

**OHIO PLAN  
RISK MANAGEMENT, INC.**

**FINANCIAL STATEMENTS**  
December 31, 2010 and 2009

OHIO PLAN RISK MANAGEMENT, INC.  
Columbus, Ohio

FINANCIAL STATEMENTS  
December 31, 2010 and 2009

CONTENTS

REPORT OF INDEPENDENT AUDITORS.....	1
MANAGEMENT'S DISCUSSION AND ANALYSIS .....	2
FINANCIAL STATEMENTS	
BALANCE SHEETS .....	5
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN MEMBERS' EQUITY .....	6
STATEMENTS OF CASH FLOWS.....	7
NOTES TO FINANCIAL STATEMENTS .....	8
TEN-YEAR CLAIMS DEVELOPMENT INFORMATION .....	15

## REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying balance sheets of Ohio Plan Risk Management, Inc. (the "Plan") as of December 31, 2010 and 2009, and the related statements of revenues, expenses and changes in members' equity and cash flows for the years 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 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 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 audits provide 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 Plan Risk Management, Inc. as of December 31, 2010 and 2009, and the change in its net assets and its cash flows for the years 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 and the accompanying Ten-Year Claims Development Information on page 15 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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.



Crowe Horwath LLP

Columbus, Ohio  
May 19, 2011

OHIO PLAN RISK MANAGEMENT, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
December 31, 2010 and 2009

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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, 2010 and 2009. 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.

The Plan came into existence on January 1, 2009 through an internal reorganization. Prior to 2009, the Plan'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 ("OGRMP"). Also included in OGRMP was an additional line of business for a health product. As of January 1, 2009, the property and casualty and health product lines were placed in separate legal entities. Because this was simply an internal reorganization, the historical cost basis has been maintained by the Plan.

## **FINANCIAL HIGHLIGHTS**

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

- As the financial markets continued to stabilize in 2010, the Plan's asset base increased \$860,355 or 8%. As contrasted with 2009, when, the financial markets recovered much of the losses experienced in 2008. This contributed to the Plan's total assets increasing \$1,598,407 or 16% and the Plan's investment portfolio increasing approximately \$1.1 million or 15% in 2009.
- The Plan's equity portfolio declined \$731,166 or 27% from the prior year. The Plan concluded the re-balancing of its portfolio in 2010. The intent of this was to insulate Plan assets and member surplus from the volatility of the equity markets. Conversely, the Plan's fixed income portfolio saw an increase during 2010.
- Premium receivable decreased \$374,949 or 24%. This change is due to the decline in written premiums between 2010 and 2009, as well as the timing of collection of premium between the years.
- The Plan's loss reserves decreased \$221,327 or 7% due primarily to the pay down of the 2005 casualty loss corridor. There has been improvement in the ultimate loss ratios in some of the recent accident years. The Plan's loss reserves were relatively unchanged for 2009 with an increase of \$24,002 or 0.7% from 2008. The OPRM's prior year accident years have experienced favorable development, whereas the more recent years have had some unfavorable development. As of December 31, 2009, OPRM has no loss reserves associated with the paid loss ratio cap reinsurance exposure.
- Effective November 1, 2010, the Plan began retaining 40% of the premium and losses of the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. This change was made to balance the reinsurance market conditions while trying to provide our members with the most cost effective and stable coverage program. Effective November 1, 2009, OPRM began retaining 17.5% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. In reviewing OPRM's experience, this structure presented itself as the optimum reinsurance structure given current market conditions. This reinsurance structure also demonstrates OPRM's long-term commitment to its members.

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(Continued)

OHIO PLAN RISK MANAGEMENT, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
December 31, 2010 and 2009

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**FINANCIAL HIGHLIGHTS** (Continued)

- Reinsurance payable increased \$126,756 or 20% in 2010. The change is due to a lower level of claim payments in 2010 compared to 2009.
- The Plan's accumulated surplus increased \$867,784 or 14% and \$1.2 million or 24% in 2010 and 2009, respectively. The 2010 change is related to overall Plan operations. The 2009 increase is related to the recovery of the financial markets and the Plan's operations.
- Written premiums decreased \$359,878 or 2% compared to 2009. The decrease is related to lost members in 2010. While the Plan's membership count increased in 2010, the premiums of the departing members were larger than those that were added in 2010.
- Reinsurance premiums ceded decreased \$296,629 or 2% in 2010. As ceded premiums are related to written premiums, written and ceded premiums have changed the same percentage in 2010 as expected. Effective January 1, 2006, OPRM 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 *Ohio Plan Advantage* credited to members and ceded to reinsurers was approximately \$877,000 and \$870,000 in 2010 and 2009, respectively. Please see the Plan's website, [www.ohioplan.org](http://www.ohioplan.org) for a complete description of the *Ohio Plan Advantage*.
- Membership fees decreased \$4,837 or 2% during 2010 due to the change in membership and is in line with the change in premium. In 2009, membership fees increased \$9,798 or 4%.
- Net investment income has decreased \$679,951 or 63% and increased approximately \$2.4 million in 2010 and 2009 respectively. The 2010 change is related to relative stability in the Plan's portfolio as related to the overall marketplace. The 2009 increase is due to the recovery of the financial markets in 2009.
- Loss and loss adjustment expense decreased \$343,114 from 2009. The overall decrease is due to lower than initially expected ultimate losses on the Plans casualty exposure.
- The Plan's operations provided \$744,237 of cash in 2010 and \$336,346 in 2009.

**BALANCE SHEET**

The Balance Sheet includes all assets and liabilities. It is 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 fiscal 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, 2010 and 2009, is as follows:

	<u>2010</u>	<u>2009</u>
	(All dollar amounts in thousands)	
Total assets	<u>\$12,036</u>	<u>\$11,176</u>
Total liabilities	<u>\$ 4,845</u>	<u>\$ 4,852</u>
Accumulated surplus	<u>\$ 7,191</u>	<u>\$ 6,324</u>

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(Continued)

OHIO PLAN RISK MANAGEMENT, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
December 31, 2010 and 2009

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**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN MEMBERS' EQUITY**

The Statement of Revenues, Expenses and Changes in Members' Equity presents 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, 2010 and 2009, is as follows:

	<u>2010</u>	<u>2009</u>
	(All dollar amounts in thousands)	
Revenues		
Net premiums earned	\$ 5,507	\$ 5,644
Membership fees earned	228	234
Net investment income and other	<u>429</u>	<u>1,118</u>
Total	6,164	6,996
 Expenses	 <u>5,297</u>	 <u>5,769</u>
 Change in members' equity	 867	 1,227
 Members' equity – beginning of year	 <u>6,324</u>	 <u>5,097</u>
 Members' equity – end of year	 <u>\$ 7,191</u>	 <u>\$ 6,324</u>

**STATEMENT OF CASH FLOWS**

The Statement of Cash Flows also provides information about the Plan's financial health by reporting the cash receipts and cash payments of the Plan during the year ended December 31, 2010 and 2009. Following is a summary of the Statement of Cash Flows:

	<u>2010</u>	<u>2009</u>
	(All dollar amounts in thousands)	
Cash provided (used) by:		
Operating activities	\$ 744	\$ 336
Investing activities	<u>6</u>	<u>(96)</u>
Net change in cash	750	240
 Cash-beginning of year	 <u>928</u>	 <u>688</u>
 Cash-end of year	 <u>\$ 1,678</u>	 <u>\$ 928</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 municipalities. Due to the budgetary difficulties that Ohio's municipalities are facing, Ohio's municipalities will be under greater pressure to control costs as their tax bases are strained. The Ohio Plan Risk Management stands ready to provide solutions to our members' complete coverage and risk management needs.

**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.

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OHIO PLAN RISK MANAGEMENT, INC.  
BALANCE SHEETS  
December 31, 2010 and 2009

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	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
Cash	\$ 1,677,824	\$ 927,730
Short-term investments, at fair value	297,971	226,516
Bonds, at fair value	6,734,955	5,684,829
Equity securities, at fair value	1,971,382	2,702,548
Premiums receivable	1,155,585	1,530,534
Reinsurance recoverable	104,237	4,571
Prepaid insurance	44,690	46,924
Accrued interest receivable	<u>49,897</u>	<u>52,534</u>
 Total assets	 <u>\$ 12,036,541</u>	 <u>\$ 11,176,186</u>
 <b>LIABILITIES AND MEMBERS' EQUITY</b>		
Loss and loss adjustment expense reserves	\$ 3,002,376	\$ 3,223,703
Unearned premiums and membership fees	893,707	820,213
Accrued liabilities and fees	177,453	163,805
Reinsurance payable	<u>771,520</u>	<u>644,764</u>
 Total liabilities	 4,845,056	 4,852,485
 <b>MEMBERS' EQUITY</b>		
Accumulated surplus	<u>7,191,485</u>	<u>6,323,701</u>
 Total liabilities and members' equity	 <u>\$ 12,036,541</u>	 <u>\$ 11,176,186</u>

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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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>REVENUES</b>		
Premiums written	\$ 16,669,662	\$ 17,029,540
Reinsurance premiums ceded	<u>(11,089,085)</u>	<u>(11,361,890)</u>
Net premiums written	5,580,577	5,667,650
Change in unearned premiums	<u>(73,494)</u>	<u>(23,323)</u>
Net premiums earned	5,507,083	5,644,327
Membership fees	228,595	233,432
Net investment income	393,635	1,073,586
Other income	<u>35,785</u>	<u>44,400</u>
	<u>658,015</u>	<u>1,351,418</u>
Total revenues	<u>6,165,098</u>	<u>6,995,745</u>
<b>EXPENSES</b>		
Loss and loss adjustment expense	768,387	1,111,501
Management fees	2,435,115	2,488,674
Commission expense	1,728,532	1,813,695
Newsletter publishing and postage	23,733	26,013
Directors' travel and meetings	77,969	51,402
Risk management activities	275	24,099
Professional fees	151,577	128,222
Plan marketing	10,672	43,665
Directors' and officers' coverage	46,924	43,203
OPI administrative expense	22,400	22,400
Other	<u>31,730</u>	<u>16,472</u>
Total expenses	<u>5,297,314</u>	<u>5,769,346</u>
Excess of revenues over expenses	867,784	1,226,399
<b>MEMBERS' EQUITY</b>		
Beginning of year	6,323,701	-
Initial members' equity from reorganization	<u>-</u>	<u>5,097,302</u>
End of year	<u>\$ 7,191,485</u>	<u>\$ 6,323,701</u>

See accompanying notes to financial statements.

OHIO PLAN RISK MANAGEMENT, INC.  
STATEMENTS OF CASH FLOWS  
For the years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Cash flows from operating activities</b>		
Receipt of premiums	\$ 17,044,611	\$ 16,981,355
Losses paid	(989,714)	(1,135,503)
Receipt of membership fees	228,595	233,432
Receipt of other income	35,785	44,400
Premiums paid to reinsurers	(11,061,995)	(11,148,755)
Expenses paid	<u>(4,513,045)</u>	<u>(4,638,583)</u>
Net cash provided by operating activities	744,237	336,346
<b>Cash flows from investing activities</b>		
Change in short-term investments	(71,455)	(50,991)
Purchases of bonds	(6,709,050)	(7,021,320)
Purchase of equities	(1,140,909)	(2,576,625)
Sales of bonds	5,729,575	3,773,226
Sales of equities	2,067,360	3,350,849
Receipt of investment income	<u>130,336</u>	<u>2,428,930</u>
Net cash provided by (used in) investing activities	<u>5,857</u>	<u>(95,931)</u>
Net change in cash	750,094	240,415
Cash, beginning of year	<u>927,730</u>	<u>687,315</u>
<b>Cash, end of year</b>	<u>\$ 1,677,824</u>	<u>\$ 927,730</u>
<b>Reconciliation of excess of revenues over expenses to cash flows from operating activities</b>		
Excess of revenues over expenses	\$ 867,784	\$ 1,226,399
Net gains on securities	(396,272)	(1,039,012)
Changes in operating assets and liabilities		
Premiums receivable	374,949	(48,185)
Reinsurance recoverable	(99,666)	(4,571)
Prepaid insurance	2,234	(3,721)
Accrued interest receivable	2,637	(34,574)
Loss and loss adjustment expense reserves	(221,327)	(24,002)
Unearned premiums and membership fees	73,494	23,323
Accrued liabilities and fees	13,648	22,983
Reinsurance payable	<u>126,756</u>	<u>217,706</u>
Net cash provided by operating activities	<u>\$ 744,237</u>	<u>\$ 336,346</u>

See accompanying notes to financial statements.

OHIO PLAN RISK MANAGEMENT, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2010 and 2009

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**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 (“OGRMP”). Also included in the OGRMP 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 following table shows the effect of the internal reorganization on 2009 beginning members’ equity for the OPRM:

Ohio Government Risk Management Plan members’ equity at December 31, 2008	\$ 5,184,333
Members’ equity attributed to health product	<u>(87,301)</u>
OPRM members’ equity at inception (January 1, 2009)	<u>\$ 5,097,302</u>

The Plan, as the former Ohio Government Risk Management Plan (the “OGRMP”), was organized in June, 1988, as authorized by Section 2744.081 of the Ohio Revised Code. The OGRMP 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 \$228,595 and \$233,432 for the year ended December 31, 2010 and 2009, respectively.

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(Continued)

**NOTE 1 – DESCRIPTION OF THE ORGANIZATION** (Continued)

OPRM had 761 and 725 members as of December 31, 2010 and 2009, 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.

Effective September 1, 2002, OPRM (as OGRMP) 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, 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.

In 2002, OPRM (as OGRMP) 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, 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. Effective November 1, 2010, the corridor is for losses paid between 60% 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: Cash is subject to 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 \$1,749,077 as of December 31, 2010. The bank account balance is insured up to \$250,000 by the Federal Deposit Insurance Corporation (the FDIC) at December 31, 2010, and was 100% insured by the FDIC at December 31, 2009.

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.

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**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Investments (continued): 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 \$123,079 and \$88,145 in 2010 and 2009, 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: OPRM premiums written of \$11,089,085 were ceded to reinsurers for the year ended December 31, 2010 net of ceding commission of \$4,163,647. OPRM premiums written of \$11,361,890 were ceded to reinsurers for the year ended December 31, 2009 net of ceding commission of \$4,302,369.

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 commissions amounted to \$1,728,532 and \$1,813,695 for the years ended December 31, 2010 and 2009, 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 \$2,435,115 and \$2,488,674 for 2010 and 2009, respectively.

OHIO PLAN RISK MANAGEMENT, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2010 and 2009

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**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Unpaid Losses 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 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, 2010 and 2009 is reasonable and reflective of anticipated ultimate experience. However, it is possible that 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 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.

**NOTE 3 – INVESTMENTS**

As of December 31, 2010 and 2009, the Plan has the following investments (at fair value).

<u>Investment Type</u>	<u>2010</u>	<u>2009</u>
U.S. Government agency securities	\$ 3,061,333	\$ 2,797,260
Equity securities	1,971,382	2,702,548
U.S. corporate bonds	3,673,622	2,887,569
Money market mutual fund	<u>297,971</u>	<u>226,516</u>
	<u>\$ 9,004,308</u>	<u>\$ 8,613,893</u>

U.S. Government agency Securities and U.S. corporate bonds have weighted average maturities of 4.0 and 2.6 and 3.4 years and 3.3 years at December 31, 2010 and 2009, respectively and money market funds have maturities of 30 days or less as of December 31, 2010 and 2009.

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OHIO PLAN RISK MANAGEMENT, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2010 and 2009

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**NOTE 3 – INVESTMENTS (Continued)**

The Plan's U.S. Government agency securities have credit quality ratings of AAA and the U.S. Corporate bonds have a rating of AA3.

The Plan had realized gains on investments of \$355,028 and \$266,335 at December 31, 2010 and 2009.

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, 2010 the carrying amount of the Plan's deposits was \$1,677,824 and the bank balance was \$1,749,077. Of the bank balance, \$250,000 was covered by federal depository insurance, and the remainder was exposed to custodial credit risk at December 31, 2010. As of December 31, 2009, the carrying amount of the Plan's deposits was \$927,730 and the bank balance was \$1,111,467. Of the bank balance, 100% was covered by federal depository insurance, and none was exposed to 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. As of December 31, 2010 and 2009, 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 OGRMP) 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, 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, 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. 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.

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.

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(Continued)

OHIO PLAN RISK MANAGEMENT, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2010 and 2009

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**NOTE 4 – REINSURANCE** (Continued)

OPRM is not expected to exceed the paid loss ratio cap related to older casualty reinsurance coverage available as of December 31, 2010 and 2009.

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.

**NOTE 5 – UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSE RESERVES**

Activity in the losses and loss adjustment expense reserves, related to OPRM property and casualty coverage, at December 31, 2010 and 2009 is summarized as follows:

	<u>2010</u>	<u>2009</u>
Net balance at January 1	\$ 3,223,703	\$ 3,247,705
Incurred related to:		
Current year	557,533	977,582
Prior year	<u>210,854</u>	<u>133,919</u>
Total incurred	<u>768,387</u>	<u>1,111,501</u>
Paid related to:		
Current year	(219,327)	(359,527)
Prior year	<u>(770,387)</u>	<u>(775,976)</u>
Total paid	<u>(989,714)</u>	<u>(1,135,503)</u>
Net balance at December 31	\$ <u>3,002,376</u>	\$ <u>3,223,703</u>

The net balance of unpaid losses and loss adjustment expense reserves at December 31, 2010 and 2009 represent OPRM'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.

**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.

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(Continued)

**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, 2010 and 2009, 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 PLAN RISK MANAGEMENT, INC.  
TEN-YEAR CLAIMS DEVELOPMENT INFORMATION  
For the years ending 2001 through 2010

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 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 claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Revenues										
Earned*	\$ 12,490,361	\$ 13,455,252	\$ 14,834,453	\$ 14,281,246	\$ 14,713,542	\$ 15,558,238	\$ 16,500,143	\$ 15,205,022	\$ 18,313,235	\$ 17,218,398
Ceded	<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>	<u>14,574,038</u>	<u>15,028,968</u>	<u>15,664,259</u>	<u>15,252,732</u>
Net Earned	628,793	(756,683)	572,418	1,563,021	1,661,454	1,817,206	1,926,105	176,054	2,648,976	1,965,666
Estimated net incurred claims and expenses at end of policy year	-	43,180	625,353	92,873	82,249	574,152	896,317	1,038,323	977,582	557,533
Net paid (cumulative) as of:										
End of policy year	-	937	32,761	41,234	27,884	151,987	266,552	366,348	359,527	219,327
One year later	-	35,750	90,455	97,378	37,559	204,052	387,084	466,694	450,553	
Two years later	-	44,285	125,780	109,614	70,659	262,531	548,357	553,167		
Three years later	-	91,370	133,142	129,599	106,249	364,525	851,743			
Four years later	-	92,990	141,854	160,057	133,197	588,002				
Five years later	-	94,256	160,415	162,496	179,733					
Six years later	-	98,594	496,477	165,182						
Seven years later	-	145,507	512,550							
Eight years later	-	146,573								
Nine years later	-									
Reestimated net incurred claims and expenses:										
End of policy year	-	43,180	625,353	92,873	82,249	574,152	896,317	1,038,323	977,582	557,533
One year later	-	201,511	796,738	286,884	121,144	831,834	1,009,681	1,078,805	1,075,083	
Two years later	-	304,656	880,967	304,872	195,706	1,066,414	1,213,081	1,135,478		
Three years later	-	353,684	885,323	194,219	279,266	1,020,930	1,337,329			
Four years later	-	353,819	820,765	330,411	236,604	959,477				
Five years later	-	344,592	905,581	323,075	225,169					
Six years later	-	361,408	895,635	327,148						
Seven years later	-	356,872	896,731							
Eight years later	-	356,827								
Nine years later	-									
Increase in estimated net incurred claims and expenses from end of policy year	-	313,647	271,378	234,275	145,920	385,325	441,012	97,156	97,501	-

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

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