

Public Entities Pool of Ohio

**Financial Report
with Required Supplemental Schedules
December 31, 2011**



Dave Yost • Auditor of State

Board of Directors
Public Entities Pool of Ohio
C/O American Risk Pool Consultants
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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, 2011 through December 31, 2011. 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

July 5, 2012

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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 Public Entities Pool of Ohio (the "Pool") as of and for the years ended December 31, 2011 and 2010 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, 2011 and 2010 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.

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

To the Board of Directors
Public Entities Pool of Ohio

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2012 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

May 16, 2012

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 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 2009 through 2011, as well as its financial condition at December 31, 2011, 2010, and 2009. 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 455 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:

	2011	2010	2009
Assets			
Cash and cash equivalents	\$ 693,053	\$ 220,661	\$ 2,568,871
Investment securities - At fair value	18,666,023	20,273,157	18,216,571
Member contributions to be billed in the future	12,113,516	12,354,737	13,658,715
Other assets	1,889,812	2,103,455	1,930,741
Total assets	<u><u>\$ 33,362,404</u></u>	<u><u>\$ 34,952,010</u></u>	<u><u>\$ 36,374,898</u></u>
Liabilities			
Claims and claim adjustment expense reserves	\$ 12,953,747	\$ 12,853,271	\$ 14,068,740
Unearned premium reserves	218,276	234,906	323,688
Other liabilities	1,015,250	1,232,635	864,434
Total liabilities	14,187,273	14,320,812	15,256,862
Net Assets - Unrestricted	<u>19,175,131</u>	<u>20,631,198</u>	<u>21,118,036</u>
Total liabilities and net assets	<u><u>\$ 33,362,404</u></u>	<u><u>\$ 34,952,010</u></u>	<u><u>\$ 36,374,898</u></u>

Approximately 58 percent in 2011, 59 percent in 2010, and 57 percent in 2009 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 2.55 percent during the year ended December 31, 2011. At December 31, 2011, 2010, and 2009, 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 claim 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 method similar to that of claim reserves, as detailed below. Because amounts are estimated in this manner, amounts will fluctuate from year to year due to changes in the ultimate expected claims to be closed during a specific coverage period.

The Pool's claims and claim adjustment expense reserves totaled \$12,953,747 in 2011, \$12,853,271 in 2010, and \$14,068,740 in 2009. For known claims existing at December 31, the reserves are established based on known facts. For incurred but not reported reserves at year-end, estimates are based on a variety of actuarial and statistical techniques that reflect recent settlements, claim frequency, and other economic and social factors. 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, 2011, the Pool decreased its provision for claims incurred in prior years by \$536,215 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 21 percent, from \$5,796,799 in 2010 to \$7,038,223 in 2011.

Net assets at December 31, 2011 decreased \$1,456,067 from December 31, 2010 as a result of distributions to members totaling \$1,366,230 in 2011.

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:

	2011	2010	2009
Operating Revenue			
Member contributions - Operating	\$ 13,180,906	\$ 13,235,455	\$ 13,084,641
Reinsurance premiums ceded	(2,615,183)	(2,743,729)	(2,976,723)
Change in contributions that will be billed in the future to pay unpaid claims	<u>(241,221)</u>	<u>(1,303,978)</u>	<u>717,734</u>
Total revenue	10,324,502	9,187,748	10,825,652
Operating Expenses			
Provision for claims	7,138,699	4,581,330	5,057,744
Operating expenses	<u>4,395,492</u>	<u>4,396,486</u>	<u>4,380,512</u>
Total expenses	<u>11,534,191</u>	<u>8,977,816</u>	<u>9,438,256</u>
Operating (Loss) Income	(1,209,689)	209,932	1,387,396
Nonoperating Revenue (Expenses)			
Investment earnings	976,253	955,704	(121,518)
Budgetary distributions	<u>-</u>	<u>(1,258,916)</u>	<u>(950,790)</u>
Total nonoperating revenue (expenses)	976,253	(303,212)	(1,072,308)
Member Capital - Net contributions	143,599	328,596	343,619
Member Distributions - Cumulative reserve fund	<u>(1,366,230)</u>	<u>(722,154)</u>	<u>-</u>
Total (Decrease) Increase in Net Assets	<u>\$ (1,456,067)</u>	<u>\$ (486,838)</u>	<u>\$ 658,707</u>

The Pool's membership increased from 454 members in 2010 to 455 members in 2011. Member contributions decreased approximately 0.4 percent, from \$13,235,455 in 2010 to \$13,180,906 in 2011. 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, 2011, 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 \$2,615,000 and \$2,744,000 for the years ended December 31, 2011 and 2010, respectively. In addition, amounts deducted from claims and claims adjustment expense reserves as of December 31, 2011 and 2010 for expected recoveries under the reinsurance and excess risk-sharing agreements totaled approximately \$2,818,000 and \$1,601,000, 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 on investments were \$478,972 and \$289,823 at December 31, 2011 and 2010, respectively.

Total operating expenses of the Pool increased in 2011 from 2010, totaling \$11,534,191 and \$8,977,816, respectively, or 87.5 percent and 67.8 percent, respectively, of member contributions. The increase is due primarily to an increase in claims and claim adjustment expenses.

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 2011. 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 the 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. 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	
	2011	2010
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 693,053	\$ 220,661
Member contributions receivable	1,682,824	1,855,738
Investment securities (Note 2)	806,528	2,556,056
Accrued investment income	114,221	188,607
Deductible receivable	56,525	18,703
Reinsurance receivable on paid claims (Note 4)	36,242	40,407
Member contributions to be billed in the future	4,250,000	4,200,000
Total current assets	7,639,393	9,080,172
Noncurrent Assets		
Investment securities (Note 2)	17,859,495	17,717,101
Member contributions to be billed in the future	7,863,516	8,154,737
Total noncurrent assets	25,723,011	25,871,838
Total assets	<u>\$ 33,362,404</u>	<u>\$ 34,952,010</u>
Liabilities and Net Assets		
Liabilities		
Current liabilities:		
Claims and claim adjustment expense reserves (Note 3)	\$ 5,090,231	\$ 4,698,534
Reinsurance premiums payable (Note 4)	157,231	191,038
Accounts payable and accrued expenses	858,019	1,041,597
Total current liabilities	6,105,481	5,931,169
Long-term liabilities:		
Claims and claim adjustment expense reserves (Note 3)	7,863,516	8,154,737
Unearned premium reserves	218,276	234,906
Total noncurrent liabilities	8,081,792	8,389,643
Total liabilities	14,187,273	14,320,812
Net Assets - Unrestricted	19,175,131	20,631,198
Total liabilities and net assets	<u>\$ 33,362,404</u>	<u>\$ 34,952,010</u>

Public Entities Pool of Ohio

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended December 31	
	2011	2010
Operating Revenue		
Member contributions - Operating	\$ 13,180,906	\$ 13,235,455
Reinsurance premiums ceded (Note 4)	(2,615,183)	(2,743,729)
Change in contributions that will be billed in the future to pay unpaid claims	(241,221)	(1,303,978)
Total operating revenue	10,324,502	9,187,748
Operating Expenses		
Claims and claim adjustment expenses (Note 3):		
Paid	7,835,238	6,658,395
Recoveries	(797,015)	(861,596)
Increase (decrease) in claims and claim adjustment expense reserves	100,476	(1,215,469)
Total claims and claim adjustment expenses	7,138,699	4,581,330
Marketing and administrator fees	3,860,907	3,881,811
Other	534,585	514,675
Total operating expenses	11,534,191	8,977,816
Operating (Loss) Income	(1,209,689)	209,932
Nonoperating Revenue (Expenses)		
Investment earnings - Interest and dividends	497,281	665,881
Net realized and unrealized gains on investments	478,972	289,823
Budgetary distributions (Note 6)	-	(1,258,916)
Total nonoperating revenue (expenses)	976,253	(303,212)
Capital Contributions - Member capital	268,424	373,373
Capital Distributions/Withdrawals		
Cumulative reserve fund (Note 6)	(1,366,230)	(722,154)
Member capital (Note 5)	(124,825)	(44,777)
Decrease in Net Assets	(1,456,067)	(486,838)
Net Assets - Beginning of year	20,631,198	21,118,036
Net Assets - End of year	\$ 19,175,131	\$ 20,631,198

Public Entities Pool of Ohio

Statement of Cash Flows

	Year Ended December 31	
	2011	2010
Cash Flows from Operating Activities		
Cash received from members	\$ 13,326,762	\$ 13,100,009
Cash received from reinsurance recoveries	801,180	854,529
Cash paid for claims	(7,873,060)	(6,665,754)
Cash paid for reinsurance premiums	(2,648,990)	(2,732,384)
Cash paid for administrative and general expenses	(4,579,070)	(4,039,630)
Net cash (used in) provided by operating activities	(973,178)	516,770
Cash Flows from Investing Activities		
Investment income received	571,667	672,625
Purchase of investments	(9,387,119)	(5,108,861)
Proceeds from sales and maturities of investments	11,473,225	3,342,098
Net cash provided by (used in) investing activities	2,657,773	(1,094,138)
Cash Flows from Noncapital Financing Activities		
Receipts from members - Cumulative Reserve Fund	278,852	255,005
Payments for member withdrawals - Capitalization	(124,825)	(44,777)
Payments for member distributions - Budgetary	-	(1,258,916)
Payments for members' Cumulative Reserve Fund distributions	(1,366,230)	(722,154)
Net cash used in noncapital financing activities	(1,212,203)	(1,770,842)
Net Increase (Decrease) in Cash and Cash Equivalents	472,392	(2,348,210)
Cash and Cash Equivalents - Beginning of year	220,661	2,568,871
Cash and Cash Equivalents - End of year	\$ 693,053	\$ 220,661

Public Entities Pool of Ohio

Statement of Cash Flows (Continued)

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

	Year Ended December 31	
	2011	2010
Operating (loss) income	\$ (1,209,689)	\$ 209,932
Adjustments to reconcile operating (loss) income to net cash from operating activities:		
Decrease (increase) in assets:		
Member contributions receivable	145,856	(135,446)
Deductible recoverable	(37,822)	(7,359)
Reinsurance receivable on paid claims	4,165	(7,067)
Member contributions to be billed in the future	241,221	1,303,978
Increase (decrease) in liabilities:		
Claims and claim adjustment expense reserves	100,476	(1,215,469)
Reinsurance premiums payable	(33,807)	11,345
Accounts payable and accrued expenses	(183,578)	356,856
Net cash (used in) provided by operating activities	<u>\$ (973,178)</u>	<u>\$ 516,770</u>
Supplemental Disclosure of Cash Flow Information -		
Noncash investing activities - Net of realized and unrealized gains on investments	<u>\$ 478,972</u>	<u>\$ 289,823</u>

Public Entities Pool of Ohio

Notes to Basic Financial Statements December 31, 2011 and 2010

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 455 political subdivisions within the State of Ohio participate in the Pool. PEP'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

Notes to Basic Financial Statements December 31, 2011 and 2010

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 claim 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, claim adjustment expenses, reinsurance expenses, and related operating expenses for each certificate year. Member contributions to be billed in the future represent an estimate of amounts due from members which have not been billed to members and will be billed and collected in the future, from the existing members, when the estimated incurred claims, claim adjustment expenses, and related administrative expenses for each certificate year are anticipated to be paid.

Public Entities Pool of Ohio

Notes to Basic Financial Statements December 31, 2011 and 2010

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 \$693,053 and \$220,661 at December 31, 2011 and 2010, respectively.

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. Effective December 31, 2010 through December 31, 2012, the FDIC implemented the "Dodd-Frank Act" which 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 is negligible.

Public Entities Pool of Ohio

Notes to Basic Financial Statements December 31, 2011 and 2010

Note 2 - Deposits and Investments (Continued)

The Pool maintains balances in its accounts to adequately cover current operating and claim payment expenses. At December 31, 2011 and 2010, 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, 2011, the average maturities of investments are as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
U.S. Treasury securities	\$ 16,015,752	4.19
U.S. agencies and pass-throughs	2,650,271	2.76
Total fair value	<u>\$ 18,666,023</u>	
Portfolio weighted average maturity		<u>3.98</u>

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	5,085,173	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, 2011 and 2010

Note 2 - Deposits and Investments (Continued)

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, 2011 and 2010, the credit quality ratings of debt securities by investment type (other than U.S. Treasury securities) are as follows:

Rating	Fair Value	
	2011	2010
U.S. agencies and pass-throughs:		
Aaa	\$ 2,650,271	\$ 4,230,533
Aa2	-	854,640
Total	<u>\$ 2,650,271</u>	<u>\$ 5,085,173</u>
Mutual funds - Aaa	<u>\$ 704,629</u>	<u>\$ 321,704</u>

Concentration of Credit Risk - The Pool places no limit on the amount it may invest in any one issuer. At December 31, 2011, the Pool had investments of \$2,174,675 in Freddie Mac; these investments represent 11.2 percent of the Pool's total investments. At December 31, 2010, the Pool had investments of \$3,381,283 in Freddie Mac and \$1,703,890 in Fannie Mae; these investments represented 16.4 percent and 8.3 percent, respectively, of the Pool's total investments.

Note 3 - Claims and Claim Adjustment Expense Reserves

For known claims existing at December 31, the reserves are established based on known facts. For incurred but not reported reserves at year end, estimates are based on a variety of actuarial and statistical techniques that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claim costs is implicit in the calculation because reliance is placed both on actual historical data that 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 Basic Financial Statements December 31, 2011 and 2010

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, 2011, 2010, and 2009:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Claims and Claim Adjustment Expense Reserves - Beginning of year	\$ 12,853,271	\$ 14,068,740	\$ 13,719,218
Incurred Claims and Claim Adjustment Expenses			
Provision for claims incurred in current year	7,674,914	6,717,017	7,012,600
Decrease in provision for claims incurred in prior years	<u>(536,215)</u>	<u>(2,135,687)</u>	<u>(1,954,856)</u>
Total incurred claims and claim adjustment expenses	7,138,699	4,581,330	5,057,744
Payments			
Claims and claim adjustment expenses paid for claims incurred in current year	(2,670,152)	(2,220,851)	(1,666,273)
Claims and claim adjustment expenses paid for claims incurred in prior years	<u>(4,368,071)</u>	<u>(3,575,948)</u>	<u>(3,041,949)</u>
Total payments	<u>(7,038,223)</u>	<u>(5,796,799)</u>	<u>(4,708,222)</u>
Claims and Claim Adjustment Expense Reserves - End of year	<u>\$ 12,953,747</u>	<u>\$ 12,853,271</u>	<u>\$ 14,068,740</u>

Reserves for claims and claim adjustment expenses attributable to insured events in prior years changed as a result of reestimation 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 Basic Financial Statements December 31, 2011 and 2010

Note 4 - Reinsurance and Excess Risk-sharing Agreements

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large specific and aggregate losses. These agreements permit recovery of a portion of its claims from reinsurers and a risk-sharing pool, although they do not discharge the Pool's primary liability for such payments. The Pool does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers or excess risk-sharing agreements. Premiums ceded to reinsurance carriers and the risk-sharing pool during the years ended December 31, 2011 and 2010 totaled \$2,615,183 and \$2,743,729, respectively, and the amounts deducted from claims and claim adjustment expense reserves as of December 31, 2011 and 2010 for reinsurance and excess risk-sharing agreements totaled approximately \$2,818,000 and \$1,601,000, respectively.

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

Note 5 - Member Withdrawals - Capitalization

In both 2011 and 2010, 10 members withdrew from the Pool. In accordance with the intergovernmental contract, these withdrawals resulted in refunds to withdrawn members of \$124,825 in 2011 and \$44,777 in 2010, respectively. Upon withdrawal, these members became responsible for all of their respective reported and unreported casualty claims and claim adjustment expenses.

Note 6 - Member Distributions

Beginning on July 1, 2010, the Pool changed the funding and maintenance levels for member's Cumulative Reserve Funds (CRF) from 300 percent to 200 percent of its total current basis rate. Members will continue to follow a six-year cycle before fully vesting in their CRF. In the year after a member becomes fully vested, the Pool makes distributions to the member to reduce the member's CRF to 200 percent (if its basis rate exceeds 200 percent). These distributions will occur over one or two years, depending on the size of the refund. For members joining the Pool on July 1, 2010 or later, members will only fund their CRF to 200 percent; therefore, no distribution will be necessary after a member is fully vested. During 2011 and 2010, CRF distributions totaled \$1,366,230 and \$722,154, respectively.

There were no approved budgetary distributions during the year ended December 31, 2011. During 2010, the board approved budgetary cash distributions to members of approximately \$1,280,000 and returned \$1,258,916.

Required Supplemental Schedules

Public Entities Pool of Ohio

Casualty Claims Development Information

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1. Required contributions and investment income: (Note A)										
Earned	\$ 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	\$ 8,219,874
Ceded	1,005,505	969,731	1,005,564	1,118,407	971,045	1,129,436	780,706	521,687	720,726	624,480
Net	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	7,595,394
2. Expenses other than allocated claim adjustment expenses	1,424,566	1,717,800	1,969,295	2,019,343	2,190,216	2,142,248	2,200,369	2,168,868	2,133,237	2,268,851
3. Estimated claims and allocated claim adjustment expenses - End of policy year:										
Incurred	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	5,150,519
Ceded	705,575	604,226	825,668	675,873	652,684	2,108,295	493,314	236,163	437,006	474,966
Net	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	4,675,553
4. Cumulative net paid and allocated claim adjustment expenses as of:										
End of policy year	211,759	328,102	310,680	337,555	270,765	557,564	787,968	624,011	580,102	507,915
One year later	768,901	838,519	1,452,497	963,477	920,959	1,778,270	1,211,560	1,264,308	1,250,648	-
Two years later	1,472,904	1,852,356	2,921,642	2,326,885	1,978,040	2,757,846	2,234,344	1,742,187	-	-
Three years later	2,419,968	2,233,240	3,867,764	3,304,865	2,522,837	3,692,117	3,920,781	-	-	-
Four years later	2,710,067	2,968,764	4,113,395	3,794,704	2,825,984	4,277,525	-	-	-	-
Five years later	2,792,973	3,082,739	4,276,138	4,129,775	3,318,231	-	-	-	-	-
Six years later	3,024,401	3,100,931	4,292,165	4,169,073	-	-	-	-	-	-
Seven years later	3,040,926	3,101,728	4,328,864	-	-	-	-	-	-	-
Eight years later	3,049,272	3,101,743	-	-	-	-	-	-	-	-
Nine years later	3,053,443	-	-	-	-	-	-	-	-	-
5. Reestimated ceded claims and expenses	1,612,975	999,770	534,241	392,454	396,160	2,013,876	768,385	739,763	224,652	474,966
6. Reestimated net incurred claims and allocated claim adjustment expenses:										
End of policy year	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	4,675,553
One year later	4,058,652	3,972,338	6,029,618	4,514,686	5,290,411	5,362,506	4,733,399	4,521,978	4,533,908	-
Two years later	4,077,450	3,883,249	5,400,328	4,587,149	4,691,782	5,152,036	4,611,126	3,616,875	-	-
Three years later	3,729,438	3,527,152	4,735,937	4,762,416	4,021,761	4,811,063	5,062,790	-	-	-
Four years later	3,409,456	3,456,843	4,537,663	4,681,256	3,693,022	4,651,758	-	-	-	-
Five years later	3,465,831	3,411,803	4,376,325	4,639,181	3,610,969	-	-	-	-	-
Six years later	3,472,210	3,116,247	4,364,221	4,806,675	-	-	-	-	-	-
Seven years later	3,145,696	3,101,728	4,350,014	-	-	-	-	-	-	-
Eight years later	3,123,880	3,101,743	-	-	-	-	-	-	-	-
Nine years later	3,122,053	-	-	-	-	-	-	-	-	-
7. Increase (decrease) in estimated net incurred claims and allocated claim adjustment expenses subsequent to initial policy year end	<u>\$ 815,270</u>	<u>\$ (810,516)</u>	<u>\$ (649,171)</u>	<u>\$ (1,294,827)</u>	<u>\$ (2,584,432)</u>	<u>\$ (1,807,521)</u>	<u>\$ 608,841</u>	<u>\$ (2,025,510)</u>	<u>\$ (110,088)</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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1. Required contributions and investment income: (Note A)										
Earned	\$ 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	\$ 5,418,033
Ceded	30,000	48,840	41,685	35,861	135,684	63,212	507,690	476,832	-	162,457
Net	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	5,255,576
2. Expenses other than allocated claim adjustment expenses	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	2,126,641
3. Estimated claims and allocated claim adjustment expenses - End of policy year:										
Incurred	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	3,161,818
Ceded	30,000	48,840	41,685	35,861	135,684	63,212	507,690	-	-	162,457
Net	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	2,999,361
4. Cumulative net paid and allocated claim adjustment expenses as of:										
End of policy year	706,671	858,954	1,007,189	1,047,241	977,307	1,523,208	2,413,197	1,042,263	1,640,749	2,162,237
One year later	1,045,927	1,184,878	1,499,429	1,619,456	1,323,384	1,609,225	2,682,762	1,327,989	1,945,496	-
Two years later	1,050,254	1,237,688	1,457,655	1,603,532	1,365,074	1,618,131	2,699,177	1,338,607	-	-
Three years later	1,045,376	1,239,072	1,456,567	1,616,540	1,363,341	1,618,283	2,699,152	-	-	-
Four years later	1,045,461	1,239,270	1,456,567	1,617,167	1,363,555	1,619,635	-	-	-	-
Five years later	1,045,461	1,239,270	1,456,567	1,617,167	1,373,951	-	-	-	-	-
Six years later	1,045,461	1,239,270	1,456,567	1,621,467	-	-	-	-	-	-
Seven years later	1,045,461	1,239,270	1,474,402	-	-	-	-	-	-	-
Eight years later	1,046,111	1,239,270	-	-	-	-	-	-	-	-
Nine years later	1,046,111	-	-	-	-	-	-	-	-	-
5. Reestimated ceded claims and expenses	141,046	128,901	216,976	728,080	322,704	108,129	549,179	-	-	162,457
6. Reestimated net incurred claims and allocated claim adjustment expenses:										
End of policy year	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	2,999,361
One year later	1,057,055	1,243,278	1,607,797	2,326,263	1,574,819	1,727,990	2,739,948	1,394,248	1,950,689	-
Two years later	1,057,117	1,249,179	1,515,729	2,137,103	1,312,837	1,642,576	2,699,353	1,354,335	-	-
Three years later	1,045,376	1,239,072	1,502,292	1,612,415	1,363,781	1,618,841	2,699,152	-	-	-
Four years later	1,045,461	1,239,270	1,483,134	1,617,167	1,363,671	1,631,893	-	-	-	-
Five years later	1,045,461	1,239,270	1,456,567	1,617,587	1,373,951	-	-	-	-	-
Six years later	1,045,461	1,239,270	1,456,679	1,617,467	-	-	-	-	-	-
Seven years later	1,045,461	1,239,270	1,474,402	-	-	-	-	-	-	-
Eight years later	1,046,111	1,239,270	-	-	-	-	-	-	-	-
Nine years later	1,046,111	-	-	-	-	-	-	-	-	-
7. Increase (decrease) in estimated net incurred claims and allocated claim adjustment expenses subsequent to initial policy year end	\$ 113,987	\$ (74,665)	\$ 45,443	\$ (340,835)	\$ 72,666	\$ (540,569)	\$ (414,069)	\$ (15,880)	\$ (122,332)	\$ -

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

Statement of Reconciliation of Unpaid Claims and Claim Adjustment Expense Liability by Type of Contract

	Fiscal and Policy Years Ended December 31					
	2011			2010		
	Liability	Property	Total	Liability	Property	Total
Unpaid claims and claim adjustment expenses liability - Beginning of year	\$12,354,737	\$498,534	\$12,853,271	\$13,658,715	\$410,025	\$ 14,068,740
Incurred claims and claim adjustment expenses:						
Provision for insured events of the current fiscal year	4,675,553	2,999,361	7,674,914	4,631,719	2,085,298	6,717,017
Change in provision for insured events of prior fiscal years	<u>(414,704)</u>	<u>(121,511)</u>	<u>(536,215)</u>	<u>(2,087,586)</u>	<u>(48,101)</u>	<u>(2,135,687)</u>
Total incurred claims and claim adjustment expense	4,260,849	2,877,850	7,138,699	2,544,133	2,037,197	4,581,330
Payments:						
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	507,915	2,162,237	2,670,152	567,824	1,653,027	2,220,851
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>3,994,155</u>	<u>373,916</u>	<u>4,368,071</u>	<u>3,280,287</u>	<u>295,661</u>	<u>3,575,948</u>
Total payments	4,502,070	2,536,153	7,038,223	3,848,111	1,948,688	5,796,799
Unpaid claims and claim adjustment expenses - End of year	<u>\$12,113,516</u>	<u>\$ 840,231</u>	<u>\$12,953,747</u>	<u>\$12,354,737</u>	<u>\$ 498,534</u>	<u>\$12,853,271</u>

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

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, 2011 and have issued our report thereon dated May 16, 2012. 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

Management of Public Entities Pool of Ohio is responsible for establishing and maintaining an effective 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 entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity'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 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.

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 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*.

This report is intended solely for the information and use of the board of directors, the members, management, and 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

May 16, 2012



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 17, 2012**