

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

Final Audit

For the Years Ended
December 31, 2017 and 2016

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

Final Audit
For the Years Ended December 31, 2017 and 2016

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April 20, 2018

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, 2017 and 2016, 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, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

As described in Note 6, the Trust ceased the provision of health, dental and vision benefits to the Board of Education's employees and their dependents through the Trust. The Chief Executive Officer of the District is to assume, discharge, perform and satisfy fully all of the Trust's remaining obligations after December 31, 2017, necessary for the Trust to terminate. Our opinion is not modified with respect to this matter.

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 April 20, 2018 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 the effectiveness of the Trust's 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, 2017 and 2016

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 years ended December 31, 2017, 2016 and 2015. 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 \$155,121, \$952,416, and \$1,515,221, as December 31, 2017, 2016, and 2015, respectively.
- The Trust actuary set the 2017 budget at \$10,809,804; however the Trustees elected to fund the budget at \$10,778,931 and use \$30,193 from the reserve to cover the funding shortfall. 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
- In 2017 operating expenses exceeded operating revenues by \$184,413. The continued losses from operations were a major factor in the decision to cease operations of the Trust.
- 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. The budgeted claims drive the funding.
- In 2017, the Trust was dissolved as of December 31.

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.

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.

The Jointly Administered Trust Fund
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Management's Discussion and Analysis
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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, 2017, 2016 and 2015

The Trust's net position increased by \$112,521 for the year ended December 31, 2017; decreased by \$689,866 for the year ended December 31, 2016; and increased by \$1,629,273 for the year ended December 31, 2015. The increase in 2017 was attributed to final contributions from employers offset by the final claims due to termination of the Trust. Due to dissolution, all IBNR claims have become the responsibility of the District; therefore, no liability reported for IBNR claims. In addition, the District subsidized the run-out expenses of the Trust, which is represented in intergovernmental receivable resulting in a zero net position at December 31, 2017. 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, 2017, 2016 and 2015:

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|------------------------|--------------------|----------------------------|--------------------------|
| Current Assets | <u>\$ 493,565</u> | <u>\$ 988,160</u> | <u>\$ 1,622,433</u> |
| Current Liabilities | <u>493,565</u> | <u>1,100,681</u> | <u>1,045,088</u> |
| Net Position: | | | |
| Restricted | 0 | 2,295,446 | 2,041,163 |
| Unrestricted (Deficit) | <u>0</u> | <u>(2,407,967)</u> | <u>(1,463,818)</u> |
| Total Net Position | <u><u>\$ 0</u></u> | <u><u>\$ (112,521)</u></u> | <u><u>\$ 577,345</u></u> |

COMMENTS ON OPERATING AND BUDGET COMPARISONS

- The Trust's total operating revenues were \$10,800,548, \$10,061,087, and \$9,658,275, for the years ended December 31, 2017, 2016 and 2015, respectively.
- The 2017 budget was set at \$10,809,804.

The Jointly Administered Trust Fund
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Management's Discussion and Analysis
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- The Trust's total operating expenses were \$10,984,961, \$10,760,477, and \$9,517,381, for the years ended December 31, 2017, 2016 and 2015, respectively.

The following table presents a summary of operating revenues and expenses for the years ended December 31, 2017, 2016 and 2015.

| | 2017 | 2016 | 2015 |
|---|-------------------|---------------------|--------------------|
| Operating Revenues: | | | |
| Contributions: | | | |
| Employer | \$ 9,106,140 | \$ 8,434,050 | \$ 8,120,400 |
| Participant | 1,663,575 | 1,615,357 | 1,529,062 |
| COBRA | 30,833 | 11,680 | 8,813 |
| <i>Total Operating Revenues</i> | <u>10,800,548</u> | <u>10,061,087</u> | <u>9,658,275</u> |
| Operating Expenses: | | | |
| Medical Claims | 6,386,968 | 5,863,597 | 5,082,001 |
| Dental Claims | 400,589 | 360,329 | 351,336 |
| Vision Claims | 93,056 | 92,948 | 91,539 |
| Prescription Claims | 2,880,203 | 2,864,908 | 2,587,777 |
| Medical Stop-Loss | 559,854 | 954,676 | 759,468 |
| Accounting | 10,995 | 10,801 | 9,386 |
| Actuarial | 87,970 | 45,302 | 35,443 |
| Trust Management | 50,400 | 50,400 | 50,400 |
| Trust Benefit Consultant | 39,500 | 39,500 | 39,500 |
| Legal Fees | 11,915 | 4,056 | 26,960 |
| Bank Fees | 3,779 | 7,832 | 11,373 |
| Insurance | 5,060 | 5,060 | 5,060 |
| Health Fair Screening | 3,849 | 3,772 | 20,120 |
| Miscellaneous | 8,268 | 43,531 | 60,399 |
| Medical Administration | 379,646 | 354,660 | 331,657 |
| Vision Administration | 16,724 | 16,342 | 14,925 |
| Dental Administration | 32,331 | 34,314 | 34,115 |
| Prescription Administration | 13,854 | 8,449 | 5,922 |
| <i>Total Operating Expenses</i> | <u>10,984,961</u> | <u>10,760,477</u> | <u>9,517,381</u> |
| <i>Operating Income (Loss)</i> | <u>(184,413)</u> | <u>(699,390)</u> | <u>140,894</u> |
| Non-Operating Revenues (Expense): | | | |
| Investment Income | 353 | 9,524 | 1,764 |
| Subsidy from the District | 296,581 | 0 | 0 |
| <i>Total Non-Operating Revenues (Expense)</i> | <u>296,934</u> | <u>9,524</u> | <u>1,764</u> |
| Special Item | <u>0</u> | <u>0</u> | <u>1,486,615</u> |
| <i>Change in Net Position</i> | 112,521 | (689,866) | 1,629,273 |
| <i>Net Position Beginning of Year</i> | <u>(112,521)</u> | <u>577,345</u> | <u>(1,051,928)</u> |
| <i>Net Position End of Year</i> | <u>\$ 0</u> | <u>\$ (112,521)</u> | <u>\$ 577,345</u> |

Contacting the Trust's Financial Management

If you have questions about this report or need additional financial information, contact The Health Trust Manager, 10045 College Park Drive, Concord, Ohio.

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, 2017 and 2016

| | 2017 | 2016 |
|--|------------|--------------|
| Assets: | | |
| <i>Current Assets:</i> | | |
| Cash and Cash Equivalents | \$ 155,121 | \$ 451,921 |
| Investments, at Fair Value | 0 | 500,495 |
| Accounts Receivable | 41,863 | 0 |
| Intergovernmental Receivable | 296,581 | 0 |
| Prepaid Expenses | 0 | 35,744 |
| <i>Total Current Assets</i> | 493,565 | 988,160 |
| Liabilities: | | |
| <i>Current Liabilities:</i> | | |
| Accounts Payable | 493,565 | 241,681 |
| Liability for Incurred But Not Reported Claims | 0 | 859,000 |
| <i>Total Current Liabilities</i> | 493,565 | 1,100,681 |
| Net Position: | | |
| Restricted | 0 | 2,295,446 |
| Unrestricted (Deficit) | 0 | (2,407,967) |
| <i>Total Net Position</i> | \$ 0 | \$ (112,521) |

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, 2017 and 2016

| | 2017 | 2016 |
|---|--------------|--------------|
| Operating Revenues: | | |
| Contributions: | | |
| Employer | \$ 9,106,140 | \$ 8,434,050 |
| Participant | 1,663,575 | 1,615,357 |
| COBRA | 30,833 | 11,680 |
| <i>Total Operating Revenues</i> | 10,800,548 | 10,061,087 |
| Operating Expenses: | | |
| Medical Claims | 6,386,968 | 5,863,597 |
| Dental Claims | 400,589 | 360,329 |
| Vision Claims | 93,056 | 92,948 |
| Prescription Claims | 2,880,203 | 2,864,908 |
| Medical Stop-Loss | 559,854 | 954,676 |
| Accounting | 10,995 | 10,801 |
| Actuarial | 87,970 | 45,302 |
| Trust Management | 50,400 | 50,400 |
| Trust Benefit Consultant | 39,500 | 39,500 |
| Legal Fees | 11,915 | 4,056 |
| Bank Fees | 3,779 | 7,832 |
| Insurance | 5,060 | 5,060 |
| Health Fair Screening | 3,849 | 3,772 |
| Miscellaneous | 8,268 | 43,531 |
| Medical Administration | 379,646 | 354,660 |
| Vision Administration | 16,724 | 16,342 |
| Dental Administration | 32,331 | 34,314 |
| Prescription Administration | 13,854 | 8,449 |
| <i>Total Operating Expenses</i> | 10,984,961 | 10,760,477 |
| <i>Operating Income (Loss)</i> | (184,413) | (699,390) |
| Non-Operating Revenues (Expense): | | |
| Investment Income | 353 | 9,524 |
| Subsidy from the District | 296,581 | 0 |
| <i>Total Non-Operating Revenues (Expense)</i> | 296,934 | 9,524 |
| <i>Change in Net Position</i> | 112,521 | (689,866) |
| <i>Net Position Beginning of Year</i> | (112,521) | 577,345 |
| <i>Net Position End of Year</i> | \$ 0 | \$ (112,521) |

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, 2017 and 2016

| | 2017 | 2016 |
|---|--------------|--------------|
| Cash Flows from Operating Activities: | | |
| Cash Received from Employer | \$ 9,106,140 | \$ 8,434,050 |
| Cash Received from Employees | 1,663,470 | 1,615,357 |
| Cash Received from COBRA Premiums | 30,833 | 11,680 |
| Cash Payments for Benefit Plan Claims | (10,369,658) | (9,131,763) |
| Cash Payments for Stop-Loss | (601,611) | (876,474) |
| Cash Payments for Benefit Provider's Administration Fees | (405,722) | (419,690) |
| Cash Payments for Plan Administration and Operating Expenses | (221,100) | (205,489) |
| <i>Net Cash Provided by (Used for) Operating Activities</i> | (797,648) | (572,329) |
| Cash Flows from Investing Activities: | | |
| Interest Received | 2,291 | 8,079 |
| Purchases of Investments | (534,605) | (200,000) |
| Proceeds from Sale of Investments | 1,033,162 | 200,000 |
| <i>Net Cash Provided by (Used For) Investing Activities</i> | 500,848 | 8,079 |
| <i>Net Increase (Decrease) in Cash and Cash Equivalents</i> | (296,800) | (564,250) |
| <i>Cash and Cash Equivalents, Beginning of Year</i> | 451,921 | 1,016,171 |
| <i>Cash and Cash Equivalents, End of Year</i> | \$ 155,121 | \$ 451,921 |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities: | | |
| Operating Income (Loss) | \$ (184,413) | \$ (699,390) |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities: | | |
| Changes in Assets and Liabilities: | | |
| (Increase) Decrease in Assets: | | |
| Accounts Receivable | (41,863) | 0 |
| Prepaid Expenses | 35,744 | 71,468 |
| Increase (Decrease) in Liabilities: | | |
| Accounts Payable | 251,884 | 19,593 |
| Liability for Incurred But Not Reported Claims | (859,000) | 36,000 |
| <i>Net Cash Provided by (Used For) Operating Activities</i> | \$ (797,648) | \$ (572,329) |

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
For the Years Ended December 31, 2017 and 2016

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 implemented Governmental Accounting Standards Board (GASB) Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*. 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, 2017 and 2016.

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.

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Termination

The District has the right to terminate the Trust, under the provisions set forth by the collective bargaining agreement. As of December 31, 2017, the District terminated the Trust.

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 percent share may be funded through payroll contributions, benefit reductions or a combination of both.

NOTE 2 – SUMMARY OF SIGNIFICANT 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, 2017, the Trust has implemented Governmental Accounting Standards Board (GASB) Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, GASB Statement No. 81, *Irrevocable Split-Interest Agreements* and GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*.

GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the Trust.

GASB Statement No. 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, it requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement also requires that a government recognize revenue when the resources become applicable to the reporting period. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the Trust.

GASB Statement No. 82 improves consistency in the application of pension accounting. The implementation of GASB Statement No. 82 did not have an effect on the financial statements of the Trust.

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*Notes to the Financial Statements
For the Years Ended December 31, 2017 and 2016*

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 note disclosures; however, there was no effect on beginning net position.

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.

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 GASB Statement No. 77 did not have an effect on the financial statements of the Trust.

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.

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Cash and Cash Equivalents

The Trust invests their cash in U.S. treasury notes, federal securities, negotiable certificates of deposit and a money market. The Trust maintains all of its cash balances with one bank.

As of December 31, 2017, the Trust liquidated all investments except the money market. 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.

Risk Management

The Trust is insured 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 in the past three years nor has insurance coverage been significantly reduced from the prior year.

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. 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 reserve amount is no longer reflected in the net position of the statement of net position due to the Trust being dissolved at December 31, 2017.

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) 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 District. No IBNR claims were reported at December 31, 2017 since the Trust was dissolved effective December 31, 2017.

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For the Benefit of Lorain City School District Employees
(A Component Unit of Lorain City School District)**

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For the Years Ended December 31, 2017 and 2016*

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, 2016 or December 31, 2017, 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 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.

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 2017 and 2016, the Trust had no extraordinary or special items.

NOTE 3 – INVESTMENTS

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

Custodial Credit Risk

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

Interest Rate Risk

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

**The Jointly Administered Trust Fund
For the Benefit of Lorain City School District Employees
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*Notes to the Financial Statements
For the Years Ended December 31, 2017 and 2016*

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 their measurement value as of December 31, 2017 and 2016. These balances are held in the insurance reserve account. Individual investments in excess of 5 percent of assets are separately presented.

| | Measurement Amount | | Percentage of Investment | |
|---|--------------------|-------------------|--------------------------|----------------|
| | 2017 | 2016 | 2017 | 2016 |
| U.S. Treasury Notes | | | | |
| 0.500% due 1/31/2017 | \$ 0 | \$ 100,013 | 0.00% | 10.50% |
| 0.500% due 2/28/2017 | 0 | 100,012 | 0.00% | 10.50% |
| Total U.S. Treasury Notes | <u>0</u> | <u>200,025</u> | <u>0.00%</u> | <u>21.00%</u> |
| U.S. Government (State Tax Exempt) | | | | |
| Federal Home Loan Mortgage | | | | |
| 1.250%, due 3/23/2021 | 0 | 98,638 | 0.00% | 10.36% |
| Negotiable Certificates of Deposit | | | | |
| Goldman Sachs Bank 2.250% due 12/9/2020 | 0 | 101,531 | 0.00% | 10.66% |
| Goldman Sachs Bank 1.80% due 3/2/2021 | 0 | 100,301 | 0.00% | 10.53% |
| Total Negotiable Certificates of Deposit | <u>0</u> | <u>201,832</u> | <u>0.00%</u> | <u>21.19%</u> |
| Money Market Mutual Fund | | | | |
| Federated Prime Cash Obligations | 155,121 | 451,921 | 100.00% | 47.45% |
| | <u>155,121</u> | <u>451,921</u> | <u>100.00%</u> | <u>47.45%</u> |
| Total Investments | <u>\$ 155,121</u> | <u>\$ 952,416</u> | <u>100.00%</u> | <u>100.00%</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, 2017 and 2016.

The Trust's investments measured at fair value are valued using methodologies that incorporate market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including market research publications. Market indicators and industry and economic events are also monitored which could require the need to acquire further market data (Level 2 inputs).

**The Jointly Administered Trust Fund
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*Notes to the Financial Statements
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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 three years.

| Liability Year | Beginning of Year Liability | Current Year Claims | Claim Payments | End of Year Liability |
|-------------------|--------------------------------|------------------------|-------------------|--------------------------|
| 2017 | \$ 859,000 | \$ 9,510,658 | \$ (10,369,658) | \$ 0 |
| 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.

NOTE 6 – DISSOLUTION OF THE TRUST

As of December 31, 2017, the District has ceased the provision of health, dental and vision benefits to the Board of Education’s employees and their dependents through the Trust. All rights, obligations and responsibilities of the Trust will be transferred to the Chief Executive Officer of the District.

NOTE 7 – SUBSEQUENT EVENT

As of December 31, 2017, the Trust has a cash balance of \$155,121, known current assets of \$338,444 and current liabilities of \$493,565. The Chief Executive Officer of the District is to assume, discharge, perform and satisfy fully all of the Trust’s remaining obligations after December 31, 2017, necessary for the Trust to terminate.

Through January 11, 2018 the Trust received \$338,444 in revenues to offset the outstanding receivable balances. The Trust used the cash balances and revenues received to retire the remaining expense obligations of \$491,162 for accounts payable and \$2,403 for consulting fees.

April 20, 2018

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, 2017, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements, and have issued our report thereon dated April 20, 2018, wherein we noted the Trust ceased the provision of health, dental, and vision benefits to the Board of Education's employees and their dependents through the Trust.

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
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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