

# **Public Entities Pool of Ohio**

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**Financial Report**  
**with Required Supplemental Schedules**  
**December 31, 2010**





# Dave Yost • Auditor of State

Board of Directors  
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, 2010 through December 31, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Public Entities Pool of Ohio is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

June 21, 2011

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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 basic 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, 2010 and 2009 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 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 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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, 2010 and 2009 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 2, 2011 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 2, 2011

# Public Entities Pool of Ohio

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## Management's Discussion and Analysis

### Using this Annual Report

This annual report consists of the statement of net assets, the statement of revenue, expenses, and changes in net assets, and the statement of cash flows. Along with the notes to the basic 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 2008 through 2010, as well as its financial condition at December 31, 2010, 2009, and 2008. The MD&A should be read in conjunction with the basic financial statements and notes thereto.

### Overview

PEP is a local government risk pool that offers comprehensive liability and property coverages specifically tailored to meet the needs of political subdivisions throughout the state of Ohio and 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 approximately 500 governmental entity pools currently operating in the United States of America. PEP was formed in 1987 and has grown steadily to 454 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 multimedia 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 Risk 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 public agencies for over two decades. York is a premier provider of a full range of insurance, risk management, pool administration, claim management, and related services to a wide variety of clients throughout the United States, including over 4,300 public entities.

### Financial Overview and Highlights

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

	2010	2009	2008
<b>Assets</b>			
Cash and cash equivalents	\$ 220,661	\$ 2,568,871	\$ 1,890,241
Investment securities - At fair value	20,273,157	18,216,571	18,661,696
Member contributions to be billed in the future	12,354,737	13,658,715	12,940,981
Other assets	2,103,455	1,930,741	2,276,617
Total assets	<u>\$ 34,952,010</u>	<u>\$ 36,374,898</u>	<u>\$ 35,769,535</u>
<b>Liabilities</b>			
Claims and claim adjustment expense reserves	\$ 12,853,271	\$ 14,068,740	\$ 13,719,218
Unearned premium reserves	234,906	323,688	525,331
Other liabilities	1,232,635	864,434	1,065,657
Total liabilities	14,320,812	15,256,862	15,310,206
<b>Net Assets - Unrestricted</b>	<u>20,631,198</u>	<u>21,118,036</u>	<u>20,459,329</u>
Total liabilities and net assets	<u>\$ 34,952,010</u>	<u>\$ 36,374,898</u>	<u>\$ 35,769,535</u>

Approximately 59 percent in 2010, 57 percent in 2009, and 57 percent in 2008 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 3.46 percent during the year ended December 31, 2010. At December 31, 2010, 2009, and 2008, 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 claims 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 accounted for in the statement of net assets as "member contributions to be billed in the future." Changes to these estimates are reflected in the statement of revenue, expenses, and changes in net 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 totaled \$12,853,271 in 2010, \$14,068,740 in 2009, and \$13,719,218 in 2008. 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, 2010, the Pool decreased its provision for claims incurred in prior years by \$2,135,687 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 increased by 23 percent from 2009 to 2010, totaling \$5,796,799 at December 31, 2010. The combination of the favorable reserve development and the increase in payments in 2010 led to a decrease in claims and claim adjustment expense reserves of 9 percent, or \$1,215,469, from 2009 to 2010.

Net assets (members' equity) at December 31, 2010 decreased \$486,838 from December 31, 2009 as a result of the aforementioned increase in claims payments and an increase in distributions to members which totaled \$1,981,070 in 2010; offset by improved investment results compared to 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:

	2010	2009	2008
<b>Operating Revenue</b>			
Member contributions - Operating	\$ 13,272,359	\$ 13,217,429	\$ 13,347,709
Reinsurance premiums ceded	(2,814,652)	(3,044,748)	(3,110,836)
Change in contributions that will be billed in the future to pay unpaid claims	(1,303,978)	717,734	(2,092,532)
Total revenue	9,153,729	10,890,415	8,144,341
<b>Operating Expenses</b>			
Provision for claims	4,581,330	5,057,744	5,104,773
Operating expenses	4,254,239	4,242,997	4,311,548
Total expenses	8,835,569	9,300,741	9,416,321
<b>Operating Income (Loss)</b>	318,160	1,589,674	(1,271,980)
<b>Nonoperating Revenue (Expenses)</b>			
Investment earnings	955,704	(121,518)	1,825,052
Budgetary distributions	(1,258,916)	(950,790)	(980,341)
CRF distributions	(722,154)	-	-
Total nonoperating (expenses) revenue	(1,025,366)	(1,072,308)	844,711
<b>Member Capital - Net contributions</b>	220,368	141,341	667,352
<b>Total (Decrease) Increase in Net Assets</b>	<b>\$ (486,838)</b>	<b>\$ 658,707</b>	<b>\$ 240,083</b>

The Pool's membership increased from 447 members in 2009 to 454 members in 2010. Member contributions increased approximately 0.42 percent, from \$13,217,429 in 2009 to \$13,272,359 in 2010. This minimal change is reflective of the Pool's ability to maintain stability in its membership and rate structure.

# 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, 2010, 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) to APEEP and the Pool's excess reinsurers totaled approximately \$2,815,000 and \$3,045,000 for the years ended December 31, 2010 and 2009, respectively. In addition, amounts deducted from claims and claims adjustment expense reserves as of December 31, 2010 and 2009 for expected recoveries under the reinsurance and excess risk-sharing agreements totaled approximately \$1,601,000 and \$1,705,000, 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 improved market conditions, net realized and unrealized gains (losses) on investments were \$289,823 and (\$823,401) at December 31, 2010 and 2009, respectively.

Total operating expenses of the Pool were consistent in 2010 and 2009, totaling \$8,835,569 and \$9,300,741, respectively, or 66.6 percent and 70.4 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 2010. The provision for claims payments is expected to be consistent with historical trends and Management is unaware of any new 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 the Ohio Auditor of State with a general overview of the accountability for the revenue PEP receives. Additional information regarding the Pool can be found on PEP's website, [www.pepohio.org](http://www.pepohio.org). If you have questions about this report or need additional information, contact John W. Brockschmidt, President, American Risk Pooling Consultants, Inc. at (248) 204-5142.

# Public Entities Pool of Ohio

## Statement of Net Assets

	December 31	
	2010	2009
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 2)	\$ 220,661	\$ 2,568,871
Member contributions receivable	1,855,738	1,690,706
Investment securities (Note 2)	2,556,056	1,269,197
Accrued investment income	188,607	195,351
Deductible receivable	18,703	11,344
Reinsurance receivable on paid claims (Note 4)	40,407	33,340
Member contributions to be billed in the future	4,200,000	5,000,000
Total current assets	9,080,172	10,768,809
<b>Noncurrent Assets</b>		
Investment securities (Note 2)	17,717,101	16,947,374
Member contributions to be billed in the future	8,154,737	8,658,715
Total noncurrent assets	25,871,838	25,606,089
Total assets	<b>\$ 34,952,010</b>	<b>\$ 36,374,898</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Current liabilities:		
Claims and claim adjustment expense reserves (Note 3)	\$ 4,698,534	\$ 5,410,025
Reinsurance premiums payable (Note 4)	191,038	179,693
Accounts payable and accrued expenses	1,041,597	684,741
Total current liabilities	5,931,169	6,274,459
Long-term liabilities:		
Claims and claim adjustment expense reserves (Note 3)	8,154,737	8,658,715
Unearned premium reserves	234,906	323,688
Total noncurrent liabilities	8,389,643	8,982,403
Total liabilities	14,320,812	15,256,862
<b>Net Assets - Unrestricted</b>	20,631,198	21,118,036
Total liabilities and net assets	<b>\$ 34,952,010</b>	<b>\$ 36,374,898</b>

# Public Entities Pool of Ohio

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

	Year Ended December 31	
	2010	2009
<b>Operating Revenue</b>		
Member contributions - Operating	\$ 13,272,359	\$ 13,217,429
Reinsurance premiums ceded (Note 4)	(2,814,652)	(3,044,748)
Change in contributions that will be billed in the future to pay unpaid claims	(1,303,978)	717,734
Total operating revenue	9,153,729	10,890,415
<b>Operating Expenses</b>		
Claims and claim adjustment expenses (Note 3):		
Paid	6,658,395	5,061,858
Recoveries	(861,596)	(353,636)
(Decrease) increase in claims and claim adjustment expense reserves	(1,215,469)	349,522
Total claims and claim adjustment expenses	4,581,330	5,057,744
Marketing and administrator fees	3,739,564	3,704,163
Other	514,675	538,834
Total operating expenses	8,835,569	9,300,741
<b>Operating Income</b>	318,160	1,589,674
<b>Nonoperating Revenue (Expense)</b>		
Investment earnings - Interest and dividends	665,881	701,883
Net realized and unrealized gains (losses) on investments	289,823	(823,401)
Budgetary distributions (Note 6)	(1,258,916)	(950,790)
Cumulative reserve fund distributions (Note 6)	(722,154)	-
Total nonoperating expenses	(1,025,366)	(1,072,308)
<b>Contributions - Member capital</b>	373,373	552,803
<b>Withdrawals - Member capital (Note 5)</b>	(153,005)	(411,462)
<b>(Decrease) Increase in Net Assets</b>	(486,838)	658,707
<b>Net Assets - Beginning of year</b>	21,118,036	20,459,329
<b>Net Assets - End of year</b>	<b>\$ 20,631,198</b>	<b>\$ 21,118,036</b>

# Public Entities Pool of Ohio

## Statement of Cash Flows

	Year Ended December 31	
	2010	2009
<b>Cash Flows from Operating Activities</b>		
Cash received from members	\$ 13,028,685	\$ 13,015,231
Cash received from reinsurance recoveries	854,529	465,578
Cash paid for claims	(6,665,754)	(4,857,014)
Cash paid for reinsurance premiums	(2,803,307)	(3,306,748)
Cash paid for administrative and general expenses	(3,897,383)	(4,182,220)
Net cash provided by operating activities	516,770	1,134,827
<b>Cash Flows from Investing Activities</b>		
Investment income received	672,625	729,534
Purchase of investments	(5,108,861)	(5,339,215)
Proceeds from sales and maturities of investments	3,342,098	4,960,939
Net cash (used in) provided by investing activities	(1,094,138)	351,258
<b>Cash Flows from Noncapital Financing Activities</b>		
Receipts from members - Cumulative Reserve Fund	255,005	352,519
Payments for member withdrawals - Capitalization	(44,777)	(209,184)
Payments for member distributions - Budgetary	(1,258,916)	(950,790)
Payments for members' Cumulative Reserve Fund distributions	(722,154)	-
Net cash used in noncapital financing activities	(1,770,842)	(807,455)
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(2,348,210)	678,630
<b>Cash and Cash Equivalents - Beginning of year</b>	2,568,871	1,890,241
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 220,661</u>	<u>\$ 2,568,871</u>

# Public Entities Pool of Ohio

## Statement of Cash Flows (Continued)

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

	Year Ended December 31	
	2010	2009
Operating income	\$ 318,160	\$ 1,589,674
Transfers to operations resulting from member withdrawals	(108,228)	(202,278)
Adjustments to reconcile operating income to net cash from operating activities:		
Decrease (increase) in assets:		
Claims service imprest fund	-	25,000
Member contributions receivable	(135,446)	80
Deductible recoverable	(7,359)	28,704
Reinsurance receivable on paid claims	(7,067)	111,942
Claims escrow fund	-	151,140
Member contributions to be billed in the future	1,303,978	(717,734)
Increase (decrease) in liabilities:		
Claims and claim adjustment expense reserves	(1,215,469)	349,522
Reinsurance premiums payable	11,345	(262,000)
Accounts payable and accrued expenses	356,856	60,777
Net cash provided by operating activities	<u>\$ 516,770</u>	<u>\$ 1,134,827</u>
<b>Supplemental Disclosure of Cash Flow Information -</b>		
Noncash investing activities - Net of realized and unrealized gains (losses) on investments	<u>\$ 289,823</u>	<u>\$ (823,401)</u>

# Public Entities Pool of Ohio

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## Notes to Basic Financial Statements December 31, 2010 and 2009

### 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 endorse and promote the Pool. A total of 454 political subdivisions within the state of Ohio participate in the Pool. The Pool's primary objective is to formulate, develop, and administer, on behalf of its members, a program of managing property losses and third-party casualty claims, to obtain stable costs for that coverage, and to develop a comprehensive loss control program.

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

The 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 basic 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

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## Notes to Basic Financial Statements December 31, 2010 and 2009

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

**Investment Earnings** - Investment earnings, including changes in the fair value of investments, are recognized as nonoperating revenue (expense) in the statement of revenue, expenses, and changes in net 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 claims adjustment expense reserves represent the estimated liability for unpaid claims and related claim 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 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, claims adjustment expenses, reinsurance 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 claim adjustment expenses, for each certificate year, are anticipated to be paid.

# Public Entities Pool of Ohio

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## Notes to Basic Financial Statements December 31, 2010 and 2009

### **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.

In accordance with *GASB Comprehensive Implementation Guide, Paragraph 7.73.3* and other recent interpretations of accounting for investment income for governmental risk pools, effective for the year ended December 31, 2010, the Pool reports investment earnings, including net realized and unrealized gains on investments, as nonoperating revenue (expenses) in the statement of revenue, expenses, and changes in net assets. Investment income for the year ended December 31, 2009 has been reclassified to conform to this presentation.

### **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 \$220,661 and \$2,568,871 at December 31, 2010 and 2009, respectively.

# Public Entities Pool of Ohio

## Notes to Basic Financial Statements December 31, 2010 and 2009

### 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. In October 2008, the FDIC implemented the "Transaction Account Guarantee Program," fully guaranteeing noninterest- and some interest-bearing checking account balances through December 31, 2009, regardless of the amount in the account. Effective December 31, 2010 through December 31, 2012, the FDIC implemented the Dodd-Frank Act that altered the FDIC coverage to fully guarantee all noninterest-bearing transaction accounts but restrict the guarantee to a maximum of \$250,000 on accounts bearing nominal interest rates. The board of directors adopted a banking policy during 2010 to ensure the risk of loss of the Pool's deposits continues to be minimized.

The Pool maintains balances in its accounts to adequately cover current operating and claims payment expenses. At December 31, 2010 and 2009, the Pool had no bank deposits that were uninsured and uncollateralized.

**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, 2010, the average maturities of investments are as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
U.S. Treasury securities	\$ 15,187,984	4.63
U.S. agencies and pass-throughs	<u>5,085,173</u>	1.63
Total fair value	<u>\$ 20,273,157</u>	
Portfolio weighted average maturity		<u>3.88</u>

# Public Entities Pool of Ohio

## Notes to Basic Financial Statements December 31, 2010 and 2009

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

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	\$ 18,216,571	
Portfolio weighted average maturity		4.19

**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, 2010 and 2009, the credit quality ratings of debt securities by investment type (other than U.S. Treasury securities) are as follows:

Rating	Fair Value	
	2010	2009
U.S. agencies and pass-throughs:		
Aaa	\$ 4,230,533	\$ 6,287,167
Aa2	854,640	-
Total	\$ 5,085,173	\$ 6,287,167
Money market fund - Aaa	\$ 134,102	\$ 1,447,064

**Concentration of Credit Risk** - The Pool had no U.S. agency and pass-through securities that individually exceed 5 percent of the Pool's total investments at December 31, 2010. The Pool had two U.S. agency and pass-through securities, totaling \$1,865,389, that individually exceeded 5 percent of the Pool's total investments at December 31, 2009.

# Public Entities Pool of Ohio

## Notes to Basic Financial Statements December 31, 2010 and 2009

### Note 3 - Claims and Claims 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.

The following summarizes changes in claims and claims adjustment expense reserves for the years ended December 31, 2010, 2009, and 2008:

	2010	2009	2008
<b>Claims and Claim Adjustment Expense Reserves - Beginning of year</b>	\$ 14,068,740	\$ 13,719,218	\$ 15,886,587
<b>Incurred Claims and Claims Adjustment Expenses</b>			
Provision for claims incurred in current year	6,717,017	7,012,600	7,551,911
Decrease in provision for claims incurred in prior years	<u>(2,135,687)</u>	<u>(1,954,856)</u>	<u>(2,447,138)</u>
Total incurred claims and claims adjustment expenses	4,581,330	5,057,744	5,104,773
Payments:			
Claims and claims expenses paid for claims incurred in current year	(2,220,851)	(1,666,273)	(3,218,436)
Claims and claims expenses paid for claims incurred in prior years	<u>(3,575,948)</u>	<u>(3,041,949)</u>	<u>(4,053,706)</u>
Total payments	<u>(5,796,799)</u>	<u>(4,708,222)</u>	<u>(7,272,142)</u>
<b>Claims and Claim Adjustment Expense Reserves - End of year</b>	<u>\$ 12,853,271</u>	<u>\$ 14,068,740</u>	<u>\$ 13,719,218</u>

# Public Entities Pool of Ohio

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## Notes to Basic Financial Statements December 31, 2010 and 2009

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

Reserves for claims and claims adjustment expenses 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.

### **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, 2010 and 2009 totaled \$2,814,652 and \$3,044,748, respectively, and the amounts deducted from claims and claims expense reserves as of December 31, 2010 and 2009 for reinsurance and excess risk-sharing agreements totaled approximately \$1,601,000 and \$1,705,000, 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**

In 2010, 10 members withdrew from the Pool, while 9 members withdrew in 2009. In accordance with the intergovernmental contract, these withdrawals resulted in transfers to operations of \$108,228 in 2010 and \$202,278 in 2009, as well as refunds to withdrawn members of \$44,777 in 2010 and \$209,184 in 2009. Additionally, there was forfeiture of withdrawn members' funds of \$21,971 in 2010 and \$17,791 in 2009. Upon withdrawal, these members became responsible for all of their respective reported and unreported casualty claims and claim expenses.

# Public Entities Pool of Ohio

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## Notes to Basic Financial Statements December 31, 2010 and 2009

### Note 6 - Member Distributions

On July 1, 2010, the board of directors approved a distribution out of the Cumulative Reserve Fund to reduce each fully vested member's balance to 200 percent of its current basis rate in lieu of 300 percent. Members must make contributions to the Cumulative Reserve Fund for the first six years of membership. For members still in the contribution cycle, the Pool will make the distribution to the member to reduce the member's Cumulative Reserve Fund to 200 percent of its basis rate in the year following the sixth contribution. These distributions will occur over one or two years, depending on the size of the refund. Members who join the Pool after July 1, 2010 will only fund their Cumulative Reserve Fund to 200 percent of basis rate; thus, no distribution will be necessary. Cumulative Reserve Fund distributions totaled \$722,154 for the year ended December 31, 2010.

During 2010 and 2009, the board approved budgetary cash distributions to members of approximately \$1,280,000 and \$1,000,000, respectively. For the years ended December 31, 2010 and 2009, cash distributions returned to members totaled \$1,258,916 and \$950,790, respectively.

## **Required Supplemental Schedules**

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# Public Entities Pool of Ohio

## Casualty Claims Development Information

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1. Required contributions and investment income: (Note A)										
Earned	\$ 4,844,168	\$ 5,263,310	\$ 7,176,052	\$ 8,541,591	\$ 9,790,653	\$ 9,242,128	\$ 10,484,558	\$ 8,071,753	\$ 8,879,254	\$ 8,078,131
Ceded	602,355	1,005,505	969,731	1,005,564	1,118,407	971,045	1,129,436	780,706	521,687	720,726
Net	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	7,357,405
2. Expenses other than allocated claims adjustment expenses	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	2,133,235
3. Estimated claims and allocated claims adjustment expenses - End of policy year:										
Incurred	2,851,939	3,012,358	4,516,485	5,824,853	6,777,375	6,848,085	8,567,574	4,947,263	5,878,548	5,081,002
Ceded	380,024	705,575	604,226	825,668	675,873	652,684	2,108,295	493,314	236,163	437,006
Net	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	4,643,996
4. Cumulative net paid and allocated claims adjustment expenses as of:										
End of policy year	230,150	211,759	328,102	312,490	337,555	270,765	557,564	787,968	624,011	580,102
One year later	525,031	768,901	838,519	1,454,307	963,477	920,959	1,778,270	1,211,560	1,264,308	-
Two years later	965,726	1,472,904	1,852,356	2,923,452	2,326,885	1,978,040	2,757,846	2,234,344	-	-
Three years later	1,318,173	2,419,968	2,233,240	3,869,575	3,304,865	2,522,837	3,692,117	-	-	-
Four years later	1,693,511	2,710,067	2,968,764	4,115,205	3,794,704	2,825,984	-	-	-	-
Five years later	1,734,738	2,792,973	3,082,739	4,277,948	4,129,775	-	-	-	-	-
Six years later	1,747,405	3,024,401	3,100,931	4,293,976	-	-	-	-	-	-
Seven years later	1,755,592	3,040,926	3,101,728	-	-	-	-	-	-	-
Eight years later	1,759,482	3,049,272	-	-	-	-	-	-	-	-
Nine years later	1,772,059	-	-	-	-	-	-	-	-	-
5. Re-estimated ceded claims and expenses	-	1,612,975	999,770	534,241	411,880	178,910	1,705,053	389,144	236,163	437,006
6. Re-estimated net incurred claims and allocated claim adjustment expenses:										
End of policy year	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	4,643,996
One year later	2,408,369	4,058,652	3,972,338	6,029,618	4,514,686	5,290,411	5,362,506	4,733,399	4,521,978	-
Two years later	2,122,657	4,077,450	3,883,249	5,400,328	4,587,149	4,691,782	5,152,036	4,611,126	-	-
Three years later	2,156,421	3,729,438	3,527,152	4,735,937	4,762,416	4,021,761	4,811,063	-	-	-
Four years later	1,942,781	3,409,456	3,456,843	4,537,663	4,681,256	3,693,022	-	-	-	-
Five years later	1,781,453	3,465,831	3,411,803	4,376,325	4,639,181	-	-	-	-	-
Six years later	1,771,492	3,472,210	3,116,247	4,366,681	-	-	-	-	-	-
Seven years later	1,807,672	3,145,696	3,101,728	-	-	-	-	-	-	-
Eight years later	1,773,359	3,123,880	-	-	-	-	-	-	-	-
Nine years later	1,774,330	-	-	-	-	-	-	-	-	-
7. (Decrease) increase in estimated net incurred claims and allocated claim adjustment expenses subsequent to initial policy year end	<u>\$ (697,585)</u>	<u>\$ 817,097</u>	<u>\$ (810,531)</u>	<u>\$ (632,504)</u>	<u>\$ (1,462,321)</u>	<u>\$ (2,502,379)</u>	<u>\$ (1,648,216)</u>	<u>\$ 157,177</u>	<u>\$ (1,120,407)</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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1. Required contributions and investment income: (Note A)										
Earned	\$ 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	\$ 4,343,629
Ceded	43,869	30,000	48,840	41,685	35,861	135,684	63,212	507,690	476,832	-
Net	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	4,343,629
2. Expenses other than allocated claims adjustment expenses	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	2,121,004
3. Estimated claims and allocated claims adjustment expenses - End of policy year:										
Incurred	790,067	962,124	1,362,775	1,470,644	1,994,163	1,436,969	2,235,674	3,620,911	1,370,215	2,073,021
Ceded	43,869	30,000	48,840	41,685	35,861	135,684	63,212	507,690	-	-
Net	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	2,073,021
4. Cumulative net paid and allocated claims adjustment expenses as of:										
End of policy year	682,461	706,671	858,954	1,008,113	1,048,838	978,974	1,524,595	2,413,500	1,042,674	1,640,749
One year later	778,779	1,045,927	1,184,878	1,499,541	1,619,876	1,323,499	1,610,268	2,682,939	1,328,545	-
Two years later	783,172	1,050,254	1,237,688	1,458,077	1,603,952	1,365,189	1,618,131	2,699,353	-	-
Three years later	783,172	1,045,376	1,239,072	1,456,679	1,616,960	1,363,455	1,618,283	-	-	-
Four years later	783,172	1,045,461	1,239,270	1,456,679	1,617,587	1,363,669	-	-	-	-
Five years later	783,172	1,045,461	1,239,270	1,456,679	1,617,587	-	-	-	-	-
Six years later	783,172	1,045,461	1,239,270	1,456,679	-	-	-	-	-	-
Seven years later	783,172	1,045,461	1,239,270	-	-	-	-	-	-	-
Eight years later	783,172	1,046,111	-	-	-	-	-	-	-	-
Nine years later	783,172	-	-	-	-	-	-	-	-	-
5. Re-estimated ceded claims and expenses	-	141,046	128,901	216,976	728,080	322,704	108,129	587,261	-	-
6. Re-estimated net incurred claims and allocated claims adjustment expenses:										
End of policy year	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	2,073,021
One year later	718,281	1,057,055	1,243,278	1,607,797	2,326,263	1,574,819	1,727,990	2,739,948	1,394,248	-
Two years later	783,172	1,057,117	1,249,179	1,515,729	2,137,103	1,312,837	1,642,576	2,699,353	-	-
Three years later	783,172	1,045,376	1,239,072	1,502,292	1,612,415	1,363,781	1,618,841	-	-	-
Four years later	783,172	1,045,461	1,239,270	1,483,134	1,617,167	1,363,671	-	-	-	-
Five years later	783,172	1,045,461	1,239,270	1,456,567	1,617,587	-	-	-	-	-
Six years later	783,172	1,045,461	1,239,270	1,456,679	-	-	-	-	-	-
Seven years later	783,172	1,045,461	1,239,270	-	-	-	-	-	-	-
Eight years later	783,172	1,046,111	-	-	-	-	-	-	-	-
Nine years later	783,172	-	-	-	-	-	-	-	-	-
7. Increase (decrease) in estimated net incurred claims and allocated claims adjustment expenses subsequent to initial policy year end	<u>\$ 36,974</u>	<u>\$ 113,987</u>	<u>\$ (74,665)</u>	<u>\$ 27,720</u>	<u>\$ (340,715)</u>	<u>\$ 62,386</u>	<u>\$ (553,621)</u>	<u>\$ (413,868)</u>	<u>\$ 24,033</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 the Basic  
Financial Statements Performed in  
Accordance with *Government  
Auditing Standards***

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

To the Board of Directors  
Public Entities Pool of Ohio

We have audited the basic financial statements of Public Entities Pool of Ohio as of and for the year ended December 31, 2010 and have issued our report thereon dated June 2, 2011. 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 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 basic 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Pool'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 material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Public Entities Pool of Ohio's basic 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*.

To the Board of Directors  
Public Entities Pool of Ohio

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

*Plante & Moran, PLLC*

June 2, 2011

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# Dave Yost • Auditor of State

**PUBLIC ENTITIES POOL OF OHIO**

**LUCAS COUNTY**

**CLERK'S CERTIFICATION**

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JULY 05, 2011**