

Public Entities Pool of Ohio

Financial Report
with Required Supplemental Schedules
December 31, 2009



Mary Taylor, CPA
Auditor of State

Board of Trustees
Public Entities Pool of Ohio
C/O American Risk Pool Consultants
29200 Northwestern Highway, Suite 300
P.O. Box 5088
Southfield, MI 48084

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, 2009 through December 31, 2009. 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 17, 2010

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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 (the "Pool") as of and for the years ended December 31, 2009 and 2008, 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 Pool's board of directors and the Pool's administrator, American Risk Pooling Consultants, Inc. ("ARPCO" or "Management"). 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 *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 Pool at December 31, 2009 and 2008 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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2010 on our consideration of 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Plante & Moran, PLLC

June 4, 2010

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 to the financial statements, they provide detailed financial information concerning Public Entities Pool of Ohio (the "Pool" or "PEP"). The management's discussion and analysis (MD&A) provides a review of the Pool's operating results for the years 2007 through 2009, as well as its financial condition at December 31, 2009, 2008, and 2007. The MD&A should be read in conjunction with the 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 provides them with an alternative to traditional insurance. PEP also 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 447 members today.

The growth and success of pooling are 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.

The PEP website provides members with information on news and events and contains links to valuable resources including a comprehensive online loss control library with over 10,000 multi-media risk management tools.

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

American Risk Pooling Consultants, Inc. ("ARPCO" or "Management"), a division of York Insurance Services Group, Inc. (York), functions as the administrator of the Pool and provides underwriting, claims, loss control, risk management, and reinsurance services for the Pool. ARPCO has a staff of highly experienced attorneys and other professionals who have specialized in providing insurance-related services to governmental authorities for over two decades. York is a national provider of claims-handling, specialized loss adjusting, and other related services to governmental authorities throughout the United States of America.

Financial Overview and Highlights

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

	2009	2008	2007
Assets			
Cash and cash equivalents	\$ 2,568,871	\$ 1,890,241	\$ 1,742,778
Investment securities - At fair value	18,216,571	18,661,696	17,755,238
Member contributions to be billed in the future	13,658,715	12,940,981	15,033,513
Other assets	1,930,741	2,276,617	3,028,542
Total assets	<u>\$ 36,374,898</u>	<u>\$ 35,769,535</u>	<u>\$ 37,560,071</u>
Liabilities			
Claims and claim adjustment expense reserves	\$ 14,068,740	\$ 13,719,218	\$ 15,886,587
Unearned premium reserves	323,688	525,331	844,306
Other liabilities	864,434	1,065,657	609,932
Total liabilities	15,256,862	15,310,206	17,340,825
Net Assets - Unrestricted	<u>21,118,036</u>	<u>20,459,329</u>	<u>20,219,246</u>
Total liabilities and net assets	<u>\$ 36,374,898</u>	<u>\$ 35,769,535</u>	<u>\$ 37,560,071</u>

Approximately 57 percent in 2009, 57 percent in 2008, and 52 percent in 2007 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 4.06 percent during the year ended December 31, 2009. At December 31, 2009, 2008, and 2007, all of the Pool's investments were invested in U.S. government securities or U.S. agency securities.

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 assets 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 equal to the estimated cash outflow of the Pool on an annual basis. As a result of the long claim cycle for casualty related claims, member contributions are collected from active members when the estimated claims and loss adjustment expenses are anticipated to be paid. These estimated amounts are stated in the statement of net assets as "member contributions to be billed in the future." Changes to these estimates are stated in the statement of revenue, expenses, and changes in net assets in a similar methodology as claims reserves detailed below. Because amounts are estimated on a methodology consistent to claims reserves detailed below, amounts will fluctuate from year to year as a result of changes in the ultimate expected claims to be settled for a specific coverage period.

The Pool's claims and claim adjustment expense reserves remained consistent over the past three years totaling \$14,068,740 in 2009, \$13,719,218 in 2008, and \$15,886,587 in 2007. The reserves are estimated based on known facts for those claims existing at December 31 and a variety of actuarial and statistical techniques that reflect recent settlements, claim frequency, and other economic and social factors to provide reserve estimates for those claims incurred but not reported at year end. Because these estimates depend on 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 claims 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 they are made. During the year ended December 31, 2009, the Pool decreased its provision for claims incurred in prior years by \$1,954,856 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. Total claims payments also decreased by 31.1 percent from 2008 to 2009, totaling \$4,897,463. The net effect of the decrease in provisions and payments in 2009 was a slight increase in claims and claim adjustment expense reserves of 2.6 percent, or \$349,522, from 2008 to 2009.

Net assets at December 31, 2009 increased \$658,707 from December 31, 2008 as a result of the 2009 operating surplus partially offset by the board of directors approving a distribution to the members totaling \$950,790 for 2009.

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 with the prior years:

	2009	2008	2007
Revenue			
Member contributions - Operating	\$ 13,217,429	\$ 13,347,709	\$ 13,003,695
Reinsurance premiums ceded	(3,044,748)	(3,110,836)	(3,489,982)
Contributions that will be billed in the future to pay unpaid claims	717,734	(2,092,532)	616,599
Investment earnings - Interest and dividends	701,883	829,710	941,126
Net realized and unrealized (losses) gains on investments	(823,401)	995,342	523,152
Total revenue	10,768,897	9,969,393	11,594,590
Expenses			
Provision for claims	5,057,744	5,104,773	7,313,429
Operating expenses	4,242,997	4,311,548	4,243,281
Total expenses	9,300,741	9,416,321	11,556,710
Excess of Revenue Over Expenses	1,468,156	553,072	37,880
Member Withdrawals and Distributions	(1,362,252)	(1,182,388)	(193,737)
Contributions - Capitalization - Cumulative Reserve Fund	552,803	869,399	990,813
Total Increase in Net Assets	\$ 658,707	\$ 240,083	\$ 834,956

The Pool's membership increased from 445 members in 2008 to 447 members in 2009. Member contributions decreased approximately 0.98 percent, from \$13,347,709 in 2008 to \$13,217,429 in 2009. This minimal change is reflective of the ability to maintain stability in rates.

Public Entities Pool of Ohio

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 its claims from reinsurers and a risk-sharing pool; however, 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 ARPCO. 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, 2009, the Pool retained \$350,000 for casualty claims and \$150,000 for property claims). The board of directors and ARPCO periodically review the financial strength of the Pool and other market conditions to determine the appropriate level of risk the Pool will retain. Reinsurance expense (ceded) totaled approximately 23.0 percent and 23.3 percent of member contributions for the years ended December 31, 2009 and 2008, respectively. In addition, amounts deducted from claims and claim adjustment expense reserves as of December 31, 2009 and 2008 for expected recoveries under the reinsurance and excess risk-sharing agreements totaled approximately \$1,705,000 and \$1,334,000, 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 assets as unrealized gains or losses on investments. Due to market conditions, net realized and unrealized gains on investments decreased \$1,818,743 in 2009 as compared to 2008.

Total operating expenses of the Pool were consistent in 2009 and 2008, totaling \$4,242,997 and \$4,311,548, respectively, or 32.1 percent and 32.3 percent, respectively, of member contributions.

Economic Facts 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 2009. The provision for claims payments is expected to be consistent with historical trends and the Pool is unaware of any further economic events 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 the Pool receives. Additional information regarding the Pool can be found on PEP's website, www.pepohio.org. If you have questions about this report or need additional information, contact John W. Brockschmidt, President, American Risk Pooling Consultants, Inc. at (248) 204-5142.

Public Entities Pool of Ohio

Statement of Net Assets

		December 31	
		2009	2008
Assets			
Current Assets			
Cash and cash equivalents (Note 2)	\$	2,568,871	\$ 1,890,241
Claims service imprest fund		-	25,000
Member contributions receivable		1,690,706	1,692,145
Investment securities (Note 2)		1,269,197	4,693,766
Accrued investment income		195,351	223,002
Deductible receivable		11,344	40,048
Reinsurance receivable on paid claims (Note 4)		33,340	145,282
Claims escrow fund		-	151,140
Member contributions to be billed in the future		5,000,000	4,700,000
		<u>10,768,809</u>	<u>13,560,624</u>
Total current assets			
Noncurrent Assets			
Investment securities (Note 2)		16,947,374	13,967,930
Member contributions to be billed in the future		8,658,715	8,240,981
		<u>25,606,089</u>	<u>22,208,911</u>
Total noncurrent assets			
		<u>\$ 36,374,898</u>	<u>\$ 35,769,535</u>
Total assets			
Liabilities and Net Assets			
Liabilities			
Current liabilities:			
Claims and claim adjustment expense reserves (Note 3)	\$	5,410,025	\$ 5,478,237
Reinsurance premiums payable (Note 4)		179,693	441,693
Accounts payable and accrued expenses		684,741	623,964
		<u>6,274,459</u>	<u>6,543,894</u>
Total current liabilities			
Long-term liabilities:			
Claims and claim adjustment expense reserves (Note 3)		8,658,715	8,240,981
Unearned premium reserves		323,688	525,331
		<u>15,256,862</u>	<u>15,310,206</u>
Total liabilities			
Net Assets - Unrestricted		<u>21,118,036</u>	<u>20,459,329</u>
		<u>\$ 36,374,898</u>	<u>\$ 35,769,535</u>
Total liabilities and net assets			

Public Entities Pool of Ohio

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended December 31	
	2009	2008
Revenue		
Member contributions - Operating	\$ 13,217,429	\$ 13,347,709
Reinsurance premiums ceded (Note 4)	(3,044,748)	(3,110,836)
Contributions that will be billed in the future to pay unpaid claims	717,734	(2,092,532)
Investment earnings - Interest and dividends	701,883	829,710
Net realized and unrealized gains on investments	(823,401)	995,342
Total revenue	10,768,897	9,969,393
Claims and Claim Adjustment Expenses (Note 3)		
Paid	5,061,858	9,742,821
Recoveries	(164,395)	(2,638,123)
Increase (decrease) in claims and claim adjustment expense reserves	160,281	(1,999,925)
Total claims and claim adjustment expenses	5,057,744	5,104,773
Excess of Revenue Over Claims and Claim Adjustment Expenses	5,711,153	4,864,620
Expenses		
Marketing and administrator fees	3,704,163	3,778,277
Other	538,834	533,271
Total expenses	4,242,997	4,311,548
Excess of Revenue Over Claims and Claim Adjustment Expenses and Expenses	1,468,156	553,072
Member Withdrawals and Distributions		
Capitalization (Note 5)	(411,462)	(202,047)
Budgetary (Note 6)	(950,790)	(980,341)
Total member withdrawals and distributions	(1,362,252)	(1,182,388)
Contributions - Capitalization - Cumulative Reserve Fund	552,803	869,399
Increase in Net Assets	658,707	240,083
Net Assets - Beginning of year	20,459,329	20,219,246
Net Assets - End of year	\$ 21,118,036	\$ 20,459,329

Public Entities Pool of Ohio

Statement of Cash Flows

	Year Ended December 31	
	2009	2008
Cash Flows from Operating Activities		
Cash received from members	\$ 13,217,509	\$ 13,307,580
Cash received from excess insurance carriers	164,395	2,638,123
Cash paid for claims	(4,667,773)	(9,903,706)
Cash paid for reinsurance premiums	(3,194,806)	(2,028,090)
Cash paid for administrative and general expenses	(4,182,220)	(4,181,791)
Net cash provided by (used in) operating activities	1,337,105	(167,884)
Cash Flows from Investing Activities		
Investment income received	729,534	855,387
Purchase of investments	(5,339,215)	(2,416,717)
Proceeds from sales and maturities of investments	4,960,939	2,505,603
Net cash provided by investing activities	351,258	944,273
Cash Flows from Noncapital Financing Activities		
Receipts from members - Cumulative Reserve Fund	352,519	553,462
Payments for member withdrawals - Capitalization	(411,462)	(202,047)
Payments for member distributions - Budgetary	(950,790)	(980,341)
Net cash used in noncapital financing activities	(1,009,733)	(628,926)
Net Increase in Cash and Cash Equivalents	678,630	147,463
Cash and Cash Equivalents - Beginning of year	1,890,241	1,742,778
Cash and Cash Equivalents - End of year	<u>\$ 2,568,871</u>	<u>\$ 1,890,241</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	
	2009	2008
Excess of revenue over claims and claim adjustment expenses and expenses	\$ 1,468,156	\$ 553,072
Adjustments to reconcile excess of revenue over claims and claim adjustment expenses and expenses to net cash from operating activities:		
Investment earnings	(701,883)	(829,710)
Net realized and unrealized losses (gains) on investments	823,401	(995,342)
(Increase) decrease in assets:		
Claims servicer imprest fund	25,000	21,818
Member contributions receivable	80	(40,129)
Deductible receivable	28,704	(15,259)
Reinsurance receivable on paid claims	111,942	756,778
Claims escrow fund	151,140	-
Member contributions to be billed in the future	(717,734)	2,092,532
Increase (decrease) in liabilities:		
Claims and claim adjustment expense reserves	349,522	(2,167,369)
Reinsurance premiums payable	(262,000)	325,968
Accounts payable and accrued expenses	60,777	129,757
Net cash provided by (used in) operating activities	<u>\$ 1,337,105</u>	<u>\$ (167,884)</u>

Public Entities Pool of Ohio

Notes to Financial Statements December 31, 2009 and 2008

Note 1 - 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 support and promote the Pool. A total of 447 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 the 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 Pool has engaged ARPCO to serve as the administrator of the Pool. ARPCO specializes in public entity risk pool management and provides a full spectrum of administrative services. As provided for in its administrative agreement, ARPCO contracts specific services to subcontractors. Marketing and member services are provided by Burnham and Flower Agency of Ohio, Inc. and Wells Fargo Insurance Services of Ohio. Claim and loss control services are provided by ARPCO'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 ARPCO.

Basis of Presentation - The basic financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Pool financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) pronouncements, the 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.

Public Entities Pool of Ohio

Notes to Financial Statements December 31, 2009 and 2008

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Investment Earnings - Investment earnings are an integral part of the operating aspects of the Pool. The Pool is structured as an enterprise fund, as defined by GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*; it is the Pool's policy to report all investment earnings as operating income on the statement of revenue, expenses, and changes in net assets.

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.

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 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 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 operating expenses for each certificate year. Member contributions to be billed in the future represent amounts 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 and loss adjustment expenses are anticipated to be paid.

Public Entities Pool of Ohio

Notes to Financial Statements December 31, 2009 and 2008

Note 1, - Nature of Business and Significant Accounting Policies (Continued)

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 assets 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.

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

Note 2 - 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.

Deposits

Cash and cash equivalents include operating and claims checking accounts and money market funds. Cash and cash equivalents totaled \$2,568,871 and \$1,890,241 at December 31, 2009 and 2008, respectively.

Public Entities Pool of Ohio

Notes to Financial Statements December 31, 2009 and 2008

Note 2 - Deposits and Investments (Continued)

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 to maintain daily operating activities. In October 2008, the FDIC implemented the "Transaction Account Guarantee Program," fully guaranteeing noninterest and some interest-bearing checking account balances through June 30, 2010, regardless of the amount in the account. At December 31, 2009 and 2008, the Pool's deposit balance of 920,892 and \$1,143,542, respectively, which consisted of bank deposits (checking and savings accounts), were fully insured and collateralized.

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, 2009, the average maturities of investments are as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
U.S. Treasury securities	\$ 11,929,404	5.02
U.S. agencies and pass-throughs	6,287,167	2.63
Total fair value	<u>\$ 18,216,571</u>	
Portfolio weighted average maturity		<u>4.19</u>

Public Entities Pool of Ohio

Notes to Financial Statements December 31, 2009 and 2008

Note 2 - Deposits and Investments (Continued)

At December 31, 2008, the average maturities of investments are as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
U.S. Treasury securities	\$ 9,676,650	6.42
U.S. agencies and pass-throughs	8,985,046	2.03
Total fair value	\$ 18,661,696	
Portfolio weighted average maturity		4.31

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. government securities and U.S. Treasury obligation funds. At December 31, 2009 and 2008, the Pool only held investments in U.S. government securities.

At December 31, 2009 and 2008, the credit quality ratings of debt securities by investment type (other than the U.S. government) are as follows:

Rating	Fair Value	
	2009	2008
U.S. agencies and pass-throughs - Aaa	\$ 6,287,167	\$ 8,985,046
Money market fund - Aaa	\$ 1,447,064	\$ 1,060,948

Concentration of Credit Risk - The Pool has two U.S. agency and pass-through securities, totaling \$1,865,389, that individually exceeds 5 percent of the Pool's total investments at December 31, 2009. The Pool had one U.S. agency and pass-through security, totaling \$961,319, that individually exceeded 5 percent of the Pool's total investments at December 31, 2008.

Public Entities Pool of Ohio

Notes to Financial Statements December 31, 2009 and 2008

Note 3 - Claims and Claim Adjustment Expense Reserves

Claims reserves are established based upon known facts for those claims existing at December 31, and a variety of actuarial and statistical techniques that reflect recent settlements, claim frequency, and other economic and social factors, to provide reserve estimates for those claims incurred but not reported at year end. 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 actual claim costs depend on complex factors, such as inflation, changes in doctrines of legal liability, and damage awards, the process used in estimating claims liabilities does not necessarily result in an exact amount, particularly for coverage such as third-party liability. It is therefore 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 they are made.

Public Entities Pool of Ohio

Notes to Financial Statements December 31, 2009 and 2008

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

The following summarizes changes in claims and claim adjustment expense reserves for the years ended December 31, 2009, 2008, and 2007:

	2009	2008	2007
Claims and Claim Adjustment Expense			
Reserves - Beginning of year	\$ 13,719,218	\$ 15,886,587	\$ 14,952,774
Change in reinsurance recoverable	<u>189,241</u>	<u>(167,444)</u>	<u>76,006</u>
Net claims and claim adjustment expense reserves - Beginning of year	13,908,459	15,719,143	15,028,780
Incurred Claims and Claim Adjustment Expenses			
Provision for claims incurred in current year	7,012,600	7,551,911	8,631,741
Decrease in provision for claims incurred in prior years	<u>(1,954,856)</u>	<u>(2,447,138)</u>	<u>(1,318,312)</u>
Total incurred claims and claim adjustment expenses	5,057,744	5,104,773	7,313,429
Payments			
Claims and claims expenses paid for claims incurred in current year	(1,666,273)	(3,218,436)	(2,185,750)
Claims and claims expenses paid for claims incurred in prior years	<u>(3,231,190)</u>	<u>(3,886,262)</u>	<u>(4,269,872)</u>
Total payments	<u>(4,897,463)</u>	<u>(7,104,698)</u>	<u>(6,455,622)</u>
Claims and Claim Adjustment Expense			
Reserves - End of year	<u>\$ 14,068,740</u>	<u>\$ 13,719,218</u>	<u>\$ 15,886,587</u>

Reserves for claims and claim adjustment expense attributable to insured 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.

Public Entities Pool of Ohio

Notes to Financial Statements December 31, 2009 and 2008

Note 4 - Reinsurance and Excess Risk-sharing Agreements

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large aggregate and specific 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, 2009 and 2008 totaled \$3,044,748 and \$3,110,836, respectively, and the amounts deducted from claims and claim expense reserves as of December 31, 2009 and 2008 for reinsurance and excess risk-sharing agreements totaled approximately \$1,705,000 and \$1,334,000, respectively.

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

Note 5 - Member Withdrawals

Nine members withdrew from the Pool in 2009 and 2008. In accordance with the intergovernmental contract, these withdrawals resulted in transfers to operations of \$202,278 in 2009 and \$122,870 in 2008, as well as refunds to withdrawn members of \$209,184 in 2009 and \$79,177 in 2008. Additionally, there was forfeiture of withdrawn members' funds of \$17,791 in 2009 and \$31,633 in 2008. Upon withdrawal, these members became responsible for all of their respective reported and unreported casualty claims and claim expense.

Note 6 - Member Distributions - Budgetary

Cash distributions returned to the members totaling \$950,790 and \$980,341 were approved by the board of directors for the years ended December 31, 2009 and 2008, respectively.

Required Supplemental Schedules

Public Entities Pool of Ohio

Casualty Claims Development Information

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
1. Required contributions (Note A) and investment income:										
Earned	\$ 4,250,906	\$ 4,844,168	\$ 5,263,310	\$ 7,176,052	\$ 8,541,591	\$ 9,790,653	\$ 9,242,128	\$ 10,484,558	\$ 8,071,753	\$ 9,151,369
Ceded	<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>	<u>780,706</u>	<u>793,802</u>
Net	3,816,922	4,241,813	4,257,805	6,206,321	7,536,027	8,672,246	8,271,083	9,355,122	7,291,047	8,357,567
2. Expenses other than allocated claim adjustment expenses	1,036,575	1,212,385	1,424,566	1,717,800	1,969,295	2,019,343	2,190,216	2,142,248	2,200,369	2,168,868
3. Estimated claims and allocated claim adjustment expenses, end of policy year:										
Incurred	2,569,862	2,851,939	3,012,358	4,516,485	5,824,853	6,777,375	6,848,085	8,567,574	4,947,263	6,164,072
Ceded	<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>	<u>493,314</u>	<u>521,687</u>
Net	2,304,646	2,471,915	2,306,783	3,912,259	4,999,185	6,101,502	6,195,401	6,459,279	4,453,949	5,642,385
4. Cumulative net paid and allocated claim adjustment expenses as of:										
End of policy year	293,763	229,900	211,759	328,102	310,680	337,555	270,765	557,564	787,968	624,011
One year later	546,822	525,031	768,901	838,519	1,452,497	963,477	920,959	1,778,270	1,211,560	-
Two years later	948,023	965,726	1,472,904	1,852,356	2,921,642	2,326,885	1,978,040	2,757,846	-	-
Three years later	1,427,916	1,318,173	2,419,968	2,233,240	3,867,764	3,304,865	2,522,837	-	-	-
Four years later	1,865,429	1,693,511	2,710,311	2,968,764	4,113,395	3,794,704	-	-	-	-
Five years later	1,902,912	1,734,738	2,792,973	3,082,739	4,276,138	-	-	-	-	-
Six years later	1,980,423	1,747,405	3,024,401	3,100,931	-	-	-	-	-	-
Seven years later	2,121,247	1,755,592	3,040,926	-	-	-	-	-	-	-
Eight years later	2,122,430	1,759,482	-	-	-	-	-	-	-	-
Nine years later	2,111,301	-	-	-	-	-	-	-	-	-
5. Re-estimated ceded claims and expenses	338,611	-	1,612,975	999,770	534,241	203,873	9,509	1,284,870	459,112	521,687
6. Re-estimated net incurred claims and allocated claim adjustment expenses:										
End of policy year	2,304,646	2,471,915	2,306,783	3,912,259	4,999,185	6,101,502	6,195,401	6,459,279	4,453,949	5,642,385
One year later	2,072,908	2,408,369	4,058,652	3,972,338	6,029,618	4,514,686	5,290,411	5,362,506	4,733,399	-
Two years later	1,975,416	2,122,657	4,077,450	3,883,249	5,400,328	4,587,149	4,691,782	5,152,036	-	-
Three years later	2,648,003	2,156,421	3,729,438	3,527,152	4,735,937	4,762,416	4,021,761	-	-	-
Four years later	2,350,490	1,942,781	3,409,456	3,456,843	4,537,663	4,681,256	-	-	-	-
Five years later	2,065,076	1,781,453	3,465,831	3,411,803	4,376,325	-	-	-	-	-
Six years later	2,178,480	1,771,492	3,472,210	3,116,247	-	-	-	-	-	-
Seven years later	2,270,892	1,807,672	3,145,696	-	-	-	-	-	-	-
Eight years later	2,363,684	1,773,359	-	-	-	-	-	-	-	-
Nine years later	2,192,009	-	-	-	-	-	-	-	-	-
7. (Decrease) increase in estimated net incurred claims and allocated claim adjustment expenses subsequent to initial policy year end	<u>\$ (112,637)</u>	<u>\$ (698,556)</u>	<u>\$ 838,913</u>	<u>\$ (796,012)</u>	<u>\$ (622,860)</u>	<u>\$ (1,420,246)</u>	<u>\$ (2,173,640)</u>	<u>\$ (1,307,243)</u>	<u>\$ 279,450</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

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
1. Required contributions (Note A) and investment income:										
Earned	\$ 933,702	\$ 1,520,027	\$ 1,974,248	\$ 2,957,385	\$ 3,268,960	\$ 4,088,857	\$ 3,544,741	\$ 4,473,610	\$ 5,879,899	\$ 4,055,203
Ceded	55,933	43,869	30,000	48,840	41,685	35,861	135,684	63,212	507,690	476,832
Net	877,769	1,476,158	1,944,248	2,908,545	3,227,275	4,052,996	3,409,057	4,410,398	5,372,209	3,578,371
2. Expenses other than allocated claim adjustment expenses	499,691	696,324	994,286	1,523,590	1,753,670	1,939,413	2,044,839	2,101,034	2,111,180	2,074,129
3. Estimated claims and allocated claim adjustment expenses, end of policy year:										
Incurred	405,034	790,067	962,124	1,362,775	1,470,644	1,994,163	1,436,969	2,235,674	3,620,911	1,847,047
Ceded	55,933	43,869	30,000	48,840	41,685	35,861	135,684	63,212	507,690	476,832
Net	349,101	746,198	932,124	1,313,935	1,428,959	1,958,302	1,301,285	2,172,462	3,113,221	1,370,215
4. Cumulative net paid and allocated claim adjustment expenses as of:										
End of policy year	365,819	682,462	706,671	858,954	1,007,189	1,047,241	977,308	1,523,208	2,413,197	1,042,263
One year later	452,425	778,779	1,045,927	1,184,878	1,499,430	1,619,456	1,323,384	1,609,225	2,682,762	-
Two years later	519,086	783,172	1,050,253	1,237,688	1,457,655	1,603,532	1,365,074	1,618,131	-	-
Three years later	519,343	783,172	1,045,376	1,239,072	1,456,567	1,616,540	1,363,341	-	-	-
Four years later	519,343	783,172	1,045,461	1,239,270	1,456,567	1,617,167	-	-	-	-
Five years later	518,830	783,172	1,045,461	1,239,270	1,456,567	-	-	-	-	-
Six years later	518,830	783,172	1,045,461	1,239,270	-	-	-	-	-	-
Seven years later	518,830	783,172	1,045,461	-	-	-	-	-	-	-
Eight years later	518,830	783,172	-	-	-	-	-	-	-	-
Nine years later	518,830	-	-	-	-	-	-	-	-	-
5. Re-estimated ceded claims and expenses	66,571	-	141,046	128,901	216,976	728,080	322,704	108,129	571,385	476,832
6. Re-estimated net incurred claims and allocated claim adjustment expenses:										
End of policy year	349,101	746,198	932,124	1,313,935	1,428,959	1,958,302	1,301,285	2,172,462	3,113,221	1,370,215
One year later	491,846	718,281	1,057,055	1,243,278	1,607,797	2,326,263	1,574,819	1,727,990	2,739,948	-
Two years later	441,665	783,172	1,057,117	1,249,179	1,515,729	2,137,103	1,312,837	1,642,576	-	-
Three years later	520,318	783,172	1,045,376	1,239,072	1,502,292	1,612,415	1,363,781	-	-	-
Four years later	520,318	783,172	1,045,461	1,239,270	1,483,134	1,617,167	-	-	-	-
Five years later	518,830	783,172	1,045,461	1,239,270	1,456,567	-	-	-	-	-
Six years later	518,830	783,172	1,045,461	1,239,270	-	-	-	-	-	-
Seven years later	518,830	783,172	1,045,461	-	-	-	-	-	-	-
Eight years later	518,830	783,172	-	-	-	-	-	-	-	-
Nine years later	518,830	-	-	-	-	-	-	-	-	-
7. Increase (decrease) in estimated net incurred claims and allocated claim adjustment expenses subsequent to initial policy year end	\$ 169,729	\$ 36,974	\$ 113,337	\$ (74,665)	\$ 27,608	\$ (341,135)	\$ 62,496	\$ (529,886)	\$ (373,273)	\$ -

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 Required by *Government
Auditing Standards***

Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Required by *Government Auditing Standards*

To the Board of Directors
Public Entities Pool of Ohio

We have audited the financial statements of Public Entities Pool of Ohio as of and for the year ended December 31, 2009 and have issued our report thereon dated June 4, 2010. 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 of the financial statements of Public Entities Pool of Ohio, we considered the Pool'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 Pool's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Pool's internal control over financial reporting.

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

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

To 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 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

June 4, 2010



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 1, 2010**