

NY Transportation Workers' Compensation Trust

**Financial Statements
(and Report of Independent Accountants)
For the Year Ended December 31, 2002 and the
Period from Inception (December 1, 2000) to
December 31, 2001**

NY Transportation Workers' Compensation Trust
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Report of Independent Accountants

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

In our opinion, the accompanying balance sheets and the related statements of operations, changes in members' equity (deficit) and cash flows present fairly, in all material respects, the financial position of NY Transportation Workers' Compensation Trust (the "Trust") at December 31, 2002 and 2001, and the results of its operations and its cash flows for the year ended December 31, 2002 and 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 Trust's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

March 7, 2003

NY Transportation Workers' Compensation Trust
Balance Sheets
At December 31, 2002 and 2001

	2002	2001
ASSETS		
Cash and cash equivalents	\$ 2,883,958	\$ 1,371,820
Investments	9,070,589	2,272,959
Contributions receivable	108,628	40,682
Prepaid expenses	14,401	118,226
Interest receivable	84,902	33,759
Income taxes receivable	50	50
	<u>50</u>	<u>50</u>
Total assets	<u>\$ 12,162,528</u>	<u>\$ 3,837,496</u>
LIABILITIES		
Liability for unpaid claims and claim adjustment expenses	\$ 6,885,266	\$ 2,057,816
Accrued New York State assessments	258,418	49,731
Accrued expenses	442,183	27,205
Contributions received in advance and refunds payable	834,627	495,170
Members' dividends payable	3,438,518	1,243,150
	<u>3,438,518</u>	<u>1,243,150</u>
Total liabilities	11,859,012	3,873,072
MEMBERS' EQUITY (DEFICIT)		
Members' equity (deficit)	<u>303,516</u>	<u>(35,576)</u>
Total liabilities and members' equity (deficit)	<u>\$ 12,162,528</u>	<u>\$ 3,837,496</u>

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

NY Transportation Workers' Compensation Trust
Statements of Operations
For the Year Ended December 31, 2002 and the Period from Inception (December 1, 2000) to December 31, 2001

	2002	2001
Revenues:		
Contributions earned	\$ 11,798,316	\$ 4,940,197
Investment income, including amortization of bond (premium), net, of (\$13,455) and (\$1,769) in 2002 and 2001, respectively	<u>221,791</u>	<u>65,856</u>
Total revenues	<u>12,020,107</u>	<u>5,006,053</u>
Expenses:		
Loss and loss adjustment expenses incurred, net	6,345,856	2,358,784
Management, general and administrative expenses	3,404,941	1,404,119
Dividends to members	<u>2,195,368</u>	<u>1,243,150</u>
Total expenses	<u>11,946,165</u>	<u>5,006,053</u>
Net income	<u>\$ 73,942</u>	<u>\$ -</u>

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

NY Transportation Workers' Compensation Trust
Statements of Changes in Members' Equity
For the Year Ended December 31, 2002 and the Period from Inception (December 1, 2000) to December 31, 2001

	Accumulated Other Comprehensive Income	Members' Equity	Total Members' Equity
Balance at December 1, 2000	\$ -	\$ -	\$ -
Net income	-	-	-
Other comprehensive income			
Available-for-sale securities	(35,576)	-	(35,576)
Balance at December 31, 2001	(35,576)	-	(35,576)
Net income	-	73,942	73,942
Other comprehensive loss:			
Available-for-sale securities	265,150	-	265,150
Balance at December 31, 2002	<u>\$ 229,574</u>	<u>\$ 73,942</u>	<u>\$ 303,516</u>

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

NY Transportation Workers Compensation Trust

Statements of Cash Flows

For the Year Ended December 31, 2002 and the Period from Inception (December 1, 2000) to December 31, 2001

	2002	2001
Cash flows from operating activities:		
Net income	\$ 73,942	\$ -
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of bond premium, net	13,455	1,769
Loss on sale of investments, net	(2,852)	(946)
Net change in assets and liabilities:		
Contributions receivable	(67,946)	(40,682)
Prepaid expenses	103,825	(118,226)
Interest receivable	(51,143)	(33,759)
Income taxes receivable	-	(50)
Liability for unpaid claims and claim adjustment expenses	4,827,450	2,057,816
Accrued New York State assessments	208,687	49,731
Accrued expenses	414,978	27,205
Contributions received in advance and refunds payable	339,459	495,170
Members' dividends payable	2,195,366	1,243,150
Net cash provided by operating activities	<u>8,055,221</u>	<u>3,681,178</u>
Cash flows from investing activities:		
Cost of investments acquired	(7,846,520)	(2,560,763)
Proceeds from investments sold or matured	<u>1,303,437</u>	<u>251,405</u>
Net cash used in investing activities	<u>(6,543,083)</u>	<u>(2,309,358)</u>
Net increase in cash and cash equivalents	1,512,138	1,371,820
Cash and cash equivalents at beginning of period	<u>1,371,820</u>	<u>-</u>
Cash and cash equivalents at end of period	<u>\$ 2,883,958</u>	<u>\$ 1,371,820</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 (the "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 Trust 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 (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.

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.

NY Transportation Workers' Compensation Trust

Notes to Financial Statements

2. Summary of Significant Accounting Policies, Continued

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, 2002 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government obligations	\$ 6,865,139	\$ 79,513	\$ -	\$ 6,944,652
Corporate obligations	<u>1,975,876</u>	<u>150,061</u>	<u>-</u>	<u>2,125,937</u>
	<u>\$ 8,841,015</u>	<u>\$ 229,574</u>	<u>\$ -</u>	<u>\$ 9,070,589</u>

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	<u>1,555,952</u>	<u>792</u>	<u>(30,514)</u>	<u>1,526,230</u>
	<u>\$ 2,308,535</u>	<u>\$ 1,021</u>	<u>\$ (36,597)</u>	<u>\$ 2,272,959</u>

NY Transportation Workers' Compensation Trust

Notes to Financial Statements

3. Investments, Continued

Proceeds from the sale of investments were \$1,303,437 in 2002, resulting in gross realized gains of \$6,658 and gross realized losses of \$3,806. Proceeds from the sale of investments were \$251,405 in 2001, resulting in gross realized gains of \$946.

The scheduled maturities of fixed maturity investments at December 31, 2002 were as follows:

	Amortized Cost	Fair Value
Due after one year through five years	\$ 7,810,044	\$ 7,951,169
Due after five years through ten years	<u>1,030,971</u>	<u>1,119,420</u>
Total	<u>\$ 8,841,015</u>	<u>\$ 9,070,589</u>

4. Liability for Unpaid Claims and Claim Adjustment Expenses

The following table presents an analysis of reserves for loss and loss adjustment expenses, including an estimate of future losses and a reconciliation of beginning and ending reserve balances for 2002 and the period from inception (July 1, 2000) to December 31, 2001. Reserves are stated on a net basis after deductions for losses recoverable from reinsurers and subrogation:

	2002	2001
Reserve for loss and loss adjustment expenses, beginning of period, net	\$ 2,057,816	\$ -
Incurred losses and loss adjustment expenses:		
Provision for insured events of the current period	6,306,811	2,358,784
Increase in provision for insured events of prior period	<u>39,045</u>	<u>-</u>
	<u>6,345,856</u>	<u>2,358,784</u>
Payments:		
Loss and loss adjustment expenses attributable to insured events of the current period	(975,017)	(300,968)
Loss and loss adjustment expenses attributable to insured events of prior period	<u>(543,389)</u>	<u>-</u>
	<u>(1,518,406)</u>	<u>(300,968)</u>
Reserve for loss and loss adjustment expenses, end of period, net	<u>\$ 6,885,266</u>	<u>\$ 2,057,816</u>

The undiscounted liability for unpaid claims and claim adjustment expenses was \$8,129,271 and \$2,505,298 at December 31, 2002 and 2001, respectively.

Included in loss and loss adjustment expenses incurred is subrogation received of \$12,892 for the year ended December 31, 2002. There was no subrogation for the period from inception (December 1, 2000) to December 31, 2001.

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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 \$8,680,717 in aggregate or \$400,000 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. Discount Rates

The Trust discounts reserves using the IRS discount factors and rates. The rates range from 5.71% to 6.09% since inception.

7. 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 \$1,597,390 and \$710,292 for the year ended December 31, 2002 and the period from inception (December 1, 2000) to December 31, 2001, respectively.

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, 2002 and the period from inception (December 1, 2000) to December 31, 2001, the Trust incurred commission expense to the Administrator and agents of \$707,920 and \$296,413, respectively.

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 \$312,000 as collateral on the surety bond which expires February 8, 2003. The letter of credit is collateralized by the Trust's investments. The letter of credit was reduced by \$156,000 in February 2003.

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.

NY Transportation Workers' Compensation Trust

Notes to Financial Statements

7. Commitments and Contingencies, Continued

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.

8. Distribution to Members

During the year ended December 31, 2002 and the period from inception (December 1, 2000) to December 31, 2001, the Trust declared dividends in the amount of \$2,195,368 and \$1,243,150, respectively, which is included in members' dividends payable at December 31, 2002 and 2001, respectively.