

**Empire State Transportation
Workers' Compensation
Trust**

**Financial Statements
(and Report of Independent Accountants)
For the Year Ended December 31, 2001**

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WORKERS' COMPENSATION
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Empire State Transportation Workers' Compensation Trust

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Report of Independent Accountants

To the Board of Trustees and Members of
Empire State Transportation Workers' Compensation Trust:

In our opinion, the accompanying balance sheet and the related statements of operations, changes in members' equity and cash flows present fairly, in all material respects, the financial position of Empire State Transportation Workers' Compensation Trust at December 31, 2001, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the Company changed its method of accounting from a basis it uses to file its federal tax return to a basis consistent with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 1, 2002

Empire State Transportation Workers' Compensation Trust
Balance Sheet
At December 31, 2001

ASSETS

Cash and cash equivalents	\$ 2,546,188
Investments	13,607,091
Contributions receivable	178,928
Prepaid expenses	255,981
Interest receivable	201,757
Income taxes receivable	<u>1,365</u>
Total assets	<u>\$ 16,791,310</u>

LIABILITIES

Liability for unpaid claims and claim adjustment expenses, net	\$ 12,998,723
Accrued New York State assessments	855,128
Accrued expenses	256,754
Contributions received in advance and refunds payable	644,440
Members' dividends payable	<u>1,867,544</u>
Total liabilities	16,622,589

MEMBERS' EQUITY

Members' equity	<u>168,721</u>
Total liabilities and members' equity	<u>\$ 16,791,310</u>

The accompanying notes are an integral part of the financial statements.

Empire State Transportation Workers' Compensation Trust
Statement of Operations
For the Year Ended December 31, 2001

Revenues:

Contributions earned	\$ 10,678,459
Investment income, including amortization of bond discount and (premium), net, of \$25,517 in 2001	<u>810,694</u>
Total revenues	<u>11,489,153</u>

Expenses:

Loss and loss adjustment expenses incurred, net	6,037,610
Management, general and administrative expenses	3,686,661
Dividends to members	<u>1,764,882</u>
Total expenses	<u>11,489,153</u>
Net income	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements.

Empire State Transportation Workers' Compensation Trust
Statement of Changes in Members' Equity
For the Year Ended December 31, 2001

	Accumulated Other Comprehensive Income	Members' Equity	Total Members' Equity
Balance at January 1, 2001 (see Note 2)	\$ 165,229	\$ -	\$ 165,229
Net income	-	-	-
Other comprehensive income:			
Available-for-sale securities	3,492	-	3,492
Balance at December 31, 2001	<u>\$ 168,721</u>	<u>\$ -</u>	<u>\$ 168,721</u>

The accompanying notes are an integral part of the financial statements.

Empire State Transportation Workers Compensation Trust
Statement of Cash Flows
For the Year Ended December 31, 2001

Cash flows from operating activities:	
Net income	\$ -
Adjustments to reconcile net income to net cash provided by operating activities:	
Amortization of bond (discount) and premium, net	(25,517)
(Gain) loss on sale of investments, net	(35,305)
Net change in assets and liabilities:	
Contributions receivable	12,706
Prepaid expenses	(120,742)
Interest receivable	(47,135)
Liability for unpaid claims and claim adjustment expenses	2,700,179
Accrued New York State assessments	336,825
Accrued expenses	90,174
Contributions received in advance and refunds payable	260,285
Members' dividends payable	1,428,708
	<hr/>
Net cash provided by operating activities	4,600,178
	<hr/>
Cash flows from investing activities:	
Cost of investments acquired	(8,469,721)
Proceeds from investments sold or matured	4,793,815
	<hr/>
Net cash used in investing activities	(3,675,906)
	<hr/>
Net increase in cash and cash equivalents	924,272
Cash and cash equivalents at beginning of year	1,621,916
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Cash and cash equivalents at end of year	\$ 2,546,188
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The accompanying notes are an integral part of the financial statements.

Empire State Transportation Workers' Compensation Trust

Notes to Financial Statements

1. Organization

The Empire State Transportation Workers' Compensation Trust (the "Trust") was organized to create a nonprofit unincorporated association of transportation merchants within the State of New York to constitute a workers' compensation self-insurance group under New York State Workers Compensation Laws Section 50, subdivision 3-a. The Trust, which commenced operations on January 1, 1995, was created to make available a self-insured workers' compensation program for transportation merchants of the State of New York, to establish, maintain, promote and enforce sound safety programs, and to provide a cost-effective market in which transportation merchants may obtain workers' compensation insurance coverage. The Trust is currently administered by a third-party administrator (Administrator) who is paid fees based on a percentage of the total annual contributions earned.

2. Summary of Significant Accounting Policies

Beginning January 1, 2001, The Trust changed its method of reporting its financial statements from the basis the Trust uses to file its federal income tax return to a basis consistent with accounting principles generally accepted in the United States of America, to conform with the recently amended New York State Workers' Compensation Laws Section 50, subdivision 3-a, Part 317 - Group Self-Insurance. This resulted in an adjustment to accumulated other comprehensive income of \$165,229 at January 1, 2001.

Use of estimates

The preparation of financial statements in conformity with the accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

The Trust considers cash and cash equivalents to be cash in the bank, money market funds and highly liquid securities with an original maturity of three months or less. From time to time, the Trust has on deposit with certain banks, cash and cash equivalents which exceed the amount subject to federal deposit insurance. The Trust attempts to mitigate this risk by depositing its cash and cash equivalents with high credit quality financial institutions.

Investments

Investments in fixed maturities (U.S. Government and corporate obligations) and equity securities are carried at market value, based upon quoted market prices. The Trust accounts for its investments in accordance with Statement of Financial Accounting Standard (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities". The Company holds all investments as available-for-sale, and as such unrealized holding gains and losses on investments are excluded from earnings and reported as a separate component of members' equity until realized. Interest income is recognized when earned. Amortization of bond discount and premium is recorded using the straight line method over the period from purchase date to maturity. Realized gains and losses for corporate and U.S. Government obligations are included in earnings and determined using the specific identification method. Realized gains and losses for equity securities are included in earnings and determined using the first-in - first-out method.

Empire State Transportation Workers' Compensation Trust

Notes to Financial Statements

2. Summary of Significant Accounting Policies, Continued

Contributions

Contributions earned are computed on a pro rata basis over the term of the underlying insurance certificates. All certificates issued by the Trust expire on December 31. The Trust provides for contribution adjustments to its members based upon actual payroll information and accrues such contributions in the year billed.

Loss and loss adjustment expenses

The actuarially determined liability for unpaid claims and claim adjustment expenses includes an amount determined from loss reports of individual cases, an amount for losses incurred but not reported, and an amount for certain New York State assessments. The Trust discounts its liability for unpaid claims and claim adjustment expenses in accordance with Internal Revenue Service Code 846. Such liabilities are necessarily based on estimates (and industry trends data) and, while management believes that the amount is adequate, the ultimate liability may vary significantly from the estimated amounts in these financial statements. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in operations in the year of the change.

Income taxes

Federal and state taxable income is eliminated through the declaration of dividends to members. The Trust is not subject to a New York State premium tax.

The Trust's income tax returns are subject to examination by taxing authorities. The application of tax laws and regulations to many types of transactions are susceptible to varying interpretations. Consequently, amounts reported in the financial statements could be revised at a later date upon final determinations by taxing authorities. Although the tax treatments reflected in the financial statements are believed to be appropriate, material adjustments could result if reporting of certain transactions were successfully challenged by taxing authorities.

3. Investments

The cost or amortized cost, fair value and gross unrealized gains and losses of investments by major security type at December 31, 2001 are as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government obligations	\$ 7,834,885	\$ 221,416	\$ (103,910)	\$ 7,952,391
Corporate obligations	4,392,684	135,435	(12,998)	4,515,121
	2,227,569	356,851	(116,908)	12,467,512
Equity securities	1,210,801	77,668	(148,890)	1,139,579
	<u>\$ 13,438,370</u>	<u>\$ 434,519</u>	<u>\$ (265,798)</u>	<u>\$ 3,607,091</u>

Empire State Transportation Workers' Compensation Trust

Notes to Financial Statements

3. Investments, Continued

Included in U.S. Government obligations at December 31, 2001 is a U.S. Treasury Strip Bond with an amortized cost of \$396,196, and fair value of \$413,762.

Proceeds from the sale of investments were \$4,793,815 in 2001, resulting in gross realized gains of \$135,785 and realized losses of \$100,480.

The scheduled maturities of fixed maturity investments at December 31, 2001 were as follows:

	Amortized Cost	Fair Value
Due in one year or less	\$ 510,606	\$ 521,672
Due after one year through five years	6,392,241	6,676,671
Due after five years through ten years	5,324,722	5,269,169
Total	\$ 12,227,569	\$ 12,467,512

4. Liability for Unpaid Claims and Claim Adjustment Expenses

Activity in the liability for unpaid claims and claim adjustment expenses is summarized as follows:

Balance at January 1	\$ 10,298,545
Incurred related to:	
Current year	6,615,022
Prior years	(577,412)
Paid related to:	
Current year	(1,014,148)
Prior years	(2,323,284)
	\$ 12,998,723
Balance at December 31	

The undiscounted liability for unpaid claims and claim adjustment expenses was \$16,537,702 at December 31, 2001.

The Trust has included a receivable from excess carrier of \$148,749 in the liability for unpaid claims and claims adjustment expense at December 31, 2001. The undiscounted receivable from excess carrier was \$181,084 at December 31, 2001.

Included in loss and loss adjustment expenses incurred was subrogation received of \$464,080 for the year ended December 31, 2001.

Empire State Transportation Workers' Compensation Trust

Notes to Financial Statements

5. Excess Insurance

The Trust through the Administrator, has obtained specific and aggregate excess insurance from an outside carrier. Under this arrangement, the Trust's losses in excess of \$9,062,862 in aggregate or \$300,000 per accident per insured will be covered by the excess insurance.

In the event the Trust's excess insurer is unable to meet its obligations under the excess insurance agreement, the Trust would continue to have primary liability to members for losses incurred.

6. Commitments and Contingencies

The Trust has entered into a management agreement, expiring December 31, 2005, with the Administrator under which the Administrator provides various services including loss control, claims, marketing, accounting and general administration. The Administrator also receives a commission for obtaining insurance coverages for the Trust. The Trust incurred management fees and commission expense of \$1,458,841 for the year ended December 31, 2001.

The administrator also acts as a sales broker and along with other agents recruits transportation merchants as members of the Trust. For the year ended December 31, 2001, the Trust incurred commission expense to the administrator and agents of \$837,099.

The Trust has a surety bond pledged to the State of New York in the amount of \$442,162. Should the State have to draw on this bond, the Trust could be liable to the surety company up to this amount. The Trust has a letter of credit with Key Bank for \$250,000 as collateral on the surety bond. The letter of credit is collateralized by the Trust's investments. During March 2002, the surety and collateral were increased to \$624,000 and \$312,000, respectively.

The Trust has entered into an indemnity agreement with each member to provide risk management services and workers' compensation and employer's liability coverage. The agreement stipulates, among other things, that each member is jointly and severally liable for the workers' compensation and employer's liability obligations of the Trust and its members which were incurred during the member's period of membership in the Trust, irrespective of the subsequent termination of the member's membership in the Trust, the insolvency or bankruptcy of another member of the Trust, or other facts or circumstances. However, recourse for any and all payments of workers' compensation and employer's liability benefits covered by the Trust's certificate of coverage to a member shall first be made from the Trust's assets.

Insurance assessment laws have been adopted by New York State to protect members in case of an insurer's insolvency. Insurers doing business in New York State can be assessed for certain obligations of insolvent companies to members and claimants. The ultimate liability of these assessments may vary significantly from the estimated amounts in the financial statements.

The Trust is in non-compliance with the Workers Compensation Laws Section 50, subdivision 3-a, Part 317 - Group Self-Insurance, as currently enacted. The Administrator is discussing alternatives with the Workers Compensation Board to either modify current laws or obtain a letter of permitted practice to resolve the non-compliance.

Empire State Transportation Workers' Compensation Trust

Notes to Financial Statements

7. Distribution to Members

During the year ended December 31, 2001, the Trust declared dividends in the amount of \$1,764,882, which is included in members' dividends payable at December 31, 2001. Dividends paid were \$336,174 during the year ended December 31, 2001.