

**NY TRANSPORTATION  
WORKERS' COMPENSATION TRUST**

FINANCIAL STATEMENTS

Years ended December 31, 2006 and 2005

# **NY TRANSPORTATION WORKERS' COMPENSATION TRUST**

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## REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying balance sheet of NY Transportation Workers' Compensation Trust (the "Trust") as of December 31, 2006, and the related statements of operations, changes in members' deficit, and cash flows for the year then ended. 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. The financial statements of the Trust as of December 31, 2005, were audited by other auditors whose report dated April 12, 2006, expressed an unqualified opinion on those statements.

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 2006 financial statements referred to above present fairly, in all material respects, the financial position of NY Transportation Workers' Compensation Trust as of December 31, 2006, 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.

*UHY* LLP

Albany, New York  
April 17, 2007

**NY TRANSPORTATION  
WORKERS' COMPENSATION TRUST  
BALANCE SHEETS  
December 31, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 4,602,587	\$ 5,169,838
Investments	37,025,602	27,236,134
Contributions receivable	560,002	528,239
Prepaid expenses and other assets	95,411	25,922
Interest receivable	353,055	216,210
Reinsurance receivable	<u>1,887,933</u>	<u>1,782,919</u>
Total assets	<u>\$ 44,524,590</u>	<u>\$ 34,959,262</u>
<b>LIABILITIES</b>		
Reserve for loss and loss adjustment expenses	\$ 42,910,958	\$ 33,095,991
Accrued New York State assessments	2,708,680	3,205,813
Accrued expenses	70,276	838,457
Contributions received in advance and refunds payable	<u>1,412,150</u>	<u>1,601,782</u>
Total liabilities	47,102,064	38,742,043
<b>MEMBERS' DEFICIT</b>		
Members' deficit	<u>(2,577,474)</u>	<u>(3,782,781)</u>
Total liabilities and members' deficit	<u>\$ 44,524,590</u>	<u>\$ 34,959,262</u>

**NY TRANSPORTATION  
WORKERS' COMPENSATION TRUST  
STATEMENTS OF OPERATIONS  
Years Ended December 31, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
<b>Revenues</b>		
Contributions earned	\$ 33,201,015	\$ 26,883,566
Ceded premium - excess insurance	<u>(2,688,373)</u>	<u>(3,093,953)</u>
Net contributions earned	30,512,642	23,789,613
Investment income, including amortization of bond discount, net of \$79,538 and \$4,606, respectively	1,652,924	1,032,582
Other income	<u>150</u>	<u>40</u>
Total revenues	<u>32,165,716</u>	<u>24,822,235</u>
<b>Expenses</b>		
Loss and loss adjustment expenses incurred, net	22,647,885	19,005,687
Management, general and administrative expenses	6,491,003	5,625,947
New York State assessments	<u>1,736,742</u>	<u>2,703,827</u>
Total expenses	<u>30,875,630</u>	<u>27,335,461</u>
Net income (loss)	<u>\$ 1,290,086</u>	<u>\$ (2,513,226)</u>

**NY TRANSPORTATION  
WORKERS' COMPENSATION TRUST  
STATEMENTS OF CHANGES IN MEMBERS' EQUITY (DEFICIT)  
Years Ended December 31, 2006 and 2005**

	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Accumulated Deficit</u>	<u>Total Members' Deficit</u>	<u>Comprehensive Income (Loss)</u>
<b>Balance at December 31, 2004</b>	\$ 21,426	\$ (822,834)	\$ (801,408)	
Net loss	-	(2,513,226)	(2,513,226)	\$ (2,513,226)
Other comprehensive loss				
Unrealized net holding losses arising during the year	(508,938)	-	(508,938)	(508,938)
Reclassification adjustment for net gains realized during the year	40,791	-	40,791	40,791
Total comprehensive loss				<u>\$ (2,981,373)</u>
<b>Balance at December 31, 2005</b>	(446,721)	(3,336,060)	(3,782,781)	
Net income	-	1,290,086	1,290,086	\$ 1,290,086
Other comprehensive loss				
Unrealized net holding losses arising during the year	(95,425)	-	(95,425)	(95,425)
Reclassification adjustment for net gains realized during the year	10,646	-	10,646	10,646
Total comprehensive income				<u>\$ 1,205,307</u>
<b>Balance at December 31, 2006</b>	<u>\$ (531,500)</u>	<u>\$ (2,045,974)</u>	<u>\$ (2,577,474)</u>	

**NY TRANSPORTATION  
WORKERS' COMPENSATION TRUST  
STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 1,290,086	\$ (2,513,226)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of bond discount, net	(79,538)	(184)
Gain on sale of investments, net	(10,646)	(40,791)
Net change in assets and liabilities:		
Contributions receivable	(31,763)	(350,515)
Prepaid expenses and other assets	(69,489)	2,792
Interest receivable	(136,845)	(57,118)
Reinsurance receivable	(105,014)	(568,226)
Reserve for loss and loss adjustment expenses	9,814,967	8,789,751
Accrued New York State assessments	(497,133)	1,168,232
Accrued expenses	(768,181)	49,572
Contributions received in advance and refunds payable	<u>(189,632)</u>	<u>462,849</u>
Net cash provided by operating activities	<u>9,216,812</u>	<u>6,943,136</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cost of investments acquired	(18,093,664)	(32,351,530)
Proceeds from investments sold or matured	<u>8,309,601</u>	<u>25,410,592</u>
Net cash used in investing activities	<u>(9,784,063)</u>	<u>(6,940,938)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(567,251)</b>	<b>2,198</b>
<b>Cash and cash equivalents at beginning of year</b>	<u><b>5,169,838</b></u>	<u><b>5,167,640</b></u>
<b>Cash and cash equivalents at end of year</b>	<u><b>\$ 4,602,587</b></u>	<u><b>\$ 5,169,838</b></u>

**NY TRANSPORTATION  
WORKERS' COMPENSATION TRUST  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2006 and 2005**

**NOTE 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 of \$2,577,474 at December 31, 2006. The Administrator has reviewed their underwriting guidelines and, beginning in 2006, have adjusted contribution rates and added a contribution surcharge to increase revenues and reduce the accumulated deficit.

**NOTE 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' 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  
December 31, 2006 and 2005**

**NOTE 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. Amounts received during the years ended December 31, 2006 and 2005 for payroll audits of previous years was \$2,510,395 and \$2,419,445, respectively.

Contributions receivable of \$453,922 were collected prior to March 31, 2007.

**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' 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**

When applicable, 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.

**NOTE 3 — INVESTMENTS**

The amortized cost, fair value and gross unrealized gains and losses of investments by major security type at December 31, 2006:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
U.S. Government obligations	\$ 29,152,045	\$ 70,555	\$ (494,479)	\$ 28,728,121
Corporate obligations	<u>8,405,057</u>	<u>3,183</u>	<u>(110,759)</u>	<u>8,297,481</u>
	<u>\$ 37,557,102</u>	<u>\$ 73,738</u>	<u>\$ (605,238)</u>	<u>\$ 37,025,602</u>

**NY TRANSPORTATION  
WORKERS' COMPENSATION TRUST  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2006 and 2005**

**NOTE 3 — INVESTMENTS (Continued)**

The amortized cost, fair value and gross unrealized gains and losses of investments by major security type at December 31, 2005:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
U.S. Government obligations	\$ 21,514,121	\$ 4,943	\$ (353,320)	\$ 21,165,744
Corporate obligations	<u>6,168,734</u>	<u>9,697</u>	<u>(108,041)</u>	<u>6,070,390</u>
	<u>\$ 27,682,855</u>	<u>\$ 14,640</u>	<u>\$ (461,361)</u>	<u>\$ 27,236,134</u>

Proceeds from the sale and maturity of investments were \$8,309,601 and \$25,410,592 in 2006 and 2005, respectively, resulting in gross realized gains of \$36,154 and \$193,758, respectively, and gross realized losses of \$25,508 and \$152,967, respectively.

The scheduled maturities of fixed maturity investments at December 31, 2006:

	<u>Amortized Cost</u>	<u>Fair Value</u>
Due less than one year	\$ 4,039,784	\$ 4,015,388
Due after one year through five years	16,407,270	16,154,765
Due after five years through ten years	12,558,989	12,401,307
Thereafter	<u>4,551,059</u>	<u>4,454,142</u>
Total	<u>\$ 37,557,102</u>	<u>\$ 37,025,602</u>

**NOTE 4 — RESERVE FOR LOSS AND LOSS ADJUSTMENT EXPENSES**

The components of the reserve for loss and loss adjustment expenses at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Reserve for reported losses	\$ 27,779,396	\$ 21,044,241
Reserve for incurred but not reported losses	<u>15,131,562</u>	<u>12,051,750</u>
Total reserve for loss and loss adjustment expenses	<u>\$ 42,910,958</u>	<u>\$ 33,095,991</u>

To reflect the time value of money, the reserve for loss and loss adjustment expenses has been discounted using an interest rate of 4.5% and 4.5% at December 31, 2006 and 2005, respectively. The undiscounted reserve as of December 31, 2006 and 2005 was \$51,334,376 and \$39,488,685, respectively.

**NY TRANSPORTATION  
WORKERS' COMPENSATION TRUST  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2006 and 2005**

**NOTE 4 — RESERVE FOR LOSS AND LOSS ADJUSTMENT EXPENSES (Continued)**

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 2006 and 2005. The reserve is stated on a net basis after deductions for losses receivable from reinsurers and subrogation.

	<u>2006</u>	<u>2005</u>
Discounted reserve for loss and loss adjustment expenses, beginning of year, gross	\$ 33,095,991	\$ 24,306,240
Less: reinsurance receivable, beginning of year	<u>(1,782,919)</u>	<u>(1,214,693)</u>
Discounted reserve for loss and loss adjustment expenses, beginning of year, net	<u>31,313,072</u>	<u>23,091,547</u>
Incurred provision for loss and loss adjustment expenses		
Provision for insured events of the current year	19,950,984	16,712,575
Increase in provision for insured events of prior years	<u>2,696,901</u>	<u>2,293,112</u>
	<u>22,647,885</u>	<u>19,005,687</u>
Payments		
Loss and loss adjustment expenses attributable to insured events of the current year	(3,673,762)	(3,340,715)
Loss and loss adjustment expenses attributable to insured events of prior years	<u>(9,264,170)</u>	<u>(7,443,447)</u>
	<u>(12,937,932)</u>	<u>(10,784,162)</u>
Discounted reserve for loss and loss adjustment expenses, end of year, net	41,023,025	31,313,072
Add: reinsurance receivable, end of year	<u>1,887,933</u>	<u>1,782,919</u>
Discounted reserve for loss and loss adjustment expenses, end of year, gross	<u>\$ 42,910,958</u>	<u>\$ 33,095,991</u>

Included in loss and loss adjustment expenses incurred is subrogation received of \$1,385,714 and \$849,775 for the years ended December 31, 2006 and 2005, respectively.

**NOTE 5 — INCOME TAXES**

At December 31, 2006, the Trust has federal and state net operating loss carryforwards of approximately \$2 million, available to offset future taxable income, which begin to expire in 2020.

**NOTE 6 — 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 \$30,730,494 in aggregate or \$750,000 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  
December 31, 2006 and 2005**

**NOTE 7 — COMMITMENTS AND CONTINGENCIES**

The Trust has entered into a management agreement, expiring December 31, 2010, 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 \$4,652,321 and \$3,952,112 for the years ended December 31, 2006 and 2005, respectively.

The Administrator also acts as a sales broker and along with other agent's recruit transportation merchants as members of the Trust. For the years ended December 31, 2006 and 2005, the Trust incurred commission expense to the Administrator and agents of \$1,901,363 and \$1,612,690, respectively.

As is customary in a workers' compensation regulatory structure, the Trust is required to provide a surety bond (the "Surety Bond") to the Trust's state regulator as a condition to conducting workers' compensation business in the State. Accordingly, the Trust is the principal on a Surety Bond Pledged to the State of New York in the amount of \$1,125,000. Should the State have to draw on the Surety Bond, the Trust is obligated to reimburse the surety company for any losses and costs incurred by them, up to the maximum amount of the Surety Bond. At December 31, 2006 and 2005, none of the Trust's assets are pledged as collateral on the Surety Bond. Effective January 1, 2006, the Trust's Administrator, which is also the broker on the Trust's surety bond obligations, has provided the surety company with supplemental indemnification to cover any of the costs should the State draw on the Surety Bond. If the Administrator's indemnification is not continued into future years, the Trust may have to pledge a portion of its investments to the surety company to induce the surety to continue the issuance of such Surety Bond.

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.

**NOTE 8 — 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 2006 and 2005, these fees totaled \$12,350 and \$9,750, respectively. Trustees are also reimbursed for travel costs incurred to attend the meetings.

**NY TRANSPORTATION  
WORKERS' COMPENSATION TRUST  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2006 and 2005**

**NOTE 9 — SUBSEQUENT EVENT**

In March 2007, legislation was passed regarding the billing of the New York State assessments for self-insured groups. The legislation stipulates that effective January 1, 2008, assessments will be billed to self-insured groups based on premium rather than paid indemnity. While the ultimate financial impact of the legislation is currently unknown, the Trust anticipates that the change to premium based assessments will result in a material reduction to the reserve for loss and loss adjustment expenses and members' deficit on the balance sheet and loss and loss adjustment expenses incurred on the statement of operations in future periods.