

Ohio School Plan

Financial Statements

for the years ended December 31, 2004 and 2003

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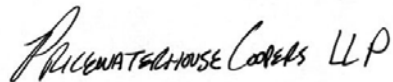
Report of Independent Auditors

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, 2004 and 2003, 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. 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 of these statements 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, 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.

As described in Note 2, the Plan adopted the provisions of Governmental Accounting Standards Board No. 34, *Basic Financial Statements and Management's Discussion and Analysis For State and Local Governments*, effective January 1, 2003.

The management's discussion and analysis on pages 3 through 4 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "PRICEWATERHOUSE COOPERS LLP". The signature is written in a cursive, flowing style.

April 8, 2005

Ohio School Plan

Management's Discussion and Analysis (Unaudited)

December 31, 2004 and 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Ohio School Plan's (the "Plan") financial statements presents our discussion and analysis of the Plan's financial performance during the fiscal years that ended December 31, 2004 and 2003. Please read it in conjunction with the Plan's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

These financial statements consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements* (including footnotes), and *required supplementary information*.

FINANCIAL HIGHLIGHTS

- The Plan's total assets increased \$589,133 or 226% in 2004 and decreased \$255,972 or 50% in 2003. The 2004 increase is due to an increase in the membership fee charged to Plan members. In 2003, 1% of premium was being charged as a membership fee. In 2004, 7% of premium was being charged as membership fee. The membership fee was increased to fund for the paid loss corridor on the casualty quota share treaty. The increase is also due to the timing of payments to the Plan's reinsurers. The 2003 decrease is related to a decrease in membership fees caused by a decrease in written premiums.
- In 2004, the Plan began investing excess funds in fixed income securities of the U.S. Government.
- The changes in reinsurance payable in both 2004 and 2003 are due to the timing of payments made to the Plan's reinsurers.
- Unearned membership fees have increased \$156,307 or 490% and \$31,928 or 100% in 2004 and 2003, respectively. The 2004 increase is due to the fact that the membership fee being charged to the membership was increased in 2004. The 2003 increase is due to a change in how the membership fees were accounted. Please see footnote No. 1 *Description of the Organization* within this report for further discussion.
- The Plan's accumulated surplus increase \$252,359 or 286% in 2004 and it decreased 41% in 2003 due to the Plan's operations.
- Written Premiums increased \$911,510 or 9.2% in 2004 compared to 2003. Written Premiums decreased \$91,100 or .9% in 2003 compared to 2002. The 2004 increase is due to the inclusion of excess liability coverage within the Plan. The overall decrease in 2003 is related to the net loss of 80 members. This loss of members was partially offset by increased property coverage writings.

**Ohio School Plan
Management's Discussion and Analysis (Unaudited)
December 31, 2004 and 2003**

- Membership fees have increased \$406,247 or 628% in 2004 due to the fact that the membership fees being charged to the members has increased. Membership fees were increased to fund for the corridor in the 2004 casualty quota share treaty. Membership fees decreased in 2003 due to the overall reduction in written premiums during 2003.
- Group fees have decreased in 2004 and 2003 due to an underwriting change. The Plan no longer separately charges for covered School Groups. Covered School Groups are included in the overall members' premium.

CONTACTING THE PLAN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our members, agents, and reinsurers with a general overview of the Plan's financial standing. If you have questions about this report or need additional financial information, contact the Plan's administrator, Hylant Administrative Services, LLC., 811 Madison Avenue, Toledo, Ohio 43624.

**Ohio School Plan
Balance Sheets
December 31, 2004 and 2003**

	2004	2003
Assets		
Cash	\$ 438,796	\$ 132,948
Bonds at market value	200,069	-
Premiums receivable	168,380	61,423
Reinsurance receivable	42,820	54,188
Other receivable	-	12,373
	<u> </u>	<u> </u>
Total assets	<u>\$ 850,065</u>	<u>\$ 260,932</u>
Liabilities and Members' equity:		
Liabilities		
Reinsurance payable	\$ 283,932	\$ 138,522
Accrued liabilities and fees	37,391	2,334
Unearned membership fees	188,235	31,928
	<u> </u>	<u> </u>
Total liabilities	<u>509,558</u>	<u>172,784</u>
Members' equity		
Accumulated surplus	<u>340,507</u>	<u>88,148</u>
Total members' equity	<u>340,507</u>	<u>88,148</u>
Total liabilities and members' equity	<u>\$ 850,065</u>	<u>\$ 260,932</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 years ended December 31, 2004 and 2003

	2004	2003
Revenues		
Premiums written	\$ 10,788,641	\$ 9,877,131
Reinsurance premiums ceded	<u>(8,633,826)</u>	<u>(7,704,333)</u>
Net premiums written	<u>2,154,815</u>	<u>2,172,798</u>
Net premiums earned	2,154,815	2,172,798
Membership fees earned	470,888	64,641
Interest income	12,324	9,682
Group fees	<u>770</u>	<u>99,610</u>
Total revenues	<u>2,638,797</u>	<u>2,346,731</u>
Expenses		
Loss and loss adjustment expenses	\$ -	\$ -
Management fees	1,097,550	1,097,859
Commission expense	1,057,265	1,074,939
Professional fees	53,929	51,215
Plan marketing	150,000	150,000
Directors' and officers' coverage	18,963	18,963
Directors' travel and meetings	772	5,453
Other	<u>7,959</u>	<u>9,228</u>
Total expenses	2,386,438	2,407,657
Excess of revenues over expenses	252,359	(60,926)
Members' equity		
Beginning of year	<u>88,148</u>	<u>149,074</u>
End of year	<u>\$ 340,507</u>	<u>\$ 88,148</u>

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

Ohio School Plan
Statement of Cash Flows
For the years ended December 31, 2004 and 2003

	2004	2003
Cash flows from operating activities		
Receipt of premiums	\$ 10,694,057	\$ 9,995,309
Receipt of membership fees	627,195	96,569
Receipt of other income	770	99,610
Receipt of investment income	12,255	9,682
Premiums paid to reinsurers	(8,477,048)	(7,953,386)
Expenses paid	<u>(2,351,381)</u>	<u>(2,439,766)</u>
Net cash provided by operating activities	505,848	(191,982)
Cash flows from investing activities		
Purchase of bonds	<u>(200,000)</u>	<u>-</u>
Net cash used in investing activities	(200,000)	-
Net increase in cash and cash equivalents	305,848	(191,982)
Cash, beginning of year	<u>132,948</u>	<u>324,930</u>
Cash, end of year	<u>\$ 438,796</u>	<u>\$ 132,948</u>
Reconciliation of excess of revenues over expenses to net cash provided by operating activities		
Excess of revenues over expenses	\$ 252,359	\$ (60,926)
Net change in the fair value of investments	(69)	-
Changes in operating assets and liabilities		
Premiums receivable	(106,957)	130,551
Reinsurance receivable	11,368	(54,188)
Reinsurance payable	145,410	(194,865)
Unearned membership fees	156,307	31,928
Accrued liabilities and fees	35,057	(32,109)
Other receivables	<u>12,373</u>	<u>(12,373)</u>
Net cash provided by operating activities	<u>505,848</u>	<u>(191,982)</u>

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

Ohio School Plan

Notes to the Financial Statements

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 and marketing expenses. Earned membership fees were \$470,888 and \$64,641, for the years ended December 31, 2004 and 2003.

The Plan had 382 and 405 members as of December 31, 2004 and 2003.

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-Schuett 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 fully reinsuring coverage provided.

Effective January 1, 2004, the Plan elected to participate in a paid loss ratio corridor in its first \$1 million of casualty reinsurance. The corridor includes losses paid between 65% and 80% of premiums earned under this treaty. If the Plan's paid loss ratio reaches 65%, the Plan would pay all the losses incurred related to this treaty up to the next 15% of premiums earned. Reinsurance coverage would resume after a paid loss ratio of 80% is exceeded.

Ohio School Plan

Notes to the Financial Statements

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.

During 2004, the Plan adopted GASB No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and applied those standards on a retroactive basis. GASB No. 34 establishes standards for external financial reporting for state and local governments. The primary impact for the Plan of this adoption was the requirement to include managements' discussion and analysis.

Cash

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 held by the Plan to give an indication of the level of risk assumed by the Plan at year end. Category 1 includes cash that are insured or collateralized with securities held by the Plan or by its agent in the Plan's name. Category 2 includes cash 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 represents a bank account balance of \$462,406 and \$194,888 as of December 31, 2004 and 2003. 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").

Investments

The Plan has adopted GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools". As required by GASB Statement No. 31, the Plan has recognized its bonds at fair value with all related investment income, including the change in the fair value of investments and realized gains and losses, reflected in the Plan's revenues in the Statement of Revenues, Expenses and Changes in Members' Equity.

Bonds represent U.S. Treasury Notes and other obligations of the U.S. Federal Government and its agencies with maturities greater than one year. Bonds are held for indefinite periods of time and may be sold in response to changes in interest rates, liquidity needs or other market conditions.

Investment transactions are recorded on a trade date basis. Fair value is based on quoted market prices. Realized gains and losses on the sale of securities are determined based on the sales proceeds less the historical cost of the specific asset sold.

Ohio School Plan

Notes to the Financial Statements

Net investment income represents interest income, realized gains and losses, and the change in the fair value of investments, net of management and investment expenses of \$50 and \$0 in 2004 and 2003, respectively.

Investment securities are exposed to various risks such as interest rate, market and credit risks. Market values of securities fluctuate based on the magnitude of changing market conditions; significant changes in market conditions could materially affect the fair value of the Plan's investments.

Reinsurance

Insurance coverages provided by the Plan are fully reinsured. Ceding commissions are paid to the Plan at 20% and 22% of gross premiums written, amounting to \$2,154,815 and \$2,172,798 for the years ended December 31, 2004 and 2003.

For the years ended December 31, 2004 and 2003, 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 10% and 11% of gross premiums written, amounting to \$1,057,265 and \$1,074,939 for the years ended December 31, 2004 and 2003.

Management Fees

Fees for all administrative, management and brokerage related services provided to the Plan are incurred at a cost of 10% and 11% of gross premiums written. Fees for such services amounted to \$1,097,550 and \$1,097,859 for the years ended December 31, 2004 and 2003.

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).

Ohio School Plan

Notes to the Financial Statements

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, 2004 and 2003 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 2004 and 2003.

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 are earned by the Plan on a prorata basis over the life of the policy.

3. Reinsurance

The Plan reinsures its coverages 100% with various reinsurance companies up to a limit of \$3,000,000 per occurrence, per member.

Effective January 1, 2004, the Plan elected to participate in a paid loss ratio corridor in its first \$1 million of casualty reinsurance. The corridor includes losses paid between 65% and 80% of premiums earned under this treaty. If the Plan's paid loss ratio reaches 65%, the Plan would pay all the losses incurred related to this treaty up to the next 15% of premiums earned. Reinsurance coverage would resume after a paid loss ratio of 80% is exceeded.

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.

Ohio School Plan

Notes to the Financial Statements

4. Unpaid Losses and Loss Adjustment Expense Reserves

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

	2004	2003
Balance at January 1	\$ 5,046,393	\$ 4,714,054
Less: reinsurance recoverables	<u>(5,046,393)</u>	<u>(4,714,054)</u>
Net balance at January 1	-	-
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>13,432,975</u>	<u>5,046,393</u>
Balance at December 31	<u>\$ 13,432,975</u>	<u>\$ 5,046,393</u>

The Plan has no net balance of unpaid losses and loss adjustment expense reserves at December 31, 2004 and 2003, 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.

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, 2004 and 2003, and for the years then ended 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, 2004 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

April 8, 2005

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.

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Revenues										
Earned*	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,208,223	\$ 10,051,064	\$ 11,272,623
Ceded	-	-	-	-	-	-	-	(7,575,856)	(7,704,333)	(8,633,826)
Net Earned	-	-	-	-	-	-	-	2,632,367	2,346,731	2,638,797
Estimated claims and expenses end of policy year:										
Incurred	-	-	-	-	-	-	-	4,943,645	5,046,393	13,432,975
Ceded	-	-	-	-	-	-	-	(4,943,645)	(5,046,393)	(13,432,975)
Net Incurred	-	-	-	-	-	-	-	-	-	-
Net Paid (cumulative) as of:										
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 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 p