

**OHIO PLAN
RISK MANAGEMENT, INC.**
Columbus, Ohio

FINANCIAL STATEMENTS
December 31, 2018 and 2017

Ohio Plan Risk Management, Inc.

FINANCIAL STATEMENTS
December 31, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Ohio Plan Risk Management, Inc.
Columbus, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of Ohio Plan Risk Management, Inc. (the "Plan") which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of revenues, expenses and changes in members' equity, and cash flows for the years then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ohio Plan Risk Management, Inc. as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 5 and the Ten-Year Claims Development Information on pages 17 and 18 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Crowe LLP

Crowe LLP

Columbus, Ohio
October 21, 2019

OHIO PLAN RISK MANAGEMENT, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
December 31, 2018 and 2017

This section of the Ohio Plan Risk Management, Inc.'s (the "Plan") financial statements presents management's discussion and analysis of the Plan's financial performance during the years that ended December 31, 2018 and 2017. Please read it in conjunction with the Plan's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

FINANCIAL HIGHLIGHTS

The following information reflects the annual financial highlights as further shown in the accompanying condensed financial statement sections.

- The insurance marketplace remained competitive throughout 2018; the Plan was able to maintain high membership retention and add new members during the year, which led to an increase in premiums written of \$126,185 or less than 1% compared to 2017.
- The Plan's total assets increased \$211,792 or 2% in 2018. The change is due primarily to the increase in the cash balance at the end of the year.
- Premiums receivable increased \$626,789 or 48% in 2018. This change is due to the timing of collection of premiums between the years as well as members changing to various installment plans.
- Unearned premiums and membership fees increased \$210,850 or 11% primarily due to the increase in casualty retention assumed by the Plan beginning with the 11/1/18 reinsurance treaty.
- The Plan's accumulated surplus decreased \$961,723 or 18% in 2018 and increased \$58,306 or 1% in 2017. The changes are related primarily to changes in the investment marketplace and loss activity associated with the Plan's property and casualty retention.
- The *Ohio Plan Advantage* is a renewal premium contribution program created to reward members who meet specific loss ratio and risk management criteria. The *Ohio Plan Advantage* credited to members was \$1,493,035 and \$1,355,782 in 2018 and 2017, respectively. Please see the Plan's website, www.ohioplan.org, for a complete description of the *Ohio Plan Advantage*.
- Membership fees increased \$891 or less than 1% during 2018 and decreased \$626 or less than 1% during 2017 due to the change in membership and is in line with the change in premiums written.
- The Ohio Plan, Inc. (OPI) administrative expense category is due to the Board's commitment to offering products and services beyond the current property and casualty offerings of Ohio Plan Risk Management. The Ohio Plan Management Resources was established in 2017 and created to offer these new products and services. In 2018 a full time executive director was appointed to the OPI.

(Continued)

OHIO PLAN RISK MANAGEMENT, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
December 31, 2018 and 2017

FINANCIAL HIGHLIGHTS (Continued)

- Net investment loss was \$140,003 in 2018 and net investment income was \$552,549 in 2017. The net investment loss was due to changes in market conditions.
- Loss and loss adjustment expense increased \$620,209 or 25% from 2017. This was due to the loss experience in property and casualty treaties that the Plan has taken larger shares of over the last several years.
- The Plan's operations used \$282,729 in 2018 and \$160,386 of cash in 2017. The change is a result of increased premiums received and movement of cash from the investments.

BALANCE SHEETS

The Balance Sheets include all assets and liabilities. The balance sheets are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. Accumulated surplus is the difference between total assets and total liabilities. The change in accumulated surplus during the year is an indicator of the change in the overall financial condition of the Plan during the year. A summary of the Plan's assets, liabilities, and accumulated surplus as of December 31, 2018, 2017 and 2016 is as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
		(In thousands)	
Total assets	<u>\$ 15,065</u>	<u>\$ 14,853</u>	<u>\$ 14,766</u>
Total liabilities	<u>\$ 10,734</u>	<u>\$ 9,561</u>	<u>\$ 9,532</u>
Accumulated surplus	<u>\$ 4,331</u>	<u>\$ 5,292</u>	<u>\$ 5,234</u>

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN MEMBERS' EQUITY

The Statements of Revenues, Expenses and Changes in Members' Equity present the results of operations for the Plan. A summary of the Plan's revenues, expenses and changes in members' equity for the years ended December 31, 2018, 2017 and 2016 is as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
		(In thousands)	
Net premiums earned	\$ 6,694	\$ 6,399	\$ 6,291
Membership fees	241	240	241
Net investment income and other	<u>(140)</u>	<u>552</u>	<u>349</u>
Total revenues	6,795	7,191	6,881
Loss and loss adjustment expenses	3,148	2,528	2,671
Other expenses	<u>4,608</u>	<u>4,605</u>	<u>4,508</u>
Total expenses	<u>7,756</u>	<u>7,133</u>	<u>7,178</u>
Change in members' equity	(961)	58	(298)
Members' equity – beginning of year	<u>5,292</u>	<u>5,234</u>	<u>5,532</u>
Members' equity – end of year	<u>\$ 4,331</u>	<u>\$ 5,292</u>	<u>\$ 5,234</u>

(Continued)

OHIO PLAN RISK MANAGEMENT, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
December 31, 2018 and 2017

STATEMENTS OF CASH FLOWS

The Statements of Cash Flows also provide information about the Plan's financial health by reporting the cash receipts and cash payments of the Plan during the year ended December 31, 2018, 2017 and 2016. Following is a summary of the Statements of Cash Flows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
		(In thousands)	
Net cash provided (used) by:			
Operating activities	\$ (282)	\$ (160)	\$ 860
Investing activities	<u>1,366</u>	<u>(155)</u>	<u>(144)</u>
Net change in cash	1,084	(315)	716
 Cash-beginning of year	 <u>1,103</u>	 <u>1,418</u>	 <u>702</u>
 Cash-end of year	 <u>\$ 2,187</u>	 <u>\$ 1,103</u>	 <u>\$ 1,418</u>

FORWARD LOOKING STATEMENT

The environment in which the Plan operates is competitive. There are pooling and some traditional insurance options available to Ohio's local governments. Due to the budgetary difficulties that Ohio's local governments are facing, Ohio's local governments continue to be under greater pressure to control costs as their tax bases are strained. The Ohio Plan Risk Management has stood ready to provide solutions to our members' complete coverage and risk management needs. In 2018, in an effort to expand our current offerings, The Ohio Plan, Inc. appointed a full time Executive Director who has focused their efforts on this venture. Working closely with the Ohio Plan Management Resources, which was created in 2017, the Ohio Plan will be offering numerous additional products and services including cyber resources, various training offerings and consultation services beginning in 2019.

CONTACTING THE PLAN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our members, prospective 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 43604.

OHIO PLAN RISK MANAGEMENT, INC.
BALANCE SHEETS
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash	\$ 2,187,628	\$ 1,103,967
Short-term investments	548,248	296,811
Bonds, at fair value	5,851,875	7,007,354
Equity securities and funds, at fair value	2,624,827	2,851,242
Certificates of deposit	1,230,731	1,746,300
Premiums receivable	1,924,386	1,297,597
Reinsurance recoverable	655,663	508,549
Accrued interest receivable	<u>42,054</u>	<u>41,800</u>
 Total assets	 <u>\$ 15,065,412</u>	 <u>\$ 14,853,620</u>
 LIABILITIES AND MEMBERS' EQUITY		
Loss and loss adjustment expense reserves	\$ 6,856,469	\$ 6,862,755
Unearned premiums and membership fees	2,100,464	1,889,614
Accrued liabilities and fees	429,349	157,403
Reinsurance payable	<u>1,348,341</u>	<u>651,336</u>
 Total liabilities	 10,734,623	 9,561,108
 MEMBERS' EQUITY		
Accumulated surplus	<u>4,330,789</u>	<u>5,292,512</u>
 Total liabilities and members' equity	 <u>\$ 15,065,412</u>	 <u>\$ 14,853,620</u>

See accompanying notes to financial statements.

OHIO PLAN RISK MANAGEMENT, INC.
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN MEMBERS' EQUITY
 For the years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
REVENUES		
Premiums written	\$ 17,720,177	\$ 17,593,992
Reinsurance premiums ceded	<u>(10,815,458)</u>	<u>(10,797,426)</u>
Net premiums written	6,904,719	6,796,566
Change in unearned premiums	<u>(210,850)</u>	<u>(397,906)</u>
Net premiums earned	6,693,869	6,398,660
Membership fees	241,455	240,564
Net investment income	<u>(140,003)</u>	<u>552,549</u>
Total revenues	6,795,321	7,191,773
 EXPENSES		
Loss and loss adjustment expense	3,147,886	2,527,677
Management fees	2,247,754	2,285,589
Commission expense	1,783,938	1,756,704
Directors' travel and meetings	42,038	25,865
Risk management activities	39,982	40,490
Professional fees	88,891	138,112
Plan marketing	5,442	1,025
Directors' and officers' coverage	41,675	43,652
OPI administrative expense	355,000	252,000
Other	<u>4,438</u>	<u>62,353</u>
Total expenses	<u>7,757,044</u>	<u>7,133,467</u>
Excess (deficit) of revenues over expenses	(961,723)	58,306
 MEMBERS' EQUITY		
Beginning of year	<u>5,292,512</u>	<u>5,234,206</u>
End of year	<u>\$ 4,330,789</u>	<u>\$ 5,292,512</u>

See accompanying notes to financial statements.

OHIO PLAN RISK MANAGEMENT, INC.
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Receipt of premiums	\$ 17,093,388	\$ 17,813,452
Losses paid	(3,154,172)	(2,180,526)
Receipt of membership fees	241,455	240,564
Receipt of other and investment income	139,379	161,023
Premiums paid to reinsurers	(10,391,064)	(10,948,444)
Expenses paid	<u>(4,211,715)</u>	<u>(5,246,455)</u>
Net cash used in operating activities	(282,729)	(160,386)
Cash flows from investing activities		
Change in short-term investments	(251,437)	98,491
Purchases of fixed income securities	(1,969,429)	(1,251,570)
Sales of fixed income securities	<u>3,587,256</u>	<u>1,000,000</u>
Net cash provided by (used in) investing activities	1,366,390	(153,079)
Net change in cash	1,083,661	(313,465)
Cash, beginning of year	<u>1,103,967</u>	<u>1,417,432</u>
Cash, end of year	<u>\$ 2,187,628</u>	<u>\$ 1,103,967</u>
Reconciliation of excess (deficit) of revenues over expenses to net cash provided by operating activities		
Excess (deficit) of revenues over expenses	\$ (961,723)	\$ 58,306
Net (gains) losses on securities	276,171	(389,489)
Changes in operating assets and liabilities		
Premiums receivable	(626,789)	219,460
Reinsurance recoverable	(146,813)	(718)
Accrued interest receivable	2,910	(2,038)
Loss and loss adjustment expense reserves	(6,286)	347,151
Unearned premiums and membership fees	210,850	397,906
Accrued liabilities and fees	271,946	(640,664)
Reinsurance payable	<u>697,005</u>	<u>(150,300)</u>
Net cash used in operating activities	<u>\$ (282,729)</u>	<u>\$ (160,386)</u>

See accompanying notes to financial statements.

NOTE 1 – DESCRIPTION OF THE ORGANIZATION

The Ohio Plan Risk Management, Inc. (the “Plan” or “OPRM”) was formed on January 1, 2009 through an internal reorganization. Prior to 2009, the OPRM’s financial information which related to the property and casualty line of business was included in a separate entity, the Ohio Government Risk Management Plan (“Ohio Plan”). Also included in the Ohio Plan in 2007 and 2008 was an additional line of business for a health product. The Plan was formed to separately manage the property and casualty product from the health product. Because this was simply an internal reorganization, the historical cost basis has been maintained by the OPRM.

The Plan, as the former Ohio Government Risk Management Plan (the “Ohio Plan”), was organized in June 1988, as authorized by Section 2744.081 of the Ohio Revised Code. The Ohio Plan was an unincorporated non-profit association of its members. Effective January 1, 2009, the OPRM incorporated to act as an instrumentality for each member for the sole purpose of enabling members of the Plan to provide for formalized, jointly administered self-insurance programs 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 political subdivisions such as townships, villages, cities and others 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 is governed by a Board of Directors comprised of appointed and elected representatives of public entities that participate in the program.

The Plan was first established to provide property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio. These 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 OPRM has agreed to pay judgments, settlements and other expenses resulting from claims arising related to the property and casualty coverages provided, in excess of the member’s deductible.

OPRM has developed specific forms and endorsements of property and casualty coverage and substantially reinsures these coverages. Individual members are only responsible for their self-retention (deductible) amounts that vary from member to member. See Note 4 for further discussion.

The members pay an annual membership fee that is based on a percentage of premiums written for the year, which is earned pro-rata over the life of members’ policies, and members who cancel are reimbursed the pro-rata portion of membership fees. These fees are charged to cover professional fees, directors’ travel and meeting expenses and other administrative expenses. Membership fees were \$241,536 and \$240,564 for the years ended December 31, 2018 and 2017, respectively.

OPRM had 774 and 764 members as of December 31, 2018 and 2017, respectively.

OPRM has an agreement with Hylant Administrative Services, LLC (“HAS”) to provide agent management, underwriting, claims management, risk management, accounting and system support services for OPRM. HAS also provides reinsurance brokerage services to OPRM, which is paid for by the reinsurers. All other services are paid for by OPRM. See Note 2 for further discussion.

OPRM is comprised exclusively of Ohio political subdivisions. Although its exposure is concentrated to a single geographical area, such exposure is reduced by the practice of reinsuring the majority of coverage provided, with the exception of its paid loss ratio cap on old casualty reinsurance layers.

(Continued)

NOTE 1 – DESCRIPTION OF THE ORGANIZATION (Continued)

In 2002, OPRM (as the Ohio Plan) elected to participate in a loss corridor deductible in its first \$500,000 of casualty reinsurance to control reinsurance costs. The corridor includes losses paid between 55% and 65% of premiums earned under this treaty. If the OPRM's paid loss ratio reaches 55%, OPRM would pay all the losses incurred related to this treaty up to the next 10% of premiums earned. Reinsurance coverage would resume after a paid loss ratio of 65% is exceeded. Effective September 1, 2003 through October 31, 2005, the corridor is for losses paid between 62% and 67% of premiums earned. Effective November 1, 2004 (and through October 31, 2010), the corridor is for losses paid between 65% and 70% of premiums earned in the first \$250,000 of casualty reinsurance. Effective November 1, 2010 (through October 31, 2017), the corridor is for losses paid between 60% and 70% of casualty premiums earned in the first \$250,000. Effective November 1, 2016, the OPRM elected to participate in a property loss corridor deductible. The property corridor includes losses paid between 70% and 75%. In 2018, the casualty loss corridor was eliminated and the property corridor was adjusted to losses paid between 65% and 70%.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Plan conform to accounting principles generally accepted in the United States of America ("GAAP") as prescribed by the Governmental Accounting Standards Board ("GASB").

Use of 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: Cash is subject to common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

Investments: The Plan recognizes its short-term investments, bonds, and equity securities 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.

Short-term investments consist of commercial paper and U.S. Treasury Bills and money market funds with maturities less than one year. The Plan intends to hold all short-term securities to maturity. Bonds represent U.S. corporate bonds, 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. Equity securities consist of shares of stock of highly rated U.S. companies. The investment strategy is to provide long-term capital appreciation by investing primarily in the stocks of well-established growth and value companies in the United States.

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.

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 \$70,229 and \$75,235 in 2018 and 2017, 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.

(Continued)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reinsurance: OPRM premiums written of \$10,815,458 and \$10,797,426 were ceded to reinsurers for the year ended December 31, 2018 and 2017, respectively.

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 offset 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.

OPRM agent commission expense amounted to \$1,783,938 and \$1,756,704 for the years ended December 31, 2018 and 2017, respectively.

Management Fees: Fees for all administrative and management related services provided to the Plan are based upon a percentage of gross premiums written. OPRM fees for such services amounted to \$2,247,754 and \$2,285,589 for 2018 and 2017, respectively.

Loss and Loss Adjustment Expense Reserves: OPRM has not established claims liabilities on reinsured property and casualty risks except for those that it determined are liabilities which are not covered by reinsurers as further discussed in Note 4. For those risks, OPRM has established claims liabilities 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 coverage 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 4 and 5 for further discussion).

The methods of making such estimates and establishing the ultimate liability for loss and loss adjustment expense are reviewed regularly. Management believes that the estimate of the ultimate liability for loss and loss adjustment expense as of December 31, 2018 and 2017 is reasonable and reflective of anticipated ultimate experience. However, it is possible that actual incurred loss and loss adjustment expense 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.

Unearned Premiums: Unearned premiums represent the portion of net premiums written related to the unexpired risk period of underlying policies. Net OPRM premiums are earned on a pro-rata basis over the term of the related policies.

(Continued)

OHIO PLAN RISK MANAGEMENT, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to December 31, 2018 to determine the need for any adjustments and disclosures within the audited financial statements for the year ended December 31, 2018. Management has performed their analysis through October 21, 2019, which is the date these financial statements were available to be issued.

NOTE 3 – INVESTMENTS

As of December 31, 2018 and 2017, the Plan had the following investments (at fair value).

<u>Investment Type</u>	<u>2018</u>	<u>2017</u>
U.S. Government agency securities	\$ 2,818,740	\$ 3,321,070
Equity funds	2,624,827	2,851,241
U.S. corporate bonds	3,033,135	3,686,285
Money market mutual fund	548,248	296,811
Certificates of deposit	<u>1,230,731</u>	<u>1,746,300</u>
	<u>\$ 10,255,681</u>	<u>\$ 11,901,707</u>

The Plan's investments measured and reported at fair value are classified according to the following hierarchy:

- Level 1 - Investments reflect prices quoted in active markets.
- Level 2 - Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active.
- Level 3 - Investments reflect prices based upon unobservable sources.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk.

Assets classified in Level 1 of the fair value hierarchy are valued directly from a primary external pricing vendor. Assets classified in Level 2 are subject to pricing by an alternative pricing source due to lack of information available by the primary vendor.

The fair value measurement of investments held at December 31, 2018 and 2017 is presented below:

<u>December 31, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. Government agency securities	\$ 2,818,740	\$ -	\$ -	\$ 2,818,740
Equity funds	2,624,827	-	-	2,624,827
U.S. Corporate bonds	<u>-</u>	<u>3,033,136</u>	<u>-</u>	<u>3,033,136</u>
	<u>\$ 5,443,567</u>	<u>\$ 3,033,136</u>	<u>\$ -</u>	8,476,703
				548,248
				<u>1,230,730</u>
				<u>\$10,255,681</u>

(Continued)

OHIO PLAN RISK MANAGEMENT, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 3 – INVESTMENTS (Continued)

<u>December 31, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. Government agency securities	\$ 3,321,070	\$ -	\$ -	\$ 3,321,070
Equity funds	2,851,241	-	-	2,851,241
U.S. Corporate bonds	<u>-</u>	<u>3,686,285</u>	<u>-</u>	<u>3,686,285</u>
	<u>\$ 6,172,311</u>	<u>\$ 3,686,285</u>	<u>\$ -</u>	9,858,596
				296,811
				<u>1,746,300</u>
				<u>\$ 11,901,707</u>

Net investment income includes interest, dividends, investment fees, and net realized and unrealized gains on investments as follows:

	<u>2018</u>	<u>2017</u>
Dividend and interest income	\$ 259,595	\$ 229,816
Investment fees	(70,229)	(75,235)
Net realized and unrealized gains (losses)	<u>(329,369)</u>	<u>397,968</u>
	<u>\$ (140,003)</u>	<u>\$ 552,549</u>

U.S. Government agency Securities and U.S. corporate bonds have weighted average maturities of 1.5 years and 1.6 years and 1.0 years and 1.7 years at December 31, 2018 and 2017, respectively, and money market funds have maturities of 30 days or less as of December 31, 2018 and 2017.

The Plan's U.S. Government agency securities have credit quality ratings of AAA and the U.S. Corporate bonds have ratings ranging from BBB+ to A.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Plan's investment policy requires any investment to mature within five years from the date of settlement as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Plan's investment policy does place a limit on the amount it may invest in any single issuer.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a failure of a depository financial institution to fulfill its obligations, the Plan will not be able to recover the value of its deposits in the possession of an outside party. The Plan does not have a formal policy for custodial credit risk. As of December 31, 2018, the carrying amount of the Plan's deposits was \$2,187,628 and the bank balance was \$2,411,609. Of the bank balance, \$250,000 was covered by federal depository insurance, and the remainder was exposed to custodial credit risk at December 31, 2018. As of December 31, 2017, the carrying amount of the Plan's deposits was \$1,103,967 and the bank balance was \$1,238,343. Of the bank balance, \$250,000 was covered by federal depository insurance, and the remainder was exposed to custodial credit risk at December 31, 2017.

(Continued)

NOTE 3 – INVESTMENTS (Continued)

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of December 31, 2018 and 2017, all of the Plan's investments were held by the investment's counterparty.

NOTE 4 – REINSURANCE

Prior to September 1, 2002, property and casualty insurance coverages provided by OPRM (as the Ohio Plan) were fully reinsured, up to a limit of \$6,000,000 per occurrence, per member, with the exception of its paid loss ratio cap on casualty reinsurance treaties. Effective September 1, 2002, OPRM began retaining 5% of the premium and losses on the first \$500,000 casualty treaty and 5% of the first \$1,000,000 property treaty on a quota share basis. Effective November 1, 2005 (and through October 31, 2009), OPRM began retaining 15% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2009, the OPRM retained 17.5% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2010, the OPRM retained 40% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2011, the OPRM retained 41.5% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2012, the OPRM retained 50% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2014, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2016, the OPRM retained 50% of the premium and losses on the first \$250,000 casualty treaty and 30% of the first \$1,000,000 property treaty. Effective November 1, 2017, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 30% of the first \$1,000,000 property treaty. The OPRM is also participating in a property primary excess of loss treaty. This treaty reimburses the OPRM 30% for losses between \$200,000 and \$1,000,000. The reimbursement is based on the amount of loss between \$200,000 and \$1,000,000. Effective November 1, 2018, the OPRM's property retention remained unchanged, however the Plan assumed 100% of the first \$250,000 casualty treaty.

For treaties effective prior to September 1, 2004, OPRM's paid loss ratio cap on casualty reinsurance coverage includes losses on casualty claims up to \$200,000, subject to aggregate limits. OPRM's paid loss ratio cap on older casualty reinsurance coverage is provided in multiple-year treaties to the Plan and the Ohio Fair Participating Plan combined. Both plans share in the same aggregate limits, which are calculated as a function of combined written premium ceded.

OPRM is not expected to exceed the paid loss ratio cap related to older casualty reinsurance coverage available as of December 31, 2017 and 2016.

Effective September 1, 2004 to present, OPRM's casualty quota share treaties no longer contain paid loss ratio caps as part of its reinsurance coverage.

In the event that any of the reinsurance companies should be unable to meet their obligations under the existing reinsurance agreements, the OPRM would be liable for such defaulted amounts. Conversely, should OPRM be unable to meet its obligations, amounts due OPRM under reinsurance contracts shall be payable by the reinsurers on the basis of the liability of the OPRM under the original OPRM policies reinsured without diminution. OPRM evaluates the financial condition of its reinsurers and monitors the concentrations of credit risk to minimize its exposure to significant losses from reinsurer insolvencies.

(Continued)

OHIO PLAN RISK MANAGEMENT, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 5 – LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

Activity in the loss and loss adjustment expense reserves, related to OPRM property and casualty coverage, at December 31, 2018 and 2017 is summarized as follows:

	<u>2018</u>	<u>2017</u>
Net balance at January 1	\$ 6,862,755	\$ 6,515,604
Incurred related to:		
Current year	2,514,820	1,650,647
Prior year	<u>633,066</u>	<u>877,030</u>
Total incurred	<u>3,147,886</u>	<u>2,527,677</u>
Paid related to:		
Current year	(914,827)	(1,126,602)
Prior year	<u>(2,239,345)</u>	<u>(1,053,924)</u>
Total paid	<u>(3,154,172)</u>	<u>(2,180,526)</u>
Net balance at December 31	<u>\$ 6,856,469</u>	<u>\$ 6,862,755</u>

The net balance of loss and loss adjustment expense reserves at December 31, 2018 and 2017 represent OPRM's estimate of the ultimate cost of loss and loss adjustment expense that have been reported but not settled and that have been incurred but not reported, net of estimated salvage and subrogation. As a result of changes in estimates for insured events in prior years, the reserve for losses and loss expenses developed unfavorably, net of reinsurance, by \$633,066 and \$877,030 in 2018 and 2017, respectively. No additional premiums or return premiums were accrued as a result of these changes, which are the result of ongoing analysis of loss development trends and consideration of additional reserving techniques. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

NOTE 6 – TAX STATUS

Effective December 1, 2010, 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.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

The Plan has a \$2,000,000 line of credit agreement with a bank that renews automatically. The line of credit is collateralized by the Plan's cash and cash equivalents and premiums receivable. As of December 31, 2018 and 2017, the Plan had no borrowings against this line of credit.

The Plan and its individual members are named as defendants in various lawsuits generally relating to their coverage. Numerous legal actions arise from claims made related to coverage provided by the Plan or in connection with previous reinsurance agreements. These actions were considered by the Plan in establishing its loss and loss adjustment expense reserves. The Plan believes the ultimate disposition of these and other pending lawsuits against the Plan will not materially impact the Plan's financial position, results of operations or cash flows.

SUPPLEMENTARY INFORMATION

OHIO PLAN RISK MANAGEMENT, INC.
TEN-YEAR CASUALTY CLAIMS DEVELOPMENT INFORMATION (UNAUDITED)
For the years ending 2009 through 2018

The following table illustrates how the Plan's (including those years where the Plan was part of OGRMP as its property and casualty product line) earned revenue (net of reinsurance) and net investment income compare to related costs of loss net of loss assumed by reinsurers 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 casualty claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Revenues										
Earned*	\$ 18,313,235	\$ 17,218,398	\$ 16,651,249	\$ 17,076,423	\$ 17,485,329	\$ 18,608,224	\$ 18,494,391	\$ 18,233,347	\$ 17,759,383	\$ 17,567,376
Ceded**	<u>15,664,259</u>	<u>15,252,732</u>	<u>14,813,164</u>	<u>14,568,220</u>	<u>14,942,223</u>	<u>15,801,962</u>	<u>16,282,531</u>	<u>15,458,537</u>	<u>14,828,518</u>	<u>14,847,151</u>
Net Earned	2,648,976	1,965,666	1,838,085	2,508,203	2,543,106	2,806,262	2,211,860	2,778,810	2,930,865	2,720,225
Estimated net incurred casualty claims and expenses at end of policy year	648,469	645,555	1,269,163	1,457,778	1,484,351	1,496,742	1,219,708	1,319,024	1,443,521	1,408,840
Net paid (cumulative) as of:										
End of policy year	46,468	38,384	77,941	50,027	98,707	48,496	62,877	63,906	114,254	96,372
One year later	129,858	151,102	349,710	293,559	530,012	250,310	443,039	300,064	493,161	
Two years later	255,188	400,570	703,334	775,859	939,638	680,931	910,031	471,757		
Three years later	360,364	697,018	949,971	1,055,728	1,517,829	897,190	1,434,375			
Four years later	405,390	880,690	1,179,667	1,644,636	2,003,482	1,011,011				
Five years later	422,687	921,445	1,569,004	1,743,703	2,101,290					
Six years later	456,294	946,082	1,704,653	1,765,769						
Seven years later	481,005	958,653	1,711,954							
Eight years later	481,619	976,757								
Nine years later	481,619									
Reestimated net incurred claims and expenses:										
End of policy year	648,469	645,555	1,269,163	1,457,778	1,484,351	1,496,742	1,219,708	1,319,024	1,443,521	1,408,840
One year later	827,964	1,056,564	1,929,271	1,995,324	2,149,518	1,785,247	2,120,188	1,726,685	2,421,006	
Two years later	591,097	1,191,358	2,156,816	2,099,254	2,689,931	1,858,408	2,383,582	1,501,294		
Three years later	783,754	1,138,042	2,081,020	1,883,111	2,615,104	1,816,922	2,320,554			
Four years later	745,977	1,064,473	1,941,877	1,918,239	2,532,769	1,418,030				
Five years later	564,195	968,654	1,979,619	1,844,132	2,440,355					
Six years later	714,604	1,008,076	1,902,019	1,837,994						
Seven years later	651,411	1,002,826	1,924,811							
Eight years later	484,859	980,452								
Nine years later	483,644									
Change in estimated net incurred claims and expenses from end of policy year	(164,824)	334,896	655,648	380,216	956,004	(78,712)	1,110,847	182,270	977,485	-

*Includes premiums written, change in unearned premium, net investment income, and membership fees.

**Includes reinsurance premiums ceded, management fees, and commission expense.

(Continued)

OHIO PLAN RISK MANAGEMENT, INC.
TEN-YEAR PROPERTY CLAIMS DEVELOPMENT INFORMATION (UNAUDITED)
For the years ending 2009 through 2018

The following table illustrates how the Plan's (including those years where the Plan was part of OGRMP as its property and casualty product line) earned revenue (net of reinsurance) and net investment income compare to related costs of loss net of loss assumed by reinsurers 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 property claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Revenues										
Earned*	\$ 18,313,235	\$ 17,218,398	\$ 16,651,249	\$ 17,076,423	\$ 17,485,329	\$ 18,608,224	\$ 18,494,391	\$ 18,233,347	\$ 17,759,383	\$ 17,567,376
Ceded**	<u>15,664,259</u>	<u>15,252,732</u>	<u>14,813,164</u>	<u>14,568,220</u>	<u>14,942,223</u>	<u>15,801,962</u>	<u>16,282,531</u>	<u>15,458,537</u>	<u>14,828,518</u>	<u>14,847,151</u>
Net Earned	2,648,976	1,965,666	1,838,085	2,508,203	2,543,106	2,806,262	2,211,860	2,778,474	2,930,865	2,720,225
Estimated net incurred property claims and expenses at end of policy year	214,628	210,394	274,080	504,907	422,748	138,318	327,248	291,978	1,261,821	980,875
Net paid (cumulative) as of:										
End of policy year	108,694	128,696	183,073	327,441	233,963	135,173	194,394	212,032	596,923	447,043
One year later	292,850	247,907	343,418	531,418	361,675	299,564	267,653	295,023	1,497,992	
Two years later	295,288	279,328	363,369	552,403	425,309	301,336	293,417	296,999		
Three years later	296,358	279,155	364,593	582,734	422,583	312,279	294,636			
Four years later	296,543	279,069	364,248	583,052	422,893	312,279				
Five years later	297,678	279,069	364,288	585,940	422,833					
Six years later	297,678	281,480	364,272	591,944						
Seven years later	297,701	281,459	364,272							
Eight years later	297,452	281,424								
Nine years later	297,302									
Reestimated net incurred claims and expenses:										
End of policy year	214,628	210,394	274,080	504,907	422,748	138,318	327,248	291,978	1,261,821	980,875
One year later	328,379	292,500	369,954	740,917	525,642	336,595	320,961	324,789	1,684,644	
Two years later	303,133	292,030	369,963	642,902	442,153	352,644	321,726	297,496		
Three years later	296,574	292,077	479,221	592,917	431,868	352,644	295,591			
Four years later	297,080	279,159	364,683	593,082	431,868	313,064				
Five years later	297,678	279,070	364,536	593,082	423,625					
Six years later	297,678	281,480	364,536	595,060						
Seven years later	297,701	281,458	364,272							
Eight years later	297,453	281,424								
Nine years later	297,302									
Change in estimated net incurred claims and expenses from end of policy year	82,674	71,040	90,193	90,153	877	174,746	(31,657)	5,517	422,822	-

*Includes premiums written, change in unearned premium, net investment income, and membership fees.

**Includes reinsurance premiums ceded, management fees, and commission expense.