

THE JOINTLY ADMINISTERED TRUST FUND
FOR THE BENEFIT OF
LORAIN CITY SCHOOL DISTRICT EMPLOYEES
(A COMPONENT UNIT OF LORAIN CITY SCHOOL DISTRICT)
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
December 31, 2001 and 2000





STATE OF OHIO
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Board of Trustees
The Jointly Administered Trust Fund for the Benefit
of Lorain City School District Employees
Concord, OH 44060

We have reviewed the Independent Auditor's Report of The Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees, Lorain County, prepared by Bober, Markey, Fedorovich & Company, for the audit period January 1, 2001 through December 31, 2001. 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 Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees is responsible for compliance with these laws and regulations.

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO
Auditor of State

July 16, 2002

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THE JOINTLY ADMINISTERED TRUST FUND
FOR THE BENEFIT OF LORAIN CITY SCHOOL DISTRICT EMPLOYEES
(A COMPONENT UNIT OF LORAIN CITY SCHOOL DISTRICT)

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
The Jointly Administered Trust Fund for the Benefit
of Lorain City School District Employees
(A Component Unit of the Lorain City School District)
Lorain, Ohio

We have audited the accompanying balance sheets of The Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees (A component unit of Lorain City School District)(the Trust) as of December 31, 2001 and 2000, and the related statements of revenues, expenses and changes in fund equity and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in the Governmental Auditing Standards, issued by the Comptroller 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust as of December 31, 2001 and 2000, and its revenues, expenses and changes in fund equity and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated April 26, 2002 on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulation, contracts and grants. 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.

Bob Markey, John Long
BOBER, MARKEY, FEDOROVICH & COMPANY

April 26, 2002



THE JOINTLY ADMINISTERED TRUST FUND
 FOR THE BENEFIT OF LORAIN CITY SCHOOL DISTRICT EMPLOYEES
 (A COMPONENT UNIT OF LORAIN CITY SCHOOL DISTRICT)
 BALANCE SHEETS
 DECEMBER 31, 2001 and 2000

	2001	2000
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 72,626	\$ 678,968
Investments, at fair value	1,287,171	890,188
Refund receivable - IRS penalty and interest	-	106,271
Prepaid expenses	176	41,464
TOTAL CURRENT ASSETS	1,359,973	1,716,891
OTHER ASSETS		
Deposit - National Prescription Administrators, Inc.	65,000	65,000
TOTAL ASSETS	\$ 1,424,973	\$ 1,781,891
LIABILITIES AND FUND EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 235,658	\$ 177,659
Cost-sharing payable - employees	41,962	180,859
Cost-sharing payable - Lorain City School District	9,713	130,596
Liability for incurred but not reported claims	792,000	680,100
TOTAL CURRENT LIABILITIES	1,079,333	1,169,214
FUND EQUITY (DEFICIT)		
Reserved	988,000	896,000
Unreserved	(642,360)	(283,323)
TOTAL FUND EQUITY	345,640	612,677
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,424,973	\$ 1,781,891

The accompanying notes are an integral part of these financial statements.



THE JOINTLY ADMINISTERED TRUST FUND
 FOR THE BENEFIT OF LORAIN CITY SCHOOL DISTRICT EMPLOYEES
 (A COMPONENT UNIT OF LORAIN CITY SCHOOL DISTRICT)
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY
 For the Years Ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
REVENUES		
Contributions:		
Employer	\$ 6,421,015	\$ 6,092,000
Participant	19,819	18,357
COBRA	<u>46,740</u>	<u>27,890</u>
Total contributions	6,487,574	6,138,247
Interest income	<u>80,711</u>	<u>84,388</u>
TOTAL REVENUE	<u>6,568,285</u>	<u>6,222,635</u>
EXPENSES		
Medical claims	3,930,039	3,328,044
Dental claims	596,364	518,575
Vision claims	129,780	130,414
Prescription claims	1,318,375	1,098,123
Medical stop-loss	135,640	125,616
Dispensing fee - National Prescription Administrators, Inc.	55,485	52,839
Flu and Hepatitis shots	6,868	2,625
Accounting	14,822	14,978
Actuarial	19,250	47,400
Trust management	59,545	57,647
Legal fees	12,851	31,423
Bank fees	10,396	8,937
Insurance	3,988	3,909
Miscellaneous	281	367
Medical administration	344,904	341,229
Vision administration	22,160	21,655
Prescription administration	20,114	19,093
Cost-sharing expense	<u>83,923</u>	<u>361,718</u>
TOTAL OPERATING EXPENSES	<u>6,764,783</u>	<u>6,164,592</u>
NET CHANGE IN FUND EQUITY BEFORE OTHER REVENUE (EXPENSES)	(196,498)	58,043
Change in claims incurred but not reported	(111,900)	(70,300)
Unrealized gain on investments	26,361	28,662
Reimbursement for fees on IRS penalty	15,000	-
IRS penalty refund	-	101,737
TOTAL OTHER REVENUE (EXPENSES)	<u>(70,539)</u>	<u>60,099</u>
NET CHANGE IN FUND EQUITY	(267,037)	118,142
FUND EQUITY - BEGINNING OF YEAR	<u>612,677</u>	<u>494,535</u>
FUND EQUITY - END OF YEAR	<u>\$ 345,640</u>	<u>\$ 612,677</u>

The accompanying notes are an integral part of these financial statements.



THE JOINTLY ADMINISTERED TRUST FUND
 FOR THE BENEFIT OF LORAIN CITY SCHOOL DISTRICT EMPLOYEES
 (A COMPONENT UNIT OF LORAIN CITY SCHOOL DISTRICT)
 STATEMENTS OF CASH FLOWS
 For the Years Ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net change in fund equity	\$ (267,037)	\$ 118,142
Adjustments to reconcile net change in fund equity to net cash provided (used) by operating activities:		
Unrealized gain on investments	(26,361)	(28,662)
Changes in operating assets and liabilities:		
Accounts receivable	-	86,362
Refund receivable - IRS penalty and interest	106,271	(106,271)
Prepaid expenses	41,288	(38,501)
Accounts payable	57,999	(51,218)
Cost-sharing payable	(259,780)	296,415
Liability for incurred but not reported claims	111,900	70,300
IRS penalty assessment payable	-	(101,737)
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	<u>(235,720)</u>	<u>244,830</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(545,622)	(200,250)
Redemption of investments	<u>175,000</u>	<u>449,943</u>
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	<u>(370,622)</u>	<u>249,693</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(606,342)	494,523
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>678,968</u>	<u>184,445</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 72,626</u>	<u>\$ 678,968</u>

The accompanying notes are an integral part of these financial statements.



THE JOINTLY ADMINISTERED TRUST FUND
FOR THE BENEFIT OF LORAIN CITY SCHOOL DISTRICT EMPLOYEES
(A COMPONENT UNIT OF LORAIN CITY SCHOOL DISTRICT)
INTERNAL SERVICE FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2001 and 2000

NOTE 1 - DESCRIPTION OF THE TRUST

The following description of the Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees (Trust) provides only general information. Participants should refer to the Trust document for a more complete description of the Trust's provisions.

General

The Trust was established in 1994 to provide health care benefits to the employees of the Lorain City School District (District). The Trust is a component unit of the District, as defined pursuant to Governmental Accounting Standards and Statement No. 14, "The Financial Reporting Entity". The Trust is directed by a twelve-member Board of Trustees, eight members appointed by the District's Superintendent and four members appointed by the Lorain Education Association. The District reports the Trust as an internal service fund which is defined as a fund used to account for the financing of goods or services provided by one department or agency to governmental units, on a cost-reimbursement basis. The Trust applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Benefits

The Trust provides benefits for hospitalization, medical, dental, vision, and prescription drugs as provided for in the collective bargaining agreement and as may be authorized or permitted by law for eligible District employees, their families and dependents. In order to manage its claims risks, the Trust has purchased stop-loss coverage for individual claims during the policy year in excess of \$150,000.

Contributions

The District makes contributions to the Trust in amounts equal to a budgeted level of funding needs as calculated by an actuary, but is subject to minimum levels as established by the collective bargaining agreement. Additional funds are paid to the Administrator to cover costs of administering the Trust. The District makes certain pre-funding contributions to the Trust, which are to fund future benefit expenses.

Termination

Although it has not expressed any intention to do so, the District has the right to terminate the Trust, under the provisions set forth by the collective bargaining agreement.



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INTERNAL SERVICE FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2001 and 2000

Cost - Sharing

The Trust provides for a sharing of the expected increase in funding over the base year funding level by the participants in the plan covered by the Trust and the District. This cost-sharing amount is based upon a calculation of plan income as compared to the larger of the plan's current year budget or the plan's 1994 budget for costs. The participants 50% share may be funded through payroll contributions, benefit reductions, or a combination of both.

Reclassifications

Certain amounts in the 2000 financial statements have been reclassified to conform to 2001 presentation.

Implementation of GASB 34

The Government Accounting Standards Board has issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This statement establishes accounting and financial reporting standards for general purpose external financial reporting by state and local governments. Statement No. 34 will be effective for the Lorain City School District for their year end June 30, 2003, which will include the Trust's year ending December 31, 2002. The Trust has not yet assessed the impact of this statement on its financial statements.

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting.

Cash and Cash Equivalents

The Trust invests their cash in money market funds and U.S. Treasury notes. U.S. Treasury notes with a maturity of ninety days or less are considered to be cash equivalents for purposes of cash flows. The Trust maintains all of its cash balances with one bank. The Federal Deposit Insurance Corporation (FDIC) insures such cash balances to a maximum of \$100,000.

Concentration of Credit Risk

The trust is insured through Aetna Life Casualty for employee dishonesty coverage. A fiduciary bond of \$1,000,000 is maintained for the Trustees, the Trust actuary, and the Trust manager.



THE JOINTLY ADMINISTERED TRUST FUND
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(A COMPONENT UNIT OF LORAIN CITY SCHOOL DISTRICT)
INTERNAL SERVICE FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2001 and 2000

Valuation of Investments

If available, quoted market prices are used to value investments. If market prices are not available, investments are valued at cost, which due to the short-term nature of the investments approximates market value.

Deposits

The Trust has funds on deposit with National Prescription Administrators, Incorporated (NPA) to allow for fund availability for paying on such claims. NPA requires that such deposits be renewed monthly in order to maintain an adequate coverage for claims.

Use of Estimates

In preparing the Trust's financial statements, the Trustees are required to make estimates and assumptions that affect the reported amounts of Trust assets, liabilities, and fund equity, and the reported revenues and expenses of Trust assets during the reporting period. Actual results could differ from those estimates.

Trust Benefits

Trust liabilities for health claims incurred but not reported are reflected in the Trust's balance sheets and the related statements of revenues, expenses and changes in fund equity. The Trust's independent actuary estimates claims incurred but not reported as of December 31, 2001 and 2000 based on historical trends. The District has committed to retain sufficient funding to cover this liability.

Cost-Savings

The Trust provides for a cost savings calculation in order to distribute any savings by the plan over the contributed amount, as adjusted by certain items. Any excess is distributed 50-50 to the participants and the District. For the years ended December 31, 2001 and 2000, the cost-savings calculation resulted in an amount distributable to the employees and the District. The employees may elect to reduce the following year's cost-sharing by their distributable amount.

Fund Equity

Fund equity includes originally contributed capital plus retained earnings accumulated since inception. It is the Trust policy to reserve retained earnings for the required amount of the insurance reserve as per the actuarial calculation in the budget. This reserve is reflected separately in the balance sheet under fund equity.



THE JOINTLY ADMINISTERED TRUST FUND
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 (A COMPONENT UNIT OF LORAIN CITY SCHOOL DISTRICT)
 INTERNAL SERVICE FUND
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2001 and 2000

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits

At December 31, 2001 and 2000, the carrying amount of the Trust's cash deposits were \$72,626 and \$678,968, respectively, and the bank balance was the same, all of which was covered by federal depository insurance or by collateral held by a qualified third party trustee in the name of the Trust.

Investments

The Trust's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Trust. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Trust's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department but not in the Trust's name. All the Trust investments are categorized as Category 1.

The following table presents investments at market value as of December 31, 2001 and 2000. Investments are held in the form of U.S. Treasury Notes, and are not insured by the FDIC. Individual investments in excess of 5% of assets are separately presented.

	<u>2001</u>	<u>2000</u>
U.S. Treasury Notes:		
5.875%, due 9/30/2002	\$ 164,800	\$ 161,800
6.000%, due 8/15/2004	169,850	164,600
5.500%, due 1/31/2003	20,719	20,144
5.500%, due 3/31/2003	166,300	161,300
6.500%, due 8/15/2005	108,344	105,782
6.500%, due 5/31/2002	102,031	101,562
4.625%, due 12/31/2000	-	175,000
4.250%, due 11/15/2003	153,609	-
5.000%, due 2/15/2011	149,579	-
4.625%, due 5/15/2006	152,157	-
5.000%, due 8/15/2011	99,782	-
Total Investments	<u>\$ 1,287,171</u>	<u>\$ 890,188</u>

The Trust documents specifically require the maintenance of an insurance reserve, consisting of cash and investments, to provide a minimum funding level within the Trust to provide for future claims. At December 31, 2001 and 2000 this insurance reserve amount was \$988,000 and \$896,000, respectively.



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 FOR THE BENEFIT OF LORAIN CITY SCHOOL DISTRICT EMPLOYEES
 (A COMPONENT UNIT OF LORAIN CITY SCHOOL DISTRICT)
 INTERNAL SERVICE FUND
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2001 and 2000

NOTE 4 - FEDERAL INCOME TAXES

The plan established under the Trust is qualified pursuant to the Section 501(c)(9) of the Internal Revenue Code, and, accordingly, the trust's net investment income is exempt from income taxes. The trust has obtained a favorable tax determination letter dated July 5, 1995 from the Internal Revenue Service and the Trustees believe that the Trust continues to qualify and to operate as designed.

The Trust had received an assessment in 1999 from the Internal Revenue Service (IRS) of \$101,737 for penalties and interest relating to late filing of certain tax returns. The Trustees had filed an appeal asking for abatement of the penalties and interest due to extenuating circumstances. Although the trustees disagreed with the basis for this assessment, they agreed to pay this amount in June, 2000. The Trust received notice in March, 2001 that their appeal had been approved and the penalty would be abated. Consequently, a refund receivable in the amount of \$101,737, plus interest calculated through December 31, 2000 of \$4,534, has been recorded as of December 31, 2000. The refund was received in full in 2001.

NOTE 5 - UNPAID CLAIMS LIABILITIES

The Trust establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses, both allocated and unallocated. The following represents changes in those aggregate liabilities for the Trust during the past two years.

	<u>2001</u>	<u>2000</u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ 840,777	\$ 821,400
Incurred claims and claim adjustment expenses:		
Provision for insured events of current year	6,766,558	5,755,256
Increases in provision for insured events of prior years	<u>-</u>	<u>-</u>
Total incurred claims and claim adjustment expenses	7,607,335	6,576,656



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 INTERNAL SERVICE FUND
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of current year	\$ 5,755,311	\$ 4,914,479
Claims and claim adjustment expenses attributable to insured events of prior years	<u>840,777</u>	<u>821,400</u>
Total payments	<u>6,596,088</u>	<u>5,735,879</u>
Total unpaid claims and claim adjustment expenses at end of year (see schedule below)	<u>\$ 1,011,247</u>	<u>\$ 840,777</u>
 Schedule of unpaid claims and claim adjustment expenses at end of year:		
Portion of accounts payable that relates to claims expenses	\$ 219,247	\$ 160,677
Liability for incurred but not reported claims	<u>792,000</u>	<u>680,100</u>
	<u>\$ 1,011,247</u>	<u>\$ 840,777</u>





**Bober, Markey, Fedorovich
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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
The Jointly Administered Trust Fund for the Benefit
of Lorain City School District Employees
(A Component Unit of the Lorain City School District)
Lorain, Ohio

We have audited the financial statements of the Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees (the Trust)(a Component Unit of Lorain City School District) as of and for the year ended December 31, 2001 and have issued our report thereon dated April 26, 2002. 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Trust's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Governmental Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Trust's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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


BOBER, MARKEY, FEDOROVICH & COMPANY

April 26, 2002





STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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LORAIN CITY SCHOOL DISTRICT HEALTH TRUST

LORAIN 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 6, 2002**