

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, 2005 and 2004





**Auditor of State
Betty Montgomery**

Board of Trustees
Lorain City School District Health Trust
10045 College Park Drive
Concord, Ohio 44060

We have reviewed the *Independent Auditors' Report* of the Lorain City School District Health Trust, Lorain County, prepared by Bober, Markey, Fedorovich & Company, for the audit period January 1, 2005 through December 31, 2005. 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.

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

BETTY MONTGOMERY
Auditor of State

July 12, 2006

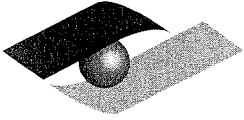
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THE JOINTLY ADMINISTERED TRUST FUND
FOR THE BENEFIT OF LORAIN CITY SCHOOL DISTRICT EMPLOYEES
(A COMPONENT UNIT OF LORAIN CITY SCHOOL DISTRICT)

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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

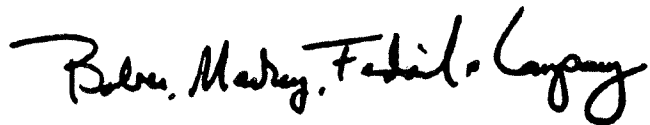
We have audited the accompanying balance sheets of The Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees (A Component Unit of Lorain City School District) (the Trust) as of December 31, 2005 and 2004, and the related statements of revenues, expenses and changes 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, 2005 and 2004, 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.

In accordance with Government Auditing Standards, we have also issued a report dated May 3, 2006 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing 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 3, 2006



**THE JOINTLY ADMINISTERED TRUST FUND FOR THE BENEFIT OF
LORAIN CITY SCHOOL DISTRICT EMPLOYEES
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

As Management of the Jointly Administered Trust Fund for the Benefit of Lorain City School District Employees (Trust), present a narrative overview and analysis of the financial activities of the Trust for the year ended December 31, 2005. Please read this in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The beginning cash and investment balance for the Trust was \$2,794,494 and \$2,747,040 as of January 1, 2005 and 2004, respectively.
- The 2005 Trust budget was set at \$8,216,552. The 2004 Trust budget was set at \$7,730,496.
- Large medical claims (those in excess of \$10,000) incurred in 2005 represented 65% of medical claims and totaled \$3,853,753 and in 2004 represented 56% of medical claims and totaled \$2,769,761 respectively. There were two claims that exceeded the \$150,000 specific stop loss deductible and two additional claims that were between \$100,000 and \$150,000 in costs in 2005. No claims exceeded the specific deductible in 2004.
- The Trust elected to use the 2003 cash surplus to offset the increased 2005 funding obligation versus increasing employee payroll contributions or making benefit changes.
- The 2005 Trust expenses exceeded the projected budget by \$1,444,461. Paid claims were 16% over budget with medical claims the largest contributor. The three areas which contributed to more than 70% of the medical increase is as follows:
 1. Inpatient hospital claims (\$197,000+ increase) with inpatient medical care as the key cost-driver.
 2. Outpatient hospital claims (\$300,000+ increase) with outpatient surgery and hemodialysis as the two identified cost drivers.
 3. Physician office visits (289,000+ increase).

Vision and dental claims were also over budget due to improving benefits and changing providers in August 2005 as the result of the Request for Proposal (RFP) process. In addition, the prescription drug provider changed August 2005 and employee's prescription drug co-pays were increased and the Trust received greater discounts as a result of the change. The prescription drug savings offset the increased benefit changes to the dental and vision benefits. Also the 2005 administrative costs were over budget as a direct result of the RFP process (primarily legal and actuarial expenses).

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Trust basic financial statements which is a component unit of the Lorain City School District. The Trust's basic financial statements are comprised of four components: 1) 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.



**THE JOINTLY ADMINISTERED TRUST FUND FOR THE BENEFIT OF
LORAIN CITY SCHOOL DISTRICT EMPLOYEES
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

Balance Sheet – 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.

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.

Statement of Cash Flows – Presents information on the changes in the cash balances and details as to how cash was provided and used.

Notes to Financial Statements – Provides readers with additional information and required disclosures that are essential to a full understanding of the data provided in the Trust financial statements.

FINANCIAL ANALYSIS OF THE TRUST AS OF DECEMBER 31, 2005 AND 2004

The Trust's equity decreased by \$247,495 and \$98,727 for the years ended December 31, 2005 and 2004, respectively.

The following table represents the major components of the balance sheet as of December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Current and other assets	\$ 1,518,058	\$ 2,980,071
TOTAL ASSETS	<u>\$ 1,518,058</u>	<u>\$ 2,980,071</u>
Current Liabilities	\$ 1,270,784	\$ 2,485,302
TOTAL CURRENT LIABILITIES	<u>\$ 1,270,784</u>	<u>\$ 2,485,302</u>
Restricted fund equity	1,843,000	1,932,623
Unrestricted fund equity	<u>(1,595,726)</u>	<u>(1,437,854)</u>
TOTAL FUND EQUITY	<u>\$ 247,274</u>	<u>\$ 494,769</u>

COMMENTS ON BUDGET COMPARISONS

- The Trust's total revenue for the fiscal year ended December 31, 2005 was \$9,525,186 and was \$8,175,631 for the fiscal year ended December 31, 2004.
- The Trust's actual revenue in 2005 compared to the budget revenue varied due to the Board of Education and Employee's using the 2003 cost savings surplus to meet the 2005 funding obligation and to cover Trust expenses that exceeded the budget.
- The Trust's total expenses were \$9,813,343 and \$8,313,613 for the fiscal years ended December 31, 2005 and 2004, respectively.
- As a result of higher claim and administrative cost than projected no surplus was generated in 2005.



**THE JOINTLY ADMINISTERED TRUST FUND FOR THE BENEFIT OF
LORAIN CITY SCHOOL DISTRICT EMPLOYEES
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

- The Trust's actual expenses compared to the budget expenses varied due to higher claim and administrative costs than projected (\$1,444,461). The 2003 surplus was used to fund these increased costs. This resulted in a significant change in the 2005 cash position.

The following table presents a summary of operating revenue and expense for the fiscal years ended December 31, 2005 and December 31, 2004.

	2005	2004
REVENUES		
Contributions:		
Employer	\$ 7,007,772	\$ 7,106,329
Participant	923,989	1,030,157
Cost-sharing savings from 2003 contributed to 2005	1,551,474	-
COBRA	41,951	39,145
 TOTAL REVENUE	 9,525,186	 8,175,631
EXPENSES		
Medical claims	6,237,758	5,014,406
Dental claims	510,517	540,768
Vision claims	141,155	47,563
Prescription claims	1,862,965	1,813,680
Stop-loss	258,143	176,749
Access fee	96,346	96,628
Dispensing fee - National Prescription Administrators, Inc.	31,419	49,032
Accounting	10,100	11,734
Actuarial	96,911	54,397
Trust management	51,702	51,193
Legal fees	75,081	29,194
Bank fees	15,325	10,703
Insurance	4,498	4,996
Miscellaneous	870	975
Medical administration	352,919	357,117
Vision administration	24,221	18,022
Prescription administration	14,666	18,434
Dental administration	28,747	18,022
 TOTAL OPERATING EXPENSES	 9,813,343	 8,313,613
 NET CHANGE IN FUND EQUITY BEFORE OTHER REVENUE	 (288,157)	 (137,982)
 OTHER REVENUE		
Investment income	40,662	39,255
 NET CHANGE IN FUND EQUITY	 (247,495)	 (98,727)
 FUND EQUITY - BEGINNING OF YEAR	 494,769	 593,496
 FUND EQUITY - END OF YEAR	 \$ 247,274	 \$ 494,769



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, 2005 and 2004

	2005	2004
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 292,255	\$ 1,663,325
Investments, at fair value	1,166,914	1,131,169
Due from Lorain City School District	-	72,116
Due from Medical Mutual of Ohio	58,889	-
Prepaid expenses	-	48,461
TOTAL CURRENT ASSETS	1,518,058	2,915,071
OTHER ASSETS		
Deposit - Express Scripts, Inc.	-	65,000
TOTAL ASSETS	\$ 1,518,058	\$ 2,980,071
LIABILITIES AND FUND EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable	\$ 220,282	\$ 132,776
Cost savings - sharing payable	57,552	1,609,026
Liability for claims incurred but not reported	992,950	743,500
TOTAL CURRENT LIABILITIES	1,270,784	2,485,302
FUND EQUITY (DEFICIT)		
Restricted	1,843,000	1,932,623
Unrestricted	(1,595,726)	(1,437,854)
TOTAL FUND EQUITY	247,274	494,769
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,518,058	\$ 2,980,071

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, 2005 and 2004

	<u>2005</u>	<u>2004</u>
REVENUES		
Contributions:		
Employer	\$ 7,007,772	\$ 7,106,329
Participant	923,989	1,030,157
Cost-sharing savings from 2003 contributed to 2005	1,551,474	-
COBRA	<u>41,951</u>	<u>39,145</u>
TOTAL REVENUE	9,525,186	8,175,631
EXPENSES		
Medical claims	6,237,758	5,014,406
Dental claims	510,517	540,768
Vision claims	141,155	47,563
Prescription claims	1,862,965	1,813,680
Stop-loss	258,143	176,749
Access fee	96,346	96,628
Dispensing fee - National Prescription Administrators, Inc.	31,419	49,032
Accounting	10,100	11,734
Actuarial	96,911	54,397
Trust management	51,702	51,193
Legal fees	75,081	29,194
Bank fees	15,325	10,703
Insurance	4,498	4,996
Miscellaneous	870	975
Medical administration	352,919	357,117
Vision administration	24,221	18,022
Prescription administration	14,666	18,434
Dental administration	<u>28,747</u>	<u>18,022</u>
TOTAL OPERATING EXPENSES	<u>9,813,343</u>	<u>8,313,613</u>
NET CHANGE IN FUND EQUITY BEFORE OTHER REVENUE	(288,157)	(137,982)
OTHER REVENUE		
Investment income	<u>40,662</u>	<u>39,255</u>
NET CHANGE IN FUND EQUITY	(247,495)	(98,727)
FUND EQUITY - BEGINNING OF YEAR	<u>494,769</u>	<u>593,496</u>
FUND EQUITY - END OF YEAR	<u>\$ 247,274</u>	<u>\$ 494,769</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 SCHOOL DISTRICT)
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash contributions received from employer	\$ 7,079,888	\$ 7,148,957
Cash contributions received from employees	923,989	1,030,157
Cash received for COBRA premiums	41,951	39,145
Cash received for refund of deposit	65,000	-
Cash payments for benefit plan claims	(8,682,973)	(7,552,062)
Cash payments for benefit providers' administration fees	(539,181)	(508,794)
Cash payments for plan administration and operating expenses	(264,480)	(149,204)
Interest and dividends received	<u>69,545</u>	<u>44,944</u>
NET CASH (USED FOR) PROVIDED BY OPERATING ACTIVITIES	(1,306,261)	53,143
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loss on bond maturity	181	-
Proceeds from bond maturity	65,000	-
Transfer to investment account	<u>(129,990)</u>	<u>(798,500)</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(64,809)</u>	<u>(798,500)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,371,070)	(745,357)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,663,325</u>	<u>2,408,682</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 292,255</u>	<u>\$ 1,663,325</u>
RECONCILIATION OF NET CHANGE IN FUND EQUITY TO NET CASH (USED FOR) PROVIDED BY OPERATING ACTIVITIES:		
Net change in fund equity	\$ (247,495)	\$ (98,727)
Adjustments to reconcile net change in fund equity to net cash (used for) provided by operating activities:		
Net depreciation in fair value of investments	29,064	5,689
Changes in operating assets and liabilities:		
Due from Medical Mutual of Ohio	(58,889)	17,254
Due from Lorain City School District	72,116	(29,489)
Prepaid expenses	48,461	(2,567)
Deposit - Express Scripts, Inc.	65,000	-
Accounts payable	87,506	72,083
Cost savings - sharing payable	(1,551,474)	-
Liability for claims incurred but not reported	<u>249,450</u>	<u>88,900</u>
NET CASH (USED FOR) PROVIDED BY OPERATING ACTIVITIES	<u>\$ (1,306,261)</u>	<u>\$ 53,143</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)
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

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 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. After November 30, 1989, FASB pronouncements are applied unless they 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.

Methods of determining participant contributions are based on actuarial calculations.

Termination

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



THE JOINTLY ADMINISTERED TRUST FUND
FOR THE BENEFIT OF LORAIN CITY SCHOOL DISTRICT EMPLOYEES
(A COMPONENT UNIT OF LORAIN CITY SCHOOL DISTRICT)
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

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 2004 financial statements have been reclassified to conform to the 2005 presentation.

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.

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 had funds on deposit with Express Scripts, Inc. to allow for fund availability for paying on prescription claims. Effective August 1, 2005, Express Scripts, Inc. no longer provided prescription coverage for the Trust, therefore, the deposit was refunded.

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.



THE JOINTLY ADMINISTERED TRUST FUND
FOR THE BENEFIT OF LORAIN CITY SCHOOL DISTRICT EMPLOYEES
(A COMPONENT UNIT OF LORAIN CITY SCHOOL DISTRICT)
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

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, 2005 and 2004 based on historical trends. As of December 31, 2005, during our testing of the liability for claims incurred but not reported (IBNR), it was noted from the review of the actuarial opinion that the liability was not funded by the school district as required by Ohio Revised Code Section 9.833. The school district intends to fund the liability by June 30, 2006.

Cost Savings - Sharing

The Trust provides for a cost savings - sharing 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, 2005, the cost-savings calculation resulted in expenses being greater than revenue, therefore a portion of the amount distributable from 2003, that was escrowed for future use and reflected as a liability, was used to cover the deficit in current year funding. \$1,551,474 was reclassified to revenue in 2005 from this liability. For the year ended December 31, 2004, the cost-savings calculation resulted in expenses being slightly greater than revenue therefore there was not an amount distributable to the employees and the District.

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.

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits

At December 31, 2005 and 2004, the carrying amount of the Trust's cash deposits were \$292,255 and \$1,663,325, 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 JOINTLY ADMINISTERED TRUST FUND
FOR THE BENEFIT OF LORAIN CITY SCHOOL DISTRICT EMPLOYEES
(A COMPONENT UNIT OF LORAIN CITY SCHOOL DISTRICT)
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

The following table presents investments at market value as of December 31, 2005 and 2004. 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>2005</u>	<u>2004</u>
U.S. Treasury Notes:		
6.500%, due 8/15/2005	\$ -	\$ 66,580
5.000%, due 2/15/2011	154,453	159,586
5.000%, due 8/15/2011	103,219	106,469
3.000% due 11/15/2007	194,968	198,750
3.375% due 11/15/2008	194,594	199,468
3.500% due 11/15/2009	193,844	199,000
2.875% due 11/30/2006	197,218	201,316
4.125% due 8/15/2008	99,438	-
3.625% due 1/15/2010	29,180	-
Total Investments	<u>\$ 1,166,914</u>	<u>\$ 1,131,169</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, 2005 and 2004 this calculated reserve amount was \$1,843,000 and \$1,932,623, respectively.

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 JOINTLY ADMINISTERED TRUST FUND
 FOR THE BENEFIT OF LORAIN CITY SCHOOL DISTRICT EMPLOYEES
 (A COMPONENT UNIT OF LORAIN CITY SCHOOL DISTRICT)
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2005 and 2004

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>2005</u>	<u>2004</u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ 846,360	\$ 707,944
Incurred claims and claim adjustment expenses: Provision for insured events of current year	<u>9,745,345</u>	<u>8,159,917</u>
Total incurred claims and claim adjustment expenses	10,591,705	8,867,861
Payments:		
Claims and claim adjustment expenses attributable to insured events of current year	8,558,605	7,313,557
Claims and claim adjustment expenses attributable to insured events of prior years	<u>846,360</u>	<u>707,944</u>
Total payments	<u>9,404,965</u>	<u>8,021,501</u>
Total unpaid claims and claim adjustment expenses at end of year (see schedule below)	<u>\$ 1,186,740</u>	<u>\$ 846,360</u>
Schedule of unpaid claims and claim adjustment expenses at end of year:		
Portion of accounts payable that relates to claims expenses	\$ 193,790	\$ 102,860
Liability for incurred but not reported claims	<u>992,950</u>	<u>743,500</u>
	<u>\$ 1,186,740</u>	<u>\$ 846,360</u>





**Bober, Markey, Fedorovich
& Company**

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INDEPENDENT AUDITORS' 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

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, 2005 and have issued our report thereon dated May 3, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a reportable 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 caused by error or fraud 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.

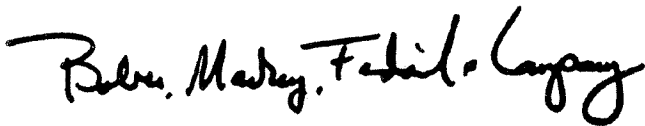
Compliance and Other Matters

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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described below.

In our testing of the Liability for claims incurred but not reported (IBNR), it was noted from the review of the actuarial opinion that the liability was not funded by the school district as required by Ohio Revised Code Section 9.833. The school district intends to fund the liability by June 30, 2006.

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 3, 2006





**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 25, 2006**