

Ohio Fair Participating Plan

Financial Statements

for the years ended December 31, 2002 and 2001

Ohio Fair Participating Plan

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Report of Independent Accountants

To the Board of Directors of
the Ohio Fair Participating Plan:

We have audited the accompanying balance sheets of the Ohio Fair Participating Plan (the "Plan") as of December 31, 2002 and 2001, 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, which 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 Fair Participating Plan as of December 31, 2002 and 2001, 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 of America.

/s/ PricewaterhouseCoopers LLP

March 31, 2003

Ohio Fair Participating Plan

Balance Sheets

December 31, 2002 and 2001

	2002	2001
Assets		
Cash and cash equivalents	\$ 1,125,322	\$ 130,228
Short-term investments, at fair value	4,501	168,532
Bonds, at fair value	436,593	304,048
Equity securities, at fair value	82,965	122,937
Premiums receivable	57,637	96,058
Accrued interest receivable	4,910	5,219
	<u> </u>	<u> </u>
Total assets	<u>\$ 1,711,928</u>	<u>\$ 827,022</u>
Liabilities and Members' equity:		
Liabilities		
Loss and loss adjustment expense reserves	\$ -	\$ 200,000
Unearned premiums	13,215	16,244
Accrued liabilities and fees	5,612	58,948
Reinsurance advance payments	986,500	-
Reinsurance payable	22,310	72,317
	<u> </u>	<u> </u>
Total liabilities	<u>1,027,637</u>	<u>347,509</u>
Members' equity		
Accumulated surplus	684,291	479,513
Total members' equity	<u>684,291</u>	<u>479,513</u>
	<u> </u>	<u> </u>
Total liabilities and members' equity	<u>\$ 1,711,928</u>	<u>\$ 827,022</u>

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

Ohio Fair Participating Plan

Statements of Revenues, Expenses and Changes in Members' Equity For the years ended December 31, 2002 and 2001

	2002	2001
Revenues		
Premiums written	\$ 863,792	\$ 810,361
Reinsurance premiums ceded	<u>(615,291)</u>	<u>(534,744)</u>
Net premiums written	248,501	275,617
Change in unearned premiums	<u>3,029</u>	<u>(1,365)</u>
Net premiums earned	251,530	274,252
Membership fees	13,275	15,750
Net investment income	<u>(23,403)</u>	<u>12,326</u>
Total revenues	<u>241,402</u>	<u>302,328</u>
Expenses		
Loss and loss adjustment expense	(200,000)	200,000
Management fees	125,083	131,380
Commission expense	88,536	81,474
Newsletter publishing and postage	3,106	2,711
Directors' travel and meetings	8,756	8,437
Plan marketing	2,782	3,000
Property appraisals	(36,700)	55,000
Professional fees	36,575	18,963
Directors' and officers' coverage	5,250	3,500
Other	<u>3,236</u>	<u>4,858</u>
Total expenses	36,624	509,323
Excess (deficiency)of revenues over expenses	204,778	(206,995)
Members' equity		
Beginning of year	<u>479,513</u>	<u>686,508</u>
End of year	<u>\$ 684,291</u>	<u>\$ 479,513</u>

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

Ohio Fair Participating Plan

Statements of Cash Flows

For the years ended December 31, 2002 and 2001

	2002	2001
Cash flows from operating activities		
Excess (deficiency) of revenues over expenses	\$ 204,778	\$ (206,995)
Net change in the fair value of investments	42,828	12,465
Changes in operating assets and liabilities		
Premiums receivable	38,421	(22,229)
Accrued interest receivable	309	560
Loss and loss adjustment expense reserves	(200,000)	200,000
Unearned premiums	(3,029)	1,365
Accrued liabilities and fees	(53,336)	30,258
Reinsurance advance payments	986,500	-
Reinsurance payable	(50,007)	(7,397)
Net cash provided by operating activities	<u>966,464</u>	<u>8,027</u>
Cash flows from investing activities		
Net change in short term investments	164,031	(46,966)
Purchases:		
Bonds	(811,295)	(98,042)
Sales:		
Bonds	100,894	-
Maturities:		
Bonds	<u>575,000</u>	<u>125,000</u>
Net cash provided by (used in) investing activities	<u>28,630</u>	<u>(20,008)</u>
Net increase (decrease) in cash and cash equivalents	995,094	(11,981)
Cash and cash equivalents, beginning of year	<u>130,228</u>	<u>142,209</u>
Cash and cash equivalents, end of year	<u>\$ 1,125,322</u>	<u>\$ 130,228</u>

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

Ohio Fair Participating Plan

Notes to the Financial Statements

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 Fair Participating Plan (the "Plan") was organized in June of 1989 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 county and independent fairs located 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, automobile, crime, surety and bond, 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 judgements, settlements and other expenses resulting from claims arising related to the coverage provided in excess of the member's deductible.

Due to recent loss experience, the Plan was unable to obtain reinsurance for the treaty period beginning September 1, 2002. Therefore, effective September 1, 2002, the Plan ceased writing new and renewal business. Policies in force prior to September 1, 2002 will remain in effect and covered losses relating to those policies will be paid by the Plan.

The Plan has chosen to adopt the forms and endorsements of conventional insurance coverage and to reinsure these coverages 100% within certain aggregate limits, 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 that vary from member to member. See footnote 3 for further explanation.

The members' annual membership fee is included in premiums written, and 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 \$13,275 and \$15,750 for the years ended December 31, 2002 and 2001, respectively.

The Plan had 59 and 68 members as of December 31, 2002 and 2001, respectively.

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

The Plan is comprised exclusively of Ohio county and independent fairs. Although its exposure is concentrated to a single geographical area, such exposure is reduced by the practice of reinsuring 100% of the coverage provided, with the exception of certain aggregate limits.

Ohio Fair Participating Plan

Notes to the Financial Statements

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 represent a bank account balance of \$1,130,716 and \$130,583 as of December 31, 2002 and 2001, 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 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 change 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 established growth companies in the United States.

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Notes to the Financial Statements

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 \$1,094 and \$1,008 in 2002 and 2001, 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 100% reinsured, with the exception of casualty finite reinsurance cover. Premiums written of \$615,291 and \$534,744 were ceded to reinsurers for the years ended December 31, 2002 and 2001, respectively, net of ceding commissions of \$210,758 and \$202,785, respectively.

For the years ended December 31, 2002 and 2001, the Plan has not adopted Statement of Financial Accounting Standards No. 113. In accordance with the accounting principles prescribed by GASB Statement No. 10, any unpaid losses and loss adjustment expense reserves would be 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 \$88,536 and \$81,474 for the years ended December 31, 2002 and 2001, respectively. In 2001, the Plan engaged an external valuation specialist to perform property appraisals of the Plan's members, for the purpose of evaluating property limits. The Plan accrued an estimated \$55,000 of fees in conjunction with these appraisals during 2001 while appraisal activity was ongoing. During 2002 the appraisal process was completed at final cost of approximately \$18,300, and the remaining accrued expense was reversed accordingly.

Management Fees

Fees for all administrative, management and brokerage related services provided to the Plan are based upon a percentage of gross premiums written. Fees for such services amounted to \$125,083 and \$131,380 for 2002 and 2001, respectively.

Unpaid Loss and Loss Adjustment Expenses

The Plan has not established claims liabilities on reinsured risks except for those that it determined were liabilities which are not covered by reinsurers as further discussed in Note 3. For those risks,

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Notes to the Financial Statements

the Plan established claims liabilities that were based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that had been reported but not settled ("case" reserves) and of claims that had 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 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, 2001 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.

Reclassifications

Certain reclassifications have been made to the 2001 financial statements to conform to the 2002 presentations.

3. Reinsurance

The Plan reinsures its coverages 100% with various reinsurance companies up to a limit of \$5,000,000 per occurrence, per member, with the exception of its casualty finite reinsurance coverage. The Plan's casualty finite reinsurance coverage includes losses on all claims up to \$200,000, subject to aggregate limits. The Plan's casualty finite reinsurance coverage is provided in multiple-year treaties to both the Plan and the Ohio Government Risk Management Plan ("OGRMP") together. Both plans share in the same aggregate limits, which are calculated as a function of combined premium ceded. Due to loss developments occurring during 2001, and the establishment of loss reserves, the Plan had exceeded the estimated casualty finite reinsurance coverage available as of December 31, 2001. Throughout 2002, the Plan experienced favorable loss development and the Plan earned additional limit on the aforementioned finite treaty. Therefore, the reserve for the finite treaty has been reduced to zero.

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.

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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 concentrations of credit risk to minimize its exposure to significant losses from reinsurer insolvencies.

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, 2002 and 2001.

4. Unpaid Losses and Loss Adjustment Expense Reserves

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

	2002	2001
Balance at January 1	\$ 4,740,668	\$ 2,848,343
Less: reinsurance recoverables	<u>4,540,668</u>	<u>2,848,343</u>
Net balance at January 1	200,000	-
Incurred related to:		
Current year		200,000
Prior year	<u>(200,000)</u>	<u>-</u>
Total paid	(200,000)	200,000
Paid related to:		
Current year	-	-
Prior year	<u>-</u>	<u>-</u>
Total paid	-	-
Net balance at December 31	-	200,000
Plus: reinsurance recoverables	<u>5,462,085</u>	<u>4,540,668</u>
Balance at December 31,	<u>\$ 5,462,085</u>	<u>\$ 4,740,668</u>

The net balance of unpaid losses and loss adjustment expense reserves and corresponding incurred losses at December 31, 2001 represents the Plan's estimate of the ultimate cost of loss and loss adjustment expenses that have been reported but not settled and that have been incurred but not reported, net of estimated salvage and subrogation. The adverse loss development incurred of \$200,000 related to new claims filed during 2001. These losses exceeded the estimated reinsurance limit available under the Plan's casualty finite reinsurance treaty covering the period September 1999 to August 31, 2002.

During 2002, the Plan experienced positive loss development on those claims, and earned additional limit on its casualty finite reinsurance treaty. For this reason, these losses no longer exceed the reinsurance limit available under the casualty finite reinsurance treaty as of December 31, 2002. Loss reserves and incurred losses net of reinsurance have been eliminated accordingly.

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Notes to the Financial Statements

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, 2001, the Plan renewed a \$250,000 line of credit agreement with Fifth Third Bank of Northwest Ohio, N.A., which expires on June 30, 2003 and is collateralized by the Plan's cash and cash equivalents. As of December 31, 2002 and 2001, 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 under insurance policies issued by the Plan or in connection with previous reinsurance agreements. These actions were considered by the Plan in establishing its ultimate liability for losses and loss adjustment expense reserves. The Plan believes the ultimate disposition of these lawsuits will not materially impact the Plan's financial position, results of operations or cash flows.

**Reports of Independent Accountants
on Supplemental Information**

To the Board of Directors of
the Ohio Fair Participating Plan:

The report on our audits of the financial statements of the Ohio Fair Participating Plan (the “Plan”) as of December 31, 2002 and 2001, and for the years then ended is presented on page 1 of this document. Those audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Supplemental Schedule of Ten-Year Claims Development Information of the Plan as of December 31, 2002 and 2001, and for the years then ended is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Plan’s board of directors and management of the Plan and its members and is not intended to be and should not be used by anyone other than these specified parties.

/s/ PricewaterhouseCoopers LLP

March 31, 2003

Ten-Year Claims Development Information

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 reestimated 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.

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Revenues										
Earned*	\$ 692,796	\$ 581,639	\$ 730,238	\$ 669,633	\$ 692,857	\$ 979,164	\$ 794,422	\$ 767,348	\$ 837,072	\$ 856,693
Ceded**	528,487	541,066	534,670	580,733	596,139	672,775	675,682	665,409	747,598	828,910
Net Earned	164,309	40,573	195,568	88,900	96,718	306,389	118,740	101,939	89,474	27,783
Estimated claims and expenses end of policy year:										
Incurred	357,052	801,785	755,586	727,121	564,782	517,114	434,326	2,848,343	4,740,668	5,462,085
Ceded	326,245	801,785	755,586	727,121	564,782	517,114	434,326	2,848,343	4,540,668	5,462,085
Net Incurred	30,807	-	-	-	-	-	-	-	200,000	-
Net Paid (cumulative) as of:										
End of policy year	-	-	-	-	-	-	-	-	-	-
One year later	8,309	-	-	-	-	-	-	-	-	-
Two years later	8,309	-	-	-	-	-	-	-	-	-
Three years later	8,309	-	-	-	-	-	-	-	-	-
Four year later	8,309	-	-	-	-	-	-	-	-	-
Five years later	8,309	-	-	-	-	-	-	-	-	-
Six years later	8,309	-	-	-	-	-	-	-	-	-
Seven years later	8,309	-	-	-	-	-	-	-	-	-
Eight years later	8,309	-	-	-	-	-	-	-	-	-
Nine years later	8,309	-	-	-	-	-	-	-	-	-
Reestimated net incurred claims and expenses										
End of policy year	30,807	-	-	-	-	-	-	-	200,000	-
One year later	8,309	-	-	-	-	-	-	122,222	-	-
Two years later	8,309	-	-	-	-	-	55,556	-	-	-
Three years later	8,309	-	-	-	-	-	-	-	-	-
Four years later	8,309	-	-	-	-	-	-	-	-	-
Five years later	8,309	-	-	-	-	-	-	-	-	-
Six years later	8,309	-	-	-	-	-	-	-	-	-
Seven years later	8,309	-	-	-	-	-	-	-	-	-
Eight years later	8,309	-	-	-	-	-	-	-	-	-
Nine year later	8,309	-	-	-	-	-	-	-	-	-
Increase in estimated net incurred claims and expenses from end of policy year	(22,498)	-	-	-	-	-	-	-	(200,000)	-

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

** Includes ceded premiums, and management and commission expenses, which are also ceded.

