

Joint Insurance Health Plan Trust
For the Benefit of North Ridgeville City School District Employees
(A Component Unit of North Ridgeville City School District)

Audited Financial Statements

For the Years Ended
December 31, 2016 and 2015



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Joint Insurance Health Plan Trust for the Benefit of North Ridgeville City School District Employees, Lorain County, prepared by Rea & Associates, Inc., for the audit period January 1, 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 Joint Insurance Health Plan Trust for the Benefit of North Ridgeville City School District Employees is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

May 22, 2017

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Joint Insurance Health Plan Trust
For the Benefit of North Ridgeville City School District Employees
(A Component Unit of North Ridgeville City School District)

Basic Financial Statements
For the Years Ended December 31, 2016 and 2015

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March 20, 2017

To the Board of Trustees
Joint Insurance Health Plan Trust for the Benefit of North Ridgeville 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 Joint Insurance Health Plan Trust for the Benefit of North Ridgeville City School District Employees, Lorain County, Ohio, (the "Trust"), a component unit of North Ridgeville 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 respective financial position of the Joint Insurance Health Plan Trust for the Benefit of North Ridgeville 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.

Kea & Associates, Inc.

Medina, Ohio

Joint Insurance Health Plan Trust
For the Benefit of North Ridgeville City School District Employees
(A Component Unit of North Ridgeville city School District)

Management Discussion and Analysis
For the Years Ended December 31, 2016 and 2015

As Management of the Joint Insurance Health Plan Trust for the Benefit of North Ridgeville City School District Employees (Trust), we present a narrative overview and analysis of the financial activities of the Trust for the year ended December 31, 2014, 2015 and 2016. Please read this in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The ending cash and investment balance for the Trust was \$1,440,472, \$1,343,235, and \$1,106,798, as of December 31, 2016, 2015 and 2014, respectively.
- The January 1, 2016 – December 31, 2016 budget was set at \$4,205,727 and was not fully funded. The January 1, 2015 – December 31, 2015 budget was set at \$4,242,000 and was not fully funded. The January 1, 2014 – December 31, 2014 budget was set at \$4,590,027 and was not fully funded.
- No changes were made to the employee contributions in 2016. The maximum out-of-pocket limits were increased to \$6,850 for single coverage and \$13,700 for family coverage.
- No changes were made to the employee contributions in 2015. Due to the enactment of the affordable care act the following changes were implemented: pharmacy co-pays apply to the maximum out-of-pocket limits, maximum out-of-pocket limits are \$6,600 for single coverage and \$13,200 for family coverage, but the co-insurance maximum out-of-pocket remains the same; and coverage of behavioral healthcare services in residential treatment centers.
- In 2014, Trustees elected to decrease payroll contributions from \$110.00 to \$85.38 single and \$275.00 to \$210.94 family. Also the PPO medical plan deductible and coinsurance amounts were increased. The HMO plan was eliminated and a high deductible plan option was added with no employee contribution required. Pharmacy cost management and wellness programs were implemented to help reduce claims. These changes were estimated to reduce cost by \$423,634.

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 North Ridgeville 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.

Statement 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 fund net position may serve as a useful indicator of whether the financial position of the Trust is improving or deteriorating.

Joint Insurance Health Plan Trust
For the Benefit of North Ridgeville City School District Employees
(A Component Unit of North Ridgeville city School District)

Management Discussion and Analysis
For the Years Ended December 31, 2016 and 2015

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.

Statements 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 increased by \$15,086 for the year ended December 31, 2016. A portion of the net position is restricted for funding of the insurance reserve. Trust fund contributions exceeded costs and claims for the year, resulting in increased cash and cash equivalents and cost savings – savings payable.

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

| | 2016 | 2015 | 2014 |
|------------------------|--------------|--------------|--------------|
| Current Assets | \$ 1,559,758 | \$ 1,404,461 | \$ 1,157,514 |
| Current Liabilities | 1,402,880 | 1,262,669 | 1,038,087 |
| Net Position: | | | |
| Restricted | 773,744 | 807,089 | 802,098 |
| Unrestricted (Deficit) | (616,866) | (665,297) | (682,671) |
| Total Net Position | \$ 156,878 | \$ 141,792 | \$ 119,427 |

COMMENTS ON OPERATING AND BUDGET COMPARISONS

- The Trust’s total operating revenue were \$3,939,680, \$3,997,134, and \$3,848,930, for the years ended December 31, 2016, 2015, and 2014 respectively.
- The Trust’s total operating expenses were \$3,936,807, \$3,983,239, and \$3,861,132, for the years ended December 31, 2016, 2015 and 2014 respectively.

Joint Insurance Health Plan Trust
For the Benefit of North Ridgeville City School District Employees
(A Component Unit of North Ridgeville city School District)

Management Discussion and Analysis
For the Years Ended December 31, 2016 and 2015

- The Trust's 2016 operating revenues exceeded operating expenses by \$2,873. The Trust's 2015 operating revenues exceeded operating expenses by \$13,895. The Trust's 2014 operating expenses exceeded operating revenues by \$12,202 because it was not fully funded, and in addition, the Trust incurred higher medical and prescription drug claims than projected. Prescription claims increased due to specialty drugs that were new to the market in 2014.

The following table presents a summary of operating revenue and expense for the fiscal year ended December 31, 2016, 2015 and 2014 respectively.

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---------------------------------------|-------------------|-------------------|-------------------|
| Operating Revenues: | | | |
| Contributions: | | | |
| Employer | \$ 3,485,724 | \$ 3,609,000 | \$ 3,571,513 |
| Participant | 623,199 | 618,781 | 621,319 |
| Cost Savings/Sharing-Excess Premiums | (176,380) | (234,364) | (343,908) |
| COBRA | <u>7,137</u> | <u>3,717</u> | <u>6</u> |
| <i>Total Operating Revenues</i> | <u>3,939,680</u> | <u>3,997,134</u> | <u>3,848,930</u> |
| Operating Expenses: | | | |
| Medical Claims | 2,291,855 | 2,200,816 | 2,235,326 |
| Dental Claims | 155,967 | 177,910 | 156,439 |
| Vision Claims | 16,580 | 15,367 | 16,898 |
| Prescription Claims | 630,572 | 834,261 | 799,730 |
| Medical Stop-Loss | 520,963 | 438,842 | 340,953 |
| Accounting | 10,454 | 8,584 | 9,666 |
| Actuarial | 35,000 | 18,498 | 21,716 |
| Trust Management | 22,800 | 22,800 | 22,800 |
| Legal Fees | 2,590 | 3,763 | 4,743 |
| Bank Fees | 9,214 | 8,423 | 9,191 |
| Insurance | 1,700 | 1,689 | 1,653 |
| Miscellaneous | 26,924 | 43,297 | 38,861 |
| Medical Administration | 180,362 | 177,612 | 172,863 |
| Vision Administration | 7,505 | 7,396 | 7,120 |
| Dental Administration | 18,181 | 17,955 | 17,314 |
| Prescription Administration | <u>6,140</u> | <u>6,026</u> | <u>5,859</u> |
| <i>Total Operating Expenses</i> | <u>3,936,807</u> | <u>3,983,239</u> | <u>3,861,132</u> |
| <i>Operating Income (Loss)</i> | <u>2,873</u> | <u>13,895</u> | <u>(12,202)</u> |
| Non-Operating Revenues (Expense): | | | |
| Investment Income | <u>12,213</u> | <u>8,470</u> | <u>2,894</u> |
| <i>Change in Net Position</i> | 15,086 | 22,365 | (9,308) |
| <i>Net Position Beginning of Year</i> | <u>141,792</u> | <u>119,427</u> | <u>128,735</u> |
| <i>Net Position End of Year</i> | <u>\$ 156,878</u> | <u>\$ 141,792</u> | <u>\$ 119,427</u> |

Joint Insurance Health Plan Trust
For the Benefit of North Ridgeville City School District Employee
(A Component Unit of North Ridgeville City School District)
Statements of Net Position
December 31, 2016 and 2015

| | 2016 | 2015 |
|--|--------------|------------|
| Assets: | | |
| <i>Current Assets:</i> | | |
| Cash and Cash Equivalents | \$ 1,138,851 | \$ 993,271 |
| Investments, at Fair Value | 301,621 | 349,964 |
| Prepaid Expenses | 67,708 | 61,226 |
| Accounts Receivable | 51,578 | 0 |
| <i>Total Current Assets</i> | 1,559,758 | 1,404,461 |
| Liabilities: | | |
| <i>Current Liabilities:</i> | | |
| Accounts Payable | 48,156 | 75,753 |
| Cost Savings - Sharing Payable | 1,040,492 | 864,112 |
| Liability for Incurred But Not Reported Claims | 314,232 | 322,804 |
| <i>Total Current Liabilities</i> | 1,402,880 | 1,262,669 |
| Net Position: | | |
| Restricted | 773,744 | 807,089 |
| Unrestricted | (616,866) | (665,297) |
| <i>Total Net Position</i> | \$ 156,878 | \$ 141,792 |

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

Joint Insurance Health Plan Trust
For the Benefit of North Ridgeville City School District Employee
(A Component Unit of North Ridgeville City School District)
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2016 and 2015

| | 2016 | 2015 |
|--|--------------|--------------|
| Operating Revenues: | | |
| Contributions: | | |
| Employer | \$ 3,485,724 | \$ 3,609,000 |
| Employees | 623,199 | 618,781 |
| Cost Savings/Sharing-Excess Premiums | (176,380) | (234,364) |
| COBRA | 7,137 | 3,717 |
| <i>Total Operating Revenues</i> | 3,939,680 | 3,997,134 |
| Operating Expenses: | | |
| Medical Claims | 2,291,855 | 2,200,816 |
| Dental Claims | 155,967 | 177,910 |
| Vision Claims | 16,580 | 15,367 |
| Prescription Claims | 630,572 | 834,261 |
| Medical Stop-Loss | 520,963 | 438,842 |
| Accounting | 10,454 | 8,584 |
| Actuarial | 35,000 | 18,498 |
| Trust Management | 22,800 | 22,800 |
| Legal Fees | 2,590 | 3,763 |
| Bank Fees | 9,214 | 8,423 |
| Insurance | 1,700 | 1,689 |
| Miscellaneous | 26,924 | 43,297 |
| Medical Administration | 180,362 | 177,612 |
| Vision Administration | 7,505 | 7,396 |
| Dental Administration | 18,181 | 17,955 |
| Prescription Administration | 6,140 | 6,026 |
| <i>Total Operating Expenses</i> | 3,936,807 | 3,983,239 |
| <i>Operating Income (Loss)</i> | 2,873 | 13,895 |
| Non-Operating Revenues (Expense): | | |
| Investment Income | 12,213 | 8,470 |
| <i>Change in Net Position</i> | 15,086 | 22,365 |
| <i>Net Position Beginning of Year</i> | 141,792 | 119,427 |
| <i>Net Position End of Year</i> | \$ 156,878 | \$ 141,792 |

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

Joint Insurance Health Plan Trust
For the Benefit of North Ridgeville City School District Employee
(A Component Unit of North Ridgeville City School District)
Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

| | 2016 | 2015 |
|---|--------------|--------------|
| Cash Flows from Operating Activities: | | |
| Cash Received from Employer | \$ 3,485,724 | \$ 3,609,000 |
| Cash Received from Employees | 571,621 | 618,781 |
| Cash Received from COBRA Premiums | 7,138 | 3,717 |
| Cash Payments for Benefit Plan Claims | (3,124,383) | (3,241,076) |
| Cash Payments for Stop-Loss | (527,967) | (448,161) |
| Cash Payments for Benefit Provider's Administration Fees | (212,645) | (209,140) |
| Cash Payments for Plan Administration and Operating Expenses | (114,464) | (105,334) |
| <i>Net Cash Provided by (Used for) Operating Activities</i> | 85,024 | 227,787 |
| Cash Flows from Investing Activities: | | |
| Interest Received | 10,556 | 5,417 |
| Purchases of Investments | (100,000) | (349,950) |
| Proceeds from Investments | 150,000 | 300,000 |
| <i>Net Cash Provided by (Used For) Investing Activities</i> | 60,556 | (44,533) |
| <i>Net Increase (Decrease) in Cash and Cash Equivalents</i> | 145,580 | 183,254 |
| <i>Cash and Cash Equivalents, Beginning of Year</i> | 993,271 | 810,017 |
| <i>Cash and Cash Equivalents, End of Year</i> | \$ 1,138,851 | \$ 993,271 |
| | | |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities: | | |
| Operating Income (Loss) | \$ 2,873 | \$ 13,895 |
| Adjustments to Reconcile Operating Income to Net Cash Provided By (Used For) Operating Activities: | | |
| Changes in Assets and Liabilities: | | |
| (Increase) Decrease in Assets: | | |
| Accounts Receivable | (51,578) | 0 |
| Prepaid Expenses | (6,482) | (10,690) |
| Increase (Decrease) in Liabilities: | | |
| Accounts Payable | (27,597) | 4,113 |
| Cost Savings-Sharing Payable | 176,380 | 234,365 |
| Liability for Incurred But Not Reported Claims | (8,572) | (13,896) |
| <i>Net Cash Provided by (Used For) Operating Activities</i> | \$ 85,024 | \$ 227,787 |

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

Joint Insurance Health Plan Trust
For the Benefit of North Ridgeville City School District Employees
(A Component Unit of North Ridgeville City School District)

Notes to the Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 1 – DESCRIPTION OF THE TRUST

The following description of the Joint Insurance Health Plan Trust for the Benefit of North Ridgeville City School District Employees (the “Trust”) provides only general information. Participants should refer to the Trust document for a more complete description of the Trust’s provisions. 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 on January 1, 1998 and was funded on April 1, 1998 to provide health care benefits to the employees of the North Ridgeville City School District (the “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 ten-member Board of Trustees, four members appointed by the District’s Superintendent and six members appointed by Local 276, OAPSE, North Ridgeville Education Association and AFSCME/AFL-CIO (the “Unions”). 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 \$100,000 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. 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.

Joint Insurance Health Plan Trust
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Notes to the Financial Statements
For the Years Ended December 31, 2016 and 2015

Termination

Although it has not expressed any intention to do so, the District has the right to terminate the Trust, under the provisions set forth by the collective bargaining agreement.

Cost-Sharing

The Trust provides for a sharing of cost between eligible participants in the plan covered by the Trust and the District. The cost-sharing is based upon a calculation of plan income as compared to the larger of the plan's current year budget or the plan's 1998 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.

Joint Insurance Health Plan Trust
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Notes to the Financial Statements
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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 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, certificates of deposit and money market mutual funds. 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 \$202,983 and \$200,469, 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.

Reserves

The Trust documents specifically require the maintenance of an insurance reserve, consisting of cash and investments, to provide a minimum funding level within the Trust to provide for future claims. At December 31, 2016 and 2015 this calculated reserve amount was \$773,744 and \$807,089, respectively. The Trustees authorized use of this reserve to subsidize Trust expenses with an understanding that the funds would be replenished by increasing employee and District contributions and changes in benefits provided. This amount is reflected in the net position section of the statement of net position.

Joint Insurance Health Plan Trust
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Notes to the Financial Statements
For the Years Ended December 31, 2016 and 2015

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

Risk Management

The Trust is insured through Travelers Property Casualty for employee dishonestly 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.

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 benefit obligations, and the reported increases and reductions 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 estimated claims incurred but not reported as of December 31, 2016 and 2015 are based on historical trends.

Cost Savings

The Trust provides for a cost savings calculation in order to distribute any savings by the Plan over the contributed amount, as adjusted by certain items. For the years ended December 31, 2016 and 2015, the cost-savings calculation resulted in an amount distributable to the employees and the District. For the years ended December 31, 2016 and 2015, the cost-savings calculation resulted in revenue being greater than expenses in the amount of \$176,380 and \$234,364, respectively. The trustees may elect, on behalf of the employees, to reduce the following year's cost-sharing by their distributable amount.

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 North Ridgeville 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.

Joint Insurance Health Plan Trust
For the Benefit of North Ridgeville City School District Employees
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Notes to the Financial Statements
For the Years Ended December 31, 2016 and 2015

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.

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.

| | Measurement Amount | | Percentage of Total Investments | |
|---|---------------------|---------------------|---------------------------------|----------------|
| | 2016 | 2015 | 2016 | 2015 |
| Bond - U.S. Government (State Tax Exempt) | | | | |
| Federal Home Loan Bank 1.25%, due 3/23/2021 | \$ 98,638 | \$ 0 | 7.97% | 0.00% |
| Federal Home Loan Bank Multi-Step Rate, due 5/20/2020 Callable 8/20/2015 | 0 | 99,640 | 0.00% | 8.72% |
| Fannie Mae Multi-Step Rate, due 2/27/2020 Callable 8/27/2015 | 0 | 49,855 | 0.00% | 4.36% |
| Total U.S. Government (State Tax Exempt) | <u>98,638</u> | <u>149,495</u> | <u>7.97%</u> | <u>13.08%</u> |
| Federated Prime Cash Obligations - Money Market | <u>1,138,851</u> | <u>993,271</u> | <u>92.03%</u> | <u>86.92%</u> |
| Total Investments | <u>\$ 1,237,489</u> | <u>\$ 1,142,766</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 and 2015.

*The Trust's money market rated AAAm by S & P Global Ratings for 2016 and 2015.

Joint Insurance Health Plan Trust
For the Benefit of North Ridgeville City School District Employees
(A Component Unit of North Ridgeville City School District)

Notes to the Financial Statements
For the Years Ended December 31, 2016 and 2015

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 LIABILITY

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 | \$ 322,804 | \$ 3,115,811 | \$ (3,124,383) | \$ 314,232 |
| 2015 | 336,700 | 3,227,180 | (3,241,076) | 322,804 |

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 Plan obtained its latest determination letter on January 13, 1999, in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code. The Plan has been amended since receiving the determination letter. However, the Plan administrator and the Plan's tax council believe that the Plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been included in the Plan's financial statements.

March 20, 2017

To the Board of Trustees
Joint Insurance Health Plan Trust for the Benefit of North Ridgeville 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 Joint Insurance Health Plan Trust for the Benefit of North Ridgeville City School District Employees, Lorain County, Ohio (the “Trust”), a component unit of North Ridgeville 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.

Joint Insurance Health Plan Trust for the Benefit of North Ridgeville 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*

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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

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Dave Yost • Auditor of State

**JOINT INSURANCE HEALTH PLAN TRUST FOR NORTH RIDGEVILLE CITY SCHOOL DISTRICT
EMPLOYEES**

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 13, 2017**