

Public Entity Risk Consortium
Mahoning County, Ohio

Audited Financial Statement

For the Fiscal Year Ended
November 30, 2015



Dave Yost • Auditor of State

Board of Trustees
Public Entity Risk Consortium
131 West Boardman Street
Boardman, Ohio 44503

We have reviewed the *Independent Auditor's Report* of the Public Entity Risk Consortium, Mahoning County, prepared by Rea & Associates, Inc., for the audit period December 1, 2014 through November 30, 2015. 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 Entity Risk Consortium 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 20, 2016

This page intentionally left blank.

**PUBLIC ENTITY RISK CONSORTIUM
MAHONING COUNTY, OHIO**

FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2015

TABLE OF CONTENTS

Independent Auditor’s Report.....	1
Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balance	3
Notes to the Financial Statement.....	4
Independent Auditor’s Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Required by <i>Government Auditing Standards</i>	10

This page intentionally left blank.

May 23, 2016

To the Board of Trustees
Public Entity Risk Consortium
131 West Boardman Street
Boardman, OH 44503

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying cash balances, receipts, disbursements and related notes of the Public Entity Risk Consortium, Mahoning County, Ohio (the Consortium) as of and for the year ended November 30, 2015.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting this financial statement in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on this financial statement based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statement is free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Consortium's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Consortium's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2 of the financial statement, the Consortium prepared this financial statement using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

Although the effects on the financial statement of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Consortium does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the Opinion on Regulatory Basis of Accounting paragraph below.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Consortium as of November 30, 2015, or changes in financial position or cash flows thereof for the year ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash balance of the Public Entity Risk Consortium, Mahoning County, Ohio as of November 30, 2015, and its cash receipts and disbursements for the year then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 2.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2016, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on 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 Consortium's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Medina, Ohio

**PUBLIC ENTITY RISK CONSORTIUM
MAHONING COUNTY, OHIO**

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCE
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2015

	<u>2015</u>
RECEIPTS:	
Receipts from Members	\$ 5,582,079
Insurance Recoveries	375,589
Interest Income	<u>24,310</u>
Total Receipts	<u>5,981,978</u>
DISBURSEMENTS:	
Payments to Third-Party Administrator	4,044,549
Claims Payments	490,175
Professional Fees	17,763
Refund to Members	44,545
Other	<u>82</u>
Total Disbursements	<u>4,597,114</u>
Excess of Receipts over Disbursements	1,384,864
FUND CASH BALANCES, December 1, 2014	<u>6,400,744</u>
FUND CASH BALANCES, November 30, 2015	<u>\$ 7,785,608</u>

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

**PUBLIC ENTITY RISK CONSORTIUM
MAHONING COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2015

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 being organized under Ohio Revised Code Chapter 2744.081. 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.

**PUBLIC ENTITY RISK CONSORTIUM
MAHONING COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2015

NOTE 1 – DESCRIPTION OF THE ENTITY (Continued)

Member retentions per occurrence are as follows:

<u>Member</u>	<u>Property</u>	<u>General Liability</u>	<u>Auto Liability</u>	<u>Pub. Off. E & O</u>	<u>Automobile Physical Damage</u>	<u>Crime</u>
BORMA	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 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	75,000	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	\$1,560,000 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 with at least six months' notice. For the period December 1, 2014 through November 30, 2015, no members withdrew from the Consortium.

All administrative costs and expenses incurred for the maintenance of the Consortium are paid through the pool account balances through November 30, 2015.

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

**PUBLIC ENTITY RISK CONSORTIUM
MAHONING COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. 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.

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 budgetary provisions set forth in Ohio Revised Code Chapter 5705 and has decided to adopt a formal budget annually as part of their amended agreement and bylaws.

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.

**PUBLIC ENTITY RISK CONSORTIUM
MAHONING COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2015

NOTE 3 - EQUITY IN POOLED CASH AND INVESTMENTS

The Consortium maintains cash accounts and certificates of deposit used by the fund. 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, 2015 was as follows:

	<u>2015</u>
Demand deposits	\$ 4,144,094
Certificates of Deposit:	
The Citizens Banking Co. due December 3, 2015	255,323
The Citizens Banking Co. due April 11, 2016	258,467
The Citizens Banking Co. due June 11, 2016	257,841
The Citizens Banking Co. due December 11, 2016	262,814
Investments:	
Federal Farm Credit Bank Notes due December 17, 2018	200,058
Federal Farm Credit Bank Notes due June 15, 2020	150,680
Federal Home Loan Bank Notes due November 23, 2016	199,768
Federal Home Loan Bank Notes due September 8, 2017	249,050
Federal Home Loan Bank Notes due September 17, 2018	149,843
Federal Home Loan Bank Notes due November 28, 2017	100,013
Federal Home Loan Bank Notes due December 28, 2016	49,908
Federal Home Loan Mortgage Corp. Notes due December 21, 2015	120,013
Federal Home Loan Mortgage Corp. Notes due January 3, 2017	119,807
Federal Home Loan Mortgage Corp. Notes due July 30, 2018	300,273
Federal National Mortgage Association Notes due November 15, 2016	100,597
Federal National Mortgage Association Notes due August 28, 2019	197,970
Federal National Mortgage Association Notes due September 28, 2016	120,546
Federal National Mortgage Association Notes due December 20, 2017	249,170
Federal National Mortgage Association Notes due May 21, 2018	74,411
U.S. Treasury Notes	<u>224,962</u>
Total cash and investments	<u>\$7,785,608</u>

Custodial credit risk for deposits is the risk that in the event of bank failure, the Consortium will not be able to recover deposits or collateral securities that are in the possession of an outside party. Deposits are either insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool. While not constrained by Ohio Revised Code, the Consortium follows the Ohio Revised Code section that limits the investment choices to those of its member participants.

**PUBLIC ENTITY RISK CONSORTIUM
MAHONING COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2015

NOTE 3 - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment policy restricts the Consortium from investing in any securities other than those identified in the Ohio Revised Code and that all investments must mature within five years from the date of investment unless they are matched to a specific obligation.

All of the federal agency securities carry a rating of Aaa by Moody's. The Consortium has no investment policy dealing with credit risk beyond the requirements of State statute.

The Consortium places no limit on the amount of its interim monies it may invest in a particular security. The following table indicates the percentage of investments to the Consortium's total portfolio:

	Fair value	Percentage of Portfolio
Federal Farm Credit Bank	\$ 350,738	13%
Federal Home Loan Bank	748,582	29%
Federal Home Loan Mortgage Corp.	540,093	21%
Federal National Mortgage Association	742,694	28%
U.S. Treasury	224,962	9%

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 Risk Management Services, Inc. to provide management services. The Consortium has also contracted with Gallagher Bassett Services to process claims incurred by its members.

The members contribute annual premiums into the self-insurance risk pool fund of the Consortium. The Board of Directors approves payments to the third-party administrator for actual insurance claims processed, insurance premiums and administrative charges incurred on behalf of the Consortium members, except to the extent discretionary authority is granted to Gallagher Bassett for payment of claims. The Consortium may extend an assessment to each member if additional funding is needed to cover expenses.

**PUBLIC ENTITY RISK CONSORTIUM
MAHONING COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2015

NOTE 5 - RISK MANAGEMENT (Continued)

Members that withdraw from the Consortium are obligated for any Supplementary Payments at the member's Pool Contribution Factor in effect for the specific year(s) to which the Supplementary Payment(s) apply.

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 report is in compliance with the requirements set forth in ORC 2744.81 for the year ended November 30, 2015. The reported reserve fund available to pay the IBNR claims and the IBNR claim liability per the actuarial report at November 30, 2015 is as follows:

	<u>2015</u>
Cash and Certificates of Deposit	\$7,785,608
IBNR actuarial liability	<u>(2,705,509)</u>
Excess funds	<u>\$5,080,099</u>

NOTE 7 – REFUND TO MEMBERS

The Consortium's Board of Trustees approved payment of a refund to individual members for policy years 2014-2015 in a total amount of \$572,405. The total amount is outstanding as of November 30, 2015.

May 23, 2016

To the Board of Trustees
Public Entity Risk Consortium
131 West Boardman Street
Boardman, OH 44503

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statement of the Public Entity Risk Consortium, Mahoning County, Ohio (the Consortium) as of and for the year ended November 30, 2015, and the related notes to the financial statement and have issued our report thereon dated May 23, 2016 wherein we noted the Consortium followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Consortium's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statement, but not to the extent necessary to opine on the effectiveness of the Consortium's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Consortium's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the Consortium's financial statement is 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, opining 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 we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Consortium's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Consortium's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hea & Associates, Inc.

Medina, Ohio

This page intentionally left blank.



Dave Yost • Auditor of State

PUBLIC ENTITY RISK CONSORTIUM

LOGAN 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 5, 2016