ORISKA INSURANCE COMPANY

STATUTORY BASIS
FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002

ORISKA INSURANCE COMPANY

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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, 2003 and 2002, and the related statements of income – statutory basis, changes in surplus – statutory basis, and cash flows – statutory basis for the years 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 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 the 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.

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, 2003 and 2002, or the results of its operations or its cash flows for the years then ended.

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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, 2003 and 2002, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 1.

Hevia Beagles & Company
Certified Public Accountants

June 10, 2004

ORISKA INSURANCE COMPANY

STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND SURPLUS - STATUTORY BASIS
DECEMBER 31, 2003 AND 2002

ADMITTED ASSETS

	2003	2002
Cash and Invested Assets		
Bonds	$ 5,841,278	$ 4,187,612
Common Stock	4,292,337	1,356,847
Collateral Loans	-	3,152,334
Real Estate Held for Sale - Net	388,000	-
Cash and Short-Term Investments	2,115,912	5,471,108
Total Cash and Invested Assets	12,637,527	14,167,901
Premiums and Agents' Balances Receivable	6,353,228	4,348,760
Reinsurance Recoverable	1,280,130	1,706,478
Accrued Interest and Dividends	49,593	55,999
Receivable from Affiliates and Related Parties	698,023	3,353,326
Deferred Tax Asset	377,111	494,186
Receivables from Loss Funds	180,652	-
Other	41,623	-
Total Admitted Assets	$ 21,617,887	$ 24,126,650

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS.

ORISKA INSURANCE COMPANY

STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND SURPLUS - STATUTORY BASIS
DECEMBER 31, 2003 AND 2002

LIABILITIES AND SURPLUS

	2003	2002
Liabilities		
Losses and Loss Adjustment Expenses	$ 7,924,022	$ 7,407,047
Commissions and Other Expenses Payable	956,944	725,252
Federal Income Taxes Payable	-	588,122
Unearned Premiums	1,295,519	3,900,306
Ceded Reinsurance Balances Payable	3,852,943	3,750,626
Amounts Retained by Company for Account of Others	434,842	434,840
Provision for Reinsurance	15,763	15,763
Total Liabilities	14,480,033	16,821,956
Surplus		
Common Stock, No Par Value, 200 Shares Authorized, Issued and Outstanding	1,500,000	1,500,000
Paid-in Surplus	7,859,068	7,859,068
Unassigned Funds (Deficit)	(2,221,214)	(2,054,374)
Total Surplus	7,137,854	7,304,694
Total Liabilities and Surplus	$ 21,617,887	$ 24,126,650

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS.

ORISKA INSURANCE COMPANY

STATEMENTS OF INCOME - STATUTORY BASIS
YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
Net Premiums Earned	$ 9,831,859	$ 16,904,820
Underwriting Expenses		
Losses and Loss Adjustment Expenses	5,818,101	12,574,508
Commissions - (Net of Commissions for Reinsurance)	820,653	1,825,352
Other Underwriting Expenses	2,892,064	1,871,571
Total Underwriting Expenses	9,530,818	16,271,431
Net Underwriting Gain	301,041	633,389
Investment Income		
Net Investment Income	209,268	236,021
Net Capital Gain	133,978	10,898
Net Investment Income	343,246	246,919
Loss from Balances Charged Off	(1,072,066)	(839,286)
Income (Loss) Before Federal Income Taxes (Benefit)	(427,779)	41,022
Provision for Income Taxes (Benefit)	(33,970)	291,560
Net (Loss)	$ (393,809)	$ (250,538)

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS.

ORISKA INSURANCE COMPANY

STATEMENTS OF CHANGES IN SURPLUS - STATUTORY BASIS
YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
Capital and Surplus - Beginning of Year	$ 7,304,694	$ 3,671,494
Net (Loss) for the Year	(393,809)	(250,538)
Capital Paid-in	-	5,000,000
Change in Net Unrealized Appreciation of Investments	633,947	(260,236)
Change in Net Deferred Income Tax	(117,075)	252,672
Cumulative Effect of Changes in Accounting Principle	-	241,514
Change in Non-admitted Assets	(289,903)	(1,366,012)
Change in Provision for Reinsurance	-	15,800
Capital and Surplus - End of Year	$ 7,137,854	$ 7,304,694

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS.

ORISKA INSURANCE COMPANY

STATEMENTS OF CASH FLOWS - STATUTORY BASIS
YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
Cash from Operations		
Premiums Collected Net of Reinsurance	$ 7,017,270	$ 15,698,735
Losses Paid	(4,345,382)	(9,856,892)
Underwriting Expenses Paid	(4,079,832)	(3,056,412)
Cash From (Used In) Underwriting	(1,407,944)	2,785,431
Agents' Balances Charged Off	(541,576)	(839,286)
Net Investment Income	349,652	231,045
Federal Income Taxes Paid	(370,103)	(79,643)
Net Cash From (Used In) Operations	(1,969,971)	2,097,547
Proceeds from Investments Sold, Matured or Repaid		
Bonds	2,071,753	874,589
Common Stocks	473,980	367,609
Total Investment Proceeds	2,545,733	1,242,198
Cost of Investments Acquired		
Bonds	(3,589,775)	(741,083)
Common Stocks	(2,779,650)	(418,441)
Total Investments Acquired	(6,369,425)	(1,159,524)
Net Cash From (Used In) Investments	(3,823,692)	82,674
Cash from Financing and Miscellaneous Sources		
Surplus Paid In	-	5,000,000
Net Transfers to Affiliates	2,655,303	(2,779,829)
Other Applications	(216,836)	-
Net Cash from Financing and Miscellaneous Sources	2,438,467	2,220,171
Net Change in Cash and Short-term Investments	(3,355,196)	4,400,392
Cash and Short-term Investments - Beginning of Year	5,471,108	1,070,716
Cash and Short-term Investments - End of Year	$ 2,115,912	$ 5,471,108

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS.

ORISKA INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS – STATUTORY BASIS

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 other lines of business in 2003. Workers' compensation represented 78% and 57% of net written premiums in 2003 and 2002, respectively

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 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.

Non-admitted Assets – NAIC SAP excludes certain assets not available for the payment of claims such as past due agents' balances, prepaid expenses and

ORISKA INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS –
STATUTORY BASIS

NOTE 1 – SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Deferred Income Taxes – NAIC SAP recognizes all deferred tax liabilities and only deferred tax assets that will be realized within one year. GAAP recognizes deferred income taxes on temporary differences between GAAP and tax accounting with a valuation allowance against deferred tax assets that may not be recoverable.

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.

ORISKA INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS –
STATUTORY BASIS

NOTE 1 – SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

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 unpaid principal balance.

Real estate held for sale is stated at the lower of cost or fair value and net of encumbrances and estimated selling costs.

Realized capital gains and losses are determined using the specific identification method. Changes in admitted asset carrying amounts of bonds, mortgage loans, 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. Earned but unbilled (EBUB) premiums arising from adjustments to premiums charged for changes in the level of exposure to insurance risk are estimated on a per policy basis. 10% of EBUB in excess of collateral specifically held on a per policy basis is reported as nonadmitted.

ORISKA INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS –
STATUTORY BASIS

NOTE 1 – SUMMARY OF SIGIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

ORISKA INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS –
STATUTORY BASIS

NOTE 2 – INVESTMENTS

Stocks and Bonds

Securities owned at December 31, 2003, 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	$4,050,000	$4,024,033	$4,155,429
Obligations of States and Political Subdivisions	440,000	439,395	473,343
Corporate Securities	1,350,000	1,347,202	1,362,657
Mortgage Backed Securities	116,673	30,648	23,507
Total Debt Securities	$5,956,673	5,841,278	6,014,936
Equity Securities		4,292,336	4,292,336
Total Debt and Equity Securities		$10,133,614	$10,307,272

Securities 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

ORISKA INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS –
STATUTORY BASIS

NOTE 2 – INVESTMENTS (CONTINUED)

Real Estate Held for Sale

During 2003, in partial settlement of unpaid insurance premiums from an insured, the Company accepted title to improved real estate in a troubled debt restructuring under SSAP No. 36. The Company is actively attempting to sell the property. Accordingly, it has been classified as "Held for Sale". This investment is carried at fair market value at the date of acquisition (which amount is less than the total indebtedness owing from the insured) less liens on the property of $635,000 and estimated selling costs. A realized loss of $139,000 was recorded in 2003 for unpaid premiums written off as uncollectible in excess of the net realizable value of the real estate received.

Collateral Loans

The Company held collateral loans of $3,152,334 at December 31, 2002. The loans were payable to the Company by various insureds and collateralized with real estate and other assets. The loans were non-interest bearing and payable on demand. The loans arose from the securitization of overdue premium receivables that were generated in the normal course of business. In 2004 the New York Insurance Department raised objection to the treatment of these collateral loans as an investment since they arose from unpaid insurance premiums. In response, the Company reclassified the outstanding balance on these loans at December 31, 2003 as unpaid premiums.

Investment Income

Investment Income is comprised of the following:

	2003	2002
Short-term Investments:		
Interest	$ 9,418	$ 11,164
Debt Securities:		
Interest	187,423	233,536
Realized Gains	138,103	9,457
Equity Securities:		
Dividends	47,911	32,274
Realized Gains (Losses)	(4,125)	1,441
	378,730	287,872
Investment Expenses	35,484	40,953
Net Investment Income	$ 343,246	$ 246,919

ORISKA INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS –
STATUTORY BASIS

NOTE 2 – INVESTMENTS (CONTINUED)

At December 31, 2003, investments carried at a book value of $1,588,615 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, 2003:

Total Admitted Assets	$21,617,887

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

	Amount	% of Admitted Assets
Common Stock (Industrial and Miscellaneous)	$ 460,581	2.1%
Bonds (Industrial and Miscellaneous)	$ 1,247,679	5.8%
Real Estate Held for Sale - Net	$ 388,000	1.8%

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 $1,000,000, depending upon the line of business. Ceded reinsurance is treated as the risk and liability of the assuming companies.

During 2003 the Company assumed $2,706,427 of excess of loss reinsurance premiums from an affiliate and incurred a commission expense of $394,597 on the transaction.

ORISKA INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS – STATUTORY BASIS

NOTE 3 - REINSURANCE (CONTINUED)

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

	2003		2002	
	Written	Earned	Written	Earned
Direct Premiums	$5,490,019	$8,702,380	$ 23,030,006	$ 20,345,424
Assumed Premiums	2,706,427	2,706,427		
Ceded Premiums	(969,375)	(1,576,949)	(3,960,387)	(3,440,604)
Net Premiums	$7,227,071	$9,831,858	$ 19,069,619	$ 16,904,820

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.

The estimated amount recoverable from reinsurers deducted from the reserve for losses and loss adjustment expenses was $3,868,000 and $3,547,953 at December 31, 2003, and 2002.

NOTE 4 – INCOME TAXES

Deferred income taxes are provided for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. Such differences relate primarily to the discounting of loss reserves for tax purposes. NAIC allows deferred income tax assets to be recognized to the extent they can be used within one year from the balance sheet date. Management believes that deferred tax assets at December 31, 2003 and 2002 will be recognized within one year.

The tax effect of temporary differences that give rise to the deferred tax asset at December 31, 2003 consist of:

Unrealized securities gains	$ (172,753)
Discounting of unearned premiums	90,686
Discounting of loss reserves	458,457
Other	721
	$ 377,111

ORISKA INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS – STATUTORY BASIS

NOTE 4 – INCOME TAXES (CONTINUED)

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

	2003	2002
Federal Taxes at Statutory Rate	$ (145,444)	$ 13,948
Discounting of Loss Reserves	269,517	150,178
Discounting of Unearned Premiums	(177,125)	137,612
Tax-exempt Investment Income	(18,506)	(6,134)
Other Items	37,588	(4,044)
Federal Income Tax Provision	$ (33,970)	$ 291,560

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 2003	2002
Losses and Loss Adjustment Expenses		
- Beginning of year	$ 7,407	$ 3,595
Less Reinsurance Recoverables on Paid Losses	(1,706)	(611)
	5,701	2,984
Incurred Losses and Loss Adjustment Expenses		
Current year	8,090	12,116
Prior years	(2,272)	458
	5,818	12,574
Paid Losses and Loss Adjustment Expenses		
Current year	3,119	6,503
Prior years	1,756	3,354
	4,875	9,857
Losses and Loss Adjustment Expenses		
- End of year	7,924	7,407
Less Reinsurance Recoverables on Paid Losses	(1,280)	(1,706)
	$ 6,644	$ 5,701

ORISKA INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS –
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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, 2003 and 2002, 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 – HIGH DEDUCTIBLE POLICIES

In 2003 the Company began to write high deductible workers' compensation insurance for PEO's. The deductibles on these policies range from $5,000 to $500,000. The reserves for these deductibles were reviewed by Robert J. Meyer, FCAS of Milliman USA. The reserve credit taken by the Company for high deductibles was $3,725,513 as of December 31, 2003.

The following is a summary of the amounts on deposit from and billed to PEO's for reserve and loss funds:

	2003
Required reserve funds	$3,725,513
Funds received from PEO's for the reserve funds	$2,619,574
Funds due from PEO's for the reserve funds	$1,617,601
Funds due from PEO's for loss funds	$ 173,806
Funds advanced from PEO's for loss funds	$ -0-

In accordance with SSAP 65, the Company has nonadmitted 10% of uncollateralized reserve and loss funds.

ORISKA INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS –
STATUTORY BASIS

NOTE 8 – 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).

Monument Agency, Inc. (Monument) provides agency services, administrative support, and facilities to the Company. Monument is a related party through common ownership and management. In 2003 and 2002 the Company incurred $377,211 and $1,445,768, respectively, in commissions to Monument. Administrative support and facilities expense are charged on a cost allocated basis.

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 from the Company, but was paid $48,383 and $50,000 in legal fees in 2003 and 2002, respectively.

At December 31, 2003 and 2002, the Company had the following receivables (payables) due from (to) its affiliates and related parties:

	2003	2002
Insurance Company of the Americas	$ 176,750	$1,929,828
Oriska Corporation	680,417	1,027,425
IPA Acquisitions, Inc.	(965,268)	18,423
Monument Agency, Inc.	806,124	377,650
	$ 698,023	$3,353,326

Beginning in 2004 the Company entered into an agreement with United Systems Administration, Inc. (USA) to provide administrative support and facilities services previously provided by Monument. USA is an unaffiliated related party by contractual obligation.

During 2003 the Company assumed $2,706,427 of reinsurance from an affiliate, Insurance Company of the Americas. The Company assumed this coverage by replacing an existing unrelated reinsurer, Dallas Fire.

ORISKA INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS – STATUTORY BASIS

NOTE 9 – COMMITMENTS AND CONTINGENCIES

The Company is named as a defendant in various legal actions arising principally from claims made under insurance policies and disputes with insureds. Those actions have been 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 except as follows.

The Company has been counter sued in a lawsuit in which group of PEO's allege the Company improperly sold workers' compensation insurance to cover risk in California, where the Company is not licensed to write such insurance, and wrongfully refused to pay workers compensation claims covered by the policy. The dollar value of the claims at issue is unknown at this time; however, the PEO's acknowledge that all claims to date, and all contemplated claims, are within the $250,000 policy deductible. Damages for loss of reputation and business are also alleged.

The Company intends to vigorously defend this suit and has filed a counter suit alleging the PEO's knew or should have known the Company was not licensed to write insurance in California, and that the PEO's misrepresented to their clients their ability to issue workers' compensation coverage in states other than New York. The Company has requested the PEO's be enjoined from further use of the Company name and in representing that they may act on behalf of the Company in promoting their sales. The Company also seeks a judicial determination of the rights and obligations of the parties and seeks unspecified damages, including recovery of unpaid premiums.

The ultimate outcome of this matter cannot be reasonably determined at this time, nor can the potential dollar value of any loss or gain contingency arising from this action. The Company has included in its loss and loss adjustment reserve liability an amount for the estimated workers' compensation claims arising under the above policy and has taken reserve credit for those claims falling below the $250,000 deductible limit on the policy; which are payable by the PEO's. The total amount of deductible reserve credit taken and recoverable from the PEO's is $2,812,645. The PEO's have partially collateralized this reserve credit with $1,507.186 held by the Company's ultimate Parent, IPA Acquisitions. The net uncollateralized credit risk to the Company of $1,305,459 represents the potential exposure in the event the PEO's are unable to pay claims below the deductible level of $250,000. In accordance with SSAP 65, the Company has nonadmitted 10% of this uncollateralized credit risk. No allowance for uncollectibility has been established for the remaining recoverable balance of $1,174,913, because the Company cannot reasonably estimate the amount or the probability of the credit risk; although the recoverable balance is an actuarial estimate of the maximum potential credit risk exposure.

ORISKA INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS – STATUTORY BASIS

NOTE 9 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

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, 2003 and 2002, the outstanding balance on these notes was $13,293,219 and $10,343,819, respectively. The surplus notes bear interest at 7%. 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 10 – CONCENTRATION OF CREDIT RISK

The Company writes a significant portion of its business through Monument Agency, Inc. (See Note 7). In 2003 and 2002, premiums written through Monument represent 83% and 80% of total direct written premiums. One PEO client represents 29% of direct written premium in 2003 and 37% of premiums and agents' balances receivable at December 31, 2003. Reinsurance assumed from an affiliate represents 33% of the total written premiums in 2003.

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 $231,005 and $576,644 at December 31, 2003 and 2002, respectively.

ORISKA INSURANCE COMPANY
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NOTE 11 – 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 Amended Annual Statements:

	2003	2002
Surplus - Per Amended Annual Statement	$ 7,740,392	$ 7,630,215
Increase in Commissions, Taxes and Other Expenses Payable	(160,894)	(96,744)
Other	-	115,624
Increase in Deferred Tax Asset	-	494,186
Receivables Non-admitted	86,725	(838,587)
Reserve Credit on High Deductible Policies - Portion Nonadmitted	(179,140)	-
Loss from Balances Charged Off	(530,490)	-
Decrease in Federal Income Taxes Payable	181,261	-
Net Increase (Decrease) in Surplus	(602,538)	(325,521)
Surplus - Per Audited Financial Statements	$ 7,137,854	$ 7,304,694

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

	2003	2002
Net Income - Per Amended Annual Statement	$ 160,418	$ 88,025
Increase in Commissions and Other Underwriting Expenses	(317,130)	-
Increase in Earned Premium	-	(507,165)
Losses from Balances Charged Off	(530,490)	-
Decrease in Provision for Federal Income Taxes	354,117	-
Other	(60,724)	168,602
Net Increase (Decrease) in Net Income	(554,227)	(338,563)
Net Income (Loss) - Per Audited Financial Statements	$ (393,809)	$ (250,538)

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NOTE 12 - 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 and is currently undergoing an examination through December 31, 2003.