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*Fuller & LaFiura*  
Certified Public Accountants

OHI WORKERS' COMPENSATION TRUST

FINANCIAL STATEMENTS

DECEMBER 31, 1999

OHI WORKERS' COMPENSATION TRUST

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# Fuller & LaFiura

Certified Public Accountants, P.C.

*Richard W. Fuller, CPA*

*Joseph P. LaFiura, CPA*

## INDEPENDENT AUDITORS REPORT

Board of Directors  
OHI Workers' Compensation Trust  
Queensbury, NY 12804

We have audited the accompanying statement of financial position of OHI Workers' Compensation Trust as of December 31, 1999 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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 audit provides 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 OHI Workers' Compensation Trust as of December 31, 1999 and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

*Fuller & LaFiura*  
Certified Public Accountants, P.C.

Glens Falls, New York  
March 28, 2000

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and American Institute of Certified Public Accountants

OHI WORKERS' COMPENSATION TRUST  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 1999

- A S S E T S -

CURRENT ASSETS

Cash	186,750
Accounts Receivable	18,645
Investments	53,810
Prepaid Expense	18,405

Total Current Assets 277,610

TOTAL ASSETS 277,610

- LIABILITIES AND MEMBERS' EQUITY -

CURRENT LIABILITIES

Unearned Contributions	46,924
Accrued Expense	4,473
Accrued Income Taxes	706
Accrued Workers' Comp Board Assessments	1,287
Case Reserves	61,842
Non-Case Reserves (IBNR)	85,843
Accrued Interest on Members' Security	2,325

Total Current Liabilities 203,400

MEMBERS' EQUITY

Members' Capital	39,331
Net Assets	34,879

Total Members' Equity 74,210

TOTAL LIABILITIES AND  
MEMBERS' EQUITY 277,610

OHI WORKERS' COMPENSATION TRUST  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 1999

SUPPORT AND REVENUE	
Member Contributions	231,245
Interest Income	6,266
Gain on Investments	<u>2,834</u>
Total Support and Revenue	<u>240,345</u>
GENERAL AND ADMINISTRATIVE EXPENSES	
Actuarial Fees	8,392
Accounting	3,000
Audit Fees	5,000
Bank Charges	43
Management Fee	66,137
Commissions	6,608
Directors & Officers Insurance	4,130
Excess Insurance	7,059
Interest Expense	2,285
Legal Expense	105
Member and Director Meetings	79
OHI Fee	5,009
Payroll Audit Fee	1,000
Project Expense	1,315
Surety Bond Expense	7,505
Supplies and Postage	140
Workers' Compensation Board Assessments	<u>1,373</u>
Total General and Administrative Expenses	<u>119,180</u>
CLAIMS EXPENSES	
Paid Losses and Loss Adjustment Expense	30,441
Case Reserves	14,733
Non-Case Reserves (IBNR)	<u>57,704</u>
Total Claims Expenses	<u>102,878</u>
DISTRIBUTIONS AND OTHER EXPENSES	
Income Tax Expense	<u>1,318</u>
Total Distributions and Other Expenses	<u>1,318</u>
Total Expenses	<u>223,376</u>
Excess of Support and Revenue Over Expenses	16,969
Net Assets, Beginning of Year	<u>17,910</u>
Net Assets, End of Year	<u><u>34,879</u></u>

See Accountants' Report and Notes to Financial Statements

OHI WORKERS' COMPENSATION TRUST  
STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 1999

Cash Flows from Operating Activities:		
Change in Net Assets		16,969
Adjustments to Reconcile Changes in Net Assets to Net		
Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	(5,935)	
(Increase) Decrease in Prepaid Expenses	(6,512)	
Increase (Decrease) in Unearned Contributions	(1,084)	
Increase (Decrease) in Accrued Expenses	3,723	
Increase (Decrease) in Accrued Income Taxes	(1,802)	
Increase (Decrease) in Workers Compensation Board Assessments	(380)	
Increase (Decrease) in Case Reserves	16,138	
Increase (Decrease) in Non-Case Reserves (IBNR)	56,298	
Increase (Decrease) in Accrued Interest on Member Security	1,407	
		<u>78,822</u>
Net Cash Provided by Operating Activities		<u>78,822</u>
Cash Flows from Financing Activities:		
Proceeds from Members' Capital Contributions		<u>8,378</u>
		<u>8,378</u>
Net Cash Provided by Financing Activities		<u>8,378</u>
Cash Flows from Investing Activities:		
Purchase of Investments	(50,976)	
Gain on Investments	(2,834)	
		<u>(53,810)</u>
Net Cash Provided by Investing Activities		<u>(53,810)</u>
Net Increase (Decrease) in Cash and Cash Equivalents		33,390
Cash and Cash Equivalents, Beginning of Year		<u>153,360</u>
Cash and Cash Equivalents, End of Year		<u><u>186,750</u></u>
Supplemental Disclosures of Cash Flow Information:		
Cash Payments for:		
Interest		<u>878</u>
Income Taxes		<u><u>3,120</u></u>

See Accountants' Report and Notes to Financial Statements

OHI WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

OHI Workers' Compensation Trust was established in January, 1998 to provide members of the Oil Heat Institute (OHI) of Eastern New York, a trade association representing the interests of the heating and petroleum industry employees in the State of New York, with workers compensation insurance. Member companies sell oil, propane or other petroleum products in homes and commercial establishments and/or are involved in the distribution and handling of petroleum products. Typically members also service furnaces, install and repair systems, may be in HVAC installation the distribution and handling of petroleum products, and often have other businesses such as convenience stores and gas stations.

Members joining the Trust must remain members for a minimum of one year and may withdraw from the Trust after that time by giving one hundred twenty (120) days notice. The Trust underwriting and rate setting policies have been established after consultation with actuaries. Members are subject to a supplemental assessment in the event of deficiencies. If the assets of the Trust were to be exhausted, members would be responsible for the Trust's liabilities. The Trust currently provides workers compensation coverage to twenty-eight (28) members of OHI.

Members contribute to the Trust based upon the loss experience of the Trust, operating expenses, excess insurance and reinsurance costs and exposure of each member. Such contributions are used to pay all administrative expenses, insurance costs, claims and claim costs.

B. Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. Support and revenue is recognized when earned and expenses are recognized when incurred.

OHI WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1999

C. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from these estimates.

E. Concentrations

Financial instruments that subject the Trust to credit risk include cash balances at banks, which exceeded the related federal deposit insurance by \$86,730.

2. RE-INSURANCE/CONTINGENT LIABILITY

The Trust uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Trust as direct insurer of the risks reinsured. The Trust does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. The amount deducted from claims liabilities as of December 31, 1999 for reinsurance was \$0.

The Trust has two types of reinsurance: specific and aggregate. Specific reinsurance protects the Fund in the event of an unusually large claim. Currently, any occurrence resulting in losses greater than \$200,000 are reinsured over \$200,000 up to policy limits (statutory Coverage A, statutory Coverage B).

Aggregate reinsurance protects the Trust in the event of an unusually large number of claims. Currently all losses (on occurrences of \$200,000 or less) in excess of the aggregate retention are reinsured up to the aggregate coverage limit of \$1,000,000. The aggregate retention is calculated based on one hundred four percent (104%) of the group's manual premium.

OHI WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1999

3. INCOME TAXES

The Trust is an unincorporated association considered to be exempt from Federal income tax under IRC 501(c)(15) which exempts insurance companies under \$350,000 of premiums from Federal income tax. The Trust is taxable as a corporation for New York State tax purposes.

Income tax expense is as follows:

New York State Income Tax	<u>\$ 1,244</u>
Total	<u>\$ 1,244</u>