



Fuller & LaFiura
Certified Public Accountants, P.C.

OHI WORKERS' COMPENSATION TRUST

FINANCIAL STATEMENTS

DECEMBER 31, 2003 and 2002

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WORKERS' COMPENSATION BOARD

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SELF INSURANCE OFFICE

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, 2003 and 2002 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, 2003 and 2002 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.

Fuller & LaFiura
Certified Public Accountants, P.C.

Glens Falls, New York
April 22, 2004

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OHI WORKERS' COMPENSATION TRUST
STATEMENTS OF FINANCIAL POSITION

	DECEMBER 31	
	2003	2002
- A S S E T S -		
CURRENT ASSETS		
Cash - General Operating	399,441	201,325
Accounts Receivable - Payroll Audits	13,561	53,171
Accounts Receivable - Subrogation	0	14,780
Accounts Receivable - Other	0	1,507
Prepaid Expense	4,471	15,074
Income Taxes Receivable	0	7,475
	<u>417,473</u>	<u>293,332</u>
INVESTMENTS		
Cash and Cash Equivalents	22,860	71,764
Certificates of Deposit	152,544	109,994
Government Bonds	95,516	0
Corporate Bonds	79,493	89,214
Mutual Funds	58,716	49,569
	<u>409,129</u>	<u>320,541</u>
	<u>826,602</u>	<u>613,873</u>
- LIABILITIES AND MEMBERS' EQUITY -		
CURRENT LIABILITIES		
Accounts Payable	21,942	20,231
Refunds Due from Payroll Audits	50,463	39,029
Unearned Contributions	164,407	125,317
Accrued Expense	1,000	750
Accrued Income Taxes	6,809	0
Accrued Workers' Comp Board Assessments	25,876	18,569
Case Reserves	66,176	57,617
Non-Case Reserves (IBNR)	169,904	146,427
Accrued Interest on Members' Security	4,875	5,261
	<u>511,452</u>	<u>413,201</u>
MEMBERS' EQUITY		
Members' Capital	24,944	32,029
Net Assets	290,206	168,643
	<u>315,150</u>	<u>200,672</u>
	<u>826,602</u>	<u>613,873</u>

See Notes to Financial Statements

OHI WORKERS' COMPENSATION TRUST
STATEMENTS OF ACTIVITIES

	YEARS ENDED DECEMBER 31	
	2003	2002
SUPPORT AND REVENUE		
Member Contributions Fund Year 2003 and 2002	814,022	611,727
Adjustment Prior Year Member Contributions	(239)	0
Net Member Contributions	813,783	611,727
Interest and Dividend Income	9,099	9,301
Gain(Loss) on Investments	12,025	(7,918)
Total Support and Revenue	834,907	613,110
 GENERAL AND ADMINISTRATIVE EXPENSES		
Total General and Administrative Expenses	495,511	402,528
 CLAIMS EXPENSES		
Paid Losses and Loss Adjustment Expense	175,632	161,650
Case Reserves	(83,663)	(87,614)
Non-Case Reserves (IBNR)	115,699	117,906
Total Claims Expenses	207,668	191,942
 DISTRIBUTIONS AND OTHER EXPENSES		
Income Tax Expense	10,165	2,858
Total Distributions and Other Expenses	10,165	2,858
Total Expenses	713,344	597,328
Excess of Support and Revenue Over Expenses	121,563	15,782
Net Assets, Beginning of Year	168,643	152,861
Net Assets, End of Year	290,206	168,643

See Notes to Financial Statements

OHI WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003 and 2002

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 3620, 3724, 5183, 5193, 7219, 7380, 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 seventy-one (71) 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, 2003 and 2002

C. Cash and Cash Equivalents

For purposes of the statements 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 \$405,909.

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, 2003 and 2002

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. There were no amounts deducted from claim liabilities for the years ended December 31, 2003 and 2002.

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 this 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>2003</u>	<u>2002</u>
Federal Income Tax	\$1,090	\$1,072
New York State Income	<u>9,075</u>	<u>1,786</u>
Total	<u>\$10,165</u>	<u>\$2,858</u>

OHI WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2003 and 2002

4. INVESTMENTS

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

	<u>2003</u>		<u>2002</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and Cash Equivalents	\$22,860	\$22,860	\$71,764	\$71,764
Certificates of Deposit	152,544	152,544	109,994	109,994
Government Bonds	95,905	95,516	-0-	-0-
Corporate Bonds	75,286	79,493	85,285	89,214
Mutual Funds	<u>61,350</u>	<u>58,716</u>	<u>67,757</u>	<u>49,569</u>
Total	<u>\$407,945</u>	<u>\$409,129</u>	<u>\$334,800</u>	<u>\$320,541</u>

The combination of obligations, preferred and common stock of American Institutions is 19.51% of total regulatory 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, 2003 AND 2002

6. REGULATORY ASSETS AND LIABILITIES

Regulatory assets include cash and cash equivalents, accounts receivable collected within 90 days of the balance sheet date and acceptable investments. Liabilities include all liabilities plus an allowance for Workers' Compensation Board assessments equal to 25% of IBNR and case reserves unless the Trust's Actuarial report provides for a different calculation. The regulatory assets and liabilities as of the balance sheet date are as follows:

2003

REGULATORY ASSETS

Cash and Cash Equivalents	\$422,301
Certificates of Deposits	52,544
Government Bonds	95,516
Corporate Bonds	79,493
Mutual Funds	<u>58,716</u>
Total Regulatory Assets	<u>\$708,570</u>

REGULATORY LIABILITIES

Total Liabilities	\$511,452
Allowance for Workers' Comp Board Assessments	59,020
Less: Workers' Comp Board Assessment Reserve already Included in Total Liabilities	<u>(25,876)</u>
Total Regulatory Liabilities	<u>\$544,596</u>

OHI WORKERS' COMPENSATION TRUST
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2003 AND 2002

7. TRUST EQUITY RATIO

The Workers' Compensation Board has prescribed the regulatory trust equity ratio, which is regulatory assets divided by regulatory liabilities. As of December 31, 2003 it is calculated to be:

$$\frac{\$708,570 \text{ Regulatory Assets}}{\$544,596 \text{ Total Liabilities}} = 1.30$$

8. CHANGES IN MEMBERS' CAPITAL

Members' capital has changed as follows:

	<u>2003</u>	<u>2002</u>
Members' Capital Beginning	\$ 32,029	\$ 40,625
Members' Capital Contributed	-0-	-0-
Return of Founding Members' Capital	<u>(7,085)</u>	<u>(8,596)</u>
Members' Capital Ending	<u>\$ 24,944</u>	<u>\$ 32,029</u>

OHI WORKERS' COMPENSATION TRUST
SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES

	YEARS ENDED DECEMBER 31	
	2003	2002
Actuarial Fees	8,000	9,671
Accounting	3,750	3,000
Audit Fees	6,000	5,000
Management Fee	187,225	140,814
Commissions	56,982	42,856
Directors & Officers Insurance	6,581	6,112
Excess Insurance	151,066	150,314
Experience Mod Service	2,500	1,500
GSIANY	1,100	1,100
Interest Expense	1,297	1,619
Investment Management Expense	1,649	1,118
Legal Expense	601	0
Member Director Meetings	66	27
Association Fees	1,067	1,095
Payroll Audit Fee	4,000	2,600
Surety Bond Expense	21,840	7,505
Supplies and Postage	1,553	1,197
Workers' Compensation Board Assessments	40,234	27,000
 Total General and Administrative Expenses	 495,511	 402,528

See Notes to Financial Statements