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*Certified Public Accountants, P.C.*

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OHI WORKERS' COMPENSATION TRUST

FINANCIAL STATEMENTS

DECEMBER 31, 2002 and 2001

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 statements of financial position of OHI Workers' Compensation Trust as of December 31, 2002 and 2001 and the related statements of activities and cash flows for the years 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 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.

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, 2002 and 2001 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of

America  
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Glens Falls, New York  
April 17, 2003

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OHI WORKERS' COMPENSATION TRUST  
STATEMENTS OF FINANCIAL POSITION

	DECEMBER 31	
	2002	2001
<b>- A S S E T S -</b>		
<b>CURRENT ASSETS</b>		
Cash General Operating	201,325	281,632
Accounts Receivable Payroll Audits	53,171	47,433
Accounts Receivable Subrogation	14,780	0
Accounts Receivable Other	1,507	0
Prepaid Expense	15,074	10,105
Income Taxes Receivable	7,475	0
 Total Current Assets	 293,332	 339,170
<b>INVESTMENTS</b>		
Cash and Cash Equivalents	71,764	25,097
Certificates of Deposit	109,994	98,009
Bonds	89,214	69,647
Mutual Funds	49,569	49,498
 Total Investments	 320,541	 242,251
 <b>TOTAL ASSETS</b>	 <b>613,873</b>	 <b>581,421</b>
 <b>- LIABILITIES AND MEMBERS' EQUITY -</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	20,231	0
Refunds Due from Payroll Audits	39,029	24,629
Unearned Contributions	125,317	145,065
Accrued Expense	750	12,334
Accrued Income Taxes	0	7,565
Accrued Workers' Comp Board Assessments	18,569	19,325
Case Reserves	57,617	63,530
Non-Case Reserves (IBNR)	146,427	110,222
Accrued Interest on Members' Security	5,261	5,265
 Total Current Liabilities	 413,201	 387,935
 <b>MEMBERS' EQUITY</b>		
Members' Capital	32,029	40,625
Net Assets	168,643	152,861
 Total Members' Equity	 200,672	 193,486
 <b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	 <b>613,873</b>	 <b>581,421</b>

See Notes to Financial Statements

OHI WORKERS' COMPENSATION TRUST  
STATEMENTS OF ACTIVITIES

	YEARS ENDED DECEMBER 31	
	2002	2001
<b>SUPPORT AND REVENUE</b>		
Member Contributions Fund Year 2002 AND 2001	611,727	442,419
Adjustment Prior Year Member Contributions	0	(2,543)
Net Member Contributions	611,727	439,876
Interest and Dividend Income	9,301	11,034
Loss on Investments	(7,918)	(4,060)
	613,110	446,850
 <b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Total General and Administrative Expenses	402,528	240,629
 <b>CLAIMS EXPENSES</b>		
Paid Losses and Loss Adjustment Expense	161,650	77,051
Case Reserves	(87,614)	(5,957)
Non-Case Reserves (IBNR)	117,906	18,249
	191,942	89,343
 <b>DISTRIBUTIONS AND OTHER EXPENSES</b>		
Hold Harmless Credits	0	1,418
Income Tax Expense	2,858	10,447
	2,858	11,865
Total Expenses	597,328	341,837
Excess of Support and Revenue Over Expenses	15,782	105,013
Net Assets, Beginning of Year	152,861	47,848
Net Assets, End of Year	168,643	152,861

See Notes to Financial Statements

OHI WORKERS' COMPENSATION TRUST  
STATEMENT OF CASH FLOWS

	YEAR ENDED DECEMBER 31	
	2002	2001
Cash Flows from Operating Activities:		
Change in Net Assets	15,782	105,013
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	(5,738)	(17,331)
(Increase) Decrease in Accounts Receivable Subrogation	(14,780)	973
(Increase) Decrease in Accounts Receivable Other	(1,507)	0
(Increase) Decrease in Prepaid Expenses	(4,969)	7,035
(Increase) Decrease in Income Taxes Receivable	(7,475)	0
Increase (Decrease) in Accounts Payable	20,231	0
Increase (Decrease) in Refunds Due from Payroll Audits	14,400	18,332
Increase (Decrease) in Unearned Contributions	(19,748)	101,251
Increase (Decrease) in Accrued Expenses	(11,584)	7,379
Increase (Decrease) in Accrued Income Taxes	(7,565)	7,460
Increase (Decrease) in Workers Comp Board Assessments	(756)	17,466
Increase (Decrease) in Case Reserves	(5,913)	27,819
Increase (Decrease) in Non-Case Reserves (IBNR)	36,205	(15,526)
Increase (Decrease) in Accrued Interest on Member Security	(4)	1,511
Net Cash Provided by Operating Activities	6,579	261,382
Cash Flows from Financing Activities:		
Proceeds from Members' Capital Contributions	0	1,329
Repayment of Members' Capital Contributions	(8,596)	(2,124)
Net Cash Provided by Financing Activities	(8,596)	(795)
Cash Flows from Investing Activities:		
Purchase of Investments	(39,541)	(58,515)
Loss on Investments	7,918	4,060
Net Cash Provided by Investing Activities	(31,623)	(54,455)
Net Increase (Decrease) in Cash and Cash Equivalents	(33,640)	206,132
Cash and Cash Equivalents, Beginning of Year	306,729	100,597
Cash and Cash Equivalents, End of Year	273,089	306,729
Supplemental Disclosures of Cash Flow Information:		
Cash Payments for: Interest	1,623	347
Income Taxes	17,898	2,987

See Notes to Financial Statements

OHI WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 and 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

OHI Workers' Compensation Trust commenced coverage January 1, 1998 to provide specified employers in the State of New York with workers' compensation and employers' liability insurance as a self insurance group. The homogeneity of the group is defined and approved by the New York Workers' Compensation Board by a specific list of either governing classification codes, namely 3724, 5183, 5193, 7219, 7502, 8006, 8033, 8350, 8353, 8381, and 8391 or by a specific list of governing SIC codes, namely 1711, 3433, 3443, 3585, 5074, 5075, 5171, 5172, 5411, 5541, 5983, 5984, and NAICS system 7549.

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 jointly and severally liable for the solvency of the Trust as specified both in the Bylaws and the Participation and Indemnification Agreement (member agreement). 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 sixty-seven (67) members.

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.

The Trust is governed by an elected board of trustees who establish all policies and is managed on a day-to-day basis by Cody Management Services, Inc.

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, 2002 and 2001

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 one month 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 \$252,032.

F. Accounts Receivable Payroll Audits

Uncollectable accounts receivable are written off to bad debt expense using the direct write off method. This method is not materially different from generally accepted accounting principles. Management considers all receivables collectable as of the date of this report.

G. Investments

Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

OHI WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 and 2001

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, 2002 and 2001 for reinsurance was \$0 and \$0 respectively.

Specific reinsurance protects the Fund in the event of an unusually large claim. Currently any occurrence resulting in losses greater than \$350,000 (and under limited circumstances \$400,000) are reinsured over \$350,000 (or \$400,000) up to the policy limits (statutory Coverage A, \$2,000,000 Coverage B).

3. INCOME TAXES

The Trust is an unincorporated association. Effective in 2001, the Trust has elected to be taxed under IRC Section 831. Under the section the Trust is subject to tax at the regular corporate rate on its taxable investment income. The Trust will remain taxable under this code section as long as the annual premiums remain below \$1,200,000.

The Trust is taxable as a corporation for New York State tax purposes.

Income tax expense is as follows:

	<u>2002</u>	<u>2001</u>
Federal Income Tax	\$ 1,072	\$ 1,655
New York State Income	<u>1,786</u>	<u>8,792</u>
Total	<u>\$ 2,858</u>	<u>\$ 10,447</u>

OHI WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 and 2001

4. INVESTMENTS

Investments are stated at fair value and are summarized as follows:

	<u>2002</u>		<u>2001</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and Cash Equivalents	\$ 71,764	\$ 71,764	\$ 25,097	\$ 25,097
Certificates of Deposit	109,994	109,994	98,009	98,009
Corporate Bonds	88,285	89,214	70,227	69,647
Mutual Funds	<u>67,757</u>	<u>49,569</u>	<u>55,257</u>	<u>49,498</u>
Total	<u>\$334,800</u>	<u>\$320,541</u>	<u>\$ 248,590</u>	<u>\$ 242,251</u>

The combination of obligations, preferred and common stock of American Institutions is 22.61% of total assets.

5. SECURITY DEPOSIT

The trust has posted a \$624,000 surety bond issued by Midwest Employers Casualty Company (Bond # B011NY).

The Trust maintains an irrevocable letter of credit with Glens Falls National Bank in the amount of \$156,000 in favor of Midwest Employers Casualty Company as collateral for the issuance by them of the aforementioned surety bond. The letter of credit is secured by \$100,000 of certificate of deposit funds.

OHI WORKERS' COMPENSATION TRUST  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2002 AND 2001

6. REGULATORY ASSETS

Regulatory assets include cash and cash equivalents, accounts receivable collected within 90 days of the balance sheet date and acceptable investments as of the balance sheet date as follows:

	<u>2002</u>
Cash and Cash Equivalents	\$273,089
Accounts Receivable Subrogation	14,780
Accounts Receivable Other	1,507
Certificates of Deposits	9,994
Corporate Bonds	89,214
Mutual Funds	<u>49,569</u>
Total	<u>\$438,153</u>

7. TRUST EQUITY RATIO

The Workers' Compensation Board has prescribed the regulatory trust equity ratio, which is regulatory assets divided by total liabilities. As of December 31, 2002 it is calculated to be:

$$\begin{array}{r}
 \$438,153 \text{ Regulatory Assets} \\
 \hline
 \$413,201 \text{ Total Liabilities}
 \end{array}
 = 1.06$$

OHI WORKERS' COMPENSATION TRUST  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

8. CHANGES IN MEMBER CAPITAL

Members capital has changed as follows:

	<u>2002</u>	<u>2001</u>
Member Capital Beginning	\$ 40,625	\$ 41,420
Members' Capital Contributed		1,329
Return of Founding Members' Capital	<u>( 8,596)</u>	<u>( 2,124)</u>
Member Capital Ending	<u>\$ 32,029</u>	<u>\$ 40,625</u>

OHI WORKERS' COMPENSATION TRUST  
 SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES

	YEARS ENDED DECEMBER 31	
	2002	2001
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Actuarial Fees	9,671	8,000
Accounting	3,000	3,000
Audit Fees	5,000	5,000
Bank Charges	0	45
Management Fee	140,814	101,756
Commissions	42,856	30,969
Directors & Officers Insurance	6,112	3,800
Excess Insurance	150,314	39,301
Experience Mod Service	1,500	1,000
GSIANY	1,100	1,000
Interest Expense	1,619	1,859
Investment Management Expense	1,118	827
Legal Expense	0	2,622
Member Director Meetings	27	0
Association Fees	1,095	6,226
Payroll Audit Fee	2,600	1,800
Project Expense	0	465
Start-Up Expenses	0	0
Surety Bond Expense	7,505	7,505
Supplies and Postage	1,197	964
Workers' Compensation Board Assessments	27,000	24,490
	402,528	240,629
Total General and Administrative Expenses	402,528	240,629

See Notes to Financial Statements