

**OHIO GOVERNMENT
RISK MANAGEMENT PLAN**

FINANCIAL STATEMENTS
December 31, 2006 and 2005

OHIO GOVERNMENT RISK MANAGEMENT PLAN
Columbus, Ohio

FINANCIAL STATEMENTS
December 31, 2006 and 2005

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Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Ohio Government Risk Management Plan
Columbus, Ohio

We have audited the accompanying statements of financial position of Ohio Government Risk Management Plan (the "Plan") as of December 31, 2006, and the related statements of activities and cash flows for the year then ended. 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 audit. The financial statements of the Plan as of December 31, 2005 were audited by other auditors whose report dated April 1, 2006, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ohio Government Risk Management Plan as of December 31, 2006, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 2 through 4 is 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.

The accompanying Ten-Year Claims Development Information of the Plan as of December 31, 2006 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.

Crowe Chizek and Company LLC
Crowe Chizek and Company LLC

Columbus, Ohio
April 19, 2007

OHIO GOVERNMENT RISK MANAGEMENT PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
December 31, 2006 and 2005

This section of the Ohio Government Risk Management 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, 2006 and 2005. 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 Plan's total assets increased \$1,400,718 or 17% and \$1,533,908 or 23% in 2006 and 2005, respectively. The 2006 and 2005 increases are due to the Plan's excess of revenues over expenses.
- The Plan's total investments increased \$1,735,569 or 34% in 2006. Due to the Plan's overall operations, more cash was generated which in turn was invested. Positive market performance during 2006 also increased the value of the Plan's equity portfolio.
- The Plan's loss reserves increased \$456,178 or 36% and \$243,079 or 23% in 2006 and 2005, respectively. Effective November 1, 2005, the plan began retaining an increased share of both property and casualty treaties. Approximately \$300,000 of the increase relates to the 2005-2006 accident years associated with this increased retention. In 2002, the Plan elected to participate in a paid loss corridor in its first \$500,000 layer of casualty reinsurance. The 2003-2004 reinsurance treaty corridor includes losses paid between 62% and 67% of premiums earned under this treaty. If the Plan's paid loss ratio reaches 62%, the Plan would pay all losses up to a paid loss ratio of 67%. Reinsurance coverage would resume after a paid loss ratio of 67% is exceeded. In 2005, the primary reason for the change pertains to the net retention of the aforementioned paid loss corridor deductible. Prior to 2003, the Plan's casualty reinsurance coverage includes losses on casualty claims up to \$200,000, subject to aggregate limits. The limits are calculated as a function of combined written premium ceded. As of December 31, 2006 and 2005, the Plan has no loss reserves associated with the paid loss ratio cap reinsurance exposure.
- Effective November 1, 2005, the Plan 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. In reviewing the Plan's experience, this structure presented as the optimum reinsurance structure. This reinsurance structure also demonstrates the Plan's long-term commitment to both its members and its reinsurers.

(Continued)

OHIO GOVERNMENT RISK MANAGEMENT PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
December 31, 2006 and 2005

FINANCIAL HIGHLIGHTS (Continued)

- Reinsurance payable decreased \$105,395 or 12% in 2006 and increased \$325,226 or 60% in 2005. The 2006 change is due to the increase retention by the Plan and the timing and level of premium and claim payments. The 2005 change is related to the timing and level of premium and claim payments.
- The Plan's accumulated surplus increased \$819,737 or 15% and \$1,013,068 or 23% in 2006 and 2005, respectively due to the result of the Plan's operations.
- Written Premiums increased by \$615,216 or 4% in 2006 compared to 2005. Written premium increased 355,436 or 2.5% in 2005 compared to 2004. The 2006 increase is due to the addition of new members. The 2005 increase is due to the stabilization of rates and the net addition of 15 members.
- Reinsurance premiums ceded increased \$551,012 or 6% in 2006 and \$253,130 or 2.7% in 2006 and 2005, respectively. Effective January 1, 2006, the Plan began granting the *Ohio Plan Advantage*. The *Ohio Plan Advantage* is a renewal premium credit granted to members who meet specific loss ratio and risk management criteria. The *Plan Advantage* credited to members and ceded to reinsurers was approximately \$642,000. This is the factor contributing to the increase in ceded premiums. Removing the impact of the *Plan Advantage*, ceded premiums would have fluctuated more in line with the Plan's increased retention. The 2005 increase is related to the increase in written premiums. Please see the Plan's website, www.ohioplan.org for a complete description of the *Plan Advantage*.
- Membership fees increased in relation to written premium for 2006 and 2005 due to additional members.
- Net investment income has increased \$389,970 or 405% in 2006. The 2006 increase is due to increased earnings on the portfolio due to additional funds being invested during 2006 and an increase in the market value of the Plan's equity holdings due to positive market performance.
- Loss and loss adjustment expense increased in 2006 and 2005. The 2006 increase is being driven by the Plan's increased retention on the property and casualty lines. During 2005, reserves for the 2003-2004 paid loss ratio corridor accounted for the majority of the change in loss and loss adjustment expense.

(Continued)

OHIO GOVERNMENT RISK MANAGEMENT PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
December 31, 2006 and 2005

FINANCIAL HIGHLIGHTS (Continued)

- Professional fees increased \$43,716 or 42% in 2006 due to the Plan incurring additional fees associated with researching the viability of creating a health coverage pool. Professional fees decreased \$33,103 or 24% in 2005. In 2005, the Plan did not have as many special projects requiring professional services as in prior years.

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 GOVERNMENT RISK MANAGEMENT PLAN
BALANCE SHEETS
December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash	\$ 1,198,198	\$ 1,673,457
Short-term investments, at fair value	449,947	261,927
Bonds, at fair value	4,247,630	3,525,681
Equity securities, at fair value	2,634,022	1,620,402
Premiums receivable	889,320	1,077,691
Reinsurance recoverable	159,304	28,817
Accrued interest receivable	<u>41,727</u>	<u>31,455</u>
Total assets	<u>\$ 9,620,148</u>	<u>\$ 8,219,430</u>
LIABILITIES AND MEMBERS' EQUITY		
Loss and loss adjustment expense reserves	\$ 1,725,746	\$ 1,269,568
Unearned premiums and membership fees	706,672	535,594
Accrued liabilities and fees	136,182	77,062
Reinsurance payable	<u>761,020</u>	<u>866,415</u>
Total liabilities	3,329,620	2,748,639
MEMBERS' EQUITY		
Accumulated surplus	<u>6,290,528</u>	<u>5,470,791</u>
Total liabilities and members' equity	<u>\$ 9,620,148</u>	<u>\$ 8,219,430</u>

See accompanying notes to financial statements.

OHIO GOVERNMENT RISK MANAGEMENT PLAN
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN MEMBERS' EQUITY
For the years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
REVENUES		
Premiums written	\$ 15,037,901	\$ 14,422,685
Reinsurance premiums ceded	<u>(10,070,662)</u>	<u>(9,519,650)</u>
Net premiums written	4,967,239	4,903,035
Change in unearned premiums	<u>(171,078)</u>	<u>(2,880)</u>
Net premiums earned	4,796,161	4,900,155
Membership fees	205,066	197,358
Net investment income	<u>486,349</u>	<u>96,379</u>
Total revenues	<u>5,487,576</u>	<u>5,193,892</u>
EXPENSES		
Loss and loss adjustment expense	704,350	409,517
Management fees	2,086,080	2,012,422
Commission expense	1,584,290	1,520,016
Newsletter publishing and postage	19,876	24,432
Directors' travel and meetings	47,245	47,551
Risk management committee meetings and seminars	4,345	2,463
Professional fees	148,174	104,458
Plan marketing	30,094	9,541
Directors' and officers' coverage	39,708	39,708
Other	<u>3,677</u>	<u>10,707</u>
Total expenses	<u>4,667,839</u>	<u>4,180,815</u>
Excess of revenues over expenses	819,737	1,013,077
MEMBERS' EQUITY		
Beginning of year	<u>5,470,791</u>	<u>4,457,714</u>
End of year	<u>\$ 6,290,528</u>	<u>\$ 5,470,791</u>

See accompanying notes to financial statements.

OHIO GOVERNMENT RISK MANAGEMENT PLAN
 STATEMENTS OF CASH FLOWS
 Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities		
Receipt of premiums	\$ 15,226,272	\$ 14,510,410
Losses paid	(248,172)	(166,438)
Receipt of membership fees	205,066	197,358
Receipt of investment income	204,222	128,479
Premiums paid to reinsurers	(10,306,544)	(9,088,721)
Expenses paid	<u>(3,904,369)</u>	<u>(3,821,643)</u>
Net cash provided by operating activities	1,176,475	1,759,445
 Cash flows from investing activities		
Change in short-term investments	(188,020)	364,668
Purchases of bonds	(4,085,267)	(4,267,460)
Purchase of equities	(1,331,044)	(1,578,428)
Sales of bonds	3,260,021	2,698,611
Sales of equities	605,978	961,565
Maturities of bonds	<u>86,598</u>	<u>481,000</u>
Net cash used in investing activities	<u>(1,651,734)</u>	<u>(1,340,044)</u>
 Net change in cash	(475,259)	419,401
 Cash, beginning of year	<u>1,673,457</u>	<u>1,254,056</u>
 Cash, end of year	<u>\$ 1,198,198</u>	<u>\$ 1,673,457</u>
 Cash flows from operating activities		
Excess of revenues over expenses	\$ 819,737	\$ 1,013,077
Net (gains) losses on securities	(271,855)	43,288
Changes in operating assets and liabilities		
Premiums receivable	188,371	87,725
Reinsurance recoverable	(130,487)	105,712
Accrued interest receivable	(10,272)	(11,188)
Loss and loss adjustment expense reserves	456,178	243,079
Unearned premiums and membership fees	171,078	2,880
Accrued liabilities and fees	59,120	(50,345)
Reinsurance payable	<u>(105,395)</u>	<u>325,217</u>
Net cash provided by operating activities	<u>\$ 1,176,475</u>	<u>\$ 1,759,445</u>

See accompanying notes to financial statements.

OHIO GOVERNMENT RISK MANAGEMENT PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE 1 - DESCRIPTION OF THE ORGANIZATION

Organization: The Ohio Government Risk Management Plan (the "Plan") was organized in June of 1988, 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 relatively small political subdivisions such as townships, villages, small 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 was 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 ten appointed independent agents 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 developed forms and endorsements of 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 3 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 \$205,066 and \$197,358, for the years ended December 31, 2006 and 2005, respectively.

The Plan had 515 and 465 members as of December 31, 2006 and 2005, respectively.

The Plan has an agreement with Hylant Administrative Services, LLC ("HAS") to provide agent management, underwriting, claims management, risk management, accounting and system support services for the Plan. HAS also provides reinsurance brokerage services to the Plan. All of these services are paid for by the Plan. See Note 2 for further discussion.

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OHIO GOVERNMENT RISK MANAGEMENT PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE 1 - DESCRIPTION OF THE ORGANIZATION (Continued)

The Plan 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 no less than 90% of coverage provided, with the exception of its paid loss ratio cap on old casualty reinsurance layers.

Effective September 1, 2002, the Plan 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. Effective November 1, 2005, the Plan 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.

In 2002, the 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 Plan's paid loss ratio reaches 55%, the Plan 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, the corridor is for losses paid between 62% and 67% of premiums earned. Effective November 1, 2004, the corridor is for losses paid between 65% and 70% of premiums earned.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Plan conform to accounting principles generally accepted in the United States of America 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 and Cash Equivalents: The Plan has adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*. This statement amends certain custodial risk provisions of GASB Statement No. 3 and addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

Cash represents a bank account balance of \$1,364,628 and \$2,429,061 as of December 31, 2006 and 2005, respectively. The bank account balance is insured up to \$100,000 by the Federal Deposit Insurance Corporation (the "FDIC").

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OHIO GOVERNMENT RISK MANAGEMENT PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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 \$76,998 and \$21,967 in 2006 and 2005, 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: Premiums written of \$10,070,662 and \$9,519,650 were ceded to reinsurers for the years ended December 31, 2006 and 2005, respectively, net of ceding commission of \$3,670,370 and \$3,532,438, 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. Agent commissions amounted to \$1,584,290 and \$1,520,016 for the years ended December 31, 2006 and 2005, respectively.

(Continued)

OHIO GOVERNMENT RISK MANAGEMENT PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Management Fees: Fees for all administrative, management and brokerage related services provided to the Plan are based upon a percentage of gross premiums written. Fees for such services amounted to \$2,086,080 and \$2,012,422 for 2006 and 2005, respectively.

Unpaid Losses and Loss Adjustment Expense Reserves: The Plan has not established claims liabilities on reinsured risks except for those that it determined are liabilities which are not covered by reinsurers as further discussed in Note 3. For those risks, the Plan 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 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 4 and 5 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, 2006 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.

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

(Continued)

OHIO GOVERNMENT RISK MANAGEMENT PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE 3 - INVESTMENTS

As of December 31, 2006 and 2005, the Plan has the following investments.

<u>Investment Type</u>	<u>Fair Value</u>	
	<u>2006</u>	<u>2005</u>
U.S. Government Agency Securities	\$ 3,504,409	\$ 2,588,348
Equity Securities	2,634,022	1,620,402
U.S. Corporate Bonds	743,221	937,333
Money Market Mutual Fund	<u>449,947</u>	<u>261,927</u>
	<u>\$ 7,331,599</u>	<u>\$ 5,408,010</u>

U.S. Government Agency Securities and U.S. Corporate Bonds have weighted average maturities of 3.8 and 3.6 years and 2.5 and 2.8 years at December 31, 2006 and 2005, respectively, and money market funds have maturities of 30 days or less as of December 31, 2006 and 2005 respectively.

The Plan's investments have credit quality ratings of AAA.

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: 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. The Plan does not have a formal policy for custodial credit risk. As of December 31, 2006, all of the Plan's investments were held by the investment's counterparty.

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OHIO GOVERNMENT RISK MANAGEMENT PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE 4 - REINSURANCE

Prior to September 1, 2002, insurance coverages provided by the Plan were fully reinsured, up to a limit of \$5,000,000 per occurrence, per member, with the exception of its paid loss ratio cap on casualty reinsurance treaties. Effective September 1, 2002, the Plan 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, the Plan 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. The Plan's paid loss ratio cap on casualty reinsurance coverage includes losses on casualty claims up to \$200,000, subject to aggregate limits. The Plan'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 ("OFPP") combined. Both plans share in the same aggregate limits, which are calculated as a function of combined written premium ceded.

The Plan is not expected to exceed the paid loss ratio cap related to older casualty reinsurance coverage available as of December 31, 2006 and 2005.

Effective September 1, 2004, the Plan's casualty quota share treaty no longer contains a paid loss ratio cap 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 Plan would be liable for such defaulted amounts. Conversely, should the Plan be unable to meet its obligations under the existing reinsurance agreement, the reinsurers would be liable for their share of 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.

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OHIO GOVERNMENT RISK MANAGEMENT PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE 5 - UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSE RESERVES

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

	<u>2006</u>	<u>2005</u>
Net balance at January 1	\$ 1,269,568	\$ 1,026,489
Incurred related to:		
Current year	574,152	82,250
Prior year	<u>130,198</u>	<u>327,267</u>
Total incurred	<u>704,350</u>	<u>409,517</u>
Paid related to:		
Current year	\$ 151,987	\$ 27,885
Prior year	<u>96,185</u>	<u>138,553</u>
Total paid	<u>248,172</u>	<u>166,438</u>
Net balance at December 31	\$ <u>1,725,746</u>	\$ <u>1,269,568</u>

The net balance of unpaid losses and loss adjustment expense reserves at December 31, 2006 and 2005 represent the Plan's estimate of the ultimate cost of loss and loss adjustment expenses that have been reported but not settled and that have been incurred but not reported, net of estimated salvage and subrogation.

During 2006, the net retention on the two most current accident years accounted for the incurred losses. Beginning with the 2005-2006 accident year, the Plan took an increased share of the overall retention. On an overall basis, approximately \$887,000 of the total 2006 reserves pertains to the Plan's paid loss corridor deductibles.

During 2005, the net retention of the paid loss corridor deductible in the 2003-2004 casualty quota share treaty accounted for approximately \$165,000 of the increase in loss reserves. Based on the development in the 2002 casualty treaty, the ultimate projection for the 2003-2004 casualty treaty was increased, which generated loss reserves within the 2003-2004 casualty corridor. The remainder of the increase in 2005 loss reserves is due to the net retention of the 2004-2005 property and casualty accident years. On an overall basis, approximately \$782,000 of the total 2005 reserves pertains to the aforementioned loss corridor and the 2002 loss corridor.

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OHIO GOVERNMENT RISK MANAGEMENT PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE 6 - TAX STATUS

On April 27, 1995, 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 \$1,000,000 line of credit agreement with a bank which expires on June 30, 2007. The line of credit is collateralized by the Plan's cash and cash equivalents. As of December 31, 2006 and 2005, 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 losses 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.

OHIO GOVERNMENT RISK MANAGEMENT PLAN
TEN-YEAR CLAIMS DEVELOPMENT INFORMATION
For the years ending 1997 through 2006

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.

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Revenues										
Earned*	\$ 9,899,718	\$ 10,115,810	\$ 9,912,258	\$ 10,811,868	\$ 12,490,361	\$ 13,455,252	\$ 14,834,453	\$ 14,281,246	\$ 14,713,542	\$ 15,558,238
Ceded	<u>8,859,336</u>	<u>8,566,337</u>	<u>8,908,778</u>	<u>9,844,578</u>	<u>11,861,568</u>	<u>14,211,935</u>	<u>14,262,035</u>	<u>12,718,225</u>	<u>13,052,088</u>	<u>13,741,032</u>
Net Earned	1,040,382	1,549,473	1,003,480	967,290	628,793	(756,683)	572,418	1,563,021	1,661,454	1,817,206
Estimated net incurred claims and expenses at end of policy year	--	--	--	--	--	43,180	625,353	92,873	82,249	574,152
Net paid (cumulative) as of:										
End of policy year	--	--	--	--	--	937	32,761	41,234	27,884	151,987
One year later	--	--	--	--	--	35,750	90,455	97,378	37,559	
Two years later	--	--	--	--	--	44,285	125,780	109,614		
Three years later	--	--	--	--	--	91,370	133,142			
Four years later	--	--	--	--	--	92,990				
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	--	--	--	--	--	43,180	625,353	92,873	82,249	574,152
One year later	--	--	--	--	--	201,511	796,738	286,884	121,144	
Two years later	--	--	90,909	--	--	304,656	880,967	304,872		
Three years later	--	545,455	32,015	--	--	353,684	885,323			
Four years later	545,455	192,089	--	--	--	353,819				
Five years later	192,089	--	--	--	--					
Six years later	--	--	--	--	--					
Seven years later	--	--	--	--	--					
Eight years later	--	--	--	--	--					
Nine years later	--	--	--	--	--					
Increase in estimated net incurred claims and expenses from end of policy year	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 310,639	\$ 259,970	\$ 211,999	\$ 38,895	\$ --

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

**Includes premiums ceded, management fees, and commissions.