

# **Public Entities Pool of Ohio**

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**Financial Report  
with Required Supplemental Schedules  
December 31, 2015**





# Dave Yost • Auditor of State

Board of Directors  
Public Entities Pool of Ohio  
31555 West Fourteen Mile Road  
Farmington, Hills MI 48334

We have reviewed the *Independent Auditor's Report* of the Public Entities Pool of Ohio, Lucas County, prepared by Plante & Moran, PLLC, for the audit period January 1, 2015 through December 31, 2015. 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 Public Entities Pool of Ohio 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 25, 2016

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# Public Entities Pool of Ohio

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## Contents

<b>Independent Auditor's Report</b>	1-2
<b>Management's Discussion and Analysis</b>	3-7
<b>Basic Financial Statements</b>	
Statement of Net Position	8
Statement of Revenue, Expenses, and Changes in Net Position	9
Statement of Cash Flows	10-11
Notes to Basic Financial Statements	12-20
<b>Required Supplemental Information</b>	21
Casualty Claims Development Information	22
Property Claims Development Information	23
Statement of Reconciliation of Claims and Claim Adjustment Expense Reserves by Type of Contract	24
<b>Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Basic Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i></b>	25-27

## Independent Auditor's Report

To the Board of Directors  
Public Entities Pool of Ohio

### **Report on the Basic Financial Statements**

We have audited the accompanying basic financial statements of Public Entities Pool of Ohio (the "Pool"), as of and for the years ended December 31, 2015 and 2014 and the related notes to the basic financial statements, which collectively comprise the Pool's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Basic Financial Statements***

Management is responsible for the preparation and fair presentation of these basic financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of basic financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these basic 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 General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors  
Public Entities Pool of Ohio

**Opinion**

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Public Entities Pool of Ohio at December 31, 2015 and 2014 and the changes in its financial position and its cash flows, thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplemental Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, casualty claims development information, property claims development information, and statement of reconciliation of claims and claim adjustment expense liability by type of contract, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplemental information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance on said information.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2016 on our consideration of the Pool's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* in considering the Pool's internal control over financial reporting and compliance.

*Plante & Moran, PLLC*

May 11, 2016

# Public Entities Pool of Ohio

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## Management's Discussion and Analysis

### Using this Annual Report

This annual report consists of the statement of net position, the statement of revenue, expenses, and changes in net position, and the statement of cash flows. Along with the notes to the basic financial statements, it provides detailed financial information concerning Public Entities Pool of Ohio (the "Pool" or PEP). The management's discussion and analysis (the "MD&A") provides a review of the Pool's operating results for the years 2013 through 2015, as well as its financial condition at December 31, 2015, 2014, and 2013. The MD&A should be read in conjunction with the basic financial statements and notes thereto.

### Overview

PEP is a local government risk pool that offers comprehensive liability and property coverages specifically tailored to meet the needs of political subdivisions throughout the state of Ohio and provide them with an alternative to traditional insurance. PEP differs philosophically from traditional insurance programs in that PEP is owned by its members and serves only its members' interests.

Historically, the property and casualty insurance industry has been unable to provide the consistency of pricing and coverages needed by governmental authorities. The national insurance crisis of the late 1980s, in which political subdivisions in the state of Ohio were unable to purchase affordable insurance, led to the formation of local government risk pools. The transition from insurance to pooling has been so successful that there are over 500 governmental entity pools currently operating in the United States of America. PEP was formed in 1987 and has grown steadily to 499 members today.

The growth and success of pooling is often attributed to the availability of broad coverage and price stability, which PEP has consistently delivered since its formation. In addition to those advantages enjoyed by many pools, PEP stands out by providing responsive claims handling, coverage specific to Ohio political subdivisions, and customized loss control services, proving that its service-oriented philosophy has been a successful long-term solution for its members. PEP is endorsed by the Association of Ohio Health Commissioners and the Ohio Parks and Recreation Association.

PEP's Annual Report provides members with detailed financial information about the Pool. Additionally, PEP's website provides members with information on news and events and contains links to valuable resources, including a comprehensive online loss control library that contains numerous risk management and training materials in a variety of convenient formats.

PEP continues to build on its longstanding success by consistently providing customized coverage at a fair and stable price and being responsible, loyal, and responsive to its membership.



# Public Entities Pool of Ohio

## Management's Discussion and Analysis (Continued)

### Administration

York Risk Pooling Services, Inc. (York or Management) functions as the administrator of the Pool and provides program management, underwriting, claims, loss control, risk management and reinsurance services for the Pool. York's pool administration team includes certified public accountants, credentialed underwriters, attorneys that specialize in public entity claims and a host of other subject matter experts, who have decades of experience in the successful management of public entity pools.

### Financial Overview and Highlights

The analysis below presents a comparison of the Pool's current year financial position to prior years:

	2015	2014	2013
<b>Assets</b>			
Cash and cash equivalents	\$ 3,603,192	\$ 3,859,012	\$ 2,798,205
Investment securities - At fair value	20,983,937	18,208,798	18,254,772
Member contributions to be billed in the future	11,013,490	10,835,692	11,097,106
Other assets	2,707,058	2,498,675	2,261,800
Total assets	<u>\$ 38,307,677</u>	<u>\$ 35,402,177</u>	<u>\$ 34,411,883</u>
<b>Liabilities</b>			
Claims and claim adjustment expense reserves	\$ 11,546,425	\$ 11,183,572	\$ 11,642,576
Unearned premium reserves	64,660	97,372	146,900
Other liabilities	1,148,042	1,082,313	970,718
Total liabilities	<u>\$ 12,759,127</u>	<u>\$ 12,363,257</u>	<u>\$ 12,760,194</u>
<b>Net Position - Unrestricted</b>	<u>\$ 25,548,550</u>	<u>\$ 23,038,920</u>	<u>\$ 21,651,689</u>

Approximately 64 percent in 2015, 62 percent in 2014, and 61 percent in 2013 of total assets consist of cash, cash equivalents, and investments. As a result of the Pool's conservative investment objectives and policies, the overall investment return (excluding the net realized and unrealized losses on investments) totaled 1.41 percent during the year ended December 31, 2015. At December 31, 2015, 2014, and 2013, substantially all of the Pool's investments were invested in U.S. Treasury securities, U.S. agency securities, corporate bonds, or money market investment pools.

# Public Entities Pool of Ohio

## Management's Discussion and Analysis (Continued)

In accordance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, member contributions, claims and claim adjustment expenses, and operating expenses are recognized in the statement of revenue, expenses, and changes in net position on an accrual basis of accounting. Pursuant to the intergovernmental contract signed by each member of the Pool, the budgetary funding requirement for each member is based upon the estimated cash outflow of the Pool on an annual basis. As a result of the long claim cycle for casualty claims, member contributions are collected from active members when the estimated claims and claim adjustment expenses are anticipated to be paid. These estimated amounts are accounted for in the statement of net position as "member contributions to be billed in the future." Changes to these estimates are reflected in the statement of revenue, expenses, and changes in net position in a method similar to that of claim reserves, as detailed below. Because amounts are estimated in this manner, amounts will fluctuate from year to year due to changes in the estimate of the future cost of settling all existing claims.

The Pool's claims and claim adjustment expense reserves totaled \$11,546,425, \$11,183,572, and \$11,642,576 at December 31, 2015, 2014, and 2013, respectively. For known claims existing at December 31, the reserves are established based on known facts. For incurred but not reported reserves at year end, estimates are based on a variety of actuarial and statistical techniques that reflect recent settlements, past claim experience, claim frequency and severity, and other economic factors. Because these estimates are impacted by complex factors such as jury decisions, court interpretations, changes in doctrines of legal liability, damage awards, inflation, and legislative changes, the process used in estimating claim reserves does not necessarily result in an exact amount. Consistent with industry practices, adjustments to claims reserves are charged to expense in the periods in which the adjustments are made. During the year ended December 31, 2015, the Pool decreased its provision for claims incurred in prior years by \$621,374 as a result of a decrease in claim frequency from the original actuarial estimate and favorable outcomes on certain cases settled or expected to be settled in the near term. Claim payments totaled \$6,040,229, \$7,218,286, and \$5,875,445 during the years ended December 31, 2015, 2014, and 2013, respectively. The recent fluctuation in claim payment activity is a result of several large property claims that were incurred and paid during 2014.

Net position at December 31, 2015 increased \$2,509,630 from December 31, 2014 primarily as a result of an increase in member contributions and continued favorable trending on claim frequency and severity.

# Public Entities Pool of Ohio

## Management's Discussion and Analysis (Continued)

The following table shows the major components of income from operations for the current year compared to prior years:

	2015	2014	2013
<b>Operating Revenue</b>			
Member contributions	\$ 17,570,717	\$ 16,538,076	\$ 15,744,530
Reinsurance premiums ceded	(3,281,924)	(2,977,139)	(2,852,935)
Change in contributions that will be billed in the future to pay unpaid claims	177,798	(261,414)	(1,532,812)
Total operating revenue	14,466,591	13,299,523	11,358,783
<b>Operating Expenses</b>			
Provision for claims	6,403,082	6,759,282	4,409,751
General and administrative expenses	5,637,987	5,261,771	5,056,950
Total operating expenses	12,041,069	12,021,053	9,466,701
<b>Operating Income</b>	2,425,522	1,278,470	1,892,082
<b>Nonoperating Revenue (Expenses)</b>			
Investment earnings (losses)	129,369	313,720	(289,294)
Cumulative reserve fund distributions	(31,877)	(163,298)	(125,415)
Total nonoperating revenue (expense)	97,492	150,422	(414,709)
<b>Withdrawals - Member capital</b>	(13,384)	(41,661)	(6,900)
<b>Change in Net Position</b>	<b>\$ 2,509,630</b>	<b>\$ 1,387,231</b>	<b>\$ 1,470,473</b>

The Pool's membership increased from 488 members in 2014 to 499 members in 2015. Member contributions increased approximately 6 percent, from \$16,538,076 in 2014 to \$17,570,717 in 2015.

# Public Entities Pool of Ohio

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## Management's Discussion and Analysis (Continued)

The Pool uses reinsurance and excess risk-sharing arrangements to reduce its exposure to loss. These agreements permit recovery of a portion of the Pool's claims from reinsurers and a risk-sharing pool, although they do not discharge the Pool's primary liability for such payments. The Pool is a member of American Public Entity Excess Pool (APEEP), which is also administered by York. APEEP provides the Pool with an excess risk-sharing program. Under this arrangement, the Pool retains risks up to an amount specified in the contracts (at December 31, 2015, the Pool retained \$350,000 for casualty claims and \$100,000 for property claims). The board of directors and York periodically review the financial strength of the Pool and other market conditions to determine the appropriate level of risk the Pool will retain. Reinsurance premiums ceded to APEEP and the Pool's excess reinsurers totaled approximately \$3,282,000 and \$2,977,000 for the years ended December 31, 2015 and 2014, respectively. In addition, amounts deducted from claims and claim adjustment expense reserves as of December 31, 2015 and 2014 for expected recoveries under the reinsurance and excess risk-sharing agreements totaled approximately \$5,590,000 and \$8,930,000, respectively.

In accordance with generally accepted accounting standards, all investments maintained by the Pool must be reported at fair market value (marked-to-market concept). Annual changes in these values are recognized in the statement of revenue, expenses, and changes in net position as unrealized gains or losses on investments. Net realized and unrealized losses on investments totaled \$147,641 and \$2,135 for the years ended December 31, 2015 and 2014, respectively.

Total operating expenses of the Pool increased slightly from the prior year, totaling \$12,041,069 and \$12,021,053, respectively, in 2015 and 2014. Operating expenses totaled 69 percent and 73 percent of member contributions in 2015 and 2014, respectively.

### Economic Factors and Next Year's Rates

The rates charged by the Pool for member contributions for the next year are not expected to change significantly. All other operating expenses are expected to remain consistent with amounts reported in 2015. The provision for claims payments is expected to be consistent with historical trends and Management is unaware of any new economic or legislative events that would have a significant impact on the operations of the Pool.

### Contacting the Pool's Management

This financial report is intended to provide PEP members and regulators with a general overview of the accountability for the revenue PEP receives. Additional information regarding the Pool can be found on PEP's website, [www.pepohio.org](http://www.pepohio.org). If you have questions about this report or need additional information, contact John W. Brockschmidt, President, York Risk Pooling Services, Inc. at (248) 671-1742.

# Public Entities Pool of Ohio

## Statement of Net Position

	December 31, 2015	December 31, 2014
<b>Current Assets</b>		
Cash and cash equivalents (Note 2)	\$ 3,603,192	\$ 3,859,012
Investment securities - At fair value (Note 2)	3,701,263	3,319,655
Member contributions receivable	2,388,055	2,201,598
Reinsurance receivable on paid claims (Note 4)	216,568	179,486
Deductible receivable	19,500	29,500
Member contributions to be billed in the future	4,400,000	4,500,000
Accrued investment income	82,935	88,091
	<u>14,411,513</u>	<u>14,177,342</u>
<b>Noncurrent Assets</b>		
Investment securities - At fair value (Note 2)	17,282,674	14,889,143
Member contributions to be billed in the future	6,613,490	6,335,692
	<u>23,896,164</u>	<u>21,224,835</u>
Total noncurrent assets	<u>23,896,164</u>	<u>21,224,835</u>
Total assets	<u><b>\$ 38,307,677</b></u>	<u><b>\$ 35,402,177</b></u>
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 901,061	\$ 860,885
Claims and claim adjustment expense reserves (Note 3)	4,932,935	4,847,880
Reinsurance premiums payable (Note 4)	246,981	221,428
	<u>6,080,977</u>	<u>5,930,193</u>
Total current liabilities	<u>6,080,977</u>	<u>5,930,193</u>
<b>Noncurrent Liabilities</b>		
Claims and claim adjustment expense reserves (Note 3)	6,613,490	6,335,692
Unearned premium reserves	64,660	97,372
	<u>6,678,150</u>	<u>6,433,064</u>
Total noncurrent liabilities	<u>6,678,150</u>	<u>6,433,064</u>
Total liabilities	<u><b>\$ 12,759,127</b></u>	<u><b>\$ 12,363,257</b></u>
<b>Net Position - Unrestricted</b>	<u><b>\$ 25,548,550</b></u>	<u><b>\$ 23,038,920</b></u>

# Public Entities Pool of Ohio

## Statement of Revenue, Expenses, and Changes in Net Position

	Year Ended December 31	
	2015	2014
<b>Operating Revenue</b>		
Member contributions (Note 6)	\$ 17,570,717	\$ 16,538,076
Reinsurance premiums ceded (Note 4)	(3,281,924)	(2,977,139)
Change in contributions that will be billed in the future to pay unpaid claims	177,798	(261,414)
Total operating revenue	14,466,591	13,299,523
<b>Operating Expenses</b>		
Claims and claim adjustment expenses (Note 3):		
Paid	11,710,578	9,584,643
Recoveries	(5,670,349)	(2,366,357)
Change in claims and claim adjustment expense reserves	362,853	(459,004)
Total claims and claim adjustment expenses	6,403,082	6,759,282
Marketing and administrator fees	5,088,212	4,776,074
Other	549,775	485,697
Total operating expenses	12,041,069	12,021,053
<b>Operating Income</b>	2,425,522	1,278,470
<b>Nonoperating Revenue (Expense)</b>		
Investment earnings - Interest and dividends	277,010	315,855
Net realized and unrealized losses on investments	(147,641)	(2,135)
Cumulative reserve fund distributions (Note 5)	(31,877)	(163,298)
Total nonoperating revenue	97,492	150,422
<b>Withdrawals - Member capital</b>	(13,384)	(41,661)
<b>Change in Net Position</b>	2,509,630	1,387,231
<b>Net Position - Beginning of year</b>	23,038,920	21,651,689
<b>Net Position - End of year</b>	<b>\$ 25,548,550</b>	<b>\$ 23,038,920</b>

# Public Entities Pool of Ohio

## Statement of Cash Flows

	Year Ended December 31	
	2015	2014
<b>Cash Flows from Operating Activities</b>		
Cash received from members	\$ 17,351,548	\$ 16,419,483
Cash received from reinsurance recoveries	5,633,267	2,209,364
Cash paid for claims	(11,700,578)	(9,599,871)
Cash paid for reinsurance premiums	(3,256,371)	(2,978,007)
Cash paid for administrative and general expenses	(5,568,069)	(5,212,077)
Net cash provided by operating activities	2,459,797	838,892
<b>Cash Flows from Investing Activities</b>		
Investment income received	282,166	320,266
Purchase of investments	(7,438,900)	(4,099,454)
Proceeds from sales and maturities of investments	4,516,120	4,143,293
Net cash (used in) provided by investing activities	(2,640,614)	364,105
<b>Cash Flows from Noncapital Financing Activities</b>		
Payments for member withdrawals - Capitalization	(13,384)	(41,661)
Payments for member cumulative reserve fund distributions	(61,619)	(100,529)
Net cash used in noncapital financing activities	(75,003)	(142,190)
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(255,820)	1,060,807
<b>Cash and Cash Equivalents - Beginning of year</b>	3,859,012	2,798,205
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 3,603,192</b>	<b>\$ 3,859,012</b>

# Public Entities Pool of Ohio

## Statement of Cash Flows (Continued)

A reconciliation of operating income to net cash provided by operating activities is as follows:

	Year Ended December 31	
	2015	2014
Operating income	\$ 2,425,522	\$ 1,278,470
Adjustments to reconcile operating income to net cash from operating activities:		
(Increase) decrease in assets:		
Member contributions receivable	(186,457)	(69,065)
Deductibles receivable	10,000	(15,228)
Reinsurance receivable on paid claims	(37,082)	(156,993)
Member contributions to be billed in the future	(177,798)	261,414
(Decrease) increase in liabilities:		
Unearned premium reserves	(32,712)	(49,528)
Claims and claim adjustment expense reserves	362,853	(459,004)
Reinsurance premiums payable	25,553	(868)
Accounts payable and accrued expenses	69,918	49,694
Net cash provided by operating activities	<u>\$ 2,459,797</u>	<u>\$ 838,892</u>
<b>Supplemental Disclosure of Cash Flow Information -</b>		
Noncash investing activities - Net realized and unrealized losses on investments	<u>\$ (147,641)</u>	<u>\$ (2,135)</u>



# Public Entities Pool of Ohio

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## Notes to Basic Financial Statements December 31, 2015 and 2014

### Note I - Nature of Business and Significant Accounting Policies

The Pool was created in March 1987 and organized under the laws of the State of Ohio as a local government risk pool. The Association of Ohio Health Commissioners and the Ohio Parks and Recreation Association endorse and promote the Pool. A total of 499 political subdivisions within the state of Ohio participate in the Pool. The Pool's primary objective is to formulate, develop, and administer, on behalf of its members, a program of managing property losses and third-party casualty claims, to obtain stable costs for that coverage, and to develop a comprehensive loss control program.

Members entering the Pool agree to participate in the Pool for a period of not less than one year and provide capitalization contributions as defined in the contract signed between the member and the Pool. Members electing to withdraw from the Pool may receive a partial refund of their capitalization contribution as defined by the contract, provided the member has given 60 days' written notice prior to its anniversary date. In addition, upon withdrawal, all payments for casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal.

The accompanying basic financial statements are presented using the full accrual method of accounting in conformity with accounting principles generally accepted in the United States of America as applicable to governmental entities.

The Pool distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with the Pool's principal ongoing operations. The principal operating revenue relates to member contributions. Operating expenses include claims and claim adjustment expenses and general and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating.

The Pool engages York Risk Pooling Services, Inc. (York or Management) to serve as the administrator of the Pool. York specializes in public entity risk pool management and provides a full spectrum of administrative services. As provided for in its administrative agreement, York contracts specific services to subcontractors. Marketing and member services are provided by Burnham and Flower Agency of Ohio, Inc. and USI Midwest, LLC. Claim and loss control services are provided by York's wholly owned subsidiary, Public Entity Risk Services of Ohio. These organizations are reimbursed for their services pursuant to the terms of their respective agreements with York.

**Cash Equivalents** - Cash equivalents are liquid assets maturing no more than three months from purchase date and include money market investment pools.

**Investments** - Investments are stated at fair value, based on quoted market prices. Investment income is recognized when earned.

# Public Entities Pool of Ohio

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## Notes to Basic Financial Statements December 31, 2015 and 2014

### Note I - Nature of Business and Significant Accounting Policies (Continued)

**Investment Earnings** - Investment earnings, including changes in the fair value of investments, are recognized as nonoperating revenue (expense) in the statement of revenue, expenses, and changes in net position.

**Member Contributions Receivable** - Member contributions receivable represent amounts due from members of the Pool and are considered collectible. Accordingly, the Pool has no allowance for doubtful accounts for financial reporting purposes.

**Member Contributions to be Billed in the Future** - Member contributions to be billed in the future represent the amounts recoverable from members which have not been billed as of December 31 and directly relate to current estimates of unpaid claims and claim adjustment expenses. These amounts will be billed in the period when the estimated incurred claims, claim adjustment expenses, and related administrative expenses for each certificate year are anticipated to be paid.

**Claims and Claim Adjustment Expense Reserves** - Claims and claim adjustment expense reserves represent the estimated liability for unpaid claims and related claim expenses from reported claims and claims incurred but not reported. Expected recoveries under reinsurance and excess risk-sharing agreements are deducted from claims and claim expense reserves. Changes to estimates are currently reflected in the statement of revenue, expenses, and changes in net position.

**Capitalization Contributions** - Casualty capitalization contributions are accounted for under the provisions of GASB Interpretation No. 4, *Accounting and Financial Reporting for Capitalization Contributions to Public Entity Risk Pools (Interpretation No. 4)*. Under Interpretation No. 4, capitalization contributions to pools to which risk is transferred must be accounted for as revenue by initially recording such contributions as unearned premiums, then amortizing them into revenue over an appropriate period not to exceed 10 years. Unearned premium reserves resulting from the application of Interpretation No. 4 are being amortized pro rata over the funding period, the period over which a member makes casualty capitalization contributions.

**Member Contributions** - Member contributions are recognized under the accrual method of accounting and follow the provisions of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*. Member contributions are estimated using a variety of actuarial and statistical techniques and are recognized when billed. Member contributions reflect the amount to be contributed by members for payment of incurred claims, claim adjustment expenses, reinsurance expenses, and related operating expenses for each certificate year.

# Public Entities Pool of Ohio

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## Notes to Basic Financial Statements December 31, 2015 and 2014

### Note I - Nature of Business and Significant Accounting Policies (Continued)

**Cumulative Reserve Fund Distributions** - In accordance with the membership agreement, the board of directors may authorize distributions of cumulative reserve funds (CRF) to members. Members must meet certain qualifications and their CRF account balance must exceed levels as determined by the board of directors. If the board of directors approves a CRF distribution plan, amounts to be distributed under this plan are determined annually based on a variety of factors, including risk assumed by the Pool, operating results, changes in doctrines of legal liability, changes in damage awards, investment markets, and other insurance industry developments. Amounts are reflected in the basic financial statements in the year the distribution is approved by the board of directors.

**Use of Estimates** - Management has made a number of estimates and assumptions, relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities, as of the statement of net position date and the amounts of revenue and expenses during the reporting period, in order to prepare these basic financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

**Tax Status** - The Pool's income is excludable from gross income under Section 115 of the Internal Revenue Code and is thus exempt from federal income taxes. Management believes that the Pool continues to operate in a manner whereby it continues to be tax exempt.

**Upcoming Accounting Pronouncement** - In February 2015, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 72, *Fair Value Measurement and Application*. The requirements of this statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The Pool is currently evaluating the impact this standard will have on the financial statements when adopted during the Pool's 2016 fiscal year.

# Public Entities Pool of Ohio

## Notes to Basic Financial Statements December 31, 2015 and 2014

### Note 2 - Deposits and Investments

The Pool designated Fifth Third Bank, ClearArc Capital, Inc., Star Plus, and Star Ohio for the deposit of its funds and handling the investments for the Pool.

Deposits and investments are reported in the basic financial statements for December 31, 2015 as follows:

	<u>Cash and Cash Equivalents</u>	<u>Investment Securities</u>
Deposits - Cash	\$ 763,339	\$ -
Investments:		
Money market investment pools	2,839,853	-
Corporate bonds	-	1,442,259
U.S. Treasury securities	-	15,811,022
U.S. agencies and pass-throughs	-	3,730,656
Total	<u>\$ 3,603,192</u>	<u>\$ 20,983,937</u>

Deposits and investments are reported in the basic financial statements for December 31, 2014 as follows:

	<u>Cash and Cash Equivalents</u>	<u>Investment Securities</u>
Deposits - Cash	\$ 1,142,527	\$ -
Investments:		
Money market investment pools	2,716,485	-
Corporate bonds	-	1,711,833
U.S. Treasury securities	-	11,919,377
U.S. agencies and pass-throughs	-	4,577,588
Total	<u>\$ 3,859,012</u>	<u>\$ 18,208,798</u>

# Public Entities Pool of Ohio

## Notes to Basic Financial Statements December 31, 2015 and 2014

### Note 2 - Deposits and Investments (Continued)

The Pool's cash and investments are subject to several types of risk, which are examined in more detail below.

**Custodial Credit Risk of Bank Deposits** - The Pool maintains balances in its deposit accounts to adequately cover current operating and claims payment expenses. At December 31, 2015 and 2014, the Pool had \$279,227 and \$135,367, respectively, of checking account deposits that were uninsured and uncollateralized.

Custodial credit risk is the risk that, in the event of a bank failure, the Pool's deposits may not be returned to it. The Pool's policy related to custodial credit risk of bank deposits is to evaluate each financial institution with which it deposits funds and assess the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories. The board of directors has adopted, and reviews annually, a banking policy to ensure risk of loss of the Pool's deposits is negligible.

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. During 2014, the Pool's investment policy restricted the maximum maturity for any one issue to no more than 10 years. During 2015, the Pool amended its investment policy to restrict the maximum maturity for any one issue to no more than five years. The Pool's policy also minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and limiting the average maturity in accordance with the Pool's cash requirements.

At December 31, 2015, the Pool had the following weighted average maturities of investments:

Investment Type	Fair Value	Weighted Average Maturity (in Years)
Money market investment pools	\$ 2,839,853	1.00
Corporate bonds	1,442,259	2.09
U.S. Treasury securities	15,811,022	2.53
U.S. agencies and pass-throughs	3,730,656	3.44
Total fair value	<u>\$ 23,823,790</u>	
Portfolio weighted average maturity		<u>2.46</u>

# Public Entities Pool of Ohio

## Notes to Basic Financial Statements December 31, 2015 and 2014

### Note 2 - Deposits and Investments (Continued)

At December 31, 2014, the Pool had the following weighted average maturities of investments:

Investment Type	Fair Value	Weighted Average Maturity (in Years)
Money market investment pools	\$ 2,716,485	1.00
Corporate bonds	1,711,833	3.10
U.S. Treasury securities	11,919,377	2.59
U.S. agencies and pass-throughs	4,577,588	3.34
Total fair value	\$ 20,925,283	
Portfolio weighted average maturity		2.59

**Credit Risk** - Credit risk is the risk that an issuer of an investment will not fulfill its obligations. In accordance with the Pool's investment policy, the Pool may invest in U.S. Treasury securities, U.S. agency securities, corporate bonds, and money market mutual funds or investment pools.

At December 31, 2015 and 2014, the credit quality ratings of debt securities by investment type (other than the U.S. Treasury securities) are as follows:

Investment Type - Rating	Fair Value 2015	Fair Value 2014
Corporate bonds:		
Aa1	\$ 179,509	\$ 180,357
Aa2	176,248	178,525
Aa3	275,045	273,917
A1	450,843	538,563
A2	360,614	451,461
A3	-	89,010
Total	\$ 1,442,259	\$ 1,711,833
U.S. agencies and pass-throughs:		
AAA	\$ 3,609,489	\$ 4,577,588
Not rated	121,167	-
Total	\$ 3,730,656	\$ 4,577,588
Money market investment pools - Aaa	\$ 2,839,853	\$ 2,716,485

# Public Entities Pool of Ohio

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## Notes to Basic Financial Statements December 31, 2015 and 2014

### Note 2 - Deposits and Investments (Continued)

The rating organizations used by the Pool to rate its investments were Moody's and Standard and Poor's.

**Concentration of Credit Risk** - Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Pool places no limit on the amount it may invest in any one issuer.

At December 31, 2015, the Pool had investments in issuers (excluding U.S. Treasury securities and money market investment pools) greater than 5 percent of total investments, which included \$1,173,258 in Fannie Mae, \$1,191,264 in Federal Home Loan Bank, and \$1,366,134 in Freddie Mac; these investments represented 5.6 percent, 5.7 percent, and 6.5 percent, respectively, of the Pool's total investments.

At December 31, 2014, the Pool had investments in issuers (excluding U.S. Treasury securities and money market investment pools) greater than 5 percent of total investments, which included \$1,153,063 in Fannie Mae, \$1,798,799 in Federal Home Loan Bank, and \$1,625,726 in Freddie Mac; these investments represented 6.3 percent, 9.9 percent, and 8.9 percent, respectively, of the Pool's total investments.

### Note 3 - Claims and Claim Adjustment Expense Reserves

For known claims existing at December 31, the reserves are established based on known facts. For incurred but not reported reserves at year end, estimates are based on a variety of actuarial and statistical techniques that reflect recent settlements, past claim experience, claim frequency and severity, and other economic factors. A provision for inflation in the calculation of estimated future claim costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Because these estimates are impacted by complex factors such as jury decisions, court interpretations, changes in doctrines of legal liability, damage awards, inflation, and legislative changes, the process used in estimating claim reserves does not necessarily result in an exact amount, particularly for coverage such as third-party liability; therefore, it is reasonably possible that a material change in the estimate will occur within the near term and thus the actual claims paid may be substantially different than these estimates. Consistent with industry practices, adjustments to claims reserves are charged to expense in the periods in which the adjustments are made.

# Public Entities Pool of Ohio

## Notes to Basic Financial Statements December 31, 2015 and 2014

### Note 3 - Claims and Claim Adjustment Expense Reserves (Continued)

The following represents changes in claims and claim adjustment expense reserves for the years ended December 31, 2015, 2014, and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Claims and Claim Adjustment Expense Reserves -</b>			
Beginning of year	\$ 11,183,572	\$ 11,642,576	\$ 13,108,270
<b>Incurred Claims and Claim Adjustment Expenses</b>			
Provision for claims incurred in current year	7,024,456	8,190,471	6,545,015
Change in provision for claims incurred in prior years	<u>(621,374)</u>	<u>(1,431,189)</u>	<u>(2,135,264)</u>
Total incurred claims and claim adjustment expenses	6,403,082	6,759,282	4,409,751
<b>Payments</b>			
Claims and claim adjustment expenses paid for claims incurred in current year	(1,949,023)	(3,297,707)	(1,959,555)
Claims and claim adjustment expenses paid for claims incurred in prior years	<u>(4,091,206)</u>	<u>(3,920,579)</u>	<u>(3,915,890)</u>
Total payments	<u>(6,040,229)</u>	<u>(7,218,286)</u>	<u>(5,875,445)</u>
<b>Claims and Claim Adjustment Expense Reserves -</b>			
End of year	<u>\$ 11,546,425</u>	<u>\$ 11,183,572</u>	<u>\$ 11,642,576</u>

Reserves for claims and claim adjustment expenses attributable to covered events in prior years changed as a result of re-estimation of unpaid claims and claim adjustment expenses. This change is generally a result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

The recent fluctuation in claim payment activity is a result of several large property claims that were incurred and paid during the year ended December 31, 2014.

### Note 4 - Reinsurance and Excess Risk-sharing Agreements

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large specific and aggregate losses. These agreements permit recovery of a portion of its claims from reinsurers and a risk-sharing pool, although they do not discharge the Pool's primary liability for such payments. The Pool does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers or excess risk-sharing agreements. Premiums ceded to reinsurance carriers and the risk-sharing pool during the years ended December 31, 2015 and 2014 totaled \$3,281,924 and \$2,977,139, respectively, and the amounts deducted from claims and claim adjustment expense reserves as of December 31, 2015 and 2014 for reinsurance and excess risk-sharing agreements totaled approximately \$5,590,000 and \$8,930,000, respectively.



# Public Entities Pool of Ohio

## Notes to Basic Financial Statements December 31, 2015 and 2014

### Note 4 - Reinsurance and Excess Risk-sharing Agreements (Continued)

The Pool is a member of American Public Entity Excess Pool (APEEP), which is also administered by York. APEEP provides reinsurance and excess risk-sharing programs for its member pools, all of which are public entity risk pools.

### Note 5 - Member Distributions

Members must make contributions to the CRF for the first six years of membership. Qualifying members may receive distributions from the CRF pursuant to the formulas currently established by the Pool. CRF distributions charged to operations for qualifying members totaled \$31,877 and \$163,298 during the years ended December 31, 2015 and 2014, respectively.

### Note 6 - Member Contributions

The following summarizes the components of member contributions for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Member contributions - Operating	\$ 17,118,145	\$ 15,971,691
Member contributions - Cumulative reserve fund	419,860	516,857
Change in unearned premium reserves	<u>32,712</u>	<u>49,528</u>
Total member contributions	<u>\$ 17,570,717</u>	<u>\$ 16,538,076</u>

## **Required Supplemental Information**

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# Public Entities Pool of Ohio

## Casualty Claims Development Information

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
1. Required contributions and investment income:										
Earned	\$ 8,210,922	\$ 8,504,660	\$ 8,585,521	\$ 8,223,319	\$ 8,068,139	\$ 7,972,127	\$ 8,388,169	\$ 8,736,443	\$ 8,911,767	\$ 9,411,779
Ceded	<u>1,242,826</u>	<u>1,551,017</u>	<u>1,334,428</u>	<u>1,333,703</u>	<u>957,296</u>	<u>800,861</u>	<u>789,898</u>	<u>835,889</u>	<u>897,691</u>	<u>971,799</u>
Net	6,968,096	6,953,643	7,251,093	6,889,616	7,110,843	7,171,266	7,598,271	7,900,554	8,014,076	8,439,980
2. Expenses other than allocated claim adjustment expenses	2,190,216	2,142,248	2,200,369	2,168,868	2,133,237	2,268,851	2,334,576	2,481,455	2,548,221	2,726,435
3. Estimated claims and allocated claim adjustment expenses - End of policy year:										
Incurred	6,848,085	8,567,574	4,947,263	5,878,548	5,081,002	5,196,962	5,689,561	5,261,927	5,911,616	7,449,348
Ceded	<u>652,684</u>	<u>2,108,295</u>	<u>493,314</u>	<u>236,163</u>	<u>437,006</u>	<u>474,966</u>	<u>447,216</u>	<u>486,828</u>	<u>476,256</u>	<u>2,170,538</u>
Net	6,195,401	6,459,279	4,453,949	5,642,385	4,643,996	4,721,996	5,242,345	4,775,099	5,435,360	5,278,810
4. Cumulative net paid and allocated claim adjustment expenses as of:										
End of policy year	270,765	557,564	787,968	624,011	580,102	554,358	524,312	545,428	840,925	634,824
One year later	920,959	1,778,270	1,211,560	1,264,308	1,250,648	1,053,530	1,241,554	1,195,359	1,750,924	-
Two years later	1,978,040	2,757,846	2,234,344	1,742,187	2,333,252	2,060,045	2,625,140	1,802,007	-	-
Three years later	2,522,837	3,692,117	3,920,781	2,444,958	3,003,044	2,521,064	4,145,523	-	-	-
Four years later	2,825,984	4,277,525	4,214,817	2,852,649	3,378,840	2,731,976	-	-	-	-
Five years later	3,318,976	4,346,264	4,528,970	3,068,040	3,635,590	-	-	-	-	-
Six years later	3,466,442	4,653,646	4,808,304	3,159,779	-	-	-	-	-	-
Seven years later	3,518,823	4,696,293	4,861,574	-	-	-	-	-	-	-
Eight years later	3,546,886	4,707,916	-	-	-	-	-	-	-	-
Nine years later	3,662,862	-	-	-	-	-	-	-	-	-
5. Re-estimated ceded claims and expenses	545,815	1,641,139	992,753	-	(896)	257,749	667,833	54,374	314,477	2,170,538
6. Re-estimated net incurred claims and allocated claim adjustment expenses:										
End of policy year	6,195,401	6,459,279	4,453,949	5,642,385	4,643,996	4,721,996	5,242,345	4,775,099	5,435,360	5,278,810
One year later	5,290,411	5,362,506	4,733,399	4,521,978	4,533,908	4,203,808	4,501,803	4,244,216	5,491,228	-
Two years later	4,691,782	5,152,036	4,611,126	3,616,875	3,904,773	3,604,938	4,432,520	3,319,668	-	-
Three years later	4,021,761	4,811,063	5,062,790	3,383,320	3,595,613	2,834,890	4,469,031	-	-	-
Four years later	3,693,022	4,651,758	5,237,054	3,103,679	3,557,461	2,955,133	-	-	-	-
Five years later	3,611,714	4,569,051	5,113,250	3,252,611	3,689,458	-	-	-	-	-
Six years later	3,971,237	4,887,967	5,124,978	3,165,324	-	-	-	-	-	-
Seven years later	3,856,396	4,747,908	5,072,920	-	-	-	-	-	-	-
Eight years later	3,848,634	4,773,290	-	-	-	-	-	-	-	-
Nine years later	3,865,746	-	-	-	-	-	-	-	-	-
7. (Decrease) increase in estimated net incurred claims and allocated claim adjustment expenses subsequent to initial policy year end	<u>\$ (2,329,655)</u>	<u>\$ (1,685,989)</u>	<u>\$ 618,971</u>	<u>\$ (2,477,061)</u>	<u>\$ (954,538)</u>	<u>\$ (1,766,863)</u>	<u>\$ (773,314)</u>	<u>\$ (1,455,431)</u>	<u>\$ 55,868</u>	<u>\$ -</u>

# Public Entities Pool of Ohio

## Property Claims Development Information

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
1. Required contributions and investment income:										
Earned	\$ 6,070,873	\$ 6,270,981	\$ 6,380,983	\$ 6,094,467	\$ 6,270,466	\$ 6,257,762	\$ 6,910,992	\$ 7,494,153	\$ 7,875,457	\$ 8,425,793
Ceded	<u>1,732,185</u>	<u>1,778,608</u>	<u>1,684,793</u>	<u>1,660,953</u>	<u>1,840,356</u>	<u>1,788,590</u>	<u>2,056,470</u>	<u>1,939,548</u>	<u>1,997,820</u>	<u>2,369,297</u>
Net	4,338,688	4,492,373	4,696,190	4,433,514	4,430,110	4,469,172	4,854,522	5,554,605	5,877,637	6,056,496
2. Expenses other than allocated claim adjustment expenses	2,044,839	2,101,034	2,111,180	2,074,129	2,121,004	2,126,641	2,369,179	2,575,495	2,713,546	2,911,552
3. Estimated claims and allocated claim adjustment expenses - End of policy year:										
Incurred	1,436,969	2,235,674	3,620,911	1,370,215	2,073,021	3,134,553	2,298,094	1,940,649	11,286,757	1,761,534
Ceded	<u>135,684</u>	<u>63,212</u>	<u>507,690</u>	-	-	<u>162,457</u>	-	<u>186,914</u>	<u>8,543,300</u>	<u>15,888</u>
Net	1,301,285	2,172,462	3,113,221	1,370,215	2,073,021	2,972,096	2,298,094	1,753,735	2,743,457	1,745,646
4. Cumulative net paid and allocated claim adjustment expenses as of:										
End of policy year	977,307	1,523,208	2,413,197	1,042,263	1,640,749	2,162,237	1,876,870	1,397,946	2,445,127	1,314,199
One year later	1,323,384	1,609,225	2,682,762	1,327,989	1,945,496	2,736,818	2,246,580	1,758,704	2,719,403	-
Two years later	1,365,074	1,618,131	2,699,177	1,338,607	1,938,011	2,798,329	2,349,919	1,759,449	-	-
Three years later	1,363,341	1,618,283	2,699,152	1,342,717	1,939,385	2,798,931	2,351,411	-	-	-
Four years later	1,363,555	1,619,635	2,699,076	1,341,116	1,939,765	2,821,504	-	-	-	-
Five years later	1,373,951	1,633,669	2,699,076	1,340,241	1,942,188	-	-	-	-	-
Six years later	1,373,960	1,609,564	2,698,876	1,339,586	-	-	-	-	-	-
Seven years later	1,373,960	1,610,062	2,698,826	-	-	-	-	-	-	-
Eight years later	1,373,960	1,610,062	-	-	-	-	-	-	-	-
Nine years later	1,373,960	-	-	-	-	-	-	-	-	-
5. Re-estimated ceded claims and expenses	322,704	108,129	548,799	-	-	200,780	72,410	104,748	8,233,468	15,888
6. Re-estimated net incurred claims and allocated claim adjustment expenses:										
End of policy year	1,301,285	2,172,462	3,113,221	1,370,215	2,073,021	2,972,096	2,298,094	1,753,735	2,743,457	1,745,646
One year later	1,574,819	1,727,990	2,739,948	1,394,248	1,950,689	2,772,519	2,407,993	1,758,704	2,741,609	-
Two years later	1,312,837	1,642,576	2,699,353	1,354,335	1,944,184	2,811,245	2,361,354	1,759,449	-	-
Three years later	1,363,781	1,618,841	2,699,152	1,358,338	1,940,279	2,826,226	2,399,912	-	-	-
Four years later	1,363,671	1,631,893	2,699,076	1,351,037	1,939,052	2,823,006	-	-	-	-
Five years later	1,373,951	1,637,302	2,699,076	1,350,162	1,960,397	-	-	-	-	-
Six years later	1,373,960	1,612,638	2,698,876	1,349,507	-	-	-	-	-	-
Seven years later	1,373,960	1,610,062	2,698,826	-	-	-	-	-	-	-
Eight years later	1,373,960	1,610,062	-	-	-	-	-	-	-	-
Nine years later	1,373,960	-	-	-	-	-	-	-	-	-
7. Increase (decrease) in estimated net incurred claims and allocated claim adjustment expenses subsequent to initial policy year end	<u>\$ 72,675</u>	<u>\$ (562,400)</u>	<u>\$ (414,395)</u>	<u>\$ (20,708)</u>	<u>\$ (112,624)</u>	<u>\$ (149,090)</u>	<u>\$ 101,818</u>	<u>\$ 5,714</u>	<u>\$ (1,848)</u>	<u>\$ -</u>

# Public Entities Pool of Ohio

## Statement of Reconciliation of Claims and Claim Adjustment Expense Reserves by Type of Contract

	Fiscal and Policy Years Ended December 31					
	2015			2014		
	Casualty	Property	Total	Casualty	Property	Total
<b>Claims and Claim Adjustment Expense Reserves -</b>						
Beginning of year	\$ 10,835,692	\$ 347,880	\$ 11,183,572	\$ 11,097,106	\$ 545,470	\$ 11,642,576
<b>Incurred Claims and Claim Adjustment Expenses</b>						
Provision for claims incurred in current year	5,278,810	1,745,646	7,024,456	5,420,122	2,770,349	8,190,471
Change in provision for claims incurred in prior years	(676,249)	54,875	(621,374)	(1,399,622)	(31,567)	(1,431,189)
Total incurred claims and claim adjustment expenses	4,602,561	1,800,521	6,403,082	4,020,500	2,738,782	6,759,282
<b>Payments</b>						
Claims and claim adjustment expenses paid for claims incurred in current year	(634,824)	(1,314,199)	(1,949,023)	(825,688)	(2,472,019)	(3,297,707)
Claims and claim adjustment expenses paid for claims incurred in prior years	(3,789,940)	(301,266)	(4,091,206)	(3,456,226)	(464,353)	(3,920,579)
Total payments	(4,424,764)	(1,615,465)	(6,040,229)	(4,281,914)	(2,936,372)	(7,218,286)
<b>Claims and Claim Adjustment Expense Reserves -</b>						
End of year	<u>\$ 11,013,489</u>	<u>\$ 532,936</u>	<u>\$ 11,546,425</u>	<u>\$ 10,835,692</u>	<u>\$ 347,880</u>	<u>\$ 11,183,572</u>

**Report on Internal Control Over Financial  
Reporting and on Compliance and Other  
Matters Based on an Audit of the Basic  
Financial Statements Performed in  
Accordance with *Government  
Auditing Standards***

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Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Basic Financial Statements  
Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To Management and the Board of Directors  
Public Entities Pool of Ohio

We have audited, 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, the basic financial statements of Public Entities Pool of Ohio (the "Pool") which comprise the basic statement of net position as of December 31, 2015 and the related statements of revenue, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated May 11, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the basic financial statements, we considered Public Entities Pool of Ohio's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pool's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pool's internal control.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Pool's basic financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To Management and the Board of Directors  
Public Entities Pool of Ohio

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Public Entities Pool of Ohio's basic financial statements are free from 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*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Pool's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pool's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Plante & Morse, PLLC*

May 11, 2016





# Dave Yost • Auditor of State

**PUBLIC ENTITIES POOL OF OHIO**

**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 7, 2016**