

**RESOLUTION NO. 33-09-05**  
**A RESOLUTION OF THE TOWN COMMISSION OF THE TOWN OF LAKE PARK, FLORIDA AUTHORIZING THE MAYOR TO EXECUTE APPLICATIONS PROVIDING PROPERTY, CASUALTY AND LIABILITY INSURANCE BETWEEN FLORIDA MUNICIPAL INSURANCE TRUST AND THE TOWN OF LAKE PARK; AND PROVIDING AN EFFECTIVE DATE**

**WHEREAS**, the Town of Lake Park is a municipal corporation of the State of Florida with such power and authority as has been conferred upon it by the Florida Constitution and Chapter 166, Florida Statutes; and

**WHEREAS**, the Town Commission has determined that it is in the best interest of the Town of Lake Park to provide for property, casualty and liability insurance coverage for Fiscal Year 2005-2006; and

**WHEREAS**, the Town Commission of the Town of Lake Park has reviewed the applications presented by Gehring Group for the provision of such coverage for Fiscal Year 2005-2006 and has determined that it is in the best interest of the Town of Lake Park to execute the application with Florida Municipal Insurance Trust copies of which are attached hereto as Exhibits A and B respectively and which are incorporated by reference herein; and

**WHEREAS**, the Town Commission of the Town of Lake Park has directed that adequate funds be allocated for such coverage in Fiscal Year 2005-2006

**NOW, THEREFORE, BE IT RESOLVED** by the Town Commission of the Town of Lake Park, Florida, as follows:

**Section 1.** The whereas clauses are incorporated herein.

**Section 2.** The Town Commission hereby authorizes and directs the Mayor to execute the application with Florida Municipal Insurance Trust for property, casualty and liability insurance coverage.


**Section 3.** This Resolution shall become effective immediately upon adoption.

The foregoing Resolution was offered by Commissioner Balius, who moved its adoption. The motion was seconded by Vice Mayor Garretson, and upon being put to a roll call vote, the vote was as follows:

	AYE	NAY
MAYOR PAUL W. CASTRO	<u>X</u>	_____
VICE MAYOR PAUL GARRETSON	<u>X</u>	_____
COMMISSIONER BALIUS	<u>X</u>	_____
COMMISSIONER ED DALY	<u>X</u>	_____
COMMISSIONER JEFF CAREY	<u>X</u>	_____

The Mayor thereupon declared the foregoing Resolution No. 33-09-05 duly passed and adopted this 21st day of Sept. 2005

TOWN OF LAKE PARK, FLORIDA

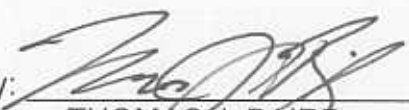
BY:   
PAUL W. CASTRO  
MAYOR

ATTEST:

  
Stephanie Thomas  
TOWN CLERK



Approved as to form and legal sufficiency:

By:   
THOMAS J. BAIRD  
TOWN ATTORNEY

# GEHRING GROUP

PROFESSIONAL SERVICES

September 15, 2005

Paul Carlisle  
Town Manager  
Town of Lake Park  
535 Park Avenue  
Lake Park, FL 33403

**RE: *Property & Casualty Insurance and Workers' Compensation Renewal***

Dear Mr. Carlisle:

The Gehring Group is pleased to present the following analysis and recommendation regarding the Town of Lake Park's Property, Casualty and Workers' Compensation insurance renewals.

The Town currently utilizes the Preferred Governmental Insurance Trust for Property, Casualty and Workers' Compensation insurance coverage. The attached spreadsheet summarizes the renewal quotes received in response to the Request for Proposal from the Preferred Governmental Insurance Trust and the Florida Municipal Insurance Trust (FMIT).

The Gehring Group has fully reviewed changes to coverages and limits and has taken the alternative options incorporated into this recommendation into consideration. Although all lines reflect various plus/minus differences, the bottom line is the FMIT shows an overall decrease of 8.29 percent from expiring premiums. Also, the FMIT General liability coverage provides an increased limit of \$2,000,000. Prior Acts coverage may be necessary if coverage is changed from a "claims made" to an "occurrence" policy. Should the Town choose to review Prior Acts coverage, the Gehring Group is happy to obtain a quotation for the Town's evaluation. The Gehring Group recommends that the Town of Lake Park place all lines of coverage with the Florida Municipal Insurance Trust. We have included the most current financials for both Trusts for your review.

Please do not hesitate to contact our office if we can be of any further assistance. It is always a pleasure being of service.

Sincerely,



Ellen Jones  
Director – Risk Management Services  
GEHRING GROUP

EJ/tk

Enclosures (3)

cc: Bambi McKibbon-Turner, Personnel Director, Town of Lake Park  
Cindy Sementelli, Finance Director, Town of Lake Park  
Kurt Gehring, President CEO, Gehring Group

U:\clients\Lake Park, Town of\Property and Casualty\2005-2006 Renewal\091505 - Paul Carlisle - PC and WC Renewal Recommendation.doc

**TOWN OF LAKE PARK  
PROPERTY & CASUALTY RFP EVALUATION  
2005 - 2006 PLAN YEAR**

Enhanced Limits

Coverage Type	CURRENT PGIT			PROPOSED PGIT			PROPOSED FMIT		
	Deductible	Liability Limits	Premium	Deductible	Liability Limits	Premium	Deductible	Liability Limits	Premium
Property, Inland Marine & Equipment Breakdown	\$ 5,000 3% TIV Wind Ded \$25,000 Min/Occurrence	\$ 10,607,876	\$ 46,675	\$ 5,000 3% TIV Wind Ded \$25,000 Min/Occurrence	\$ 9,505,112	\$ 43,670	\$ 5,000 2% TIV Wind Ded	\$ 9,505,112	\$ 49,763
General Liability	\$ 25,000	\$1,000,000 \$2,000,000	\$ 17,694	\$ 25,000	\$2,000,000 \$4,000,000	\$ 20,706	\$ 25,000	No Aggregate \$2,000,000	\$ 31,778
Public Official Liability & Employment Practices Liability	\$ 25,000	\$ 1,000,000	\$ 19,000	\$ 25,000	\$ 1,000,000	\$ 18,861	\$ 25,000	\$ 1,000,000	\$ 9,072
Auto Liability	\$ 25,000	\$ 1,000,000	\$ 62,105	\$ 25,000	\$ 2,000,000	\$ 51,711	\$ 25,000	\$ 2,000,000	\$ 26,645
Personal Injury Protection	N/A	\$ 10,000	Included	N/A	\$ 10,000	Included	N/A	\$ 10,000	Included
Medical Payments	N/A	\$ 5,000	Included	N/A	\$ 5,000	Included	N/A	\$ 5,000	Included
Uninsured Motorists Physical Damage	N/A	\$ 20,000	Included	N/A	\$ 20,000	Included	N/A	\$ 20,000	Included
Comprehensive Coverage	\$ 1,000	Per Schedule	Included	\$ 1,000	Per Schedule	Included	N/A	Per Schedule	Included
Physical Damage Collision Coverage	\$ 1,000	Per Schedule	Included	\$ 1,000	Per Schedule	Included	N/A	Per Schedule	Included
Crime Coverage			\$ 500			\$ 1,000			Included
Employee Dishonesty Coverage	\$ 1,000	\$ 50,000	Included	\$ 1,000	\$ 50,000	Included	\$ 1,000	\$ 10,000	Included
Theft, Disappearance, Destruction	\$ 1,000	\$ 10,000	Included	\$ 1,000	\$ 50,000	Included	\$ 1,000	\$ 10,000	Included
Position Schedule Bond	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$ 50,000	\$ 237
Workers' Compensation									
Modification Factor	0.95			1.07			1.07		
	First Dollar Coverage	\$ 1,000,000	\$ 89,443	First Dollar Coverage	\$ 1,000,000	\$ 102,369	First Dollar Coverage	\$ 1,000,000	\$ 98,065
<b>Annual Premium Sub Total:</b>			\$ 235,417			\$ 238,317			\$ 215,560
<b>Gehring Group Administrative Services Fee:</b>			\$ 11,771			\$ 11,916			\$ 11,135
<b>Total Annual Premium:</b>			\$ 247,188			\$ 250,233			\$ 226,695
<b>\$ Increase</b>			N/A			\$ 3,045			\$ (20,493)
<b>% Increase</b>			N/A			1.23%			-8.29%

\*\$75,000 Deductible Stop Loss per line of cvg

**TOWN OF LAKE PARK  
PROPERTY & CASUALTY RFP EVALUATION  
2005 - 2006 PLAN YEAR**

Enhanced Limits

Recommendation

Coverage Type	CURRENT PGIT			PROPOSED PGIT			PROPOSED FMIT		
	Deductible	Liability Limits	Premium	Deductible	Liability Limits	Premium	Deductible	Liability Limits	Premium
Property, Inland Marine & Equipment Breakdown	\$ 5,000 3% TIV Wind Ded \$25,000 Min/Occurrence	\$ 10,607,876	\$ 46,675	\$ 5,000 3% TIV Wind Ded \$25,000 Min/Occurrence	\$ 9,505,112	\$ 43,670	\$ 5,000 2% TIV Wind Ded	\$ 9,505,112	\$ 49,763
General Liability	\$ 25,000	\$1,000,000 \$2,000,000	\$ 17,594	\$ 25,000	\$2,000,000 \$4,000,000	\$ 20,706	\$ 25,000	No Aggregate \$2,000,000	\$ 31,778
Public Official Liability & Employment Practices Liability	\$ 25,000	\$ 1,000,000	\$ 19,000	\$ 25,000	\$ 1,000,000	\$ 18,861	\$ 25,000	\$ 1,000,000	\$ 9,072
Auto Liability	\$ 25,000	\$ 1,000,000	\$ 62,105	\$ 25,000	\$ 2,000,000	\$ 51,711	\$ 25,000	\$ 2,000,000	\$ 26,645
Personal Injury Protection	N/A	\$ 10,000	Included	N/A	\$ 10,000	Included	N/A	\$ 10,000	Included
Medical Payments	N/A	\$ 5,000	Included	N/A	\$ 5,000	Included	N/A	\$ 5,000	Included
Uninsured Motorists	N/A	\$ 20,000	Included	N/A	\$ 20,000	Included	N/A	\$ 20,000	Included
Physical Damage Comprehensive Coverage	\$ 1,000	Per Schedule	Included	\$ 1,000	Per Schedule	Included	N/A	Per Schedule	Included
Physical Damage Collision Coverage	\$ 1,000	Per Schedule	Included	\$ 1,000	Per Schedule	Included	N/A	Per Schedule	Included
Crime Coverage Employee Dishonesty Coverage	\$ 1,000	\$ 50,000	\$ 500	\$ 1,000	\$ 50,000	\$ 1,000	\$ 1,000	\$ 10,000	Included
Theft, Disappearance, Destruction	\$ 1,000	\$ 10,000	Included	\$ 1,000	\$ 50,000	Included	\$ 1,000	\$ 10,000	Included
Position Schedule Bond	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$ 50,000	\$ 237
Workers' Compensation									
Modification Factor	0.95			1.07			1.07		
	First Dollar Coverage	\$ 1,000,000	\$ 89,443	First Dollar Coverage	\$ 1,000,000	\$ 102,369	First Dollar Coverage	\$ 1,000,000	\$ 98,065
<b>Annual Premium Sub Total:</b>			\$ 235,417			\$ 238,317			\$ 215,560
<b>Gehring Group Administrative Services Fee:</b>			\$ 11,771			\$ 11,916			\$ 11,135
<b>Total Annual Premium:</b>			\$ 247,188			\$ 250,233			\$ 226,695
\$ Increase			N/A			\$ 3,045			\$ (20,493)
% Increase			N/A			1.23%			-8.29%

\*\$75,000 Deductible Stop Loss per line of cvg



**TOWN OF LAKE PARK  
PROPERTY & CASUALTY RFP EVALUATION  
2005 - 2006 PLAN YEAR**

Enhanced Limits

Coverage Type	CURRENT PGIT			PROPOSED PGIT			PROPOSED FMIT		
	Deductible	Liability Limits	Premium	Deductible	Liability Limits	Premium	Deductible	Liability Limits	Premium
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Auto Liability	\$ 25,000	\$ 1,000,000	\$ 62,105	\$ 25,000	\$ 2,000,000	\$ 51,711	\$ 25,000	\$ 2,000,000	\$ 26,645
Personal Injury Protection	N/A	\$ 10,000	Included	N/A	\$ 10,000	Included	N/A	\$ 10,000	Included
Medical Payments	N/A	\$ 5,000	Included	N/A	\$ 5,000	Included	N/A	\$ 5,000	Included
Uninsured Motorists Physical Damage Comprehensive Coverage	N/A	\$ 20,000	Included	N/A	\$ 20,000	Included	N/A	\$ 20,000	Included
Physical Damage Collision Coverage	\$ 1,000	Per Schedule	Included	\$ 1,000	Per Schedule	Included	N/A	Per Schedule	Included
Crime Coverage Employee Dishonesty Coverage	\$ 1,000	Per Schedule	Included	\$ 1,000	Per Schedule	Included	N/A	Per Schedule	Included
Theft, Disappearance, Destruction	\$ 1,000	\$ 500	\$ 500	\$ 1,000	\$ 50,000	\$ 1,000	\$ 1,000	\$ 10,000	Included
Position Schedule Bond	\$ 1,000	\$ 10,000	Included	\$ 1,000	\$ 50,000	Included	\$ 1,000	\$ 10,000	Included
Workers' Compensation	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$ 50,000	\$ 237
Modification Factor	0.95			1.07			1.07		
	First Dollar Coverage	\$ 1,000,000	\$ 89,443	First Dollar Coverage	\$ 1,000,000	\$ 102,369	First Dollar Coverage	\$ 1,000,000	\$ 98,065
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PROPERTY & CASUALTY RFP EVALUATION  
2005 - 2006 PLAN YEAR**

Enhanced Limits

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Personal Injury Protection	N/A	\$ 10,000	Included	N/A	\$ 10,000	Included	N/A	\$ 10,000	Included
Medical Payments	N/A	\$ 5,000	Included	N/A	\$ 5,000	Included	N/A	\$ 5,000	Included
Uninsured Motorists Physical Damage Comprehensive Coverage	N/A	\$ 20,000	Included	N/A	\$ 20,000	Included	N/A	\$ 20,000	Included
Physical Damage Collision Coverage	\$ 1,000	Per Schedule	Included	\$ 1,000	Per Schedule	Included	N/A	Per Schedule	Included
Crime Coverage Employee Dishonesty Coverage	\$ 1,000	Per Schedule	Included	\$ 1,000	Per Schedule	Included	N/A	Per Schedule	Included
Theft, Disappearance, Destruction	\$ 1,000	Per Schedule	Included	\$ 1,000	Per Schedule	Included	N/A	Per Schedule	Included
Position Schedule Bond	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$ 50,000	\$ 237
Workers' Compensation									
Modification Factor	0.95			1.07			1.07		
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2005 - 2006 PLAN YEAR**

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Medical Payments	N/A	\$ 5,000	Included	N/A	\$ 5,000	Included	N/A	\$ 5,000	Included
Uninsured Motorists Physical Damage	N/A	\$ 20,000	Included	N/A	\$ 20,000	Included	N/A	\$ 20,000	Included
Comprehensive Coverage	\$ 1,000	Per Schedule	Included	\$ 1,000	Per Schedule	Included	N/A	Per Schedule	Included
Physical Damage Collision Coverage	\$ 1,000	Per Schedule	Included	\$ 1,000	Per Schedule	Included	N/A	Per Schedule	Included
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**TOWN OF LAKE PARK  
PROPERTY & CASUALTY RFP EVALUATION  
2005 - 2006 PLAN YEAR**

Enhanced Limits

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Personal Injury Protection	N/A	\$ 10,000	Included	N/A	\$ 10,000	Included	N/A	\$ 10,000	Included
Medical Payments	N/A	\$ 5,000	Included	N/A	\$ 5,000	Included	N/A	\$ 5,000	Included
Uninsured Motorists	N/A	\$ 20,000	Included	N/A	\$ 20,000	Included	N/A	\$ 20,000	Included
Physical Damage Comprehensive Coverage	\$ 1,000	Per Schedule	Included	\$ 1,000	Per Schedule	Included	N/A	Per Schedule	Included
Physical Damage Collision Coverage	\$ 1,000	Per Schedule	Included	\$ 1,000	Per Schedule	Included	N/A	Per Schedule	Included
Crime Coverage Employee Dishonesty Coverage	\$ 1,000	\$ 50,000	\$ 500	\$ 1,000	\$ 50,000	\$ 1,000	\$ 1,000	\$ 10,000	Included
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Position Schedule Bond	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$ 50,000	\$ 237
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\$ Increase			N/A			\$ 3,045			\$ (20,493)
% Increase			N/A			1.23%			-8.29%

\*\$75,000 Deductible Stop Loss per line of cvg

COPY

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
PREFERRED GOVERNMENTAL  
INSURANCE TRUST

SEPTEMBER 30, 2004

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Shores, Tagman & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Preferred Governmental Insurance Trust  
Lake Mary, Florida

We have audited the accompanying statement of financial position of Preferred Governmental Insurance Trust (the "Trust") as of September 30, 2004, and the related statements of income and fund balance, and of cash flows for the year then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Preferred Governmental Insurance Trust as of September 30, 2004, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 7 to the financial statements, the terms of the Trust's service contract provide for claims adjusting services on claims that arose during the contract period provided that the contract remains in effect. In the event the contract is terminated, the Trust will be liable for the additional expenses related to adjusting these claims until all such claims are concluded. The amount of this liability, if any, cannot be presently determined. Accordingly, the accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

INDEPENDENT AUDITORS' REPORT - CONTINUED

The reconciliations of claims liabilities and the comparative schedule of claims development and earned assessments information are not a required part of the basic financial statements, and we did not audit and do not express an opinion on such information. However, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. As a result of such limited procedures, we believe that the reconciliation of claims liabilities and the comparative schedule of claims development and earned assessments are in conformity with guidelines established by the Governmental Accounting Standards Board.

*Sharon Tagman & Company, P.A.*

March 28, 2005



Preferred Governmental Insurance Trust  
STATEMENT OF FINANCIAL POSITION

September 30, 2004

ASSETS

Investment securities available-for-sale	\$ 28,440,996
Cash and cash equivalents	7,507,994
Accrued interest receivable	329,251
Premiums receivable	3,549,902
Deductibles receivable	1,470,287
Excess recoverables on paid losses	504,337
Prepaid expenses and other assets	<u>4,335,020</u>
	<u>\$ 46,137,787</u>

LIABILITIES AND FUND BALANCE

Unpaid losses and loss adjustment expenses	\$ 33,019,359
Unearned premium	6,378,346
Excess insurance premiums payable	966,371
State of Florida assessments payable	516,812
Overpayments by members	333,250
Administrative fees payable	260,750
Agent commissions payable	140,530
Service fees payable	180,478
Accounts payable and other liabilities	<u>872,434</u>
	<u>42,668,330</u>
Fund balance	<u>3,469,457</u>
	<u>\$ 46,137,787</u>

The accompanying notes are an integral part of this statement.

Preferred Governmental Insurance Trust  
 STATEMENT OF INCOME AND FUND BALANCE  
 Year Ended September 30, 2004

<b>REVENUES</b>	
Premiums	\$ 71,841,951
Net investment income	465,339
Net decrease in fair market value of investments	( 139,819)
	<u>72,167,471</u>
 <b>EXPENSES</b>	
Losses and loss adjustment expenses	31,091,388
Excess insurance expense	20,135,311
Administrative fees	8,397,102
State of Florida assessments	2,001,136
Agent commissions	4,942,758
Service fees	2,789,570
Professional fees	233,066
Other expenses	266,160
	<u>69,856,491</u>
 <b>NET INCOME</b>	 2,310,980
 Fund balance - beginning of year	 <u>1,158,477</u>
 <b>FUND BALANCE - END OF YEAR</b>	 \$ <u>3,469,457</u>

The accompanying notes are an integral part of this statement.

Preferred Governmental Insurance Trust

STATEMENT OF CASH FLOWS

Year Ended September 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES

Net income	\$ 2,310,980
Adjustments to reconcile net income to net cash provided by operating activities:	
Amortization	482,296
Realized gains on sale of investments available-for-sale	( 8,698)
Net (increase) decrease in fair market value of investment securities	139,819
Changes in operating assets and liabilities	
(Increase) decrease in assets:	
Accrued interest receivable	( 329,251)
Premiums receivable	385,099
Deductibles receivable	( 1,229,438)
Excess recoverables on paid losses	( 327,423)
Other assets	( 669,835)
Increase in liabilities:	
Excess insurance premiums payable	606,416
State of Florida assessments payable	110,543
Overpayments by members	( 27,409)
Administrative fees payable	102,840
Agent commissions payable	63,628
Service fees payable	101,046
Unearned premium	386,618
Unpaid losses and loss adjustment expense	20,819,224
Accounts payable and other liabilities	<u>357,314</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>23,273,769</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of debt securities	(39,188,108)
Proceeds from maturities of debt securities	<u>10,133,695</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(29,054,413)</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS ( 5,780,644)

Cash and cash equivalents at beginning of year 13,288,638

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 7,507,994

The accompanying notes are an integral part of this statement.

Preferred Governmental Insurance Trust

STATEMENT OF CASH FLOWS

Year Ended September 30, 2004

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the year for:

Income taxes

\$           --

Interest

\$           --

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The accompanying notes are an integral part of this statement.

Preferred Governmental Insurance Trust

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Preferred Governmental Insurance Trust (the "Trust") significant accounting policies consistently applied in the preparation of the accompanying financial statements follows. Other significant accounting policies are disclosed elsewhere in the financial statements and the notes thereto.

Basis of Accounting

The accounting and reporting policies of the Trust conform to accounting principles generally accepted in the United States of America and prevailing practices within the insurance industry. Except as otherwise noted, the Trust carries its assets and liabilities principally on the historical cost basis and follows the accrual method of accounting.

Earned Premiums

Premiums are billed based upon the estimated annual premiums due and are recognized on a uniform basis throughout the year. However, at year end, certain members that purchase workers' compensation from the Trust report actual payrolls to the administrator and the other members have a payroll audit. Any additional premiums due are billed at that time. Premiums for workers' compensation coverage as recorded herein are based upon actual payrolls as reported by the members for applicable accounts, and audited payrolls for the other members.

Income Taxes

It is management's opinion that the Trust is exempt from federal and state income taxes.

Cash and Cash Equivalents

With respect to the statement of cash flows, cash equivalents include only cash in checking, savings or money market accounts, certificates of deposit and other depository instruments with maturities of three months or less at the time of acquisition.

Investments

The investments in debt securities are stated at their estimated fair market value in accordance with Governmental Accounting Standards Board Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools". Any change in unrealized gains and losses on investments are reported in the statement of operations and policyholders' surplus.



Preferred Governmental Insurance Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Investments - Continued

Gains and losses on the sale of debt securities are determined using the specific-identification method. Premiums paid and discounts taken on the purchase of debt securities are amortized and recognized in investment income using the straight-line method over the period to maturity.

Concentrations of Credit Risk

The Trust maintains cash in demand deposit accounts with federally insured banks. At times, the balances in these accounts may be in excess of federally insured limits. Cash and cash equivalents include money market funds, which are not insured by the FDIC or otherwise guaranteed by the U.S. Government.

Excess insurance

In the normal course of business, the Trust seeks to reduce losses and allocated loss adjustment expenses that may arise from catastrophes or other events that cause unfavorable underwriting results by insuring certain levels of risk with other insurance enterprises.

Recoverables from excess insurers on paid losses, if any, are reported as assets in the statement of financial position.

Recoverables from excess insurers on unpaid losses, if any, are recorded as a reduction to the liability for unpaid losses and loss adjustment expenses in the statement of financial position.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - OPERATIONS

The Preferred Governmental Insurance Trust is a trust organized to meet and fulfill a Trust member's obligations and liabilities under the Florida Workers' Compensation Act, and to write certain other lines of coverage to participating members.

Preferred Governmental Insurance Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2004

NOTE 2 - OPERATIONS-CONTINUED

The Trust provides coverage for public entities within the State of Florida.

NOTE 3 - INVESTMENT SECURITIES AVAILABLE-FOR-SALE

Investment securities available-for-sale are stated at their fair market value and consist of the following as of September 30, 2004:

	Amortized Cost	Fair Market Value	Gross Unrealized Gains	Gross Unrealized Losses
U.S. Government	\$ 6,525,013	\$ 6,497,575	\$ --	\$( 27,438)
U.S. Government Agency	5,976,495	5,959,213	--	( 17,283)
Corporate	<u>16,079,307</u>	<u>15,984,209</u>	<u>1,260</u>	<u>( 96,358)</u>
	<u>\$28,580,815</u>	<u>\$ 28,440,996</u>	<u>\$ 1,260</u>	<u>\$( 141,079)</u>

The amortized cost and fair market value of investment securities available-for-sale as of September 30, 2004 by contractual maturity are shown below. In some instances, actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Market Value	Gross Unrealized Gains	Gross Unrealized Losses
Due in one year or less	\$12,682,605	\$ 12,640,041	\$ --	\$( 42,564)
Due after one year through five years	<u>15,898,210</u>	<u>15,800,955</u>	<u>1,260</u>	<u>( 98,516)</u>
	<u>\$28,580,815</u>	<u>\$ 28,440,996</u>	<u>\$ 1,260</u>	<u>\$( 141,079)</u>

Preferred Governmental Insurance Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2004

NOTE 3 - INVESTMENT SECURITIES AVAILABLE-FOR-SALE-CONTINUED

Proceeds from sales of investment securities available-for-sale were approximately \$10,134,000 during the year ended September 30, 2004. Gross gains and losses of approximately \$8,800 and \$100, respectively, were realized on these sales of investment securities available-for-sale during the year ended September 30, 2004

NOTE 4 - PREMIUMS RECEIVABLE/OVERPAYMENTS BY MEMBERS

Premiums receivable consist primarily of unbilled installments of policies written in the current year, yet expiring in the next policy year as well as additional premium amounts determined due to the Trust as a result of payroll audits. Based upon an analysis of past due receivables, it is management's opinion that no allowance for uncollectible accounts is necessary.

Overpayments by members consist of refunds due to members as a result of their final audits. These amounts will be refunded to the members during the year ended September 30, 2005.

NOTE 5 - PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets consist of the following:

Excess premiums	\$ 3,167,429
Agents' commissions	510,349
Administrative fees	452,138
Claims service fees	122,280
Other assets	<u>82,824</u>
TOTAL	<u>\$ 4,335,020</u>

All prepaid items relate to premium generated by the schools. These items will be charged to expenses during the year ended September 30, 2005.

NOTE 6 - EXCESS INSURANCE COVERAGE

The Trust purchased specific excess insurance to protect against large individual losses. This insurance indemnifies the Trust when paid losses on an individual occurrence exceed the retention level specified in the appropriate contract. The limits and retentions vary by line of business and by policy year.

Preferred Governmental Insurance Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2004

NOTE 6 - EXCESS INSURANCE COVERAGE

Excess insurance contracts do not relieve the Trust from its obligation to members. The failure of the excess insurers to honor their obligations could result in losses to the Trust. The Trust evaluates the financial condition of its excess insurers to minimize its exposure to significant losses from excess insurer insolvency. To the extent that excess insurance coverage of the Trust is deemed to be excess insurance under applicable Florida Statutes, any recoverables from an insolvent carrier would be paid by the Florida Workers' Compensation Insurance Guaranty Association.

As of September 30, 2004, there are excess insurance recoverables on paid losses of approximately \$504,000, of which approximately \$453,000 was associated with two carriers.

As of September 30, 2004, there are excess insurance recoverables on unpaid losses of approximately \$52,467,000 (discounted), of which approximately \$30,993,000 was associated with two carriers.

NOTE 7 - LIABILITY FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The reserve for unpaid losses and loss adjustment expenses is based upon a valuation of the Trust losses as prepared by the Trust's independent actuary. This valuation is a significant estimate which is subject to change. The change can be material in relation to the financial statements taken as a whole. This evaluation includes an estimated provision for incurred but not reported losses (IBNR) as well as reported losses. The IBNR provision totals approximately \$10,419,000 as of September 30, 2004.

The reserve for unpaid losses and loss adjustment expenses has been discounted for the time value of money. These reserves have been discounted over the estimated payout period of the losses based upon data provided by the independent actuary and utilizing an interest rate of 3.5 %, which represents the anticipated investment earnings while the losses are being paid out. The discount totals approximately \$3,720,000.

An increase or decrease in the estimate of ultimate incurred losses and loss adjustment expenses as compared to the prior year will result in an indirect increase or decrease in the current year's net income. During the year ended September 30, 2004, the Trust experienced an increase in previous years estimates of ultimate incurred losses and loss adjustment expenses attributable to the 2002-2003 and prior policy years which totals approximately \$1,371,000. This amount has been recorded as an increase to losses and loss adjustment expenses in the current year.

As noted in Note 6, the Trust has purchased specific excess insurance to protect itself against large losses. The incurred losses of the Trust are net of the effects of recoveries recognized under the excess insurance contracts referred to above. During the year ended September 30, 2003, the Trust experienced an increase in the anticipated recoveries recognized from

Preferred Governmental Insurance Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2004

NOTE 7 - LIABILITY FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES - CONTINUED

these contracts which totaled approximately \$30,208,000. This amount has been recorded as a decrease to losses and loss adjustments expenses for the year ended September 30, 2004. The loss reserves are stated net of recoverables from excess reinsurers totaling approximately \$52,467,000 at September 30, 2004.

NOTE 8 - CONTINGENCIES

Preferred Governmental Claim Solutions (herein and after referred to as PGCS) is responsible for providing adjusting services for claims arising during the term of the contract.

This includes adjusting services applicable to claims incurred in prior years provided that the contract is still in effect. In the event that the Trust becomes insolvent, PGCS would be required to provide claims adjusting services with respect to all open claims files until such files are closed.

However, in the event that the contract is terminated or not renewed, PGCS has no further obligation to adjust these claims beyond the contract period. Accordingly, the Trust would be liable for costs of adjusting the claims during the runoff period.

The amount of the obligation would be dependent upon a number of factors, including but not limited to the number of open claims upon termination, the severity of open claims, the laws in effect at the time of contract termination, as well as any subsequent changes to the law and the date of contract termination.

As the contract with PGCS has not been terminated as of September 30, 2004 and due to the number of variables discussed above, it is not possible to determine the amount of this liability, if any. Accordingly, the accompanying financial statements make no provision for any such costs.

NOTE 9 - RELATED PARTY TRANSACTIONS

The Trust contracts with Program Management Services to provide certain administrative services to the Trust. The Trust incurred expenses under the above referenced contract of \$8,397,102 for the year ended September 30, 2004 of which \$191,387 is prepaid as of September 30, 2004. In addition, an affiliate of Program Management Services received commissions for placing certain excess insurance on behalf of the Trust.



Preferred Governmental Insurance Trust

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2004

NOTE 9 - RELATED PARTY TRANSACTIONS - CONTINUED

The Trust also contracts with Preferred Governmental Claim Solutions, an affiliate of Program Management Services, to provide claims and claims adjustment services. The Trust incurred expenses under the above referenced contract of \$2,789,570 for the year ended September 30, 2004 of which \$58,198 is prepaid as of September 30, 2004.

There are various agents that are affiliated with Program Management Services that produce business for the Trust. The Trust incurred commission expenses with these agents of \$2,893,514 for the year ended September 30, 2004 of which \$50,875 remained payable as of September 30, 2004.

NOTE 10 - CONCENTRATIONS

The Trust writes select lines of insurance coverage for public entities within the State of Florida only.

SUPPLEMENTAL INFORMATION

Preferred Governmental Insurance Trust

RECONCILIATION OF CLAIMS LIABILITIES

<u>WORKERS' COMPENSATION</u>	<u>Policy year ended</u> <u>September 30,</u>	
	<u>2004</u>	<u>2003</u>
Unpaid losses and loss adjustment expenses at beginning of the fiscal year	\$ <u>9,102,118</u>	\$ <u>          --</u>
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	20,874,778	11,271,722
Change in provision for insured events of prior fiscal years	<u>1,686,090</u>	<u>          341</u>
Total incurred losses and loss adjustment expenses	<u>22,560,868</u>	<u>11,272,063</u>
Payments:		
Losses and loss adjustment expenses attributable to insured events of the current fiscal year	3,626,620	2,169,604
Losses and loss adjustment expenses attributable to insured events of the prior fiscal year	<u>3,682,797</u>	<u>          341</u>
Total payments	<u>7,309,417</u>	<u>2,169,945</u>
Unpaid losses and loss adjustment expenses at end of the fiscal year	\$ <u>24,353,569</u>	\$ <u>9,102,118</u>

Preferred Governmental Insurance Trust

RECONCILIATION OF CLAIMS LIABILITIES

<u>LIABILITY</u>	<u>Policy year ended</u> <u>September 30,</u>	
	<u>2004</u>	<u>2003</u>
Unpaid losses and loss adjustment expenses at beginning of the fiscal year	\$ <u>3,098,017</u>	\$ <u>    --</u>
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	7,387,947	3,891,743
Change in provision for insured events of prior fiscal years	( 320,630)	<u>    --</u>
Total incurred losses and loss adjustment expenses	<u>7,067,317</u>	<u>3,891,743</u>
Payments:		
Losses and loss adjustment expenses attributable to insured events of the current fiscal year	1,409,554	793,726
Losses and loss adjustment expenses attributable to insured events of the prior fiscal year	<u>693,083</u>	<u>    --</u>
Total payments	<u>2,102,637</u>	<u>793,726</u>
Unpaid losses and loss adjustment expenses at end of the fiscal year	\$ <u>8,062,697</u>	\$ <u>3,098,017</u>

Preferred Governmental Insurance Trust

RECONCILIATION OF CLAIMS LIABILITIES

<u>PROPERTY</u>	<u>Policy year ended</u> <u>September 30,</u>	
	<u>2004</u>	<u>2003</u>
Unpaid losses and loss adjustment expenses at beginning of the fiscal year	\$ <u>          --</u>	\$ <u>          --</u>
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	1,457,203	--
Change in provision for insured events of prior fiscal years	<u>        6,000</u>	<u>          --</u>
Total incurred losses and loss adjustment expenses	<u>1,463,203</u>	<u>          --</u>
Payments:		
Losses and loss adjustment expenses attributable to insured events of the current fiscal year	860,110	--
Losses and loss adjustment expenses attributable to insured events of the prior fiscal year	<u>          --</u>	<u>          --</u>
Total payments	<u>860,110</u>	<u>          --</u>
Unpaid losses and loss adjustment expenses at end of the fiscal year	\$ <u>  603,093</u>	\$ <u>          --</u>

Preferred Governmental Insurance Trust

COMPARATIVE SCHEDULE OF CLAIMS DEVELOPMENT AND EARNED ASSESSMENTS

For the Period October 1, 1999 through September 30, 2004

	Year ended September 30,				
	2004	2003	2002	2001	2000
Premiums and investment revenue:					
Earned	\$72,167,471	\$46,996,535	\$15,532,722	\$10,887,642	\$6,363,664
Ceded	<u>(20,135,311)</u>	<u>(18,103,835)</u>	<u>(10,578,211)</u>	<u>(7,385,990)</u>	<u>(4,315,589)</u>
Net earned	52,032,160	28,892,700	4,954,511	3,501,652	20,480,075
Unallocated expenses	18,629,792	12,871,208	4,764,082	3,408,634	2,026,134
Estimated incurred losses and expenses, end of policy year:					
Incurred	(1) 61,482,579	26,748,646	11,807,404	6,902,327	2,368,674
Ceded	(1) <u>31,762,651</u>	<u>(11,585,181)</u>	<u>(11,805,579)</u>	<u>(6,900,840)</u>	<u>(2,367,554)</u>
Net incurred	29,719,928	15,163,465	1,825	1,487	1,120
Paid (cumulative) as of:					
End of policy year	5,896,284	2,963,843	1,825	1,487	1,120
One year later	--	7,339,722	1,785	1,648	1,123
Two years later	--	--	1,786	1,514	1,124
Three years later	--	--	--	1,514	1,126
Four years later	--	--	--	--	1,126
Re-estimated ceded losses and expenses (1)	31,762,651	8,969,293	13,692,786	11,110,114	5,566,761
Re-estimated incurred losses and expenses:					
End of policy year	29,719,928	15,163,465	1,825	1,487	1,120
One year later	--	16,535,079	2,109	1,648	1,123
Two years later	--	--	1,999	1,664	1,124
Three years later	--	--	--	1,616	1,165
Four years later	--	--	--	--	1,169
Increase in estimated incurred losses and expenses from end of policy year	--	1,371,614	174	129	49

(1) These amounts have been discounted utilizing a discount rate of 3.5% over the estimated payout period of the claims.