PUBLIC ENTITY RISK CONSORTIUM

REGULAR AUDIT

DECEMBER 1, 2009 THROUGH NOVEMBER 30, 2010

PREPARED BY: MANNING & ASSOCIATES CPAs, LLC

Dave Yost • Auditor of State

Board of Trustees
Public Entity Risk Consortium
222 Meigs Street
Sandusky, Ohio 44870

We have reviewed the *Independent Auditors' Report* of the Public Entity Risk Consortium, Erie County, prepared by Manning & Associates, CPAs, LLC, for the audit period December 1, 2009 through November 30, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditors' Report* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditors' Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

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 Entity Risk Consortium is responsible for compliance with these laws and regulations.

Dave Yost

Dave Yost
Auditor of State

June 15, 2011

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FINANCIAL STATEMENT

PUBLIC ENTITY RISK CONSORTIUM

NOVEMBER 30, 2010

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Manning & Associates
Certified Public Accountants, LLC
John M. Manning, CPA • Sandra L. Comer, CPA • John C. Bensman, CPA • John M Keller, CPA

Independent Auditors' Report

Board of Trustees
Public Entity Risk Consortium

We have audited the accompanying financial statement of the Public Entity Risk Consortium (the Consortium) as of and for the year ended November 30, 2010. This financial statement is the responsibility of the Consortium's management. Our responsibility is to express an opinion on this financial statement based on our audit.

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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note A, the Consortium has prepared its financial statement using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects of the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Consortium to reformat its financial statement presentation and make other changes effective for the year ended November 30, 2010. Instead of the combined funds the accompanying financial statements present for 2010, the revisions require presenting entity wide statements and also to present it's larger (i.e., major) funds separately for 2010. While the Consortium does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements.

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The Auditor of State permits, but does not require governments to reformat their statements. The Consortium has elected not to reformat its statements. Since the Consortium does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding three paragraphs, the financial statement referred to above for the year ended November 30, 2010 does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Consortium as of November 30, 2010 or its changes in financial position for the year then ended.

Also, in our opinion, the financial statement referred to above presents fairly, in all material respects, the combined fund cash balance of the Public Entity Risk Consortium as of November 30, 2010 and its combined cash receipts and disbursements for the year then ended on the accounting basis Note A describes.

The aforementioned revision to generally accepted accounting principles also requires the Consortium to include Management's Discussion and Analysis for the year ended November 30, 2010. The Consortium has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report date May 25, 2011 on our consideration of the Public Entity Risk Consortium's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Manning & Associates CPAs, LLC

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Manning & Associates CPAs, LLC
Dayton, Ohio

May 25, 2011

STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND CASH BALANCE

PUBLIC ENTITY RISK CONSORTIUM

YEAR ENDED NOVEMBER 30, 2010

		2010
RECEIPTS		
Receipts from members	$	5,693,423
Interest income		14,748
TOTAL RECEIPTS	$	5,708,171
DISBURSEMENTS		
Payments to third-party administrator:	$	4,007,568
Claims payments		1,545,305
Professional fees		11,882
Refund to members		716,289
TOTAL DISBURSEMENTS	$	6,281,044
EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS	$	(572,873)
Beginning fund cash balance		3,924,229
Ending fund cash balance	$	3,351,356

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENT
PUBLIC ENTITY RISK CONSORTIUM
NOVEMBER 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Entity:

The Public Entity Risk Consortium, (the Consortium) is a joint self-insurance Pool Consortium established pursuant to the rights and privileges conveyed to it by the constitution and laws of the State of Ohio as defined by Ohio Revised Code Chapter 167. The Consortium is a shared risk pool as defined by Government Accounting Standards Board Statement No. 10. It was formed to carry out a cooperative program for the provisions and administration of a self-insurance pool to provide excess coverage for automobile liability, general liability, crime and property, automobile physical damage and public official's liability in accordance with the Consortium's agreement and bylaws. In addition to the self-insurance pool, the Consortium provides risk management services, loss prevention programs and other educational materials. The members of the Consortium include the following entities within the State of Ohio: The Buckeye Ohio Risk Management Agency, Inc. (BORMA), Midwest Pool Risk Management Agency, Inc. (MPRMA), Ohio Housing Authority Property & Casualty, Inc. (OHAPCI) State Housing Authority Risk Pool Association, Inc. (SHARP), City of Lorain, Ohio, and the counties of Tuscarawas and Wayne.

The Consortium's agreement and bylaws provide for a Board of Trustees and each member is entitled to have a member on the Board of Trustees. It is the responsibility of the Board of Trustees to elect five of its members to serve as the Consortium's Board of Directors who are charged with governance and administration of Consortium joint self-insurance pool

Member premiums are calculated to annually produce a sufficient sum of money within the self-insurance pool adequate to fund administrative expenses of the Consortium and to create adequate reserves for claims and allocated loss adjustment expenses.

Under the terms of membership, should annual member premiums not be sufficient to fund ultimate losses, establish adequate reserves and cover administrative expenses, the Board of Trustees can require supplementary contributions. Supplementary contributions can be assessed during the entire life of the Consortium and any later period when claims or expenses need to be paid which are attributable to any membership year during which the event or claim occurred.

Coverage provided by the Consortium are general liability, automobile liability, public official's liability, law enforcement liability, automobile physical damage, property and crime. Coverage provided each participating member in the Consortium is for the amounts between each member's deductible/retentions up to $250,000 per occurrence for property claims and up to $500,000 for liability claims.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Description of the Entity (Continued):

Member retentions per occurrence are as follows:

Member	Property	General Liability	Auto Liability	Pub. Off. E & O	Automobile Physical Damage	Crime
BORMA	$150,000	$150,000	$150,000	$150,000	$150,000	$ 25,000
MPRMA	$100,000	$100,000	$100,000	$100,000	$100,000	$ 25,000
OHAPCI	$100,000	$100,000	$100,000	$100,000	$100,000	$100,000
SHARP	$100,000	$100,000	$100,000	$100,000	$100,000	$ 50,000
City of Lorain	$100,000	$ 50,000	$ 50,000	$ 50,000	$ 5,000	$ 10,000
Tuscarawas County	$ 50,000	$ 50,000	$ 10,000	$ 50,000	$ 5,000	N/A
Wayne County	$ 50,000	$ 50,000	$ 25,000	$ 50,000	$ 25,000	N/A

The Consortium self-insures amounts in excess of its members' individual self-insured retention as follows:

Property	$250,000 per occurrence
Liability	$500,000 per occurrence
Stop Loss	$1,650,000 maximum per year

The Consortium uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits recovery of a portion of losses from reinsurance, although it does not discharge the primary liability of the Consortium as direct insurer of the risks reinsured. The Consortium is contingently liable with respect to certain loss coverage, which would become a liability in the event these insurance carriers are unable to meet the obligations under these contracts.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Description of the Entity (Continued):

Members may withdraw from the Consortium or from any particular benefits program with at least 12 months notice. No members withdrew from the Consortium during the period from December 1, 2009 through November 30, 2010.

All administrative costs and expenses incurred for the maintenance of the Consortium are paid through the benefit pool account balances through November 30, 2010.

Management believes this financial statement presents all activities for which the Consortium is financially accountable.

Basis of Accounting:

The Consortium's financial statement follows the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

The Consortium's financial statement includes adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

Fund Accounting:

The Consortium maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of government entities in which legal or other restraints require the recording of specific receipts and disbursements. The Consortium maintains a general fund to account for its expendable financial resources and related current expenses.

Budgetary Process:

The Consortium is not required to follow the budgetary process and has decided not to adopt a formal budget annually as part of their amended and restated agreement.

1. <u>Appropriations</u>

   Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund/function level of control. Independent insurance consultants annually recommend appropriation measures and they are approved by the Consortium annually along with any subsequent amendments.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgetary Process: (continued)

2. Estimated Resources

   Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of December 1.

3. Encumbrances

   The Consortium does not reserve encumbrances.

Cash and Investments:

Investments are reported as assets and are carried at cost, which approximates fair value. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses are recorded as receipts or disbursements when a sale occurs.

Subsequent Events:

The Consortium has evaluated the need for disclosure and/or adjustments resulting from subsequent events through May 25, 2011, the date on which the financial statement was available to be issued. This evaluation determined that there are no subsequent events that necessitate disclosures and/or adjustments.

NOTE B – EQUITY IN POOLED CASH AND INVESTMENTS

The Consortium maintains a cash and savings account used by all funds. The Consortium is not required by law to have an investment policy.

The carrying amount of the Consortium's cash and investments at November 30, 2010 was as follows:

NOTE B – EQUITY IN POOLED CASH AND INVESTMENTS, continued

		2010
Demand deposits		$ 2,342,569
Certificate of Deposits:		
The Citizens Banking Company	Due Dec. 09, 2010	252,600
The Citizens Banking Company	Due Dec. 11, 2010	252,896
The Citizens Banking Company	Due March 11, 2011	253,291
The Citizens Banking Company	Due Dec 11, 2010	250,000
		$ 3,351,356

Deposits:

Deposits are either insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

NOTE C – ADMINISTRATIVE FEES

The Consortium has contracted with Arthur J. Gallagher & Co. to provide various management, underwriting, claim adjustments and loss control services. The fees are calculated based on periodic contributions and are deferred and charged to periodic expenses on a straight-line basis over the related service period.

NOTE D – RISK MANAGEMENT

The Consortium contracted with a third-party administrator, Arthur J. Gallagher & Co. to defend and process claims incurred by its members. The members contribute annual premiums into the self-insurance risk pool fund of the Consortium. The Treasurer approves payments to the third-party administrator for actual insurance claims processed, insurance premiums and administrative charges incurred on behalf of the Consortium members. Besides the standard annual contributions, the Consortium may extend an assessment to each member.

Members that withdraw from the Consortium are obligated for payment of any negative balance in their account and the remaining claims of any of its eligible members and dependents are the responsibility of each individual member upon withdrawal from the Consortium.

NOTE E – EXPECTED LOSS AND ALLOCATED LOSS ADJUSTMENT EXPENSE

The Consortium receives an annual actuarial report that estimates an amount for the runoff liability (expected loss and allocated loss adjustment expense) for claims incurred but not reported (IBNR claims) based on an analysis of historic claims data using generally accepted actuarial principles. The actuarial report reflected that the minimum requirement of the Ohio Revised Code Section 9.833 had been satisfied for the year ended November 30, 2010. The reported reserve fund available to pay the IBNR claims and the IBNR claim liability per the actuarial report at November 30, 2010 is as follows:

	2010
Cash and savings	$3,351,356
IBNR actuarial liability	1,786,941
Excess funds	$ 1,564,415

NOTE F – REFUND TO MEMBERS

The Consortium's Board of Directors approved payment of a refund to individual members for policy years 2005-2006, 2007-2008, and 2008-2009 in a total amount of $799,741 payable within three months of November 09, 2010. Total payments of $716,289 were made prior to year ended November 30, 2010, with a final payment of $83,452 made during February 2011.

NOTE G – EXCESS INSURANCE RECIEVABLE

At November 30, 2010, the Consortium had excess insurance receivables (amounts paid in excess of deductable/retentions) in the amount of $1,139,770. In the future, payments in excess of the Consortium's deductible/retentions will be paid by excess insurance rather than initially paid by the Consortium with reimbursement by excess insurance.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Public Entity Risk Consortium

We have audited the financial statement of the Public Entity Risk Consortium as of and for the year ended November 30, 2010, and have issued our report thereon dated May 25, 2011, wherein, we noted the agency uses a comprehensive accounting basis other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of the 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.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (continued)

Compliance and Other Matters

As part of reasonably assuring whether the Public Entity Risk Consortium financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters that we must report under *Government Auditing Standards*.

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

Manning & Associates CPAs, LLC

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Manning & Associates CPAs, LLC
Dayton, Ohio

May 25, 2011

STATUS OF PRIOR YEAR AUDIT CITATIONS AND RECOMMENDATIONS

PUBLIC ENTITY RISK CONSORTIUM

YEAR ENDED NOVEMBER 30, 2010

The Consortium year ended November 30, 2009 audit did not include material citations or recommendations.

Dave Yost • Auditor of State

PUBLIC ENTITY RISK CONSORTIUM

ERIE 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
JUNE 28, 2011

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