

As of December 31, 2002, comprehensive loss and other comprehensive income consisted of the following:

Net loss	\$(4,150,553)
Other comprehensive income:	
Unrealized gain arising in current year	<u>228,086</u>
Comprehensive loss	<u>\$(3,922,467)</u>

14. Going concern:

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplates continuation of the Trust as a going concern. However, the Trust has sustained substantial operating losses in recent years. Further, at December 31, 2002, total liabilities exceed total assets by \$4,565,373. As a result of the Trust's capital deficiency, the Trust is deemed to be under-funded. The New York State Workers' Compensation Board will make a determination whether the financial stability of the Trust can be restored in a timely and appropriate manner.

In view of these matters, continued operations of the Trust is dependent upon the Workers' Compensation Board's acceptance of its course of action, and the success of its future operations. Management believes that actions presently being taken to revise the Trust's operations provide the opportunity for the Trust to continue as a going concern and achieve a fully funded status.

THE NEW YORK HEALTH CARE FACILITIES
WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003, 2002 AND 2001

8. Reinsurance: (Continued)

Reinsurance does not discharge or diminish the primary liability of the Trust; however it does permit recovery of losses on such risks from the reinsurer. A liability could exist with respect to such recoveries in the event the reinsurer was unable to meet their obligations.

9. Contingencies:

a. Loss contingency:

- During 2001 the Trust terminated its relationship with its third party claims administrator ("TPA"). As of December 31, 2003, there were disputed amounts due to this TPA approximating \$900,000. During 2003, this TPA filed a lawsuit against the Trust alleging damages of approximately \$917,000 plus accrued interest. The Trust has accrued approximately \$200,000 which management believes is a reasonable estimate of the actual amount due.
- The New York Workers' Compensation Board seeks penalties from the Trust of approximately \$182,000 alleging untimely payments and violations of the Workers' Compensation Board regulations. The Trust and its legal counsel are vigorously disputing these allegations. The accompanying financial statements do not include any adjustment that may arise from the outcome of this dispute.

b. Letter of Credit:

As of December 31, 2003 the Trust was contingently liable for a stand-by letter of credit of \$624,000 that is collateralized by a certificate of deposit held with Citibank. This letter of credit is made out to the Chair of the Worker's Compensation Board and fulfills the deposit requirements established by the Worker's Compensation Board. The Workers' Compensation Board deposit is in accordance with the New York State Workers' Compensation Law, which requires the maintenance of a deposit by each group self-insurer in an aggregate amount as determined by the Chair of the Workers' Compensation Board. Under regulatory guidelines, the \$624,000 certificate of deposit is not admitted as a regulatory asset. (See Footnote 10 Regulatory Requirements.)

THE NEW YORK HEALTH CARE FACILITIES
WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003, 2002 AND 2001

10. Regulatory requirements:

a. Regulatory Funding requirements:

The Trust is governed under the rules and regulations of the State of New York Workers' Compensation Board, Self-Insurance Office. The Workers' Compensation Board determines the regulatory funding requirements through a quantitative measure of certain trust assets and liabilities.

Admitted assets under regulatory funding requirements include only cash, cash equivalents, certain short-term investments and accounts receivable collected through March 31. All other assets allowable under Generally Accepted Accounting Principles (GAAP) are not acceptable under regulatory funding requirements.

All liabilities are admitted under regulatory funding requirements. As illustrated in the chart in section (b), the following liabilities are admitted although the corresponding asset base is excluded under regulatory funding requirements:

Trust members pay their contributions in monthly installments, and as such, certain December 31 balances are not scheduled to be paid until after March 31st. These contributions, along with any other contributions not collected by March 31st, are excluded as assets under regulatory funding requirements; however, the accrued broker commissions and program administration fees resulting from these excluded contribution receivables are fully included under regulatory funding requirements.

Unearned contributions are fully recognized as liabilities by regulatory funding requirements while any of these unearned contributions not collected by March 31st are excluded as assets under the same regulatory funding requirements.

Deferred broker commissions and program administration fees, included in unearned contributions, are not recognized as assets under regulatory funding requirements.

THE NEW YORK HEALTH CARE FACILITIES
WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003, 2002 AND 2001

10. Regulatory requirements: (Continued)

a. Regulatory Funding requirements: (Continued)

While the reserve for claims arising in the future is fully recognized as a regulatory liability, the corresponding claims fund deposit with the third part administrator which is available to pay any funding shortages is not recognized as a regulatory asset under regulatory funding requirements.

As of December 31, 2003, 2002 and 2001 the Trust did not meet the regulatory funding requirement of the Workers' Compensation Board (See Footnote 13 regarding management's plan to restore the Trust to a fully-funded status).

b. Calculation of regulatory assets:

Regulatory assets, as defined by the Workers' Compensation Board as of December 31, 2003, 2002 and 2001 were as follows:

	2003	2002	2001
Cash and cash equivalents	\$ 635,234	\$1,149,937	\$5,794,168
Acceptable investments	6,331,570	5,629,473	-
Accrued investment income	39,284	35,539	-
Accounts receivable collected through March 31, 2003	476,585	697,795	616,475
	<u>7,482,673</u>	<u>7,512,744</u>	<u>6,410,643</u>
Less: collateralized certificate of deposit	(624,000)	(624,000)	(550,000)
	<u>\$6,858,673</u>	<u>\$6,888,744</u>	<u>\$5,860,643</u>
Regulatory assets/trust liabilities	<u>33.7%</u>	<u>51.7%</u>	<u>75.8%</u>

THE NEW YORK HEALTH CARE FACILITIES
WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003, 2002 AND 2001

10. Regulatory requirements: (Continued)

b. Calculation of regulatory assets: (Continued)

Assets not recognized by the Workers' Compensation Board as regulatory assets as of December 31, 2003, 2002 and 2001 were as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Collateralized certificate of deposit	\$ 624,000	\$ 624,000	\$ 550,000
Prepaid expenses and other assets	82,405	65,926	105,616
Claims Fund on deposit to pay claims	475,000	200,000	-
Deferred commission cost	125,452	108,132	81,042
Deferred program administration fees	279,080	235,137	189,505
Contributions receivable not collected by March 31 st of the following year	<u>431,924</u>	<u>626,463</u>	<u>303,394</u>
Total assets not recognized as regulatory assets	2,017,861	1,859,658	1,229,557
Regulatory assets	<u>6,858,673</u>	<u>6,888,744</u>	<u>5,860,643</u>
Total assets	<u>\$8,876,534</u>	<u>\$8,748,402</u>	<u>\$7,090,200</u>
Total assets/total liabilities	<u>43.6%</u>	<u>65.7%</u>	<u>91.7%</u>

11. Dividend restriction:

The Trust is subject to regulatory restrictions, applicable to self insured trusts, imposed by the State of New York Workers' Compensation Board, which limit the amount of cash dividends or distributions that it may pay. The Trust did not pay any dividends in 2003, 2002 or 2001.

THE NEW YORK HEALTH CARE FACILITIES
WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003, 2002 AND 2001

12. Other comprehensive loss:

As of December 31, 2003 2002 and 2001, comprehensive income (loss) and other comprehensive income (loss) consisted of the following:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Net income (loss)	\$(6,779,076)	\$(4,150,553)	\$13,218
Other comprehensive income (loss):			
Change in unrealized gain	(211,966)	96,060	-
Reclassification adjustment for amounts included in net loss	<u>79,940</u>	<u>-</u>	<u>-</u>
Comprehensive income (loss)	<u>\$(6,911,102)</u>	<u>\$(4,054,493)</u>	<u>\$13,218</u>

13. Going concern:

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplates continuation of the Trust as a going concern. However, the Trust has sustained substantial operating losses in recent years. Further, at December 31, 2003, total liabilities exceed total assets by \$11,476,475. As a result of the Trust's capital deficiency, the Trust is deemed to be under-funded. The New York State Workers' Compensation Board will make a determination whether the financial stability of the Trust can be restored in a timely and appropriate manner. In view of these matters, continued operations of the Trust is dependent upon the Workers' Compensation Board's acceptance of its course of action, and the success of its future operations.

At the end of 2001, the Trust had adequate cash for its liabilities, a net underwriting gain and a net profit for the year.

At the end of 2002, the Trust contributions increased, yet changes in the actuarial assumptions based on 2002 losses incurred caused the claim reserve liabilities to increase from \$5.2 million to \$9.4 million. Accordingly, the Trust suffered a net loss in excess of \$4 million.

THE NEW YORK HEALTH CARE FACILITIES
WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003, 2002 AND 2001

13. Going concern: (Continued)

After contacting the Workers' Compensation Board about the 2002 net loss, management developed an initial course of action to fund the deficit. Management believed that its effort to maintain profitable pricing for member renewals would produce additional written annual contribution that would result in the elimination of the Trust's deficit within three years. During 2003 management succeeded in writing an additional \$1.6 million in contribution from existing members. Management will continue its efforts to maintain profitable pricing for member renewals.

In response to the large unexpected increase in claim reserves from 2001 to 2002, management contracted the claims consulting division of Milliman USA to review the data from previous TPAs. By the end of 2003, most of this data had been satisfactorily reviewed and restated. As a result of this review, management contracted Milliman USA to create a more extensive remediation plan.

During 2003, the Trust underwent the Worker's Compensation Board's required tri-annual review with the Board's appointed consultants, PricewaterhouseCoopers, LLC. The results of the tri-annual review were not available to the Trust in time to be included in the accompanying financial statements.

Management will consider underwriting new members using an underwriting profile promulgated by Milliman USA and/or PricewaterhouseCoopers, LLC, with the approval of the Workers' Compensation Board.

In conjunction with Milliman USA, management will oversee comprehensive case file closings utilizing the claims resources of the Trust's claims payers, Specialty Risk Services.

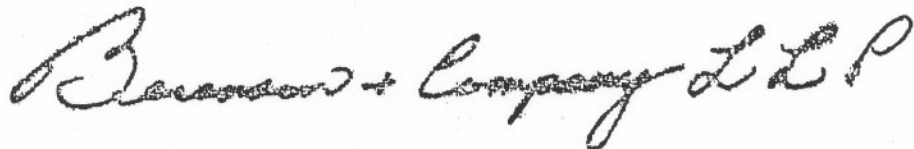
Management will conduct on-site inspections with personalized claims coordination for members with poor loss ratios.

Milliman USA's 2003 remediation plan will be updated, and could take into account the results of the tri-annual review, when available. The updated remediation plan must be presented and approved by the Workers' Compensation Board and voted on by the Board of Trustees. Management believes that these actions will provide an opportunity for the Trust to continue as a going concern and achieve a fully funded status.

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Board of Trustees
The New York Health Care Facilities
Workers' Compensation Trust
New York, NY

Our report on our audits of the basic financial statements of The New York Health Care Facilities Workers' Compensation Trust for the years ended December 31, 2002 and 2001 appears on page 1. These audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on pages 18 through 20, inclusive, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on it.

A handwritten signature in cursive script that reads "Berenson + Company LLP". The signature is written in dark ink and is positioned in the center-right of the page.

New York, NY
April 2, 2003

THE NEW YORK HEALTH CARE FACILITIES
WORKERS' COMPENSATION TRUST

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2003

Schedule of other underwriting expenses:

Broker commission expense	\$ 495,738
Program administrative fee expense	925,851
	\$1,421,589

Schedule of other G&A expenses:

Advertising expense	\$ 56,533
Bank charges	6,742
Dues	1,325
Professional fees:	
Accounting	108,834
Legal	105,765
Bad debt expense	210,298
Payroll audit expense	31,325
Actuarial expense:	
Actuarial expense	77,888
Claims Consulting expense	247,594
RIMS expense	18,169
Other miscellaneous expense	2,335
	\$ 866,808

Fidelity coverage:

The Trust maintains a Blanket Fidelity Bond with the Hartford Insurance Company. Terms and conditions are as follows:

Coverage: \$1,000,000

Terms: November 1, 2003 to May 1, 2004

See independent auditors' report on supplementary information.