

***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, 2011 and 2010

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants



Dave Yost • Auditor of State

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

We have reviewed the *Report of Independent Accountants* 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, 2011 through December 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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 cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

September 14, 2012

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**THE JOINTLY ADMINISTERED TRUST FUND FOR THE BENEFIT
OF LORAIN CITY SCHOOL DISTRICT EMPLOYEES
For the Years Ended December 31, 2011 and 2010**

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

REPORT OF INDEPENDENT ACCOUNTANTS

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 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, 2011 and 2010, as listed in the table of contents. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General 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 audit provides 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 Jointly Administered Trust Fund for the Benefit of Lorain City School Employees, Lorain County, Ohio, as of December 31, 2011 and 2010, and the results of its operations and cash flows thereof 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 May 29, 2012, 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, grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

Charles E. Harris & Associates

Charles E. Harris & Associates, Inc.

May 29, 2012

**THE JOINTLY ADMINISTERED TRUST FUND FOR THE BENEFIT OF
LORAIN CITY SCHOOL DISTRICT EMPLOYEES
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED DECEMBER 31, 2011**

As Management of the Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees (Trust), present a narrative overview and analysis of the financial activities of the Trust for the year ended December 31, 2011. 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 \$1,885,206, \$888,482, and \$732,094, as of January 1, 2011, 2010, and 2009, respectively.
- The Trust actuary set the 2011 budget at \$8,362,000. The Trust actuary set the 2010 budget at \$9,943,000. The Trust actuary set the 2009 budget at \$8,160,385; however, the 2009 Trust budget was funded at \$8,241,113. The Trustees elected to over fund the 2009 budget to repay the insurance reserve fund.
- Large medical claims (those in excess of \$10,000) incurred represented 66.9% of medical claims or \$3,497,041. In 2010 those large claims represented 77.4% of medical claims and totaled \$4,947,047. In 2009 those large claims represented 73.7% of medical claims and totaled \$4,355,301.
- 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. In 2010 revenue exceeded expenses by \$115,021. This is the result of fewer employees covered under the plan than projected. Enrollment in June 2010 was 901 employees and enrollment for July 2010 was 755, a reduction of 146 employees, or 16.2%. The Board of Education closed one high school which contributed to the reduction in covered employees. In addition, there were a number of benefit modifications to the medical plan, and payroll contributions amounts were increased. In 2009, revenue exceeded expenses by \$12,649.

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) Balance Sheets, 2) Statements of Revenues, Expenses and Changes in Fund Equity, 3) Statements of Cash Flows and 4) Notes to Financial Statements.

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

Statements of Revenues and Changes in Fund Equity –Presents information showing how the Trust fund equity changed during the most recent fiscal year. All changes in fund equity 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, 2011, 2010 and 2009

The Trust's equity increased by \$217,215, \$128,743 and \$17,932 in the years ended December 31, 2011, 2010 and 2009, respectively.

The following table represents the major components of the balance sheet as of December 31, 2011, 2010 and 2009:

	December 31, 2011	December 31, 2010	December 31, 2009
Current and other assets	\$ 1,953,789	\$ 1,949,608	\$ 992,481
TOTAL ASSETS	\$ 1,953,789	\$ 1,949,608	\$ 992,481
Current liabilities	\$ 2,011,926	\$ 2,224,960	\$ 1,396,576
TOTAL LIABILITIES	\$ 2,011,926	\$ 2,224,960	\$ 1,396,576
Restricted fund equity	\$ 1,858,000	\$ 2,153,000	\$ 1,807,000
Unrestricted fund equity(deficit)	\$ (1,916,137)	\$ (2,428,352)	\$ (2,211,095)
Total Fund Equity	\$ (58,137)	\$ (275,352)	\$ (404,095)

COMMENTS ON BUDGET COMPARISONS

- The Trust's total revenue for the fiscal year ended December 31, 2011 was \$8,516,010. Total revenues were \$9,595,442 and \$8,245,993, for the years ended December 31, 2010, and 2009, respectively.
- The 2011 budget was set at \$8,362,000. Trustees elected to maintain the plan's 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.
- The Trust's total expenses were \$8,313,163, \$ 9,480,421, and \$8,233,344 for the fiscal years ended December 31, 2011, 2010 and 2009, respectively.

The following table presents a summary of operating revenue and expense for the fiscal years ended December 31, 2011, 2010 and 2009.

REVENUES	2011	2010	2009
Contributions:			
Employer	\$7,182,000	\$8,202,000	\$7,274,812
Participant	1,215,357	1,363,201	966,301
Cost-sharing savings from prior years	67,559	-	-
COBRA	51,094	30,241	4,742
IRS Refund	-	-	138
	<u>8,516,010</u>	<u>9,595,442</u>	<u>8,245,993</u>
EXPENSES			
Medical claims	5,000,428	5,107,823	5,906,984
Dental claims	401,309	428,933	381,030
Vision claims	124,376	121,709	120,324
Prescription claims	1,718,661	1,724,667	697,150
Stop-loss	496,784	537,146	394,182
Access fee	-	-	85,581
Accounting	10,191	10,521	13,211
Actuarial	108,861	37,266	80,833
Trust management	50,400	50,400	50,400
Legal fees	20,830	16,839	19,897
Bank fees	14,224	13,407	10,153
Insurance	4,596	4,498	4,498
Miscellaneous	1,538	1,453	-
Medical administration	312,236	339,661	315,560
Vision administration	17,147	18,734	18,995
Prescription administration	3,357	3,652	4,410
Dental administration	28,225	27,292	33,614
Cost savings-sharing expense	-	1,036,420	96,522
	<u>8,313,163</u>	<u>9,480,421</u>	<u>8,233,344</u>
NET CHANGE IN FUND EQUITY BEFORE OTHER REVENUE	202,847	115,021	12,649
OTHER REVENUE			
Investment income	<u>14,368</u>	<u>13,722</u>	<u>5,283</u>
NET CHANGE IN FUND EQUITY	217,215	128,743	17,932
FUND EQUITY - BEGINNING OF YEAR	<u>(275,352)</u>	<u>(404,095)</u>	<u>(422,027)</u>
FUND EQUITY - END OF YEAR	<u><u>(\$58,137)</u></u>	<u><u>(\$275,352)</u></u>	<u><u>(\$404,095)</u></u>

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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)
BALANCE SHEETS
For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 871,846	\$ 1,276,362
Investments, at fair value	1,059,047	608,844
Accounts Receivables	21,500	-
Prepaid expenses	<u>1,396</u>	<u>64,402</u>
TOTAL ASSETS	<u><u>\$ 1,953,789</u></u>	<u><u>\$ 1,949,608</u></u>
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 186,077	\$ 90,552
Cost savings-sharing payable	1,169,849	1,237,408
Liability for incurred but not reported claims	<u>656,000</u>	<u>897,000</u>
TOTAL LIABILITIES	<u><u>\$ 2,011,926</u></u>	<u><u>\$ 2,224,960</u></u>
FUND EQUITY (DEFICIT)		
Restricted	1,858,000	2,153,000
Unrestricted	<u>(1,916,137)</u>	<u>(2,428,352)</u>
TOTAL FUND EQUITY	<u><u>\$ (58,137)</u></u>	<u><u>\$ (275,352)</u></u>
TOTAL LIABILITIES & FUND EQUITY	<u><u>\$ 1,953,789</u></u>	<u><u>\$ 1,949,608</u></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 REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY
For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
REVENUES		
Contributions:		
Employer	\$ 7,182,000	\$ 8,202,000
Participant	1,215,357	1,363,201
Cost-sharing savings from prior years contributed to 2011	67,559	-
COBRA	<u>51,094</u>	<u>30,241</u>
 TOTAL REVENUES	 8,516,010	 9,595,442
EXPENSES		
Medical claims	5,000,428	5,107,823
Dental claims	401,309	428,933
Vision claims	124,376	121,709
Prescription claims	1,718,661	1,724,667
Stop-loss	496,784	537,146
Accounting	10,191	10,521
Actuarial	108,861	37,266
Trust management	50,400	50,400
Legal fees	20,830	16,839
Bank fees	14,224	13,407
Insurance	4,596	4,498
Miscellaneous	1,538	1,453
Medical administration	312,236	339,661
Vision administration	17,147	18,734
Prescription administration	3,357	3,652
Dental administration	28,225	27,292
Cost savings-sharing expense	<u>-</u>	<u>1,036,420</u>
 TOTAL OPERATING EXPENSES	 <u>8,313,163</u>	 <u>9,480,421</u>
 OPERATING GAIN	 202,847	 115,021
 OTHER REVENUE - INVESTMENT INCOME	 <u>14,368</u>	 <u>13,722</u>
 NET CHANGE IN FUND EQUITY	 217,215	 128,743
 FUND EQUITY - BEGINNING OF YEAR	 <u>(275,352)</u>	 <u>(404,095)</u>
 FUND EQUITY - END OF YEAR	 <u>\$ (58,137)</u>	 <u>\$ (275,352)</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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash contributions received from employer	\$ 7,160,500	8,202,000
Cash contributions received from employees	1,215,357	1,363,201
Cash received for COBRA premiums	51,094	30,241
Cash payments for benefit plan claims	(7,858,453)	(8,069,520)
Cash payments for benefit providers' administration fees	(331,673)	(398,889)
Cash payments for plan administration and operating expenses	<u>(205,506)</u>	<u>(144,031)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>31,319</u>	<u>983,002</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	14,368	13,722
Purchases of U.S. Treasury Notes	(1,059,047)	(608,844)
Proceeds from bond sales	<u>608,844</u>	<u>506,797</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>(435,835)</u>	<u>(88,325)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(404,516)	894,677
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,276,362</u>	<u>381,685</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 871,846</u>	<u>1,276,362</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating gain/ (loss)	\$ 202,847	115,021
Adjustments to reconcile net change in fund equity to net cash provided by operating activities:		
Changes in assets and liabilities:		
Due from Medical Mutual	-	27,128
Accounts receivables	(21,500)	-
Prepaid expenses	63,006	12,469
Accounts payable	95,525	(83,436)
Cost savings-sharing payable	(67,559)	1,036,420
Liability for incurred but not reported claims	<u>(241,000)</u>	<u>(124,600)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 31,319</u>	<u>983,002</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)
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

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. The Trust applies to all GASB pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. After November 30, 1989, FASB pronouncements are applied unless they 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 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.

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, 2011 and 2010

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.

NOTE 2 – SUMMARY OF ACCOUNTING POLICIES

Basis of Accounting

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

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 fund equity, 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, 2011 and 2010

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, 2011 and 2010 are based on historical trends. As of December 31, 2011, it was noted that the liability for claims incurred but not reported was fully funded by the school district as required by Ohio Revised Code Section 9.833.

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. The Trust has funded 2008, 2007, 2006 and 2003 shortfalls with advances from the insurance reserve account in the amount of \$110,000, \$200,000, \$250,000 and \$241,127, respectively. For the year ended December 31, 2011, the cost-savings calculation resulted in expenses being greater than revenue in the amount of \$67,559. For the year ended December 31, 2010, the cost-savings calculation resulted in an amount distributable to the employees and the District in the amount of \$1,036,420. 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 balance sheet in the amount of \$1,169,849 and \$1,237,408 for the years ended December 31, 2011 and 2010, 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, 2011 and 2010, the carrying amount of the Trust's deposits was \$871,846 and \$1,276,362, 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.

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, 2011 and 2010

Interest Rate Risk

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

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, 2011 and 2010. 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.

	2011	2010
U.S. Treasury Notes		
1.375% due 1/15/2013	\$ 101,242	\$ 101,523
1.375% due 3/15/2013	101,430	101,469
0.750% due 3/31/2013	100,711	
5.000% due 08/15/2011		102,938
0.875% due 03/31/2011		100,160
0.500% due 11/30/2012	100,320	
0.375% due 9/30/2012	100,191	
1.375% due 04/15/2012	100,379	101,281
1.375% due 10/15/2012	100,973	101,473
Total U.S. Treasury Notes	705,246	608,844
U.S. Govt (State Tax Exempt)		
Federal Farm Credit Bank 0.700% due 11/4/2013	100,512	
Federal Home Loan Bank 1.375% due 9/12/2014	153,264	
Federal Home Loan Bank Step Rate due 3/21/2017		
Callable 12/21/2011	100,025	
Total U.S. Govt (State Tax Exempt)	353,801	
Total Investments	\$ 1,059,047	\$ 608,844

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, 2011 and 2010

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, 2011 and 2010 this calculated reserve amount was \$1,858,000 and \$2,153,000, 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 fund equity section of the balance sheet.

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

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.

	2011	2010
Unpaid claims and claim adjustment expenses at beginning of year	\$ 984,194	\$ 1,168,530
Incurred claims and claim adjustment expenses:		
Provision for insured event of current year	7,900,774	8,280,132
Total incurred claims and claim adjustment expenses	8,884,968	9,448,662
Payments:		
Claims and claim adjustment expenses attributable to insured events of current year	7,067,188	7,295,938
Claims and claim adjustment expenses attributable to insured events of prior years	984,194	1,168,530
Total payments	8,051,382	8,464,468
Total unpaid claims and claim adjustment expenses at end of year (see schedule below)	<u>\$ 833,586</u>	<u>\$ 984,194</u>
Schedule of unpaid claims and claim adjustment expenses at end of year:		
Portion of accounts payable that relates to claims expenses	\$ 177,586	\$ 87,194
Liability of incurred but not reported claims	656,000	897,000
	<u>\$ 833,586</u>	<u>\$ 984,194</u>

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, 2011 and 2010

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.

INDEPENDENT ACCOUNTANTS' 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 Trustees:

We have audited 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, 2011 and 2010, and have issued our report thereon dated May 29, 2012. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the Trust's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Trust's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, 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 more than a reasonable possibility that a material misstatement of the Trust's financial statements will not be prevented or detected and timely corrected.

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

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, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of management, the audit committee, the Board of Trustees and others within the Trust. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Charles E. Harris and Associates". The signature is written in a cursive, slightly slanted style.

Charles E. Harris and Associates, Inc.

May 29, 2012

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Dave Yost • Auditor of State

**JOINTLY ADMINISTERED TRUST FUND 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
SEPTEMBER 27, 2012**