

# Ohio School Plan

Financial Statements

for the year ended December 31, 2003 and the  
eleven months ended December 31, 2002

**Ohio School Plan**  
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**December 31, 2003 and 2002**

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**Report of Independent Auditors**

To the Board of Directors of the  
Ohio School Plan:

In our opinion, the accompanying balance sheets and the related statements of revenues, expenses and changes in members' equity and cash flows present fairly, in all material respects, the financial position of Ohio School Plan (the "Plan") at December 31, 2003 and 2002, and the results of its operations and its cash flows for the year ended December 31, 2003 and the eleven months ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

March 26, 2004

**Ohio School Plan  
Balance Sheet  
December 31, 2003 and 2002**

	2003	2002
<b>Assets</b>		
Cash and cash equivalents	\$ 132,948	\$ 324,930
Premiums receivable	61,423	191,974
Reinsurance receivable	54,188	-
Other receivable	12,373	-
	<u>260,932</u>	<u>516,904</u>
Total assets	<u>\$ 260,932</u>	<u>\$ 516,904</u>
<b>Liabilities and Members' equity:</b>		
<b>Liabilities</b>		
Reinsurance payable	\$ 138,522	\$ 333,387
Accrued liabilities and fees	2,334	34,443
Unearned membership fees	31,928	-
	<u>172,784</u>	<u>367,830</u>
Total liabilities	<u>172,784</u>	<u>367,830</u>
<b>Members' equity</b>		
Accumulated surplus	<u>88,148</u>	<u>149,074</u>
Total members' equity	<u>88,148</u>	<u>149,074</u>
Total liabilities and members' equity	<u>\$ 260,932</u>	<u>\$ 516,904</u>

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

# Ohio School Plan

## Statement of Revenues, Expenses and Changes in Members' Equity For the year ended December 31, 2003 and the eleven months ended December 31, 2002

	2003	2002
<b>Revenues</b>		
Premiums written	\$ 9,877,131	\$ 9,968,231
Reinsurance premiums ceded	<u>(7,704,333)</u>	<u>(7,575,856)</u>
Net premiums written	<u>2,172,798</u>	<u>2,392,375</u>
Net premiums earned	2,172,798	2,392,375
Membership fees earned	64,641	99,553
Interest income	9,682	19,899
Group fees	<u>99,610</u>	<u>120,540</u>
Total revenues	<u>2,346,731</u>	<u>2,632,367</u>
<b>Expenses</b>		
Loss and loss adjustment expenses	-	-
Management fees	1,097,859	1,196,188
Commission expense	1,074,939	1,196,188
Professional fees	51,215	20,571
Plan marketing	150,000	50,000
Directors & officers insurance	18,963	16,050
Directors travel and meetings	5,453	-
Other	<u>9,228</u>	<u>4,296</u>
Total expenses	<u>2,407,657</u>	<u>2,483,293</u>
(Deficiency) excess of revenues over expenses	(60,926)	149,074
<b>Members' equity</b>		
Beginning of year	<u>149,074</u>	<u>-</u>
End of year	<u>\$ 88,148</u>	<u>\$ 149,074</u>

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

**Ohio School Plan**  
**Statement of Cash Flows**

**For the year ended December 31, 2003 and the eleven months ended December 31, 2002**

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	2003	2002
<b>Cash flows from operating activities</b>		
(Deficiency) Excess of revenues over expenses	\$ (60,926)	\$ 149,074
<b>Changes in operating assets and liabilities</b>		
Premiums receivable	130,551	(191,974)
Reinsurance receivable	(54,188)	-
Other receivable	(12,373)	-
Reinsurance payable	(194,865)	333,387
Accrued liabilities and fees	(32,109)	34,443
Unearned membership fees	31,928	-
Net cash (used in) provided by operating activities	<u>(191,982)</u>	<u>324,930</u>
Net (decrease) increase in cash and cash equivalents	(191,982)	324,930
Cash and cash equivalents, beginning of year	<u>324,930</u>	<u>-</u>
Cash and cash equivalents, end of year	<u>\$ 132,948</u>	<u>\$ 324,930</u>

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

# Ohio School Plan

## Notes to the Financial Statements

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### 1. Description of the Organization

The following descriptions provide only general information. Reference should be made to the Plan Agreement for a more complete description.

The Ohio School Plan (the "Plan") was organized in January of 2002, as authorized by Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated non-profit association of its members and an instrumentality for each member for the sole purpose of enabling members of the Plan to provide for a formalized, jointly administered self-insurance program to maintain adequate self-insurance protection, risk management programs and other administrative services. Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity for the public purpose of enabling its members to obtain self-insurance through a jointly administered self-insurance fund. Members of the Plan are public school districts, educational service centers, joint vocational schools, centers of government, and mental retardation/developmentally disabled boards in the State of Ohio which are eligible to participate under applicable statute, ruling or law subject to certain underwriting standards as deemed appropriate by the Plan and its administrator.

The Plan was established to provide property, liability, automobile, and other coverages to its members sold through one appointed independent agent in the State of Ohio. Coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss. The Plan has agreed to pay judgments, settlements and other expenses resulting from claims arising related to the coverage provided, in excess of the member's deductible.

The Plan has chosen to adopt the forms and endorsements of conventional insurance coverage and to fully reinsure these coverages, rather than utilize a risk pool of member funds to pay individual and collective losses up to a given retention. Therefore, the individual members are only responsible for their self-retention (deductible) amounts that vary from member to member. See footnote 3 for further explanation.

The members are charged an annual membership fee, which is based on a percentage of each members' annual premium. These expenses consist principally of professional fees, directors' travel and meeting expenses and other administrative expenses. Effective January 1, 2003, the Plan amended its membership agreements to provide that membership fees would no longer be considered non-refundable, and members who cancel are now reimbursed the pro-rata portion of membership fees paid. Earned membership fees were \$64,641 and \$99,553 for the year ended December 31, 2003 and the eleven months ended December 31, 2002, respectively.

The Plan had 405 and 485 members as of December 31, 2003 and 2002.

The Plan has an agreement with Hylant Administrative Services, Inc. ("HAS") to provide underwriting, claims management, risk management, accounting and system support services for the Plan. HAS also provides reinsurance brokerage services to the Plan. The Plan also has an agreement with Harcum-Hyre Insurance Agency, Inc. to provide sales and marketing for the plan. All of these services are paid for by the Plan. See Note 2 for further discussion.

The Plan is comprised exclusively of Ohio public educational entities. Although its exposure is concentrated to a single geographical area, such exposure is reduced by the practice of reinsuring 100% of coverage provided.

# Ohio School Plan

## Notes to the Financial Statements

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### 2. Summary of Significant Accounting Policies

#### *Accounting Policies*

The accounting policies of the Plan conform to generally accept accounting principles ("GAAP") as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants.

#### *Estimates*

The preparation of financial statements in conformity with GAAP requires the Plan to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### *Cash and Cash Equivalents*

Governmental Accounting Standards Board ("GASB") Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements," requires the Plan to categorize cash and cash equivalents held by the Plan to give an indication of the level of risk assumed by the Plan at year end. Category 1 includes cash and cash equivalents that are insured or collateralized with securities held by the Plan or by its agent in the Plan's name. Category 2 includes cash and cash equivalents that are collateralized with securities held by the pledging financial institutions trust department or agent. Category 3 includes cash and cash equivalents that are uncollateralized. Cash and cash equivalents represents a bank account balance of \$194,888 and \$335,004 as of December 31, 2003 and 2002. The bank account balance is Category 1 to the extent it is insured up to \$100,000 by the Federal Deposit Insurance Corporation (the "FDIC"), and the remainder of the cash balance is Category 3.

#### *Reinsurance*

Insurance coverages provided by the Plan are fully reinsured. Ceding commissions are paid to the Plan at 22% and 24% of gross premiums written, amounting to \$2,172,798 and \$2,392,376 for the year ended December 31, 2003 and the eleven months ended December 31, 2002, respectively.

For the year ended December 31, 2003 and the eleven months ended December 31, 2002, the Plan has not adopted Statement of Financial Accounting Standards No. 113. In accordance with the accounting principles prescribed by GASB Statement No. 10, unpaid losses and loss adjustment expense reserves have been presented net of ceded unpaid losses and loss adjustment expense reserves.

#### *Policy Acquisition Costs*

The Plan does not defer agent commissions and certain other administration and underwriting expenses as ceding commissions received from the reinsurers have reduced these costs. The net difference between the administration expenses and the ceding commissions does not vary with the individual issuance and maintenance of the contracts of insurance. Therefore, such costs are expensed as incurred. Agent commissions are paid at 11% and 12% of gross premiums written, amounting to \$1,074,939 and \$1,196,188 for the year ended December 31, 2003 and the eleven months ended December 31, 2002, respectively.

## Ohio School Plan

### Notes to the Financial Statements

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#### *Management Fees*

Fees for all administrative, management and brokerage related services provided to the Plan are incurred at a cost of 11% and 12% of gross premiums written. Fees for such services amounted to \$1,097,859 and \$1,196,188 for the year ended December 31, 2003 and the eleven months ended December 31, 2002, respectively.

#### *Unpaid Losses and Loss Adjustment Expense Reserves*

The Plan has established claim liabilities gross of reinsurance that are based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled ("case" reserves) and of claims that have been incurred but not reported ("IBNR" reserves), net of estimated salvage and subrogation. The length of time for which such costs must be estimated varies depending on the coverage involved. Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability and damage awards, the process used in computing claims liabilities does not necessarily result in exact amounts, particularly for coverages such as general liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual and industry data that reflects past inflation and on other factors and are considered to be appropriate modifiers of past experience (See Notes 3 and 4 for further discussion).

The methods of making such estimates and establishing the ultimate liability for losses and loss adjustment expenses are reviewed regularly. Management believes that the estimate of the ultimate liability for losses and loss adjustment expenses as of December 31, 2003 and 2002 is reasonable and reflective of anticipated ultimate experience. However, it is possible that the Plan's actual incurred losses and loss adjustment expenses will not conform to the assumptions inherent in the determination of the liability. Accordingly, it is reasonably possible that the ultimate settlement of losses and the related loss adjustment expenses may vary significantly from the estimated amounts included in the accompanying financial statements.

The Plan has no claims liabilities in excess of its reinsurance coverage, and therefore no losses have been incurred by the Plan in 2003 and 2002.

#### *Unearned Premiums*

As the plan does not retain premium, it does not have any unearned premium.

#### *Other Income*

Group charges are earned when billed. This fee is non-refundable to the Plan members upon cancellation of policies. Member fees were also non-refundable and earned when billed during 2002. The Plan changed its cancellation policy in 2003 to allow for refundable member fees, and therefore in 2003 the member fees are now earned by the Plan on a pro-rata basis over the life of the policy.

## Ohio School Plan

### Notes to the Financial Statements

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#### 3. Reinsurance

The Plan reinsures its coverages 100% with various reinsurance companies up to a limit of \$1,000,000 per occurrence, per member.

In the event that the reinsurance company should be unable to meet their obligations under the existing reinsurance agreements, the Plan would be liable for such defaulted amounts. The Plan evaluates the financial condition of its reinsurers and monitors the concentrations of credit risk to minimize its exposure to significant losses from reinsurer insolvencies.

#### 4. Unpaid Losses and Loss Adjustment Expense Reserves

Activity in the losses and loss adjustment expense reserves is summarized as follows:

	2003	2002
Balance at January 1	\$ 4,714,054	\$ -
Less: reinsurance recoverables	(4,714,054)	-
Net balance at January 1	<u>-</u>	<u>-</u>
Incurred related to:		
Current year	-	-
Prior year	-	-
Total incurred	<u>-</u>	<u>-</u>
Paid related to:		
Current year	-	-
Prior year	-	-
Total paid	<u>-</u>	<u>-</u>
Net balance at December 31		
Plus: reinsurance recoverables	<u>5,046,393</u>	<u>4,714,054</u>
Balance at December 31	<u>\$ 5,046,393</u>	<u>\$ 4,714,054</u>

The Plan has no net balance of unpaid losses and loss adjustment expense reserves at December 31, 2003 and 2002, due to fact that no losses incurred have exceeded the reinsurance coverage in place.

#### 5. Tax Status

Effective January 4, 2004, the Plan received notification that it is a qualified plan under the applicable sections of the Internal Revenue Code and is therefore not subject to federal income tax under present tax laws.

# Ohio School Plan

## Notes to the Financial Statements

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### 6. Commitments and Contingencies

The individual members of the Plan are named as defendants in various lawsuits. These actions were considered by the Plan in establishing its losses and loss adjustment expense reserves. The Plan believes the ultimate disposition of these and other pending lawsuits against the Plan's members will not materially impact the Plan's financial position, results of operations or cash flows.

**Report of Independent Auditors  
on Supplemental Information**

To the Board of Directors of  
the Ohio School Plan:

The report on our audits of the financial statements of the Ohio School Plan (the "Plan") as of December 31, 2003 and 2002, and for the year ended December 31, 2003 and the eleven month ended December 31, 2002 is presented on page one of this document. Those audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Supplemental Schedule of Ten-Year Claims Development Information of the Plan as of December 31, 2003 and for the year then ended is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Plan's board of directors, management of the Plan and its members and is not intended to be and should not be used by anyone other than those specified parties.

*PricewaterhouseCoopers LLP*

March 26, 2004

## Ohio School Plan

### Supplemental Schedule of Ten-Year Claims Development Information

The following table illustrates how the Plan's earned revenue (net of reinsurance) and investment income compare to related costs of loss net of loss assumed by reinsures of the Plan. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts commonly is used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Revenues										
Earned*	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$10,208,223	\$10,051,064
Ceded	-	-	-	-	-	-	-	-	(7,575,856)	(7,704,333)
Net Earned	-	-	-	-	-	-	-	-	2,632,367	2,346,731
Estimated claims and expenses end of policy year:										
Incurred	-	-	-	-	-	-	-	-	4,943,645	5,046,393
Ceded	-	-	-	-	-	-	-	-	(4,943,645)	(5,046,393)
Net Incurred	-	-	-	-	-	-	-	-	-	-
Net Paid (cumulative) as of:										
End of policy year	-	-	-	-	-	-	-	-	-	-
One year later	-	-	-	-	-	-	-	-	-	-
Two years later	-	-	-	-	-	-	-	-	-	-
Three years later	-	-	-	-	-	-	-	-	-	-
Four year later	-	-	-	-	-	-	-	-	-	-
Five years later	-	-	-	-	-	-	-	-	-	-
Six years later	-	-	-	-	-	-	-	-	-	-
Seven years later	-	-	-	-	-	-	-	-	-	-
Eight years later	-	-	-	-	-	-	-	-	-	-
Nine years later	-	-	-	-	-	-	-	-	-	-
Reestimated net incurred claims and expenses										
End of policy year	-	-	-	-	-	-	-	-	-	-
One year later	-	-	-	-	-	-	-	-	-	-
Two years later	-	-	-	-	-	-	-	-	-	-
Three years later	-	-	-	-	-	-	-	-	-	-
Four years later	-	-	-	-	-	-	-	-	-	-
Five years later	-	-	-	-	-	-	-	-	-	-
Six years later	-	-	-	-	-	-	-	-	-	-
Seven years later	-	-	-	-	-	-	-	-	-	-
Eight years later	-	-	-	-	-	-	-	-	-	-
Nine year later	-	-	-	-	-	-	-	-	-	-
Increase in estimated net incurred claims and expenses from end of policy year	-	-	-	-	-	-	-	-	-	-

\* Includes earned premiums, investment revenues, membership and group fees, and other income.

NOTE: The Plan commenced operations in 2002. Accordingly, there is no prior years' development.