

**The Jointly Administered Trust Fund
For the Benefit of Lorain City School District Employees
(A Component Unit of Lorain City School District)**

Basic Financial Statements

For the Years Ended
December 31, 2014 and 2013



Dave Yost • Auditor of State

Board of Directors
Joint Insurance Health Plan Trust for the Benefit of North Ridgeville City School District
Employees
10045 College Park Drive
Concord, Ohio 44060

We have reviewed the *Independent Auditor's Report* of the Joint Insurance Health Plan Trust for the Benefit of North Ridgeville City School District Employees, Lorain County, prepared by Rea & Associates, Inc., for the audit period January 1, 2014 through December 31, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Joint Insurance Health Plan Trust for the Benefit of North Ridgeville 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 19, 2015

This page intentionally left blank.

**The Jointly Administered Trust Fund
For the Benefit of Lorain City School District Employees
(A Component Unit of Lorain City School District)**

Basic Financial Statements
For the Years Ended December 31, 2014 and 2013

TABLE OF CONTENTS

Independent Auditor’s Report	1
Management’s Discussion and Analysis	3
Basic Financial Statements:	
Statements of Net Position.....	6
Statements of Revenue, Expenses and Changes in Net Position	7
Statements of Cash Flows	8
Notes to the Financial Statements	9
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Governmental Auditing Standards</i>	13

This page intentionally left blank.

March 31, 2015

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

Independent Auditor's Report

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 District Employees, Lorain County, Ohio, (the "Trust"), a component unit of Lorain City School District, as of and for the year ended December 31, 2014, 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 the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 District Employees, Lorain County, Ohio, as of December 31, 2014, and the changes in financial position and its cash flows for the year then ended in accordance with 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 that the *Management's Discussion and Analysis* on pages 3-5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting 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 assurance.

Other Auditors

The financial statements of the Trust, as of and for the year ended December 31, 2013, were audited by other auditors whose report dated April 16, 2014 expressed an unmodified opinion on those statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2015 on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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 Trust's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Medina, Ohio

The Jointly Administered Trust Fund
For the Benefit of Lorain City School District Employees
(A Component Unit of Lorain City School District)
Management's Discussion and Analysis
For the Years Ended December 31, 2014 and 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, 2014. 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 \$256,002, \$850,309, and \$1,930,893, as of January 1, 2014, 2013, and 2012, respectively.
- The Trust actuary set the 2014 budget at \$9,349,811; however the Trust elected to fund the budget at \$11,207,667 in an effort to strengthen the insurance reserve. 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.
- Large medical claims (those in excess of \$10,000) incurred represented 67.47% of medical claims or \$3,878,597. In 2013 those large medical claims 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 2014 operating revenue exceeded operating expenses by \$2,117,209. There were a number of factors that contributed to the surplus. The number one factor and major source of the surplus was the Trust decision to fund \$742,667 to strengthen the insurance reserve. In addition, the Trust implemented a number of benefit changes, programmatic changes that included pharmacy management review, and implemented a wellness impact program all of which resulted in savings to the Trust. The dental plan was unbundled to comply with ACA.
- In 2013 operating expenses exceeded operating 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 operating expenses exceeded operating 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.

The Jointly Administered Trust Fund
For the Benefit of Lorain City School District Employees
(A Component Unit of Lorain City School District)
Management's Discussion and Analysis
For the Years Ended December 31, 2014 and 2013

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, 2014, 2013 and 2012

The Trust's net position increased by \$2,117,407 for the year ended December 31, 2014; and decreased by \$50,843 and \$925,062, for the years ended December 31, 2013 and 2012, respectively. Trust fund contributions exceeded costs and claims for the year, resulting in increased cash and cash equivalents.

The following table represents the major components of the statement of net position as of December 31, 2014, 2013 and 2012:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current Assets	\$ 2,209,374	\$ 335,547	\$ 913,133
Current Liabilities	<u>1,126,000</u>	<u>1,369,580</u>	<u>1,896,332</u>
Net Position:			
Restricted	2,228,000	1,892,000	1,950,000
Unrestricted (Deficit)	<u>(1,144,626)</u>	<u>(2,926,033)</u>	<u>(2,933,199)</u>
Total Net Position	<u>\$ 1,083,374</u>	<u>\$ (1,034,033)</u>	<u>\$ (983,199)</u>

The Jointly Administered Trust Fund
For the Benefit of Lorain City School District Employees
(A Component Unit of Lorain City School District)
Management's Discussion and Analysis
For the Years Ended December 31, 2014 and 2013

COMMENTS ON OPERATING AND BUDGET COMPARISONS

- The Trust's total operating revenue was \$11,372,259, \$9,112,960, and \$8,319,174 for the years ended December 31, 2014, 2013 and 2012, respectively.
- The 2014 budget was set at \$9,349,811. The budget was over funded due to the Trust decision to strengthen the insurance reserve.
- The Trust's total operating expenses were \$9,255,049 \$9,150,662, and \$9,250,787, for the fiscal years ended December 31, 2014, 2013 and 2012, respectively.

The following table presents a summary of operating revenue and expenses for the fiscal years ended December 31, 2014, 2013 and 2012.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenues:			
Contributions:			
Employer	\$ 8,744,033	\$ 7,304,500	\$ 6,636,500
Participant	1,552,858	1,425,400	1,181,922
Cost-Sharing Savings From Prior Years	1,067,651	333,359	417,526
COBRA	7,717	49,701	83,226
<i>Total Revenues</i>	<u>11,372,259</u>	<u>9,112,960</u>	<u>8,319,174</u>
Expenses:			
Medical Claims	5,355,129	5,660,055	5,969,164
Dental Claims	379,257	366,962	381,268
Vision Claims	98,519	97,771	108,334
Prescription Claims	2,094,980	1,901,746	1,779,537
Medical Stop-Loss	692,643	562,607	500,965
Accounting	11,075	10,805	10,401
Actuarial	36,142	63,197	23,003
Trust Management	50,400	50,400	50,400
Trust Benefit Consultant	39,500	23,042	0
Legal Fees	13,348	26,806	18,062
Bank Fees	11,028	10,966	16,430
Insurance	4,928	4,882	4,720
Health Fair Screening	5,080	4,680	6,111
Miscellaneous	80,376	4,443	9,045
Medical Administration	327,376	309,838	312,871
Vision Administration	15,003	14,962	15,672
Dental Administration	34,421	34,394	41,646
Prescription Administration	5,845	3,106	3,158
<i>Total Expenses</i>	<u>9,255,050</u>	<u>9,150,662</u>	<u>9,250,787</u>
<i>Operating Gain (Loss)</i>	<u>2,117,209</u>	<u>(37,702)</u>	<u>(931,613)</u>
Non-Operating Revenues (Expense):			
Investment Income	198	(13,132)	6,551
<i>Change in Net Position</i>	2,117,407	(50,834)	(925,062)
<i>Net Position Beginning of Year</i>	<u>(1,034,033)</u>	<u>(983,199)</u>	<u>(58,137)</u>
<i>Net Position End of Year</i>	<u>\$ 1,083,374</u>	<u>\$ (1,034,033)</u>	<u>\$ (983,199)</u>

Joint Insurance Health Plan Trust
For the Benefit of Lorain City School District Employee
(A Component Unit of Lorain City School District)
Statements of Net Position
December 31, 2014 and 2013

	2014	2013
Assets:		
<i>Current Assets:</i>		
Cash and Cash Equivalents	\$ 1,469,567	\$ 256,002
Cost Savings - Premium Deposits	648,687	0
Prepaid Expenses	91,120	79,545
<i>Total Current Assets</i>	2,209,374	335,547
Liabilities:		
<i>Current Liabilities:</i>		
Accounts Payable	251,000	92,616
Cost Savings - Sharing Payable	0	418,964
Liability for Incurred But Not Reported Claims	875,000	858,000
<i>Total Current Liabilities</i>	1,126,000	1,369,580
Net Position:		
Restricted	2,228,000	1,892,000
Unrestricted	(1,144,626)	(2,926,033)
<i>Total Net Position</i>	\$ 1,083,374	\$ (1,034,033)

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

Joint Insurance Health Plan Trust
For the Benefit of Lorain City School District Employee
(A Component Unit of Lorain City School District)
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2014 and 2013

	2014	2013
Revenues:		
Contributions:		
Employer	\$ 8,744,033	\$ 7,304,500
Participant	1,552,858	1,425,400
Cost-Sharing Savings From Prior Years	1,067,651	333,359
COBRA	7,717	49,701
<i>Total Revenues</i>	11,372,259	9,112,960
Expenses:		
Medical Claims	5,355,129	5,660,055
Dental Claims	379,257	366,962
Vision Claims	98,519	97,771
Prescription Claims	2,094,980	1,901,746
Medical Stop-Loss	692,643	562,607
Accounting	11,075	10,805
Actuarial	36,142	63,197
Trust Management	50,400	50,400
Trust Benefit Consultant	39,500	23,042
Legal Fees	13,348	26,806
Bank Fees	11,028	10,966
Insurance	4,928	4,882
Health Fair Screening	5,080	4,680
Miscellaneous	80,376	4,443
Medical Administration	327,376	309,838
Vision Administration	15,003	14,962
Dental Administration	34,421	34,394
Prescription Administration	5,845	3,106
<i>Total Expenses</i>	9,255,050	9,150,662
<i>Operating Gain (Loss)</i>	2,117,209	(37,702)
Non-Operating Revenues (Expense):		
Investment Income	198	(13,132)
<i>Change in Net Position</i>	2,117,407	(50,834)
<i>Net Position Beginning of Year</i>	(1,034,033)	(983,199)
<i>Net Position End of Year</i>	\$ 1,083,374	\$ (1,034,033)

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

Joint Insurance Health Plan Trust
For the Benefit of Lorain City School District Employee
(A Component Unit of Lorain City School District)
Statements of Cash Flows
For the Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities:		
Cash Received from Employer	\$ 8,744,033	\$ 7,304,500
Cash Received from Employees	1,552,858	1,425,400
Cash Received from COBRA Premiums	7,717	49,701
Cash Payments for Benefit Plan Claims	(8,449,908)	(8,805,050)
Cash Payments for Benefit Provider's Administration Fees	(382,381)	(365,170)
Cash Payments for Plan Administration and Operating Expenses	(258,952)	(190,556)
<i>Net Cash Provided by (Used for) Operating Activities</i>	1,213,367	(581,175)
Cash Flows from Investing Activities:		
Interest Received	198	(13,132)
Proceeds from Bond Sales	0	800,722
<i>Net Cash Provided by (Used For) Investing Activities</i>	198	787,590
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	1,213,565	206,415
<i>Cash and Cash Equivalents, Beginning of Year</i>	256,002	49,587
<i>Cash and Cash Equivalents, End of Year</i>	\$ 1,469,567	\$ 256,002
Reconciliation of Operating Gain (Loss) to Net Cash Provided by (Used for) Operating Activities:		
Operating Gain (Loss)	\$ 2,117,209	\$ (37,702)
Adjustments to Reconcile Operating Gain (Loss) to Net Cash Provided By (Used For) Operating Activities:		
Changes in Assets and Liabilities:		
(Increase) Decrease in Assets:		
Cost Savings-Premiums Deposits	(648,687)	0
Prepaid Expenses	(11,575)	(16,721)
Increase (Decrease) in Liabilities:		
Accounts Payable	158,384	(168,393)
Cost Savings-Sharing Payable	(418,964)	(333,359)
Liability for Incurred But Not Reported Claims	17,000	(25,000)
<i>Net Cash Provided by (Used For) Operating Activities</i>	\$ 1,213,367	\$ (581,175)

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 the Financial Statements
December 31, 2014 and 2013*

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 blended component unit of the District, as defined pursuant to Governmental Accounting Standards and Statement No. 61, *The Financial Reporting Entity – An Amendment of GASB Statements No. 14 and No. 34*. 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 that 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 the Financial Statements

December 31, 2014 and 2013

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 fiscal year ended December 31, 2014, the Trust has implemented Governmental Accounting Standards Board (GASB) Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*, GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* and GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*.

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the Trust.

GASB Statement No. 69 addresses accounting and financial reporting for government combinations (including mergers, acquisitions and transfers of operations) and disposals of government operations. The implementation of GASB Statement No. 69 did not have an effect on the financial statements of the Trust.

GASB Statement No. 70 improves comparability of financial statements by requiring consistent reporting and specifying information required to be disclosed for extending and receiving nonexchange financial guarantees. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the Trust.

Cash and Cash Equivalents

The Trust invests their cash in money market accounts with a maturity of ninety days or less and are considered to be cash equivalents for purposes of cash flows. The Trust maintains all of its cash balances with one bank. As of December 31, 2014 and 2013, all cash was held in a money market account.

Risk Management

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. There have been no settlements paid in excess of insurance nor has insurance coverage been significantly reduced in the past three years.

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.

**The Jointly Administered Trust Fund
For the Benefit of Lorain City School District Employees
(A Component Unit of Lorain City School District)**

Notes to the Financial Statements

December 31, 2014 and 2013

Reserves

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, 2014 and 2013 this calculated reserve amount was \$2,228,000 and \$1,892,000, 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.

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.

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, 2014 and 2013 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, 2014, 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, 2014 and 2013, the cost-savings calculation resulted in revenues exceeding expenses by \$1,067,051 and \$333,359, 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. For December 31, 2013, the amount was \$418,964. The year to date balance for December 31, 2014 has reported a combined excess to date of \$648,687, which is reported a cost savings – premium deposits. These amounts are being held to offset future trust expenses.

Operating Revenue and Expenses

Operating revenue is revenue that is generated directly from the primary activities. For the Trust, this revenue is primarily from contributions from the Lorain City School District and district employees, cost-sharing savings and COBRA. Operating expenses include the payment of claims, stop-loss premiums, administration and other fees. Revenue and expenses not meeting this definition are reported as nonoperating.

**The Jointly Administered Trust Fund
For the Benefit of Lorain City School District Employees
(A Component Unit of Lorain City School District)**

Notes to the Financial Statements

December 31, 2014 and 2013

NOTE 3 – DEPOSITS

Deposits

At December 31, 2014 and 2013, the carrying amount of the Trust's deposits was \$1,469,567 and \$256,002, respectively, and the bank balance was the same.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of bank failure, the Trust's deposits may not be returned. All deposits are covered by collateral held by a qualified third party trustee in the name of the trust.

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>2014</u>	<u>2013</u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ 940,962	\$ 1,143,019
Incurred claims and claims adjustment expenses:		
Provision for insured event of current year	<u>9,495,528</u>	<u>8,884,534</u>
Total incurred claims and claim adjustment expenses	10,436,490	10,027,553
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	8,385,396	7,943,572
Claims and claim adjustment expenses attributable to insured events of the prior year	<u>940,962</u>	<u>1,143,019</u>
Total payments	<u>9,326,358</u>	<u>9,086,591</u>
Total unpaid claims and claim adjustment expenses at end of year (see schedule below)	<u>\$ 1,110,132</u>	<u>\$ 940,962</u>
Schedule of unpaid claims and claim adjustment expenses at end of year:		
Portion of accounts payable that relates to claims expense	\$ 235,132	\$ 82,962
Liability of incurred but not reported claims	<u>875,000</u>	<u>858,000</u>
	<u>\$ 1,110,132</u>	<u>\$ 940,962</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.

March 31, 2015

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

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited, in accordance with the 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, the financial statements of The Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees, Lorain County, Ohio (the "Trust"), a component unit of Lorain City School District, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements, and have issued our report thereon dated March 31, 2015, wherein we noted that other auditors audited the basic financial statements of the Trust as of and for the year ended December 31, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Trust's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the Trust's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 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 significant deficiencies or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees
Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*
Page 2

Compliance and Other Matters

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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Trust's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Trust's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Medina, Ohio



Dave Yost • Auditor of State

**JOINT INSURANCE HEALTH PLAN TRUST FOR NORTH RIDGEVILLE 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 2, 2015**