

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

*Audited Financial Statements*

For the Years Ended  
December 31, 2016 and 2015





# 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 Auditor's Report* of the Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees, Lorain County, prepared by Rea & Associates, Inc., for the audit period January 1, 2016 through December 31, 2016. 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 22, 2017

**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, 2016 and 2015

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 Based on an Audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i> .....	15

March 20, 2017

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 years ended December 31, 2016 and 2015, 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 Trust'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 Trust'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 Joint Insurance Health Plan Trust for the Benefit of Lorain City School District Employees, Lorain County, Ohio, as of December 31, 2016 and 2015, and the changes in financial position and its cash flows for the years 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2017 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, 2016 and 2015*

---

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, 2016, 2015 and 2014. Please read this in conjunction with additional information found within the basic financial statements.

**FINANCIAL HIGHLIGHTS**

- The ending cash and investment balance for the Trust was \$952,416, \$1,515,221, and \$1,469,567, as December 31, 2016, 2015, and 2014, respectively.
- The Trust actuary set the 2016 budget at \$10,056,716; however the Trustees elected to fund the budget at \$9,616,026 and use \$400,690 from the reserve to cover the funding shortfall. The Trust actuary set the 2015 budget at \$9,739,000; however the Trust elected to fund the budget at \$9,709,200 and elected not to increase employee contributions and instead implement a robust wellness program which required employees to participate in a wellness screening, complete an on-line health risk assessment and participate in wellness activities. 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.
- In 2016 operating expenses exceeded operating revenues by \$699,390. The major factor was the Trustees decision not to fully fund 2016 resulting in a revenue shortfall of \$400,690. Also medical and prescription drug claims exceeded the budget by \$300,971.
- In 2015 operating revenues exceeded operating expenses by \$140,894. The major factor was medical claims were less than budget and prescription drug claims exceeded budget; however, the net difference was a surplus of \$121,422.
- In 2014 operating expenses exceeded operating revenues by \$18,093. There were a number of factors that contributed to the deficit. The number one factor and major source of the loss 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.

**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.

**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, 2016 and 2015*

---

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, 2016, 2015 and 2014**

The Trust's net position decreased by \$689,866 for the year ended December 31, 2016; increased by \$1,629,273 for the year ended December 31, 2015; and decreased \$17,895 for the year ended December 31, 2014, respectively. The large decrease in 2016 was attributed to the Trust not fully funding the 2016 budget which depleted the reserves and medical and prescription drug claims exceeding the budget. The large increase in 2015 was attributed to the Trust updating their cost sharing policy, which eliminated the cost savings-sharing payable liability during 2015 in the amount of \$1,486,615.

The following table represents the major components of the statement of net position as of December 31, 2016, 2015 and 2014:

	<u>2016</u>	<u>2015</u>	<u>Restated 2014</u>
Current Assets	<u>\$ 988,160</u>	<u>\$ 1,622,433</u>	<u>\$ 1,560,687</u>
Current Liabilities	<u>1,100,681</u>	<u>1,045,088</u>	<u>2,612,615</u>
Net Position:			
Restricted	2,295,446	2,041,163	2,228,000
Unrestricted (Deficit)	<u>(2,407,967)</u>	<u>(1,463,818)</u>	<u>(3,279,928)</u>
Total Net Position	<u><u>\$ (112,521)</u></u>	<u><u>\$ 577,345</u></u>	<u><u>\$ (1,051,928)</u></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, 2016 and 2015*

**COMMENTS ON OPERATING AND BUDGET COMPARISONS**

- The Trust's total operating revenues were \$10,061,087, \$9,658,275, and \$9,236,957, for the years ended December 31, 2016, 2015 and 2014, respectively.
- The 2016 budget was set at \$10,056,716.
- The Trust's total operating expenses were \$10,760,477, \$9,517,381, and \$9,255,050, for the years ended December 31, 2016, 2015 and 2014, respectively.

The following table presents a summary of operating revenue and expenses for the years ended December 31, 2016, 2015 and 2014.

	2016	2015	Restated 2014
Operating Revenues:			
Contributions:			
Employer	\$ 8,434,050	\$ 8,120,400	\$ 8,744,033
Participant	1,615,357	1,529,062	1,552,858
Cost-Sharing/Savings Excess Premiums	0	0	(1,067,651)
COBRA	11,680	8,813	7,717
<i>Total Operating Revenues</i>	10,061,087	9,658,275	9,236,957
Operating Expenses:			
Medical Claims	5,863,597	5,082,001	5,355,129
Dental Claims	360,329	351,336	379,257
Vision Claims	92,948	91,539	98,519
Prescription Claims	2,864,908	2,587,777	2,094,980
Medical Stop-Loss	954,676	759,468	692,643
Accounting	10,801	9,386	11,075
Actuarial	45,302	35,443	36,142
Trust Management	50,400	50,400	50,400
Trust Benefit Consultant	39,500	39,500	39,500
Legal Fees	4,056	26,960	13,348
Bank Fees	7,832	11,373	11,028
Insurance	5,060	5,060	4,928
Health Fair Screening	3,772	20,120	5,080
Miscellaneous	43,531	60,399	80,376
Medical Administration	354,660	331,657	327,376
Vision Administration	16,342	14,925	15,003
Dental Administration	34,314	34,115	34,421
Prescription Administration	8,449	5,922	5,845
<i>Total Operating Expenses</i>	10,760,477	9,517,381	9,255,050
<i>Operating Income (Loss)</i>	(699,390)	140,894	(18,093)
Non-Operating Revenues (Expense):			
Investment Income	9,524	1,764	198
Special Item	0	1,486,615	0
<i>Change in Net Position</i>	(689,866)	1,629,273	(17,895)
<i>Net Position Beginning of Year</i>	577,345	(1,051,928)	(1,034,033)
<i>Net Position End of Year</i>	\$ (112,521)	\$ 577,345	\$ (1,051,928)

**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, 2016 and 2015

	2016	2015
<b>Assets:</b>		
<i>Current Assets:</i>		
Cash and Cash Equivalents	\$ 451,921	\$ 1,016,171
Investments, at Fair Value	500,495	499,050
Prepaid Expenses	35,744	107,212
<i>Total Current Assets</i>	988,160	1,622,433
<b>Liabilities:</b>		
<i>Current Liabilities:</i>		
Accounts Payable	241,681	222,088
Liability for Incurred But Not Reported Claims	859,000	823,000
<i>Total Current Liabilities</i>	1,100,681	1,045,088
<b>Net Position:</b>		
Restricted	2,295,446	2,041,163
Unrestricted	(2,407,967)	(1,463,818)
<i>Total Net Position</i>	\$ (112,521)	\$ 577,345

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, 2016 and 2015*

	2016	2015
<b>Operating Revenues:</b>		
Contributions:		
Employer	\$ 8,434,050	\$ 8,120,400
Participant	1,615,357	1,529,062
COBRA	11,680	8,813
<i>Total Operating Revenues</i>	10,061,087	9,658,275
<b>Operating Expenses:</b>		
Medical Claims	5,863,597	5,082,001
Dental Claims	360,329	351,336
Vision Claims	92,948	91,539
Prescription Claims	2,864,908	2,587,777
Medical Stop-Loss	954,676	759,468
Accounting	10,801	9,386
Actuarial	45,302	35,443
Trust Management	50,400	50,400
Trust Benefit Consultant	39,500	39,500
Legal Fees	4,056	26,960
Bank Fees	7,832	11,373
Insurance	5,060	5,060
Health Fair Screening	3,772	20,120
Miscellaneous	43,531	60,399
Medical Administration	354,660	331,657
Vision Administration	16,342	14,925
Dental Administration	34,314	34,115
Prescription Administration	8,449	5,922
<i>Total Operating Expenses</i>	10,760,477	9,517,381
<i>Operating Income (Loss)</i>	(699,390)	140,894
<b>Non-Operating Revenues (Expense):</b>		
Investment Income	9,524	1,764
Special Item	0	1,486,615
<i>Change in Net Position</i>	(689,866)	1,629,273
<i>Net Position Beginning of Year</i>	577,345	(1,051,928)
<i>Net Position End of Year</i>	\$ (112,521)	\$ 577,345

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, 2016 and 2015

	2016	2015
<b>Cash Flows from Operating Activities:</b>		
Cash Received from Employer	\$ 8,434,050	\$ 8,120,400
Cash Received from Employees	1,615,357	1,529,062
Cash Received from COBRA Premiums	11,680	8,813
Cash Payments for Benefit Plan Claims	(9,131,763)	(8,186,003)
Cash Payments for Stop-Loss	(876,474)	(773,449)
Cash Payments for Benefit Provider's Administration Fees	(419,690)	(388,178)
Cash Payments for Plan Administration and Operating Expenses	(205,489)	(266,755)
<i>Net Cash Provided by (Used for) Operating Activities</i>	(572,329)	43,890
<b>Cash Flows from Investing Activities:</b>		
Interest Received	8,079	2,361
Purchases of Investments	200,000	(599,647)
Proceeds from Investments	(200,000)	100,000
<i>Net Cash Provided by (Used For) Investing Activities</i>	8,079	(497,286)
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(564,250)	(453,396)
<i>Cash and Cash Equivalents, Beginning of Year</i>	1,016,171	1,469,567
<i>Cash and Cash Equivalents, End of Year</i>	\$ 451,921	\$ 1,016,171
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:</b>		
Operating Income (Loss)	\$ (699,390)	\$ 140,894
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:		
Changes in Assets and Liabilities:		
(Increase) Decrease in Assets:		
Prepaid Expenses	71,468	(16,092)
Increase (Decrease) in Liabilities:		
Accounts Payable	19,593	(28,912)
Liability for Incurred But Not Reported Claims	36,000	(52,000)
<i>Net Cash Provided by (Used For) Operating Activities</i>	\$ (572,329)	\$ 43,890

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, 2016 and 2015*

---

**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. The trust maintains its accounting records in accordance with the principles of “fund” accounting. Fund accounting is a concept developed to meet the needs of government entities in which legal or other restraints require the recording of specific receipts and disbursements. The Trust uses an enterprise fund to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for public policy, management control, accountability or other purposes.

**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 for the years ended December 31, 2016 and 2015.

**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 the Financial Statements  
December 31, 2016 and 2015*

---

**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 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.

**Implementation on New Accounting Principles**

For the year ended December 31, 2016, the Trust has implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, GASB Statement No. 77, *Tax Abatement Disclosures*, GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*.

GASB Statement No. 72 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. These changes were incorporated in the Trust's fiscal year 2016 note disclosures; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the Trust.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the Trust.

**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, 2016 and 2015*

---

GASB Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The implementation of this statement did not result in any change in the Trust's financial statements as the Trust does not have any material GASB Statement No. 77 tax abatements.

GASB Statement No. 78 amends the scope of GASB Statement No. 68 to exclude certain multiple-employer defined benefit pension plans provided to employees of state and local governments on the basis that obtaining the measurements and other information required by GASB Statement No. 68 was not feasible. The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the Trust.

GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement provides accounting and financial reporting guidance also establishes additional note disclosure requirements for governments that participate in those pools. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the Trust.

#### **Cash and Cash Equivalents**

The Trust invests their cash in U.S. Government Bonds. The Trust maintains all of its cash balances with one bank.

For purposes of the statement of cash flows, the Trust considers all highly liquid instruments purchased with a maturity of ninety days or less to be cash equivalents.

At December 31, 2016 and 2015, the carrying amount of the Trust's deposits was \$201,832 and \$100,279, respectively, and the bank balance was the same. 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 FDIC or collateral held by a qualified third party trustee in the name of the Trust.

#### **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, 2016 and 2015*

---

**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 \$2,295,446 and \$2,041,163, 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, 2016 and 2016 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, 2016, 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. The trustees may elect, on behalf of the employees, to reduce the following year's cost-sharing by their distributable amount. These amounts were reflected as a liability on the statement of net position and were being held to offset future trust expenses. In 2015, the Trust updated their cost sharing policy, which eliminated the cost savings-sharing payable liability until the insurance reserve is fully funded. Since the reserve is not fully funded at December 31, 2015 or December 31, 2016, no liability is reported.

**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, 2016 and 2015*

---

**Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Trustees and that are either unusual in nature or infrequent in occurrence. During 2015, the Trust updated their cost sharing policy, which eliminated the cost savings-sharing payable liability until the insurance reserve is fully funded. Since the reserve was not fully funded 2015, the existing liability of \$1,486,615 was written off as a special item. During 2016, the Trust had no extraordinary or special items.

**NOTE 3 – INVESTMENTS**

**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.

**Credit Risk**

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

**Risk Management**

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

The following table presents investments at fair market value as of December 31, 2016 and 2015. These balances are held in the insurance reserve account. 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.

**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, 2016 and 2015*

	Measurement Amount		Percentage of Investment	
	2016	2015	2016	2015
<b>U.S. Treasury Notes</b>				
.500% due 1/31/2017	\$ 100,013	\$ 99,648	13%	7%
.500% due 2/28/2017	100,012	99,613	13%	7%
<b>Total U.S. Treasury Notes</b>	<u>200,025</u>	<u>199,261</u>	<u>26%</u>	<u>14%</u>
<b>U.S. Government (State Tax Exempt)</b>				
Federal Home Loan Mortgage				
1.250%, due 3/23/2021	98,638	99,760	13%	7%
Federal Home Loan Mortgage				
.700%, due 2/24/017, Callable 2/24/2016	0	99,750	0%	7%
<b>Total U.S. Government (State Tax Exempt)</b>	<u>98,638</u>	<u>199,510</u>	<u>13%</u>	<u>14%</u>
<b>Money Market Mutual Fund</b>				
Federated Prime Cash Obligations	451,921	1,016,171	61%	72%
	<u>451,921</u>	<u>1,016,171</u>	<u>61%</u>	<u>72%</u>
<b>Total Investments</b>	<u>\$ 750,584</u>	<u>\$ 1,414,942</u>	<u>100%</u>	<u>100%</u>

\*The Trust's investments in federal agency securities were rated AA+ by S & P Global Ratings for 2016.

The Trust categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above table identifies the Trust's recurring fair value measurements as of December 31, 2016 and 2015. All other investments of the Trust are valued using quoted market prices (Level 1 inputs).

#### **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.

Liability Year	Beginning of Year Liability	Current Year Claims	Claim Payments	End of Year Liability
2016	\$ 823,000	\$ 9,167,763	\$ (9,131,763)	\$ 859,000
2015	875,000	8,186,003	(8,238,003)	823,000

#### **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 20, 2017

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, 2016, 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 20, 2017.

**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 a 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 from 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Rea & Associates, Inc.*

Medina, Ohio

**This page intentionally left blank.**



# 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 6, 2017**