PUBLIC ENTITY RISK CONSORTIUM

FINANCIAL STATEMENT

FOR THE FISCAL YEAR ENDED
NOVEMBER 30, 2011

Dave Yost • Auditor of State

Board of Trustees
Public Entity Risk Consortium
222 Meigs St.
Sandusky, OH 44870

We have reviewed the *Independent Auditor's Report* of the Public Entity Risk Consortium, Erie County, prepared by Rea & Associates, Inc., for the audit period December 1, 2010 through November 30, 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.

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 Auditor's 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 Auditor's 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

May 30, 2012

88 East Broad Street, Fifth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-4514 or 800-282-0370 Fax: 614-466-4490
www.ohioauditor.gov

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PUBLIC ENTITY RISK CONSORTIUM

FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2011

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April 25, 2012

To the Board of Trustees
Public Entity Risk Consortium
222 Meigs St.
Sandusky, OH 44870

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statement of the Public Entity Risk Consortium (the Consortium) as of and for the fiscal year ended November 30, 2011, as listed in the table of contents. These financial statements are 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinion.

As described more fully in Note 2, the Consortium has prepared these financial statements 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 on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Consortium's larger (i.e. major) funds separately. 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 GAAP presentation requirements. The Auditor of State permits, but does not require Consortiums to reformat their statements. The Consortium has elected not to follow GAAP statement formatting requirements. 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 two paragraphs, the financial statements referred to above for the fiscal year ended November 30, 2011 do 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, 2011, or its changes in financial position for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances as of November 30, 2011 of the Consortium and its combined cash receipts and disbursements for the year then ended on the accounting basis Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2012, on our consideration of the 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*. You should read it in conjunction with this report in assessing the results of our audit.

Rea & Associates, Inc.

PUBLIC ENTITY RISK CONSORTIUM

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCES
FOR THE YEAR ENDED NOVEMBER 30, 2011

	2011
RECEIPTS:	
Receipts from Members	$ 5,816,844
Insurance Recoveries	1,773,371
Interst Income	15,860
Total Receipts	7,606,075
DISBURSEMENTS:	
Payments to third-party administrator	4,127,118
Claims Payments	1,703,455
Professional Fees	19,048
Refund to members	579,832
Total Disbursements	6,429,453
Excess of Receipts over Disbursements	1,176,622
FUND CASH BALANCES, December 1, 2010	3,351,356
FUND CASH BALANCES, November 30, 2011	$ 4,527,978

The accompanying notes are an integral part of this financial statement.

NOTE 1 – 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: City of Lorain, 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), 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 the Consortium joint self-insurance pool.

Member premiums are calculated to annually produce a sufficient sum of money within the self-insurance pool to adequately 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 1 – 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.

Members may withdraw from the Consortium or from any particular benefits program at the end of any fiscal year, provided the member had given three months advance notice of its intention to withdraw on that date. No members withdrew from the Consortium during the period from December 1, 2010 through November 30, 2011.

All administrative costs and expenses incurred for the maintenance of the Consortium are paid through the benefit pool account balances through November 30, 2011.

Management believes these financial statements present all activities for which the Consortium is financially accountable.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

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

B. 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.

C. 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. Appropriations - 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.

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.

D. 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.

E. Subsequent Events

The Consortium has evaluated subsequent events through April 25, 2012, the date of the Independent Auditor's Report, to determine whether additional disclosures were required.

NOTE 3 - 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, although the Board of Trustees has approved one.

The carrying amount of the Consortium's cash and investments at November 30, 2011 was as follows:

	2011
Demand deposits	$3,505,572
Certificate of Deposits:	
The Citizens Banking Co. due December 8, 2011	253,736
The Citizens Banking Co. due March 11,2012	255,070
The Citizens Banking Co. due June 11, 2012	255,863
The Citizens Banking Co. due June 11, 2012	257,737
	$4,527,978

Deposits:

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

NOTE 4 - 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 5 - 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 of 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 6 - 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 reports reflected that the minimum requirement of the Ohio Revised Code Section 9.833 had been satisfied for the year ended November 30, 2011. The reported reserve fund available to pay the IBNR claims and the IBNR claim liability per the actuarial report at November 30, 2011 is as follows:

	2011
Cash and savings	$4,527,978
IBNR actuarial liability	2,236,949
Excess funds	$2,291,029

NOTE 7 – REFUND TO MEMBERS

The Consortium's Board of Trustees approved payment of a refund to individual members for policy years 2009-2010 and 2010-2011 in a total amount of $496,380 payable within three months of October 13, 2011. Total payments of $579,832 were made prior to fiscal year ended November 30, 2011, which included final payment of $83,452 from the previous fiscal year.

NOTE 8 – EXCESS INSURANCE RECEIVABLE

At November 30, 2011, the Consortium had excess insurance receivables (amounts paid in excess of deductible/retentions) in the amount of $434,192. In the future, payments in excess of the Consortium's deductible/rententions will be paid by excess insurance rather than initially paid by the Consortium with reimbursement by excess insurance.

April 25, 2012

To the Board of Trustees
Public Entity Risk Consortium
222 Meigs Street
Sandusky, OH 44870

INDEPENDENT AUDITOR'S 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

We have audited the financial statements of the Public Entity Risk Consortium, (the Consortium) as of and for the year ended November 30, 2011, and have issued our report thereon dated April 25, 2012, wherein we noted the Consortium prepared its financial statements using accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the Consortium is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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 statements, 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* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Consortium's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

This report is intended solely for the information and use of management and Board of Trustees and is not intended to be and should not be used by anyone other than those specified parties.

Rea & Associates, Inc.

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 12, 2012

88 East Broad Street, Fifth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-4514 or 800-282-0370 Fax: 614-466-4490
www.auditor.state.oh.us