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WORKMANS' COMPENSATION BOARD  
APR 28 2006  
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OHI WORKERS' COMPENSATION TRUST  
FINANCIAL STATEMENTS  
DECEMBER 31, 2005 and 2004

OHI WORKERS' COMPENSATION TRUST

TABLE OF CONTENTS

DECEMBER 31, 2005 and 2004

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	<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, 2005 and 2004 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, 2005 and 2004 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, 2006

Page 1

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OHI WORKERS' COMPENSATION TRUST  
STATEMENTS OF FINANCIAL POSITION

	DECEMBER 31	
	2005	2004
<b>- A S S E T S -</b>		
<b>CURRENT ASSETS</b>		
Cash - General Operating	260,118	243,310
Cash - Short Term CD's	203,307	0
Accounts Receivable - Payroll Audits	159,301	114,709
Prepaid Expense	4,100	5,235
Income Taxes Receivable	4,217	7,615
Deferred Tax Assets	2,168	0
Total Current Assets	633,211	370,869
<b>INVESTMENTS</b>		
Cash and Cash Equivalents	161,326	66,999
Certificates of Deposit	235,827	219,540
Government Bonds	132,068	94,423
Corporate Bonds	45,563	67,306
Mutual Funds	145,716	125,871
Total Investments	720,500	574,139
<b>TOTAL ASSETS</b>	1,353,711	945,008
<b>- LIABILITIES AND MEMBERS' EQUITY -</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	9,461	12,421
Refunds Due from Payroll Audits	80,677	58,605
Unearned Contributions	0	118
Accrued Expense	1,250	1,000
Accrued Income Taxes	0	1,826
Accrued Workers' Comp Board Assessments	197,501	89,408
Case Reserves	368,006	199,041
Non-Case Reserves (IBNR)	389,120	264,080
Accrued Interest on Members' Security	0	0
Total Current Liabilities	1,046,015	626,499
<b>MEMBERS' EQUITY</b>		
Members' Capital	0	0
Net Assets	307,696	318,509
Total Members' Equity	307,696	318,509
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	1,353,711	945,008

See Notes to Financial Statements

OHI WORKERS' COMPENSATION TRUST  
STATEMENTS OF ACTIVITIES

	YEARS ENDED DECEMBER 31	
	2005	2004
<b>SUPPORT AND REVENUE</b>		
Member Contributions Fund Year 2005 and 2004	1,652,958	1,236,118
Adjustment for Prior Year Member Contributions	0	0
Net Member Contributions	1,652,958	1,236,118
Interest and Dividend Income	27,543	11,952
Gain(Loss) on Investments	2,278	7,583
Total Support and Revenue	1,682,779	1,255,653
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Total General and Administrative Expenses	910,908	708,389
<b>CLAIMS EXPENSES</b>		
Paid Losses and Loss Adjustment Expense	490,106	287,552
Case Reserves	78,773	(139,799)
Non-Case Reserves (IBNR)	215,232	366,839
Net Claims Expenses	784,111	514,592
<b>DISTRIBUTIONS AND OTHER EXPENSES</b>		
Income Tax Expense	(1,427)	4,369
Total Distributions and Other Expenses	(1,427)	4,369
Total Expenses	1,693,592	1,227,350
Excess (Deficit) of Support and Revenue Over Expenses	(10,813)	28,303
Net Assets, Beginning of Year	318,509	290,206
Net Assets, End of Year	307,696	318,509

See Notes to Financial Statements

OHI WORKERS' COMPENSATION TRUST  
STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31  
2005                      2004

Cash Flows from Operating Activities:		
Changes in Net Assets	(10,813)	28,303
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable - Payroll Audits	(44,592)	(101,148)
(Increase) Decrease in Prepaid Expenses	1,135	(764)
(Increase) Decrease in Income Taxes Receivable	3,398	(7,615)
Increase (Decrease) in Accounts Payable	(2,960)	(9,521)
Increase (Decrease) in Refunds Due from Payroll Audits	22,072	8,142
Increase (Decrease) in Unearned Contributions	(118)	(164,289)
Increase (Decrease) in Accrued Expenses	250	0
Increase (Decrease) in Accrued Income Taxes	(1,826)	(4,983)
Increase (Decrease) in Workers' Comp Board Assessments	108,093	63,532
Increase (Decrease) in Case Reserves	168,965	132,865
Increase (Decrease) in Non-Case Reserves (IBNR)	125,040	94,176
Increase (Decrease) in Accrued Interest on Member Security	0	(4,875)
Net Cash Provided by Operating Activities	<u>368,644</u>	<u>33,823</u>
 Cash Flows from Financing Activities:		
Repayment of Members' Capital Contributions	<u>(24,944)</u>	<u>(24,944)</u>
 Net Cash Provided by Financing Activities	<u>(24,944)</u>	<u>(24,944)</u>
 Cash Flows from Investing Activities:		
(Gain)Loss on Investments	(2,278)	(7,112)
Purchase of Investments	(131,010)	(143,518)
Proceeds from Sale of Investments	<u>104,030</u>	<u>29,759</u>
 Net Cash Provided by Investing Activities	<u>(29,258)</u>	<u>(120,871)</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	314,442	(111,992)
 Cash and Cash Equivalents, Beginning of Year	<u>310,309</u>	<u>422,301</u>
 Cash and Cash Equivalents, End of Year	<u><u>624,751</u></u>	<u><u>310,309</u></u>
 Supplemental Disclosures of Cash Flow Information:		
Cash Payments for:                      Interest	<u>0</u>	<u>5,106</u>
Income Taxes	<u><u>5,850</u></u>	<u><u>16,967</u></u>

See Notes to Financial Statements

OHI WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 and 2004

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 and eight (108) 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, 2005 and 2004

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 \$563,963 and \$329,849 at December 31, 2005 and 2004, respectively.

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, 2005 and 2004



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, 2005 and 2004.

Specific reinsurance protects the Fund in the event of an unusually large claim. Currently any occurrence resulting in losses greater than \$400,000 are reinsured over \$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 and 2005 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>2005</u>	<u>2004</u>
Federal Income Tax	\$ 117	\$ 2,926
New York State Income Tax	<u>624</u>	<u>1,443</u>
Total Current Taxes	\$ 741	\$ 4,369
Deferred Tax Benefit	<u>(2,168)</u>	<u>-0-</u>
Total	<u>\$(1,427)</u>	<u>\$ 4,369</u>

OHI WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 and 2004

4. INVESTMENTS

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

	<u>2005</u>		<u>2004</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and Cash Equivalents	\$624,751	\$624,751	\$66,999	\$66,999
Certificates of Deposit	235,827	235,827	219,540	219,540
Government Bonds	135,698	132,068	95,922	94,423
Corporate Bonds	45,272	45,563	65,272	67,306
Mutual Funds	<u>133,793</u>	<u>145,716</u>	<u>117,794</u>	<u>125,871</u>
Total	<u>\$1,175,341</u>	<u>\$1,183,925</u>	<u>\$565,527</u>	<u>\$574,139</u>

The combination of obligations, preferred and common stock of American Institutions is 15.37% of total regulatory assets.

5. SECURITY DEPOSIT

The Trust maintains Certificates of Deposit with the National Bank of Coxsackie in the amount of \$156,000 as collateral for a \$624,000 Letter of Credit issued by the National Bank of Coxsackie in favor of the Chair, Workers Compensation Board.

OHI WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

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 \$156,000 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>2005</u>	<u>2004</u>
<u>REGULATORY ASSETS</u>		
Cash and Cash Equivalents	\$624,751	\$310,309
Certificates of Deposits	79,827	119,540
Government Bonds	132,068	94,423
Corporate Bonds	45,563	67,306
Mutual Funds	145,716	106,626
Accounts Receivable	<u>137,175</u>	<u>-0-</u>
Total Regulatory Assets	<u>\$1,165,100</u>	<u>\$698,204</u>
<u>REGULATORY LIABILITIES</u>		
Total Liabilities	<u>\$1,046,018</u>	<u>\$626,499</u>
Total Regulatory Liabilities	<u>\$1,046,018</u>	<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. The Trust Equity Ratio is as follows:

<u>2005</u>		<u>2004</u>
$\frac{1,165,100}{1,046,018}$	= 111.38%	$\frac{698,204}{626,499}$ = 111.45%

OHI WORKERS' COMPENSATION TRUST  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2005 AND 2004

8. CHANGES IN MEMBERS' CAPITAL

Members' capital has changed as follows:

	<u>2005</u>	<u>2004</u>
Beginning Members' Capital	\$ -0-	\$ 24,944
Members' Capital Contributed	-0-	-0-
Return of Founding Members' Capital	<u>-0-</u>	<u>(24,944)</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.

	<u>2005</u>	<u>2004</u>
Gross Claims Expense	\$824,922	\$551,873
Discount Applied	<u>(67,796)</u>	<u>(37,281)</u>
Net Claims Expense	<u>\$757,126</u>	<u>\$514,592</u>

OHI WORKERS' COMPENSATION TRUST  
SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES

	YEARS ENDED DECEMBER 31	
	2005	2004
Actuarial Fees	10,953	8,000
Accounting	5,225	4,000
Audit Fees	6,000	6,000
Bank Charges	0	63
Management Fee	347,532	272,235
Commissions	115,707	86,425
Directors & Officers Insurance	9,468	6,665
Excess Insurance	224,782	177,979
Experience Mod Service	3,300	2,800
GSIANY	1,100	1,100
Interest Expense	0	550
Investment Management Expense	2,384	2,364
Legal Expense	0	3,252
Member Director Meetings	75	247
Association Fees	1,414	1,248
Payroll Audit Fee	5,500	3,790
Project Expense	1,680	0
Financial Security Expense	14,970	21,840
Supplies and Postage	1,596	1,119
Workers' Compensation Board Assessments	159,222	108,712
	910,908	708,389
Total General and Administrative Expenses	910,908	708,389

See Notes to Financial Statements