

**NY Transportation
Workers' Compensation
Trust**

**Financial Statements
(and Report of Independent Accountants)
For the Period from Inception (December 1, 2000)
to December 31, 2001**

NY Transportation Workers Compensation Trust

Contents

| | <u>Page(s)</u> |
|--|----------------|
| Report of Independent Accountants | 1 |
| Financial Statements | |
| Balance sheet | 2 |
| Statement of operations | 3 |
| Statement of changes in members' deficit | 4 |
| Statement of cash flows | 5 |
| Notes to financial statements | 6-9 |

Report of Independent Accountants

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

In our opinion, the accompanying balance sheet and the related statements of operations, changes in members' deficit and cash flows present fairly, in all material respects, the financial position of NY Transportation Workers' Compensation Trust at December 31, 2001, and the results of its operations and its cash flows for the period from inception (December 1, 2000) to December 31, 2001 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.

PricewaterhouseCoopers LLP

March 1, 2002

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

ASSETS

| | |
|---------------------------|---------------------|
| Cash and cash equivalents | \$ 1,371,820 |
| Investments | 2,272,959 |
| Contributions receivable | 40,682 |
| Prepaid expenses | 118,226 |
| Interest receivable | 33,759 |
| Income taxes receivable | <u>50</u> |
| Total assets | <u>\$ 3,837,496</u> |

LIABILITIES

| | |
|---|------------------|
| Liability for unpaid claims and claim adjustment expenses | \$ 2,057,816 |
| Accrued New York State assessments | 49,731 |
| Accrued expenses | 27,205 |
| Contributions received in advance and refunds payable | 495,170 |
| Members' dividends payable | <u>1,243,150</u> |
| Total liabilities | 3,873,072 |

MEMBERS' DEFICIT

| | |
|--|---------------------|
| Members' deficit | <u>(35,576)</u> |
| Total liabilities and members' deficit | <u>\$ 3,837,496</u> |

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

NY Transportation Workers' Compensation Trust
Statement of Operations
For the Period from Inception (December 1, 2000) to December 31, 2001

Revenues:

| | |
|--|------------------|
| Contributions earned | \$ 4,940,197 |
| Investment income, including amortization of bond discount and (premium), net, of \$(1,769) in 2001 | <u>65,856</u> |
| Total revenues | <u>5,006,053</u> |

Expenses:

| | |
|---|--------------------|
| Loss and loss adjustment expenses incurred | 2,358,784 |
| Management, general and administrative expenses | 1,404,119 |
| Dividends to members | <u>1,243,150</u> |
| Total expenses | <u>5,006,053</u> |
| Net income | <u><u>\$ -</u></u> |

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

NY Transportation Workers' Compensation Trust
Statement of Changes in Members' Deficit
For the Period from Inception (December 1, 2000) to December 31, 2001

| | Accumulated Other Comprehensive Loss | Members' Deficit | Total Members' Deficit |
|-------------------------------|---|---------------------|------------------------------|
| Balance at December 1, 2000 | \$ - | \$ - | \$ - |
| Net income | - | - | - |
| Other comprehensive loss: | | | |
| Available-for-sale securities | (35,576) | - | (35,576) |
| Balance at December 31, 2001 | <u>\$ (35,576)</u> | <u>\$ -</u> | <u>\$ (35,576)</u> |

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

NY Transportation Workers Compensation Trust
Statement of Cash Flows
For the Period from Inception (December 1, 2000) to 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 | 1,769 |
| Gain (loss) on sale of investments, net | (946) |
| Net change in assets and liabilities: | |
| Contributions receivable | (40,682) |
| Prepaid expenses | (118,226) |
| Interest receivable | (33,759) |
| Income taxes receivable | (50) |
| Liability for unpaid claims and claim adjustment expenses | 2,057,816 |
| Accrued New York State assessments | 49,731 |
| Accrued expenses | 27,205 |
| Contributions received in advance and refunds payable | 495,170 |
| Members' dividends payable | <u>1,243,150</u> |
| Net cash provided by operating activities | <u>3,681,178</u> |
| Cash flows from investing activities: | |
| Cost of investments acquired | (2,560,763) |
| Proceeds from investments sold or matured | <u>251,405</u> |
| Net cash used in investing activities | <u>(2,309,358)</u> |
| Net increase in cash and cash equivalents | 1,371,820 |
| Cash and cash equivalents at beginning of period | <u>-</u> |
| Cash and cash equivalents at end of period | <u><u>\$ 1,371,820</u></u> |

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

NY Transportation Workers' Compensation Trust

Notes to Financial Statements

1. Organization

The NY 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 December 1, 2000, 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

Use of estimates

The preparation of financial statements in conformity with 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 financial institutions, 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) are carried at market value, based on 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' deficit 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 investments are included in earnings and determined using the specific identification method.

NY 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.

One member represented 11% of the Trust's contributions earned for the period from inception (December 1, 2000) to December 31, 2001.

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

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|-----------------------------|---------------------|------------------------------|-------------------------------|---------------------|
| U.S. Government obligations | \$ 752,583 | \$ 229 | \$ (6,083) | \$ 746,729 |
| Corporate obligations | 1,555,952 | 792 | (30,514) | 1,526,230 |
| | <u>\$ 2,308,535</u> | <u>\$ 1,021</u> | <u>\$ (36,597)</u> | <u>\$ 2,272,959</u> |

Proceeds from the sale of investments were \$251,405 in 2001, resulting in realized gains of \$946.

NY Transportation Workers' Compensation Trust
Notes to Financial Statements

3. Investments, Continued

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

| | <u>Amortized Cost</u> | <u>Fair Value</u> |
|--|---------------------------|-----------------------|
| Due after one year through five years | \$ 1,102,458 | \$ 1,087,010 |
| Due after five years through ten years | <u>1,206,077</u> | <u>1,185,949</u> |
| Total | <u>\$ 2,308,535</u> | <u>\$ 2,272,959</u> |

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 | \$ - |
| Incurred related to: | |
| Current period | 2,358,784 |
| Paid related to: | |
| Current period | <u>(300,968)</u> |
| Balance at December 31 | <u>\$ 2,057,816</u> |

The undiscounted liability for unpaid claims and claim adjustment expenses was \$2,505,298 at December 31, 2001.

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 \$4,940,197 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.

NY Transportation Workers' Compensation Trust

Notes to Financial Statements

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 \$710,292 for the period from inception (December 1, 2000) to 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 period from inception (December 1, 2000) to December 31, 2001, the Trust incurred commission expense to the Administrator and agents of \$296,413.

The Trust has a surety bond pledged to the State of New York in the amount of \$624,000. 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 of \$500,000 as collateral on the surety bond. The letter of credit is collateralized by the Trust's investments. During February 2002, the Trust increased the collateral \$312,000.

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.

7. Distribution to Members

During the period ended December 31, 2001 the Trust declared dividends in the amount of \$1,243,150, which is included in members' dividends payable at December 31, 2001.