

Public Entities Pool of Ohio

**Financial Report
with Required Supplemental Schedules
December 31, 2013**



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Public Entities Pool of Ohio, Lucas County, prepared by Plante & Moran, PLLC, for the audit period January 1, 2013 through December 31, 2013. 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 24, 2014

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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

Report on the Basic Financial Statements

We have audited the accompanying basic financial statements of Public Entities Pool of Ohio (the "Pool") as of and for the years ended December 31, 2013 and 2012 and the related notes to the basic financial statements, which collectively comprise the Pool's basic financial statements as listed in the table of contents.

Management's Responsibility for the Basic Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

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

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

To the Board of Directors
Public Entities Pool of Ohio

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Pool as of December 31, 2013 and 2012, and the respective changes in its financial position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, casualty claims development information, property claims development information, and statement of reconciliation of 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 who 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 supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance on said information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2014 on our consideration of the Pool's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pool's internal control over financial reporting and compliance.

Plante & Moran, PLLC

June 4, 2014

Public Entities Pool of Ohio

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of the statement of net position, the statement of revenue, expenses, and changes in net position, and the statement of cash flows. Along with the notes to the basic financial statements, it provides detailed financial information concerning Public Entities Pool of Ohio (the "Pool" or "PEP"). The management's discussion and analysis (the "MD&A") provides a review of the Pool's operating results for the years 2011 through 2013, as well as its financial condition at December 31, 2013, 2012, and 2011. The MD&A should be read in conjunction with the basic financial statements and notes thereto.

Overview

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

Historically, the property and casualty insurance industry has been unable to provide the consistency of pricing and coverages needed by governmental authorities. The national insurance crisis of the late 1980s, in which political subdivisions in the State of Ohio were unable to purchase affordable insurance, led to the formation of local government risk pools. The transition from insurance to pooling has been so successful that there are over 500 governmental entity pools currently operating in the United States of America. PEP was formed in 1987 and has grown steadily to 475 members today.

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

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

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

Public Entities Pool of Ohio

Management's Discussion and Analysis (Continued)

Administration

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

Financial Overview and Highlights

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

	2013	2012	2011
Assets			
Cash and cash equivalents	\$ 2,798,205	\$ 1,065,168	\$ 693,053
Investment securities - At fair value	18,254,772	18,637,833	18,666,023
Member contributions to be billed in the future	11,097,106	12,629,918	12,113,516
Other assets	<u>2,261,800</u>	<u>2,056,650</u>	<u>1,889,812</u>
Total assets	<u>\$ 34,411,883</u>	<u>\$ 34,389,569</u>	<u>\$ 33,362,404</u>
Liabilities			
Claims and claim adjustment expense reserves	\$ 11,642,576	\$ 13,108,270	\$ 12,953,747
Unearned premium reserves	146,900	151,254	218,276
Other liabilities	<u>970,718</u>	<u>948,829</u>	<u>1,015,250</u>
Total liabilities	12,760,194	14,208,353	14,187,273
Net Position - Unrestricted	<u>21,651,689</u>	<u>20,181,216</u>	<u>19,175,131</u>
Total liabilities and net position	<u>\$ 34,411,883</u>	<u>\$ 34,389,569</u>	<u>\$ 33,362,404</u>

Approximately 61 percent in 2013, 57 percent in 2012, and 58 percent in 2011 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 2.05 percent during the year ended December 31, 2013. At December 31, 2013, 2012, and 2011, substantially all of the Pool's investments were invested in U.S. Treasury securities, U.S. agency securities, corporate bonds, or money market mutual funds and investment pools.

Public Entities Pool of Ohio

Management's Discussion and Analysis (Continued)

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

The Pool's claims and claim adjustment expense reserves totaled \$11,642,576, \$13,108,270, and \$12,953,747 at December 31, 2013, 2012, and 2011, respectively. For known claims existing at December 31, the reserves are established based on known facts. For incurred but not reported reserves at year-end, estimates are based on a variety of actuarial and statistical techniques that reflect recent settlements, 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, 2013, the Pool decreased its provision for claims incurred in prior years by \$2,135,264 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 decreased by approximately 3 percent, from \$6,040,041 in 2012 to \$5,875,445 in 2013.

Net position at December 31, 2013 increased \$1,470,473 from December 31, 2012 primarily as a result of lower-than-anticipated claim expenses and reduction in reinsurance rates.

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:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating Revenue			
Member contributions	\$ 15,744,530	\$ 14,684,178	\$ 13,449,330
Reinsurance premiums ceded	(2,852,935)	(2,872,385)	(2,615,183)
Change in contributions that will be billed in the future to pay unpaid claims	<u>(1,532,812)</u>	<u>516,402</u>	<u>(241,221)</u>
Total operating revenue	11,358,783	12,328,195	10,592,926
Operating Expenses			
Provision for claims	4,409,751	6,194,564	7,138,699
General and administrative expenses	<u>5,056,950</u>	<u>4,703,758</u>	<u>4,395,492</u>
Total operating expenses	<u>9,466,701</u>	<u>10,898,322</u>	<u>11,534,191</u>
Operating Income (Loss)	1,892,082	1,429,873	(941,265)
Nonoperating (Expenses) Revenue			
Investment earnings	(289,294)	329,104	976,253
Cumulative reserve fund distributions	<u>(125,415)</u>	<u>(748,511)</u>	<u>(1,366,230)</u>
Total nonoperating expense	(414,709)	(419,407)	(389,977)
Withdrawals - Member capital	<u>(6,900)</u>	<u>(4,381)</u>	<u>(124,825)</u>
Total Increase (Decrease) in Net Position	<u><u>\$ 1,470,473</u></u>	<u><u>\$ 1,006,085</u></u>	<u><u>\$ (1,456,067)</u></u>

The Pool's membership increased from 466 members in 2012 to 475 members in 2013. Member contributions increased approximately 7.2 percent, from \$14,684,178 in 2012 to \$15,744,530 in 2013.

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 York. APEEP provides the Pool with an excess risk-sharing program. Under this arrangement, the Pool retains risks up to an amount specified in the contracts (at December 31, 2013, the Pool retained \$350,000 for casualty claims and \$100,000 for property claims). The Board of Directors and York periodically review the financial strength of the Pool and other market conditions to determine the appropriate level of risk the Pool will retain. Reinsurance premiums ceded to APEEP and the Pool's excess reinsurers totaled approximately \$2,853,000 and \$2,872,000 for the years ended December 31, 2013 and 2012, respectively. In addition, amounts deducted from claims and claim adjustment expense reserves as of December 31, 2013 and 2012 for expected recoveries under the reinsurance and excess risk-sharing agreements totaled approximately \$2,706,000 and \$2,726,000, respectively.

In accordance with generally accepted accounting standards, all investments maintained by the Pool must be reported at fair market value (marked to market concept). Annual changes in these values are recognized in the statement of revenue, expenses, and changes in net position as unrealized gains or losses on investments. Net realized and unrealized losses on investments totaled \$667,853 and \$86,076 for the years ended December 31, 2013 and 2012, respectively.

Total operating expenses of the Pool decreased in 2013 from 2012, totaling \$9,466,701 and \$10,898,322, respectively, or 60.1 percent and 74.2 percent, respectively, of member contributions. The decrease is primarily due to a decrease in claims and claim adjustment expenses.

Economic Factors and Next Year's Rates

The rates charged by the Pool for member contributions for the next year are not expected to change significantly. All other operating expenses are expected to remain consistent with amounts reported in 2013. 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, York Risk Pooling Services, Inc. at (248) 204-5142.

Public Entities Pool of Ohio

Statement of Net Position

	December 31	
	2013	2012
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 2,798,205	\$ 1,065,168
Member contributions receivable	2,132,533	1,910,112
Investment securities - At fair value (Note 2)	3,619,669	3,428,378
Accrued investment income	92,502	112,279
Deductible receivable	14,272	34,259
Reinsurance receivable on paid claims (Note 4)	22,493	-
Member contributions to be billed in the future	4,300,000	4,050,000
Total current assets	12,979,674	10,600,196
Noncurrent Assets		
Investment securities - At fair value (Note 2)	14,635,103	15,209,455
Member contributions to be billed in the future	6,797,106	8,579,918
Total noncurrent assets	21,432,209	23,789,373
Total assets	<u>\$ 34,411,883</u>	<u>\$ 34,389,569</u>
Liabilities and Net Position		
Liabilities		
Current liabilities:		
Claims and claim adjustment expense reserves (Note 3)	\$ 4,845,470	\$ 4,528,352
Reinsurance premiums payable (Note 4)	222,296	274,758
Accounts payable and accrued expenses	748,422	674,071
Total current liabilities	5,816,188	5,477,181
Long-term liabilities:		
Claims and claim adjustment expense reserves (Note 3)	6,797,106	8,579,918
Unearned premium reserves	146,900	151,254
Total long-term liabilities	6,944,006	8,731,172
Total liabilities	12,760,194	14,208,353
Net Position - Unrestricted	21,651,689	20,181,216
Total liabilities and net position	<u>\$ 34,411,883</u>	<u>\$ 34,389,569</u>

Public Entities Pool of Ohio

Statement of Revenue, Expenses, and Changes in Net Position

	Year Ended December 31	
	2013	2012
Operating Revenue		
Member contributions (Note 6)	\$ 15,744,530	\$ 14,684,178
Reinsurance premiums ceded (Note 4)	(2,852,935)	(2,872,385)
Change in contributions that will be billed in the future to pay unpaid claims	(1,532,812)	516,402
Total operating revenue	11,358,783	12,328,195
Operating Expenses		
Claims and claim adjustment expenses (Note 3):		
Paid	6,487,600	7,188,843
Recoveries	(612,155)	(1,148,802)
Change in claims and claim adjustment expense reserves	(1,465,694)	154,523
Total claims and claim adjustment expenses	4,409,751	6,194,564
Marketing and administrator fees	4,568,901	4,235,722
Other	488,049	468,036
Total operating expenses	9,466,701	10,898,322
Operating Income	1,892,082	1,429,873
Nonoperating Revenue (Expenses)		
Investment earnings - Interest and dividends	378,559	415,180
Net realized and unrealized losses on investments	(667,853)	(86,076)
Cumulative reserve fund distributions (Note 5)	(125,415)	(748,511)
Total nonoperating expenses	(414,709)	(419,407)
Withdrawals - Member capital	(6,900)	(4,381)
Increase in Net Position	1,470,473	1,006,085
Net Position - Beginning of year	20,181,216	19,175,131
Net Position - End of year	<u>\$ 21,651,689</u>	<u>\$ 20,181,216</u>

Public Entities Pool of Ohio

Statement of Cash Flows

	Year Ended December 31	
	2013	2012
Cash Flows from Operating Activities		
Cash received from members	\$ 15,517,755	\$ 14,389,868
Cash received from reinsurance recoveries	589,662	1,185,044
Cash paid for claims	(6,467,613)	(7,166,577)
Cash paid for reinsurance premiums	(2,905,397)	(2,754,858)
Cash paid for administrative and general expenses	<u>(4,982,599)</u>	<u>(4,887,706)</u>
Net cash provided by operating activities	1,751,808	765,771
Cash Flows from Investing Activities		
Investment income received	398,336	417,122
Purchase of investments	(6,654,767)	(6,353,559)
Proceeds from sales and maturities of investments	<u>6,369,975</u>	<u>6,295,673</u>
Net cash provided by investing activities	113,544	359,236
Cash Flows from Noncapital Financing Activities		
Payments for member withdrawals - Capitalization	(6,900)	(4,381)
Payments for member cumulative reserve fund distributions	<u>(125,415)</u>	<u>(748,511)</u>
Net cash used in noncapital financing activities	<u>(132,315)</u>	<u>(752,892)</u>
Net Increase in Cash and Cash Equivalents	1,733,037	372,115
Cash and Cash Equivalents - Beginning of year	<u>1,065,168</u>	<u>693,053</u>
Cash and Cash Equivalents - End of year	<u>\$ 2,798,205</u>	<u>\$ 1,065,168</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	
	2013	2012
Operating income	\$ 1,892,082	\$ 1,429,873
Adjustments to reconcile operating income to net cash from operating activities:		
(Increase) decrease in assets:		
Member contributions receivable	(222,421)	(227,288)
Deductibles receivable	19,987	22,266
Reinsurance receivable on paid claims	(22,493)	36,242
Member contributions to be billed in the future	1,532,812	(516,402)
Increase (decrease) in liabilities:		
Unearned premium reserves	(4,354)	(67,022)
Claims and claim adjustment expense reserves	(1,465,694)	154,523
Reinsurance premiums payable	(52,462)	117,527
Accounts payable and accrued expenses	74,351	(183,948)
Net cash provided by operating activities	<u>\$ 1,751,808</u>	<u>\$ 765,771</u>
Supplemental Disclosure of Cash Flow Information -		
Noncash investing activities - Net realized and unrealized losses on investments	<u>\$ (667,853)</u>	<u>\$ (86,076)</u>

Public Entities Pool of Ohio

Notes to Basic Financial Statements December 31, 2013 and 2012

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

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

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

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

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

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

Public Entities Pool of Ohio

Notes to Basic Financial Statements December 31, 2013 and 2012

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

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

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

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

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

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

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

Member Contributions - Member contributions are recognized under the accrual method of accounting and follow the provisions of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*. Member contributions are estimated 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.

Public Entities Pool of Ohio

Notes to Basic Financial Statements December 31, 2013 and 2012

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 position date and the amounts of revenue and expenses during the reporting period, in order to prepare these basic financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

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

Note 2 - Deposits and Investments

The Pool designated Fifth Third Bank, Star Plus, 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.

At December 31, 2013, deposits and investments are reported in the financial statements as follows:

	2013	
	Cash and Cash Equivalents	Investment Securities
Deposits - Cash	\$ 1,072,432	\$ -
Investments:		
Money market investment pools	\$ 988	\$ -
Money market mutual funds (U.S. Treasuries)	1,724,785	-
U.S. Treasury securities	-	13,221,625
U.S. agencies and pass-throughs	-	4,495,868
Corporate bonds	-	537,279
Total	<u>\$ 2,798,205</u>	<u>\$ 18,254,772</u>

Public Entities Pool of Ohio

Notes to Basic Financial Statements December 31, 2013 and 2012

Note 2 - Deposits and Investments (Continued)

At December 31, 2012, deposits and investments are reported in the financial statements as follows:

	2012	
	Cash and Cash Equivalents	Investment Securities
Deposits - Cash	\$ 97,565	\$ -
Investments:		
Money market investment pools	\$ 302,859	\$ -
Money market mutual funds (U.S. Treasuries)	664,744	-
U.S. Treasury securities	-	15,474,065
U.S. agencies and pass-throughs	-	3,163,768
Total	<u>\$ 1,065,168</u>	<u>\$ 18,637,833</u>

Custodial Credit Risk of Bank Deposits - The Pool maintains balances in its accounts to adequately cover current operating and claim payment expenses. At December 31, 2013 and 2012, the Pool had no bank deposits that were uninsured or uncollateralized.

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

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. 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.

Public Entities Pool of Ohio

Notes to Basic Financial Statements December 31, 2013 and 2012

Note 2 - Deposits and Investments (Continued)

At December 31, 2013, the average maturities of investments are as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Money market investment pools	\$ 988	1.00
Money market mutual funds (U.S. Treasuries)	1,724,785	1.00
U.S. Treasury securities	13,221,625	2.91
U.S. agencies and pass-throughs	4,495,868	4.27
Corporate bonds	537,279	3.47
Total fair value	\$ 19,980,545	
Portfolio weighted average maturity		3.07

At December 31, 2012, the average maturities of investments are as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Money market investment pools	\$ 302,859	1.00
Money market mutual funds (U.S. Treasuries)	664,744	1.00
U.S. Treasury securities	15,474,065	3.66
U.S. agencies and pass-throughs	3,163,768	2.81
Total fair value	\$ 19,605,436	
Portfolio weighted average maturity		3.39

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

Public Entities Pool of Ohio

Notes to Basic Financial Statements December 31, 2013 and 2012

Note 2 - Deposits and Investments (Continued)

At December 31, 2013 and 2012, the credit quality ratings of debt securities by investment type (other than U.S. Treasury securities) are as follows:

Rating	Fair Value	
	2013	2012
U.S. agencies and pass-throughs - Aaa	\$ 4,495,868	\$ 3,163,768
Corporate bonds -		
Aa1	\$ 179,008	\$ -
Aa2	181,099	-
A1	89,044	-
A3	88,128	-
Total corporate bonds	\$ 537,279	\$ -
Money market investment pools - Aaa	\$ 988	\$ 302,859

Concentration of Credit Risk - The Pool places no limit on the amount it may invest in any one issuer. At December 31, 2013, the Pool had investments of \$1,432,787 in Federal Home Loan Bank, \$2,396,928 in Freddie Mac, \$666,153 in Fannie Mae; these investments represent 28.5 percent, 47.6 percent and 13.2 percent, respectively, of the Pool's total investments subject to concentration of credit risk.

At December 31, 2012, the Pool had investments of \$821,277 in Federal Home Loan Bank, \$2,116,971 in Freddie Mac, \$225,520 in Fannie Mae; these investments represent 26.0 percent, 66.9 percent and 7.1 percent, respectively, of the Pool's total investments subject to concentration of credit risk.

Public Entities Pool of Ohio

Notes to Basic Financial Statements December 31, 2013 and 2012

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.

The following summarizes changes in claims and claim adjustment expense reserves for the years ended December 31, 2013, 2012, and 2011:

	2013	2012	2011
Claims and Claim Adjustment Expense			
Reserves - Beginning of year	\$ 13,108,270	\$ 12,953,747	\$ 12,853,271
Incurred Claims and Claim Adjustment Expenses			
Provision for claims incurred in current year	6,545,015	7,567,795	7,674,914
Change in provision for claims incurred in prior years	<u>(2,135,264)</u>	<u>(1,373,231)</u>	<u>(536,215)</u>
Total incurred claims and claim adjustment expenses	4,409,751	6,194,564	7,138,699
Payments			
Claims and claim adjustment expenses paid for claims incurred in current year	(1,959,555)	(2,428,538)	(2,670,152)
Claims and claim adjustment expenses paid for claims incurred in prior years	<u>(3,915,890)</u>	<u>(3,611,503)</u>	<u>(4,368,071)</u>
Total payments	<u>(5,875,445)</u>	<u>(6,040,041)</u>	<u>(7,038,223)</u>
Claims and Claim Adjustment Expense			
Reserves - End of year	<u>\$ 11,642,576</u>	<u>\$ 13,108,270</u>	<u>\$ 12,953,747</u>

Public Entities Pool of Ohio

Notes to Basic Financial Statements December 31, 2013 and 2012

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

Reserves for claims and claim 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 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, 2013 and 2012 totaled \$2,852,935 and \$2,872,385, respectively, and the amounts deducted from claims and claim adjustment expense reserves as of December 31, 2013 and 2012 for reinsurance and excess risk-sharing agreements totaled approximately \$2,706,000 and \$2,726,000, respectively.

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

Note 5 - Member Distributions

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 2013 and 2012, CRF distributions totaled \$125,415 and \$748,511, respectively.

Public Entities Pool of Ohio

Notes to Basic Financial Statements December 31, 2013 and 2012

Note 6 - Member Contributions

The following summarizes the components of member contributions for the years ended December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Member contributions - Operating	\$ 15,108,183	\$ 14,179,673
Member contributions - Cumulative reserve fund	631,993	437,483
Change in unearned premium reserves	<u>4,354</u>	<u>67,022</u>
Total member contributions	<u>\$ 15,744,530</u>	<u>\$ 14,684,178</u>

Required Supplemental Schedules

Public Entities Pool of Ohio

Casualty Claims Development Information

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1. Required contributions and investment income:										
Earned	\$ 7,399,842	\$ 7,797,811	\$ 8,210,922	\$ 8,504,660	\$ 8,585,521	\$ 8,223,319	\$ 8,068,139	\$ 7,972,127	\$ 8,388,169	\$ 8,736,443
Ceded	1,162,711	1,194,657	1,242,826	1,551,017	1,334,428	1,333,703	957,296	800,861	789,898	835,889
Net	6,237,131	6,603,154	6,968,096	6,953,643	7,251,093	6,889,616	7,110,843	7,171,266	7,598,271	7,900,554
2. Expenses other than allocated claim adjustment expenses	1,969,295	2,019,343	2,190,216	2,142,248	2,200,369	2,168,868	2,133,237	2,268,851	2,334,576	2,481,455
3. Estimated claims and allocated claim adjustment expenses - End of policy year:										
Incurred	5,824,853	6,777,375	6,848,085	8,567,574	4,947,263	5,878,548	5,081,002	5,196,962	5,689,561	5,278,108
Ceded	825,668	675,873	652,684	2,108,295	493,314	236,163	437,006	474,966	447,216	486,828
Net	4,999,185	6,101,502	6,195,401	6,459,279	4,453,949	5,642,385	4,643,996	4,721,996	5,242,345	4,791,280
4. Cumulative net paid and allocated claim adjustment expenses as of:										
End of policy year	310,680	337,555	270,765	557,564	787,968	624,011	580,102	554,358	524,312	561,609
One year later	1,452,497	963,477	920,959	1,778,270	1,211,560	1,264,308	1,250,648	1,053,530	1,241,554	-
Two years later	2,921,642	2,326,885	1,978,040	2,757,846	2,234,344	1,742,187	2,333,252	2,060,045	-	-
Three years later	3,867,764	3,304,865	2,522,837	3,692,117	3,920,781	2,444,958	3,003,044	-	-	-
Four years later	4,113,395	3,794,704	2,825,984	4,277,525	4,214,817	2,852,649	-	-	-	-
Five years later	4,276,138	4,129,775	3,318,976	4,346,264	4,528,970	-	-	-	-	-
Six years later	4,292,165	4,169,073	3,466,442	4,653,646	-	-	-	-	-	-
Seven years later	4,328,864	4,377,933	3,518,823	-	-	-	-	-	-	-
Eight years later	4,332,048	4,383,543	-	-	-	-	-	-	-	-
Nine years later	4,333,739	-	-	-	-	-	-	-	-	-
5. Reestimated ceded claims and expenses	534,241	1,236,695	429,303	1,641,139	683,028	1,202	20,121	324,432	930,387	486,828
6. Reestimated net incurred claims and allocated claim adjustment expenses:										
End of policy year	4,999,185	6,101,502	6,195,401	6,459,279	4,453,949	5,642,385	4,643,996	4,721,996	5,242,345	4,791,280
One year later	6,029,618	4,514,686	5,290,411	5,362,506	4,733,399	4,521,978	4,533,908	4,203,808	4,501,803	-
Two years later	5,400,328	4,587,149	4,691,782	5,152,036	4,611,126	3,616,875	3,904,773	3,604,938	-	-
Three years later	4,735,937	4,762,416	4,021,761	4,811,063	5,062,790	3,383,320	3,595,613	-	-	-
Four years later	4,537,663	4,681,256	3,693,022	4,651,758	5,237,054	3,103,679	-	-	-	-
Five years later	4,376,325	4,639,181	3,611,714	4,569,051	5,113,250	-	-	-	-	-
Six years later	4,364,221	4,806,675	3,971,237	4,887,967	-	-	-	-	-	-
Seven years later	4,350,014	4,815,527	3,856,396	-	-	-	-	-	-	-
Eight years later	4,332,048	4,401,559	-	-	-	-	-	-	-	-
Nine years later	4,333,739	-	-	-	-	-	-	-	-	-
7. (Decrease) increase in estimated net incurred claims and allocated claim adjustment expenses subsequent to initial policy year end	\$ (665,446)	\$ (1,699,943)	\$ (2,339,005)	\$ (1,571,312)	\$ 659,301	\$ (2,538,706)	\$ (1,048,383)	\$ (1,117,058)	\$ (740,542)	\$ -

Public Entities Pool of Ohio

Property Claims Development Information

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1. Required contributions and investment income:										
Earned	\$ 5,133,077	\$ 5,753,147	\$ 6,070,873	\$ 6,270,981	\$ 6,380,983	\$ 6,094,467	\$ 6,270,466	\$ 6,257,762	\$ 6,910,992	\$ 7,494,153
Ceded	<u>1,311,333</u>	<u>1,556,586</u>	<u>1,732,185</u>	<u>1,778,608</u>	<u>1,684,793</u>	<u>1,660,953</u>	<u>1,840,356</u>	<u>1,788,590</u>	<u>2,056,470</u>	<u>1,939,548</u>
Net	3,821,744	4,196,561	4,338,688	4,492,373	4,696,190	4,433,514	4,430,110	4,469,172	4,854,522	5,554,605
2. Expenses other than allocated claim adjustment expenses	1,753,670	1,939,413	2,044,839	2,101,034	2,111,180	2,074,129	2,121,004	2,126,641	2,369,179	2,575,495
3. Estimated claims and allocated claim adjustment expenses - End of policy year:										
Incurred	1,470,644	1,994,163	1,436,969	2,235,674	3,620,911	1,370,215	2,073,021	3,134,553	2,297,354	1,940,649
Ceded	<u>41,685</u>	<u>35,861</u>	<u>135,684</u>	<u>63,212</u>	<u>507,690</u>	<u>-</u>	<u>-</u>	<u>162,457</u>	<u>-</u>	<u>186,914</u>
Net	1,428,959	1,958,302	1,301,285	2,172,462	3,113,221	1,370,215	2,073,021	2,972,096	2,297,354	1,753,735
4. Cumulative net paid and allocated claim adjustment expenses as of:										
End of policy year	1,007,189	1,047,241	977,307	1,523,208	2,413,197	1,042,263	1,640,749	2,162,237	1,876,870	1,397,946
One year later	1,499,429	1,619,456	1,323,384	1,609,225	2,682,762	1,327,989	1,945,496	2,736,818	2,246,580	-
Two years later	1,457,655	1,603,532	1,365,074	1,618,131	2,699,177	1,338,607	1,938,011	2,798,329	-	-
Three years later	1,456,567	1,616,540	1,363,341	1,618,283	2,699,152	1,342,717	1,939,385	-	-	-
Four years later	1,456,567	1,617,167	1,363,555	1,619,635	2,699,076	1,341,116	-	-	-	-
Five years later	1,456,567	1,617,167	1,373,951	1,633,669	2,699,076	-	-	-	-	-
Six years later	1,456,567	1,621,467	1,373,960	1,609,564	-	-	-	-	-	-
Seven years later	1,474,402	1,623,213	1,373,960	-	-	-	-	-	-	-
Eight years later	1,474,402	1,641,452	-	-	-	-	-	-	-	-
Nine years later	1,474,402	-	-	-	-	-	-	-	-	-
5. Reestimated ceded claims and expenses	216,976	728,080	322,704	108,129	548,799	-	-	273,727	87,036	186,914
6. Reestimated net incurred claims and allocated claim adjustment expenses:										
End of policy year	1,428,959	1,958,302	1,301,285	2,172,462	3,113,221	1,370,215	2,073,021	2,972,096	2,298,094	1,753,735
One year later	1,607,797	2,326,263	1,574,819	1,727,990	2,739,948	1,394,248	1,950,689	2,772,519	2,407,993	-
Two years later	1,515,729	2,137,103	1,312,837	1,642,576	2,699,353	1,354,335	1,944,184	2,811,245	-	-
Three years later	1,502,292	1,612,415	1,363,781	1,618,841	2,699,152	1,358,338	1,940,279	-	-	-
Four years later	1,483,134	1,617,167	1,363,671	1,631,893	2,699,076	1,351,037	-	-	-	-
Five years later	1,456,567	1,617,587	1,373,951	1,637,302	2,699,076	-	-	-	-	-
Six years later	1,456,679	1,617,467	1,373,960	1,612,638	-	-	-	-	-	-
Seven years later	1,474,402	1,619,213	1,373,960	-	-	-	-	-	-	-
Eight years later	1,474,402	1,642,914	-	-	-	-	-	-	-	-
Nine years later	1,474,402	-	-	-	-	-	-	-	-	-
7. Increase (decrease) in estimated net incurred claims and allocated claim adjustment expenses subsequent to initial policy year end	<u>\$ 45,443</u>	<u>\$ (315,388)</u>	<u>\$ 72,675</u>	<u>\$ (559,824)</u>	<u>\$ (414,145)</u>	<u>\$ (19,178)</u>	<u>\$ (132,742)</u>	<u>\$ (160,851)</u>	<u>\$ 110,639</u>	<u>\$ -</u>

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					
	2013			2012		
	Liability	Property	Total	Liability	Property	Total
Unpaid claims and claim adjustment expenses liability - Beginning of year	\$ 12,629,918	\$ 478,352	\$ 13,108,270	\$ 12,113,516	\$ 840,231	\$ 12,953,747
Incurred claims and claim adjustment expenses:						
Provision for insured events of the current fiscal year	4,791,281	1,753,734	6,545,015	5,270,441	2,297,354	7,567,795
Change in provision for insured events of prior fiscal years	(2,275,403)	140,139	(2,135,264)	(1,178,239)	(194,992)	(1,373,231)
Total incurred claims and claim adjustment expense	2,515,878	1,893,873	4,409,751	4,092,202	2,102,362	6,194,564
Payments:						
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	561,609	1,397,946	1,959,555	552,408	1,876,130	2,428,538
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	3,487,081	428,809	3,915,890	3,023,392	588,111	3,611,503
Total payments	4,048,690	1,826,755	5,875,445	3,575,800	2,464,241	6,040,041
Unpaid claims and claim adjustment expenses - End of year	<u>\$ 11,097,106</u>	<u>\$ 545,470</u>	<u>\$ 11,642,576</u>	<u>\$ 12,629,918</u>	<u>\$ 478,352</u>	<u>\$ 13,108,270</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*

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of Public Entities Pool of Ohio, which comprise the basic statement of net position as of December 31, 2013, and the related basic statements of revenue, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated June 4, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described below, Finding 2013-001, to be a material weakness.

To the Board of Directors
Public Entities Pool of Ohio

Finding Type - Material Weakness (Finding 2013-001)

Criteria - The Public Entities Pool of Ohio (the “Pool”) utilizes a service organization’s, York Risk Service Group, Inc., Claims Connect System for processing all of the Pool’s claims transactions. The Pool places reliance on the Claims Connect Systems information technology (IT) internal control structure to be suitably designed to provide reasonable assurance that certain IT control objectives are being achieved, including appropriate restricted access to programs and data, performance of backups, identification, tracking, recording, and resolving processing problems in a complete and timely manner, providing security that logical access is appropriately restricted, and provide documentation that software patches and updates were completed.

Context, Cause, and Effect - The Independent Service Auditors Report cited that the information technology control objectives were suitably designed to provide reasonable assurance that the control objectives would be achieved, however, the related controls were not operating effectively (results and samples varied depending on the control objective tested) throughout the period November 1, 2012 to October 31, 2013. Proper procedures and controls are not in place to ensure that information technology controls are operating effectively for the areas stated in the criteria above. There is a risk that improper, inaccurate, or unauthorized transactions could be recorded. Therefore, the Pool should not have been relying on the service organization and their information technology controls.

Recommendation - We recommend the Pool review and understand York’s action plan to correct the various findings identified in the Report of Independent Service Auditors on the Claims Connect system. This includes periodic updates of the action plan to ensure the action plan is executed to allow the Pool assurance that IT controls exist at the service organization in order to maintain the integrity of the data being processed for the Pool.

Views of Responsible Officials and Planned Correction Actions - York has a senior leadership task force assigned to implement more formal control documentation, ensuring that controls are appropriate, and valid providing for an unqualified report going forward. York will be working with PricewaterhouseCoopers throughout this audit year to assure that the appropriate documentation procedures are in place. An appropriate control environment is an obligation York takes very seriously and continuing to assure that the controls are in place to meet this obligation is a priority.

Compliance and Other Matters

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

To the Board of Directors
Public Entities Pool of Ohio

Public Entities Pool of Ohio's Response to Findings

Public Entities Pool of Ohio's response to the findings identified in our audit are described above under the views of responsible officials and planned corrective actions. Public Entities Pool of Ohio's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Plante & Moran, PLLC

June 4, 2014

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Dave Yost • Auditor of State

PUBLIC ENTITIES POOL 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 8, 2014**