

OHIO SCHOOL PLAN

FINANCIAL STATEMENTS

December 31, 2010 and 2009



Dave Yost • Auditor of State

Board of Directors
Ohio School Plan
c/o Hylant Administrative Services
811 Madison Avenue
P.O. Box 2083
Toledo, Ohio 43624

We have reviewed the *Report of Independent Auditors* of the Ohio School Plan, Lucas County, prepared by Crowe Horwath LLP, for the audit period January 1, 2010 through December 31, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Ohio School Plan is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

May 23, 2011

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OHIO SCHOOL PLAN

Columbus, Ohio

FINANCIAL STATEMENTS
December 31, 2010 and 2009

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Ohio School Plan
Columbus, Ohio

We have audited the accompanying balance sheets of Ohio School Plan (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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. 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 School Plan as of December 31, 2010 and 2009, and the changes 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 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 25, 2011 on our consideration of the Plan's internal control over financial reporting and our tests of it compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Crowe Horwath LLP
Crowe Horwath LLP

Columbus, Ohio
April 25, 2011

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

This section of the Ohio School Plan's (the "Plan") financial statements presents management's discussion and analysis of the Plan's financial performance during the fiscal 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 consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements* (including footnotes), and *required supplementary information*.

FINANCIAL HIGHLIGHTS

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

- The Plan's total assets increased \$197,283 or 5% and \$388,481 or 12% in 2010 and 2009, respectively. The 2010 and 2009 increases are related to overall Plan operations.
- In 2010, premiums receivable decreased \$40,131 or 57% due to the lower level of December 2010 new business as related to December 2009. Premiums receivable decreased \$90,865 or 56% due to the lower level of December 2009 new business as related to December 2008.
- Reinsurance recoverable decreased \$24,326 or 2% in 2010 due to recovery of losses from the Plan's property reinsurers. The account is relatively flat due to recoveries owed from reinsurers as a result of a fire loss incurred in the current year. In 2009, reinsurance recoverable increased \$501,279 or 98% due to wind related property losses.
- Unearned premiums and membership fees increased \$42,044 or 5% which is line with the growth in premium. Competition for Ohio school business continues to keep the overall school market rates lower in 2010 and 2009. In 2009, unearned premiums and membership fees decreased \$32,892 or 4% due to a decline in premiums written from 2008 also attributed to increased competition and lower rates.
- In 2010, loss reserves increased \$25,603 or 3%. Loss reserves related to the 2007 casualty paid loss ratio corridor have been reduced \$178,843, while reserves have been established for the 2008 and 2009 casualty corridors in the total amount of \$99,914. The remainder of the change is associated with the Plan's retained property losses, which had a net increase of \$104,532. In 2009, loss reserves increased \$272,331 or 54% due to an increased IBNR reserve for the casualty paid loss ratio corridor in the 2007 treaty.
- In 2010, reinsurance payable decreased \$63,460 or 44% due to the level of business at the end of the year versus the prior year. As more and more school business moves to a July effective date, there is less 4th quarter business available to write which accounts for the continued decrease in this payable over the years. In 2009, reinsurance payable decreased \$343,771 or 70% due to this same reason, accompanied by the timing of reinsurance payments made to the property reinsurers.
- The Plan's accumulated surplus increased \$194,276 or 10% and \$531,724 or 38% in 2010 and 2009, respectively due to the Plan's operations.

(Continued)

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

- Written premiums increased \$331,936 or 4% and decreased \$911,699 or 11% in 2010 and 2009, respectively. The addition of community colleges to the Plan's membership helped drive the premium increase in 2010. The decrease in 2009 was due to the competitive insurance environment for Ohio public schools' business which resulted in lower premiums being charged across the industry.
- Membership fee revenues increased \$47,513 or 9% in 2010, due to the increase in written premiums and also because property membership fees were increased in 2009 to fund the aggregate limit of property treaty, and 2010 marks the first complete fiscal year with this increased membership fee. Membership fees increased \$119,135 or 30% in 2009. Property membership fees were increased in 2009 to fund the aggregate limit of \$1 million on the property treaty effective July 1, 2009.
- Management fees and commission expense have increased on a percentage basis at the same rate as written premiums as these amounts are a function of written premiums.
- The Plan's operations provided cash of \$247,072 in 2010 and used cash of \$31,034 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, 2009 and 2008, is as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(All dollar amounts in thousands)		
Total assets	<u>\$ 3,860</u>	<u>\$ 3,662</u>	<u>\$ 3,274</u>
Total liabilities	<u>\$ 1,733</u>	<u>\$ 1,730</u>	<u>\$ 1,873</u>
Accumulated surplus	<u>\$ 2,127</u>	<u>\$ 1,932</u>	<u>\$ 1,401</u>

(Continued)

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

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 and 2008, is as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(All dollar amounts in thousands)		
Revenues			
Net premiums earned	\$ 2,625	\$ 2,663	\$ 2,974
Membership fees earned	558	510	391
Net investment income	<u>15</u>	<u>9</u>	<u>60</u>
Total	3,198	3,182	3,425
 Expenses	 <u>3,003</u>	 <u>2,651</u>	 <u>3,048</u>
 Increase in members' equity	 195	 531	 377
Members' equity – beginning of year	<u>1,932</u>	<u>1,401</u>	<u>1,024</u>
Members' equity – end of year	<u>\$ 2,127</u>	<u>\$ 1,932</u>	<u>\$ 1,401</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 years ended December 31, 2010, 2009 and 2008. Following is a summary of the Statement of Cash Flows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(All dollar amounts in thousands)		
Cash provided (used) by:			
Operating activities	\$ 247	\$ (31)	\$ 241
Investing activities	<u>8</u>	<u>(122)</u>	<u>(235)</u>
Net (decrease) increase in cash	255	(153)	6
Cash-beginning of year	<u>1,142</u>	<u>1,295</u>	<u>1,289</u>
 Cash-end of year	 <u>\$ 1,397</u>	 <u>\$ 1,142</u>	 <u>\$ 1,295</u>

FORWARD LOOKING STATEMENT

The environment in which the Ohio School Plan operates is competitive. There are pooling and traditional insurance options available to Ohio's educational districts. Due to the budgetary difficulties that Ohio's educational districts are facing, Ohio's educational districts will continue to be under pressure to manage costs. The Ohio School Plan stands ready to provide solutions to our members' 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.

OHIO SCHOOL PLAN
BALANCE SHEETS
December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash	\$ 1,397,009	\$ 1,142,492
Short-term investments, at fair value	4,329	14,264
Bonds, at fair value	1,439,156	1,421,656
Premiums receivable	29,936	70,067
Reinsurance receivable	988,834	1,013,160
Interest receivable	<u>489</u>	<u>831</u>
Total assets	<u>\$ 3,859,753</u>	<u>\$ 3,662,470</u>
LIABILITIES AND MEMBERS' EQUITY		
Loss and loss adjustment expense reserves	\$ 800,166	\$ 774,563
Reinsurance payable	80,714	144,174
Accrued liabilities and fees	8,224	9,404
Unearned premiums and membership fees	<u>843,817</u>	<u>801,773</u>
Total liabilities	1,732,921	1,729,914
MEMBERS' EQUITY		
Accumulated surplus	<u>2,126,832</u>	<u>1,932,556</u>
Total liabilities and members' equity	<u>\$ 3,859,753</u>	<u>\$ 3,662,470</u>

See accompanying notes to financial statements.

OHIO SCHOOL PLAN
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN MEMBERS' EQUITY
 Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
REVENUES		
Premiums written	\$ 8,095,750	\$ 7,763,814
Reinsurance premiums ceded	<u>(5,428,996)</u>	<u>(5,133,685)</u>
Net premiums written	2,666,754	2,630,129
Change in unearned premiums	<u>(42,044)</u>	<u>32,892</u>
Net premiums earned	2,624,710	2,663,021
Membership fees earned	558,012	510,499
Net investment income	<u>14,668</u>	<u>9,101</u>
 Total revenues	 3,197,390	 3,182,621
EXPENSES		
Loss and loss adjustment expenses	1,104,871	842,476
Management fees	1,230,481	1,172,390
Commission expense	410,160	390,797
Professional fees	67,912	53,887
Plan marketing fees	150,758	150,461
Directors' and officers' coverage	24,891	20,419
Directors' travel and meetings	11,543	17,793
Other	<u>2,498</u>	<u>2,674</u>
 Total expenses	 <u>3,003,114</u>	 <u>2,650,897</u>
 Excess of revenues over expenses	 194,276	 531,724
Members' equity		
Beginning of year	<u>1,932,556</u>	<u>1,400,832</u>
End of year	<u>\$ 2,126,832</u>	<u>\$ 1,932,556</u>

See accompanying notes to financial statements.

OHIO SCHOOL PLAN
 STATEMENTS OF CASH FLOWS
 Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Receipt of premiums	\$ 8,135,881	\$ 7,854,679
Receipt of membership fees	558,012	510,499
Losses paid	(1,079,268)	(570,145)
Premiums paid to reinsurers	(5,468,130)	(5,978,735)
Expenses paid	<u>(1,899,423)</u>	<u>(1,847,332)</u>
Net cash (used in) provided by operating activities	247,072	(31,034)
 Cash flows from investing activities		
Change in short-term investments	9,935	(9,445)
Sales of bonds	535,596	323,899
Maturities of bonds	7,509,000	2,897,992
Purchase of bonds	(8,062,096)	(3,345,748)
Receipt of investment income	<u>15,010</u>	<u>11,438</u>
Net cash (used in) provided by investing activities	<u>7,445</u>	<u>(121,864)</u>
 Net change in cash	254,517	(152,898)
 Cash, beginning of year	<u>1,142,492</u>	<u>1,295,390</u>
 Cash, end of year	<u>\$ 1,397,009</u>	<u>\$ 1,142,492</u>
 Reconciliation of excess of revenues over expenses to cash flows from operating activities		
Excess of revenues over expenses	\$ 194,276	\$ 531,724
Net gains on securities	(15,010)	(11,438)
Changes in operating assets and liabilities		
Premiums receivable	40,131	90,865
Reinsurance receivable	24,326	(501,279)
Loss and loss adjustment expense reserves	25,603	272,331
Reinsurance payable	(63,460)	(343,771)
Unearned premiums and membership fees	42,044	(32,892)
Accrued liabilities and fees	(1,180)	(38,911)
Interest receivable	<u>342</u>	<u>2,337</u>
 Net cash (used in) provided by operating activities	<u>\$ 247,072</u>	<u>\$ (31,034)</u>

See accompanying notes to financial statements.

OHIO SCHOOL PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 1 – DESCRIPTION OF THE ORGANIZATION

The Ohio School Plan (the “Plan”) was organized in January of 2002, as authorized by Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated non-profit association of its members and an instrumentality for each member for the sole purpose of enabling members of the Plan to provide for a formalized, jointly administered self-insurance program to maintain adequate self-insurance protection, risk management programs and other administrative services. Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity for the purpose of enabling its members to obtain self-insurance through a jointly administered self-insurance fund. Members of the Plan include public school districts, educational service centers, joint vocational schools, centers of government, boards of developmental disabilities, and community colleges in the State of Ohio which are eligible to participate under applicable statute, ruling or law subject to certain underwriting standards as deemed appropriate by the Plan and its administrator.

The Plan was established to provide property, liability, automobile, violence, and other coverages to its members sold through designated 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 developed the policy forms and endorsements of coverage and substantially reinsured these coverages. The 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 are charged an annual membership fee, which is based on a percentage of each member’s annual premium. These fees are charged to cover professional fees, directors’ travel and meeting expenses and other administrative and marketing expenses. Earned membership fees were \$558,012 and \$510,499, for the years ended December 31, 2010 and 2009.

The Plan had 253 and 263 members as of December 31, 2010 and 2009.

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

The Plan is comprised exclusively of Ohio public educational entities and boards of developmentally disabled. Although its exposure is concentrated to a single geographical area, such exposure is reduced by the practice of substantially reinsuring coverage provided.

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”).

Basis of accounting: For financial reporting purposes, the Plan is engaged in business-type activities. Accordingly, the Plan’s financial statements have been presented using the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

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OHIO SCHOOL PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Plan has elected not to apply the Financial Accounting Standards Board (“FASB”) statements and interpretations issued on or after November 30, 1989, to its business-type activities provided that they do not conflict with or contradict GASB pronouncements. When applicable, certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on members’ equity or excess of revenues over expenses.

Use of estimates: The preparation of the financial statements in conformity with generally accepted accounting principles (“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 held 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 \$1,469,679 and \$1,217,253 as of December 31, 2010 and 2009, respectively. 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 bonds at fair value with all related investment income, including the change in the fair value of investments and realized gains and losses, reflected in the Plan’s revenues in the statement of revenues, expenses and changes in members’ equity.

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

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

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 \$2,597 and \$2,370 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: Insurance coverages provided by the Plan are substantially reinsured. Ceding commissions are paid to the Plan at 20% of gross premiums written, amounting to \$1,640,641 and \$1,563,187 for the years ended December 31, 2010 and 2009, 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.

(Continued)

OHIO SCHOOL PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 are paid between 5%-10% of gross premiums written, amounting to \$410,160 and \$390,797 for the years ended December 31, 2010 and 2009, respectively.

Management fees: Fees for all administrative, management and brokerage related services provided to the Plan are incurred at a cost of 10%-15% of gross premiums written. Fees for such services amounted to \$1,230,481 and \$1,172,390 for the years ended December 31, 2010 and 2009, respectively.

Unpaid losses and loss adjustment expense reserves: The Plan has established claim liabilities gross of reinsurance that are based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled (case reserves) and of claims that have been incurred but not reported (IBNR reserves), net of estimated salvage and subrogation. The length of time for which such costs must be estimated varies depending on the coverage involved. Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability and damage awards, the process used in computing claims liabilities does not necessarily result in exact amounts, particularly for coverages such as general liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual and industry data that reflects past inflation and on other factors and are considered to be appropriate modifiers of past experience (See Notes 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 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.

Other income: Member fees are earned by the Plan on a pro-rata basis over the life of the policy.

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OHIO SCHOOL PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 3 – INVESTMENTS

As of December 31, 2010 and 2009, the Plan has the following investments.

<u>Investment Type</u>	Fair Value	
	<u>2010</u>	<u>2009</u>
U.S. Government agency bonds	\$ 1,439,156	\$ 1,421,656
Money market funds	<u>4,329</u>	<u>14,264</u>
	<u>\$ 1,443,485</u>	<u>\$ 1,435,920</u>

U.S. Government agency bonds have a weighted average maturity of 1.26 and 1.36 years and money market funds have maturities of 30 days or less as of December 31, 2010 and 2009, 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 not 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 \$1,397,009 and the bank balance was \$1,469,679. 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 \$1,142,492 and the bank balance was \$1,217,523. 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

With the exception of the Plan's property reinsurance treaty and the paid loss corridor deductible, the Plan fully reinsures its coverages with various reinsurance companies. Effective November 1, 2004, casualty and auto liability coverages were reinsured up to a limit of \$5,000,000 per occurrence, per member. Effective March 15, 2003, the Plan began offering property coverage to its members. These coverages are reinsured up to a limit of \$250,000,000 per occurrence. The Plan has the ability to access additional property reinsurance capacity if needed.

(Continued)

OHIO SCHOOL PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 4 – REINSURANCE (Continued)

Effective January 1, 2004, the Plan elected to participate in a paid loss ratio corridor deductible in its first \$1 million layer of casualty reinsurance. The corridor includes losses paid between 65% and 80% of premiums earned under this treaty. If the Plan's paid loss ratio reaches 65%, the Plan would pay all the losses incurred related to this treaty up to the next 15% of premiums earned. Reinsurance coverage would resume after a paid loss ratio of 80% is exceeded. Effective November 1, 2006, the Plan's loss corridor includes losses paid between 65% and 73% of premium earned under this treaty. Effective November 1, 2007, the Plan's loss corridor includes losses paid between 70% and 74% of premium earned under this treaty. Effective November 1, 2008, the Plan's loss corridor includes losses paid between 75% and 79% of premium earned under this treaty. Effective November 1, 2009, the Plan's loss corridor includes losses paid between 80% and 85% of premium earned under this treaty.

Effective July 1, 2007, the Plan began retaining 100% of the first \$150,000 layer of property reinsurance. The Plan's annual loss aggregate under this property treaty is \$750,000. Effective July 1, 2008, the Plan continued to retain 100% of the first \$150,000 layer of property reinsurance. The Plan's annual loss aggregate under this property treaty is \$800,000. Effective July 1, 2009, the Plan's retention remained 100% of the first \$150,000 layer of property. The Plan's annual loss aggregate under this property treaty is \$1 million. Effective July 1, 2010, the Plan's retention remained 100% of the first \$150,000 layer of property. The Plan's annual loss aggregate under this property treaty is \$1.2 million.

In the event that the reinsurance company should be unable to meet their obligations under the existing reinsurance agreements, the Plan would be liable for such defaulted amounts. Conversely, should the Plan be unable to meet its obligations, amounts due the Plan under reinsurance contracts shall be payable by the reinsurers on the basis of the liability of the Plan under the original Plan policies reinsured without diminution. 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.

NOTE 5 – UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSE RESERVES

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

	<u>2010</u>	<u>2009</u>
Balance at January 1	\$ 774,563	\$ 502,232
Incurred related to:		
Current year	700,638	622,372
Prior year	<u>404,233</u>	<u>220,104</u>
Total incurred	<u>1,104,871</u>	<u>842,476</u>
Paid related to:		
Current year	392,638	341,532
Prior year	<u>686,630</u>	<u>228,613</u>
Total paid	<u>1,079,268</u>	<u>570,145</u>
Net balance at December 31	<u>\$ 800,166</u>	<u>\$ 774,563</u>

(Continued)

OHIO SCHOOL PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 5 – UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSE RESERVES (Continued)

During 2010, incurred amounts relating to prior years are due to losses related to the Plan's property retention on the 2009 treaty. Furthermore, the reserves associated with the 2007 casualty paid loss ratio corridor has been reduced by \$178,843; while the 2009 casualty paid loss ratio corridor has been increased by \$95,998. Current year amounts are related to the Plan's property retention.

During 2009, incurred amounts relating to prior years are due to increased IBNR amounts associated with the 2006 and 2007 casualty paid loss ratio corridors.

NOTE 6 – TAX STATUS

Effective January 4, 2005, 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 individual members of the Plan are named as defendants in various lawsuits. These actions were considered by the Plan in establishing its losses and loss adjustment expense reserves. The Plan believes the ultimate disposition of these and other pending lawsuits against the Plan's members will not materially impact the Plan's financial position, results of operations or cash flows.

OHIO SCHOOL PLAN
TEN-YEAR CLAIMS DEVELOPMENT INFORMATION
FOR THE YEARS ENDING 2002 THROUGH 2010

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 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>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*	\$10,208,223	\$10,051,064	\$11,272,623	\$12,509,385	\$11,512,205	\$ 9,317,535	\$ 9,237,992	\$ 8,316,306	\$ 8,626,386
Ceded	<u>(7,575,856)</u>	<u>(7,704,333)</u>	<u>(8,633,826)</u>	<u>(9,693,397)</u>	<u>(8,469,541)</u>	<u>(6,235,177)</u>	<u>(5,812,842)</u>	<u>(5,133,685)</u>	<u>(5,428,996)</u>
Net Earned	2,632,367	2,346,731	2,638,797	2,815,988	3,042,664	3,082,358	3,425,150	3,182,621	3,197,390
Claims									
Gross	\$ 4,943,645	\$ 5,929,545	\$ 5,704,941	\$ 6,556,653	\$ 6,684,091	\$19,237,559	\$ 5,785,171	\$ 3,987,953	\$ 8,419,393
Ceded	<u>(4,943,645)</u>	<u>(5,929,545)</u>	<u>(5,704,941)</u>	<u>(6,556,653)</u>	<u>(6,448,627)</u>	<u>(18,637,559)</u>	<u>(4,932,171)</u>	<u>(3,365,581)</u>	<u>(7,718,755)</u>
Estimated net incurred claims and expenses at end of policy year	-	-	-	-	235,464	600,000	853,000	622,372	700,638
Net paid (cumulative) as of:									
End of policy year	-	-	-	-	55,456	298,138	627,796	341,532	392,638
One year later	-	-	-	-	375,000	750,000	847,796	1,028,162	-
Two years later	-	-	-	-	375,000	758,613	847,796	-	-
Three years later	-	-	-	-	375,000	758,613	-	-	-
Four years later	-	-	-	-	375,000	-	-	-	-
Five years later	-	-	-	-	-	-	-	-	-
Reestimated net incurred claims and expenses as of:									
End of policy year	-	-	-	-	235,464	600,000	853,000	622,372	700,638
One year later	-	-	-	208,538	375,000	750,000	853,000	1,124,160	-
Two years later	-	-	41,708	208,538	406,870	1,155,198	856,917	-	-
Three years later	-	-	41,708	208,538	466,934	976,355	-	-	-
Four years later	-	-	36,620	-	466,934	-	-	-	-
Five years later	-	-	-	-	-	-	-	-	-
Increase in estimated net incurred claims and expenses from end of policy year:	-	-	-	-	231,470	376,355	3,917	501,788	-

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

NOTE: The Plan commenced operations in 2002. Accordingly, there is no prior years' development.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board of Directors
Ohio School Plan
Columbus, Ohio

We have audited the financial statements of Ohio School Plan as of and for the year ended December 31, 2010, and have issued our report thereon dated April 25, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ohio School Plan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Ohio School Plan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Ohio School Plan's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ohio School Plan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

(Continued)

This report is intended solely for the information and use of the Ohio School Plan's board of directors, management of the Ohio School Plan and its members, and the State of Ohio Office of the Auditor and is not intended to be and should not be used by anyone other than those specified parties.

Crowe Horwath LLP

Crowe Horwath LLP

Columbus, Ohio
April 25, 2011



Dave Yost • Auditor of State

OHIO SCHOOL PLAN

LUCAS COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JUNE 2, 2011