

**RECEIVED**  
WORKERS' COMPENSATION

APR 30 2007

SELF INSURANCE OFFICE

OHI WORKERS' COMPENSATION TRUST

FINANCIAL STATEMENTS

DECEMBER 31, 2006 and 2005

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OHI WORKERS' COMPENSATION TRUST WORKERS' COMPENSATION  
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# Fuller & LaFiura

Certified Public Accountants, P.C.

Richard W. Fuller, CPA

Joseph P. LaFiura, CPA

## INDEPENDENT AUDITORS' REPORT

RECEIVED  
WORKERS' COMPENSATION

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

APR 30 2007

SELF INSURANCE OFFICE

We have audited the accompanying statements of financial position of OHI Workers' Compensation Trust as of December 31, 2006 and 2005 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, 2006 and 2005 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 24, 2007

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OHI WORKERS' COMPENSATION TRUST  
STATEMENTS OF FINANCIAL POSITION

	DECEMBER 31	
	2006	2005
<b>- A S S E T S -</b>		
<b>CURRENT ASSETS</b>		
Cash - General Operating	606,298	260,118
Cash - Short Term CD's	200,362	203,307
Accounts Receivable - Payroll Audits	153,340	159,301
Prepaid Expense	1,347	4,100
Income Taxes Receivable	7,316	4,217
Deferred Tax Assets	110,000	2,168
 Total Current Assets	 1,078,663	 633,211
<b>INVESTMENTS</b>		
Cash and Cash Equivalents	92,298	161,326
Certificates of Deposit	311,294	235,827
Government Bonds	217,201	132,068
Corporate Bonds	35,212	45,563
Mutual Funds	245,081	145,716
 Total Investments	 901,086	 720,500
 <b>TOTAL ASSETS</b>	 1,979,749	 1,353,711
<b>- LIABILITIES AND MEMBERS' EQUITY -</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	58	9,461
Refunds Due from Payroll Audits	93,366	80,677
Accrued Expense	1,250	1,250
Accrued Workers' Comp Board Assessments	523,511	197,501
Case Reserves	372,210	368,006
Non-Case Reserves (IBNR)	1,270,735	389,120
 Total Current Liabilities	 2,261,130	 1,046,015
<b>MEMBERS' EQUITY</b>		
Members' Capital	0	0
Net Assets (Deficit)	(281,381)	307,696
 Total Members' (Deficit)/Equity	 (281,381)	 307,696
 <b>TOTAL LIABILITIES AND MEMBERS' (DEFICIT)/EQUITY</b>	 1,979,749	 1,353,711

OHI WORKERS' COMPENSATION TRUST  
STATEMENTS OF ACTIVITIES

	YEARS ENDED DECEMBER 31	
	2006	2005
<b>SUPPORT AND REVENUE</b>		
Member Contributions Fund Year 2006 and 2005	1,825,957	1,652,958
Adjustment for Prior Year Member Contributions	0	0
Net Member Contributions	1,825,957	1,652,958
Interest and Dividend Income	52,442	27,543
Gain(Loss) on Investments	27,442	2,278
Total Support and Revenue	1,905,841	1,682,779
 <b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Total General and Administrative Expenses	1,255,536	910,908
 <b>CLAIMS EXPENSES</b>		
Paid Losses and Loss Adjustment Expense	461,094	490,106
Case Reserves	(205,873)	78,773
Non-Case Reserves (IBNR)	1,091,692	215,232
Net Claims Expenses	1,346,913	784,111
 <b>DISTRIBUTIONS AND OTHER EXPENSES</b>		
Income Tax Expense	(107,531)	(1,427)
Total Distributions and Other Expenses	(107,531)	(1,427)
Total Expenses	2,494,918	1,693,592
Excess (Deficit) of Support and Revenue Over Expenses	(589,077)	(10,813)
Net Assets, Beginning of Year	307,696	318,509
Net (Deficit) Assets , End of Year	(281,381)	307,696

OHI WORKERS' COMPENSATION TRUST  
STATEMENTS OF CASH FLOWS

	YEARS ENDED DECEMBER 31	
	2006	2005
Cash Flows from Operating Activities:		
Changes in Net Assets	(589,077)	(10,813)
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable - Payroll Audits	5,961	(44,592)
(Increase) Decrease in Prepaid Expenses	2,753	1,135
(Increase) Decrease in Income Taxes Receivable	(3,099)	3,398
(Increase) Decrease in Deferred Tax Asset	(107,832)	(2,168)
Increase (Decrease) in Accounts Payable	(9,403)	(2,960)
Increase (Decrease) in Refunds Due from Payroll Audits	12,689	22,072
Increase (Decrease) in Unearned Contributions	0	(118)
Increase (Decrease) in Accrued Expenses	0	250
Increase (Decrease) in Accrued Income Taxes	0	(1,826)
Increase (Decrease) in Workers' Comp Board Assessments	326,010	108,093
Increase (Decrease) in Case Reserves	4,204	168,965
Increase (Decrease) in Non-Case Reserves (IBNR)	881,615	125,040
Increase (Decrease) in Accrued Interest on Member Security	0	0
Net Cash Provided by Operating Activities	523,821	366,476
Cash Flows from Financing Activities:		
Repayment of Members' Capital Contributions	0	(24,944)
Net Cash Provided by Financing Activities	0	(24,944)
Cash Flows from Investing Activities:		
(Gain)Loss on Investments	(27,442)	(2,278)
Purchase of Investments	(294,629)	(128,842)
Proceeds from Sale of Investments	72,457	104,030
Net Cash Provided by Investing Activities	(249,614)	(27,090)
Net Increase (Decrease) in Cash and Cash Equivalents	274,207	314,442
Cash and Cash Equivalents, Beginning of Year	624,751	310,309
Cash and Cash Equivalents, End of Year	898,958	624,751
Supplemental Disclosures of Cash Flow Information:		
Cash Payments for: Interest	0	0
Income Taxes	9,500	5,850

See Notes to Financial Statements

# OHI WORKERS' COMPENSATION TRUST

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006 and 2005

### 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, 2006 and 2005

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 \$880,019 and \$563,963 at December 31, 2006 and 2005, 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, 2006 and 2005

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, 2006 and 2005.

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 subject to Federal and New York State Corporate Income Taxes.

Income tax expense is as follows:

	<u>2006</u>	<u>2005</u>
Federal Income Tax	\$ -0-	\$ 117
New York State Income Tax	<u>301</u>	<u>624</u>
Total Current Taxes	\$301	\$ 741
Deferred Tax Benefit	<u>(107,832)</u>	<u>(2,168)</u>
Total	<u>\$(107,531)</u>	<u>\$(1,427)</u>

OHI WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006 and 2005

4. INVESTMENTS

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

	<u>2006</u>		<u>2005</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and Cash Equivalents	\$ 898,958	\$ 898,958	\$624,751	\$624,751
Certificates of Deposit	311,294	311,294	235,827	235,827
Government Bonds	220,245	217,201	135,698	132,068
Corporate Bonds	35,235	35,212	45,272	45,563
Mutual Funds	<u>209,783</u>	<u>245,081</u>	<u>133,793</u>	<u>145,716</u>
Total	<u>\$1,675,515</u>	<u>\$1,707,746</u>	<u>\$1,175,341</u>	<u>\$1,183,925</u>

The combination of obligations, preferred and common stock of American Institutions is 16.62% of total regulatory assets as of December 31, 2006 and 16.42% as of December 31, 2005.

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, 2006 and 2005

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, Line10C). The regulatory assets and liabilities as of the balance sheet date are as follows:

	<u>2006</u>	<u>2005</u>
<u>REGULATORY ASSETS</u>		
Cash and Cash Equivalents	\$ 898,958	\$ 624,751
Certificates of Deposits	155,294	79,827
Government Bonds	217,201	132,068
Corporate Bonds	35,212	45,563
Mutual Funds	245,081	145,716
Accounts Receivable	<u>135,068</u>	<u>137,175</u>
Total Regulatory Assets	<u>\$1,686,814</u>	<u>\$1,165,100</u>
<u>REGULATORY LIABILITIES</u>		
Total Liabilities	<u>\$2,261,130</u>	<u>\$1,046,015</u>
Total Regulatory Liabilities	<u>\$2,261,130</u>	<u>\$1,046,015</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>2006</u>		<u>2005</u>		
$\frac{1,686,814}{2,261,130}$	=	$\frac{1,165,100}{1,046,018}$	=	74.60%      111.38%

OHI WORKERS' COMPENSATION TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006 and 2005

8. 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,) for additional information.

	<u>2006</u>	<u>2005</u>
Gross Claims Expense	\$1,789,806	\$824,922
Discount Applied	<u>(146,862)</u>	<u>(67,796)</u>
Net Claims Expense	<u>\$1,642,944</u>	<u>\$757,126</u>

OHI WORKERS' COMPENSATION TRUST  
SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES

	YEARS ENDED DECEMBER 31	
	2006	2005
Actuarial Fees	10,000	10,953
Accounting	5,000	5,225
Audit Fees	6,000	6,000
Bad Debts	2,885	0
Bank Charges	50	0
Management Fee	378,672	347,532
Commissions	127,817	115,707
Directors & Officers Insurance	7,733	9,468
Excess Insurance	265,157	224,782
Experience Mod Service	4,100	3,300
GSIANY	1,600	1,100
Interest Expense	0	0
Investment Management Expense	4,160	2,384
Legal Expense	250	0
Member Director Meetings	90	75
Association Fees	1,462	1,414
Payroll Audit Fee	6,440	5,500
Project Expense	973	1,680
Financial Security Expense	12,480	14,970
Supplies and Postage	2,360	1,596
Workers' Compensation Board Assessments	413,874	159,222
Hold Harmless Credits	4,433	0
	1,255,536	910,908
Total General and Administrative Expenses		

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