

**NY TRANSPORTATION
WORKERS' COMPENSATION TRUST**

FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006

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, 2007 and 2006, and the related statements of operations, changes in members' equity (deficit), and cash flows for the years 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NY Transportation Workers' Compensation Trust as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 9, subsequent to year end, the Trust disputed, and refused to pay, certain assessments levied by the New York State Workers' Compensation Board (the "Board"). The ultimate outcome of the dispute with the Board cannot be determined at this time.

UHY LLP

Albany, New York
April 24, 2008

**NY TRANSPORTATION
WORKERS' COMPENSATION TRUST
BALANCE SHEETS
December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
ASSETS		
Cash and cash equivalents	\$ 5,490,318	\$ 4,602,587
Investments	50,808,607	37,025,602
Contributions receivable	374,404	560,002
Prepaid expenses and other assets	74,045	95,411
Interest receivable	515,787	353,055
Reinsurance recoverable	1,133,471	-
Reinsurance receivable	<u>2,412,448</u>	<u>1,887,933</u>
Total assets	<u>\$ 60,809,080</u>	<u>\$ 44,524,590</u>
LIABILITIES		
Reserve for loss and loss adjustment expenses	\$ 49,963,358	\$ 42,910,958
Accrued New York State assessments	6,149,894	2,708,680
Accrued expenses	59,932	70,276
Contributions received in advance and refunds payable	2,011,135	1,412,150
Members dividends payable	<u>1,756,699</u>	<u>-</u>
Total liabilities	59,941,018	47,102,064
MEMBERS' EQUITY (DEFICIT)		
Members' equity (deficit)	<u>868,062</u>	<u>(2,577,474)</u>
Total liabilities and members' equity (deficit)	<u>\$ 60,809,080</u>	<u>\$ 44,524,590</u>

See notes to financial statements.

**NY TRANSPORTATION
WORKERS' COMPENSATION TRUST
STATEMENTS OF OPERATIONS
Years Ended December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
Revenues		
Contributions earned	\$ 38,109,742	\$ 33,201,015
Ceded premium - excess insurance	(2,836,756)	(2,688,373)
Net contributions earned	35,272,986	30,512,642
Investment income, net	2,291,879	1,652,924
Other income	120	150
Total revenues	<u>37,564,985</u>	<u>32,165,716</u>
Expenses		
Loss and loss adjustment expenses incurred, net of losses recoverable	20,609,270	22,647,885
Management, general and administrative expenses	7,409,544	6,491,003
New York State assessments	5,743,498	1,736,742
Dividends to members	1,756,699	-
Total expenses	<u>35,519,011</u>	<u>30,875,630</u>
Net income	<u>\$ 2,045,974</u>	<u>\$ 1,290,086</u>

See notes to financial statements.

**NY TRANSPORTATION
WORKERS' COMPENSATION TRUST
STATEMENTS OF CHANGES IN MEMBERS' EQUITY (DEFICIT)
Years Ended December 31, 2007 and 2006**

	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Retained Earnings Accumulated (Deficit)</u>	<u>Total Members' Equity (Deficit)</u>	<u>Comprehensive Income</u>
Balance at December 31, 2005	\$ (446,721)	\$ (3,336,060)	\$ (3,782,781)	
Net income	-	1,290,086	1,290,086	\$ 1,290,086
Other comprehensive income				
Unrealized net holding losses arising during the year	(74,133)	-	(74,133)	(74,133)
Reclassification adjustment for net gains realized during the year	<u>(10,646)</u>	<u>-</u>	<u>(10,646)</u>	<u>(10,646)</u>
Total comprehensive income				<u>\$ 1,205,307</u>
Balance at December 31, 2006	(531,500)	(2,045,974)	(2,577,474)	
Net income	-	2,045,974	2,045,974	\$ 2,045,974
Other comprehensive income				
Unrealized net holding gains arising during the year	1,487,690	-	1,487,690	1,487,690
Reclassification adjustment for net gains realized during the year	<u>(88,128)</u>	<u>-</u>	<u>(88,128)</u>	<u>(88,128)</u>
Total comprehensive income				<u>\$ 3,445,536</u>
Balance at December 31, 2007	<u>\$ 868,062</u>	<u>\$ -</u>	<u>\$ 868,062</u>	

See notes to financial statements.

**NY TRANSPORTATION
WORKERS' COMPENSATION TRUST
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 2,045,974	\$ 1,290,086
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of bond discount, net	(28,556)	(79,538)
Gain on sale of investments, net	(88,128)	(10,646)
Net change in assets and liabilities:		
Contributions receivable	185,598	(31,763)
Prepaid expenses and other assets	21,366	(69,489)
Interest receivable	(162,732)	(136,845)
Reinsurance receivable and recoverable	(1,657,986)	(105,014)
Reserve for loss and loss adjustment expenses	7,052,400	9,814,967
Accrued New York State assessments	3,441,214	(497,133)
Accrued expenses	(10,344)	(768,181)
Members dividends payable	1,756,699	-
Contributions received in advance and refunds payable	<u>598,985</u>	<u>(189,632)</u>
Net cash provided by operating activities	<u>13,154,490</u>	<u>9,216,812</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cost of investments acquired	(21,358,029)	(18,093,664)
Proceeds from investments sold or matured	<u>9,091,270</u>	<u>8,309,601</u>
Net cash used in investing activities	<u>(12,266,759)</u>	<u>(9,784,063)</u>
Net increase (decrease) in cash and cash equivalents	887,731	(567,251)
Cash and cash equivalents at beginning of year	<u>4,602,587</u>	<u>5,169,838</u>
Cash and cash equivalents at end of year	<u>\$ 5,490,318</u>	<u>\$ 4,602,587</u>

See notes to financial statements.

**NY TRANSPORTATION
WORKERS' COMPENSATION TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006**

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.

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' 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. Net amortization of bond premiums and discounts resulted in an increase of investment income approximately \$29,000 and \$80,000 for 2007 and 2006, respectively. 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, 2007 and 2006**

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, 2007 and 2006 for payroll audits of previous years was approximately \$1,813,300 and \$2,510,400, respectively.

\$344,361 of contributions receivable at December 31, 2007 were collected during the period from January 1, 2008 to March 30, 2008.

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 and an amount for losses incurred but not reported. 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.

Prior to January 1, 2007, the reserve for loss and loss adjustment expenses also included an amount for certain New York State assessments. Recent changes in New York State legislation have had a material impact on these estimates related to the New York State assessments (Note 4).

New York State Assessments

In March 2007, legislation was passed regarding the billing of the New York State assessments for self-insured groups. The legislation stipulated that effective January 1, 2008, assessments will be billed to self-insured groups based on prior year premium rather than paid indemnity. An impact of the change on the December 31, 2007 financial statements was a decrease to the reserve for Loss and Loss Adjustment Expenses and an increase to Accrued New York State assessments.

Dividends to Members

It is the policy of the Trust to declare on an annual basis, dividends payable to members equal to what would otherwise be taxable income to minimize the income tax exposure of the Trust. The actual payment of the dividends is based on the profit or loss within a policy year and the Trust as a whole. The Trusts' intent is to wait two years after the close of a policy year before making any dividend payments on the policy year. If the policy year is profitable, the Trust authorizes payment of a portion of the available surplus for the policy year to members in good standing for the year. The remaining surplus on the policy year is paid in subsequent years.

Prior to the payment of dividends the Trust must notify the Workers' Compensation Board and receive written authorization. The outcome of the dispute with the Workers' Compensation Board (Note 9) could have an impact on the Trust's ability to pay future dividends.

**NY TRANSPORTATION
WORKERS' COMPENSATION TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006**

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

When applicable, Federal and state taxable income is eliminated through the declaration of dividends to members and therefore deferred tax assets and liabilities are not 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, 2007 and 2006 are as follows:

	2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government obligations	\$ 39,282,629	\$ 860,904	\$ 65,649	\$ 40,077,884
Corporate obligations	<u>10,657,916</u>	<u>111,452</u>	<u>38,645</u>	<u>10,730,723</u>
	<u>\$ 49,940,545</u>	<u>\$ 972,356</u>	<u>\$ 104,294</u>	<u>\$ 50,808,607</u>
	2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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>

Proceeds from the sale and maturity of investments were \$9,091,270 for the year ended December 31, 2007, resulting in gross realized gains of \$89,088 and realized losses of \$960. Proceeds from the sale and maturity of investments were \$8,309,601 for the year ended December 31, 2006, resulting in gross realized gains of \$36,154 and realized losses of \$25,508.

**NY TRANSPORTATION
WORKERS' COMPENSATION TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006**

NOTE 3 — INVESTMENTS (Continued)

The scheduled maturities of fixed maturity investments at December 31, 2007:

	<u>Amortized Cost</u>	<u>Fair Value</u>
Due less than one year	\$ 6,554,485	\$ 6,574,304
Due after one year through five years	19,952,479	20,315,315
Due after five years through ten years	15,816,998	16,274,829
Thereafter	<u>7,616,583</u>	<u>7,644,159</u>
Total	<u>\$ 49,940,545</u>	<u>\$ 50,808,607</u>

NOTE 4 — RESERVE FOR LOSS AND LOSS ADJUSTMENT EXPENSES

The components of the reserve for loss and loss adjustment expenses at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Reserve for reported losses	\$ 26,425,825	\$ 27,779,396
Reserve for incurred but not reported losses	<u>23,537,533</u>	<u>15,131,562</u>
Total reserve for loss and loss adjustment expenses	<u>\$ 49,963,358</u>	<u>\$ 42,910,958</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% at both December 31, 2007 and 2006. The undiscounted reserve as of December 31, 2007 and 2006 was \$58,466,660 and \$51,334,376, respectively.

**NY TRANSPORTATION
WORKERS' COMPENSATION TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006**

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 2007 and 2006. The reserve is stated on a net basis after deductions for losses receivable from reinsurers and subrogation.

	<u>2007</u>	<u>2006</u>
Discounted reserve for loss and loss adjustment expenses, beginning of year, gross	\$ 42,910,958	\$ 33,095,991
Less: reinsurance receivable, beginning of the year	<u>(1,887,933)</u>	<u>(1,782,919)</u>
Discounted reserve for loss and loss adjustment expenses, beginning of the year, net	<u>41,023,025</u>	<u>31,313,072</u>
Incurred provision for loss and loss adjustment expenses		
Provision for insured events of the current year	18,691,160	19,950,984
Increase in provision for insured events of prior years	<u>1,918,110</u>	<u>2,696,901</u>
	<u>20,609,270</u>	<u>22,647,885</u>
Payments		
Loss and loss adjustment expenses attributable to insured events of the current year	(3,164,193)	(3,673,762)
Loss and loss adjustment expenses attributable to insured events of prior years	<u>(12,050,663)</u>	<u>(9,264,170)</u>
	<u>(15,214,856)</u>	<u>(12,937,932)</u>
Discounted reserve for loss and loss adjustment expenses, end of year, net	46,417,439	41,023,025
Add: reinsurance recoverable, end of the year	1,133,471	-
Add: reinsurance receivable, end of the year	<u>2,412,448</u>	<u>1,887,933</u>
Discounted reserve for loss and loss adjustment expenses, end of the year, gross	<u>\$ 49,963,358</u>	<u>\$ 42,910,958</u>

The increase in the provision for insured events of prior years for 2007 includes an approximate decrease of \$9.5 million related to reductions in New York State assessments previously included in the reserve for loss and loss adjustment expenses.

Included in loss and loss adjustment expenses incurred in the statement of operations is subrogation received of \$1,340,591 and \$1,385,714 for the years ended December 31, 2007 and 2006, respectively.

NOTE 5 — DISTRIBUTIONS TO MEMBERS

During the year ended December 31, 2007 the Trust declared dividends in the amount of \$1,756,699 (none in 2006) based upon review of prior year claim experience. No dividends were paid during 2007 or 2006.

**NY TRANSPORTATION
WORKERS' COMPENSATION TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006**

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 approximately \$34,400,000 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.

NOTE 7 — COMMITMENTS AND CONTINGENCIES

Management Agreement and Commissions

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 for the Trust. The Trust incurred management fees and commission expense of \$5,103,364 and \$4,534,011 for the years ended December 31, 2007 and 2006, 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, 2007 and 2006, the Trust incurred commission expense to the Administrator and agents of \$2,134,438 and \$1,904,363, respectively.

Surety Bond

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, 2007 and 2006, 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.

Indemnity Agreement

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
December 31, 2007 and 2006**

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 2007 and 2006, these fees totaled \$39,100 and \$12,350, respectively. Trustees are also reimbursed for travel costs incurred to attend the meetings.

NOTE 9 — SUBSEQUENT EVENT

Dispute with the Workers' Compensation Board. Under New York State regulatory laws, the Trust is required to pay for its share of various assessments to the Workers' Compensation Board (the "Board") for certain obligations, including but not limited to the costs of the Board's operations, for second injury funds, and for uninsured claimants. Typically, such assessments are allocated to the Trust based upon its proportion of business written in New York State.

Recently, through an assessment under Section 50-5 of the New York State Workers' Compensation Law, the Board has taken the position that the Trust is obligated to contribute a share of anticipated losses of self-insurance groups that are in default, have closed or have otherwise failed to meet their obligations. The Board has not declared that there is any limit to the Trust's potential assessments for such failed self-insurance groups. Consequently, in February 2008, the Trust disputed such assessments and refused to pay the Section 50-5 assessment, pending clarification for the statutory basis for the Board's policy and the support for the computations. In a letter, dated March 17, 2008, the Board responded by denying the Trust with access to the records of the Board, by demanding the immediate payment of the disputed assessment, threatening the seizure of the Trust's surety bond pledged to the Board and the possible initiation of proceedings to rescind the Trust's license to operate as a workers' compensation self-insurance group.

The Trust's Board voted to seek a judicial determination of the Board's authority to assess the Trust for its share of liabilities for defaulting self-insurance groups, and filed two actions in New York State Supreme Court, Albany County, seeking to annul the disputed assessments, to declare that the Trust is not liable for the anticipated losses, liabilities and expenses of other, unrelated self-insurance groups, and to restrain the Board from taking any action adverse to the Trust solely because the Trust is challenging the Board's determination. The Board has consented to a stay satisfactory to the Trust through May 1, 2008. There is no assurance that the Trust will be successful in these actions. At this time, the Trust is unable to determine the potential outcome and the associated liability for an adverse determination in court. A resolution out of court is also possible. Regulatory actions or adverse court decisions could have a material adverse effect on the Trust's financial condition and results of operations.