

Public Entities Pool of Ohio

**Financial Report
with Required Supplemental Schedules
December 31, 2007**



Mary Taylor, CPA
Auditor of State

Board of Directors
Public Entities Pool of Ohio
c/o American Risk Pool Consultants
29621 Northwestern Hwy
P. O. Box 5088
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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, 2007 through December 31, 2007. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 18, 2008

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Public Entities Pool of Ohio

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Independent Auditor's Report

To the Board of Directors
Public Entities Pool of Ohio

We have audited the accompanying financial statements of the business-type activities of the Public Entities Pool of Ohio as of and for the years ended December 31, 2007 and 2006, which collectively comprise the Pool's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Public Entities Pool of Ohio's management. Our responsibility is to express opinions 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Public Entities Pool of Ohio at December 31, 2007 and 2006 and the respective changes in its financial position, including cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, casualty claims development information, and property claims development information, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Directors
Public Entities Pool of Ohio

Our audits were conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the Public Entities Pool of Ohio's basic financial statements. The accompanying casualty claims development information and property claims development information, as identified in the table of contents, are not a required part of the basic financial statements. The required supplemental information is information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2008 on our consideration of the Public Entities Pool of Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Plante & Moran, PLLC

May 21, 2008

Public Entities Pool of Ohio

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of the statement of net assets, the statement of revenue, expenses, and changes in net assets, and the statement of cash flows. Along with the notes, they provide detailed financial information concerning the Public Entities Pool of Ohio (the "Pool"). This section, the management's discussion and analysis, is intended to provide an overview of the Pool's financial condition, result of operations, and other key information. In analyzing the Pool's financial position, it is important to recognize the mission of the Pool. From a financial perspective, the Pool's general objective is to manage and fund third-party liability claims, as well as first-party property claims.

Financial Highlights

The Pool's net assets as of December 31, 2007 and 2006 are \$20,219,246 and \$19,384,290, respectively. This represents an increase of \$834,956, or 4.30 percent from 2006 to 2007. The increase in net assets results from operating income of \$37,880, member capitalization of \$990,813, less member distributions of \$193,737. The Pool maintains a member annual contribution to net assets ratio of 0.47:1 and 0.48:1 at December 31, 2007 and 2006, respectively. Annual premiums written to surplus ratio is a commonly used insurance industry benchmark. A ratio of less than 1:1 is considered very good. The Pool's member contributions are equivalent to industry premiums written, and net assets are equivalent to surplus.

There was an increase in total revenue in 2007 of \$1,460,198, or 14.4 percent, to \$11,594,590 in 2007 from \$10,134,392 in 2006. This was primarily due to an increase in net realized and unrealized gains and losses on investments of \$617,637. There was also an increase in investment earnings of \$139,679, reinsurance premiums ceded of (\$280,369), member contributions - operating as noted below, and contributions that will be billed in the future to pay unpaid claims. Contributions that will be billed in the future to pay unpaid claims increased by \$551,616. This represents amounts due from members which have not been billed to members and will be billed and collected, from the existing members, in the future when the estimated incurred claims, loss adjustment expenses, and related administrative expenses for each policy year are anticipated to be paid.

Member contributions - operating are derived from member contributions for risk-sharing protection, and are estimated and recognized using a variety of actuarial and statistical techniques. Total member contributions - operating increased 3.4 percent, or \$431,835, to \$13,003,695 in 2007 from \$12,571,860 in 2006. These contributions reflect the amount contributed by members for payment of incurred claims, claim adjustment expenses, and related administrative expenses for each policy year. In addition, members, as further detailed in Note I on pages 12 and 13 to the financial statements, are required to provide capitalization contributions for the establishment of a cumulative reserve fund as detailed in the contract between the member and the Pool. These contributions are reflected separately in the statement of revenue, expenses, and changes in net assets and totaled \$990,813 and \$1,177,105 for the years ended December 31, 2007 and 2006, respectively.

Public Entities Pool of Ohio

Management's Discussion and Analysis (Continued)

The claims and claim adjustment expense reserves increased 6.3 percent, or \$993,813, to \$15,886,587 in 2007 from \$14,952,774 in 2006. Claims and claim adjustment expense reserves represent an estimate of the ultimate cost of claims, including claims that have been reported but not settled and of claims that have been incurred but not reported. Claim payments and reserves can change significantly from period to period because the ultimate amount paid for claims is dependent on the frequency of claims as well as other events, such as jury decisions, court interpretations, and legislative changes. The reserves are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claim costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claim reserves are charged to expense in the periods in which they are made.

To reduce the Pool's exposure to large specific property and casualty claims, the Pool maintains excess claim contracts to recover specified property and casualty claim losses in excess of Pool retention in the contract.

General and administrative expenses increased 0.19 percent, or \$8,225, to \$4,243,281 in 2007 from \$4,235,056 in 2006.

Public Entities Pool of Ohio

Management's Discussion and Analysis (Continued)

Financial Overview

Approximately 51.9 percent in 2007, 52.5 percent in 2006, and 50.4 percent in 2005 of the assets consist of cash, cash equivalents, and investments. Approximately 91.6 percent in 2007, 89.3 percent in 2006, and 87.7 percent in 2005 of total liabilities consist of reserves for claims.

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

	2007	2006	2005
Assets			
Cash and cash equivalents	\$ 1,742,778	\$ 2,453,017	\$ 1,412,850
Investment securities - At fair value	17,755,238	16,502,867	15,805,971
Member contributions to be billed in the future	15,033,513	14,416,914	14,351,931
Other assets	3,028,542	2,750,396	2,592,255
Total assets	<u><u>\$ 37,560,071</u></u>	<u><u>\$ 36,123,194</u></u>	<u><u>\$ 34,163,007</u></u>
Liabilities			
Claims and claim adjustment expense reserves	\$ 15,886,587	\$ 14,952,774	\$ 14,970,915
Unearned premium reserves	844,306	1,173,809	1,380,426
Other liabilities	609,932	612,321	711,072
Total liabilities	17,340,825	16,738,904	17,062,413
Net Assets - Unrestricted	<u>20,219,246</u>	<u>19,384,290</u>	<u>17,100,594</u>
Total liabilities and net assets	<u><u>\$ 37,560,071</u></u>	<u><u>\$ 36,123,194</u></u>	<u><u>\$ 34,163,007</u></u>

Public Entities Pool of Ohio

Management's Discussion and Analysis (Continued)

Financial Overview (Continued)

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

	2007	2006	2005
Revenue			
Member contributions - Operating	\$ 13,003,695	\$ 12,571,860	\$ 11,822,841
Reinsurance premiums ceded	(3,489,982)	(3,209,413)	(3,037,356)
Contributions that will be billed in the future to pay unpaid claims	616,599	64,983	2,307,833
Investment earnings - Interest and dividends	941,126	801,447	704,868
Net realized and unrealized gains and (losses) on investments	<u>523,152</u>	<u>(94,485)</u>	<u>(430,882)</u>
Total revenue	11,594,590	10,134,392	11,367,304
Expenses			
Provision for claims	7,313,429	4,721,046	7,998,924
Operating expenses	<u>4,243,281</u>	<u>4,235,056</u>	<u>3,958,765</u>
Total expenses	<u>11,556,710</u>	<u>8,956,102</u>	<u>11,957,689</u>
Excess of Revenue Over (Under) Expenses	37,880	1,178,290	(590,385)
Member Distributions - Capitalization	(193,737)	(71,699)	(265,768)
Contributions - Capitalization - Cumulative Reserve Fund	<u>990,813</u>	<u>1,177,105</u>	<u>1,291,417</u>
Total Increase in Net Assets	<u><u>\$ 834,956</u></u>	<u><u>\$ 2,283,696</u></u>	<u><u>\$ 435,264</u></u>

Public Entities Pool of Ohio

Statement of Net Assets

	December 31	
	2007	2006
Assets		
Current Assets		
Cash and cash equivalents (Note 3)	\$ 1,742,778	\$ 2,453,017
Claims service imprest fund	46,818	(61,229)
Member contributions receivable	1,655,056	1,666,100
Accrued investment income	248,679	257,100
Deductible receivable	24,789	-
Reinsurance receivable on paid claims (Note 5)	902,060	737,285
Claims escrow fund	151,140	151,140
Member contributions to be billed in the future	<u>4,850,000</u>	<u>4,350,000</u>
Total current assets	9,621,320	9,553,413
Investment Securities (Note 3)	17,755,238	16,502,867
Member Contributions to be Billed in the Future	<u>10,183,513</u>	<u>10,066,914</u>
Total assets	<u>\$ 37,560,071</u>	<u>\$ 36,123,194</u>
Liabilities and Net Assets		
Liabilities		
Current liabilities:		
Claims and claim adjustment expense reserves (Note 4)	\$ 5,703,074	\$ 4,885,860
Reinsurance premiums payable (Note 5)	115,725	117,246
Accounts payable and accrued expenses	<u>494,207</u>	<u>495,075</u>
Total current liabilities	6,313,006	5,498,181
Long-term liabilities:		
Claims and claim adjustment expense reserves (Note 4)	10,183,513	10,066,914
Unearned premium reserves	<u>844,306</u>	<u>1,173,809</u>
Total liabilities	17,340,825	16,738,904
Net Assets - Unrestricted	<u>20,219,246</u>	<u>19,384,290</u>
Total liabilities and net assets	<u>\$ 37,560,071</u>	<u>\$ 36,123,194</u>

Public Entities Pool of Ohio

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended December 31	
	2007	2006
Revenue		
Member contributions - Operating	\$ 13,003,695	\$ 12,571,860
Reinsurance premiums ceded (Note 5)	(3,489,982)	(3,209,413)
Contributions that will be billed in the future to pay unpaid claims	616,599	64,983
Investment earnings - Interest and dividends	941,126	801,447
Net realized and unrealized gains and losses on investments	523,152	(94,485)
Total revenue	11,594,590	10,134,392
Claims and Claim Adjustment Expenses (Note 4)		
Paid	7,781,414	6,611,519
Recoveries	(1,325,792)	(1,678,473)
Increase (decrease) in claims and claim adjustment expense reserves	857,807	(212,000)
Total claims and claim adjustment expenses	7,313,429	4,721,046
Excess of Revenue Over Claims and Claim Adjustment Expenses	4,281,161	5,413,346
Expenses		
Marketing and administrator fees	3,725,474	3,733,797
Other	517,807	501,259
Total expenses	4,243,281	4,235,056
Excess of Revenue Over Claims and Claim Adjustment Expenses and Expenses	37,880	1,178,290
Member Distributions - Capitalization (Note 6)	(193,737)	(71,699)
Contributions - Capitalization - Cumulative Reserve Fund	990,813	1,177,105
Increase in Net Assets	834,956	2,283,696
Net Assets - Beginning of year	19,384,290	17,100,594
Net Assets - End of year	\$ 20,219,246	\$ 19,384,290

Public Entities Pool of Ohio

Statement of Cash Flows

	Year Ended December 31	
	2007	2006
Cash Flows from Operating Activities		
Cash received from members	\$ 13,011,760	\$ 12,566,593
Cash received from excess insurance carriers	1,325,792	1,678,473
Cash paid for claims	(7,838,244)	(6,170,442)
Cash paid for reinsurance premiums	(3,656,278)	(3,698,522)
Cash paid for administrative and general expenses	(4,244,149)	(4,214,303)
Net cash (used in) provided by operating activities	(1,401,119)	161,799
Cash Flows from Investing Activities		
Investment income received	949,547	743,294
Purchase of investments	(3,952,536)	(13,410,677)
Proceeds from sales and maturities of investments	3,223,317	12,619,296
Net cash provided by (used in) investing activities	220,328	(48,087)
Cash Flows from Noncapital Financing Activities		
Receipts from members - Cumulative Reserve Fund	664,289	998,154
Payments for member withdrawals - Capitalization	(193,737)	(71,699)
Net cash provided by noncapital financing activities	470,552	926,455
Net (Decrease) Increase in Cash and Cash Equivalents	(710,239)	1,040,167
Cash and Cash Equivalents - Beginning of year	2,453,017	1,412,850
Cash and Cash Equivalents - End of year	<u>\$ 1,742,778</u>	<u>\$ 2,453,017</u>

Public Entities Pool of Ohio

Statement of Cash Flows (Continued)

A reconciliation of excess of revenue over claims and claim adjustment expenses and expenses to net cash from operating activities is as follows:

	Year Ended December 31	
	2007	2006
Excess of revenue over claims and claim adjustment expenses and expenses	\$ 37,880	\$ 1,178,290
Adjustments to reconcile excess of revenue over claims and claim adjustment expenses and expenses to net cash from operating activities:		
Investment earnings	(941,126)	(801,447)
Net realized and unrealized (gains) losses on investments	(523,152)	94,485
(Increase) decrease in assets:		
Claims servicer imprest fund	(108,047)	216,700
Member contributions receivable	8,065	(5,267)
Deductible receivable	(24,789)	30,518
Reinsurance receivable on paid claims	(164,775)	(369,605)
Member contributions to be billed in the future	(616,599)	(64,983)
Increase (decrease) in liabilities:		
Claims and claim adjustment expense reserves	933,813	(18,141)
Reinsurance premiums payable	(1,521)	(119,504)
Accounts payable and accrued expenses	(868)	20,753
Net cash (used in) provided by operating activities	<u>\$ (1,401,119)</u>	<u>\$ 161,799</u>

Public Entities Pool of Ohio

Notes to Financial Statements December 31, 2007 and 2006

Note 1 - Description of the Organization

Public Entities Pool of Ohio (the "Pool") was created in 1987 and organized under the laws of the State of Ohio as a governmental group property and casualty self-insurance pool. A total of 443 governmental entities within the state of Ohio participate in the Pool. The Pool was formed for the primary purpose of managing third-party liability claims against its members. Members agree to continue membership in the Pool for a period of not less than one full year. At the conclusion of such period, or anniversary thereof, a member who has given 60 days' prior written notice to the Pool may withdraw. Upon withdrawal, payments for all 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. Members withdrawing within the first six years of Pool membership may receive a partial refund of their capitalization contributions described below. The amounts of such refunds are defined by contract and correspond to the length of their membership.

American Risk Pooling Consultants, Inc. (ARPCO) functions as the administrator of the Pool. The duties of the administrator are defined in an administrative agreement between ARPCO and the Pool and generally include those powers and duties necessary and incident to managing the operations of the Pool. Pursuant to separate agreements between ARPCO and the respective contractors, Burnham and Flower Agency of Ohio, Inc. (BFA) and Wells Fargo Insurance Services of Ohio provide marketing, underwriting, billing, and collection services. Crawford and Company (Crawford) provided claim services until July 2007. Public Entity Risk Services of Ohio (PERSO), an affiliate of ARPCO through common ownership, provides loss control and claim services. ARPCO, BFA, and Wells Fargo Insurance Services of Ohio are compensated by contract for their respective services based on percentages of the members' casualty basis rates and casualty excess and property contributions. Crawford and PERSO are compensated on a time-and-expense basis. The Association of Ohio Health Commissioners (AOHC) and the Ohio Parks and Recreation Association (OPRA) support and promote the Pool. AOHC and OPRA are compensated on their respective services based on percentages of the members' casualty basis rates.

Public Entities Pool of Ohio

Notes to Financial Statements December 31, 2007 and 2006

Note 1 - Description of the Organization (Continued)

The Pool provides the following self-insurance programs for public entities:

Casualty

Members' casualty contributions to the Pool fund current operations and provide additional capital as defined by contract. Annual operating contributions are those amounts necessary to fund the Pool's general and administrative expenses, claims and claims expenses, and reinsurance expenses due and payable in the current year, plus any deficiency in the required capitalization contributions. Each member is required to provide capitalization contributions for the establishment of a cumulative reserve fund. Capitalization contributions are payable to the Pool in six annual installments as detailed below:

	<u>Percent of Basis Rate</u>
Initial contribution	100
First anniversary	75
Second anniversary	50
Third anniversary	30
Fourth anniversary	25
Fifth anniversary	20

Subsequent to the fifth anniversary, additional capitalization contributions will be required only if the Pool's board of directors determines that such contributions are necessary to maintain capital equal to 300 percent of the total current members' basis rate, or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

"Basis rate" is that amount annually promulgated by the administrator of the Pool deemed necessary to provide the scope of coverage afforded to a member for the period of one year, with due consideration to the member's individual risk characteristics.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of casualty claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total net assets plus any reinsurance and excess risk-sharing recoveries (see Note 5), then payment of such claims shall be the obligation of the respective individual member.

Public Entities Pool of Ohio

Notes to Financial Statements December 31, 2007 and 2006

Note 1 - Description of the Organization (Continued)

Property

The Pool also provides various property coverages, which are common to public entities. Members' property contributions to the Pool consist of those amounts necessary to fund the Pool's general and administrative expenses, reinsurance expenses, current year claims and claims expenses for property risks, plus all or any portion of any deficiencies which may occur in the property Cumulative Reserve Fund, and the Pool's obligation to satisfy the requirements of any regulatory authority. For the period from April 1, 1997 through December 31, 2004, the Pool participated in a nonrisk-sharing property program established by American Public Entity Excess Pool (APEEP). Effective January 1, 2005, this program was replaced by a new risk-sharing program also established by APEEP (see Note 5).

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation - The basic financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. The Pool prepares its financial statements in accordance with Governmental Accounting Standards Board (GASB) pronouncements, Financial Accounting Standards Board (FASB) and predecessor boards' pronouncements issued on or before November 30, 1989, and all FASB pronouncements issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

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

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

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.

Claims and Claim Adjustment Expense Reserves - Claims and claim adjustment expense reserves represent the estimated liability for unpaid claims and related claims expenses from reported claims and claims incurred but not reported. Changes to estimates are currently reflected in the statement of revenue, expenses, and changes in net assets.

Note 2 - Summary of Significant Accounting Policies (Continued)

Capitalization Contributions - Casualty capitalization contributions are accounted for under the provisions of GASB's 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 a six-year period - the period over which a member makes 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 and recognized using a variety of actuarial and statistical techniques and reflect the amount to be contributed by members for payment of incurred claims, claim adjustment expenses, and related administrative expenses for each policy year. Member contributions to be billed in the future represent amounts due from members which have not been billed to members and will be billed and collected, from the existing members, in the future when the estimated incurred claims, loss adjustment expenses, and related administrative expenses for each policy year are anticipated to be paid.

Use of Estimates - Management of the Pool 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 assets date and the amounts of revenue and expenses during the reporting period, 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.

Reclassifications - Certain reclassifications have been made to prior year amounts to conform to the current year presentation. Such reclassifications had no impact on the change in net assets.

Public Entities Pool of Ohio

Notes to Financial Statements December 31, 2007 and 2006

Note 3 - Deposits and Investments

The Pool designated Fifth Third Bank and Star Ohio for the deposit of its funds and handling the investments for the Pool.

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 - 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 Pool maintains balances in its deposit accounts to adequately cover current operating and claims payment expenses, and as a result, generally requires balances that exceed the FDIC insurance limits of \$100,000. At December 31, 2007, the Pool's deposit balance of \$837,607 had bank deposits (checking and savings accounts) of \$737,607 that were uninsured and uncollateralized. At December 31, 2006, the Pool's deposit balance of \$947,903 had bank deposits (checking and savings accounts) of \$847,903 that were uninsured and uncollateralized. The Pool believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

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. The Pool's investment policy restricts the maximum maturity for any one issue to no more than 10 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, 2007, the average maturities of investments are as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
U.S. Treasury securities	\$ 7,139,352	6.16
U.S. agencies and pass-throughs	<u>10,615,886</u>	2.70
Total fair value	<u>\$ 17,755,238</u>	
Portfolio weighted average maturity		<u>4.09</u>

Public Entities Pool of Ohio

Notes to Financial Statements December 31, 2007 and 2006

Note 3 - Deposits and Investments (Continued)

At December 31, 2006, the average maturities of investments are as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
U.S. Treasury securities	\$ 5,647,662	4.78
U.S. agencies and pass-throughs	<u>10,855,205</u>	3.59
Total fair value	<u>\$ 16,502,867</u>	
Portfolio weighted average maturity		<u>3.99</u>

Credit Risk - Credit risk is the risk that an issuer to an investment will not fulfill its obligations. In accordance with the Pool's investment policy, the Pool may invest in U.S. government securities and U.S. Treasury obligation funds. At December 31, 2007 and 2006, the Pool only held investments in U.S. government securities.

Concentration of Credit Risk - The Pool has two U.S. agencies and pass-through securities, totaling \$2,201,088, that individually exceed 5 percent of the Pool's total investments at December 31, 2007. The Pool had seven U.S. agencies and pass-through securities, totaling \$6,423,513, that individually exceeded 5 percent of the Pool's total investments at December 31, 2006.

Note 4 - Claims and Claim Adjustment Expense Reserves

The Pool establishes claim reserves based upon estimates of the ultimate cost of claims, including future claim adjustment expenses related to claims that have been reported but not settled and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the type of coverage involved.

Claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claim costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claim reserves are charged to expense in the periods in which they are made.

Public Entities Pool of Ohio

Notes to Financial Statements December 31, 2007 and 2006

Note 4 - Claims and Claim Adjustment Expense Reserves (Continued)

Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in estimating claim liabilities does not necessarily result in an exact amount, particularly for coverage such as third-party liability. While management believes that the reserves for claims and claim adjustment expenses make a reasonable provision to cover the ultimate claims, such estimates may be more or less than the amounts ultimately paid when the claims are settled, because of the inherent uncertainty of the evaluation process.

The following summarizes changes in claims and claims adjustment expense reserves for the years ended December 31, 2007 and 2006:

	2007	2006
Claims and Claim Adjustment Expense Reserves - Beginning of year	\$ 14,952,774	\$ 14,970,915
Change in reinsurance recoverable	76,006	193,859
Net claims and claim adjustment expense reserves - Beginning of year	15,028,780	15,164,774
Incurred Claims and Claim Adjustment Expenses		
Provision for claims incurred in current year	8,631,741	7,496,686
Decrease in provision for claims incurred in prior years	(1,318,312)	(2,775,640)
Total incurred claims and claim adjustment expenses	7,313,429	4,721,046
Payments		
Claims and claims expenses paid for claims incurred in current year	(2,185,750)	(1,307,889)
Claims and claims expenses paid for claims incurred in prior years	(4,269,872)	(3,625,157)
Total payments	(6,455,622)	(4,933,046)
Claims and Claim Adjustment Expense Reserves - End of year	<u>\$ 15,886,587</u>	<u>\$ 14,952,774</u>

Public Entities Pool of Ohio

Notes to Financial Statements December 31, 2007 and 2006

Note 5 - Reinsurance and Excess Risk-sharing Agreements

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to loss. 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.

The Pool is a member of APEEP, which is also administered by ARPCO. APEEP provides a casualty excess risk-sharing pooling arrangement and provides an excess risk-sharing property program for its member pool ("Members"), all of which are public entity group risk-sharing pools similar in nature to the Pool. The Pool makes annual casualty and property operating and casualty capitalization contributions to APEEP.

Casualty

The Pool contributes 9 percent per year of its annual basis rate to APEEP as a capitalization contribution until total contributions reach 35 percent of the Pool's annual basis rate, then 5 percent per year of its annual basis rate until total contributions reach 50 percent of the Pool's annual basis rate. Once a member pool reaches the initial requirement for establishing its Cumulative Reserve Fund at 50 percent of its current basis rate, future annual contributions will be limited to 20 percent of the difference between the increase in 50 percent of the member pool's current annual basis rate and its respective balance in its Cumulative Reserve Fund. If 50 percent of the current annual basis rate is less than the balance in the Cumulative Reserve Fund, APEEP will reimburse the difference to the Pool. The Pool contributed 3.10 percent of its basis rate in 2007 and 4.43 percent in 2006. In the event APEEP's Cumulative Reserve Fund is exhausted, the Pool is required to contribute up to 40 percent of its then-existing balance of cumulative capitalization contributions, including investment earnings thereon, to cure such deficit. At December 31, 2007, the maximum such contribution approximates \$5,469,600 and has not been reflected in the accompanying financial statements.

Public Entities Pool of Ohio

Notes to Financial Statements December 31, 2007 and 2006

Note 5 - Reinsurance and Excess Risk-Sharing Agreements (Continued)

For an occurrence prior to January 1, 2006, the Pool retains casualty risks up to \$250,000 per occurrence, including loss adjustment expenses. Claims exceeding \$250,000 are reinsured with APEEP in an amount not to exceed \$1,750,000 for each claim and \$10,000,000 in aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risks up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in aggregate per year. For members requiring specific excess coverage from \$2,000,000 to \$12,000,000 for claims that occurred prior to January 1, 2006, or from \$3,000,000 to \$13,000,000 for claims occurring on or after January 1, 2006, such excess coverage is reinsured with General Reinsurance Corporation, through contracts with the Pool. In the event a series of retained claims exhausts the Pool's total funds available to pay loss within the Pool's retention, APEEP provides "excess of funds available" coverage up to \$5,000,000, subject to the annual aggregate limit of \$10,000,000. Premiums ceded to reinsurance carriers during the years ended December 31, 2007 and 2006 for casualty risks totaled \$1,711,374 and \$1,477,228, respectively, and the amounts deducted from claims and claim expense reserves as of December 31, 2007 and 2006 for reinsurance was approximately \$3,492,000 and \$1,197,000, respectively.

Property

On January 1, 2005, APEEP established a risk-sharing property program. Under the new program, Travelers will reinsure specific losses in excess of \$250,000 up to \$600,000,000 per occurrence. This amount was increased to \$300,000 in 2007. APEEP will reinsure members for specific losses in excess of \$100,000 up to \$300,000 per occurrence, subject to an annual aggregate loss payment. For 2006, APEEP will reinsure members for specific losses in excess of \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined Members' Total Insurable Value (TIV). If the stop-loss is reached by payment of losses between \$100,000, and \$300,000, Travelers will then reinsure specific losses in excess of \$100,000, up to their \$600,000,000 per occurrence limit. The aggregate stop-loss limit for 2007 and 2006 was \$2,014,547 and \$1,901,127, respectively. Premiums ceded to reinsurance carriers during the years ended December 31, 2007 and 2006 for property risks totaled \$1,778,608 and \$1,732,185, respectively, and the amounts deducted from claims and claim expense reserves as of December 31, 2007 and 2006 for reinsurance was \$29,871 and \$105,877, respectively.

Public Entities Pool of Ohio

Notes to Financial Statements December 31, 2007 and 2006

Note 6 - Member Withdrawals

Sixteen members withdrew from the Pool in 2007, while 10 members withdrew in 2006. In accordance with the intergovernmental contract, these withdrawals resulted in transfers to operations of \$178,788 in 2007 and \$57,300 in 2006, as well as refunds of \$14,949 in 2007 and \$14,399 in 2006. Upon withdrawal, these members became responsible for all of their respective unpaid casualty claims, both reported and unreported.

Required Supplemental Schedules

Public Entities Pool of Ohio

Casualty Claims Development Information

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1. Required contributions (Note A) and investment income:										
Earned	\$ 3,843,953	\$ 3,425,617	\$ 4,250,906	\$ 4,844,168	\$ 5,263,310	\$ 7,176,052	\$ 8,541,591	\$ 9,790,653	\$ 9,242,128	\$ 10,484,558
Ceded	<u>381,151</u>	<u>195,721</u>	<u>433,984</u>	<u>602,355</u>	<u>1,005,505</u>	<u>969,731</u>	<u>1,005,564</u>	<u>1,118,407</u>	<u>971,045</u>	<u>1,129,436</u>
Net	3,462,802	3,229,896	3,816,922	4,241,813	4,257,805	6,206,321	7,536,027	8,672,246	8,271,083	9,355,122
2. Expenses other than allocated claim adjustment expenses	851,594	883,603	1,036,575	1,212,385	1,424,566	1,717,800	1,969,295	2,019,343	2,190,216	2,142,248
3. Estimated claims and allocated claim adjustment expenses, end of policy year:										
Incurred	2,521,244	2,002,706	2,569,862	2,851,939	3,012,358	4,516,485	5,824,853	6,777,375	6,208,460	8,567,574
Ceded	<u>317,710</u>	<u>108,543</u>	<u>265,216</u>	<u>380,024</u>	<u>705,575</u>	<u>604,226</u>	<u>825,668</u>	<u>675,873</u>	<u>652,684</u>	<u>2,108,295</u>
Net	2,203,534	1,894,163	2,304,646	2,471,915	2,306,783	3,912,259	4,999,185	6,101,502	5,555,776	6,459,279
4. Cumulative net paid and allocated claim adjustment expenses as of:										
End of policy year	121,162	174,054	293,585	221,993	193,812	326,409	331,445	336,004	281,162	556,920
One year later	429,756	389,660	536,736	519,223	768,701	821,296	1,438,545	963,477	914,494	-
Two years later	1,033,268	892,849	936,193	967,563	1,473,559	1,843,139	2,918,464	2,313,606	-	-
Three years later	1,350,498	1,358,926	1,427,917	1,318,010	2,409,468	2,233,241	3,862,172	-	-	-
Four years later	1,964,314	1,503,863	1,867,009	1,689,011	2,710,312	2,968,765	-	-	-	-
Five years later	2,098,837	1,629,823	1,902,912	1,734,738	2,792,972	-	-	-	-	-
Six years later	2,175,669	1,636,013	1,932,182	1,747,405	-	-	-	-	-	-
Seven years later	2,197,340	1,693,977	2,121,248	-	-	-	-	-	-	-
Eight years later	2,208,235	1,660,740	-	-	-	-	-	-	-	-
Nine years later	2,261,580	-	-	-	-	-	-	-	-	-
5. Reestimated ceded claims and expenses	1,119,362	479	588,488	4,251	1,724,041	1,036,630	555,029	412,184	305,083	2,108,295
6. Reestimated net incurred claims and allocated claim adjustment expenses:										
End of policy year	2,203,534	1,894,163	2,304,646	2,471,915	2,306,783	3,912,259	4,999,185	6,101,502	6,195,401	6,459,279
One year later	2,046,097	1,532,856	2,072,908	2,408,369	4,058,652	3,972,338	6,029,618	4,514,686	5,290,411	-
Two years later	2,315,359	2,163,281	1,975,416	2,122,657	4,077,450	3,883,249	5,400,328	4,587,149	-	-
Three years later	2,428,350	1,864,790	2,648,003	2,156,421	3,729,438	3,527,152	4,735,937	-	-	-
Four years later	2,393,831	1,816,266	2,350,490	1,942,781	3,409,456	3,456,843	-	-	-	-
Five years later	2,252,480	1,775,440	2,065,076	1,781,453	3,465,831	-	-	-	-	-
Six years later	2,322,752	1,715,785	2,178,480	1,771,492	-	-	-	-	-	-
Seven years later	2,313,380	1,800,363	2,270,892	-	-	-	-	-	-	-
Eight years later	2,284,635	1,909,739	-	-	-	-	-	-	-	-
Nine years later	2,284,741	-	-	-	-	-	-	-	-	-
7. Increase (decrease) in estimated net incurred claims and allocated claim adjustment expenses subsequent to initial policy year end	<u>\$ 81,207</u>	<u>\$ 15,576</u>	<u>\$ (33,754)</u>	<u>\$ (700,423)</u>	<u>\$ 1,159,048</u>	<u>\$ (455,416)</u>	<u>\$ (263,248)</u>	<u>\$ (1,514,353)</u>	<u>\$ (265,365)</u>	<u>\$ -</u>

Note A - Required contributions are the aggregate of that year's estimate of ultimate claims, plus the cost of excess reinsurance and general and administrative expenses paid or payable for that year.

Public Entities Pool of Ohio

Property Claims Development Information

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1. Required contributions (Note A) and investment income:										
Earned	\$ 3,995,194	\$ 936,578	\$ 933,702	\$ 1,520,027	\$ 1,974,248	\$ 2,957,385	\$ 3,268,960	\$ 4,088,857	\$ 3,544,741	\$ 4,473,610
Ceded	<u>254,715</u>	<u>127,532</u>	<u>55,933</u>	<u>43,869</u>	<u>30,000</u>	<u>48,840</u>	<u>41,685</u>	<u>35,861</u>	<u>135,684</u>	<u>63,212</u>
Net	3,740,479	809,046	877,769	1,476,158	1,944,248	2,908,545	3,227,275	4,052,996	3,409,057	4,410,398
2. Expenses other than allocated claim adjustment expenses	316,226	360,815	499,691	696,324	994,286	1,523,590	1,753,670	1,939,413	2,044,839	2,101,034
3. Estimated claims and allocated claim adjustment expenses, end of policy year:										
Incurred	671,547	557,650	405,034	790,067	962,124	1,362,775	1,470,644	1,994,163	1,436,969	2,235,674
Ceded	<u>229,654</u>	<u>127,532</u>	<u>55,933</u>	<u>43,869</u>	<u>30,000</u>	<u>48,840</u>	<u>41,685</u>	<u>35,861</u>	<u>135,684</u>	<u>63,212</u>
Net	441,893	430,118	349,101	746,198	932,124	1,313,935	1,428,959	1,958,302	1,301,285	2,172,462
4. Cumulative net paid and allocated claim adjustment expenses as of:										
End of policy year	332,880	259,716	308,496	655,623	676,670	933,227	1,127,495	1,368,860	1,026,727	1,628,830
One year later	355,462	310,510	360,880	701,424	1,052,790	1,185,243	1,525,672	2,255,335	1,552,770	-
Two years later	355,491	310,375	440,788	783,172	1,057,117	1,237,688	1,484,222	2,118,856	-	-
Three years later	358,136	308,579	520,318	783,172	1,045,376	1,239,072	1,483,134	-	-	-
Four years later	358,341	422,910	520,318	783,172	1,045,461	1,239,270	-	-	-	-
Five years later	285,537	422,910	518,830	783,172	1,045,461	-	-	-	-	-
Six years later	285,537	422,910	518,830	783,172	-	-	-	-	-	-
Seven years later	285,537	422,910	518,830	-	-	-	-	-	-	-
Eight years later	285,537	422,910	-	-	-	-	-	-	-	-
Nine years later	285,537	-	-	-	-	-	-	-	-	-
5. Reestimated ceded claims and expenses	418,689	219,227	127,649	64,855	279,487	239,250	258,200	35,861	135,684	63,212
6. Reestimated net incurred claims and allocated claim adjustment expenses:										
End of policy year	441,893	430,118	349,101	746,198	932,124	1,313,935	1,428,959	1,958,302	1,301,285	2,172,462
One year later	387,659	363,385	491,846	718,281	1,057,055	1,243,278	1,607,797	2,326,263	1,574,819	-
Two years later	359,974	311,357	441,665	783,172	1,057,117	1,249,179	1,515,729	2,137,103	-	-
Three years later	359,700	309,027	520,318	783,172	1,045,376	1,239,072	1,502,292	-	-	-
Four years later	358,341	422,910	520,318	783,172	1,045,461	1,239,270	-	-	-	-
Five years later	285,537	422,910	518,830	783,172	1,045,461	-	-	-	-	-
Six years later	285,537	422,910	518,830	783,172	-	-	-	-	-	-
Seven years later	285,537	422,910	518,830	-	-	-	-	-	-	-
Eight years later	285,537	422,910	-	-	-	-	-	-	-	-
Nine years later	285,537	-	-	-	-	-	-	-	-	-
7. Increase (decrease) in estimated net incurred claims and allocated claim adjustment expenses subsequent to initial policy year end	<u>\$ (156,356)</u>	<u>\$ (7,208)</u>	<u>\$ 169,729</u>	<u>\$ 36,974</u>	<u>\$ 113,337</u>	<u>\$ (74,665)</u>	<u>\$ 73,333</u>	<u>\$ 178,801</u>	<u>\$ 273,534</u>	<u>\$ -</u>

Note A - Required contributions are the aggregate of that year's estimate of ultimate claims, plus the cost of excess reinsurance and general and administrative expenses paid or payable for that year.

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

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

To the Board of Directors
Public Entities Pool of Ohio

We have audited the financial statements of the Public Entities Pool of Ohio as of and for the year ended December 31, 2007 and have issued our report thereon dated May 21, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

To the Board of Directors
Public Entities Pool of Ohio

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the board of directors, members, management, and the Auditor of State Mary Taylor and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

May 21, 2008



Mary Taylor, CPA
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
JULY 15, 2008**