

LONG-TERM CARE RISK MANAGEMENT GROUP
Buffalo, New York

FINANCIAL REPORTS
AT
DECEMBER 31, 2006

EMPLOYED
WORKERS COMPENSATION
MAY 1 2007
SELF INSURANCE OFFICE



ROTENBERG & CO. LLP
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

RECEIVED
WORKERS' COMPENSATION

MAY 1 2007

Board of Directors
Long-Term Care Risk Management Group
Buffalo, New York

SELF INSURANCE OFFICE

We have audited the accompanying balance sheets of Long-Term Care Risk Management Group as of December 31, 2006 and 2005, and the related statements of operations and cash flows for the years then ended. These financial statements are the responsibility of the Group'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 audits 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 Long-Term Care Risk Management Group as of December 31, 2006 and 2005, 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules on pages 9 to 12 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Rotenberg & Co., LLP

Rochester, New York
April 20, 2007

LONG-TERM CARE RISK MANAGEMENT GROUP
Buffalo, New York

BALANCE SHEETS

December 31,	2006	2005
ASSETS		
Cash and Cash Equivalents	\$ 243,402	\$ 608,022
Member Contributions Receivable-Billed	3,306,371	802,445
Member Contributions Receivable-Unbilled	2,505,349	5,332,775
Investments	7,559,264	7,038,132
Prepaid Expenses	14,987	—
Total Assets	\$ 13,629,373	\$ 13,781,374
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 74,016	\$ 70,127
Reserve for Losses and Loss Adjustment Expenses	13,555,357	13,711,247
Total Liabilities	\$ 13,629,373	\$ 13,781,374

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

LONG-TERM CARE RISK MANAGEMENT GROUP
Buffalo, New York

STATEMENTS OF OPERATIONS

Years Ended December 31,	2006	2005
Contributions		
Member Contributions	\$ 5,520,987	\$ 4,859,714
Assessments from Members	3,200,050	1,468,398
Member Contribution Adjustment	(2,944,916)	2,080,056
Reinsurance Premiums	(316,442)	(303,717)
Contributions - Net of Reinsurance	5,459,679	8,104,451
Underwriting Expenses		
Losses and Loss Adjustment Expenses	4,857,363	7,326,270
Underwriting and Other Expenses	1,176,734	1,049,801
Total Underwriting Expenses	6,034,097	8,376,071
Net Underwriting Loss	(574,418)	(271,620)
Investment Income		
Realized Gains, Interest Income and Dividends	509,704	438,348
Unrealized Gains (Losses) on Investments	64,814	(166,628)
Net Investment Income	574,518	271,720
Income Before Income Tax Expense	100	100
Income Tax Expense	100	100
Net Income	\$ —	\$ —

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

LONG-TERM CARE RISK MANAGEMENT GROUP
Buffalo, New York

STATEMENTS OF CASH FLOWS

Years Ended December 31,	2006	2005
Cash Flows from Operating Activities		
Net Income	\$ —	\$ —
Adjustments		
Bad Debt Expense	320,037	163,102
Unrealized (Gains) Losses on Investments	(64,814)	166,628
Changes		
Member Contributions Receivable	3,463	(2,340,443)
Sales (Purchases) of Investments Classified as Trading	(456,318)	114,377
Prepaid Expenses	(14,987)	20
Accounts Payable and Accrued Expenses	3,889	(108,435)
Reserve for Losses and Loss Adjustment Expenses	(155,890)	2,567,893
Net Cash Flows from Operating Activities	(364,620)	563,142
Cash and Cash Equivalents - Beginning of Year	608,022	44,880
Cash and Cash Equivalents - End of Year	\$ 243,402	\$ 608,022
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Period for Income Taxes	\$ 80	\$ —

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

LONG-TERM CARE RISK MANAGEMENT GROUP
Buffalo, New York

NOTES TO FINANCIAL STATEMENTS

Note A - Summary of Significant Accounting Policies

Organization

Long-Term Care Risk Management Group (the Group) was organized in 1992 as a workers' compensation self-insurance group trust under New York State Workers' Compensation Law Section 50. The Group is comprised of New York State long-term care organizations who have entered into an agreement to pool the costs related to workers' compensation benefits. The Group is not responsible for any claim obligations incurred by its members prior to entering the group. The Group is governed by a Board of Directors which is comprised of all participating members.

Effective January 1, 1997, the Group began offering disability coverage at the members' option. Disability contributions are based on disability amounts paid to employees, and comprise approximately 2% of total contributions.

According to the Group's by-laws, the purpose of the Group is to operate without profit or loss. The members participate in the earnings (losses) of the Group through the distribution of dividends. Dividends are calculated based on a number of factors, including number of facilities, number of employees, payroll costs, paid claims, and contributions to the Group.

The Group has contracted with third parties for administrative services which include accounting, claims administration, and risk management. These contracts are reviewed and approved by the Board of Directors.

Method of Accounting

The Group maintains its books and prepares its financial statements on the accrual basis of accounting.

Cash and Cash Equivalents

Cash and cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less. The Group maintains cash and cash equivalents at financial institutions which periodically may exceed federally insured amounts. For purposes of the statements of cash flows, cash and cash equivalents exclude amounts maintained in investment portfolios.

Member Contributions Receivable

Member contributions receivable are stated at unpaid balances, net of an allowance for doubtful accounts. The Group estimates the allowance based on its analysis of specific balances, taking into consideration the age of past due accounts and anticipated collections resulting from legal action. Receivables are considered impaired if payment is not received in accordance with terms. It is the Group's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. There is no allowance for doubtful accounts at December 31, 2006 or 2005.

Investments

All investments are principally held for resale in the near term and are therefore classified as trading securities. All investments are recorded at fair value. Realized and unrealized gains and losses on trading securities are included in other income.

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LONG-TERM CARE RISK MANAGEMENT GROUP
Buffalo, New York

NOTES TO FINANCIAL STATEMENTS

Note A - Summary of Significant Accounting Policies - continued

Reserves for Losses and Loss Adjustment Expenses

The liability for losses and loss adjustment expenses includes amounts determined from loss reports and individual cases and includes an estimate of losses incurred but not reported. Reserves for losses and loss adjustment expenses are based on group and industry experience and trends and have been determined in consultation with independent consulting actuaries. These amounts are shown at the net present value based upon discount factors ranging from 2% - 17%.

Reserves for losses and loss adjustment expenses include estimates of future trends in loss severity and frequency and other factors which could vary as the losses are ultimately settled. Accordingly, it is at least reasonably possible that actual incurred losses and loss adjustment expenses will vary significantly from the estimated amounts included in these financial statements.

Contributions

Contributions are based upon actual payroll of each group member and adjusted for loss experience based upon the loss experience of New York State private carriers. In the event that Group funds including reinsurance are not sufficient to cover operating costs, the Group members would be assessed additional contributions to support its continued operations. Also, in the event a group member is unable to pay its respective obligations, the Group would be responsible to satisfy all obligations of that member. Contributions are recorded as earned on a pro rata basis over the term of the program year. Contributions related to final payroll audit adjustments are accrued in the year covered by the program.

Two members comprised more than 20% of the Group's 2006 contribution income.

Member Contribution Adjustment

The member contribution adjustment shown on the statements of operations relates to the current year difference between the contributions received net of dividends and the estimated ultimate cost of settling claims.

Income Taxes

Federal income taxes are provided for in the accompanying financial statements based upon taxable income as computed under Federal income tax regulations. New York State taxes are calculated based on normal corporate income tax rates.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform with the current year presentation.

LONG-TERM CARE RISK MANAGEMENT GROUP
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NOTES TO FINANCIAL STATEMENTS

Note B - Investments

Investments consisted of the following:

December 31,	2006	2005
Cash and Cash Equivalents	\$ 204,425	\$ 332,277
Marketable Equity Securities	2,308,797	2,347,218
U.S. Treasury and Agency Obligations	4,844,056	4,152,986
Corporate Debt Obligations	201,986	205,651
Total Investments	\$ 7,559,264	\$ 7,038,132

Note C - Reserves for Losses and Loss Adjustment Expenses

Activity in the liability for unpaid claims and loss adjustment expenses is summarized as follows:

December 31,	2006	2005
Balance at January 1	\$ 13,711,247	\$ 11,143,354
Incurred Related to:		
Current Year	3,901,006	3,988,020
Prior Years	179,379	2,765,653
Total Incurred	4,080,385	6,753,673
Paid Related to:		
Current Year	669,151	691,241
Prior Years	3,567,124	3,494,539
Total Paid	4,236,275	4,185,780
Total Reserves for Losses and Loss Adjustment Expenses	\$ 13,555,357	\$ 13,711,247

Note D - Concentrations of Credit Risk

At December 31, 2006, approximately 30% of the Group's accounts receivable was due from three members.

Note E - Reinsurance

The Group has entered into a specific loss reinsurance agreement covering all individual claims with a loss value in excess of \$400,000. In the event the reinsurer becomes unable to satisfy its obligations under the reinsurance agreement, the Group would become responsible and would then accrue such obligations.

Under the Group's by-laws, all claims with a total loss value less than \$25,000 or 7% of standard contributions (whichever is greater) are the responsibility of the individual member. The Group is responsible for claims exceeding the greater of \$25,000 or 7% of standard contributions and less than \$400,000 under a claim-sharing formula.

LONG-TERM CARE RISK MANAGEMENT GROUP
Buffalo, New York

NOTES TO FINANCIAL STATEMENTS

Note F - Commitments, Contingencies, and Uncertainties

The Group has been issued a \$750,000 standby letter of credit from a bank, as required by the New York State Workers' Compensation Board, for payment of claims and related expenses in the event the Group is unable to make such payments. The letter of credit is collateralized by cash and cash equivalents and investments.

The Group is required by the New York State Workers' Compensation Board "to maintain trust assets... in an amount which exceeds trust liabilities." The Group was not in compliance with this requirement, as interpreted and applied by the Workers' Compensation Board, as of December 31, 2006. In accordance with the terms of the Consent Order and Consent Agreement between the Group and the Workers' Compensation Board executed on November 30, 2006, the former pledged to the agreed-upon parameters in order to restore the asset/liability ratio to a level that meets the latter's requirements.

The Group has entered into a participation agreement with each member to provide risk management services and workers' compensation coverage. The agreement stipulates, among other things, that each member is jointly and severally liable for the workers' compensation obligations of the Group, irrespective of the subsequent termination of the membership in the Group, the insolvency or bankruptcy of another member of the Group, or other facts or circumstances. Accordingly, the financial viability of the Group is contingent upon the financial viability of the individual members.

In November 2004, the Group initiated legal proceedings against one of its former members. The member failed to notify the Group of a transfer of the member's assets to new companies that failed to apply for or obtain membership status in the Group. The Group asserted that it should not have to pay claims with respect to the employees of the new companies, since they were not members of the Group. In a decision dated November 1, 2006, the law judge in the lead case in this matter ruled in the Group's favor in all material respects. The ruling has been appealed, and the timetable for a final decision is uncertain.

Note G - Subsequent Events

Through March 31, 2007, the Group collected \$1,420,727 of outstanding accounts receivable as of December 31, 2006.

Member contributions receivable at December 31, 2006 and 2005 represent normal monthly member contributions receivable at year end plus annual contribution adjustments as a result of payroll audits.

LONG-TERM CARE RISK MANAGEMENT GROUP
Buffalo, New York

SCHEDULES OF ACCOUNTS PAYABLE AND ACCRUED EXPENSES

<u>December 31,</u>	<u>2006</u>	<u>2005</u>
Claims Processing	\$ 46,268	\$ 51,997
Loss Control Services	45	45
Management Fees	21,277	11,904
Reinsurance Program	6,326	6,101
State Taxes	100	80
Total Accounts Payable and Accrued Expenses	\$ 74,016	\$ 70,127

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LONG-TERM CARE RISK MANAGEMENT GROUP
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SCHEDULES OF RESERVE FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

December 31,	2006	2005
Case Reserves	\$ 4,939,202	\$ 5,545,215
Actuarially Determined Loss Reserve (Net of Case Reserves)	6,083,961	5,348,785
New York State Assessment on Indemnity Portion of Loss Reserve	2,532,194	2,817,247
Total Reserve for Losses and Loss Adjustment Expenses	\$ 13,555,357	\$ 13,711,247

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SCHEDULES OF UNDERWRITING AND OTHER EXPENSES

<u>Years Ended December 31,</u>	<u>2006</u>	<u>2005</u>
Accounting and Actuarial Fees	\$ 36,236	\$ 35,607
Bank Fees	7,035	7,316
Bad Debt Expense	320,037	163,102
Claims Management Fees	40,609	41,128
Insurance	31,433	26,800
Investment Management Fees	47,074	47,385
Loss Control Expenses	259,964	306,337
Management Fees	374,861	383,924
Miscellaneous	59,485	38,202
Total Underwriting and Other Expenses	\$ 1,176,734	\$ 1,049,801

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