

THE JOINTLY ADMINISTERED TRUST FUND
FOR THE BENEFIT OF
LORAIN CITY SCHOOL DISTRICT EMPLOYEES
(A COMPONENT UNIT
OF LORAIN CITY SCHOOL DISTRICT)
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
December 31, 2002 and 2001





**Auditor of State
Betty Montgomery**

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

We have reviewed the Independent Auditor's Report of the Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees, Lorain County, prepared by Bober, Markey, Fedorovich & Company, for the audit period January 1, 2002 through December 31, 2002. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

July 7, 2003

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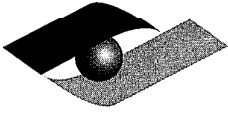
THE JOINTLY ADMINISTERED TRUST FUND
FOR THE BENEFIT OF LORAIN CITY SCHOOL DISTRICT EMPLOYEES
(A COMPONENT UNIT OF LORAIN CITY SCHOOL DISTRICT)

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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, 2002 and 2001, 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.

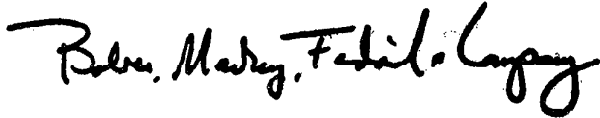
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in the Governmental Auditing Standards, issued by the Comptroller of the United States. Those standards require that we plan and perform 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, 2002 and 2001, and its revenues, expenses and changes in fund equity and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Trust adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments*, as of January 1, 2002.

In accordance with Government Auditing Standards, we have also issued a report dated May 28, 2003 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. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The information in the Management Discussion and Analysis on pages 3 - 5 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it.



BOBER, MARKEY, FEDOROVICH & COMPANY

May 28, 2003



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 (MD&A)
FOR THE YEAR ENDED DECEMBER 31, 2002

As Management of The Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees (Trust), we present a narrative overview and analysis of the financial activities of the Trust for the year ended December 31, 2002. Please read this in conjunction with additional information found within the body of the audited financial statements.

FINANCIAL HIGHLIGHTS

- The beginning cash and investment balance for the Trust was \$1,359,797 and \$1,569,155 as of January 1, 2002 and 2001, respectively.
- Health care benefits continue to increase nationwide and the Trust was affected by these escalating expenses.
- The 2002 budgeted expenses for the Trust were set at \$7,880,839; however, there were expenses in excess of the budget in the amount of \$361,641. The 2001 budget was set at \$6,843,000.
- Large medical claims (those in excess of \$10,000) incurred in 2002 represented 50.85% of medical claims and totaled \$2,409,441 and in 2001 represented 43.23% of medical claims and totaled \$1,778,108 respectively.
- The Trust has also felt the effects of an aging population with high utilization of benefits. Forty-six percent of the Trust membership is in the 48-73 year-old age bracket. This group tends to have higher utilization patterns than other age groups, adding to the cost of medical care.
- The employee contributions, which were supposed to begin in May 2002, did not begin until September due to the delay in establishing a Section 125 Plan. As of December 31, 2002, the employees had contributed approximately \$314,000.
- The Trust experienced cash flow challenges in 2002 and 2001 due to the delay in employee contributions, high claims and high utilization forcing the Trust to use \$825,330 that was held in the insurance reserve to pay Trust expenses.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Trust's 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) Balance Sheets, 2) Statements of Revenues, Expenses and Changes in Fund Equity, 3) Statements of Cash Flows and 4) Notes to Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Balance Sheets – Presents information on all the Trust assets and liabilities, with the difference between the two reported as fund equity. Over time, increases or decreases in fund equity may serve as a useful indicator of whether the financial position of the Trust is improving or deteriorating.



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 (MD&A)
FOR THE YEAR ENDED DECEMBER 31, 2002

Statements of Revenues and Changes in Fund Equity –Presents information showing how the Trust fund equity changed during the most recent fiscal year. All changes in fund equity 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.

COMMENTS ON BUDGET COMPARISONS

- The Trust's total revenue was \$7,443,552 and \$6,568,285 for the fiscal years ended December 31, 2002 and 2001, respectively.
- The Trust's actual revenue in 2002 compared to the budget revenue varied significantly due to the delay in implementation of employee contributions which resulted in a revenue shortfall from budget of \$584,204.
- The Trust's total expenses were \$8,242,480 and \$6,764,783 for the fiscal years ended December 31, 2002 and 2001, respectively.
- The Trust's actual expenses compared to the budget expenses varied due to higher actual medical claims than projected (\$433,726). This, combined with the above actual revenue shortfall, has left the Trust in a difficult cash position. As a result, the Trust has implemented significant changes to health care benefits and employee contribution levels have been increased to improve the financial security of the Trust.

The following table presents a summary of operating revenue and expense for the fiscal years ended December 31, 2002 and December 31, 2001.

	<u>2002</u>	<u>2001</u>
REVENUES		
Contributions:		
Employer	\$ 6,939,934	\$ 6,421,015
Participant	375,990	19,819
COBRA	<u>60,665</u>	<u>46,740</u>
Total contributions	7,376,589	6,487,574
Interest income	<u>66,963</u>	<u>80,711</u>
TOTAL REVENUE	7,443,552	6,568,285



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 (MD&A)
FOR THE YEAR ENDED DECEMBER 31, 2002

	<u>2002</u>	<u>2001</u>
EXPENSES		
Medical claims	\$ 5,033,455	\$ 3,930,039
Dental claims	651,696	596,364
Vision claims	144,735	129,780
Prescription claims	1,613,957	1,318,375
Medical stop-loss	145,391	135,640
Dispensing fee - National Prescription Administrators, Inc.	58,326	55,485
Flu and Hepatitis shots	5,484	6,866
Accounting	11,650	14,822
Actuarial	20,250	19,250
Trust management	60,430	59,545
Legal fees	24,313	12,851
Bank fees	9,313	10,396
Insurance	4,615	3,988
Miscellaneous	2,719	281
Medical administration	412,052	344,904
Vision administration	21,910	22,160
Prescription administration	22,184	20,114
Cost-sharing expense	<u>-</u>	<u>83,923</u>
 TOTAL OPERATING EXPENSES	 <u>8,242,480</u>	 <u>6,764,783</u>
 NET CHANGE IN FUND EQUITY BEFORE OTHER REVENUE (EXPENSES)	 <u>\$ (798,928)</u>	 <u>\$ (196,498)</u>



THE JOINTLY ADMINISTERED TRUST FUND
 FOR THE BENEFIT OF LORAIN CITY SCHOOL DISTRICT EMPLOYEES
 (A COMPONENT UNIT OF LORAIN CITY SCHOOL DISTRICT)
 BALANCE SHEETS
 DECEMBER 31, 2002 and 2001

	2002	2001
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 186,646	\$ 72,626
Investments, at fair value	347,266	1,287,171
Due from Lorain City School District	42,627	-
Prepaid expenses	47,946	176
TOTAL CURRENT ASSETS	624,485	1,359,973
OTHER ASSETS		
Deposit -National Prescription Administrators, Inc.	65,000	65,000
TOTAL ASSETS	\$ 689,485	\$ 1,424,973
LIABILITIES AND FUND EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable	\$ 321,412	\$ 235,658
Cost-sharing payable - employees	-	41,962
Cost-sharing payable - Lorain City School District	-	9,713
Liability for incurred but not reported claims	777,500	792,000
TOTAL CURRENT LIABILITIES	1,098,912	1,079,333
FUND EQUITY (DEFICIT)		
Reserved	1,158,000	988,000
Unreserved	(1,567,427)	(642,360)
TOTAL FUND EQUITY (DEFICIT)	(409,427)	345,640
TOTAL LIABILITIES AND FUND EQUITY	\$ 689,485	\$ 1,424,973

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)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY
For the Years Ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
REVENUES		
Contributions:		
Employer	\$ 6,939,934	\$ 6,421,015
Participant	375,990	19,819
COBRA	<u>60,665</u>	<u>46,740</u>
Total contributions	7,376,589	6,487,574
Interest income	<u>66,963</u>	<u>80,711</u>
TOTAL REVENUE	7,443,552	6,568,285
EXPENSES		
Medical claims	5,033,455	3,930,039
Dental claims	651,696	596,364
Vision claims	144,735	129,780
Prescription claims	1,613,957	1,318,375
Medical stop-loss	145,391	135,640
Dispensing fee - National Prescription Administrators, Inc.	58,326	55,485
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Accounting	11,650	14,822
Actuarial	20,250	19,250
Trust management	60,430	59,545
Legal fees	24,313	12,851
Bank fees	9,313	10,396
Insurance	4,615	3,988
Miscellaneous	2,719	281
Medical administration	412,052	344,904
Vision administration	21,910	22,160
Prescription administration	22,184	20,114
Cost savings-sharing expense	<u>-</u>	<u>83,923</u>
TOTAL OPERATING EXPENSES	<u>8,242,480</u>	<u>6,764,783</u>
NET CHANGE IN FUND EQUITY BEFORE OTHER REVENUE (EXPENSES)	(798,928)	(196,498)
Change in claims incurred but not reported	14,500	(111,900)
Net appreciation in fair value of investments	29,361	26,361
Reimbursement for fees on IRS penalty	<u>-</u>	<u>15,000</u>
TOTAL OTHER REVENUE (EXPENSES)	<u>43,861</u>	<u>(70,539)</u>
NET CHANGE IN FUND EQUITY	(755,067)	(267,037)
FUND EQUITY - BEGINNING OF YEAR	<u>345,640</u>	<u>612,677</u>
FUND EQUITY - END OF YEAR	<u>\$ (409,427)</u>	<u>\$ 345,640</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)
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net change in fund equity	\$ (755,067)	\$ (267,037)
Adjustments to reconcile net change in fund equity to net cash provided (used) by operating activities:		
Net increase in the fair value of investments	(29,361)	(26,361)
Changes in operating assets and liabilities:		
Refund receivable - IRS penalty and interest	-	106,271
Due from Lorain City School District	(42,627)	-
Prepaid expenses	(47,770)	41,288
Accounts payable	85,754	57,999
Cost-sharing payable	(51,675)	(259,780)
Liability for incurred but not reported claims	<u>(14,500)</u>	<u>111,900</u>
NET CASH USED BY OPERATING ACTIVITIES	(855,246)	(235,720)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	-	(545,622)
Redemption of investments	<u>969,266</u>	<u>175,000</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	969,266	(370,622)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	114,020	(606,342)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>72,626</u>	<u>678,968</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 186,646</u>	<u>\$ 72,626</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, 2002 and 2001

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. The District makes certain pre-funding contributions to the Trust, which are to fund future benefit expenses.

Termination

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



THE JOINTLY ADMINISTERED TRUST FUND
FOR THE BENEFIT OF LORAIN CITY SCHOOL DISTRICT EMPLOYEES
(A COMPONENT UNIT OF LORAIN CITY SCHOOL DISTRICT)
INTERNAL SERVICE FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2002 and 2001

Cost - Sharing

The Trust provides for a sharing of the expected increase in funding over the base year funding level by the participants in the plan covered by the Trust and the District. This cost-sharing amount is based upon a calculation of plan income as compared to the larger of the plan's current year budget or the plan's 1994 budget for costs. The participants 50% share may be funded through payroll contributions, benefit reductions, or a combination of both.

Reclassifications

Certain amounts in the 2001 financial statements have been reclassified to conform to 2002 presentation.

Adoption of Accounting Principle

In 2002, the Trust adopted Governmental Accounting Standards Board Statement (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments". There was no effect on the basic financial statements due to the adoption of this statement.

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 for purposes of cash flows. 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, the Trust actuary, and the Trust manager.



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, 2002 and 2001

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.

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, 2002 and 2001 based on historical trends. The District has committed to retain sufficient funding to cover this liability.

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. Any excess is distributed 50-50 to the participants and the District. For the year ended December 31, 2002, the cost-savings calculation resulted in an excess of expenses over the contributed amount, therefore, there is not an amount distributable to the employees and the District. For the year ended December 31, 2001, the cost-savings calculation resulted in an amount distributable to the employees and the District. The employees may elect to reduce the following year's cost-sharing by their distributable amount. The employees applied the 2001 cost-savings to their portion of the 2002 funding obligation.

Fund Equity

Fund equity includes originally contributed capital plus retained earnings accumulated since inception. It is the Trust policy to reserve retained earnings for the required amount of the insurance reserve as per the actuarial calculation in the budget. This reserve is reflected separately in the balance sheet under fund equity.



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, 2002 and 2001

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits

At December 31, 2002 and 2001, the carrying amount of the Trust's cash deposits were \$186,646 and \$72,626, respectively, 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.

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, 2002 and 2001. 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>2002</u>	<u>2001</u>
U.S. Treasury Notes:		
5.875%, due 9/30/2002	\$ -	\$ 164,800
6.000%, due 8/15/2004	-	169,850
5.500%, due 1/31/2003	-	20,719
5.500%, due 3/31/2003	-	166,300
6.500%, due 8/15/2005	-	108,344
6.500%, due 8/15/2005	72,719	-
6.500%, due 5/31/2002	-	102,031
4.250%, due 11/15/2003	-	153,609
5.000%, due 2/15/2011	164,860	149,579
4.625%, due 5/15/2006	-	152,157
5.000%, due 8/15/2011	<u>109,687</u>	<u>99,782</u>
Total Investments	<u>\$ 347,266</u>	<u>\$ 1,287,171</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. At December 31, 2002 and 2001 this calculated reserve amount was \$1,158,000 and \$988,000, respectively. The Trustees authorized partial use of this reserve to subsidize Trust expenses with an understanding that the funds would be replenished by December 31, 2003, due to increasing employee and District contributions and changes in benefits provided.



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, 2002 and 2001

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.

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.

	<u>2002</u>	<u>2001</u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ 1,011,247	\$ 840,777
Incurred claims and claim adjustment expenses:		
Provision for insured events of current year	<u>8,221,343</u>	<u>6,766,558</u>
Total incurred claims and claim adjustment expenses	9,232,590	7,607,335
Payments:		
Claims and claim adjustment expenses attributable to insured events of current year	7,145,150	5,755,311
Claims and claim adjustment expenses attributable to insured events of prior years	<u>1,011,247</u>	<u>840,777</u>
Total payments	<u>8,156,397</u>	<u>6,596,088</u>
Total unpaid claims and claim adjustment expenses at end of year (see schedule below)	<u>\$ 1,076,193</u>	<u>\$ 1,011,247</u>



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, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Schedule of unpaid claims and claim adjustment expenses at end of year:		
Portion of accounts payable that relates to claims expenses	\$ 298,693	\$ 219,247
Liability for incurred but not reported claims	<u>777,500</u>	<u>792,000</u>
	<u>\$ 1,076,193</u>	<u>\$ 1,011,247</u>





**Bober, Markey, Fedorovich
& Company**

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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, 2002 and have issued our report thereon dated May 28, 2003. 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

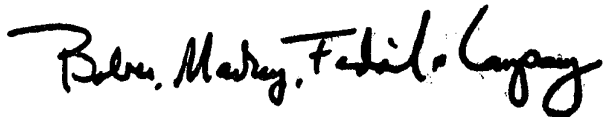
As part of obtaining reasonable assurance about whether the Trust's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the 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.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than these specified parties.



BOBER, MARKEY, FEDOROVICH & COMPANY

May 28, 2003





**Auditor of State
Betty Montgomery**

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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
JULY 29, 2003**