

***THE JOINTLY ADMINISTERED TRUST FUND  
FOR THE BENEFIT OF  
LORAIN CITY SCHOOL DISTRICT EMPLOYEES***

***(A COMPONENT UNIT OF  
LORAIN CITY SCHOOL DISTRICT)***

***LORAIN COUNTY***

**AUDIT REPORT**

**For the Years Ended December 31, 2013 and 2012**





# Dave Yost • Auditor of State

Board of Trustees  
Jointly Administered Trust Fund for the  
Benefit of Lorain City School District Employees  
10045 College Park Drive  
Concord, Ohio 44060

We have reviewed the *Independent Auditors' Report* of the Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees, Lorain County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2013 through December 31, 2013. 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 that reads "Dave Yost".

Dave Yost  
Auditor of State

May 30, 2014

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**THE JOINTLY ADMINISTERED TRUST FUND FOR THE BENEFIT  
OF LORAIN CITY SCHOOL DISTRICT EMPLOYEES  
For the Years Ended December 31, 2013 and 2012**

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***Charles E. Harris & Associates, Inc.***  
*Certified Public Accountants*

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## **INDEPENDENT AUDITORS' REPORT**

The Jointly Administered Trust Fund for the  
Benefit of Lorain City School District Employees  
(A Component Unit of Lorain City School District)  
Lorain County  
10045 College Park Drive  
Concord, Ohio 44060

To the Board of Directors:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the Jointly Administered Trust Fund for the Benefit of Lorain City School Employees, Lorain County, Ohio (the Trust), as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements 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 statements are 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 Trust'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 Trust'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 opinions.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Jointly Administered Trust Fund for the Benefit of Lorain City School Employees, Lorain County, Ohio, as of December 31, 2013 and 2012, and the changes in net position and cash flows, thereof for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2014, on our consideration of the Trust'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 Trust's internal control over financial reporting and compliance.



**Charles E. Harris & Associates, Inc.**

April 16, 2014

**THE JOINTLY ADMINISTERED TRUST FUND FOR THE BENEFIT OF  
LORAIN CITY SCHOOL DISTRICT EMPLOYEES  
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED DECEMBER 31, 2013**

As Management of the Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees (Trust), we present a narrative overview and analysis of the financial activities of the Trust for the year ended December 31, 2013. Please read this in conjunction with additional information found within the body of the audit.

**FINANCIAL HIGHLIGHTS**

- The beginning cash and investment balance for the Trust was \$850,309, \$1,930,893, and \$1,885,206, as of January 1, 2013, 2012, and 2011, respectively.
- The Trust actuary set the 2013 budget at \$8,577,000; however the Board of Education was reduced by \$477,000 due to a Memorandum of Understanding between the Lorain Education Association and the Lorain Board of Education. The Trust actuary set the 2012 budget at \$8,879,000; however the Board of Education was reduced by \$79,500 each month due to a Memorandum of Understanding between the Lorain Education and the Lorain Board of Education. The Trust actuary set the 2011 budget at \$8,975,000.
- Large medical claims (those in excess of \$10,000) incurred represented 66.59% of medical claims or \$3,796,400. In 2012 those large claims represented 68.4% of medical claims and totaled \$3,721,849. In 2011 those large claims represented 66.9% of medical claims and totaled \$3,497,041.
- In 2013 expenses exceeded revenue by \$37,702. The two primary reasons for the deficit was medical claims exceed the budget and the Lorain Board of Education funding requirement was reduced by \$477,000 as a result of a Memorandum of Understanding between the Lorain Education Association. The Trust implemented a monthly insurance reserve contribution. The insurance reserve contribution was designed to repay the insurance reserve that was depleted as the result of the large medical claims that were incurred and the negotiated agreement between the Board of Education and the Lorain Education Association.

In 2012 expenses exceeded revenue by \$931,613. There were a number of factors that contributed to the deficit. A Memorandum of Understanding between the Lorain Education Association and the BOE which reduced the BOE funding by \$954,000; therefore the budget was not fully funded. The Trust implemented a number of benefit changes to comply with Federal Health Care Reform for non-grandfathered plans and increased copays, deductibles and coinsurance maximums to help offset the 2012 projected expenses; however, Trust expenses exceeded the projected budget by \$373,281.

In 2011 revenue exceeded expenses by \$202,847. Trustees elected to maintain the plans grandfathered status; therefore the only plan changes made in to the plan in 2011 were those necessary to comply with the provisions of PPACA as they pertained to grandfathered plans. As a result, no changes were made to the employee payroll contributions and resulted in a \$96,517 excess funding that was target to fund the insurance reserve. In addition, expenses were less than budget due to fewer employees than projected in the 2011 budget.

## OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Trust basic financial statements which is a component unit of the Lorain City School District. The Trust's basic financial statements are comprised of four components: 1) Statements of Net Position, 2) Statements of Revenues, Expenses and Changes in Net Position, 3) Statements of Cash Flows and 4) Notes to Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Statements of Net Position – Presents information on all the Trust assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Trust is improving or deteriorating.

Statements of Revenues and Changes in Net Position –Presents information showing how the Trust net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Statement of Cash Flows – Presents information on the changes in the cash balances and details as to how cash was provided and used.

Notes to Financial Statements – Provides readers with additional information and required disclosures that are essential to a full understanding of the data provided in the Trust financial statements.

## FINANCIAL ANALYSIS OF THE TRUST AS OF DECEMBER 31, 2013, 2012 and 2011

The Trust's net position decreased by \$50,843 and \$925,062 and increased by \$217,215, for the years ended December 31, 2013, 2012 and 2011, respectively.

The following table represents the major components of the statement of net position as of December 31, 2013, 2012 and 2011:

	December 31, 2013	December 31, 2012	December 31, 2011
Current and other assets	\$ 335,547	\$ 913,133	\$1,953,789
Total assets			\$1,953,789
Current liabilities	\$1,369,580	\$1,896,332	\$2,011,926
Total liabilities	\$1,369,500	\$1,896,332	\$2,011,926
Restricted net position	\$1,892,000	\$1,950,000	\$1,858,000
Unrestricted net position(deficit)	\$(2,926,033)	\$(2,933,199)	\$(1,916,137)
Total net position	\$(1,034,033)	\$( 983,199)	\$( 58,137)

## COMMENTS ON BUDGET COMPARISONS

- The Trust's total revenue was \$9,112,960, \$8,319,174 and \$8,516,010 for the years ended December 31, 2013, 2012 and 2011, respectively.
- The 2013 budget was set at \$8,577,000, The budget was not fully funded as a result of a Memorandum of Understanding between the Lorain Education Association and the Board of Education resulting in the Board of Education reducing their funding obligation by \$477,000.

- The Trust's total expenses were \$9,150,662, \$9,250,787, and \$8,313,163 for the fiscal years ended December 31, 2013, 2012 and 2011, respectively.

The following table presents a summary of operating revenue and expenses for the fiscal years ended December 31, 2013, 2012 and 2011.

REVENUES	2013	2012	2011
Contributions:			
Employer	\$7,304,500	\$6,636,500	\$7,182,000
Participant	1,425,400	1,181,922	1,215,357
Cost-sharing savings from prior years	333,359	417,526	67,559
COBRA	49,701	83,226	51,094
<b>TOTAL REVENUE</b>	<b>9,112,960</b>	<b>8,319,174</b>	<b>8,516,010</b>
<b>EXPENSES</b>			
Medical claims	5,660,055	5,969,164	5,000,428
Dental claims	366,962	381,268	401,309
Vision claims	97,771	108,334	124,376
Prescription claims	1,901,746	1,779,537	1,718,661
Stop-loss	562,607	500,965	496,784
Accounting	10,805	10,401	10,191
Actuarial	63,197	23,003	108,861
Trust management	50,400	50,400	50,400
Trust benefit consultant	23,042	-	-
Legal fees	26,806	18,062	20,830
Bank fees	10,966	16,430	14,224
Insurance	4,882	4,720	4,596
Health Fair Screenings	4,680	6,111	-
Miscellaneous	4,443	9,045	1,538
Medical administration	309,838	312,871	312,236
Vision administration	14,962	15,672	17,147
Prescription administration	3,106	3,158	3,357
Dental administration	34,394	41,646	28,225
<b>TOTAL OPERATING EXPENSES</b>	<b>9,150,662</b>	<b>9,250,787</b>	<b>8,313,163</b>
<b>NET CHANGE IN NET POSITION BEFORE OTHER REVENUE</b>	<b>(37,702)</b>	<b>(931,613)</b>	<b>202,847</b>
<b>OTHER REVENUE</b>			
Investment income	(13,132)	6,551	14,368
<b>NET CHANGE IN NET POSITION</b>	<b>(50,834)</b>	<b>(925,062)</b>	<b>217,215</b>
<b>NET POSITION - BEGINNING OF YEAR</b>	<b>(983,199)</b>	<b>(58,137)</b>	<b>(275,352)</b>
<b>NET POSITION - END OF YEAR</b>	<b>\$(1,034,033)</b>	<b>\$(983,199)</b>	<b>\$(58,137)</b>

THE JOINTLY ADMINISTERED TRUST FUND  
FOR THE BENEFIT OF LORAIN CITY SCHOOL DISTRICT EMPLOYEES  
(A COMPONENT UNIT OF LORAIN CITY SCHOOL DISTRICT)  
STATEMENTS OF NET POSITION  
For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 256,002	\$ 49,587
Investments, at fair value	-	800,722
Prepaid expenses	<u>79,545</u>	<u>62,824</u>
 TOTAL ASSETS	 <u>\$ 335,547</u>	 <u>\$ 913,133</u>
 LIABILITIES		
Current Liabilities		
Accounts payable	\$ 92,616	\$ 261,009
Cost savings-sharing payable	418,964	752,323
Liability for incurred but not reported claims	<u>858,000</u>	<u>883,000</u>
 TOTAL LIABILITIES	 \$ 1,369,580	 \$ 1,896,332
 NET POSITION (DEFICIT)		
Restricted	1,892,000	1,950,000
Unrestricted	<u>(2,926,033)</u>	<u>(2,933,199)</u>
 TOTAL NET POSITION	 <u>\$ (1,034,033)</u>	 <u>\$ (983,199)</u>
 TOTAL LIABILITIES & NET POSITION	 <u>\$ 335,547</u>	 <u>\$ 913,133</u>

*The accompanying notes are an integral of 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 NET POSITION  
For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
REVENUES		
Contributions:		
Employer	\$ 7,304,500	\$ 6,636,500
Participant	1,425,400	1,181,922
Cost-sharing savings from prior years contributed to 2013	333,359	417,526
COBRA	<u>49,701</u>	<u>83,226</u>
 TOTAL REVENUES	 9,112,960	 8,319,174
EXPENSES		
Medical claims	5,660,055	5,969,164
Dental claims	366,962	381,268
Vision claims	97,771	108,334
Prescription claims	1,901,746	1,779,537
Stop-loss	562,607	500,965
Accounting	10,805	10,401
Actuarial	63,197	23,003
Trust management	50,400	50,400
Trust Benefit Consultant	23,042	-
Legal fees	26,806	18,062
Bank fees	10,966	16,430
Insurance	4,882	4,720
Health Fair Screenings	4,680	6,111
Miscellaneous	4,443	9,045
Medical administration	309,838	312,871
Vision administration	14,962	15,672
Prescription administration	3,106	3,158
Dental administration	<u>34,394</u>	<u>41,646</u>
 TOTAL OPERATING EXPENSES	 <u>9,150,662</u>	 <u>9,250,787</u>
 OPERATING GAIN/(LOSS)	 (37,702)	 (931,613)
 OTHER REVENUE - INVESTMENT INCOME	 <u>(13,132)</u>	 <u>6,551</u>
 NET CHANGE IN NET POSITION	 (50,834)	 (925,062)
 NET POSITION - BEGINNING OF YEAR	 <u>(983,199)</u>	 <u>(58,137)</u>
 NET POSITION - END OF YEAR	 <u>\$ (1,034,033)</u>	 <u>\$ (983,199)</u>

*The accompanying notes are an integral of 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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash contributions received from employer	\$ 7,304,500	\$ 6,658,000
Cash contributions received from employees	1,425,400	1,181,922
Cash received for COBRA premiums	49,701	83,226
Cash payments for benefit plan claims	(8,805,050)	(8,465,914)
Cash payments for benefit providers' administration fees	(365,170)	(398,696)
Cash payments for plan administration and operating expenses	<u>(190,556)</u>	<u>(145,673)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>(581,175)</u>	<u>(1,087,135)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	(13,132)	6,551
Purchases of U.S. Treasury Notes	-	(800,722)
Proceeds from bond sales	<u>800,722</u>	<u>1,059,047</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>787,590</u>	<u>264,876</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	206,415	(822,259)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>49,587</u>	<u>871,846</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 256,002</u>	<u>\$ 49,587</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating gain/ (loss)	(37,702)	(931,613)
Adjustments to reconcile net change in fund equity to net cash provided by operating activities:		
Changes in assets and liabilities:		
Accounts receivables	-	21,500
Prepaid expenses	(16,721)	(61,428)
Accounts payable	(168,393)	74,932
Cost savings-sharing payable	(333,359)	(417,526)
Liability for incurred but not reported claims	<u>(25,000)</u>	<u>227,000</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ (581,175)</u>	<u>\$ (1,087,135)</u>

*The accompanying notes are an integral of 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)  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013 and 2012

**NOTE 1 – DESCRIPTION OF THE TRUST**

The following description of the Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees (the “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 to account for the financing of goods or services provided by one department or agency to governmental units, on a cost-reimbursement basis.

**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 years 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. The District makes certain pre-funding contributions to the Trust, which is to fund future benefit expenses.

Methods of determining participant contributions are based on actuarial calculations.

**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.

**Cost-Sharing**

The Trust provides for a sharing of cost between eligible participants in the plan covered by the Trust and the District. The 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.

THE JOINTLY ADMINISTERED TRUST FUND  
FOR THE BENEFIT OF LORAIN CITY SCHOOL DISTRICT EMPLOYEES  
(A COMPONENT UNIT OF LORAIN CITY SCHOOL DISTRICT)  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013 and 2012

**NOTE 2 – SUMMARY OF ACCOUNTING POLICIES**

**Basis of Accounting**

The Trust follows Generally Accepted Accounting Principles (GAAP), which includes all Governmental Accounting Standards Board (GASB) pronouncements. The financial statements are prepared using the accrual basis of accounting.

For the year 2012, the Trust has implemented Governmental Accounting Standards Board (GASB) Statement No. 63 “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position” Statement No. 65, “Items Previously Reported as Assets and Liabilities.”

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related note disclosures.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues).

**Cash and Cash Equivalents and Deposits**

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 \$250,000.

**Concentration of Credit Risk**

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

**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.

**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 net position, and the reported revenues and expenses of Trust assets during the reporting period. Actual results could differ from those estimates.

THE JOINTLY ADMINISTERED TRUST FUND  
FOR THE BENEFIT OF LORAIN CITY SCHOOL DISTRICT EMPLOYEES  
(A COMPONENT UNIT OF LORAIN CITY SCHOOL DISTRICT)  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013 and 2012

**Trust Benefits**

Trust liabilities for health claims incurred but not reported are reflected in the Trust's statement of net position and the related statements of revenues, expenses and changes in net position. The Trust's independent actuary estimates of claims incurred but not reported (IBNR) as of December 31, 2013 and 2012 are based on historical trends.

The Trust's IBNR is held by Lorain City School District in its internal service fund. As of December 31, 2013, the liability for IBNR was fully funded by the school district.

**Cost Savings**

The Trust provides for a cost savings-sharing 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, 2013 and 2012, the cost-savings calculation resulted in expenses being greater than revenue in the amount of \$333,359 and \$417,526, respectively. The trustees may elect, on behalf of the employees, to reduce the following year's cost-sharing by their distributable amount. These amounts are reflected as a liability on the statement of net position in the amount of \$418,964 and \$752,323 for the years ended December 31, 2013 and 2012, respectively, and will be used to offset future trust expense and will not be distributed to the employees or the Board of Education.

**NOTE 3 – DEPOSITS AND INVESTMENTS**

**Deposits**

At December 31, 2013 and 2012, the carrying amount of the Trust's deposits was \$256,002 and \$49,587, 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**

Significant investment disclosures required by the Governmental Accounting Standards Board follow.

**Custodial Credit Risk**

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Trust will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

**Interest Rate Risk**

The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date.

THE JOINTLY ADMINISTERED TRUST FUND  
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NOTES TO FINANCIAL STATEMENTS  
December 31, 2013 and 2012

**Credit Risk**

The Trust follows the Ohio Revised Code that limits the investment choices.

**Concentration of Credit Risk**

The Trust places no limit on the amount that may be invested in any one issuer.

The following table presents investments at market value as of December 31, 2012. Investments are held in the form of U.S. Treasury Notes and U.S. Government Bonds, and are not insured by the FDIC. Individual investments in excess of 5% of assets are separately presented. As of December 31, 2013, the Trust did not have investments.

	2012
<b>U.S. Treasury Notes</b>	
1.375% due 1/15/2013	\$ 100,043
1.375% due 3/15/2013	100,254
0.750% due 3/31/2013	100,160
Total U.S. Treasury Notes	300,457
<b>U.S. Govt (State Tax Exempt)</b>	
Federal Farm Credit Bank 0.900% due 10/10/17 Callable 1/10/13	99,707
Federal Home Loan Bank 0.80% due 6/6/2016 Callable 6/6/14	100,313
Total U.S. Govt (State Tax Exempt)	200,020
<b>Bond - US Govt (State Taxable)</b>	
Fannie Mae Step Rate due 6/21/17 Callable 6/21/13	100,013
Freddie Mac 1.000% due 12/24/15 Callable 12/24/13	100,217
Freddie Mac Multi-Step Cpn due 1/11/17 Callable 1/11/13	100,015
Total U.S. Govt (State Tax Taxable)	300,245
<b>Total Investments</b>	\$ 800,722

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, 2013 and 2012 this calculated reserve amount was \$1,892,000 and \$1,950,000, respectively. The Trustees have elected to permit funding within the Trust to drop below these levels since the Trust is not legally required to be funded and the Trust document only provides language for the initial funding and does not provide any additional language for future funding. This amount is reflected in the net position section of the statement of net position.

The required balance in the run-out reserve is an amount equal to the incurred but unreported claims liability as calculated by the actuary.

THE JOINTLY ADMINISTERED TRUST FUND  
FOR THE BENEFIT OF LORAIN CITY SCHOOL DISTRICT EMPLOYEES  
(A COMPONENT UNIT OF LORAIN CITY SCHOOL DISTRICT)  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2013 and 2012

**NOTE 4 – 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>2013</u>	<u>2012</u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ 1,143,019	\$ 833,586
Incurred claims and claim adjustment expenses:		
Provision for insured event of current year	<u>8,884,534</u>	<u>9,121,303</u>
Total incurred claims and claim adjustment expenses	10,027,553	9,954,889
Payments:		
Claims and claim adjustment expenses attributable to insured events of current year	7,943,572	7,978,284
Claims and claim adjustment expenses attributable to insured events of prior years	<u>1,143,019</u>	<u>833,586</u>
Total payments	<u>9,086,591</u>	<u>8,811,870</u>
Total unpaid claims and claim adjustment expenses at end of year (see schedule below)	<u>\$ 940,962</u>	<u>\$ 1,143,019</u>
Schedule of unpaid claims and claim adjustment expenses at end of year:		
Portion of accounts payable that relates to claims expenses	\$ 82,962	\$ 260,019
Liability of incurred but not reported claims	<u>858,000</u>	<u>883,000</u>
	<u>\$ 940,962</u>	<u>\$ 1,143,019</u>

**NOTE 5 – 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 continued to qualify and to operate as designed.

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Fax - (216) 436-2411

***Charles E. Harris & Associates, Inc.***  
*Certified Public Accountants*

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

The Jointly Administered Trust Fund for the  
Benefit of Lorain City School District Employees  
(a Component Unit of Lorain City School District)  
Lorain County  
10045 College Park Drive  
Concord, Ohio 44060

To the Board of Directors:

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 statements of the Jointly Administered Trust Fund for the Benefit of Lorain City School Employees, Lorain County, Ohio, (the Trust), as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, and have issued our report thereon dated April 16, 2014.

***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Trust's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Trust'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 Trust'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 Trust's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, 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 Trust's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Trust's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



***Charles E. Harris & Associates, Inc.***

April 16, 2014

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# Dave Yost • Auditor of State

**JOINTLY ADMINISTERED TRUST FOR THE BENEFIT OF LORAIN CITY SCHOOL DISTRICT  
EMPLOYEES**

**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  
JUNE 12, 2014**