


THE JOINTLY ADMINISTERED TRUST FUND
FOR THE BENEFIT OF
LORAIN CITY SCHOOL DISTRICT EMPLOYEES
(A COMPONENT UNIT OF LORAIN CITY SCHOOL DISTRICT)
INTERNAL SERVICE FUND
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
December 31, 1999 and 1998

CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

**BOBER,
MARKEY**
& COMPANY

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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

We have reviewed the Independent Auditor's Report of the Lorain City School District Health Trust, Lorain County, prepared by Bober, Markey & Company, for the audit period January 1, 1999 to December 31, 1999. 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 Lorain City School District Health Trust is responsible for compliance with these laws and regulations.

JIM PETRO
Auditor of State

August 25, 2000

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of the Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees (A component unit of Lorain City School District) (the Trust) as of December 31, 1999 and 1998, and the related statements of revenues, expenses and changes in fund equity and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and standards applicable to financial audits contained in the Governmental Auditing Standards, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust as of December 31, 1999 and 1998, and its revenues, expenses and changes in fund equity and its cash flows for the years then ended in conformity with generally accepted accounting principles.

As identified in Note 2 to the financial statements, the Trust has previously reported pursuant to employee benefit plan accounting standards. In 1999, the Trust determined that reporting should be performed pursuant to generally accepted accounting principles for governmental entities. All information in this report has been reclassified and restated in order to present the information in a consistent manner.

In accordance with Government Auditing Standards, we have also issued a report dated April 4, 2000 on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulation, contracts and grants.



BOBER, MARKEY & COMPANY

April 4, 2000, except for Note 4,
which is dated June 5, 2000

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INTERNAL SERVICE FUND

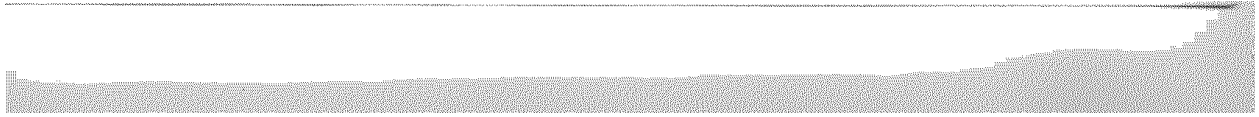
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THE JOINTLY ADMINISTERED TRUST FUND
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 (A COMPONENT UNIT OF LORAIN CITY SCHOOL DISTRICT)
 INTERNAL SERVICE FUND
 BALANCE SHEETS
 DECEMBER 31, 1999 and 1998

	1999	1998
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 184,445	\$ 430,573
Investments, at fair value	1,111,219	1,104,105
Accounts receivable - Lorain City Schools	71,940	-
Accounts receivable - Medical Mutual of Ohio	14,422	-
Prepaid expenses	2,963	2,006
TOTAL CURRENT ASSETS	1,384,989	1,536,684
OTHER ASSETS		
NPA deposits	65,000	65,000
TOTAL ASSETS	\$ 1,449,989	\$ 1,601,684
LIABILITIES AND FUND EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 228,877	\$ 221,510
Cost-sharing payable	15,040	183,612
Liability for incurred but not reported claims	609,800	680,100
IRS penalty assessment payable	101,737	-
TOTAL CURRENT LIABILITIES	955,454	1,085,222
FUND EQUITY - UNRESTRICTED	494,535	516,462
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,449,989	\$ 1,601,684

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

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THE JOINTLY ADMINISTERED TRUST FUND
FOR THE BENEFIT OF LORAIN CITY SCHOOL DISTRICT EMPLOYEES
(A COMPONENT UNIT OF LORAIN CITY SCHOOL DISTRICT)
INTERNAL SERVICE FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY
For the Years Ended December 31, 1999 and 1998

	1999	1998
REVENUES		
Contributions:		
Employer	\$5,786,514	\$5,647,657
Participant	127,631	134,021
COBRA	33,176	30,661
Total contributions	5,947,321	5,812,339
Interest income	72,435	227,232
TOTAL REVENUE	6,019,756	6,039,571
EXPENSES		
Medical claims	3,784,679	3,354,641
Dental claims	473,098	488,823
Vision claims	115,634	124,274
Prescription claims	959,452	954,791
Medical stop-loss	114,546	104,108
NPA dispensing fee	49,416	59,514
Flu and Hepatitis shots	7,773	4,375
Accounting	19,240	14,035
Actuarial	44,096	50,229
Trust management	55,412	52,458
Legal fees	5,943	36,572
Bank fees	9,417	9,048
Insurance	3,741	3,734
Printing costs	31	487
Miscellaneous	207	2,937
Medical administration	315,224	277,743
Vision administration	20,853	20,180
Prescription administration	18,606	22,822
Cost-sharing expense	-	248,290
TOTAL OPERATING EXPENSES	5,997,368	5,829,061
NET CHANGE IN FUND EQUITY BEFORE		
OTHER REVENUE AND (EXPENSES)	22,388	210,510
Change in claims incurred but not reported	70,300	(137,200)
Unrealized loss on investments	(12,878)	-
IRS penalty assessment	(101,737)	-
NET CHANGE IN FUND EQUITY	(21,927)	73,310
FUND EQUITY - BEGINNING OF YEAR	516,462	443,152
FUND EQUITY - END OF YEAR	\$ 494,535	\$ 516,462

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

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(A COMPONENT UNIT OF LORAIN CITY SCHOOL DISTRICT)
INTERNAL SERVICE FUND
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 1999 and 1998

	<u>1999</u>	<u>1998</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net change in fund equity	\$(21,927)	\$ 73,310
Adjustments to reconcile net change in fund equity to net cash provided (used) by operating activities:		
Increase in accounts receivable	(86,362)	-
(Increase) decrease in prepaid expenses	(957)	29,620
Increase (decrease) in accounts payable	7,367	(3,050)
Decrease in cost-sharing payable	(168,572)	(32,923)
(Decrease)increase in liability for incurred but not reported claims	(70,300)	137,200
Increase in IRS penalty assessment payable	<u>101,737</u>	<u>-</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(239,014)	204,157
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Net increase in investments	<u>(7,114)</u>	<u>(204,228)</u>
 NET DECREASE IN CASH AND CASH EQUIVALENTS	(246,128)	(71)
 CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>430,573</u>	<u>430,644</u>
 CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$184,445</u>	<u>\$430,573</u>

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

THE JOINTLY ADMINISTERED TRUST FUND
FOR THE BENEFIT OF LORAIN CITY SCHOOL DISTRICT EMPLOYEES
(A COMPONENT UNIT OF LORAIN CITY SCHOOL DISTRICT)
INTERNAL SERVICE FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 1999 and 1998

NOTE 1 - DESCRIPTION OF THE TRUST

The following description of the Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees (Trust) provides only general information. Participants should refer to the Trust document for a more complete description of the Trust's provisions.

General

The Trust was established in 1994 to provide health care benefits to the employees of the Lorain City School District (District). The Trust is a component unit of the District, as defined pursuant to Governmental Accounting Standards and Statement No. 14, "The Financial Reporting Entity". The Trust is directed by a twelve-member Board of Trustees, eight members appointed by the District's Superintendent and four members appointed by the Lorain Education Association. The District reports the Trust as an internal service fund which is defined as a fund used to account for the financing of goods or services provided by one department or agency to governmental units, on a cost-reimbursement basis. The Trust applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Benefits

The Trust provides benefits for hospitalization, medical, dental, vision, and prescription drugs as provided for in the collective bargaining agreement and as may be authorized or permitted by law for eligible District employees, their families and dependents. In order to manage its claims risks, the Trust has purchased stop-loss coverage for individual claims during the policy year 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. Additional funds are paid to the Administrator to cover costs of administering the Trust. The District makes certain pre-funding contributions to the Trust, which are to fund future benefit expenses.

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INTERNAL SERVICE FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 1999 and 1998

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-savings between the participants in the plan covered by the Trust and the District. These cost-savings are 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.

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES

Basis of Accounting

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

Cash and Cash Equivalents

The Trust invests their cash in money market funds and U.S. Treasury notes. U.S. Treasury notes with a maturity of ninety days or less are considered to be cash equivalents. The Trust maintains all of its cash balances with one bank. The Federal Deposit Insurance Corporation (FDIC) insures such cash balances to a maximum of \$100,000.

Concentration of Credit Risk

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

Valuation of Investments

If available, quoted market prices are used to value investments. If market prices are not available, investments are valued at cost, which due to the short-term nature of the investments approximates market value.

Deposits

The Trust has funds on deposit with National Prescription Administrators, Incorporated (NPA) to allow for fund availability for paying on such claims. NPA requires that such deposits be renewed monthly in order to maintain an adequate coverage for claims.

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INTERNAL SERVICE FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 1999 and 1998

Use of Estimates

In preparing the Trust's financial statements, the Trustees are required to make estimates and assumptions that affect the reported amounts of Trust assets, liabilities, and fund equity, and the reported revenues and expenses of Trust assets during the reporting period. Actual results could differ from those estimates.

Trust Benefits

Trust liabilities for health claims incurred but not reported are reflected in the Trust's balance sheets and the related statements of revenues, expenses and changes in fund equity. The Trust's independent actuary estimates claims incurred but not reported as of December 31, 1999 and 1998 based on historical trends.

Cost-Savings

For the years ended December 31, 1998 and 1997, the cost-sharing savings calculation resulted in an amount distributable to the employees. During 1999 and 1998, \$109,485 and \$116,336 of those savings from 1998 and 1997, respectively, were by resolution of the Trustees, applied to reduce the employee portion of the 1999 and 1998 contributions required to be made to the Trust by the employees.

Reclassification and Restatement

In prior years, the financial reports for the Trust have been prepared in compliance with "Audits of Employee Benefit Plans" as published by the American Institute of Certified Public Accountants (AICPA). In 1999, the Trustees determined that, as a component unit of Lorain City School District, the Plan should be reporting pursuant to generally accepted accounting principles and governmental accounting standards. As such, all amounts in the financial report for 1998 have been restated in order to comply with the form context requirements under governmental accounting standards.

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits

At year-end, the carrying amount of the Trust's deposits was \$184,445 and the bank balance was the same, all of which was covered by federal depository insurance or by collateral held by a qualified third party trustee in the name of the Trust.

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 INTERNAL SERVICE FUND
 NOTES TO FINANCIAL STATEMENTS
 December 31, 1999 and 1998

Investments

The Trust's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Trust. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Trust's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department but not in the Trust's name. All the Trust investments are categorized as Category 1.

The following table presents investments at market value as of December 31, 1999 and at cost as of December 31, 1998 (which approximates market value). Investments are held in the form of U.S. Treasury Notes, and are not insured by the FDIC. Individual investments in excess of 5% of assets are separately presented.

	<u>1999</u>	<u>1998</u>
U.S. Treasury Notes:		
5.500%, due 4/15/2000	\$ 150,047	\$ 149,639
5.875%, due 9/30/2002	158,400	-
5.500%, due 2/28/1999	-	149,886
5.750%, due 10/31/2000	149,625	150,376
6.000%, due 8/15/2004	157,450	-
5.750%, due 9/30/1999	-	150,369
5.500%, due 1/31/2003	19,544	19,950
5.500%, due 3/31/2003	156,050	159,173
4.000%, due 10/31/2000	147,563	149,928
4.625%, due 12/31/2000	172,540	174,784
Total Investments	<u>\$ 1,111,219</u>	<u>\$ 1,104,105</u>

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. During 1998, the trustees elected to exclude interest earned on this reserve from the cost-sharing calculation and to retroactively require reimbursement to the Trust of costs distributed in prior years. The employee portion of that prior year interest, or \$75,341, was offset against the 1997 cost-sharing payable. At December 31, 1999 and 1998 this insurance reserve amount was \$1,182,039 and \$1,131,564, respectively.

THE JOINTLY ADMINISTERED TRUST FUND
 FOR THE BENEFIT OF LORAIN CITY SCHOOL DISTRICT EMPLOYEES
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 INTERNAL SERVICE FUND
 NOTES TO FINANCIAL STATEMENTS
 December 31, 1999 and 1998

NOTE 4 - 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 continues to qualify and to operate as designed.

The Trust has received an assessment from the Internal Revenue Service (IRS) of \$101,737 for penalties and interest relating to late filing of certain tax returns. The Trustees had filed an appeal asking for abatement of the penalties and interest due to extenuating circumstances. Although the trustees disagree with the basis for this assessment, they have agreed to pay this amount in June, 2000 and therefore it has been recorded on the Trust's balance sheet as of December 31, 1999. Furthermore, the Trust will be pursuing its options in order to determine whether there are opportunities for a refund claim with IRS.

NOTE 5 - 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.

	1999	1998
Unpaid claims and claim adjustment expenses at beginning of year	\$ 901,610	\$ 767,460
Incurred claims and claim adjustment expenses:		
Provision for insured events of current year	821,400	901,610
Increases in provision for insured events of prior years	-	-
Total incurred claims and claim adjustment expenses	821,400	901,610

THE JOINTLY ADMINISTERED TRUST FUND
 FOR THE BENEFIT OF LORAIN CITY SCHOOL DISTRICT EMPLOYEES
 (A COMPONENT UNIT OF LORAIN CITY SCHOOL DISTRICT)
 INTERNAL SERVICE FUND
 NOTES TO FINANCIAL STATEMENTS
 December 31, 1999 and 1998

	<u>1999</u>	<u>1998</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of current year	\$ -	\$ -
Claims and claim adjustment expenses attributable to insured events of prior years	<u>901,610</u>	<u>767,460</u>
Total payments	<u>901,610</u>	<u>767,460</u>
Total unpaid claims and claim adjustment expenses at end of year (see schedule below)	<u>\$ 821,400</u>	<u>\$ 901,610</u>

Schedule of unpaid claims and claim adjustment expenses at end of year:		
Portion of accounts payable that relates to claims expenses	\$ 211,600	\$ 221,510
Liability for incurred but not reported claims	<u>609,800</u>	<u>680,100</u>
	<u>\$ 821,400</u>	<u>\$ 901,610</u>

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees

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

We have audited the financial statements of the Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees (the Trust) (a Component Unit of Lorain City School District) as of and for the year ended December 31, 1999 and have issued our report thereon dated April 4, 2000, (except for Note 4, which is dated June 5, 2000). We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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 grants, 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 that are required to be reported under *Governmental Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Trust's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Bob Markey

BOBER, MARKEY & COMPANY

April 4, 2000, except for Note 4,
which is dated June 5, 2000



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OFFICE OF THE AUDITOR

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LORAIN CITY SCHOOL DISTRICT HEALTH TRUST

LORAIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 14, 2000**