

# **Ohio Government Risk Management Plan**

**Financial Statements**

**for the years ended December 31, 1999 and 1998**

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## **Report of Independent Accountants**

To the Board of Directors of  
the Ohio Government Risk Management Plan:

We have audited the accompanying balance sheets of the Ohio Government Risk Management Plan (the "Plan") as of December 31, 1999 and 1998, 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, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 the Ohio Government Risk Management Plan as of December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 4 to the financial statements, due to the nature of its operations the Plan has not presented certain supplementary information required by the Governmental Accounting Standards Board.

We have also issued our report dated March 27, 2000 on the Ohio Government Risk Management Plan's compliance with laws and regulations and internal control over financial reporting. That report is an integral part of our audits conducted under Government Auditing Standards that should be read along with this report on the financial statements.

/s/ PricewaterhouseCoopers LLP

March 27, 2000

**Ohio Government Risk Management Plan**  
**Balance Sheets**  
**December 31, 1999 and 1998**

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	<b>1999</b>	<b>1998</b>
Assets:		
Cash and cash equivalents	\$ 310,214	\$ 1,484,755
Short-term investments, at fair value	35,316	49,096
Bonds, at fair value	2,673,765	2,219,168
Equity securities, at fair value	1,028,575	-
Premiums receivable	868,228	917,111
Reinsurance recoverable	1,103,311	422,403
Receivable from Plan Administrator	75,378	75,378
Accrued interest receivable	50,249	16,569
	<u>6,145,036</u>	<u>5,184,480</u>
Total assets	<u>\$ 6,145,036</u>	<u>\$ 5,184,480</u>
Liabilities and Members' equity:		
Liabilities:		
Unpaid losses and loss adjustment expense reserves	8,197	8,197
Unearned premiums	167,996	168,083
Accrued liabilities and fees	208,364	166,089
Reinsurance payable	1,355,027	1,166,816
	<u>1,739,584</u>	<u>1,509,185</u>
Total liabilities	<u>1,739,584</u>	<u>1,509,185</u>
Commitments and contingencies (Note 6)		
Members' equity:		
Accumulated surplus	4,405,452	3,675,295
	<u>4,405,452</u>	<u>3,675,295</u>
Total members' equity	<u>4,405,452</u>	<u>3,675,295</u>
Total liabilities and members' equity	<u>6,145,036</u>	<u>5,184,480</u>

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

**Ohio Government Risk Management Plan**  
**Statements of Revenues, Expenses and Changes in Members' Equity**  
**for the years ended December 31, 1999 and 1998**

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	<b>1999</b>	<b>1998</b>
Revenues:		
Premiums written	\$ 9,464,000	\$ 9,120,357
Reinsurance premiums ceded	<u>(8,908,778)</u>	<u>(8,566,337)</u>
Net premiums written and earned	555,222	554,020
Gain from reinsurance treaty commutation	-	685,115
Membership fees	141,750	139,725
Net investment income	<u>306,508</u>	<u>170,613</u>
Total revenues	<u>1,003,480</u>	<u>1,549,473</u>
Expenses:		
Losses and loss adjustment expenses	-	(41,547)
Newsletter publishing and postage	10,624	5,814
Directors' travel and meetings	33,132	32,416
Directors' retreat	13,362	-
Printing and supplies	7,934	1,953
Risk management committee meetings and seminars	41,499	11,234
Professional fees	103,476	146,553
Program marketing	31,412	-
Directors' and officers' insurance	17,500	17,500
Website development and maintenance	3,668	-
Other	<u>10,716</u>	<u>9,423</u>
Total expenses	<u>273,323</u>	<u>183,346</u>
Excess of revenues over expenses	730,157	1,366,127
Members' equity:		
Beginning of year	<u>3,675,295</u>	<u>2,309,168</u>
End of year	<u>\$ 4,405,452</u>	<u>\$ 3,675,295</u>

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

**Ohio Government Risk Management Plan**  
**Statements of Cash Flows**  
**for the years ended December 31, 1999 and 1998**

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	<b>1999</b>	<b>1998</b>
Cash flows from operating activities:		
Excess of revenues over expenses	\$ 730,157	\$ 1,366,127
Amortization	-	198
Net change in the fair value of investments	(121,950)	(15,525)
Changes in operating assets and liabilities:		
Short-term investments	13,781	171,788
Premiums receivable	48,883	(133,984)
Reinsurance recoverable	(680,908)	74,794
Receivable from Plan Administrator	-	27,081
Accrued interest receivable	(33,680)	941
Unpaid losses and loss adjustment expense reserves	-	(45,589)
Unearned premiums	(87)	(2,468)
Accrued liabilities and fees	42,275	84,586
Reinsurance payable	188,211	(33,259)
	<u>186,682</u>	<u>1,494,690</u>
Net cash provided by operating activities		
Cash flows from investing activities:		
Purchases:		
Bonds	(3,948,473)	(4,904,999)
Equities	(900,000)	-
Sales:		
Bonds	1,678,673	1,898,335
Maturities:		
Bonds	1,808,577	2,724,705
	<u>(1,361,223)</u>	<u>(281,959)</u>
Net cash used in investing activities		
Net (decrease)/increase in cash and cash equivalents	(1,174,541)	1,212,731
Cash and cash equivalents, beginning of year	<u>1,484,755</u>	<u>272,024</u>
Cash and cash equivalents, end of year	<u>\$ 310,214</u>	<u>\$ 1,484,755</u>

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

# Ohio Government Risk Management Plan

## Notes to Financial Statements

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### 1. Description of the Organization:

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

The Ohio 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 has chosen to adopt the forms and endorsements of conventional insurance coverage and to reinsure these coverages 100%, rather than utilize a risk pool of member funds to pay individual and collective losses up to a given retention, and then have excess reinsurance coverage above the retention amount. Therefore, the individual members are only responsible for their self-retention (deductible) amounts which vary from member to member.

The members are assessed an annual membership fee which is based on the administrative expenses of the Plan for the year. These expenses consist principally of professional fees, directors' travel and meeting expenses and other administrative expenses. Membership fees were \$141,750 and \$139,725 for the years ended December 31, 1999 and 1998, respectively.

The Plan had 630 and 621 members as of December 31, 1999 and 1998, respectively.

The Plan has an agreement with Hylant Administrative Services, Inc. ("HAS") to provide underwriting, claims management, accounting and system support services for the Plan. Effective September 1999, 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.

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 100% of the coverage provided.

# Ohio Government Risk Management Plan

## Notes to Financial Statements

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### 2. Summary of Significant Accounting Policies:

#### *Accounting Policies*

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

#### *Estimates*

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

#### *Cash and Cash Equivalents*

Governmental Accounting Standards Board ("GASB") Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements," requires the Plan to categorize cash and cash equivalents held by the Plan to give an indication of the level of risk assumed by the Plan at year end. Category 1 includes cash and cash equivalents that are insured or collateralized with securities held by the Plan or by its agent in the Plan's name. Category 2 includes cash and cash equivalents that are collateralized with securities held by the pledging financial institution's trust department or agent. Category 3 includes cash and cash equivalents that are uncollateralized.

Cash and cash equivalents represents a bank account balance of \$915,904 and \$1,702,617 as of December 31, 1999 and 1998, respectively. The bank account balance is Category 1 to the extent it is insured up to \$100,000 by the Federal Deposit Insurance Corporation (the "FDIC"). The remainder of the bank account balance is Category 3.

#### *Investments*

The Plan has adopted GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools". As required by GASB Statement No. 31, the Plan has recognized its 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 solely of shares held in the Fifth-Third Quality Growth Fund. This fund seeks to provide long-term capital appreciation by investing primarily in the stocks of well established growth 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 net increase (decrease) in the fair value of investments, net of management and investment expenses of \$7,096 and \$5,503 in 1999 and 1998, respectively.

# Ohio Government Risk Management Plan

## Notes to Financial Statements

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

### *Reinsurance*

Insurance coverages provided by the Plan are 100% reinsured and the related premiums are approximately 94% ceded to the reinsurers. The ceding commissions received by the Plan from the reinsurers in connection with reinsurance premiums ceded have been accounted for as a reduction of the related agency commissions and administration costs. These ceding commissions amounted to \$2,584,641 and \$2,466,681 for the years ended December 31, 1999 and 1998, respectively.

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 \$1,625,206 and \$1,542,218 for 1999 and 1998, respectively.

For the years ended 1999 and 1998, the Plan has not adopted Statement of Financial Accounting Standards No. 113. In accordance with the accounting principles prescribed by GASB Statement No. 10, unpaid losses and loss adjustment expense reserves have been presented net of ceded unpaid losses and loss adjustment expense reserves.

### *Policy Acquisition Costs*

The Plan does not defer agent commissions and certain other administration and underwriting expenses as these costs have been reduced by ceding commissions received from the reinsurers. 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 \$959,435 and \$924,463 for the years ended December 31, 1999 and 1998, respectively.

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

The Plan has not established claims liabilities on reinsured risks except for those that it determined were liabilities which were not covered by certain past 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 3 and 4 for further discussion).

The Plan's consulting actuaries have selected target losses and loss expense ratios they believe are reasonable and reflective of the estimated ultimate losses and loss expense experience. The methods of making such estimates and establishing the ultimate liability for losses and loss adjustment expenses are reviewed regularly. However, the estimated ultimate liability for losses and loss adjustment expenses could be susceptible to significant change in the near term.

# Ohio Government Risk Management Plan

## Notes to Financial Statements

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### *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.

### **3. Reinsurance:**

The Plan reinsures its coverages 100% with various reinsurance companies up to a limit of \$5,000,000 per occurrence, per member. The Plan purchases additional reinsurance on a per location basis for property values greater than \$5,000,000. Additionally, the administrator of the Plan has facilities available whereby an individual member may purchase liability limits greater than \$5,000,000 outside of the Plan.

The Plan and its associated Plans, the Ohio Fair Participating Plan (the "Fair Plan") and the Michigan Township Participating Plan (until March 6, 1996), collectively the "associated Plans", were named as parties to certain reinsurance agreements with various past reinsurers (see Note 6 for further discussion).

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. 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.

As of December 31, 1999 and 1998, direct unpaid losses and loss adjustment expense case reserves were \$6,395,553 and \$6,507,857, respectively. Ceded amounts related to those reserves were \$6,387,355 and \$6,499,660, respectively.

As of December 31, 1999 and 1998, direct unpaid losses and loss adjustment expense IBNR reserves were \$7,551,511 and \$4,207,298, respectively. Ceded amounts related to those reserves were \$7,551,511 and \$4,207,298, respectively.

Experience accounts have been established by the Plan's reinsurers in accordance with the terms of the treaties whereby the Plan may receive a refund based upon the loss development of these covered losses. The agreements are effective until all losses are settled or the agreements are commuted. No amounts related to these experience accounts have been recognized by the Plan as of December 31, 1999 and 1998.

Effective as of December 31, 1998, the Plan commuted a reinsurance treaty with Centre Re. As a result of the commutation, Centre Re is no longer responsible for the payment of claims originally covered by this treaty. In return, Centre Re remitted an experience account balance of \$685,115 to the Plan which was recorded as a gain in 1998. The Plan has reviewed the actuarially determined losses and loss adjustment expense reserves related to such previous reinsurance coverage and determined that no additional unpaid losses and loss adjustment expense reserves were required to be recorded in the financial statements at December 31, 1998, respectively.

# Ohio Government Risk Management Plan

## Notes to Financial Statements

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

As of December 31, 1999 and 1998, the unpaid losses and loss adjustment expense reserves were \$8,197. This amount reflects the Plan's actuarially determined unpaid loss and loss adjustment expense reserves for both reported and unreported insured events originally reinsured by certain reinsurers who could not fulfill their obligations under various reinsurance treaties. Activity in the losses and loss adjustment expense reserves is summarized as follows:

	1999	1998
Balance at January 1	\$10,715,155	\$12,439,017
Less: reinsurance recoverables	<u>10,706,958</u>	<u>12,385,231</u>
Net balance at January 1	<u>8,197</u>	<u>53,786</u>
Incurred related to:		
Current year	-	-
Prior year	<u>-</u>	<u>(41,547)</u>
Total incurred	<u>-</u>	<u>(41,547)</u>
Paid related to:		
Current year	<u>-</u>	-
Prior year	<u>-</u>	<u>4,042</u>
Total paid	<u>-</u>	<u>4,042</u>
Net balance at December 31	8,197	8,197
Plus: reinsurance recoverables	<u>13,938,867</u>	<u>10,706,958</u>
Balance at December 31	<u>\$13,947,064</u>	<u>\$10,715,155</u>

The net balance of unpaid losses and loss adjustment expense reserves, end of year (December 31), represents the Plan's estimate of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported, net of estimated salvage and subrogation. There was no net IBNR related to the totals above as of December 31, 1999 and 1998.

Due to the unique nature of the Plan's operations, in that the insurance coverages provided by the Plan are 100% reinsured and that any losses and loss adjustment expense reserves reflected in the Plan's financial statements would relate only to unrecoverable reinsurance, the Plan has elected not to present certain supplementary schedules as prescribed by GASB for the years ended December 31, 1999 and 1998, respectively. The Plan believes all meaningful information required by such supplementary information has been included in the above mentioned Reinsurance (Note 3) and Unpaid Losses and Loss Adjustment Expense Reserves information.

## **Ohio Government Risk Management Plan**

### **Notes to Financial Statements**

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#### **5. 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.

#### **6. Commitments and Contingencies:**

On June 30, 1999, the Plan renewed a \$1,000,000 line of credit agreement with Fifth Third Bank of Northwest Ohio, N.A. which expires on June 30, 2000 and is collateralized by the Plan's cash and cash equivalents. As of December 31, 1999 and 1998, the Plan had no borrowings against this line of credit.

Individual members of the Plan and the Plan are named as defendants in various lawsuits generally relating to their coverage. Numerous legal actions arise from claims made under insurance policies issued 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.