

NY Transportation Workers' Compensation Trust

**Financial Statements
(and Report of Independent Auditors)
December 31, 2004**

NY Transportation Workers' Compensation Trust
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December 31, 2004

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Report of Independent Auditors

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' 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, 2004, 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 Trust'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. 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, 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

April 1, 2005

NY Transportation Workers' Compensation Trust
Balance Sheet
December 31, 2004

Assets

Cash and cash equivalents	\$ 5,167,640
Investments	20,722,368
Contributions receivable	177,674
Prepaid expenses and other assets	28,714
Interest receivable	159,092
Reinsurance recoverable	1,214,693
Income taxes receivable	50
Total assets	<u>\$ 27,470,231</u>

Liabilities

Reserve for loss and loss adjustment expenses	\$ 24,306,240
Accrued New York State assessments	2,037,581
Accrued expenses	788,885
Contributions received in advance and refunds payable	1,138,933
Total liabilities	<u>28,271,639</u>

Members' Deficit

Members' deficit	<u>(801,408)</u>
Total liabilities and members' deficit	<u>\$ 27,470,231</u>

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

NY Transportation Workers' Compensation Trust
Statement of Operations
Year Ended December 31, 2004

Revenues	
Contributions earned	\$ 22,007,591
Ceded premium - excess insurance	(2,359,923)
Net contributions earned	<u>19,647,668</u>
Investment income, including amortization of bond discount, net, of \$577	605,933
Other income	82
Total revenues	<u>20,253,683</u>
Expenses	
Loss and loss adjustment expenses incurred, net	14,883,919
Management, general and administrative expenses	6,258,161
Dividends to members	(16,272)
Total expenses	<u>21,125,808</u>
Net loss	<u>\$ (872,125)</u>

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

NY Transportation Workers' Compensation Trust
Statement of Changes in Members' Equity
Year Ended December 31, 2004

	Accumulated Other Comprehensive Income	Retained Earnings Accumulated Deficit	Total Members' Equity (Deficit)	Comprehensive Loss
Balance at December 31, 2003	\$ 196,546	\$ 49,291	\$ 245,837	
Net loss	-	(872,125)	(872,125)	\$ (872,125)
Other comprehensive loss				
Unrealized net holding losses arising during the year	(172,795)	-	(172,795)	(172,795)
Reclassification adjustment for net gains realized during the year	(2,325)	-	(2,325)	(2,325)
Total comprehensive loss				<u>\$ (1,047,245)</u>
Balance at December 31, 2004	<u>\$ 21,426</u>	<u>\$ (822,834)</u>	<u>\$ (801,408)</u>	

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

NY Transportation Workers Compensation Trust
Statement of Cash Flows
Year Ended December 31, 2004

Cash flows from operating activities	
Net loss	\$ (872,125)
Adjustments to reconcile net loss to net cash provided by operating activities	
Amortization of bond discount, net	(577)
Gain on sale of investments, net	(2,325)
Net change in assets and liabilities	
Contributions receivable	80,034
Prepaid expenses and other assets	(10,351)
Interest receivable	(39,974)
Reinsurance recoverable	49,132
Reserve for loss and loss adjustment expenses	6,274,884
Accrued New York State assessments	1,136,467
Accrued expenses	(94,047)
Contributions received in advance and refunds payable	147,849
Members' dividends payable	(16,272)
Net cash provided by operating activities	<u>6,652,695</u>
Cash flows from investing activities	
Cost of investments acquired	(12,332,285)
Proceeds from investments sold or matured	<u>6,200,217</u>
Net cash used in investing activities	<u>(6,132,068)</u>
Net increase in cash and cash equivalents	520,627
Cash and cash equivalents at beginning of year	<u>4,647,013</u>
Cash and cash equivalents at end of year	<u><u>\$ 5,167,640</u></u>

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

NY Transportation Workers' Compensation Trust

Notes to Financial Statements

Year Ended December 31, 2004

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.

The Trust has a members' deficit balance of \$801,408. The Administrator believes that future regulatory changes will have a positive impact on the Trust's members' deficit. If these regulatory changes do not occur or do not have a positive impact on the Trust's members' deficit, the Administrator will review the Trust's their underwriting guidelines to increase the contributions and reduce the deficit.

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 income 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 income and determined using the specific identification method.

NY Transportation Workers' Compensation Trust
Notes to Financial Statements
Year Ended December 31, 2004

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. Amounts received during the year ended December 31, 2004 for payroll audits of previous years was \$814,054.

Loss and Loss Adjustment Expenses

The actuarially determined reserve for loss and loss 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 reserve for loss and loss adjustment expenses. Such reserves 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 and could have a material effect on Members' equity (deficit) in future periods. The methods for making such estimates and for establishing the resulting reserve 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 and therefore no deferred tax assets or liabilities have been recognized by the Trust. 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, 2004, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government obligations	\$ 11,431,028	\$ 21,137	\$ (103,564)	\$ 11,348,601
Corporate obligations	<u>9,269,914</u>	<u>138,864</u>	<u>(35,011)</u>	<u>9,373,767</u>
	<u>\$ 20,700,942</u>	<u>\$ 160,001</u>	<u>\$ (138,575)</u>	<u>\$ 20,722,368</u>

Proceeds from the sale and maturity of investments were \$6,200,217 in 2004, resulting in gross realized gains of \$2,325.

NY Transportation Workers' Compensation Trust
Notes to Financial Statements
Year Ended December 31, 2004

The scheduled maturities of fixed maturity investments at December 31, 2004, were as follows:

	Amortized Cost	Fair Value
Due in less than one year	\$ 3,099,442	\$ 3,096,508
Due after one year through five years	15,213,212	15,252,908
Due after five years through ten years	501,171	502,395
Thereafter	<u>1,887,117</u>	<u>1,870,557</u>
Total	<u>\$ 20,700,942</u>	<u>\$ 20,722,368</u>

4. Reserve for Loss and Loss Adjustment Expenses

The components of the reserve for loss and loss adjustment expenses at December 31, 2004, are as follows:

Reserve for reported losses	\$ 11,052,066
Reserve for incurred but not reported losses	<u>13,254,174</u>
Total reserve for loss and loss adjustment expenses	<u>\$ 24,306,240</u>

To reflect the time value of money, the reserve for loss and loss adjustment expenses has been discounted using an interest rate of 3.5%. The undiscounted reserve as of December 31, 2004 was \$28,683,264.

The following table presents an analysis of the reserve for loss and loss adjustment expenses, including an estimate of future losses and a reconciliation of beginning and ending reserve balances for 2004. The reserve is stated on a net basis after deductions for losses recoverable from reinsurers and subrogation.

	2004
Discounted reserve for loss and loss adjustment expenses, beginning of year, gross	\$ 18,031,356
Less: Reinsurance recoverable, beginning of year	<u>(1,263,825)</u>
Discounted reserve for loss and loss adjustment expenses, beginning of year, net	<u>16,767,531</u>
Incurred provision for loss and loss adjustment expenses	
Provision for insured events of the current year	14,289,952
Increase in provision for insured events of prior years	<u>593,967</u>
	<u>14,883,919</u>
Payments	
Loss and loss adjustment expenses attributable to insured events of the current year	(2,574,639)
Loss and loss adjustment expenses attributable to insured events of prior years	<u>(5,985,264)</u>
	<u>(8,559,903)</u>
Discounted reserve for loss and loss adjustment expenses,	

NY Transportation Workers' Compensation Trust

Notes to Financial Statements

Year Ended December 31, 2004

end of year, net	23,091,547
Add: Reinsurance recoverable, end of year	<u>1,214,693</u>
Discounted reserve for loss and loss adjustment expenses, end of year, gross	<u>\$ 24,306,240</u>

Included in loss and loss adjustment expenses incurred is subrogation received of \$54,603 for the year ended December 31, 2004.

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 \$21,193,538 in aggregate or \$600,000 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 management, marketing, accounting and general administration. The Administrator also receives a commission for obtaining insurance coverage's for the Trust. The Trust incurred management fees and commission expense of \$3,233,495 for the year ended December 31, 2004.

The Administrator also acts as a sales broker and along with other agent's recruits transportation merchants as members of the Trust. For the year ended December 31, 2004, the Trust incurred commission expense to the Administrator and agents of \$1,319,781.

The Trust has a surety bond pledged to the State of New York in the amount of \$900,000. 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 \$156,000 as collateral on the surety bond. The letter of credit is collateralized by the Trust's investments.

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.

NY Transportation Workers' Compensation Trust
Notes to Financial Statements
Year Ended December 31, 2004

7. Related Party

All Trustees on the Board are employed by covered members of the Trust. Each Trustee receives a nominal fee for serving on the Board; during 2004, these fees totaled \$8,750. Trustees are also reimbursed for travel costs incurred to attend the meetings.

8. Distribution to Members

During the year ended December 31, 2004, upon review of prior year claim experience, the Board of Trustees approved a reduction of dividends payable of (\$16,272).