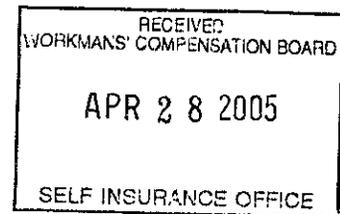


*Fuller & LaFiura*  
*Certified Public Accountants P.C.*

OHI WORKERS' COMPENSATION TRUST

FINANCIAL STATEMENTS

DECEMBER 31, 2004 and 2003



OHI WORKERS' COMPENSATION TRUST

TABLE OF CONTENTS

DECEMBER 31, 2004 and 2003

	<u>Page</u>
Independent Auditors' Report	1
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5-10
Schedules of General and Administrative Expenses	11

# 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, 2004 and 2003 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, 2004 and 2003 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 20, 2005

Page 1

13 Center Street  
Glens Falls, NY 12801  
(518) 745-7076

Fax: (518) 745-7078  
E-mail: [contact@personalcpa.net](mailto:contact@personalcpa.net)

100 West Avenue  
Saratoga Springs, NY 12866  
(518) 583-6872

Members of New York State Society of Certified Public Accountants  
and American Institute of Certified Public Accountants

OHI WORKERS' COMPENSATION TRUST  
STATEMENTS OF FINANCIAL POSITION

	DECEMBER 31	
	2004	2003
<b>- A S S E T S -</b>		
<b>CURRENT ASSETS</b>		
Cash - General Operating	243,310	399,441
Accounts Receivable - Payroll Audits	114,709	13,561
Prepaid Expense	5,235	4,471
Income Taxes Receivable	7,615	0
	<b>370,869</b>	<b>417,473</b>
<b>INVESTMENTS</b>		
Cash and Cash Equivalents	66,999	22,860
Certificates of Deposit	219,540	152,544
Government Bonds	94,423	95,516
Corporate Bonds	67,306	79,493
Mutual Funds	125,871	58,716
	<b>574,139</b>	<b>409,129</b>
	<b>945,008</b>	<b>826,602</b>
<b>- LIABILITIES AND MEMBERS' EQUITY -</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	12,421	21,942
Refunds Due from Payroll Audits	58,605	50,463
Unearned Contributions	118	164,407
Accrued Expense	1,000	1,000
Accrued Income Taxes	1,826	6,809
Accrued Workers' Comp Board Assessments	89,408	25,876
Case Reserves	199,041	66,176
Non-Case Reserves (IBNR)	264,080	169,904
Accrued Interest on Members' Security	0	4,875
	<b>626,499</b>	<b>511,452</b>
<b>MEMBERS' EQUITY</b>		
Members' Capital	0	24,944
Net Assets	318,509	290,206
	<b>318,509</b>	<b>315,150</b>
	<b>945,008</b>	<b>826,602</b>

See Notes to Financial Statements

OHI WORKERS' COMPENSATION TRUST  
STATEMENTS OF ACTIVITIES

	YEARS ENDED DECEMBER 31	
	2004	2003
<b>SUPPORT AND REVENUE</b>		
Member Contributions Fund Year 2004 and 2003	1,236,118	814,022
Adjustment for Prior Year Member Contributions	0	(239)
	1,236,118	813,783
Net Member Contributions	1,236,118	813,783
Interest and Dividend Income	11,952	9,099
Gain(Loss) on Investments	7,583	12,025
	1,255,653	834,907
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Total General and Administrative Expenses	708,389	495,511
<b>CLAIMS EXPENSES</b>		
Paid Losses and Loss Adjustment Expense	287,552	175,632
Case Reserves	(139,799)	(83,663)
Non-Case Reserves (IBNR)	366,839	115,699
	514,592	207,668
<b>DISTRIBUTIONS AND OTHER EXPENSES</b>		
Income Tax Expense	4,369	10,165
	4,369	10,165
Total Expenses	1,227,350	713,344
Excess of Support and Revenue Over Expenses	28,303	121,563
Net Assets, Beginning of Year	290,206	168,643
Net Assets, End of Year	318,509	290,206

See Notes to Financial Statements

OHI WORKERS' COMPENSATION TRUST  
STATEMENTS OF CASH FLOWS

	YEARS ENDED DECEMBER 31	
	2004	2003
Cash Flows from Operating Activities:		
Changes in Net Assets	28,303	121,563
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable - Payroll Audits	(101,148)	39,610
(Increase) Decrease in Accounts Receivable - Subrogation	0	14,780
(Increase) Decrease in Accounts Receivable - Other	0	1,507
(Increase) Decrease in Prepaid Expenses	(764)	10,603
(Increase) Decrease in Income Taxes Receivable	(7,615)	7,475
Increase (Decrease) in Accounts Payable	(9,521)	1,711
Increase (Decrease) in Refunds Due from Payroll Audits	8,142	11,434
Increase (Decrease) in Unearned Contributions	(164,289)	39,090
Increase (Decrease) in Accrued Expenses	0	250
Increase (Decrease) in Accrued Income Taxes	(4,983)	6,809
Increase (Decrease) in Workers' Comp Board Assessments	63,532	7,307
Increase (Decrease) in Case Reserves	132,865	8,559
Increase (Decrease) in Non-Case Reserves (IBNR)	94,176	23,477
Increase (Decrease) in Accrued Interest on Member Security	(4,875)	(386)
Net Cash Provided by Operating Activities	33,823	293,789
Cash Flows from Financing Activities:		
Repayment of Members' Capital Contributions	(24,944)	(7,085)
Net Cash Provided by Financing Activities	(24,944)	(7,085)
Cash Flows from Investing Activities:		
(Gain)Loss on Investments	(7,112)	(12,025)
Purchase of Investments	(143,518)	(138,455)
Proceeds from Sale of Investments	29,759	12,988
Net Cash Provided by Investing Activities	(120,871)	(137,492)
Net Increase (Decrease) in Cash and Cash Equivalents	(111,992)	149,212
Cash and Cash Equivalents, Beginning of Year	422,301	273,089
Cash and Cash Equivalents, End of Year	310,309	422,301
Supplemental Disclosures of Cash Flow Information:		
Cash Payments for:           Interest	5,106	1,623
Income Taxes	16,967	17,898

See Notes to Financial Statements

OHI WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004 and 2003

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 one hundred (100) 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, 2004 and 2003

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 \$329,849.

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, 2004 and 2003

2. REINSURANCE/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, 2004 and 2003.

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. In 2004 the Trust exceeded this threshold and will be subject to the Federal Corporate Income Tax.

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

Income tax expense is as follows:

	<u>2004</u>	<u>2003</u>
Federal Income Tax	\$ 2,926	\$1,090
New York State Income Tax	<u>1,443</u>	<u>9,075</u>
Total	<u>\$ 4,369</u>	<u>\$10,165</u>

OHI WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004 and 2003

4. INVESTMENTS

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

	<u>2004</u>		<u>2003</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and Cash Equivalents	\$66,999	\$66,999	22,860	\$22,860
Certificates of Deposit	219,540	219,540	152,544	152,544
Government Bonds	95,922	94,423	95,905	95,516
Corporate Bonds	65,272	67,306	75,286	79,493
Mutual Funds	<u>117,794</u>	<u>125,871</u>	<u>61,350</u>	<u>58,716</u>
Total	<u>\$565,527</u>	<u>\$574,139</u>	<u>\$407,945</u>	<u>\$409,129</u>

The combination of obligations, preferred and common stock of American Institutions is 26.93% 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, 2004 AND 2003

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, but do not include prepaid expenses nor assets serving as collateral such as the \$100,000 Certificate of Deposit referenced in Note 5. Liabilities include all liabilities plus an amount for the Workers' Compensation Board NYS Assessment as determined by our actuaries, Milliman, Inc., on a separate assessment schedule (Exhibit 3, Sheet 3, Line10C). The regulatory assets and liabilities as of the balance sheet date are as follows:

	<u>2004</u>
<u>REGULATORY ASSETS</u>	
Cash and Cash Equivalents	\$310,309
Certificates of Deposits	119,540
Government Bonds	94,423
Corporate Bonds	67,306
Mutual Funds	<u>125,871</u>
Total Regulatory Assets	<u>\$717,449</u>
<u>REGULATORY LIABILITIES</u>	
Total Liabilities	<u>\$626,499</u>
Total Regulatory Liabilities	<u>\$626,499</u>

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, 2004 it is calculated to be:

$$\frac{\text{Regulatory Assets}}{\text{Regulatory Liabilities}} = \frac{\$717,449}{\$626,499} = 1.15$$

OHI WORKERS' COMPENSATION TRUST  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2004 AND 2003

8. CHANGES IN MEMBERS' CAPITAL

Members' capital has changed as follows:

	<u>2004</u>	<u>2003</u>
Beginning Members' Capital	\$ 24,944	\$ 32,029
Members' Capital Contributed	-0-	-0-
Return of Founding Members' Capital	<u>(24,944)</u>	<u>( 7,085)</u>
Ending Members' Capital	<u>\$ -0-</u>	<u>\$ 24,944</u>

9. CLAIMS DISCOUNTING

In accordance with IRC Section 831, the Trust is subject to Federal Corporate Income Tax based upon its net profit because the annual premiums exceed \$1,200,000. In calculating the net profit, claims expense must be discounted to reflect the present value of the expense. Our actuaries, Milliman, Inc. have calculated the appropriate discount factors. See Milliman, Inc.'s report (Exhibit 2, Sheet 1, Column 5) for additional information.

Gross Claims Expense	\$551,873
Discount Applied	<u>(37,281)</u>
Net Claims Expense	<u>\$514,592</u>

OHI WORKERS' COMPENSATION TRUST  
SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES

	YEARS ENDED DECEMBER 31	
	2004	2003
Actuarial Fees	8,000	8,000
Accounting	4,000	3,750
Audit Fees	6,000	6,000
Bank Charges	63	0
Management Fee	272,235	187,225
Commissions	86,425	56,982
Directors & Officers Insurance	6,665	6,581
Excess Insurance	177,979	151,066
Experience Mod Service	2,800	2,500
GSIAN Y	1,100	1,100
Interest Expense	550	1,297
Investment Management Expense	2,364	1,649
Legal Expense	3,252	601
Member Director Meetings	247	66
Association Fees	1,248	1,067
Payroll Audit Fee	3,790	4,000
Financial Security Expense	21,840	21,840
Supplies and Postage	1,119	1,553
Workers' Compensation Board Assessments	108,712	40,234
 Total General and Administrative Expenses	 708,389	 495,511

See Notes to Financial Statements