

Public Entity Risk Consortium

Logan County, Ohio

Audited Financial Statement

For the Fiscal Year Ended
November 30, 2014



Dave Yost • Auditor of State

Board of Trustees
Public Entity Risk Consortium
116 North Everett Street
Bellefontaine, Ohio 43311

We have reviewed the *Independent Auditor's Report* of the Public Entity Risk Consortium, Logan County, prepared by Rea & Associates, Inc., for the audit period December 1, 2013 through November 30, 2014. 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

August 7, 2015

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

**FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2014**

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June 23, 2015

To the Board of Trustees
Public Entity Risk Consortium
116 North Everett St.
Bellefontaine, OH 43311

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statement and related notes of the Public Entity Risk Consortium, Logan County, Ohio (the Consortium) as of and for the year ended November 30, 2014.

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 do 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, 2014, or changes in financial position for the year then 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, Logan County, Ohio as of November 30, 2014, 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 June 23, 2015, 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.

Hea & Associates, Inc.

Medina, Ohio

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

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCE
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2014

	2014
RECEIPTS:	
Receipts from Members	\$ 5,547,111
Insurance Recoveries	1,111,940
Interest Income	19,549
Miscellaneous	9,344
Total Receipts	6,687,944
DISBURSEMENTS:	
Payments to Third-Party Administrator	3,977,576
Claims Payments	1,500,772
Professional Fees	17,283
Refund to Members	470,582
Other	434
Total Disbursements	5,966,647
Excess of Receipts over Disbursements	721,297
FUND CASH BALANCES, December 1, 2013	5,679,447
FUND CASH BALANCES, November 30, 2014	\$ 6,400,744

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

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

**NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2014**

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.

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

NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2014

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	\$1,550,000 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 with at least 12 months notice. For the period December 1, 2013 through November 30, 2014, no members withdrew from the Consortium.

All administrative costs and expenses incurred for the maintenance of the Consortium are paid through the benefit pool account balances through November 30, 2014.

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

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

**NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2014**

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 not 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
LOGAN COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2014

NOTE 3 - EQUITY IN POOLED CASH AND INVESTMENTS

The Consortium maintains a cash account and certificates of deposit 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, 2014 was as follows:

	<u>2014</u>
Demand deposits	\$ 3,010,578
Certificates of Deposit:	
The Citizens Banking Co. due March 5, 2015	255,036
The Citizens Banking Co. due April 11, 2015	257,984
The Citizens Banking Co. due June 11, 2015	257,089
The Citizens Banking Co. due June 11, 2015	261,439
Investments:	
Federal Farm Credit Bank Notes due December, 24, 2014	250,023
Federal Home Loan Bank Notes due December 28, 2016	50,056
Federal Home Loan Bank Notes due September 8, 2017	248,038
Federal Home Loan Mortgage Corp. Notes due September 25, 2015	50,136
Federal Home Loan Mortgage Corp. Notes due November 24, 2015	250,413
Federal Home Loan Mortgage Corp. Notes due January 3, 2017	120,058
Federal Home Loan Mortgage Corp. Notes due July 27, 2017	50,030
Federal Home Loan Mortgage Corp. Notes due July 30, 2018	298,905
Federal National Mortgage Association Notes due July 2, 2015	250,528
Federal National Mortgage Association Notes due December 21, 2015	120,156
Federal National Mortgage Association Notes due September 28, 2016	121,698
Federal National Mortgage Association Notes due December 20, 2017	249,035
Federal National Mortgage Association Notes due May 21, 2018	74,269
U.S. Treasury Notes	<u>225,273</u>
Total cash and investments	<u>\$6,400,744</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.

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

**NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2014**

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:

	<u>Fair value</u>	<u>Percentage of Portfolio</u>
Federal Farm Credit Bank	\$ 250,023	11%
Federal Home Loan Bank	298,094	13%
Federal Home Loan Mortgage Corp.	769,542	33%
Federal National Mortgage Association	815,686	35%
U.S. Treasury	225,276	10%

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 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. The Consortium may extend an assessment to each member if additional funding is needed to cover expenses.

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.

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

**NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2014**

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, 2014. The reported reserve fund available to pay the IBNR claims and the IBNR claim liability per the actuarial report at November 30, 2014 is as follows:

	<u>2014</u>
Cash and Certificates of Deposit	\$6,400,744
IBNR actuarial liability	<u>2,810,057</u>
Excess funds	<u>\$3,590,687</u>

NOTE 7 – REFUND TO MEMBERS

The Consortium’s Board of Trustees approved payment of a refund to individual members for policy years 2013-2014 in a total amount of \$515,127. Total payments of \$470,582 were made prior to fiscal year ended November 30, 2014. The remaining \$44,545 has not been paid as of November 30, 2014.

NOTE 8 – EXCESS INSURANCE RECEIVABLE

At November 30, 2014, the Consortium had excess insurance receivables (amounts paid in excess of deductible/retentions) in the amount of \$534,024. In the future, payments in excess of the Consortium’s deductible or retentions will be paid by excess insurance rather than initially paid by the Consortium with reimbursement by excess insurance.

June 23, 2015

To the Board of Trustees
Public Entity Risk Consortium
116 North Everett St.
Bellefontaine, OH 43311

**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, Logan County, Ohio (the Consortium) as of and for the year ended November 30, 2014, and the related notes to the financial statement and have issued our report thereon dated June 23, 2015 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.

Kea & Associates, Inc.

Medina, Ohio

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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
AUGUST 20, 2015