ORISKA INSURANCE COMPANY

STATUTORY BASIS
FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

ORISKA INSURANCE COMPANY

TABLE OF CONTENTS

HB HEVIA, BEAGLES & COMPANY, P. A.
PROFESSIONAL CONSULTING GROUP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Oriska Insurance Company
Oriskany, New York

We have audited the accompanying statement of admitted assets, liabilities and surplus – statutory basis of Oriska Insurance Company as of December 31, 2002, and the related statements of income – statutory basis, changes in surplus – statutory basis, and cash flows – statutory basis for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Oriska Insurance Company as of December 31, 2001, were audited by other auditors whose opinion dated May 28, 2002, on those statements was qualified because of the departure from accounting principles generally accepted in the United States of America described in the third paragraph.

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 the 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.

As discussed more fully in Note 1 to the financial statements, the Company prepares its financial statements using accounting practices prescribed or permitted by the Insurance Department of the State of New York, which practices differ from accounting practices generally accepted in the United States of America. The effects on the financial statements of the variances between statutory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Oriska Insurance Company at December 31, 2002, or the results of its operations or its cash flows for the year then ended.

In our opinion, the financial statements referred to above present fairly in all material respects, the admitted assets, liabilities, and surplus of Oriska Insurance Company at December 31, 2002, and the results of its operations and its cash flows for the year then ended, on the basis of accounting described in Note 1.

Hevia Bagles & Company
Certified Public Accountants

August 29, 2003

ORISKA INSURANCE COMPANY

STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND SURPLUS - STATUTORY BASIS
DECEMBER 31, 2002 AND 2001

ADMITTED ASSETS

	2002	2001
Cash and Invested Assets		
Bonds	$ 4,187,612	$ 4,313,400
Common Stock	1,356,847	1,564,808
Cash and Short-Term Investments	5,471,108	1,070,716
Collateral Loans	3,152,334	1,779,286
Total Cash and Invested Assets	14,167,901	8,728,210
Other Assets		
Premiums and Agents' Balances Receivable	4,348,760	929,196
Reinsurance Recoverable	1,706,478	611,811
Accrued Investment Income Receivable	55,999	49,284
Receivable from Affiliates	3,353,326	573,497
Deferred Tax Asset	494,186	-
Commissions Receivable	-	34,774
Subrogation Receivable	-	26,599
Total Admitted Assets	$ 24,126,650	$ 10,953,371

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS.

ORISKA INSURANCE COMPANY

STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND SURPLUS - STATUTORY BASIS
DECEMBER 31, 2002 AND 2001

LIABILITIES AND SURPLUS

	2002	2001
Liabilities		
Losses and Loss Adjustment Expenses	$ 7,407,047	$ 3,594,764
Commissions and Other Expenses Payable	725,252	353,663
Federal Income Taxes Payable	588,122	168,653
Unearned Premiums	3,900,306	1,735,507
Ceded Reinsurance Balances Payable	3,750,626	1,397,727
Amounts Retained by Company for Account of Others	434,840	-
Provision for Reinsurance	15,763	31,563
Total Liabilities	16,821,956	7,281,877
Surplus		
Common Stock, No Par Value, 200 Shares Authorized, Issued and Outstanding	1,500,000	1,500,000
Paid-in Surplus	7,859,068	2,859,068
Unassigned Funds (Deficit)	(2,054,374)	(687,574)
Total Surplus	7,304,694	3,671,494
Total Liabilities and Surplus	$ 24,126,650	$ 10,953,371

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS.

ORISKA INSURANCE COMPANY

STATEMENTS OF INCOME - STATUTORY BASIS
YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
Net Premiums Earned	$ 16,904,820	$ 15,031,982
Underwriting Expenses		
Losses and Loss Adjustment Expenses	12,574,508	11,536,707
Commissions - (Net of Commissions for Reinsurance of $145,927 and $345,168 for 2002 and 2001)	1,825,352	1,315,550
Other Underwriting Expenses	1,871,571	1,487,851
Total Underwriting Expenses	16,271,431	14,340,108
Net Underwriting Gain	633,389	691,874
Investment Income		
Net Investment Income	236,021	106,971
Net Capital Gain	10,898	199,135
Net Investment Income	246,919	306,106
Loss from Balances Charged Off	(839,286)	(429,500)
Income Before Federal Income Taxes	41,022	568,480
Provision for Income Taxes	291,560	224,738
Net Income (Loss)	$ (250,538)	$ 343,742

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS.

ORISKA INSURANCE COMPANY

STATEMENTS IN CHANGES IN SURPLUS - STATUTORY BASIS
YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
Capital and Surplus - Beginning of Year	$ 3,671,494	$ 4,017,538
Net Income (Loss) for the Year	(250,538)	343,742
Capital Paid-in	5,000,000	-
Change in Net Unrealized Appreciation of Investments	(260,236)	(211,715)
Change in Net Deferred Income Tax	252,672	-
Cumulative Effect of Changes in Accounting Principle	241,514	-
Change in Non-admitted Assets	(1,366,012)	(446,508)
Change in Provision for Reinsurance	15,800	(31,563)
Capital and Surplus - End of Year	$ 7,304,694	$ 3,671,494

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS.

ORISKA INSURANCE COMPANY

STATEMENTS OF CASH FLOWS - STATUTORY BASIS
YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
Cash from Operations		
Premiums Collected Net of Reinsurance	$ 15,698,735	$ 13,338,270
Loss and Loss Adjustment Expenses Paid	(9,856,892)	(11,702,267)
Underwriting Expenses Paid	(3,056,412)	(2,666,907)
Cash from Underwriting	2,785,431	(1,030,904)
Agents' Balances Charged Off	(839,286)	(150,818)
Net Investment Income	231,045	106,584
Federal Income Taxes Paid	(79,643)	(115,607)
Net Cash from Operations	2,097,547	(1,190,745)
Proceeds from Investments Sold, Matured or Repaid		
Bonds	874,589	1,274,017
Common Stocks	367,609	936,160
Total Investment Proceeds	1,242,198	2,210,177
Cost of Investmetns Acquired		
Bonds	(741,083)	(1,741,329)
Common Stocks	(418,441)	(849,283)
Total Investments Acquired	(1,159,524)	(2,590,612)
Net Cash from Investments	82,674	(380,435)
Cash from Financing and Miscellaneous Sources		
Surplus Paid In	5,000,000	-
Net Transfers to Affiliates	(2,779,829)	-
Other Cash Provided	-	682,014
Other Applications	-	(278,600)
Net Cash from Fincancing and Miscellaneous Sources	2,220,171	403,414
Net Change in Cash and Short-term Investments	4,400,392	(1,167,766)
Cash and Short-term Investments - Beginning of Year	1,070,716	2,238,482
Cash and Short-term Investments - End of Year	$ 5,471,108	$ 1,070,716

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS.

NOTE 1 – SUMMARY OF SIGIFICANT ACCOUNTING POLICIES

Organization

Oriska Insurance Company (the Company) is a New York corporation licensed as a property and casualty insurer. The Company provides insurance coverage for surety, disability, group health and accident, and workers' compensation. The Company is a wholly owned subsidiary of Oriska Corporation. The Company is licensed in New York, Pennsylvania, Georgia, West Virginia, Tennessee, North Carolina and the District of Columbia.

During 2002, the Company began writing workers' compensation insurance for the professional employer organization (PEO) industry. As a result of the new PEO market, the Company significantly reduced its writings in its health and accident line of business in 2003. The health and accident line of business accounted for approximately 35% of written premium in 2002.

Basis of Financial Statement Presentation

The Company, domiciled in New York State, prepares its statutory financial statements in accordance with accounting practices prescribed or permitted by the Insurance Department of the State of New York. Prescribed statutory accounting practices (SAP) include the *NAIC Accounting Practices and Procedures Manual* (NAIC SAP) and other publications of the National Association of Insurance Commissioners (NAIC), as well as the state laws, regulations and administrative rules of the Insurance Department of the State of New York. Statutory accounting and reporting varies from generally accepted accounting principles (GAAP) as follows:

Investments – NAIC SAP requires investments in bonds be reported at amortized cost or market value in accordance with the requirements of the NAIC. For GAAP, such fixed maturity investments are designated at purchase as held-to-maturity, trading or available-for-sale. Held-to-maturity fixed investments are reported at amortized cost, and the remaining fixed maturity investments are reported at fair value with unrealized holding gains and losses reported in operations for those designated as trading and as a separate component of shareholders' equity for those designated as available-for-sale.

Policy Acquisition Costs – NAIC SAP requires the costs of acquiring and renewing business to be expensed when incurred. Under GAAP, such costs, to the extent recoverable, would be deferred and amortized over the effective period of the related insurance policies.

NOTE 1 – SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

Non-admitted Assets – NAIC SAP excludes certain assets not available for the payment of claims such as past due agents' balances, prepaid expenses and furniture and equipment. GAAP records all assets owned by the Company at cost or recoverable amounts.

Reinsurance – NAIC SAP requires that a liability for reinsurance balances be provided for unsecured unearned premiums and unpaid losses ceded to reinsurers unauthorized to assume such business and for certain overdue reinsurance balances. Changes to those amounts are credited or charged directly to unassigned surplus. Under GAAP, an allowance for amounts deemed uncollectible would be established through a charge to earnings.

NAIC SAP reports reserves for losses, loss adjustment expenses and unearned premiums ceded to reinsurers as reductions of the related reserves rather than as assets as required by GAAP.

Commissions allowed by reinsurers on business ceded are reported as income when written rather than being deferred and amortized with deferred policy acquisition costs, as required by GAAP.

Guaranty Fund and Other Assessments – NAIC SAP requires guaranty fund and other assessments be accrued when the Company receives notice that an assessment is payable. Under GAAP, guaranty fund assessments are accrued at the time the events occur on which assessments are expected to be based.

The *NAIC Accounting Practices and Procedures Manual* (NAIC SAP) has been adopted as a component of prescribed or permitted practices by the State of New York effective January 1, 2001. The State has adopted certain prescribed accounting practices that differ from those found in NAIC SAP. Specifically, New York did not adopt the recognition of deferred tax benefits as an admitted asset until the year ended December 31, 2002. The Commissioner of Insurance has the right to permit other specific practices that deviate from prescribed practices.

The cumulative effect of the change in accounting principle to recognize deferred tax benefits as an admitted asset is reflected in the statement of changes in surplus for 2002.

A reconciliation of the Company's net income and surplus between NAIC SAP and practices prescribed and permitted by the State of New York is shown below for the year ended December 31, 2001. No such differences existed for 2002.

NOTE 1 – SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

	2001
Net Income, New York State Basis	$ 343,742
State prescribed practices:	
Non-recognition of deferred tax benefit	(8,100)
Net Income, NAIC SAP	$ 335,642
Surplus, New York State Basis	$ 3,671,494
State prescribed practices:	
Non-recognition of deferred tax assets	241,500
Surplus, NAIC SAP	$ 3,912,994

Net deferred tax benefits result from the discounting for tax purposes of reserves for unearned premiums and losses and loss adjustment expenses as well as unrealized appreciation on stocks.

Cash and Short-term Investments

For purposes of the statement of cash flows, NAIC SAP considers all debt instruments with a maturity of one year or less at date of purchase to be short-term investments.

Investments

Bonds, preferred stocks, common stocks and short-term investments are stated at values prescribed by the NAIC, as follows:

Bonds not backed by other loans are principally stated at amortized cost.

Loan-backed securities are valued at the lower of market value or amortized cost using the interest method including anticipated prepayments.

Common stocks are reported at market value as determined by the Securities Valuation Office of the NAIC and the related net unrealized capital gains (losses) are reported in unassigned surplus without any adjustment for federal income taxes.

Mortgage loans on real estate are stated at the aggregate carrying value.

Realized capital gains and losses are determined using the specific identification method. Changes in admitted asset carrying amounts of bonds, mortgage loans,

NOTE 1 – SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

common and non-redeemable preferred stocks are credited or charged directly to unassigned surplus.

Premiums

Premiums are recognized ratably over the life of the policies. Workers' compensation premiums are estimated based on anticipated payrolls of the PEO's for the policy period and are subject to audit at the end of the policy term. Advance premiums represent amounts received on policies not yet in force and are recognized as a liability in the Company's financial statements.

Losses and Loss Adjustment Expenses

The liability for unpaid losses and loss adjustment expenses includes amounts determined from individual case estimates and loss reports, and an amount based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed and any adjustments are reflected in the period determined.

Reinsurance

Prospective reinsurance premiums, losses, and loss adjustment expenses are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance treaties.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of admitted assets and liabilities, and revenues and expenses. The significant estimates used in preparing these financial statements include those assumed in the determination of the liability for losses and loss adjustment expenses and estimated workers' compensation premiums. It is reasonably possible that the significant estimates used will change within the next year.

Reclassification

Certain amounts presented in the 2001 financial statements have been reclassified to conform to the 2002 method of presentation.

NOTE 2 – INVESTMENTS

Investments owned at December 31, 2002, consist of the following:

	Par Value	Book Value	Market Value
Debt Securities			
U. S. Treasury Securities and Obligations of U.S. Government Corporations and Agencies	$3,160,000	$3,098,457	$3,326,362
Obligations of States and Political Subdivisions	465,000	464,425	496,649
Corporate Securities	575,000	575,000	572,610
Mortgage Backed Securities	116,673	49,730	45,097
Total Debt Securities	$4,316,673	4,187,612	4,440,718
Equity Securities		1,356,847	1,356,847
Total Debt and Equity Securities		$5,544,459	$5,797,565

Investments owned at December 31, 2001, consist of the following:

	Par Value	Book Value	Market Value
Debt Securities			
U. S. Treasury Securities	$3,325,000	$3,250,599	$3,329,408
Obligations of States and Political Subdivisions	425,000	424,288	429,443
Corporate Securities	575,000	575,000	558,717
Mortgage Backed Securities	116,673	63,513	58,605
Total Debt Securities	$4,441,673	4,313,400	4,376,173
Equity Securities		1,564,808	1,564,808
Total Debt and Equity Securities		$5,878,208	$5,940,981

The Company held collateral loans of $3,152,334 and $1,779,286 as of December 31, 2002, and 2001. The loans are payable to the Company by various insureds and are collateralized with real estate and other assets. The loans are non-interest

NOTE 2 – INVESTMENTS (CONTINUED)

bearing and are payable on demand. The loans arose from the securitization of overdue premium receivables that were generated during the normal course of business. Collateral loans consist of the following:

	2002	2001
G & E Holdings	$ 413,000	$ 413,209
G & E Holdings	527,000	516,077
PMB Development Corp	--	850,000
U.S. Management	2,212,334	--
	$3,152,334	$1,779,286

Investment Income is comprised of the following:

	2002	2001
Short-term Investments:		
Interest	$ 11,164	$ 46,155
Debt Securities:		
Interest	233,536	230,965
Realized Gains (Losses)	9,457	7,220
Equity Securities:		
Dividends	32,274	31,587
Realized Gains (Losses)	1,441	191,915
	287,872	507,842
Investment Expenses	40,953	201,736
Net Investment Income	$ 246,919	$ 306,106

At December 31, 2002, investments carried at a book value of $1,816,907 were on deposit with regulatory authorities.

The following disclosures are applicable required disclosures under the NAIC's Summary Investment Schedule and Investment Risk Interrogatories as of December 31, 2002:

Total Admitted Assets	$24,126,650

NOTE 2 – INVESTMENTS (CONTINUED)

Ten largest exposures to a single issuer/borrower/investor (excluding U.S. government and agency securities) by investment category:

	Amount	% of Admitted Assets
Collateral Loan	$2,212,334	9.2%
Bonds (Industrial and Miscellaneous)	575,000	2.4%
Collateral Loan	527,000	2.2%
Collateral Loan	413,000	1.7%
Bonds (States, Territories and Possessions)	100,034	0.4%
Bonds (States, Territories and Possessions)	99,458	0.4%
Bonds (States, Territories and Possessions)	75,026	0.3%
Common Stock (Industrial and Miscellaneous)	64,330	0.3%
Common Stock (Industrial and Miscellaneous)	58,116	0.2%
Common Stock (Industrial and Miscellaneous)	56,742	0.2%

Assets held in bonds by NAIC rating:		
NAIC-1	$4,187,612	17.5%

NOTE 3 - REINSURANCE

The Company limits the maximum net loss which can arise from large risks or risks in concentrated areas of exposure by reinsuring (ceding) certain levels of risks to other insurers or reinsurers on a quota share basis under general reinsurance contracts known as "treaties" and by entering into excess of loss reinsurance contracts. Excess of loss reinsurance contracts cede a portion of retained losses over minimum amounts ranging from $100,000 to $250,000, depending upon the line of business. Ceded reinsurance is treated as the risk and liability of the assuming companies.

The effects of reinsurance on premiums written and earned are as follows:

	2002		2001	
	Written	Earned	Written	Earned
Direct Premiums	$23,030,006	$20,345,424	$17,512,985	$17,582,678
Ceded Premiums	(3,960,387)	(3,440,604)	(2,570,134)	(2,550,696)
Net Premiums	$19,069,619	$16,904,820	$14,942,851	$15,031,982

NOTE 3 - REINSURANCE (CONTINUED)

The reinsurance contracts do not relieve the Company from its obligations to policyholders. In the event that any or all of the reinsuring companies might be unable to meet their obligations under existing reinsurance agreements, the Company would be liable for defaulted amounts. Premiums on excess of loss contracts are, in part, based on the Company's ultimate claims experience with a minimum and maximum premium. Therefore, estimated liabilities related to excess of loss premiums could exceed amounts recorded in the financial statements.

The estimated amount recoverable from reinsurers deducted from the reserve for losses and loss adjustment expenses was $3,547,953 and $2,967,664 at December 31, 2002, and 2001. As of December 31, 2002, unauthorized reinsurers had provided the Company with $295,000 in letters of credit to guarantee their obligations under reinsurance agreements.

The net amount of return commissions recoverable at December 31, 2002 and 2001, if all ceded reinsurance treaties were cancelled was $52,972 and $202,363 on unearned premium of $1,180,385 and $706,329, respectively.

Additional or return commissions or other equivalent amounts pursuant to contractual agreements of a profit sharing nature are accrued based on the experience of the underlying business using case and statistical methods. Net commissions receivable at December 31, 2002, and 2001, are zero and $34,774, respectively.

NOTE 4 – INCOME TAXES

The following is a reconciliation of the Federal income tax expense to statutory rates:

	2002	2001
Federal Taxes at Statutory Rate	$ 13,948	$ 193,283
Discounting of Loss and Loss Adjustment Expense Reserves	150,178	29,700
Discounting of Unearned Premiums	137,612	2,078
Tax–exempt investment income	(6,134)	(11,556)
Other items	(4,044)	11,233
Federal Income Tax Provision	$ 291,560	$ 224,738

The Company files a separate return from its Parent Company.

NOTE 5 – LOSS AND LOSS ADJUSTMENT EXPENSES

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

	In Thousands 2002	2001
Losses and Loss Adjustment Expenses - Beginning of year	$ 3,595	$ 3,937
Less Reinsurance Recoverables on Paid Losses	(611)	(788)
	2,984	3,149
Incurred Losses and Loss Adjustment Expenses		
Current year	12,116	12,072
Prior years	458	(535)
	12,574	11,537
Paid Losses and Loss Adjustment Expenses		
Current year	6,503	8,404
Prior years	3,354	3,298
	9,857	11,702
Losses and Loss Adjustment Expenses - End of year	7,407	3,595
Less Reinsurance Recoverables on Paid Losses	(1,706)	(611)
	$5,701	$ 2,984

NOTE 6 – CAPITAL AND SURPLUS

Property and casualty insurance companies are subject to certain Risk-Based Capital (RBC) requirements as specified by the NAIC. Under those requirements, the amount of capital and surplus maintained by the insurance company is to be determined based on the various risk factors related to it. At December 31, 2002 and 2001, the Company met the RBC requirements.

The maximum amount of dividends that may be paid by property and casualty insurance companies without prior approval by the State of New York Insurance Commissioner is subject to restrictions relating to statutory surplus and net income. The Company cannot pay dividends without prior approval of the State of New York Insurance Commissioner.

During 2002, Oriska Corporation, the Company's Parent, contributed $5,000,000 of paid in capital.

NOTE 7 – RELATED PARTY TRANSACTIONS

The Company is owned 100% by Oriska Corporation (a New York corporation). Oriska Corporation is an 82% owned subsidiary of IPA Acquisitions, Inc. (a California corporation).

Oriska Corporation, provides personnel and other support services on an expense allocated basis. No administrative fee was charged by Oriska Corporation for these services.

The President of the Company is the principal shareholder of IPA Acquisitions, Inc. In addition to his management responsibilities he also provides legal counsel and engineering loss control and risk inspection services to the Company. He does not receive a regular salary, but was paid $50,000 in legal fees in 2002.

The Company leases office space and receives agency services from Monument Agency, Inc. The principal shareholder and officer of Monument is the spouse of the President of the Company. Rent expense is allocated between Oriska Corporation and the Company based on usage. Rental expense under the lease agreement was $57,444 and $62,676 in 2002 and 2001, respectively.

The lease agreement with Monument is subject to upward adjustments at various intervals over the term of the lease expiring December 2015. The Company has the right to terminate the lease in January 2004 or 2009. At December 31, 2002, future minimum payments under this lease were:

2003	$62,676
2004	62,676

The Company incurred commissions to Monument of $1,445,788 and $279,912 in 2002 and 2001, respectively.

The Company has loaned funds to several Affiliates and related companies. As of December 31, 2002, and 2001, the following amounts were owing from them:

Insurance Company of the Americas	$1,929,828	$ --
Oriska Corporation	1,027,425	73,497
IPA Acquisitions, Inc.	18,423	--
Monument Agency, Inc.	377,650	--
	$3,353,326	$ 573,497

No terms or conditions have been established for the repayment of these obligations.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

The Company is named as a defendant in various legal actions arising principally from claims made under insurance policies. Those actions are considered by the Company in estimating the loss and loss adjustment expense liability. Management believes that the resolution of those actions will not have a material effect on the Company's financial position or results of operations.

IPA Acquisitions, Inc., the Company's ultimate Parent, has issued surplus notes to several PEO's that the Company or its affiliates insure. At December 31, 2002, the outstanding balance on these notes was $10,343,819. The surplus notes bear interest at 7%. The unpaid interest on these surplus notes at December 31, 2002, was $119,424. The principal and interest is due on demand but can only be paid out of dividends paid by the insurance subsidiaries of IPA, including the Company. The repayment of this debt and all dividends are subject to approval by the Florida or New York Departments of Insurance. The Company is not directly obligated or a guarantor of these surplus notes or other obligations of IPA or affiliated companies.

NOTE 9 – CONCENTRATION OF CREDIT RISK

The Company writes a significant portion of its business through Monument Agency, Inc. (See Note 7). In 2002, premiums written through Monument represent 80% of total written premiums. At December 31, 2002, 76% of premiums and agents' balances receivable were owed from PEO clients in New York. Written premiums from the Taft Hartley Welfare Trust were 26% of total premiums for 2002. Three PEO clients represent 31% of the total written premium in 2002.

The Company maintains cash balances in excess of insurance provided by the Federal Deposit Insurance Corporation (FDIC). Balances recorded in the financial statements in excess of FDIC limits were $576,644 at December 31, 2002.

NOTE 10 – RECONCILIATION OF ANNUAL STATEMENT SURPLUS TO AUDITED FINANCIAL STATEMENTS

The following is a reconciliation of surplus reported in these financial statements to surplus reported in the Company's Annual Statement:

	2002	2001
Surplus – Per Annual Statement	$ 8,161,514	$ 3,515,200
Decrease in Unearned Premium Reserve	--	141,088
Increase in Commissions, Taxes and Other Expenses Payable	(827,456)	--
Other	588,146	241,576
Increase in Deferred Tax Asset	494,186	--
Receivables Non-admitted	(1,111,696)	(226,370)
Net Increase (Decrease) in Surplus	(856,820)	156,294
Surplus – Per Audited Financial Statements	$7,304,694	$ 3,671,494

The following is a reconciliation of net income (loss) reported in these financial statements to net income reported in the Company's Annual Statement:

	2002	2001
Net Income – Per Annual Statement	$ 371,439	$ 102,166
Increase in Commissions and Other Underwriting Expenses – Net of Tax	(714,323)	--
Increase in Earned Premium	92,346	--
Increase in Written Premium – Net of Tax	--	241,576
Net Increase (Decrease) in Net Income	(621,977)	241,576
Net Income (Loss) – Per Audited Financial Statements	$ (250,538)	$ 343,742

NOTE 11 - EXAMINATION BY NEW YORK DEPARTMENT OF INSURANCE

The Company has been examined by the New York Department of Insurance through the year December 31, 1998.