

**CITY OF LORAIN
LORAIN COUNTY, OHIO**

AUDIT REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2015**

James G. Zupka, CPA, Inc.
Certified Public Accountants



Dave Yost • Auditor of State

Members of Council
City of Lorain
200 W. Erie Avenue
Lorain, Ohio 44052

We have reviewed the *Independent Auditor's Report* of the City of Lorain, Lorain County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2015 through December 31, 2015. 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 City of Lorain is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

March 29, 2017

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**CITY OF LORAIN
LORAIN COUNTY, OHIO
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2015**

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INDEPENDENT AUDITOR'S REPORT

To the Members of City Council
City of Lorain
Lorain, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lorain, Lorain County, Ohio, (City) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City'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 opinions 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 City'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 City'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lorain, Lorain County, Ohio, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund and the Community Development Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 3 to the basic financial statements, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, and restated its net position at December 31, 2014 for governmental and business-type activities. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedules of Net Pension Liabilities and Pension Contributions, as listed in the table of contents, 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lorain's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2017, on our consideration of the City of Lorain'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 the City of Lorain's internal control over financial reporting and compliance.



James G. Zupka, CPA, Inc.
Certified Public Accountants

January 26, 2017

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City of Lorain, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2015
Unaudited

The discussion and analysis of the City of Lorain's ("the City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2015. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2015 are:

- \$3,845,000 in general obligation bonds were issued in 2015 to currently refund the 2003 Riverfront Urban Renewal Phase II resulting in an economic gain of over \$228,000 over the life of the debt.
- \$20.5 million in Ohio Water Development loans were received for various waterline projects throughout the City and for the continuing construction of phase one of the Black River wastewater storage and conveyance tunnel project.
- \$3.9 million in Ohio Public Works Commission, State Infrastructure Bank, and General Revenue Fund Bond loans were received for various roadway improvements within the City in an effort to continuously improve the City's aging infrastructure.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Lorain's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances in a manner similar to private-sector business. The *statement of net position* and *statement of activities* provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short term as well as what dollars remain for future spending. The fund financial statements look at the City's most significant funds with all other nonmajor funds presented in one total column.

The *statement of net position* presents information on all of the City of Lorain's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's 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 the cash flows*. Thus, revenue and expenses reported in this statement for some items will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees or charges (business-type activities). The governmental activities of the City include general government, security of persons and property, transportation, public health, community environment, economic development, and leisure time activities. The business-type activities of the City include two enterprise activities: water works and water pollution control funds.

The government-wide financial statements can be found starting on page 21 of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental, proprietary, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the community development fund, the general obligation bond retirement fund, and the capital improvements fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

The City of Lorain adopts an annual appropriated budget for each of its funds.

Proprietary Funds

The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water works and water pollution control (sewer) services. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City of Lorain maintains two internal service funds: the garage fund which accounts for charges to various departments for fuel and maintenance on vehicles and equipment and the hospitalization fund which

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accounts for the hospital/medical and prescription drug benefits for the self-insurance program for the employees of the City. The services provided by these funds predominately benefit governmental rather than business-type functions. They have been included within *governmental activities* in government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The *proprietary fund financial statements* provide separate information for the water works and water pollution control operations, both of which are considered to be major funds of the City. Conversely, all internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

The proprietary fund financial statements can be found beginning on page 30 of this report.

Fiduciary Funds

The City's only fiduciary funds are agency funds. Agency funds are purely custodial funds used to account for resources held for the benefit of parties outside the City government and do not involve the measurement of results of operation. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs.

The fiduciary fund financial statement can be found on page 34 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 35 through 84 of this report.

Government-Wide Financial Analysis

The Statement of Net Position provides the perspective of the City as a whole. Table 1 provides a summary of the City's net position at December 31, 2015 as compared to December 31, 2014.

City of Lorain, Ohio
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For the Year Ended December 31, 2015
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TABLE 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2015	2014 Restated	2015	2014 Restated	2015	2014 Restated
Assets						
Current and Other Assets	\$40,327,671	\$51,981,004	\$32,567,262	\$25,579,343	\$72,894,933	\$77,560,347
Capital Assets, Net	113,803,054	110,959,395	186,435,539	168,995,864	300,238,593	279,955,259
<i>Total Assets</i>	154,130,725	162,940,399	219,002,801	194,575,207	373,133,526	357,515,606
Deferred Outflows of Resources						
Deferred Charge on Refunding	165,738	178,477	0	0	165,738	178,477
Pension	5,267,050	3,427,256	1,045,874	701,009	6,312,924	4,128,265
<i>Total Deferred Outflows of Resources</i>	5,432,788	3,605,733	1,045,874	701,009	6,478,662	4,306,742
Liabilities						
Current and Other Liabilities	3,376,952	3,992,459	2,598,590	3,710,889	5,975,542	7,703,348
Long-Term Liabilities:						
Due Within One Year	7,141,155	7,462,761	9,125,112	5,298,889	16,266,267	12,761,650
Due in More Than One Year						0
Net Pension Liability	38,204,768	36,225,951	5,744,846	5,615,090	43,949,614	41,841,041
Other Amounts	67,895,461	69,956,340	112,769,115	101,260,528	180,664,576	171,216,868
<i>Total Liabilities</i>	116,618,336	117,637,511	130,237,663	115,885,396	246,855,999	233,522,907
Deferred Inflows of Resources						
Property Taxes	3,046,612	3,012,288	0	0	3,046,612	3,012,288
Unavailable Resources	679,787	0	0	0	679,787	0
Pension	145,235	0	100,925	0	246,160	0
<i>Total Deferred Inflows of Resources</i>	3,871,634	3,012,288	100,925	0	3,972,559	3,012,288
Net Position						
Net Investment in Capital Assets	53,910,007	51,159,721	66,031,772	63,946,153	119,941,779	115,105,874
Restricted:						
Capital Projects	286,725	894,206	213,781	102,519	500,506	996,725
Debt Service	2,363,002	4,182,380	0	0	2,363,002	4,182,380
Other Purposes	14,731,071	20,814,695	1,736,631	1,687,859	16,467,702	22,502,554
Unrestricted (Deficit)	(32,217,262)	(31,154,669)	21,727,903	13,654,289	(10,489,359)	(17,500,380)
<i>Total Net Position</i>	\$39,073,543	\$45,896,333	\$89,710,087	\$79,390,820	\$128,783,630	\$125,287,153

During 2015, the City adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each *plan's net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

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Under the new standards required by GASB 68, the net pension liability equals the City's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
- 2 Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the city is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the City's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the City is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2014, from \$78,695,028 to \$45,896,333 for governmental activities and from \$84,304,901 to \$79,390,820 for business-type activities.

As noted earlier, net position may serve over time as a useful indicator of a City's financial position. For the City, total assets and deferred outflows of resources exceed total liabilities and deferred inflows of resources by \$128,783,630 at December 31, 2015.

The largest portion of the City's net position reflects its investment in capital assets (e.g. land, easements, construction in progress, buildings and improvements, machinery and equipment, furniture and fixtures and infrastructure including water and sewer lines), less any outstanding debt used to acquire those assets. The City

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uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sourced, since the capital assets themselves cannot be used to liquidate these liabilities.

Total net position increased from 2014 to 2015. The decline in current and other assets is essentially the result of decreases in amounts receivable for grants, loans and special assessments. Total liabilities increased from 2014 to 2015 over \$13 million as a result of the addition of the net pension liability and an increase in other long term liabilities related to capital financing activities.

Table 2 shows the changes in net position for the years ended December 31, 2015 and 2014 and corresponds to the Statement of Activities on page 22.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program Revenues:						
Charges for Services and Assessments	\$6,948,251	\$7,848,260	\$31,803,363	\$27,517,437	\$38,751,614	\$35,365,697
Operating Grants and Contributions	4,170,332	3,003,691	0	0	4,170,332	3,003,691
Capital Grants and Contributions	1,813,149	11,590	0	0	1,813,149	11,590
<i>Total Program Revenues</i>	12,931,732	10,863,541	31,803,363	27,517,437	44,735,095	38,380,978
General Revenues:						
Property Taxes	2,958,245	3,882,823	0	0	2,958,245	3,882,823
Municipal Income Taxes	25,156,148	26,119,973	0	0	25,156,148	26,119,973
Payments in Lieu of Taxes	475,760	1,087,189	0	0	475,760	1,087,189
Grants and Entitlements not						
Restricted to Specific Programs	3,320,977	3,082,275	0	0	3,320,977	3,082,275
Franchise Fees	568,167	559,324	0	0	568,167	559,324
Investment Earnings	58,187	41,999	171	126	58,358	42,125
Gain on Sale of Capital Assets	0	0	0	13,682	0	13,682
Miscellaneous	334,937	511,440	120,572	73,524	455,509	584,964
<i>Total General Revenues</i>	32,872,421	35,285,023	120,743	87,332	32,993,164	35,372,355
Total Revenues	\$45,804,153	\$46,148,564	\$31,924,106	\$27,604,769	\$77,728,259	\$73,753,333

City of Lorain, Ohio
Management's Discussion and Analysis
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Table 2
Changes in Net Position (continued)

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Program Expense:						
General Government	\$10,350,706	\$9,931,897	\$0	\$0	\$10,350,706	\$9,931,897
Security of Persons and Property	23,012,734	22,469,683	0	0	23,012,734	22,469,683
Transportation	8,284,638	9,671,890	0	0	8,284,638	9,671,890
Public Health	1,138,242	1,042,506	0	0	1,138,242	1,042,506
Community Environment	2,254,623	693,218	0	0	2,254,623	693,218
Economic Development	4,091,522	3,002,782	0	0	4,091,522	3,002,782
Leisure Time Activities	854,229	857,777	0	0	854,229	857,777
Interest and Fiscal Charges	2,683,552	2,497,985	0	0	2,683,552	2,497,985
Water Works	0	0	9,974,096	8,625,957	9,974,096	8,625,957
Water Pollution Control	0	0	11,587,440	11,208,367	11,587,440	11,208,367
Total Expenses	52,670,246	50,167,738	21,561,536	19,834,324	74,231,782	70,002,062
Increase (Decrease) in Net Position Before Transfers	(6,866,093)	(4,019,174)	10,362,570	7,770,445	3,496,477	3,751,271
Transfers	43,303	92,545	(43,303)	(92,545)	0	0
Increase (Decrease) in Net Position	(6,822,790)	(3,926,629)	10,319,267	7,677,900	3,496,477	3,751,271
Net Position, January 1 - Restated (See Note 3)	45,896,333	N/A	79,390,820	N/A	125,287,153	N/A
Net Position, December 31	\$39,073,543	\$45,896,333	\$89,710,087	\$79,390,820	\$128,783,630	\$125,287,153

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$4,128,265 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$4,445,079. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

	Governmental Activities	Business-type Activities	Total
Total 2015 program expenses under GASB 68	\$52,670,246	\$21,561,536	\$74,231,782
Pension expense under GASB 68	(3,819,916)	(625,163)	(4,445,079)
2015 contractually required contribution	3,535,658	739,347	4,275,005
Adjusted 2015 program expenses	52,385,988	21,675,720	74,061,708
Total 2014 program expenses under GASB 27	50,167,738	19,834,324	70,002,062
Change in program expenses not related to pension	\$2,218,250	\$1,841,396	\$4,059,646

Program revenues increased in 2015. This increase is reflected in both operating grants and contributions and capital grants and contributions. Charges for services also saw an increase over 2014. While program revenues provide considerable assistance in the provision of governmental services, the burden of governmental support

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is met by general revenues such as municipal income taxes, property taxes, and unrestricted grants and entitlements. General revenues decreased by \$2,379,191 from the prior year. The City saw a decrease in municipal income tax revenue, property taxes and payments in lieu of taxes received, but had increases in local government grants and entitlements, franchise fees and investment earnings.

Governmental Activities

There are several revenue sources that fund the City's governmental activities. Income tax revenues account for one of the largest sources of revenue. The income tax rate for the general fund of the City is 2.00 percent and was last amended in 2012. In 1992 an additional .25 percent was approved by the citizens of Lorain for the Police (money collected is in a separate police levy fund). In 2012 an additional .25 percent was approved by the citizens of Lorain for the Streets (money collected is in the streets special revenue fund). In 2015, the revenue from income taxes decreased by just over \$1 million primarily as a result of the reduction of workforce at both of the steel mills located in the City. The income tax credit in effect for 2015 and future years is 100 percent of the tax paid to another city up to the City's total current tax rate of 2.50 percent.

The second largest source of revenue in governmental activities, Charges for Services, decreased slightly from diminished collections of fines and forfeitures in 2015 but remains relatively stable.

The increase in operating grants and contributions and capital grants and contributions is the result of an increase in funding for grants for infrastructure construction and repair, and habitat conservation along the Black River.

The City has a strong economic development program, through our Community Development Department, which continues to aggressively pursue new businesses to support the City's governmental activities. The City of Lorain, through the Administration and City Council, continues to undertake strategies that will expand the local tax base, expand employment opportunities, improve economic conditions and diversify the local industrial base.

Total governmental program expenses for 2015 were up approximately \$2.5 million as compared to 2014 predominately due to increased expenditures for the community environment function related to the expenditure of grant funds for the Black River habitat conservation and the economic development function encompassing activities of the community development department. Security of persons and property accounted for the largest portion of program expenses and includes the operations of the police and fire departments.

In addition to financial support from General Fund revenues, the Police Department has a special income tax levy of .25 percent which is used for additional police officers and equipment. This money is utilized to purchase new vehicles, equipment that will better serve our community and provide extra police officers. In 2015 the police department updated the jail booking system, and purchased new crime analysis software.

Transportation expenses were for the depreciation, maintenance and repairs to the City's roads and infrastructure. Expenditures for transportation declined as major road projects undertaken in prior years were completed in early 2015. The City paid for these from general revenues, license plate fees, State gas taxes, and capital financing and grants.

General government expenses include the functions of the legislative, executive and judicial branches of the City and include the operations of the auditor, treasurer, engineering and electrical departments.

City of Lorain, Ohio
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For the Year Ended December 31, 2015
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Business-Type Activities

Utility services for water and water pollution control saw significant growth in charges for services due mainly to an increase in the utility rates. The City closely monitors the utility rate structure to insure it meets its operating needs including debt.

The Utilities Department continued construction on phase one of the Black River wastewater storage and conveyance tunnel. Phase one of the tunnel project is estimated to cost approximately \$66 million and is financed through the Ohio Water Development Authority. This is the final phase of the City wide sanitary sewer overflow (SSO) elimination program. The Oberlin Avenue, Eagle Avenue, Elyria Avenue, Washington and Reid Avenues, and the 2nd, 4th, 5th, 6th, Hamilton and Reid Avenues waterline replacement projects were completed in 2015. Other waterline replacement projects were continued or undertaken including the South Lorain and the East Lorain waterline projects. Concurrently, work on the construction of the Westside Water Tower continued in 2015.

The City's Funds

Funds are created and segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Resources that are not restricted, committed, or assigned are accounted for in the General Fund.

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balances may serve as a useful measure of the City's net resources available for spending at the end of the year. Information about the City's governmental funds begins on page 24. These funds are accounted for using the modified accrual basis of accounting.

As of the end of the current year, the City of Lorain's governmental funds reported combined ending fund balances of \$26,362,465, a decrease of \$6.3 million in comparison with the prior year. Non-spendable fund balance of \$633,858 includes material and supplies inventory, prepaid expenses, and unclaimed monies. Fund balance in the amount of \$23,336,829 is restricted to indicate that it is not available for new spending because it has already been restricted by parties outside of the City or pursuant to enabling legislation. It is restricted for economic development, inventory held for resale, debt service, police and municipal court operations, and capital projects. Fund balance in the amount of \$3,036,338 is committed to storm sewer maintenance and improvements, contractual obligations, and funds set aside for compensated absences and payroll reserve. Assigned fund balance includes \$243,737 for general governmental purchases on order in various departments. There is a deficit of \$888,297 that constitutes unassigned fund balance or all balances not previously classified.

The General Fund is the main operating fund of the City. The decrease in fund balance is mainly the result of an increase in wages and benefits for its employees in 2015 due to new bargaining unit contracts for Police, Fire, Dispatchers and Corrections Officers, USSW Local 6621 as well as for non-bargaining unit employees and a decrease in municipal income tax revenue.

The Community Development Fund accounts for State and Federal grants restricted for the issuance of loans to individuals and businesses for acquisition and rehabilitation of real property, economic development, administrative costs, and public facilities.

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The General Obligation Bond Retirement Fund accounts for the accumulation of resources to pay principal and interest on general obligation debt. The City's general obligation bond retirement fund's ending fund balance consists entirely of accumulated excess payments in lieu of taxes received specifically restricted for debt service on the City's various urban renewal bonds.

The Capital Improvements Fund accounts for State grants and loans, bond proceeds, transfers in and various other financing sources used for the construction of various improvements of the City.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law, adopted by an ordinance of City Council and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. The General Fund is organized upon the basis of eighteen (18) departments each with its own set of line-item budgeted accounts. The recording of General Fund revenues and expenditures, along with original budget amounts, necessitates updates toward a final budget. Recommendations and requests for budget changes are referred to a City Council meeting for ordinance enactment on the change. The City does allow small interdepartmental budget changes that modify line items within account categories within departments within the same fund.

At the direction of Council, all capital projects and requests for capital type purchases must be reviewed and approved individually by Council. The General Fund supports many major activities such as the Police Department, Fire Department, Lorain Municipal Court and Building Department as well as the legislative and executive activities. Some economic development and capital projects are funded with General Fund dollars. By ordinance, these funds are transferred from the General Fund to various special revenue and capital improvement funds of the City where the revenue and expenditures for the projects are tracked and monitored.

During the course of 2015, the City amended its General Fund budget numerous times. The actual revenue amount was less than the final budget. Fees collected for the recycling of material came in over \$1.8 million under budget due primarily to declining operations resulting in the largest negative variance in the revenue budget. Municipal income taxes collected were slightly over \$1,000,000 less than budgeted as a result of employer contributions related to employment within the City and accounts for the second largest negative variance in the revenue budget. Charges for services came in under the final estimated budget by roughly \$468,000 and accounted for the third largest negative variance in revenue. The deviation relates to amounts budgeted for reimbursements for engineering services and chargebacks by general fund departments for services to other City departments coming in under expectations. In 2015 amendments of approximately \$800,000 were made to the original budget to account for anticipated material collection fee revenues, police and fire grants, various reimbursements, and other unanticipated miscellaneous receipts.

Corresponding amendments based on the above revenue enhancements were made to the original appropriation budget in various departments.

In an effort to prevent future economic downturns from negatively affecting general fund operations, City Council passed an ordinance in March 2010 to create and maintain a reserve balance for budget stabilization. The reserve balance was set at a minimum of \$1,000,000 and is to be funded by setting aside \$250,000 per year beginning in 2011. The City had set aside the entire \$1,000,000 as of December 31, 2014. Due to the shortfalls in income tax, material recycling fee revenues, and other revenues that did not come in as expected, Council passed an ordinance in December 2015 to use the budget stabilization reserve to supplement the General Fund. The fund balance reserve ordinance includes provisions for repayment in circumstances where the funds must be

City of Lorain, Ohio
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used by the General Fund. Because it was necessary to use all of the reserve, the balance is to be replenished by securing \$250,000 a year until the balance is restored to the \$1,000,000 mark.

Revenues and expenditures are constantly being reviewed by the Auditor's office for adherence to the budget approved by City Council. Financial reports are given to the Administration and City Council for their review. The Auditor's office also works with the department heads to manage their budgets.

Capital Assets and Debt Administration

Capital Assets

Table 3
Capitals Assets
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$9,535,107	\$9,511,357	\$1,060,557	\$1,060,557	\$10,595,664	\$10,571,914
Easements	6,659,949	6,659,949	0	0	6,659,949	6,659,949
Construction in Progress	16,064,699	20,419,506	74,886,404	64,870,058	90,951,103	85,289,564
Buildings and Improvements	14,417,021	14,662,890	20,828,906	21,586,132	35,245,927	36,249,022
Machinery and Equipment	12,630,716	13,249,597	9,250,864	8,882,005	21,881,580	22,131,602
Furniture and Fixtures	194,452	187,284	0	0	194,452	187,284
Infrastructure:						
Streets and Sidewalks	54,301,110	46,268,812	0	0	54,301,110	46,268,812
Water Lines	0	0	33,450,401	24,166,568	33,450,401	24,166,568
Sewer Lines	0	0	46,958,407	48,430,544	46,958,407	48,430,544
<i>Total Capital Assets</i>	\$113,803,054	\$110,959,395	\$186,435,539	\$168,995,864	\$300,238,593	\$279,955,259

The most significant increase in governmental capital assets was in infrastructure and corresponds with the decrease in construction in progress as various road projects were completed in 2015. Major road projects that were completed in 2015 include Jaeger Road, Washington Avenue and portions of Tower Boulevard. Construction in progress includes the recognition of various street and other capital projects begun but not yet completed. Major equipment purchases include four vehicles for the building and engineering departments, court security equipment, and a paver and other equipment upgrades for the street department. Decreases in governmental capital assets are attributed to depreciation.

Business-type activities saw substantial additions to construction in progress and water lines. The most significant construction in progress additions were for phase one of the Black River tunnel construction which began in 2012, and various water works projects including the Westside water tower and phase one of the South Lorain waterlines project. The increase in water lines is due to the completion of the Oberlin Avenue, Eagle Avenue, Elyria Avenue, Washington and Reid Avenues, and the 2nd, 4th, 5th, 6th, Hamilton and Reid Avenues waterline replacement projects in 2015.

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City Council is committed along with the Administration to maintain its capital assets at a condition acceptable to provide the best possible service for all residents. The Administration continues to seek funding for infrastructure projects as well as improving City facilities and services.

See Note 10 of the Notes to the Basic Financial Statements for additional information on the City's capital assets.

Long-Term Obligations

The City's long-term obligations are comprised of general obligation and special assessment bonds, loans (OWDA, HUD Section 108, ODOD, OPWC, ODOT, and installment), capital leases, pollution remediation, claims and judgments, and compensated absences.

Table 4
Outstanding Long-Term Obligations at Year End

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
General Obligation Bonds	\$46,261,523	\$49,052,111	\$592,499	\$1,207,951	\$46,854,022	\$50,260,062
Special Assessment Bonds	1,291,557	1,367,743	0	0	1,291,557	1,367,743
OWDA Loans		0	118,058,749	101,438,182	118,058,749	101,438,182
HUD Section 108 Loans	1,745,000	1,975,000	0	0	1,745,000	1,975,000
Net Pension Liability	37,924,532	35,952,044	5,744,846	5,615,090	43,669,378	41,567,134
ODOD Loan	1,402,245	1,623,099	0	0	1,402,245	1,623,099
OPWC Loans	2,158,019	2,330,197	0	0	2,158,019	2,330,197
ODOT Loans	5,103,288	5,046,775	0	0	5,103,288	5,046,775
Installment Loans	7,084,821	4,351,553	0	0	7,084,821	4,351,553
Capital Leases	2,224,730	3,216,717	1,765,443	2,459,013	3,990,173	5,675,730
Pollution Remediation	863,440	863,440	206,019	220,410	1,069,459	1,083,850
Claims and Judgments	0	58,885	0	0	0	58,885
Compensated Absences	6,901,993	7,533,581	1,271,517	1,233,861	8,173,510	8,767,442
<i>Total</i>	<u>\$112,961,148</u>	<u>\$113,371,145</u>	<u>\$127,639,073</u>	<u>\$112,174,507</u>	<u>\$240,600,221</u>	<u>\$225,545,652</u>

The seventeen general obligation bonds include the Riverfront, Heritage, and Lighthouse Village urban renewal bonds, the Pellet Terminal bond issued for the purchase and improvement of the old pellet terminal site located on the Black River, the Health Claims bond issued to defer the cost of the City's self-insurance claims and various purpose refunding bonds issued to refinance the City's 1995 Various Purpose, 1999 Accrued Pension Fund Liability, 1995 Water Revenue bonds, and the 2002 Safety/Service bond. The remainder of the bonds were issued for various purposes including infrastructure improvements dating back to 1998. The interest and principal on the general obligation bonds of the governmental activities are paid from real estate taxes and payments in lieu of taxes in the case of the urban renewal bonds. Interest and principal for business-type activities general obligation bonds are paid from water and sewer user fees.

The four special assessment bonds consist of various street improvement projects. The debt service on these bonds is paid from real estate assessments on those property owners who benefitted from the improvements.

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The thirty Ohio Water Development Authority (OWDA) loans are for water and sewer projects dating back to 2000. The major loans are for waterline replacements and projects related to the sanitary sewer overflow (SSO) project mandated by the Environmental Protection Agency.

The HUD Section 108 Loans are Community Development loans for the Riverbend Commerce Park infrastructure, expansion of the City's existing business development revolving loan fund and for acquisition of property and professional services for future economic development for the City.

GASB 68 establishes standards for measuring and recognizing pension liabilities, deferred outflows/inflows of resources and expense/expenditures.

The Ohio Department of Development (ODOD) urban redevelopment loan is for the purpose of land acquisition, infrastructure and site preparation within the Colorado Avenue Industrial Area Urban Renewal Plan Area.

The twenty Ohio Public Works Commission (OPWC) loans represent interest free loans obtained to finance road improvement projects throughout the City. These loans are paid from monies transferred into the General Obligation Debt Service fund from the General Fund.

The nine Ohio Department of Transportation (ODOT) state infrastructure bank (SIB) loans are for the rehabilitation and repaving of East 36th Street., State Route 58, North Ridge Road, phase I of the Oberlin Avenue project and various local roadways. A portion of the debt service paid is from state gas tax revenue pledged from the Streets fund.

The installment loans are for engineering services performed by the Lorain County engineer for planned future road construction projects, the purchase and installation of a court case management system, and road improvements. A portion of the debt service is paid from municipal income tax revenues

The City has entered into capitalized lease obligations for software and hardware upgrades, various equipment including fire trucks, street sweepers, dump trucks, excavation and snow removal equipment for the street department, a crane/boom truck for the electrical department, IP phone equipment and copiers/scanners for all City departments, police cruisers, and a high pressure jet truck for the water pollution control department. The minimum lease payments required are paid from the general fund, streets, parkland and police levy special revenue funds, general sewer capital projects fund, and the water works and water pollution control enterprise funds.

The pollution remediation includes the estimated costs associated with the cleanup of environmental contamination on various sites along the Black River.

The claims and judgments is the result of a settlement agreement with the US Department of Justice pertaining to the violation of certain competitive bidding requirements involving US Housing and Urban Development Agency funds.

The compensated absence category represents the dollar value of accumulated but unused sick leave and vacation time at year end. The liability represents amounts that will either be taken as leave or paid out upon termination or retirement. For additional information, please see note 14 to the basic financial statements.

The City's general obligation bond rating is A3, based on the global rating scale, issued by Moody's and was assigned this rating May 19, 2011 and reaffirmed on July 15, 2015.

City of Lorain, Ohio
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See Notes 12 and 13 to the Basic Financial Statements for additional information on the City's outstanding debt obligations.

Economic Factors and Current Financial Issues

Many of the financial issues that the City has encountered in the last several years are still being addressed. The City continues to face many of the same issues as other communities including decreasing revenue sources, rising operating costs, and the replacement or improvement of aging and deteriorating infrastructure. The December 2015 unemployment rate for the City was 6.0 percent, down from 7.3 percent in December 2014, while the unemployment rate for Lorain County was 4.5 percent and the State of Ohio was 4.6 percent (based on the Ohio Job & Family Services, Office of Workforce Development).

The City's overall financial condition in 2015 has weakened over 2014 and continues to require constant and unrelenting attention to maintain a positive financial position especially in the General Fund. The General Fund unassigned balance went from \$2,410,690 in 2014 to (\$246,855) in 2015 due largely to increases in wages and benefits for the City's employees and decreased revenue collections. The passage of a permanent income tax rate increase by .50 percent, one-half of which (.25 percent) goes towards general operations has helped to stabilize the City's finances, but there continues to be challenges going forward. There continues to be a concerted effort on the part of City Council and the City's administration to curtail spending wherever possible without compromising City services when possible.

In 2015, the City signed a new contract with the USSW Local 6621 which represents the non-safety employees. This contract expires December 31, 2016. The City has experienced a 4% percent increase in wages and benefits for its employees in 2015 due to the new bargaining unit contracts.

The City's residential/agricultural real estate property values increased slightly from 2014 to 2015. In 2015, property tax collections were the General Fund's third largest source of revenue. In 2015, the City collected \$1,885,509 from the property tax collections for the General Fund. This was \$34,132 less than that collected in 2014

Below are some of the current developments affecting two of the City's top employers and one of the City's principal real property taxpayers:

- The Lorain City School District (the "School District") is the City's second largest employer. In 2001, the School District voters approved a \$41 million bond issue to pay the local share of a state-assisted classroom facilities project with a total estimated cost of \$216 million. Between 2004 and 2011, 10 elementary and 3 middle schools were constructed at a total cost of \$138 million. The school board has decided to build one new high school rather than remodel the two existing high schools. A site has been selected and has been approved by the Ohio Schools Facility Commission. Demolition of the high school currently on the site is complete. Architectural drawings have been approved and building plans and permit application were submitted to the City building department in the fourth quarter 2013. Construction began in the second quarter 2014 and will cost approximately \$70 million. Final construction is on schedule and is expected to be completed in August 2016. The City anticipates receiving substantial revenue from income tax revenue from construction jobs for this project. On November 3, 2015, the voters of the Lorain City School District passed a five-year 23-mill school renewal issue, which is expected to raise \$9 million and will expire in 2020.
- The Cleveland Clinic Foundation is the City's third largest employer with approximately 711 employees. The Cleveland Clinic is a multispecialty academic hospital located in Cleveland, Ohio that

City of Lorain, Ohio
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is owned and operated by the Cleveland Clinic Foundation (CCF), an Ohio nonprofit corporation established in 1921. The Cleveland Clinic is recognized as one of the top medical centers in both the U.S. and the world, particularly in the field of technological and management systems and in the treatment of cardiovascular disease. In addition to their flagship hospital in Cleveland, the CCF also operates affiliated facilities in Florida, Nevada, Canada, and Abu Dhabi. The health system provides outpatient and ancillary services through its four Lorain locations, Lorain Family Health and Surgery Center, Superior Medical Amherst Family Health Center, Lorain Kolczun Orthopaedics and Gravies Family Vision Care.

- In February 2014, Camaco purchased an additional 3.46 acres of land in the Riverbend Commerce Park with plans on adding an additional 40,000 square foot addition and potentially 150 new jobs. This \$8 million addition will bring the total size of the facility to 214,000 square feet. Construction is slated to begin in the summer of 2016.

The City's community development department is charged with promoting, developing, and coordinating the City's community and economic development through land use and transportation planning, housing and commercial rehabilitation, historic preservation, recreation, and business assistance programs. It has operated several housing repair programs, as well as business loan and economic development programs as part of City efforts to encourage small businesses to locate in the City and to renovate and construct retail and office space, particularly in the downtown area. The community development department is also working with the Lorain Port Authority to pursue economic development growth.

The City is showing some continued signs of recovery in the residential, industrial and commercial components of the local economy but the City expects the economic conditions to continue to be challenging in the near future.

Contacting the City's Finance Department

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the City's finances and show the City's accountability for all money it receives, spends or invests. Questions concerning any information provided in this report or requests for additional financial information should be addressed to:

Karen A. Shawver, Auditor
Karen_Shawver@cityoflorain.org

or

Anita J. Harper, Chief Deputy Auditor
Anita_Harper@cityoflorain.org

City of Lorain
200 W. Erie Ave. – 6th Floor
Lorain, OH 44052-1647

Basic Financial Statements

City of Lorain, Ohio
Statement of Net Position
December 31, 2015

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$11,639,424	\$25,681,824	\$37,321,248
Cash and Cash Equivalents:			
In Segregated Accounts	349,320	0	349,320
With Fiscal Agents	50,351	9,011	59,362
Accounts Receivable	311,118	5,690,771	6,001,889
Inventory Held for Resale	1,822,193	0	1,822,193
Materials and Supplies Inventory	1,881,798	637,618	2,519,416
Internal Balances	(158,759)	158,759	0
Intergovernmental Receivable	2,811,082	24,757	2,835,839
Prepaid Items	324,108	161,002	485,110
Municipal Income Taxes Receivable	3,544,669	0	3,544,669
Property Taxes Receivable	4,088,302	0	4,088,302
Payments in Lieu of Taxes Receivable	692,245	0	692,245
Special Assessments Receivable	2,178,824	0	2,178,824
Loans Receivable	10,792,996	203,520	10,996,516
Nondepreciable Capital Assets	32,259,755	75,946,961	108,206,716
Depreciable Capital Assets, Net	81,543,299	110,488,578	192,031,877
<i>Total Assets</i>	<u>154,130,725</u>	<u>219,002,801</u>	<u>373,133,526</u>
Deferred Outflows of Resources			
Deferred Charge on Refunding	165,738	0	165,738
Pension	5,267,050	1,045,874	6,312,924
<i>Total Deferred Outflows of Resources</i>	<u>5,432,788</u>	<u>1,045,874</u>	<u>6,478,662</u>
Liabilities			
Accounts Payable	370,005	554,674	924,679
Contracts Payable	383,152	32,556	415,708
Accrued Wages and Benefits	890,405	402,440	1,292,845
Matured Compensated Absences Payable	14,375	0	14,375
Intergovernmental Payable	1,100,797	279,966	1,380,763
Retainage Payable	241,767	1,290,632	1,532,399
Accrued Interest Payable	307,710	5,322	313,032
Claims Payable	48,741	0	48,741
Claims and Judgments Payable	20,000	33,000	53,000
Long-Term Liabilities:			
Due Within One Year	7,141,155	9,125,112	16,266,267
Due In More Than One Year			
Net Pension Liability (See Note 15)	38,204,768	5,744,846	43,949,614
Other Amounts	67,895,461	112,769,115	180,664,576
<i>Total Liabilities</i>	<u>116,618,336</u>	<u>130,237,663</u>	<u>246,855,999</u>
Deferred Inflows of Resources			
Property Taxes	3,046,612	0	3,046,612
Unavailable Revenue	679,787	0	679,787
Pension	145,235	100,925	246,160
<i>Total Deferred Inflows of Resources</i>	<u>3,871,634</u>	<u>100,925</u>	<u>3,972,559</u>
Net Position			
Net Investment in Capital Assets	53,910,007	66,031,772	119,941,779
Restricted for:			
Capital Projects	286,725	213,781	500,506
Debt Service	2,363,002	0	2,363,002
Utility Reserve	0	1,736,631	1,736,631
Community Development	11,116,786	0	11,116,786
Police	1,524,618	0	1,524,618
Streets	1,121,384	0	1,121,384
Municipal Courts	850,569	0	850,569
Other Purposes	70,444	0	70,444
Capital Leases	47,270	0	47,270
Unrestricted	(32,217,262)	21,727,903	(10,489,359)
<i>Total Net Position</i>	<u>\$39,073,543</u>	<u>\$89,710,087</u>	<u>\$128,783,630</u>

See accompanying notes to the basic financial statements

City of Lorain, Ohio
Statement of Activities
For the Year Ended December 31, 2015

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General Government	\$10,350,706	\$4,223,797	\$0	\$9,938
Security of Persons and Property	23,012,734	1,059,284	119,042	16,351
Transportation	8,284,638	94,440	2,688,727	1,786,860
Public Health	1,138,242	711,033	134,469	0
Community Environment	2,254,623	777,545	1,222,094	0
Economic Development	4,091,522	63,529	0	0
Leisure Time Activities	854,229	18,623	6,000	0
Interest and Fiscal Charges	2,683,552	0	0	0
<i>Total Governmental Activities</i>	<u>52,670,246</u>	<u>6,948,251</u>	<u>4,170,332</u>	<u>1,813,149</u>
Business-Type Activities				
Water Works	9,974,096	13,549,352	0	0
Water Pollution Control	11,587,440	18,254,011	0	0
<i>Total Business-Type Activities</i>	<u>21,561,536</u>	<u>31,803,363</u>	<u>0</u>	<u>0</u>
<i>Total</i>	<u>\$74,231,782</u>	<u>\$38,751,614</u>	<u>\$4,170,332</u>	<u>\$1,813,149</u>

General Revenues

Property Taxes Levied for:

- General Purposes
- Police Pension
- Fire Pension
- Debt Service

Municipal Income Taxes Levied for

- General Purposes
- Police Levy
- Streets

Payments in Lieu of Taxes

Grants and Entitlements not Restricted
to Specific Programs

Franchise Fees

Investment Earnings

Miscellaneous

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position Beginning of Year - Restated (See Note 3)

Net Position End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activity	Total
(\$6,116,971)	\$0	(\$6,116,971)
(21,818,057)	0	(21,818,057)
(3,714,611)	0	(3,714,611)
(292,740)	0	(292,740)
(254,984)	0	(254,984)
(4,027,993)	0	(4,027,993)
(829,606)	0	(829,606)
(2,683,552)	0	(2,683,552)
(39,738,514)	0	(39,738,514)
0	3,575,256	3,575,256
0	6,666,571	6,666,571
0	10,241,827	10,241,827
(39,738,514)	10,241,827	(29,496,687)
1,892,947	0	1,892,947
199,743	0	199,743
199,743	0	199,743
665,812	0	665,812
20,192,731	0	20,192,731
2,481,686	0	2,481,686
2,481,731	0	2,481,731
475,760	0	475,760
3,320,977	0	3,320,977
568,167	0	568,167
58,187	171	58,358
334,937	120,572	455,509
32,872,421	120,743	32,993,164
43,303	(43,303)	0
32,915,724	77,440	32,993,164
(6,822,790)	10,319,267	3,496,477
45,896,333	79,390,820	125,287,153
\$39,073,543	\$89,710,087	\$128,783,630

City of Lorain, Ohio

Balance Sheet

Governmental Funds

December 31, 2015

	General	Community Development	General Obligation Bond Retirement	Capital Improvements	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$0	\$4,486,652	\$669,149	\$2,590,011	\$3,854,183	\$11,599,995
Cash and Cash Equivalents:						
In Segregated Accounts	341,550	0	0	7,770	0	349,320
With Fiscal Agents	19,558	3,081	0	0	27,712	50,351
Accounts Receivable	140,406	0	0	14,529	156,183	311,118
Inventory Held for Resale	0	1,822,193	0	0	0	1,822,193
Materials and Supplies Inventory	38,021	3,210	0	0	236,688	277,919
Interfund Receivable	385,705	0	0	0	839,886	1,225,591
Intergovernmental Receivable	1,472,129	98,244	90,042	0	1,150,667	2,811,082
Prepaid Items	264,671	1,500	0	0	57,937	324,108
Municipal Income Taxes Receivable	2,844,687	0	0	0	699,982	3,544,669
Property Taxes Receivable	2,622,529	0	916,109	0	549,664	4,088,302
Payments in Lieu of Taxes Receivable	0	108,298	474,879	109,068	0	692,245
Special Assessments Receivable	609,260	0	0	0	1,569,564	2,178,824
Loans Receivable	0	10,676,588	116,408	0	0	10,792,996
Restricted Assets:						
Equity in Pooled Cash and Cash Equivalents	31,831	0	0	0	0	31,831
Total Assets	\$8,770,347	\$17,199,766	\$2,266,587	\$2,721,378	\$9,142,466	\$40,100,544
Liabilities						
Accounts Payable	\$218,287	\$15,844	\$0	\$0	\$107,075	\$341,206
Contracts Payable	0	1,070	0	2,200	379,882	383,152
Accrued Wages and Benefits	641,230	28,198	0	0	200,862	870,290
Matured Compensated Absences Payable	14,375	0	0	0	0	14,375
Intergovernmental Payable	921,120	22,561	0	0	140,843	1,084,524
Retainage Payable	0	0	0	241,767	0	241,767
Interfund Payable	874,841	609	0	0	420,220	1,295,670
Claims and Judgments Payable	20,000	0	0	0	0	20,000
Accrued Interest Payable	1,985	0	0	0	3,375	5,360
Total Liabilities	2,691,838	68,282	0	243,967	1,252,257	4,256,344
Deferred Inflows of Resources						
Property Taxes	1,954,314	0	682,686	0	409,612	3,046,612
Unavailable Revenue	2,767,372	171,387	914,752	109,068	2,472,544	6,435,123
Total Deferred Inflows of Resources	4,721,686	171,387	1,597,438	109,068	2,882,156	9,481,735
Fund Balances						
Nonspendable	334,523	4,710	0	0	294,625	633,858
Restricted	239,989	16,955,387	669,149	2,368,343	3,103,961	23,336,829
Committed	785,429	0	0	0	2,250,909	3,036,338
Assigned	243,737	0	0	0	0	243,737
Unassigned (Deficit)	(246,855)	0	0	0	(641,442)	(888,297)
Total Fund Balances	1,356,823	16,960,097	669,149	2,368,343	5,008,053	26,362,465
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$8,770,347	\$17,199,766	\$2,266,587	\$2,721,378	\$9,142,466	\$40,100,544

See accompanying notes to the basic financial statements

City of Lorain, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 December 31, 2015*

Total Governmental Fund Balances		\$26,362,465
 <i>Amounts reported for governmental activities in the statement of net position are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		113,803,054
Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds:		
Special Assessments	\$2,178,824	
Delinquent Property Taxes	1,041,690	
Intergovernmental	1,777,865	
Municipal Income Taxes	628,091	
Payments in Lieu of Taxes	12,458	
Loans	116,408	
Total		5,755,336
Two internal service funds are used by management to charge the costs of insurance and garage repairs to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.		
Net Position (Deficit)	(2,335,767)	
Capital Assets	(180,192)	
Bonds Payable	3,825,000	
Pension	234,140	
Compensated Absences	47,689	
Internal Balances	(182,001)	
Total		1,408,869
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental fund, an interest expenditure is reported when due.		(302,350)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:		
Deferred Outflows - Pension	5,267,050	
Deferred Inflows - Pension	(145,235)	
Net Pension Liability	(38,204,768)	
Total		(33,082,953)
Long-term liabilities are not due and payable in the current period therefore they are not reported in the funds:		
General Obligation Bonds	(46,424,179)	
Special Assessment Bonds	(1,290,821)	
HUD Section 108 Loans	(1,745,000)	
OPWC Loans	(2,158,019)	
State Infrastructure Bank Loans	(5,103,288)	
Other Loans	(8,487,066)	
Compensated Absences	(6,901,993)	
Capital Leases	(2,224,730)	
Pollution Remediation	(863,440)	
Bond Premium	(21,042)	
Bond Discount	182,962	
Deferred Charge on Refunding	165,738	
Total		(74,870,878)
<i>Net Position of Governmental Activities</i>		\$39,073,543

See accompanying notes to the basic financial statements

City of Lorain, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2015

	General	Community Development	General Obligation Bond Retirement	Capital Improvements	Other Governmental Funds	Total Governmental Funds
Revenues						
Property Taxes	\$1,885,509	\$0	\$663,125	\$0	\$397,876	\$2,946,510
Payments in Lieu of Taxes	0	128,078	761,998	89,057	0	979,133
Municipal Income Taxes	20,166,008	0	0	0	4,954,935	25,120,943
Charges for Services	1,207,687	0	0	0	2,126,468	3,334,155
Licenses and Permits	1,712,184	57,175	0	0	318,933	2,088,292
Fines and Forfeitures	1,003,865	0	0	0	932,332	1,936,197
Intergovernmental	3,148,679	835,648	231,010	2,088,297	4,159,397	10,463,031
Franchise Fees	568,167	0	0	0	0	568,167
Special Assessments	0	0	0	0	79,625	79,625
Interest	49,170	3,325	5,692	0	0	58,187
Contributions and Donations	6,000	0	0	10,563	220	16,783
Miscellaneous	135,677	8,456	213,684	126	17,505	375,448
<i>Total Revenues</i>	<u>29,882,946</u>	<u>1,032,682</u>	<u>1,875,509</u>	<u>2,188,043</u>	<u>12,987,291</u>	<u>47,966,471</u>
Expenditures						
Current:						
General Government	8,758,077	0	27,365	0	444,954	9,230,396
Security of Persons and Property	19,760,746	0	0	0	2,647,838	22,408,584
Transportation	0	0	0	0	4,300,138	4,300,138
Public Health	194,172	0	0	0	926,032	1,120,204
Community Environment	704,175	0	0	0	1,590,780	2,294,955
Economic Development	263,060	587,514	0	0	0	850,574
Leisure Time Activities	723,575	0	0	0	0	723,575
Capital Outlay	0	0	0	8,064,376	1,467,029	9,531,405
Debt Service:						
Principal Retirement	310,928	450,854	3,971,677	0	860,679	5,594,138
Interest and Fiscal Charges	19,105	157,040	2,072,849	0	110,990	2,359,984
Bond Issuance Costs	0	0	99,407	0	0	99,407
<i>Total Expenditures</i>	<u>30,733,838</u>	<u>1,195,408</u>	<u>6,171,298</u>	<u>8,064,376</u>	<u>12,348,440</u>	<u>58,513,360</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(850,892)</u>	<u>(162,726)</u>	<u>(4,295,789)</u>	<u>(5,876,333)</u>	<u>638,851</u>	<u>(10,546,889)</u>
Other Financing Sources (Uses)						
Capital Leases Issued	103,546	0	0	0	0	103,546
Refunding Bonds Issued	0	0	3,845,000	0	0	3,845,000
Loans Received	0	0	0	3,936,352	0	3,936,352
Premium on Debt Issuance	0	0	9,289	0	0	9,289
Payment to Refunded Bond Escrow Agent	0	0	(3,705,000)	0	0	(3,705,000)
Transfers In	90,959	0	3,936,647	0	347,795	4,375,401
Transfers Out	(2,134,236)	(103,090)	0	0	(2,091,373)	(4,328,699)
<i>Total Other Financing Sources (Uses)</i>	<u>(1,939,731)</u>	<u>(103,090)</u>	<u>4,085,936</u>	<u>3,936,352</u>	<u>(1,743,578)</u>	<u>4,235,889</u>
<i>Net Change in Fund Balances</i>	<u>(2,790,623)</u>	<u>(265,816)</u>	<u>(209,853)</u>	<u>(1,939,981)</u>	<u>(1,104,727)</u>	<u>(6,311,000)</u>
<i>Fund Balances Beginning of Year</i>	<u>4,147,446</u>	<u>17,225,913</u>	<u>879,002</u>	<u>4,308,324</u>	<u>6,112,780</u>	<u>32,673,465</u>
<i>Fund Balances End of Year</i>	<u>\$1,356,823</u>	<u>\$16,960,097</u>	<u>\$669,149</u>	<u>\$2,368,343</u>	<u>\$5,008,053</u>	<u>\$26,362,465</u>

See accompanying notes to the basic financial statements

City of Lorain, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2015*

Net Change in Fund Balances - Total Governmental Funds (\$6,311,000)

*Amounts reported for governmental activities in the
statement of activities are different because*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense.

This is the amount by which capital outlay exceeded depreciation in the current period:

Capital Outlay	\$9,494,984	
Current Year Depreciation	<u>(6,627,795)</u>	
Total		2,867,189

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (23,530)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Delinquent Property Taxes	11,735	
Intergovernmental	(4,064,000)	
Municipal Income Taxes	35,205	
Special Assessments	(1,072,290)	
Payments in Lieu of Taxes	(503,373)	
Loans	<u>(40,511)</u>	
Total		(5,633,234)

Other financing sources in the governmental funds that increase long-term liabilities in the statement of net position are not reported as revenues in the statement of activities:

Bonds Issued	(3,845,000)	
Bond Premium	(9,289)	
Loans Received	(3,936,352)	
Capital Lease Proceeds	<u>(103,546)</u>	
Total		(7,894,187)

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows. 3,499,592

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (3,789,421)

Repayment of long term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position:

Governmental Funds	9,299,138	
Internal Service Fund	<u>289,476</u>	
Total		9,588,614

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due:

Accrued Interest	(308,414)	
Amortization of Bond Premium	9,297	
Amortization of Bond Discount	(11,712)	
Amortization of Deferred Charge on Refunding	<u>(12,739)</u>	
Total		(323,568)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Compensated Absences	631,588	
Claims and Judgments	<u>58,885</u>	
Total		690,473

The internal service funds are used by management to charge the costs of equipment repair and maintenance, fuel, and health insurance to individual funds. The net revenue (expense) of the internal service funds are reported with governmental activities:

Change in Net Position	835,228	
Capital Assets	(6,204)	
Compensated Absences	(24,512)	
Principal Retirement	(289,476)	
Interest Expense	278,015	
Internal Balance	<u>(286,769)</u>	
Total		<u>506,282</u>

Change in Net Position of Governmental Activities (\$6,822,790)

See accompanying notes to the basic financial statements

City of Lorain, Ohio
*Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget (Non - GAAP Basis) and Actual
General Fund*
For the Year Ended December 31, 2015

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenues:				
Property Taxes	\$1,959,217	\$1,959,217	\$1,885,509	(\$73,708)
Municipal Income Taxes	21,250,000	21,250,000	20,178,843	(1,071,157)
Charges for Services	1,645,697	1,685,095	1,216,234	(468,861)
Licenses and Permits	3,068,850	3,758,898	1,712,184	(2,046,714)
Fines and Forfeitures	1,420,000	1,420,000	1,047,981	(372,019)
Intergovernmental	2,935,280	2,994,628	3,153,527	158,899
Franchise Fees	575,000	575,000	566,371	(8,629)
Interest	45,100	45,100	48,515	3,415
Contributions and Donations	10,000	16,000	6,000	(10,000)
Miscellaneous	99,550	119,693	86,141	(33,552)
<i>Total Revenues</i>	<u>33,008,694</u>	<u>33,823,631</u>	<u>29,901,305</u>	<u>(3,922,326)</u>
Expenditures:				
Current:				
General Government	8,538,664	9,079,746	8,785,645	294,101
Security of Persons and Property	20,185,594	20,089,339	19,664,941	424,398
Public Health	217,581	200,223	195,930	4,293
Community Environment	685,460	704,660	691,584	13,076
Economic Development	45,000	45,000	45,000	0
Leisure Time Activities	695,179	692,634	684,945	7,689
Debt Service:				
Principal Retirement	341,574	307,939	310,230	(2,291)
Interest and Fiscal Charges	17,423	17,423	17,423	0
<i>Total Expenditures</i>	<u>30,726,475</u>	<u>31,136,964</u>	<u>30,395,698</u>	<u>741,266</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>2,282,219</u>	<u>2,686,667</u>	<u>(494,393)</u>	<u>(3,181,060)</u>
Other Financing Sources (Uses):				
Transfers In	50,000	50,000	50,000	0
Transfers Out	(2,494,886)	(2,508,521)	(2,485,083)	23,438
<i>Total Other Financing Sources (Uses)</i>	<u>(2,444,886)</u>	<u>(2,458,521)</u>	<u>(2,435,083)</u>	<u>23,438</u>
<i>Net Change in Fund Balance</i>	(162,667)	228,146	(2,929,476)	(3,157,622)
<i>Fund Balance Beginning of Year</i>	922,936	922,936	922,936	0
Prior Year Encumbrances Appropriated	176,481	176,481	176,481	0
<i>Fund Balance (Deficit) End of Year</i>	<u>\$936,750</u>	<u>\$1,327,563</u>	<u>(\$1,830,059)</u>	<u>(\$3,157,622)</u>

See accompanying notes to the basic financial statements

City of Lorain, Ohio
*Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget (Non - GAAP Basis) and Actual
Community Development Fund
For the Year Ended December 31, 2015*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Payments in Lieu of Taxes	\$138,400	\$138,400	\$128,078	(\$10,322)
Licenses and Permits	45,000	45,000	58,075	13,075
Intergovernmental	8,769,589	8,769,324	2,529,461	(6,239,863)
Interest	2,450	2,450	3,237	787
Miscellaneous	13,412	13,412	8,456	(4,956)
<i>Total Revenues</i>	<u>8,968,851</u>	<u>8,968,586</u>	<u>2,727,307</u>	<u>(6,241,279)</u>
Expenditures:				
Current:				
Economic Development	4,596,101	5,646,809	2,828,722	2,818,087
Debt Service:				
Principal Retirement	439,615	450,855	450,854	1
Interest and Fiscal Charges	157,040	157,040	157,040	0
<i>Total Expenditures</i>	<u>5,192,756</u>	<u>6,254,704</u>	<u>3,436,616</u>	<u>2,818,088</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>3,776,095</u>	<u>2,713,882</u>	<u>(709,309)</u>	<u>(3,423,191)</u>
Other Financing Sources (Uses):				
Transfers In	108,727	0	0	0
Transfers Out	(103,090)	(187,007)	(103,090)	83,917
<i>Total Other Financing Sources (Uses)</i>	<u>5,637</u>	<u>(187,007)</u>	<u>(103,090)</u>	<u>83,917</u>
<i>Net Change in Fund Balance</i>	3,781,732	2,526,875	(812,399)	(3,339,274)
<i>Fund Balance Beginning of Year</i>	3,596,847	3,596,847	3,596,847	0
Prior Year Encumbrances Appropriated	143,614	143,614	143,614	0
<i>Fund Balance End of Year</i>	<u>\$7,522,193</u>	<u>\$6,267,336</u>	<u>\$2,928,062</u>	<u>(\$3,339,274)</u>

See accompanying notes to the basic financial statements

City of Lorain, Ohio
Statement of Fund Net Position
Proprietary Funds
December 31, 2015

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Water Works	Water Pollution Control	Total	Internal Service Funds
	Water Works	Water Pollution Control	Total	Internal Service Funds
Assets				
<i>Current Assets</i>				
Equity in Pooled Cash and Cash Equivalents	\$1,847,390	\$21,893,033	\$23,740,423	\$7,598
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	626,654	1,314,747	1,941,401	0
With Fiscal Agents	3,384	5,627	9,011	0
Accounts Receivable	2,378,173	3,312,598	5,690,771	0
Materials and Supplies Inventory	581,557	56,061	637,618	1,603,879
Interfund Receivable	229	2,013	2,242	107,424
Intergovernmental Receivable	0	24,757	24,757	0
Prepaid Items	94,063	66,939	161,002	0
Loans Receivable	0	28,637	28,637	0
<i>Total Current Assets</i>	<u>5,531,450</u>	<u>26,704,412</u>	<u>32,235,862</u>	<u>1,718,901</u>
<i>Noncurrent Assets</i>				
Loans Receivable	0	174,883	174,883	0
Non-Depreciable Capital Assets	16,299,138	59,647,823	75,946,961	0
Depreciable Capital Assets, Net	41,432,525	69,056,053	110,488,578	180,192
<i>Total Noncurrent Assets</i>	<u>57,731,663</u>	<u>128,878,759</u>	<u>186,610,422</u>	<u>180,192</u>
<i>Total Assets</i>	<u>63,263,113</u>	<u>155,583,171</u>	<u>218,846,284</u>	<u>1,899,093</u>
Deferred Outflows of Resources				
Pension	484,673	561,201	1,045,874	51,019
Liabilities				
<i>Current Liabilities</i>				
Accounts Payable	215,893	338,781	554,674	28,799
Contracts Payable	0	32,556	32,556	0
Accrued Wages and Benefits	183,600	218,840	402,440	20,115
Intergovernmental Payable	138,776	141,190	279,966	16,273
Retainage Payable	245,198	1,045,434	1,290,632	0
Accrued Interest Payable	3,415	1,907	5,322	0
Interfund Payable	11,430	14,054	25,484	14,103
Claims Payable	0	0	0	48,741
Claims and Judgments Payable	0	33,000	33,000	0
Capital Leases Payable	375,840	351,155	726,995	0
Compensated Absences Payable	110,414	240,080	350,494	0
Pollution Remediation Payable	0	45,049	45,049	0
General Obligation Bonds Payable	592,499	0	592,499	280,000
OWDA Loans	2,410,069	5,000,006	7,410,075	0
<i>Total Current Liabilities</i>	<u>4,287,134</u>	<u>7,462,052</u>	<u>11,749,186</u>	<u>408,031</u>
<i>Long-Term Liabilities (Net of Current Portion)</i>				
Capital Leases Payable	551,750	486,698	1,038,448	0
Compensated Absences Payable	418,291	502,732	921,023	47,689
Pollution Remediation Payable	0	160,970	160,970	0
Net Pension Liability	2,662,246	3,082,600	5,744,846	280,236
General Obligation Bonds Payable	0	0	0	3,545,000
OWDA Loans	36,652,318	73,996,356	110,648,674	0
<i>Total Long-Term Liabilities</i>	<u>40,284,605</u>	<u>78,229,356</u>	<u>118,513,961</u>	<u>3,872,925</u>
<i>Total Liabilities</i>	<u>44,571,739</u>	<u>85,691,408</u>	<u>130,263,147</u>	<u>4,280,956</u>
Deferred Inflows of Resources				
Pension	46,770	54,155	100,925	4,923
Net Position				
Net Investment in Capital Assets	17,155,777	48,875,995	66,031,772	180,192
Restricted For:				
Utility Reserve	421,884	1,314,747	1,736,631	0
Capital Projects	208,154	5,627	213,781	0
Unrestricted (Deficit)	1,343,462	20,202,440	21,545,902	(2,515,959)
<i>Total Net Position (Deficit)</i>	<u>\$19,129,277</u>	<u>\$70,398,809</u>	<u>89,528,086</u>	<u>(\$2,335,767)</u>

Some amounts reported for business-type activities in the statement of net position are different because internal service fund assets are included with business-type activities

Net position business-type activities \$89,710,087

See accompanying notes to the basic financial statements

City of Lorain, Ohio
*Statement of Revenues, Expenses
and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2015*

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Water Works	Water Pollution Control	Total	Internal Service Funds
Operating Revenues				
Charges for Services	\$13,549,352	\$18,254,011	\$31,803,363	\$8,353,380
Miscellaneous	70,001	50,571	120,572	0
<i>Total Operating Revenues</i>	<u>13,619,353</u>	<u>18,304,582</u>	<u>31,923,935</u>	<u>8,353,380</u>
Operating Expenses				
Personal Services	4,770,328	5,322,333	10,092,661	607,438
Materials and Supplies	918,294	541,717	1,460,011	704,869
Contractual Services	932,205	1,292,092	2,224,297	4,234
Claims	0	0	0	5,914,073
Basic Utilities	544,287	718,266	1,262,553	0
Other Expense	286,011	526,328	812,339	258
Depreciation	1,147,711	2,449,757	3,597,468	5,866
<i>Total Operating Expenses</i>	<u>8,598,836</u>	<u>10,850,493</u>	<u>19,449,329</u>	<u>7,236,738</u>
<i>Operating Income</i>	<u>5,020,517</u>	<u>7,454,089</u>	<u>12,474,606</u>	<u>1,116,642</u>
Non-Operating Revenues (Expenses)				
Interest	171	0	171	0
Interest and Fiscal Charges	(1,515,920)	(883,056)	(2,398,976)	(278,015)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(1,515,749)</u>	<u>(883,056)</u>	<u>(2,398,805)</u>	<u>(278,015)</u>
<i>Income Before Transfers</i>	<u>3,504,768</u>	<u>6,571,033</u>	<u>10,075,801</u>	<u>838,627</u>
Transfers In	10,000	17,819	27,819	0
Transfers Out	(37,755)	(33,367)	(71,122)	(3,399)
<i>Change in Net Position</i>	<u>3,477,013</u>	<u>6,555,485</u>	<u>10,032,498</u>	<u>835,228</u>
<i>Net Position (Deficit) Beginning of Year</i>				
<i>Restated - See Note 3</i>	<u>15,652,264</u>	<u>63,843,324</u>		<u>(3,170,995)</u>
<i>Net Position (Deficit) End of Year</i>	<u>\$19,129,277</u>	<u>\$70,398,809</u>		<u>(\$2,335,767)</u>

Some amounts reported for business-type activities in the statement of activities are different because internal service fund assets are included with business-type activities 286,769

Change in net position business-type activities \$10,319,267

See accompanying notes to the basic financial statements

City of Lorain, Ohio
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2015

	<u>Business-Type Activities - Enterprise Funds</u>			Governmental Activities
	<u>Water Works</u>	<u>Water Pollution Control</u>	<u>Total</u>	<u>Internal Service Funds</u>
Increase (Decrease) in Cash and Cash Equivalents				
Cash Flows from Operating Activities				
Cash Received from Customers	\$12,878,856	\$17,329,894	\$30,208,750	\$0
Cash Received from Transactions with Other Funds	0	0	0	8,331,234
Cash Payments for Goods and Services	(2,806,350)	(4,089,667)	(6,896,017)	(894,943)
Cash Payments for Employee Services and Benefits	(4,694,496)	(5,261,853)	(9,956,349)	(627,963)
Cash Payments for Claims	0	0	0	(6,280,233)
Other Operating Revenues	69,985	77,898	147,883	0
<i>Net Cash Provided by Operating Activities</i>	<u>5,447,995</u>	<u>8,056,272</u>	<u>13,504,267</u>	<u>528,095</u>
Cash Flows from Noncapital Financing Activities				
Principal Paid on Bonds	0	0	0	(265,000)
Interest Paid on Bonds	0	0	0	(276,950)
Advances In	0	0	0	14,103
Advances Out	0	0	0	(40,561)
Transfers In	10,000	10,000	20,000	0
Transfers Out	(29,936)	(33,367)	(63,303)	(3,399)
<i>Net Cash Used for Noncapital Financing Activities</i>	<u>(19,936)</u>	<u>(23,367)</u>	<u>(43,303)</u>	<u>(571,807)</u>
Cash Flows from Capital and Related Financing Activities				
Acquisition of Capital Assets	(6,765,635)	(14,281,710)	(21,047,345)	(12,070)
Sale of Capital Assets	2,383	1,942	4,325	0
OWDA Loans Received	7,009,735	13,525,312	20,535,047	0
Principal Paid on Bonds	(583,963)	(27,559)	(611,522)	(24,476)
Interest Paid on Bonds	(36,077)	(1,199)	(37,276)	(1,065)
Principal Paid on OWDA Loans	(1,824,186)	(2,090,294)	(3,914,480)	0
Interest Paid on OWDA Loans	(1,454,577)	(845,550)	(2,300,127)	0
Principal Paid on Capital Leases	(368,814)	(343,510)	(712,324)	0
Interest Paid on Capital Leases	(18,935)	(16,979)	(35,914)	0
Capital Grant	0	288,087	288,087	0
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(4,040,069)</u>	<u>(3,791,460)</u>	<u>(7,831,529)</u>	<u>(37,611)</u>
Cash Flows from Investing Activities				
Interest	171	0	171	0
Net Increase (Decrease) in Cash and Cash Equivalents	1,388,161	4,241,445	5,629,606	(81,323)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>1,089,267</u>	<u>18,971,962</u>	<u>20,061,229</u>	<u>88,921</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$2,477,428</u>	<u>\$23,213,407</u>	<u>\$25,690,835</u>	<u>\$7,598</u>

(continued)

City of Lorain, Ohio
Statement of Cash Flows
Proprietary Funds (continued)
For the Year Ended December 31, 2015

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Water Works	Water Pollution Control	Total	Internal Service Funds
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating Income	\$5,020,517	\$7,454,089	\$12,474,606	\$1,116,642
<i>Adjustments:</i>				
Depreciation	1,147,711	2,449,757	3,597,468	5,866
Intergovernmental	0	(288,087)	(288,087)	0
(Increase) Decrease in Assets:				
Accounts Receivable	(670,474)	(937,823)	(1,608,297)	0
Interfund Receivable	(38)	559	521	(22,146)
Intergovernmental Receivable	0	262,260	262,260	0
Materials and Supplies Inventory	185,959	9,304	195,263	(189,524)
Prepaid Items	18,748	20,761	39,509	1,736
Loans Receivable	0	29,285	29,285	0
Deferred Outflows - Pension	(159,815)	(185,050)	(344,865)	(16,823)
Increase (Decrease) in Liabilities:				
Accounts Payable	(76,563)	48,602	(27,961)	2,206
Contracts Payable	0	32,556	32,556	0
Accrued Wages and Benefits	69,250	73,126	142,376	5,632
Claims Payable	0	0	0	(366,160)
Claims and Judgments Payable	0	33,000	33,000	0
Compensated Absences Payable	15,111	14,934	30,045	(24,512)
Interfund Payable	3,817	3,390	7,207	0
Intergovernmental Payable	44,385	33,690	78,075	3,926
Net Pension Liability	60,131	69,625	129,756	6,329
Retainage Payable	(257,514)	(1,107,470)	(1,364,984)	0
Pollution Remediation Payable	0	(14,391)	(14,391)	0
Deferred Inflows - Pension	46,770	54,155	100,925	4,923
<i>Total Adjustments</i>	427,478	602,183	1,029,661	(588,547)
<i>Net Cash Provided by Operating Activities</i>	\$5,447,995	\$8,056,272	\$13,504,267	\$528,095

See accompanying notes to the basic financial statements

City of Lorain, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2015

Assets

Equity in Pooled Cash and Cash Equivalents	<u><u>\$2,571,539</u></u>
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Liabilities

Deposits Held and Due to Others	<u><u>\$2,571,539</u></u>
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See accompanying notes to the basic financial statements

City of Lorain, Ohio
Notes to The Basic Financial Statements
For The Year Ended December 31, 2015

Note 1 – Description of City and Reporting Entity

The City of Lorain is a statutory municipal corporation established and operated under the laws of the State of Ohio. The City began as an unincorporated village under the name of Charleston in 1834. It was incorporated as a village under the name of Lorain in 1874 and became a City in 1896. The City operates under a council-mayor form of government. Elected officials include eleven council members, a council president, and a mayor.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading.

The primary government of the City consists of all funds, departments, boards, and agencies that are not legally separate from the City. The primary government includes the City departments and agencies that provide various services including police and fire protection, planning, zoning, street construction, maintenance and repair, water and sewer services, municipal court services, and general administrative services.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and: (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; or the City is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or (3) the City is obligated for the debt of the organization. Component units also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt, or the levying of taxes. The City has no component units.

The City participates in the Northeast Ohio Areawide Coordinating Agency (NOACA) and the Northeast Ohio Public Energy Council (NOPEC), both jointly governed organizations, the Lorain Port Authority, a related organization, and the Public Entity Risk Consortium (PERC), a shared risk pool. These organizations are presented in Notes 18, 19, and 20 respectively.

The City's management believes these financial statements present all activities for which the City is financially accountable.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the City of Lorain have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

City of Lorain, Ohio
Notes to The Basic Financial Statements
For The Year Ended December 31, 2015

Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities. The activity of the internal service funds is eliminated to avoid "doubling up" revenues and expenses.

The statement of net position presents the financial condition of the governmental and business-type activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function or business activity is self-financing or draws from the general revenues of the City.

Fund Financial Statements During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service funds are presented on the face of the proprietary fund statements. Fiduciary funds are reported by type.

Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following are the City's major governmental funds:

City of Lorain, Ohio
Notes to The Basic Financial Statements
For The Year Ended December 31, 2015

General Fund The general fund is the operating fund of the City and is used to account for and report all financial resources except those required to be accounted for and reported in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.

Community Development Special Revenue Fund This fund accounts for and reports State and Federal grants restricted to the establishment of revolving loan funds for businesses and individuals for economic development and neighborhood stabilization, lead hazard abatement in residential homes, acquisition and demolition of distressed and abandoned real property, administrative costs, public facilities, and the rehabilitation of real property.

General Obligation Bond Retirement Fund This fund accounts for and reports the accumulation of resources from real estate taxes, payments in lieu of taxes and transfers from other funds restricted to pay principal and interest on general obligation debt.

Capital Improvements Capital Projects Fund This fund accounts for and reports financial resources from federal and state grants and loans, bond proceeds and transfers from other funds restricted for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

The other governmental funds of the City account for grants and other resources whose use is restricted, committed, or assigned to a particular purpose.

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net position and cash flows. Proprietary funds are classified as either enterprise or internal service.

Enterprise Funds Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

Water Works Fund This fund accounts for the provision of water treatment and distribution to its residential and commercial users located within the City.

Water Pollution Control Fund This fund accounts for the provision of sanitary sewer service to the residents and commercial users located within the City.

Internal Service Funds The internal service funds account for the financing of services provided by one department to other departments of the City on a cost reimbursement basis. The City's internal service funds account for the hospital/medical, and prescription drug benefits for City employees on a self-insured basis and accounts for maintenance costs for equipment and vehicles and the purchase of fuel under a single purchasing unit to keep costs low.

Fiduciary Funds Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's only fiduciary funds are

City of Lorain, Ohio
Notes to The Basic Financial Statements
For The Year Ended December 31, 2015

agency funds, which are used to collect and distribute deposits, inspection fees and bonds for developers, waste collection fees, State fees and fines for entities outside the City and employee flexible benefits deposits.

Measurement Focus

Government-wide Financial Statements The government-wide financial statements are presented using the economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the City are included on the Statement of Net Position. The Statement of Activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources and current liabilities and deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses and changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred outflows/inflows of resources and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within sixty days of year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 8). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been

City of Lorain, Ohio
Notes to The Basic Financial Statements
For The Year Ended December 31, 2015

satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), grants, fees and rentals.

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources are reported on the government-wide statement of net position for deferred charge on refunding and for pension. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension are explained in Note 15.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the City, deferred inflows of resources include property taxes, pension and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2015, but which were levied to finance fiscal year 2016 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, payments in lieu of taxes, income taxes, special assessments, loans and intergovernmental grants and entitlements. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities found on page 25. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 15)

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including

City of Lorain, Ohio
Notes to The Basic Financial Statements
For The Year Ended December 31, 2015

refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

Budgetary Data

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriation resolution is the Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by Council. The legal level of budgetary control is at the object level within each department for all funds. Any budgetary modifications at this level may only be made by resolution of the City Council.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the City Auditor. The amounts reported as the original and final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate of estimated resources in effect when the original and final appropriations were enacted by City Council.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

Pooled Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through City records. Interest in the pool is presented as "equity in pooled cash and cash equivalents."

The general fund made advances to the health services fund, habitat conservation grant fund, police pension fund, fire pension fund, and the hospitalization fund to cover deficit cash balances. The health services, habitat conservation, police pension, fire pension, and hospitalization funds have an interfund payable for the amount received from the general fund and the general fund has an interfund receivable for the same amounts on the balance sheet. The general sewer capital improvements fund made an advance to the general fund to cover a deficit cash balance. The general fund has an interfund payable for the amount received from the general sewer fund and the general sewer fund has an interfund receivable for the same amount on the balance sheet.

The City has segregated bank accounts for monies held separate from the City's bank accounts. These interest-bearing deposit accounts are presented on the statement of net position and balance sheet as "cash and cash equivalents in segregated accounts" since they are not required to be deposited into the City's treasury. A portion of the cash of the Municipal Court is included in this line item. The balance presented on the statement of net position and balance sheet as "cash and cash equivalents with fiscal agents" represents deposits for future debt service payments on Community Development urban redevelopment loans and deposits in escrow for the purchase of capital assets through lease/purchase agreements.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are presented on the financial statements as cash equivalents.

City of Lorain, Ohio
Notes to The Basic Financial Statements
For The Year Ended December 31, 2015

Investments with an original maturity of more than three months, not purchased from the pool, are reported as investments.

During 2015, investments were limited to money market funds and STAR Ohio. Investments are reported at fair value, which is based on quoted market prices.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's net asset value per share price, which is the price the investment could be sold for on December 31, 2015.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the General Fund during 2015 amounted to \$49,170 of which 90.27 percent or \$44,386 was assigned from other City funds.

Inventory Held for Resale

Inventory held for resale represents land purchased and homes purchased and repaired which will be resold under the Community Development in-fill housing and neighborhood stabilization projects.

Materials and Supplies Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2015, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

Deferred Charge on Refunding

The difference between the reacquisition price (funds required to refund the old debt) of various refunding bonds and the net carrying amount of the old debt, the deferred amount (loss) on refunding, is being amortized as a component of interest expense. This accounting loss is amortized over the remaining life of the old or the life of the new debt whichever is shorter, using the effective method and is presented as deferred outflows of resources on the statement of net position.

Bond Premiums and Discounts

On the government-wide financial statements, bond premiums and discounts are deferred and amortized over the term of the bonds using the straight-line method. Bond premiums are presented as an increase of the face amount of the general obligation bonds payable. On fund financial statements, bond premiums are receipted in the year the bonds are issued. On the government-wide financial statements, bond discounts are presented as a decrease of the face amount of the general obligation bonds payable. On fund financial statements, bond discounts are expended in the year the bonds are issued.

City of Lorain, Ohio
Notes to The Basic Financial Statements
For The Year Ended December 31, 2015

Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments or imposed by the law through constitutional provisions or enabling legislation.

Restricted assets in the general fund represent money set aside for unclaimed monies. Restricted assets in the water works and water pollution control enterprise funds are for amounts held for operation, maintenance and replacement contingencies per the applicable City ordinance are reported as restricted assets.

Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the enterprise funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds. Capital assets used by the internal service funds are reported in the governmental activities column of the statement of net position and in the internal service column on the statement of fund net position.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of infrastructure by backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of five thousand dollars for capital assets other than infrastructure and one hundred thousand dollars for infrastructure capital assets. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of proprietary fund capital assets is also capitalized.

All capital assets are depreciated except for land, easements, and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements (including water and water pollution control facilities)	50 to 75 years
Machinery and Equipment	5 to 25 years
Furniture and Fixtures	10 to 15 years
Infrastructure	30 to 60 years

City of Lorain, Ohio
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For The Year Ended December 31, 2015

The City's infrastructure consists of streets, sidewalks, storm sewers, bridges, water and sewer lines, and includes infrastructure acquired prior to December 31, 1980.

Interfund Balances

On fund financial statements, outstanding interfund loans are reported as "interfund receivables/payables." Interfund balance amounts are eliminated in the statement of net position, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The City's policy limits the accrual of annual vacation time to one year from the employee's anniversary date. Any unused annual vacation is placed in the employee's vacation bank, within certain limits, to be paid upon retirement.

Sick leave benefits are accrued as a liability using the termination method. An accrual for sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the City's past experience of making termination payments.

The entire compensated absences liability is reported on government-wide financial statements.

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund(s) from which the employees who have resigned or retired will be paid.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary funds financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences and net pension liability that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases and long-term loans are recognized as a liability on the governmental fund financial statements when due.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

City of Lorain, Ohio
Notes to The Basic Financial Statements
For The Year Ended December 31, 2015

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

Restricted Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (City ordinances).

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party, such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution, as both are equally binding) of City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by City Council. In the general fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City ordinance or by State Statute. State statute authorizes the City Auditor to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

City of Lorain, Ohio
Notes to The Basic Financial Statements
For The Year Ended December 31, 2015

Net Position

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Net position restricted for other purposes include resources for litter control and habitat conservation grant activities.

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Transfers between governmental activities are eliminated on the governmental-wide financial statements. Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Interfund payments for services provided and used are not eliminated.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water pollution control, water services, self-insurance programs, and garage. Operating expenses are necessary costs incurred to provide the goods or service that are the primary activity of the fund. All revenues and expenditures not meeting these definitions are reported as non-operating.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 3 – Change in Accounting Principle and Restatement of Net Position

For 2015, the City implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No.

City of Lorain, Ohio
Notes to The Basic Financial Statements
For The Year Ended December 31, 2015

68". GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure.

The implementation of this pronouncement had the following effect on net position as reported at December 31, 2014:

	Governmental Activities	Business - Type Activities	Total
Net Position December 31, 2014	\$78,695,028	\$84,304,901	\$162,999,929
Adjustments:			
Net Pension Liability	(36,225,951)	(5,615,090)	(41,841,041)
Deferred Outflow - Payment Subsequent to Measurement Date	3,427,256	701,009	4,128,265
Restated Net Position December 31, 2014	<u>\$45,896,333</u>	<u>\$79,390,820</u>	<u>\$125,287,153</u>

	Business-Type Activities - Enterprise Funds			Internal Service
	Water	Water Pollution Control	Total	
Net Position December 31, 2014	\$17,929,521	\$66,480,148	\$84,409,669	(\$2,931,284)
Adjustments:				
Net Pension Liability	(2,602,115)	(3,012,975)	(5,615,090)	(273,907)
Deferred Outflow - Payment Subsequent to Measurement Date	324,858	376,151	701,009	34,196
Restated Net Position December 31, 2014	<u>\$15,652,264</u>	<u>\$63,843,324</u>	<u>\$79,495,588</u>	<u>(\$3,170,995)</u>

Other than employer contributions subsequent to the measurement date, the City made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

Note 4 – Fund Deficits and Legal Compliance

Fund Deficits

Fund balances at December 31, 2015 included the following individual fund balance deficits:

<u>Nonmajor Funds:</u>	<u>Deficit</u>
Special Revenue Funds:	
Health Services	\$71,669
Police Pension	71,044
Fire Pension	104,610
Habitat Conservation	385,042
Internal Service Fund:	
Hospitalization	3,892,825

The deficit in the health services, police pension, fire pension, and habitat conservation special revenue, and hospitalization internal service funds are due to accrued liabilities. The general fund is liable for any deficit and provides transfers when cash is required, rather than when accruals occur.

City of Lorain, Ohio
Notes to The Basic Financial Statements
For The Year Ended December 31, 2015

Legal Compliance

Contrary to Section 5705.41B, Ohio Revised Code, the following account had expenditures plus encumbrances in excess of appropriations:

<u>Major Funds:</u>	<u>Final Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Excess</u>
General Fund:			
Mayor			
Wages and Benefits	\$211,672	\$214,764	(\$3,092)
Judges			
Other	8,075	8,201	(126)
RTI Material Collection			
Contractual Services	701,340	711,655	(10,315)
Parks Department			
Contractual Services	160,152	160,454	(302)
Debt Service			
Principal Retirement	307,939	310,230	(2,291)
Capital Improvements Fund:			
Contractual Services	10,069,785	10,390,149	(320,364)
 Nonmajor Fund:			
Municipal Court Improvements Fund:			
Wages and Benefits	78,355	80,609	(2,254)

Management has indicated that appropriations will be closely monitored to ensure no future violations occur.

The City had a negative cash balance in the following funds indicating that revenues from other sources were used to pay obligations of these funds contrary to Ohio Revised Code Section 5705.10:

<u>Major Fund:</u>	<u>Deficit</u>
General Fund	\$1,545,374
 Nonmajor Funds:	
Special Revenue Funds:	
Health Services	31,778
Community Development Block Grant	90,551
EDA Planning	90,701
Habitat Conservation	168,458
 Internal Service Fund:	
Hospitalization	14,627

Note 5 – Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

City of Lorain, Ohio
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For The Year Ended December 31, 2015

Fund Balances	General Fund	Community Development	General Obligation Bond Retirement	Capital Improvements	Governmental Funds	Total
<u>Nonspendable:</u>						
Prepays	\$264,671	\$1,500	\$0	\$0	\$57,937	\$324,108
Material and Supplies Inventory	38,021	3,210	0	0	236,688	277,919
Unclaimed Monies	31,831	0	0	0	0	31,831
<i>Total Nonspendable</i>	<u>334,523</u>	<u>4,710</u>	<u>0</u>	<u>0</u>	<u>294,625</u>	<u>633,858</u>
<u>Restricted for:</u>						
Loans Receivable	0	10,676,588	0	0	0	10,676,588
Economic Development Projects	0	4,453,525	0	0	0	4,453,525
Road Improvements	0	0	0	2,368,343	927,043	3,295,386
Inventory Held for Resale	0	1,822,193	0	0	0	1,822,193
Law Enforcement	0	0	0	0	1,516,900	1,516,900
Municipal Court Operations	217,873	0	0	0	558,731	776,604
Debt Service Payments	0	3,081	669,149	0	0	672,230
Community Environment Enhancement	0	0	0	0	70,351	70,351
Equipment Purchases	19,558	0	0	0	27,712	47,270
Drug and Alcohol Enforcement	0	0	0	0	3,131	3,131
Cemetery Operations	2,558	0	0	0	0	2,558
Public Health Initiatives	0	0	0	0	93	93
<i>Total Restricted</i>	<u>239,989</u>	<u>16,955,387</u>	<u>669,149</u>	<u>2,368,343</u>	<u>3,103,961</u>	<u>23,336,829</u>
<u>Committed to:</u>						
Storm Sewer Maintenance and Repair	0	0	0	0	2,250,909	2,250,909
Payroll Reserve	390,008	0	0	0	0	390,008
Compensated Absences Reserve	275,182	0	0	0	0	275,182
Material Recycling Operations	48,500	0	0	0	0	48,500
Park Operations	42,698	0	0	0	0	42,698
Treasurer Operations	14,400	0	0	0	0	14,400
Jail Operations	9,879	0	0	0	0	9,879
Economic Development Incentives	4,762	0	0	0	0	4,762
<i>Total Committed</i>	<u>785,429</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,250,909</u>	<u>3,036,338</u>
<u>Assigned to:</u>						
Purchases on Order:						
Purchased/Contractual Services	167,368	0	0	0	0	167,368
Material and Supplies	41,334	0	0	0	0	41,334
Capital Outlay	35,035	0	0	0	0	35,035
<i>Total Assigned</i>	<u>243,737</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>243,737</u>
Unassigned (Deficits)	<u>(246,855)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(641,442)</u>	<u>(888,297)</u>
Total Fund Balances	<u><u>\$1,356,823</u></u>	<u><u>\$16,960,097</u></u>	<u><u>\$669,149</u></u>	<u><u>\$2,368,343</u></u>	<u><u>\$5,008,053</u></u>	<u><u>\$26,362,465</u></u>

City of Lorain, Ohio
Notes to The Basic Financial Statements
For The Year Ended December 31, 2015

Stabilization Arrangement

City council adopted an ordinance to establish and maintain a revenue stabilization reserve (“rainy day fund”) in the general fund. The principal resource for this reserve is income tax revenue received. The revenue was reserved on an annual basis with a maximum of \$250,000 being set aside in any one year until the total reserve amount of \$1million was established. Amounts in the reserve are not available for appropriation unless approved by City Council by a majority vote. In December 2015 City Council voted, due to revenue shortfalls, to appropriate the entire \$1 million reserve balance carried over from 2014. The balance of the reserve at December 31, 2015 is \$0.

Note 6 - Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for the general fund and community development major special revenue fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget and to demonstrate compliance with State statute. The major differences between the budget basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Unrecorded cash represents amounts received but not included as revenue on the budgetary statements, but which are reported on the operating statements prepared using GAAP.
4. Encumbrances are treated as expenditures (budget basis) rather than as restricted, committed or assigned fund balance (GAAP basis).
5. Advances In and Advances Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
6. Budgetary revenues and expenditures of the economic development and park land funds are classified to the general fund for GAAP reporting.

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund and the streets and community development major special revenue funds.

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Notes to The Basic Financial Statements
For The Year Ended December 31, 2015

Net Change in Fund Balance

	<u>General</u>	<u>Community Development</u>
GAAP Basis	(\$2,790,623)	(\$265,816)
Net Adjustment for Revenue Accruals	65,690	819,883
Beginning Unrecorded Cash	23,537	160,915
Ending Unrecorded Cash	(70,868)	(394)
Loan Repayments	0	714,221
Inception of Capital Lease	(103,546)	0
Net Adjustment for Expenditure Accruals	509,502	(14,957)
Loans Issued	0	(670,202)
Excess of Revenue Over (Under) Expenditures		
Economic Development	(218,060)	0
Parkland	(28,592)	0
Encumbrances	<u>(316,516)</u>	<u>(1,556,049)</u>
Budget Basis	<u>(\$2,929,476)</u>	<u>(\$812,399)</u>

Note 7 - Deposits and Investments

The City is a statutory City and has adopted an investment policy through City Resolution. The City has elected to follow the provisions of State statute. State statutes classify monies held by the City into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the City Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that Council has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing no later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies that are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies may be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage

City of Lorain, Ohio
Notes to The Basic Financial Statements
For The Year Ended December 31, 2015

Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
6. The State Treasurer's investment pool (STAR Ohio);
7. Time certificates of deposit or savings or deposit accounts, including but not limited to, passbook accounts; and
8. Commercial paper and bankers' acceptances if training requirements have been met.

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest, or coupons; and
3. Obligations of the City.

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in possession of an outside party. At year-end, \$15,550,795 of the City's bank balance of \$38,550,795 was uninsured and uncollateralized. Although the securities were held by the pledging institution's trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

The City has no deposit policy for custodial risk beyond the requirements of the State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

City of Lorain, Ohio
Notes to The Basic Financial Statements
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Investments

Investments are reported at fair value. As of December 31, 2015, the City had the following investments:

<u>Description</u>	<u>Fair Value</u>	<u>Investment Maturities Less Than 1 Year</u>	<u>Credit Rating</u>	<u>% of Total Investment</u>
Money Market Funds	\$271,903	\$271,903	AAAm	16.35%
STAR Ohio	1,391,034	1,391,034	AAAm	85.30%
Total Investments	<u>\$1,662,937</u>	<u>\$1,662,937</u>		

Interest Rate Risk As a means of limiting its exposure to fair value losses caused by rising interest rates, the City's investment policy requires that operating funds be invested primarily in short-term investments maturing within one year from the date of purchase and that the City's investment portfolio be structured so that the securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

Credit Risk The City's money market funds are invested with Blackrock US Treasury obligations and carry a rating of AAAm by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The City has no investment policy that addresses credit risk.

Concentration of Credit Risk The City's investment policy allows investments in Repurchase Agreements, Money Market Mutual Funds, certificates of deposit, and STAR Ohio and allowable investments as defined by the Ohio Revised Code. The City does not limit the amount that can be invested in each type.

Note 8 – Receivables

Receivables at December 31, 2015, consisted primarily of municipal income taxes, property taxes, payments in lieu of taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, loans, and accounts (billings for utility service).

No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant. All receivables except property taxes, special assessments, and loans receivable are expected to be received within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

Special assessments expected to be collected in more than one year amount to \$1,309,880. At December 31, 2015, the amount of delinquent special assessments was \$1,334,272.

The loans receivable at December 31, 2015, include revolving loans made to private enterprises under the United States Department of Housing and Urban Development Community Development Block Grant Program. The loans are due on various dates with a large portion not due until the related property is sold or the debtor becomes deceased. The loans receivable balance of \$10,676,588 on the basic financial statements is stated net of estimated uncollectible of \$586,062 with \$404,018 collectible in one year.

City of Lorain, Ohio
Notes to The Basic Financial Statements
For The Year Ended December 31, 2015

In April of 2002, the City entered into an installment loan agreement with Horizon Activities Center Inc. for the sale of real estate owned by the City, deemed no longer needed for public use, in the amount of \$250,000. The loan has a term of 20 years at 5.75 percent interest with monthly payments of \$1,755. Per the Ohio Revised Code, Section 5705.10, the proceeds from this sale are deposited in the general obligation bond retirement fund. At December 31, 2015 the fund has recorded a loan receivable balance of \$116,408 as a result of this transaction, with \$14,754 collectible in one year.

The City's sewer department issued zero percent interest emergency loans to property owners in 2007 to provide some immediate relief to replace property damaged due to a major sewer line collapse. At December 31, 2015 the fund has recorded a loan receivable balance of \$203,520 as a result of these transactions, with \$28,637 collectible in one year.

Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City of Lorain. Property tax revenues received in 2015 for real and public utility property represent the collection of 2014 taxes.

Real property taxes received in 2015 were levied after October 1, 2014, on the assessed values as of January 1, 2014, the lien date. Real property taxes which were levied in 2015 are collected in and intended to finance 2016. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in 2015 represent the collection of 2014 taxes. Public utility property taxes received in 2015 became a lien on December 31, 2014, were levied after October 1, 2014, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The full tax rate for all City of Lorain operations for the year ended December 31, 2015, was \$4.96 per \$1,000 of assessed value. The assessed values of real and public utility property upon which 2015 property tax receipts were based are as follows:

Real Property	\$727,755,750
Public Utility Personal Property	<u>60,319,670</u>
Total	<u><u>\$788,075,420</u></u>

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Lorain. The County Auditor periodically remits to the City its portion of the taxes collected.

Property taxes receivable represents real and public utility property taxes and outstanding delinquencies which were measurable as of December 31, 2015, and for which there was an enforceable legal claim. In the governmental funds, the portion of the receivable not levied to finance 2015 operations is offset to deferred inflows of resources – property taxes. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

City of Lorain, Ohio
Notes to The Basic Financial Statements
For The Year Ended December 31, 2015

Income Taxes

The City levies a municipal income tax of two and one-half percent on substantially all salaries, wages, commissions and other compensation, and net profits earned within the City as well as income of residents earned outside of the City. Two percent (2.00 percent) is levied for general purposes, one quarter percent (0.25 percent) is restricted for the police levy fund, and one quarter percent (0.25 percent) is restricted for the streets fund. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. Residents that work outside the City are credited with 100 percent of the taxes paid to another City up to a maximum of two and one-half percent (the City's current tax rate) of gross wages.

Payments in Lieu of Taxes

According to State law, the City has established several tax incremental financing districts within the City under which the City has granted property tax exemptions and agreed to construct certain infrastructure improvements. The property owners have agreed to make payments to the City to help pay the costs of the infrastructure improvements. The amount of those payments generally reflects all or a portion of the property taxes which the property owners would have paid if the property had not been declared exempt. The property owners' contractual promise to make these payments in lieu of taxes generally continues until the costs of the improvement have been paid or the agreement expires, whichever occurs first. Future development by these owners or others may result in subsequent agreements to make payments in lieu of taxes and may therefore spread the costs of the improvements to a larger number of property owners.

Intergovernmental Receivables

A summary of the governmental and business-type activities principal items of intergovernmental receivables follows:

Governmental Activities	Amount
Local Government	\$1,307,994
Gasoline Tax	576,598
Motor Vehicle Tax	324,502
Homestead and Rollback	285,366
Grants	262,860
Permissive Tax	39,923
Liquor and Beer Tax	11,078
Other Taxes	2,761
Total Governmental Activities	2,811,082
Business-Type Activities	
Utility Charges	24,757
Total	\$2,835,839

City of Lorain, Ohio
Notes to The Basic Financial Statements
For The Year Ended December 31, 2015

Note 9 - Inventory Held for Resale

Inventory held for resale represents land purchased and homes purchased and repaired to be resold under the Community Development infill housing and neighborhood stabilization projects. As of December 31, 2015, the City has 134 properties remaining which are being held for resale.

Note 10 - Capital Assets

Capital asset activity for the year ended December 31, 2015 was as follows:

	Balance 12/31/2014	Additions	Deletions	Balance 12/31/2015
Governmental Activities				
<i>Capital Assets, Not Being Depreciated:</i>				
Land	\$9,511,357	\$23,750	\$0	\$9,535,107
Easements	6,659,949	0	0	6,659,949
Construction in Progress	20,419,506	8,598,581	(12,953,388)	16,064,699
<i>Total Capital Assets, Not Being Depreciated</i>	<u>36,590,812</u>	<u>8,622,331</u>	<u>(12,953,388)</u>	<u>32,259,755</u>
<i>Capital Assets, Being Depreciated:</i>				
Buildings and Improvements	23,894,335	192,213	(5,000)	24,081,548
Machinery and Equipment	24,171,169	537,900	(89,534)	24,619,535
Furniture and Fixtures	328,472	23,180	0	351,652
Infrastructure:				
Streets, Sidewalks, Bridges and Storm Sewers	1,024,066,284	13,072,748	0	1,037,139,032
<i>Total Capital Assets, Being Depreciated</i>	<u>1,072,460,260</u>	<u>13,826,041</u>	<u>(94,534)</u>	<u>1,086,191,767</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(9,231,445)	(438,082)	5,000	(9,664,527)
Machinery and Equipment	(10,921,572)	(1,133,251)	66,004	(11,988,819)
Furniture and Fixtures	(141,188)	(16,012)	0	(157,200)
Infrastructure:				
Streets, Sidewalks, Bridges and Storm Sewers	(977,797,472)	(5,040,450)	0	(982,837,922)
<i>Total Accumulated Depreciation</i>	<u>(998,091,677)</u>	<u>(6,627,795) *</u>	<u>71,004</u>	<u>(1,004,648,468)</u>
Total Capital Assets, Being Depreciated, Net	<u>74,368,583</u>	<u>7,198,246</u>	<u>(23,530)</u>	<u>81,543,299</u>
Governmental Activities Capital Assets, Net	<u>\$110,959,395</u>	<u>\$15,820,577</u>	<u>(\$12,976,918)</u>	<u>\$113,803,054</u>

City of Lorain, Ohio
Notes to The Basic Financial Statements
For The Year Ended December 31, 2015

	Balance 12/31/2014	Additions	Deletions	Balance 12/31/2015
Business - Type Activities				
<i>Capital Assets, Not Being Depreciated:</i>				
Land	\$1,060,557	\$0	\$0	\$1,060,557
Construction in Progress	64,870,058	20,329,913	(10,313,567)	74,886,404
<i>Total Capital Assets, Not Being Depreciated</i>	<u>65,930,615</u>	<u>20,329,913</u>	<u>(10,313,567)</u>	<u>75,946,961</u>
<i>Capital Assets, Being Depreciated:</i>				
Buildings and Improvements	52,883,268	79,060	0	52,962,328
Machinery and Equipment	27,803,946	970,190	(58,111)	28,716,025
Infrastructure:				
Water Lines	38,332,544	9,998,567	0	48,331,111
Sewer Lines	84,463,045	0	0	84,463,045
<i>Total Capital Assets, Being Depreciated</i>	<u>203,482,803</u>	<u>11,047,817</u>	<u>(58,111)</u>	<u>214,472,509</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(31,297,136)	(836,286)	0	(32,133,422)
Machinery and Equipment	(18,921,941)	(574,311)	31,091	(19,465,161)
Infrastructure:				
Water Lines	(14,165,976)	(714,734)	0	(14,880,710)
Sewer Lines	(36,032,501)	(1,472,137)	0	(37,504,638)
<i>Total Accumulated Depreciation</i>	<u>(100,417,554)</u>	<u>(3,597,468)</u>	<u>31,091</u>	<u>(103,983,931)</u>
Total Capital Assets, Being Depreciated, Net	<u>103,065,249</u>	<u>7,450,349</u>	<u>(27,020)</u>	<u>110,488,578</u>
Business - Type Activities Capital Assets, Net	<u>\$168,995,864</u>	<u>\$27,780,262</u>	<u>(\$10,340,587)</u>	<u>\$186,435,539</u>

* Depreciation expense was charged to governmental functions as follows:

General Government	\$1,566,947
Security of Persons and Property	686,837
Transportation	4,077,496
Public Health	30,485
Community Environment	6,346
Economic Development	86,271
Leisure Time Activities	173,413
Total Depreciation Expense	<u>\$6,627,795</u>

City of Lorain, Ohio
Notes to The Basic Financial Statements
For The Year Ended December 31, 2015

Note 11 - Risk Management

Property and Liability

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participated in the Public Entity Risk Consortium (PERC), a shared risk pool (see Note 20) for all City real and personal property, comprehensive general liability including law enforcement liability, blanket crime coverage and public official's liability insurance. Arthur J. Gallagher & Company is the administrator. PERC is a shared risk joint self-insurance pool restricted to mid-size public entities. Lexington Insurance Company covers up to \$250,000,000 per occurrence for real and personal property subject to a \$75,000 self-insured retention with the exception of a \$5,000 retention in respect to automobile physical damage. The Underwriters at Lloyd's, London provides \$2,000,000 per occurrence limit each for Automobile Liability, General Liability, Law Enforcement Liability and Public Official's Liability. These liability policies each have a \$50,000 self-insured retention. An \$8,000,000 Excess Liability policy is provided over all liability policies by Genesis Insurance Company. The City also carries a comprehensive Boiler and Machinery policy by the Travelers Property Casualty Company of America on all City buildings with the property damage limits of \$100,000,000 subject to a \$1,000 deductible. Gallagher Bassett Services, Inc. is the claims administrator for the City. A summary of coverage and limits provided through the pool is as follows:

<u>Type of Coverage</u>	<u>Limits of Coverage</u>
Property Including Auto Physical Damage	\$224,844,000
Liability:	10,000,000
General Liability	
Law Enforcement Liability	
Automobile Liability	
Public Officials Errors & Omissions	
Crime:	
Employee Dishonesty	500,000
Depositors Forgery	50,000
Money & Securities	50,000
Boiler & Machinery	100,000,000

Claims have not exceeded coverage in any of the last three years and there were no significant reductions of commercial coverage in any of the past three years.

Workers' Compensation

The City pays the Ohio Bureau of Workers' Compensation a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

Health Insurance Benefits

The City manages the hospital/medical, and prescription drug benefits for its employees on a self-insured basis through the hospitalization self-insurance internal service fund. Rates for 2015 were \$600/single and \$1,430/family in January, for February through December, \$620/single and \$1,390/family. Employees pay either \$154 per month for family coverage, \$139 if they provide proof of an annual physical, or \$124 if they provide proof of an annual physical and sign documentation that they do not smoke. The cost for single coverage is \$71.00 per month, or \$63.50 if they provide proof of an annual

City of Lorain, Ohio
Notes to The Basic Financial Statements
For The Year Ended December 31, 2015

physical, or \$56.00 if they provide proof of an annual physical and sign documentation that they do not smoke. The Plan Administrator for the City determines these rates. Medical Mutual of Ohio, the third party administrator, processes and pays the medical and prescription drug claims. An excess coverage insurance (stop loss) policy covers claims in excess of \$125,000 per employee and an aggregate of \$7,501,275 per year. The \$125,000 specific threshold was exceeded by \$74,637. The City received an invoice credit for the excess. The aggregate was not exceeded.

Vision benefits for its employees are fully insured by Vision Service Plan (VSP). In 2015, the City began providing dental coverage to all employees. Rates for family coverage are \$46.77 and \$16.69 for single coverage. Employees contribute \$8.25 for family coverage and \$2.94 for single coverage.

The claims liability of \$48,741 reported in the hospitalization fund at December 31, 2015 was estimated by the third party administrator and is based on the requirements of Governmental Accounting Standards Board Statement 30 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expense and does not include other allocated claim adjustment expenses. Changes in the fund's claims liability amount for 2014 and 2015 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2014	\$577,876	\$5,597,093	\$5,760,068	\$414,901
2015	414,901	5,914,073	6,280,233	48,741

Note 12 – Long-Term Obligations

The original issue date, interest rate, original issue amount and date of maturity of each of the City's bonds, notes and loans follows:

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
<i>General Obligation Bonds:</i>			
1998 Capital Purposes	3.80-5.00 %	\$3,680,000	December 1, 2018
2003 Riverfront Urban Renewal Phase II & III	2.40-4.75	4,470,000	December 1, 2032
2003 Park and Street Improvements (G.O. Portion)	2.00-5.00	1,200,500	December 1, 2023
2005 Energy Conservation	4.35	2,499,223	December 1, 2015
2006 Lighthouse Urban Renewal Phase I	4.10-5.00	1,510,000	December 1, 2026
2007 Riverfront Urban Renewal Refunding	4.00-4.30	4,970,000	December 1, 2028
2007A Colorado Avenue	4.00-4.125	505,000	December 1, 2027
2007A US Route 6	4.00-4.125	775,000	December 1, 2022
2007B Heritage Urban Renewal	4.00-4.20	1,315,000	December 1, 2028
2008 Pellet Terminal Improvement	6.00-6.75	5,440,000	December 1, 2028
2010 Health Claims	6.50-7.00	5,000,000	December 1, 2025
2011 Street Improvements (G.O. Portion)	2.00-5.45	455,920	December 1, 2031
2011 Various Purpose Refunding (G.O. Portion)	3.00-4.75	2,074,175	December 1, 2024
2012 Jaeger Road	2.00-4.00	5,535,000	December 1, 2032
2012 Various Purpose Refunding	2.00-3.30	5,815,000	December 1, 2026
2013 Property Acquisition Bond	2.00-4.10	6,885,000	December 1, 2038
2013 Street Improvements Bond	2.00-4.00	5,105,000	December 1, 2032
2014 Street Improvements Bond	2.00-3.875	5,790,000	December 1, 2034
2015 Riverfront Urban Renewal Phase II & III Refunding	3.00-3.625	3,845,000	December 1, 2032

City of Lorain, Ohio
Notes to The Basic Financial Statements
For The Year Ended December 31, 2015

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
<i>Special Assessment Bonds with</i>			
<i>Government Commitment:</i>			
2003 Park and Street Improvements (S.A. Portion)	2.00-5.00 %	\$574,500	December 1, 2023
2009 Street Improvements	5.00-7.25	390,000	December 1, 2029
2010 Street Improvements	4.00-5.875	245,000	December 1, 2030
2011 Street Improvements	2.00-5.45	554,080	December 1, 2031
<i>HUD Section 108 Loans:</i>			
Colorado Industrial Park - Series 2010-A (B-99-MC-0016)	4.40-6.00	2,000,000	August 1, 2019
Land Aquisition - Series 2004-A (B-03-MC-39-0016)	3.50-6.00	2,200,000	August 1, 2024
<i>Ohio Public Works Commission Loans:</i>			
Oak Point Road Improvements (#CI002)	0.00	405,776	January 1, 2021
Longbrook Bridge Replacement (#CI01D)	0.00	250,000	July 1, 2021
California Avenue (#CI31D)	0.00	483,645	January 1, 2022
Fulmer/Meister Road Improvements (#CI48G)	0.00	412,449	January 1, 2015
2003 Local Roadway Rehab (#CI22G)	0.00	102,000	January 1, 2015
2004 Local Roadway Rehab (#CI33H)	0.00	123,575	January 1, 2016
E. 36th Street Rehab Phase I (#CI29I)	0.00	463,749	January 1, 2017
2005 Local Roadway Rehab (#CI19I)	0.00	144,591	January 1, 2018
E. 36th Street Rehab Phase II (#CI44J)	0.00	242,147	July 1, 2018
2006 Local Roadway Rehab (#CI09J)	0.00	225,000	January 1, 2019
2007 Local Roadway Rehab (#CI13K)	0.00	133,224	January 1, 2019
2008 Local Roadway Rehab (#CI33L)	0.00	447,645	January 1, 2020
2009 Local Roadway Rehab (#CI48M)	0.00	70,314	January 1, 2020
2008 Local Roadway Rehab (#CI11L)	0.00	130,376	July 1, 2023
2010 Local Roadway Rehab (#CI32N)	0.00	577,480	January 1, 2026
2011 Local Roadway Rehab (#CI17N)	0.00	60,329	January 1, 2022
2012 Local Roadway Rehab (#CI12O)	0.00	200,848	January 1, 2027
Washington Avenue Bridge (#CI36O)	0.00	123,154	July 1, 2031
2013 Local Roadway Rehab (#CI24P)	0.00	186,004	January 1, 2028
2014 Local Roadway Rehab (#CI46R)	0.00	181,636	July 1, 2026
<i>Ohio Department of Transportation State Infrastructure Bank Loans:</i>			
2007 Local Roadway Rehab (#SB080001)	3.00	311,060	October 25, 2017
North Ridge Road Project (#SB090002)	3.00	74,815	January 30, 2019
Local Roadway Rehab and State Route 58 (#SB090007)	3.00	1,200,395	August 26, 2019
Oberlin Avenue Phase I (#SB110003)	3.00	308,998	January 12, 2021
2013 Issue 2 (LRR Rnd 25) (#SB130004)	3.00	425,341	February 8, 2023
2013 Washington & Reid Avenue Rehab (#SB130005)	3.00	1,330,825	February 8, 2023
2013 SR611 (#SB130006)	3.00	499,737	February 8, 2023
2013 Local Roadway (5) (#SB130009)	3.00	1,986,249	July 26, 2028
2015 Local Roadway (12) (#SB160006)	3.00	6,000	July 1, 2022

City of Lorain, Ohio
Notes to The Basic Financial Statements
For The Year Ended December 31, 2015

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
<i>Installment Loans:</i>			
Lorain County Engineer - Tower Boulevard	0.00 %	\$503,332	April 30, 2019
Lorain County Engineer - Cooper Foster Park Road	0.00	272,801	September 15, 2020
Lorain County Engineer - Oberlin Avenue Phase I	0.00	220,000	October 13, 2021
Lorain County Engineer - Oberlin Avenue Phase II	0.00	200,000	April 1, 2022
Court Case Management System	3.44	425,000	June 1, 2017
State of Ohio GRF Bond Loan	2.00-5.00	6,747,588	November 1, 2034
<i>Enterprise General Obligation Bonds:</i>			
Energy Conservation Bond-Water	4.35	73,816	December 1, 2015
Energy Conservation Bond-Sewer	4.35	226,961	December 1, 2015
2011 Various Purpose Refunding (Water Fund Portion)	3.00-4.75	3,140,825	December 1, 2016
<i>Ohio Water Development Authority Loans:</i>			
2000 East Erie Waterlines (#2037)	5.50	2,211,916	January 1, 2020
2000 E. 28th St./Pearl Ave. Relief Sewer, Pump Station (#2321)	2.91	1,137,701	July 1, 2020
2001 Colorado Ave./Root Rd. Waterline Replacement (#3188)	6.13	449,287	January 1, 2021
2001 Colorado/Root/E. Erie Waterline Replacement (#3253)	4.38	2,712,348	January 1, 2021
2001 Westside Waterline Replacement (#3284)	4.64	2,425,073	July 1, 2021
2001 Tacoma Avenue Relief Sewer (#2322)	2.81	4,860,364	January 1, 2021
2001 Idaho Avenue SSO Elimination (#3268)	3.66	9,744,494	July 1, 2021
2003 4W Waterline Replacement (Various locations) (#3814)	4.90	3,585,574	July 1, 2034
2004 Kay Drive Retention Basin (#4150)	3.81	2,295,633	July 1, 2024
2004 Amherst Township Relief Sewer (#4151)	3.81	898,208	July 1, 2024
2004 Pearl Road & Tacoma Pump Station (#4156)	3.81	1,282,116	January 1, 2025
2006 East Central Relief Sewer (#4548)	4.59	3,400,652	July 1, 2027
2006 Westside Relief Sewer (#4586)	3.24	22,145,154	July 1, 2028
2007 Brownell Avenue Waterline (#4775)	4.47	770,575	January 1, 2028
2010 Pearl Avenue Water Mains (#5628)	3.84	1,700,936	January 1, 2031
2011 28th Street Waterline (#5863)	4.45	1,749,427	January 1, 2032
2012 Black River Tunnel Phase I (#6166)	2.48	53,995,530	January 1, 2036
2013 Oberlin Avenue Waterline Replacement (#6394)	3.09	3,918,464	January 1, 2034
2013 SR611 Waterline Replacement (#6416)	3.15	3,598,675	January 1, 2034
2013 Washington & Reid Ave. Waterline Replacement (#6461)	3.44	7,268,947	July 1, 2034
2013 Westside Elevated Tank (#6466)	3.29	3,716,163	January 1, 2035
2013 South Lorain Waterline Replacement Phase I (#6542)	4.24	4,581,899	July 1, 2034
2013 Euclid Avenue Waterline Replacement (#6614)	4.12	1,719,793	July 1, 2034
2014 2nd, 4th, 5th, 6th, Hamilton & Reid Waterline Repl (#6716)	3.95	4,016,784	January 1, 2036
2014 E. 31st St. Bridge Waterline Replacement (#6789)	3.31	440,249	January 1, 2035
2015 Elyria Avenue Waterline Replacement (#6917)	2.56	1,011,117	January 1, 2035
2015 South Lorain Waterline Replacement Phase II (#7038)	2.91	1,377,975	July 1, 2036
2015 East Lorain Waterline Replacement Design (#7067)	3.57	18,941	July 1, 2021
2015 South Lorain Waterline Replacement Design Phase III (#7068)	3.57	92,800	July 1, 2021
2015 Broadway, Skyline, Jaeger Waterline Replacement (#7086)	3.04	169,231	January 1, 2037

City of Lorain, Ohio
Notes to The Basic Financial Statements
For The Year Ended December 31, 2015

Changes in bonds and other long-term obligations of the City during 2015 were as follows:

	Restated Principal Outstanding 12/31/14	Additions	Deletions	Principal Outstanding 12/31/15	Due Within One Year
Governmental Activities					
<i>General Obligation Bonds:</i>					
Capital Purposes	\$40,000	\$0	\$10,000	\$30,000	\$10,000
Riverfront Urban Renewal Phase II & III	3,705,000	0	3,705,000	0	0
Unamortized Premium	11,859	0	11,859	0	0
Park and Street Improvements	662,811	0	60,870	601,941	64,252
Energy Conservation	303,478	0	303,478	0	0
Lighthouse Urban Renewal Phase I	1,280,000	0	85,000	1,195,000	85,000
2007 Riverfront Urban Renewal Refunding	3,965,000	0	215,000	3,750,000	225,000
Unamortized Discount	(29,885)	0	(2,230)	(27,655)	0
2007A Colorado Avenue	370,000	0	20,000	350,000	25,000
2007A US Route 6	475,000	0	50,000	425,000	55,000
2007B Heritage Urban Renewal	1,055,000	0	60,000	995,000	60,000
Unamortized Discount	(3,682)	0	(267)	(3,415)	0
2008 Pellet Terminal Improvement	4,475,000	0	205,000	4,270,000	220,000
Unamortized Discount	(50,428)	0	(3,664)	(46,764)	0
2010 Health Claims	4,090,000	0	265,000	3,825,000	280,000
2011 Street Improvements	415,294	0	18,056	397,238	18,056
Unamortized Discount	(4,092)	0	(247)	(3,845)	0
2011 Various Purpose Refunding	1,330,000	0	270,000	1,060,000	100,000
Unamortized Discount	(2,172)	0	(225)	(1,947)	0
2012 Jaeger Road	5,100,000	0	225,000	4,875,000	230,000
Unamortized Discount	(17,701)	0	(1,001)	(16,700)	0
2012 Various Purpose Refunding	4,815,000	0	505,000	4,310,000	520,000
Unamortized Discount	(1,481)	0	(127)	(1,354)	0
2013 Property Acquisition	6,695,000	0	190,000	6,505,000	195,000
Unamortized Discount	(50,268)	0	(2,070)	(48,198)	0
2013 Street Improvements	4,660,000	0	200,000	4,460,000	205,000
Unamortized Discount	(577)	0	(31)	(546)	0
2014 Street Improvements	5,790,000	0	260,000	5,530,000	260,000
Unamortized Discount	(26,045)	0	(1,340)	(24,705)	0
2015 Riverfront Urban Renewal Refunding	0	3,845,000	0	3,845,000	165,000
Unamortized Premium	0	21,148	8,675	12,473	0
Total General Obligation Bonds	49,052,111	3,866,148	6,656,736	46,261,523	2,717,308
<i>Special Assessment Bonds with Government Commitment:</i>					
Park and Street Improvements	317,189	0	29,130	288,059	30,748
Street Improvements	335,000	0	15,000	320,000	15,000
Unamortized Premium	9,191	0	622	8,569	0
Street Improvements	210,000	0	10,000	200,000	10,000
Unamortized Discount	(3,370)	0	(210)	(3,160)	0
Street Improvements	504,706	0	21,944	482,762	21,944
Unamortized Discount	(4,973)	0	(300)	(4,673)	0
Total Special Assessment Bonds	1,367,743	0	76,186	1,291,557	77,692
<i>HUD Section 108 Loans:</i>					
Colorado Industrial Park	625,000	0	125,000	500,000	125,000
Land Acquisition	1,350,000	0	105,000	1,245,000	110,000
Total HUD Section 108 Loans	\$1,975,000	\$0	\$230,000	\$1,745,000	\$235,000

City of Lorain, Ohio
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For The Year Ended December 31, 2015

	Restated Principal Outstanding 12/31/14	Additions	Deletions	Principal Outstanding 12/31/15	Due Within One Year
Governmental Activities (Continued)					
<i>Other Long Term Obligations:</i>					
Net Pension Liability					
OPERS	\$8,080,252	\$186,720	\$0	\$8,266,972	\$0
OP&F	28,145,699	1,792,097	0	29,937,796	0
<i>Total Net Pension Liability</i>	<u>36,225,951</u>	<u>1,978,817</u>	<u>0</u>	<u>38,204,768</u>	<u>0</u>
ODOD Urban Redevelopment Loans	1,623,099	0	220,854	1,402,245	227,554
OPWC Loans	2,330,197	181,636	353,814	2,158,019	329,066
ODOT State Infrastructure Bank Loans	5,046,775	416,835	360,322	5,103,288	625,900
Installment Loans	4,351,553	3,337,881	604,613	7,084,821	469,613
Capital Leases	3,216,717	103,546	1,095,533	2,224,730	944,485
Pollution Remediation	863,440	0	0	863,440	0
Claims and Judgments	58,885	0	58,885	0	0
Compensated Absences	7,533,581	519,085	1,150,673	6,901,993	1,514,537
<i>Total Other Long Term Obligations</i>	<u>61,250,198</u>	<u>6,537,800</u>	<u>3,844,694</u>	<u>63,943,304</u>	<u>4,111,155</u>
<i>Total Governmental Activities</i>	<u>\$113,645,052</u>	<u>\$10,403,948</u>	<u>\$10,807,616</u>	<u>\$113,241,384</u>	<u>\$7,141,155</u>

	Restated Principal Outstanding 12/31/14	Additions	Deletions	Principal Outstanding 12/31/15	Due Within One Year
Business-Type Activities					
<i>General Obligation Bonds:</i>					
Energy Conservation - Water	\$8,963	\$0	\$8,963	\$0	\$0
Energy Conservation - Sewer	27,559	0	27,559	0	0
Various Purpose Refunding - Water	1,165,000	0	575,000	590,000	590,000
Unamortized Premium	6,429	0	3,930	2,499	2,499
<i>Total General Obligation Bonds</i>	<u>1,207,951</u>	<u>0</u>	<u>615,452</u>	<u>592,499</u>	<u>592,499</u>

<i>Ohio Water Development</i>					
<i>Authority Loans:</i>					
East Erie Waterlines	790,394	0	141,620	648,774	149,409
E. 28th St./Pearl Ave. Relief Sewer	380,853	0	64,822	316,031	66,722
Colorado Ave./Root Rd. Waterline	194,760	0	27,764	166,996	29,492
Colorado/Root/E. Erie Waterline	1,071,279	0	159,780	911,499	166,854
Westside Waterline Replacement	1,041,259	0	140,700	900,559	147,304
Tacoma Avenue Relief Sewer	1,751,890	0	271,998	1,479,892	279,695
Idaho Avenue SSO Elimination	3,967,258	0	551,163	3,416,095	571,519
4W Waterline Replacement	2,859,815	0	90,337	2,769,478	94,818
Kay Drive Retention Basin	1,108,539	50,810	0	1,159,349	120,898
Amherst Township Relief Sewer	397,475	19,881	0	417,356	47,303
Pearl Road & Tacoma Pump Station	760,615	0	63,805	696,810	66,259
East Central Relief Sewer	2,468,038	0	150,088	2,317,950	157,056
Westside Relief Sewer	16,185,767	0	988,418	15,197,349	1,020,702
Brownell Avenue Waterline	573,893	0	33,402	540,491	34,911
Pearl Avenue Water Main	1,455,711	0	67,361	1,388,350	69,973
28th Street Waterline	1,574,482	0	63,639	1,510,843	66,503

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	Restated Principal Outstanding 12/31/14	Additions	Deletions	Principal Outstanding 12/31/15	Due Within One Year
Business-Type Activities (Continued)					
<i>Ohio Water Development</i>					
<i>Authority Loans (continued):</i>					
Black River Tunnel Phase I	\$40,540,909	\$13,454,621	\$0	\$53,995,530	\$2,669,852
Oberlin Ave. Waterline Replacement	3,714,928	29,675	179,275	3,565,328	184,858
SR 611 Waterline Replacement	3,265,765	160,181	178,213	3,247,733	183,871
Washington & Reid Waterline Repl	6,578,628	545,857	296,418	6,828,067	306,703
Westside Elevated Tank	2,712,117	1,004,046	156,790	3,559,373	161,990
S. Lorain Waterline Repl. Phase I	4,286,204	211,630	173,515	4,324,319	180,950
Euclid Ave. Waterline Replacement 2nd, 4th, 5th, 6th, Hamilton & Reid Ave.	1,584,580	104,272	63,809	1,625,043	66,465
Waterline Replacement	1,865,658	2,151,126	0	4,016,784	161,597
E. 31st St. Bridge Waterline Repl	57,653	382,596	22,603	417,646	23,325
Elyria Avenue Waterline Repl	0	1,011,117	28,960	982,157	59,038
S. Lorain Waterline Repl Phase II	249,712	1,128,263	0	1,377,975	115,780
East Lorain Waterline Repl Design	0	18,941	0	18,941	17,646
South Lorain Waterline Repl Design Broadway, Skyline, Jaeger	0	92,800	0	92,800	19,351
Waterline Replacement	0	169,231	0	169,231	169,231
<i>Total Ohio Water Development</i>	<u>101,438,182</u>	<u>20,535,047</u>	<u>3,914,480</u>	<u>118,058,749</u>	<u>7,410,075</u>
<i>Authority Loans</i>					
<i>Other Long Term Obligations:</i>					
<i>Net Pension Liability</i>					
Water - OPERS	2,602,115	60,131	0	2,662,246	0
Sewer - OPERS	3,012,975	69,625	0	3,082,600	0
<i>Total Net Pension Liability</i>	<u>5,615,090</u>	<u>129,756</u>	<u>0</u>	<u>5,744,846</u>	<u>0</u>
Capital Leases	2,459,013	20,991	714,561	1,765,443	726,995
Pollution Remediation	220,410	45,907	60,298	206,019	45,049
Compensated Absences	1,233,861	411,139	373,483	1,271,517	350,494
<i>Total Other Long Term Obligations</i>	<u>9,528,374</u>	<u>607,793</u>	<u>1,148,342</u>	<u>8,987,825</u>	<u>1,122,538</u>
<i>Total Business-Type Activities</i>	<u>\$112,174,507</u>	<u>\$21,142,840</u>	<u>\$5,678,274</u>	<u>\$127,639,073</u>	<u>\$9,125,112</u>

General obligation bonds will be paid from the general obligation bond retirement debt service fund and the hospitalization internal service fund. Special assessment bonds will be paid from the proceeds of special assessments levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. The HUD Section 108 and Ohio Department of Development loans for economic development projects are paid from the community development special revenue fund from loan repayment revenues.

In 2007, the City defeased a 2000 riverfront urban renewal general obligation bond in order to take advantage of lower interest rates. The proceeds of the new bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. On December 31, 2015, \$3,210,000 of the defeased bonds is still outstanding.

In 2015, the City issued general obligation bonds, in the amount of \$3,845,000, to currently refund bonds previously issued in fiscal year 2003 for the riverfront urban renewal phase II and III. The current refunding was undertaken to take advantage of lower interest rates. The bonds were issued with interest rates varying from 3 percent to 3.625 percent and were issued for a seventeen year period with final

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maturity on December 1, 2032. The bonds will be retired through the general obligation bond retirement debt service fund.

The bonds were sold at a premium of \$9,289. The proceeds of the refunding bond were deposited in an irrevocable trust with an escrow agent to provide for the optional redemption on December 1, 2015 of \$3,705,000 of the outstanding 2003 riverfront urban renewal phase II and III bonds so as to discharge and satisfy the obligations of the City.

The City decreased its aggregated debt service payments by \$241,536 over the next seventeen years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$228,440.

In 2015 the City refinanced the \$1,350,000 balance of the 2004-A series HUD Section 108 loan to take advantage of lower interest rates. The refinance will save the City \$235,987 over the next nine years, the remaining life of the loan.

The City has pledged a portion of municipal income tax revenues to repay \$8,825,000 in general obligation bonds issued in 2013 and 2014 to finance the reconstruction and repair of local roadways. These bonds are payable solely from the one-quarter percent municipal income tax revenue in the streets fund and is projected to use approximately 26 percent of the available municipal income tax over the life of the bonds. Total principal and interest remaining on the bonds is \$10,728,007, payable through 2034. Principal and interest payments for the current year were \$645,300 and total income tax revenues were \$2,476,714.

OPWC and ODOT State Infrastructure Bank loans will be paid from the general obligation bond retirement debt service fund.

The City has pledged a portion of future motor vehicle gas tax revenues to repay \$311,060 in ODOT State infrastructure bank loans issued in 2008, to finance the reconstruction and repair of local roadways. These loans are payable solely from the motor vehicle gas tax revenue in the streets fund and were projected to use approximately 4 percent of the available gas tax revenue over the life of the loans. Total principal and interest remaining on the loans is \$88,049, payable through 2017. Principal and interest payments for the current year were \$44,024 and total gas tax revenues were \$1,193,496.

Installment loans will be paid from the general obligation bond retirement debt service fund.

The City has pledged a portion of municipal income tax revenues to repay a \$6,747,588 installment loan received in 2014 to finance the reconstruction and repair of local roadways. This loan is payable solely from the one-quarter percent municipal income tax revenue in the streets fund and is projected to use approximately 27 percent of the available municipal income tax over the life of the loan. Total principal and interest remaining on the loan is \$8,958,329, payable through 2034. Principal and interest payments for the current year were \$659,466 and total income tax revenues were \$2,476,714.

Capital leases will be paid from the general fund, the street construction, police levy, and parkland special revenue funds, and the general sewer capital improvements fund.

In an effort to revitalize its downtown area, in 2002 the City purchased the old pellet terminal site, a total of 19 acres, on the Black River for future development. This site was previously used for storing, loading and unloading iron ore pellets onto ships and by rail for use in northeast Ohio steel production since the 1890's and was also the location of the former Brush Beryllium Plant until 1948. The City voluntarily

City of Lorain, Ohio
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For The Year Ended December 31, 2015

determined that due to the nature of the previous land use an environmental assessment on the property was warranted before any development could commence. The City contracted with a certified consultant in 2006 to assess the property. It was determined by the consultant that environmental remediation was necessary due to unacceptable concentrations of beryllium, lead, and other miscellaneous chemicals and to comply with the Ohio Environmental Protection Agency's voluntary action plan standards for environmental contamination cleanup.

The cost of the remediation estimated by the consultants is \$863,440 as of 2015 with the potential for additional costs in the future due to price increases. The City expects no recoveries to reduce the liability for the remediation.

In May 2012 a small amount of steel processing byproduct leachate was found to be flowing into the Black River from an abandoned containment tank and collection system on property owned and controlled by the City. City officials and consultants examined the flow, in cooperation with US Environmental Protection Agency and United States Coast Guard (USCG) personnel. The USCG mandated that actions be taken to abate any flows into the river and demanded the establishment of an ongoing containment plan. In response the City hired an environmental remediation firm to assess and abate the flow of leachate.

The cost of the remediation estimated by the firm is \$206,019 as of 2015 with the potential for additional costs in the future due to price increases. The City expects no recoveries to reduce the liability for the remediation.

In 2012 the US Department of Justice (DOJ) on behalf of the US Housing and Urban Development Agency (HUD) determined the City to be in violation of certain regulations regarding competitive bidding for procurement of goods and services purchased with HUD funds, specifically, to obtain price or rate quotations from an adequate number of sources for eleven demolition contracts from April 2005 to March 2008. As a result of this determination the City agreed to a settlement agreement with the DOJ for a judgment in the amount of \$235,085 payable in installments over a period of three years.

Compensated absences have historically been, and will be, paid from the general fund, the community development, streets, health services, police levy, and municipal court special revenue funds, the general sewer and municipal court improvements capital projects funds, the water works and water pollution control enterprise funds, and the garage and hospitalization internal service funds, the fund from which the employees' salaries are paid. The City pays obligations related to employee compensation from the fund benefitting from their service. See Note 15 for additional information related to the net pension liability.

The general obligation bonds for water improvements, OWDA water facility loans, and the capital leases for copiers/scanners and equipment will be paid from water user charges. The OWDA sewer facility loans, the capital leases for copiers/scanners and equipment, and the Black River pollution remediation will be paid from sewer user charges.

The City has pledged future revenues to repay OWDA loans in the Water Works fund. The debt is payable solely from net revenues and is payable through 2037. Net revenues include all revenues received by the water utility less all operating expenses other than depreciation expense. Annual principal and interest payments on the loans are expected to require less than 55 percent of net revenues and less than 25 percent of total revenues. The total principal and interest remaining to be paid on the loans is \$55,205,666. Principal and interest payments for the current year were \$3,288,366, net revenues were \$6,057,421, and total revenues were \$13,577,471.

City of Lorain, Ohio
Notes to The Basic Financial Statements
For The Year Ended December 31, 2015

The City has pledged future revenues to repay OWDA loans in the Water Pollution Control fund. The debt is payable solely from net revenues and is payable through 2036. Net revenues include all revenues received by the sewer utility less all operating expenses other than depreciation expense. Annual principal and interest payments on the loans are expected to require less than 30 percent of net revenues and less than 17 percent of total revenues. The total principal and interest remaining to be paid on the loans is \$101,745,555. Principal and interest payments for the current year were \$2,953,109, net revenues were \$9,890,618, and total revenues were \$18,246,244.

The City's overall legal debt margin was \$52,241,890 at December 31, 2015. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2015 are as follows:

Governmental Activities:

Years	General Obligation Bonds		Special Assessment Bonds		HUD Section 108 Loans		ODOD Urban Redevelopment Loan	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$2,717,308	\$1,876,204	\$77,692	\$71,326	\$235,000	\$40,353	\$227,554	\$42,817
2017	2,820,690	1,786,146	79,310	67,912	240,000	36,115	234,458	35,338
2018	2,725,690	1,690,487	79,310	64,146	245,000	31,408	241,571	27,632
2019	2,806,329	1,593,578	88,671	60,380	255,000	25,912	248,900	19,692
2020	2,933,092	1,486,844	91,908	56,095	135,000	19,343	256,452	11,511
2021-2025	15,738,735	5,510,469	436,264	203,348	635,000	63,585	193,310	3,116
2026-2030	10,766,221	2,354,959	393,779	82,001	0	0	0	0
2031-2035	4,716,114	672,849	43,887	2,391	0	0	0	0
2036-2040	1,200,000	99,630	0	0	0	0	0	0
Total	<u>\$46,424,179</u>	<u>\$17,071,166</u>	<u>\$1,290,821</u>	<u>\$607,599</u>	<u>\$1,745,000</u>	<u>\$216,716</u>	<u>\$1,402,245</u>	<u>\$140,106</u>

Years	OPWC	ODOT		Total	
	Loans	State Infrastructure Bank Loans	Installment Loans	Governmental Activities	
	Principal	Principal	Interest	Principal	Interest
2016	\$329,066	\$625,900	\$148,259	\$469,613	\$239,270
2017	326,074	644,819	129,342	437,113	222,537
2018	295,658	621,083	110,354	409,613	209,574
2019	246,302	634,561	91,581	414,614	203,360
2020	202,493	477,201	73,755	369,280	196,799
2021-2025	609,846	1,570,904	180,475	1,687,000	851,995
2026-2030	132,160	528,820	28,107	1,915,000	545,015
2031-2035	16,420	0	0	1,382,588	146,647
2036-2040	0	0	0	0	0
Total	<u>\$2,158,019</u>	<u>\$5,103,288</u>	<u>\$761,873</u>	<u>\$7,084,821</u>	<u>\$2,615,197</u>

City of Lorain, Ohio
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Business-Type Activities:

Years	GO Bonds		OWDA Loans		Total Business-Type Activities	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$590,000	\$18,438	\$7,088,067	\$3,852,458	\$7,678,067	\$3,870,896
2017	0	0	7,318,500	3,736,302	7,318,500	3,736,302
2018	0	0	7,556,873	3,517,368	7,556,873	3,517,368
2019	0	0	7,803,476	3,291,045	7,803,476	3,291,045
2020	0	0	7,835,801	3,057,067	7,835,801	3,057,067
2021-2025	0	0	35,087,266	12,120,033	35,087,266	12,120,033
2026-2030	0	0	33,530,359	6,823,455	33,530,359	6,823,455
2031-2035	0	0	10,179,460	1,363,122	10,179,460	1,363,122
Total	<u>\$590,000</u>	<u>\$18,438</u>	<u>\$116,399,802</u>	<u>\$37,760,850</u>	<u>\$116,989,802</u>	<u>\$37,779,288</u>

The City has entered into contractual agreements for construction loans from the Ohio Water Development Authority (OWDA). Under the terms of these agreements, the OWDA will reimburse, advance or directly pay the construction costs of approved projects. The OWDA will capitalize administrative costs and construction interest and then add them to the total amount of the final loan. These loans will not have an accurate repayment schedule until the loans are finalized and, therefore, are not included in the schedule of future annual debt service requirements. Until a final repayment schedule is available, the City is paying based on estimates. The balances of these loans are as follows:

<u>Enterprise Funds</u>	December 31, 2015	
	<u>Principal Outstanding</u>	<u>Amount Financed</u>
<i>Water Works:</i>		
South Lorain Waterline Replacement Phase II	\$1,377,975	\$6,194,261
East Lorain Waterline Replacement Design	18,941	191,041
South Lorain Waterline Replacement Phase III Design	92,800	207,900
Broadway, Skyline, Jaeger Waterline Replacement	169,231	4,634,281
Total Loans not Finalized	<u>\$1,658,947</u>	<u>\$11,227,483</u>

Note 13 - Capital Leases

During 2015, the City entered into a lease for copiers/scanners for various departments. In prior years the City entered into leases for the acquisition of computer hardware and software to upgrade the City's existing general accounting, utilities, and income tax systems, police cruisers, street, electrical, parks, cemetery, general sewer and fire equipment, fleet vehicles, an IP phone system and software, copier/scanner equipment, and equipment and fleet vehicles for the water and water pollution control departments. The City's lease obligations meet the criteria of a capital lease. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis.

As part of the agreement for the 2013 lease for the computer hardware/software upgrade, and the parks, cemetery, streets, general sewer, water and water pollution control equipment, Fifth Third Bank, the lessor, deposited \$3,986,963 in an escrow account in 2013 so that the City could obtain the equipment from various vendors. \$3,965,003 was paid to the vendors in 2013 through 2015 and the balance of \$21,960 will be paid to the vendors in 2016 at the direction of the City upon receipt of the equipment.

City of Lorain, Ohio
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As part of the agreement for the 2012 lease of the parks, streets, fire, electrical, police, general sewer, water and water pollution control equipment, Huntington National Bank, the lessor, deposited \$4,171,460 in an escrow account in 2012 so that the City could obtain the equipment from various vendors. \$4,137,139 was paid to the vendors in 2012 through 2015 and the balance of \$34,321 will be paid to the vendors in 2016 at the direction of the City upon receipt of the equipment.

At year-end, capital assets that have been received have been recorded for these capital leases.

Capital assets acquired by leases have been capitalized and depreciated as follows:

	Governmental Activities	Business-Type Activities
<i>Capital Assets, Being Depreciated:</i>		
Machinery and Equipment	\$8,728,734	\$3,889,048
Less Accumulated Depreciation:		
Machinery and Equipment	(2,627,810)	(564,285)
<i>Capital Assets, Net</i>	<u>\$6,100,924</u>	<u>\$3,324,763</u>

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of minimum lease payments as of December 31, 2015:

Year Ending December 31,	Governmental Activities	Business-type Activities
2016	\$976,338	\$751,660
2017	978,244	752,048
2018	288,459	294,410
2019	22,900	4,642
2020	11,450	2,321
Total Minimum Lease Payments	2,277,391	1,805,081
Less: Amount Representing Interest	(52,661)	(39,638)
Present Value of Minimum Lease Payments	<u>\$2,224,730</u>	<u>\$1,765,443</u>

Note 14 - Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Employees earn ten to twenty-five days of vacation per year, depending upon length of service. The maximum amount of banked vacation time that can be accrued is the total that can be earned in three years. Earned banked vacation time is paid upon termination of employment. Employees earn sick leave at different rates depending upon length of service and type of employment. Sick leave accrual is continuous, without limit. Upon retirement or death, an employee can be paid a maximum of 960 hours of accumulated, unused sick leave.

Note 15 - Defined Benefit Pension Plans

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the City's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the City's obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions are financed; however, the City does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - City employees, other than full-time police and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the

City of Lorain, Ohio
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Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

Group A	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

City of Lorain, Ohio
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	State and Local
2015 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
2015 Actual Contribution Rates	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	2.0
Total Employer	14.0 %
Employee	10.0 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City’s contractually required contribution was \$1,803,286 for 2015. Of this amount, \$189,701 is reported as an intergovernmental payable.

Plan Description – Ohio Police & Fire Pension Fund (OPF)

Plan Description - City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OPF), a cost-sharing, multiple-employer defined benefit pension plan administered by OPF. OPF provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OPF issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OPF fiduciary net position. The report that may be obtained by visiting the OPF website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, a member of OPF may retire and receive a lifetime monthly pension. OPF offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member’s average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before after July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit.

Under normal service retirement, retired members who are at least 55 years old and have been receiving OPF benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

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Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to three percent of their base pension or disability benefit.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	<u>Police</u>	<u>Firefighters</u>
2015 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee:		
January 1, 2015 through July 1, 2015	11.50 %	11.50 %
July 2, 2015 through December 31, 2015	12.25 %	12.25 %
2015 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	<u>0.50</u>	<u>0.50</u>
Total Employer	<u>19.50 %</u>	<u>24.00 %</u>
Employee:		
January 1, 2015 through July 1, 2015	11.50 %	11.50 %
July 2, 2015 through December 31, 2015	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OPF was \$2,471,719 for 2015. Of this amount \$378,756 is reported as an intergovernmental payable.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability for OPERS was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OPF's total pension liability was measured as of December 31, 2014, and was determined by rolling forward the total pension liability as of January 1, 2014, to December 31, 2014. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$14,011,822	\$29,937,792	\$43,949,614
Proportion of the Net Pension Liability	0.116174%	0.5779032%	
Pension Expense	\$1,524,786	\$2,920,293	\$4,445,079

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At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS	OP&F	Total
Deferred Outflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$747,628	\$1,290,291	\$2,037,919
City contributions subsequent to the measurement date	1,803,286	2,471,719	4,275,005
Total Deferred Outflows of Resources	\$2,550,914	\$3,762,010	\$6,312,924
Deferred Inflows of Resources			
Differences between expected and actual experience	\$246,160	\$0	\$246,160

\$4,275,005 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS	OP&F	Total
Year Ending December 31:			
2016	\$73,328	\$322,573	\$395,901
2017	73,328	322,573	395,901
2018	167,905	322,573	490,478
2019	186,907	322,572	509,479
Total	\$501,468	\$1,290,291	\$1,791,759

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.75 percent
Future Salary Increases, including inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA	3 percent, simple
Investment Rate of Return	8 percent
Actuarial Cost Method	Individual Entry Age

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating

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disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 6.95 percent for 2014.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2014 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.31 %
Domestic Equities	19.90	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	19.10	7.40
Other investments	18.00	4.59
Total	<u>100.00 %</u>	<u>5.28 %</u>

Discount Rate The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the City's proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-

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percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	\$35,887,379	\$14,011,822	\$5,710,862

Actuarial Assumptions – OPF

OPF's total pension liability as of December 31, 2014 is based on the results of an actuarial valuation date of January 1, 2014, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OPF's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2014, are presented below:

Valuation Date	January 1, 2014
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
Cost of Living Adjustments	2.60 percent and 3.00 percent

Rates of death are based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study was completed January 1, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OPF's target asset allocation as of December 31, 2014 are summarized below:

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Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash and Cash Equivalents	- %	(0.25) %
Domestic Equity	16.00	4.47
Non-US Equity	16.00	4.47
Core Fixed Income *	20.00	1.62
Global Inflation Protected *	20.00	1.33
High Yield	15.00	3.39
Real Estate	12.00	3.93
Private Markets	8.00	6.98
Timber	5.00	4.92
Master Limited Partnerships	8.00	7.03
Total	<u>120.00 %</u>	

* levered 2x

OPF's Board of Trustees has incorporated the "risk parity" concept into OPF's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

Discount Rate The total pension liability was calculated using the discount rate of 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.25 percent. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25 percent), or one percentage point higher (9.25 percent) than the current rate.

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$41,489,382	\$29,937,792	\$20,225,596

Note 16 – Postemployment Benefits

Ohio Public Employees Retirement System

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains two cost-sharing, multiple-employer defined benefit postemployment health care trusts, which fund multiple health care plans including medical coverage, prescription drug coverage, deposits to a health reimbursement arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the traditional pension and combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. See OPERS' CAFR referenced below for additional information.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml> by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of postemployment health care.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2015, state and local employers contributed at a rate of 14.0 percent of earnable salary. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

OPERS maintains three health care trusts. The two cost-sharing, multiple employer trusts, the 401(h) Health Care Trust and the 115 Health Care Trust, work together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) that provides funding for a Retiree Medical Account for Member-Directed Plan members. Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0 percent during calendar year 2015. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2.0 percent for both plans. The Board is

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also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the VEBA for participants in the Member-Directed Plan for 2015 was 4.5 percent.

Substantially all of the City's contribution allocated to fund postemployment health care benefits relates to the cost-sharing, multiple employer trusts. The corresponding contribution for the years ended December 31, 2015, 2014 and 2013 was \$323,033, \$299,354 and \$146,455, respectively. For 2015, 85.71 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2014 and 2013.

Police and Fire Pension Fund

Plan Description - The City contributes to the Ohio Police and Fire Pension Fund (OPF) sponsored healthcare program, a cost-sharing, multiple-employer defined postemployment healthcare plan administered by OPF. OPF provides health care benefits including coverage for medical, prescription drug, dental, vision, Medicare Part B Premium, and long-term care to retirees, qualifying benefit recipients, and their eligible dependents.

OPF provides access to postretirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check, or is a spouse or eligible dependent child of such person. The health care coverage provided by OPF meets the definition of an Other Postemployment Benefit (OPEB) as described in Government Accounting Standards Board (GASB) Statement No. 45.

The Ohio Revised Code allows, but does not mandate, OPF to provide OPEB benefits. Authority for the OPF Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OPF issues a publicly available financial report that includes financial information and required supplementary information for the plan. The report may be obtained by visiting the OPF website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OPF defined benefit pension plan. Participating employers are required by the Ohio Revised Code to contribute to the pension plan at rates expressed as a percentage of payroll of active pension plan members, currently 19.5 percent and 24 percent of covered payroll for police and firefighters, respectively. Active members do not make contributions to the OPEB Plan.

OPF maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B premium reimbursements administered as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan under the authority granted by the Ohio Revised Code to the OPF Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The portion of employer contributions allocated to health care was 0.5 percent of covered payroll from January 1, 2015 through December 31, 2015. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility

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to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OPF Board of Trustees is also authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OPF which were allocated to fund postemployment health care benefits for police and firefighters were \$33,673 and \$24,961 for the year ended December 31, 2015, \$34,872 and \$27,631 for the year ended December 31, 2014, and \$172,173 and \$144,851 for the year ended December 31, 2013. For 2015, 97.44 percent has been contributed for police and 97.92 percent has been contributed for firefighters with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2014 and 2013.

Note 17 – Significant Commitments

Contractual Commitments

As of December 31, 2015, the open construction contracts for the parks, street and general sewer, water, and water pollution control departments were \$7,667,215, \$10,268,754 and \$11,530,038 respectively.

The City has numerous open construction contracts for various local roadway repair and replacement projects throughout the City. These open contracts include \$3,708,536 with Smith Paving Inc., \$1,352,583 with Karvo Paving Company, \$618,108 with Terminal Ready Mix, \$557,826 with Underground Utilities, Inc., and \$500,488 with Kokosing Construction Co. In addition the City had an open construction contracts of \$276,647 with Mark Haynes Construction for construction on the Martins Run storm sewer project and \$108,020 with S.M. Fox Construction for upgrades to the restrooms at Century Park.

The water department open construction contracts, in association with the Ohio Water Development Authority, includes \$7,996,469 with Fabrizi Trucking and Paving Co., Inc. for the construction of the South Lorain waterline replacement phase II and the Broadway, Skyline, Jaeger waterline replacement projects and \$553,610 with Underground Utilities Inc. for the construction of the Oberlin Avenue water main and Elyria Avenue waterline replacement projects. Open construction contracts for engineering services, construction oversight, and design services include \$464,827 with Engineering Associates for the South Lorain waterline replacement phase I, II, and phase III design, and the design of the East Lorain waterline replacement projects, \$450,760 with CT Consultants for the Oberlin Avenue water main and the State Route 611 waterline projects, and \$360,514 with Jones and Henry for the Washington and Reid Avenues waterline and the Broadway, Skyline, Jaeger waterline replacement projects.

In conjunction with the Ohio Water Development Authority, the water pollution control department has open construction contracts with Walsh/Super Excavator, JV and Electrical Corporation of America for construction, and Malcolm-Pirnie for engineering and construction oversight of the Black River storage and conveyance tunnel project in the amount of \$11,000,432, \$2,093,000 and \$253,000 respectively. The water pollution control department also has open construction contracts with North Bay Construction for upgrades to the odor control system and primary clarifiers at the Philip Q. Maiorana wastewater treatment plant in the amount of \$276,606.

Remaining commitment amounts were encumbered at year end.

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Encumbrances

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year end the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

<i>Governmental Funds:</i>		<i>Business-Type Funds:</i>	
General Fund	\$316,516	Water	\$1,008,741
Community Development	1,556,049	Water Pollution Control	901,893
Capital Improvements	1,384,364	Total Business-Type	<u>\$1,910,634</u>
Nonmajor Funds	<u>2,054,876</u>		
Total Governmental	<u>\$5,311,805</u>		

Note 18 – Jointly Governed Organizations

Northeast Ohio Areawide Coordinating Agency

The Northeast Ohio Areawide Coordinating Agency (NOACA) was created by the County Commissioners of Cuyahoga, Geauga, Lake, Lorain and Medina Counties and is responsible for transportation and environmental planning in the five county region. NOACA is controlled by a 38 member board that includes the Mayor of the City of Lorain. The board exercises total control over the operation of the corporation including budgeting, appropriating, contracting and designing management. Each participant’s degree of control is limited to its representation on the board. During 2015, the City contributed \$9,867 to the agency.

Northeast Ohio Public Energy Council

The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of over 126 communities who have been authorized by ballot to purchase electricity on behalf of their citizens.

The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. Financial information can be obtained by contacting Joseph Migliorini, Board Chairman, 31320 Solon Road Suite 20, Solon, Ohio 44139 or at the website www.nopecinfo.org.

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Note 19 – Related Organizations

The Lorain Port Authority was formed to promote waterborne commerce, provide economic opportunities and to enhance public access to waterways within the City of Lorain. The Mayor of the City appoints the nine Port Authority Board Members. The Port Authority hires and fires its own staff and does not rely on the City to finance deficits. The City is not financially accountable for the Port Authority nor is the Port Authority financially dependent on the City. The Port Authority serves as its own budgeting, taxing, and debt issuance authority.

Note 20 – Shared Risk Pool

Public Entity Risk Consortium (PERC)

The City participates in PERC, a shared risk joint self-insurance pool restricted to mid-size public entities including pools. PERC was formed as an Ohio not-for-profit corporation as authorized by Ohio Revised Code Section 2744.081 and operates a property, crime, and liability insurance program. The Public Entity Risk Consortium (PERC) is a shared risk pool comprised of Tuscarawas County, Wayne County, the City of Lorain and the member participants of four pools: the Buckeye Ohio Risk Management Association, Inc. (BORMA); the Midwest Pool Risk Management Agency, Inc. (MPRMA); the Ohio Housing Authority Property and Casualty, Inc. (OHAPCI); and the State Housing Authority Risk Pool Association, Inc. (SHARP). Each member appoints one person to represent the City on the Board of Trustees. The Board of Directors consists of five trustees as determined by Board of Trustee vote. The Board of Directors governs and administers PERC. Each member's control over the budgeting and financing of PERC is limited to its voting authority and any representation it may have on the Board of Directors. Participation in PERC is by written application subject to approval of the Board of Directors and the payment of premiums. Members are required to remain members of PERC until the end of the PERC fiscal year (November 30). Any member may withdraw from PERC at the end of the PERC fiscal year upon providing at least three months prior written notice. After withdrawal, the former member continues to be fully obligated for its portion of any claim against the assets of the joint self-insurance pool that was created during the term of its membership. In addition, any distribution of surplus PERC funds allocable to the withdrawing member are forfeited by the withdrawing member and is distributed to the then remaining members in proportion to their interest in the surplus funds or other equitable manner as determined by the Board of Directors. In 2015, the City made payments in the amount of \$511,776 to PERC. Financial information may be obtained from Arthur J. Gallagher Risk Management Services, Inc., MK Ferguson Plaza, 1500 West Third Street, Suite 405, Cleveland, OH 44113.

Note 21 - Interfund Transfers and Balances

Transfers

Transfers are primarily from the general fund to various funds within the City. The general fund transferred funds to help finance the various programs accounted for in other funds.

Transfers were made from the streets, municipal court, police levy, general sewer, municipal court improvements, water, water pollution control, garage, and hospitalization funds to the general fund for the purpose of establishing the compensated absences and payroll reserve funds.

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Transfers are also made to cover the various debt obligations of the City from the general fund, the streets, permissive license, health services, municipal court, community development, police levy, police pension, and fire pension special revenue funds to the general obligation bond retirement fund.

Transfers made during the year ended December 31, 2015 were as follows:

Transfer To	Transfer From							Totals
	Governmental Funds			Enterprise Funds		Governmental Funds - Internal Service		
	General	Community Development	Other Governmental Funds	Water Works	Water Pollution Control	Garage	Hospitalization	
Governmental Funds								
General	\$0	\$0	\$24,257	\$29,936	\$33,367	\$3,252	\$147	\$90,959
G.O. Bond Retirement	1,767,425	103,090	2,066,132	0	0	0	0	3,936,647
Other Governmental Funds	346,811	0	984	0	0	0	0	347,795
Total Governmental Funds	2,114,236	103,090	2,091,373	29,936	33,367	3,252	147	4,375,401
Enterprise Funds								
Water Works	10,000	0	0	0	0	0	0	10,000
Water Pollution Control	10,000	0	0	7,819	0	0	0	17,819
Total Enterprise Funds	20,000	0	0	7,819	0	0	0	27,819
Total	\$2,134,236	\$103,090	\$2,091,373	\$37,755	\$33,367	\$3,252	\$147	\$4,403,220

Balances

The interfund balances as of December 31, 2015 represent eliminating negative cash, unallocated municipal court fines, utility and petroleum costs.

Interfund Payable	Interfund Receivable						Totals
	Governmental Funds		Enterprise Funds		Internal Service Fund		
	General	Other Governmental Funds	Water Works	Water Pollution Control	Garage		
Governmental Funds							
General	\$0	\$839,781	\$0	\$1,827	\$33,233		\$874,841
Community Development	0	105	229	186	89		609
Other Governmental Funds	368,894	0	0	0	51,326		420,220
Total Governmental Funds	368,894	839,886	229	2,013	84,648		1,295,670
Enterprise Funds							
Water Works	1,239	0	0	0	10,191		11,430
Water Pollution Control	1,469	0	0	0	12,585		14,054
Total Enterprise Funds	2,708	0	0	0	22,776		25,484
Internal Service Fund							
Hospitalization	14,103	0	0	0	0		14,103
Total	\$385,705	\$839,886	\$229	\$2,013	\$107,424		\$1,335,257

Note 22 - Contingencies

Grants

The City receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Currently, the Federal Bureau of Investigation is reviewing the Community Development Block Grant program expenses for compliance with terms and conditions specified in the grant award. Any disallowed claims resulting from such audits could become a liability of the City. However, in the opinion of management, any such disallowed claims would not have a material effect on the overall financial position of the City at December 31, 2015.

Litigation

The City is a defendant in various lawsuits seeking damages. City management cannot presently determine the outcome of such litigation or predict the likelihood or amount of liability, if any, the City may incur as a result of these matters.

Note 23 – Going Concern

Ohio Revised code Section 5705.10, in part, requires that money paid into any fund shall be expended only after such fund received monies to cover expenditures. The City has experienced a financial shortfall which has resulted in deficit spending in the general fund of \$1,545,374, per the City's cash position report at December 31, 2015. Continued operations are dependent upon the City's ability to meet financing requirements and current obligations.

The City's financial operations in the general fund are expected to remain pressured as the fund's liquidity is extremely narrow and revenue raising flexibility is limited due to economic constraints. The City's general fund reserve position was used in 2015 to supplement the general fund.

Note 24 - Subsequent Events

On February 18, 2016 The Ohio EPA and the Ohio Water Development Authority (OWDA) announced that they had completed an interest rate buy-down to assist communities and local governments with current loans through the Water Pollution Loan Fund (WPCLF), Drinking Water Assistance Fund (DWAF) and OWDA Fresh Water Fund.

OWDA market rate loans with interest rates higher than 4.00 percent and WPCLF and DWAF loans with interest rates higher than 3.00 percent saw a reduction of interest rates on the outstanding balance of those loans to 4.00 percent and 3.00 percent respectively. The buy-down is retroactive to the payment due on January 1, 2016 and carries through to the maturity date of the affected loans.

This interest rate buy-down will save the City approximately \$742,000 through 2034 for the water fund and \$447,000 through 2028 for the sewer fund in interest charges over the remaining life of the loans.

City of Lorain, Ohio
Notes to The Basic Financial Statements
For The Year Ended December 31, 2015

On February 25, 2016 the City signed a loan agreement with the Ohio Water Development Authority for the Crehore Street waterline replacement for \$849,929. The loan is payable over a term of twenty years with payments to be made semi-annually beginning in 2017 at an interest rate of 2.54 percent.

On May 31, 2016 the City signed an Ohio Department of Transportation State Infrastructure Bank loan agreement for seven local roadway improvements and the State Route 57 projects for \$1,633,000. The loan is payable over a term of eight years with payments to be made semi-annually beginning in 2018 at an interest rate of 3.00 percent. The City has pledged its permissive license tax and street levy municipal income tax as the source of repayment for this loan.

On June 21, 2016 Moody's Investors Service conducted a periodic review of the City. As a result of the review Moody's downgraded the City's general obligation limited tax (GOLT) rating to Baa2 with a negative outlook from A3 with no outlook.

On July 1, 2016 the City was awarded a Federal Emergency Management Agency (FEMA) grant in the amount of \$3,181,140. The Staffing for Adequate Fire and Emergency Response (SAFER) grant will be used to maintain current staffing levels in the fire department for the safety of the citizens and property owners of the City. The grant will cover the wages and benefits of approximately eighteen firefighters over a period of three years beginning July 15, 2016.

On November 8, 2016 the voters of the City passed an additional real estate tax levy of 1.70 mills per each \$1 of valuation, or \$0.17 for each \$100 of valuation, for the purpose of providing and maintaining adequate fire services, fire apparatus, appliances, and buildings or sites. The tax levy is a five year temporary levy commencing in 2016. First collections from the additional levy will be in 2017. The levy is anticipated to generate approximately \$1.3 million annually for the operations of the fire department for the next five years.

City of Lorain, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Ohio Public Employees Retirement System - Traditional Plan
Last Two Years (1)

Traditional Plan	2014	2013
City's Proportion of the Net Pension Liability	0.116174%	0.116174%
City's Proportionate Share of the Net Pension Liability	\$14,011,822	\$13,695,342
City's Covered-Employee Payroll	\$14,248,142	\$13,936,766
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	98.34%	98.27%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.45%	86.36%

(1) Information prior to 2013 is not available.

* Amounts presented as of the City's measurement date
which is the prior year end.

City of Lorain, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Ohio Police and Fire Pension Fund
Last Two Years (1)

Police	2014	2013
City's Proportion of the Net Pension Liability	0.2917183%	0.2917183%
City's Proportionate Share of the Net Pension Liability	\$15,112,222	\$14,207,596
City's Covered-Employee Payroll	\$6,425,379	\$5,208,186
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	235.20%	272.79%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.20%	73.00%
Fire	2014	2013
City's Proportion of the Net Pension Liability	0.2861849%	0.2861849%
City's Proportionate Share of the Net Pension Liability	\$14,825,570	\$13,938,103
City's Covered-Employee Payroll	\$5,096,447	\$4,287,116
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	290.90%	325.12%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.20%	73.00%

(1) Information prior to 2013 is not available.

* Amounts presented as of the City's measurement date
which is the prior year end.

City of Lorain, Ohio
Required Supplementary Information
Schedule of City Contributions
Ohio Public Employees Retirement System - Traditional Plan
Last Three Years (1)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contributions	\$1,803,286	\$1,709,777	\$1,811,780
Contributions in Relation to the Contractually Required Contribution	<u>(1,803,286)</u>	<u>(1,709,777)</u>	<u>(1,811,780)</u>
Contribution Deficiency / (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>City's Covered-Employee Payroll</u>			
Traditional Plan	\$15,027,383	\$14,248,142	\$13,936,769
<u>Pension Contributions as a Percentage of Covered-Employee Payroll</u>			
Traditional Plan	12.00%	12.00%	13.00%

(1) – Information prior to 2013 is not available.

City of Lorain, Ohio
Required Supplementary Information
Schedule of City Contributions
Ohio Police and Fire Pension Fund
Last Ten Years

	2015	2014	2013	2012
<u>Contractually Required Contributions</u>				
Police	\$1,270,549	\$1,220,822	\$827,237	\$769,719
Fire	\$1,201,170	\$1,197,665	\$873,860	\$836,361
Total Required Contributions	\$2,471,719	\$2,418,487	\$1,701,097	\$1,606,080
Contributions in Relation to the Contractually Required Contribution	(\$2,471,719)	(\$2,418,487)	(\$1,701,097)	(\$1,606,080)
Contribution Deficiency / (Excess)	\$0	\$0	\$0	\$0
<u>City's Covered-Employee Payroll</u>				
Police	\$6,687,100	\$6,425,379	\$5,258,976	\$6,037,012
Fire	\$5,111,362	\$5,096,447	\$4,319,624	\$4,848,470
<u>Pension Contributions as a Percentage of Covered-Employee Payroll</u>				
Police	19.00%	19.00%	[2]	12.75%
Fire	23.50%	23.50%	[2]	17.25%

[2] – The portion of the City's contributions to fund pension obligations from January 1, 2013 thru May 31, 2013, for both police officers and firefighters was 14.81 percent and 19.31 percent, respectively. The portion of the City's contributions to fund pension obligations from June 1, 2013 thru December 31, 2013 for both police officers and firefighters was 16.65 percent and 21.15 percent, respectively.

2011	2010	2009	2008	2007	2006
\$781,322	\$728,679	\$744,220	\$795,343	\$1,083,052	\$1,086,605
\$866,671	\$800,715	\$831,534	\$814,490	\$1,115,934	\$1,076,474
\$1,647,993	\$1,529,394	\$1,575,754	\$1,609,833	\$2,198,986	\$2,163,079
(\$1,647,993)	(\$1,529,394)	(\$1,575,754)	(\$1,609,833)	(\$2,198,986)	(\$2,163,079)
\$0	\$0	\$0	\$0	\$0	\$0
\$6,128,016	\$5,715,129	\$5,837,020	\$6,237,984	\$8,494,525	\$9,247,702
\$5,024,180	\$4,641,826	\$4,820,487	\$4,721,681	\$6,469,183	\$6,624,455
12.75%	12.75%	12.75%	12.75%	12.75%	11.75%
17.25%	17.25%	17.25%	17.25%	17.25%	16.25%

**CITY OF LORAIN
LORAIN COUNTY, OHIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
<i>Direct Funding</i>			
Community Development Block Grant:			
Community Development Block Grant	14.218	B-13-MC-39-0016	\$ 887,789
Community Development Block Grant	14.218	B-08-MN-39-0010	35,022
Total Community Development Block Grant			<u>922,811</u>
Home Investment Partnership Program	14.239	M-13-MC390220	59,016
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	OHLHB0470-10	1,603
<i>Passed Through Lorain County</i>			
Community Development Block Grant	14.218	B-11-UN-39-0012	118
Total U.S. Department of Housing and Urban Development			<u>983,548</u>
<u>U.S. Department of Commerce</u>			
<i>Direct Funding</i>			
Economic Adjustment Assistance	11.307	N/A	2,630,613
Habitat Conservation (BLK RVR Heron Rookery Restoration)	11.463	NA14NME4630284	847,783
Habitat Conservation (BLK RVR Heron Rookery Restoration Design)	11.463	NA14NMF4630283	172,082
Total U.S. Department of Commerce			<u>3,650,478</u>
<u>U. S. Department of Transportation</u>			
<i>Passed Through the Ohio Department of Transportation</i>			
Highway Planning and Construction	20.205	PID No.84839SIB130009	60,883
Highway Planning and Construction	20.205	PID No.98844	1,104,069
Total U.S. Department of Transportation			<u>1,164,952</u>
<u>U.S. Department of Health and Human Services</u>			
<i>Passed Through Lorain County General Health District</i>			
Hospital Preparedness Program (HPP):			
Public Health Emergency Preparedness	93.074	47-1-001-2-PH-0716	23,115
Public Health Emergency Preparedness	93.074	47-1-001-2-PH-0615	37,395
Total Hospital Preparedness Program			<u>60,510</u>
<i>Passed Through Cleveland Department of Board of Health</i>			
Centers for Disease Control and Prevention:			
CDC - Investigations and Technical Assistance	93.283	47-1-001-2-PH-0615	498
CDC - Investigations and Technical Assistance	93.283	47-1-001-2-PH-0716	12,054
Total Centers for Disease Control and Prevention			<u>12,552</u>
<i>Passed Through Cuyahoga County Board of Health</i>			
EBOLA Support	93.823	01810012EB016	11,399
Total U.S. Department of Health and Human Services			<u>84,461</u>

(Continued)

**CITY OF LORAIN
LORAIN COUNTY, OHIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015
(CONTINUED)**

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Number	Federal Expenditures
<u>U.S. Department of Justice</u>			
<i>Direct Funding</i>			
Equitable Sharing Program	16.922	N/A	17,442
<i>Passed Through Lorain County</i>			
Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.738	2014-DJ-BX-1212	14,106
<i>Passed Through City of Cleveland</i>			
Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.738	2013-JG-A02-6947	8,000
<i>Passed Through Ohio Department of Public Safety</i>			
Project Safe Neighborhood	16.609	2013-PS-PSN-399	<u>31,918</u>
Total U.S. Department of Justice			<u>71,466</u>
<u>U.S. Environmental Protection Agency</u>			
<i>Direct Funding</i>			
Headquarters and Regional Underground Storage: Brownfields Assessments and Cleanup	66.816	BF00E942010	181
<i>Passed Through Ohio Environmental Protection Agency</i>			
Capitalization Grants for Clean Water State Revolving Funds	66.458	CS390532-0017	13,396,121
Great Lakes Programs:			
Great Lakes Program	66.469	GL00E1523-0	151,119
Great Lakes Program	66.469	LOR-FDAOC12	9,439
Great Lakes Program	66.469	GL00E01268-0	<u>8,084</u>
Total Great Lakes Program			<u>168,642</u>
Total U.S. Environmental Protection Agency			<u>13,564,944</u>
<u>U.S. Department of Homeland Security</u>			
<i>Direct Funding</i>			
Assistance to Firefighters Grant	97.044	FEMA-EMW-2011-FO-09189	<u>2,044</u>
Total U.S. Department Homeland Security			<u>2,044</u>
<u>U.S. Department of Interior</u>			
<i>Direct Funding</i>			
Great Lakes Restoration	15.662	F15AP00558	<u>14,979</u>
Total U.S. Department of Interior			<u>14,979</u>
<u>U.S. Department of Agriculture</u>			
<i>Direct Funding</i>			
Urban and Community Forestry Program	10.675	15-DG-11420004-15	<u>17,340</u>
Total U.S. Department of Agriculture			<u>17,340</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 19,554,212</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) reports the City of Lorain's (the City's) federal award programs disbursements. The Schedule has been prepared on the cash basis of accounting.

The City did not use the de minimus rate of 10 percent for indirect costs charged to the federal grants.

NOTE 2: SUBRECIPIENTS

The City passes certain federal awards received from the U.S. Department of Housing and Urban Development and the U.S. Department of Health and Human Services to other governments or not-for profit agencies (subrecipients). As Note A describes, the City reports expenditures of Federal Awards to subrecipients when paid in cash.

As a subrecipient, the City has certain compliance responsibilities, such as monitoring its subrecipients to help assure they use these sub-awards as authorized by laws, regulations, and the provisions of contracts or grant agreements, and that subrecipients achieve the award's performance goals.

NOTE 3: COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) REVOLVING LOAN PROGRAMS

The City has a revolving loan fund (RLF) program to provide low-interest loans to businesses to create jobs for low to moderate income persons and also to lend money to eligible persons to rehabilitate homes. The federal Department of Housing and Urban Development (HUD) grants money for these loans to the City. The Schedule reports loans made and administration costs as disbursements on the Schedule. Subsequent loans are subject to the same compliance requirements imposed by HUD as the initial loan.

These loans are collateralized by mortgages on the properties.

Activity in the CDBG revolving loan fund during 2015 is as follows:

Beginning loans receivable balance as of January 1, 2015	\$ 8,173,811
Loans made	643,644
Loan principal repaid	(450,020)
Loans written off during year	(72,854)
Ending loans receivable balance as of December 31, 2015	<u>\$ 8,294,581</u>
Cash balance on hand in the revolving loan fund as of December 31, 2015	\$ 1,972,804
Administrative costs expended during 2015	62,309

The table above reports gross loans receivable. Of the loans receivable as of December 31, 2015 the City estimates \$604,440 to be uncollectible.

JAMES G. ZUPKA, C.P.A., INC.

Certified Public Accountants

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Ohio Society of Certified Public Accountants

**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**

Members of City Council
City of Lorain
Lorain, Ohio

Honorable Dave Yost
Auditor of State
State of Ohio

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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lorain, Lorain County, Ohio, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City of Lorain, Ohio's basic financial statements and have issued our report thereon dated January 26, 2017, wherein we noted the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, and restated its net position at December 31, 2014 for governmental and business-type activities.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Lorain, Ohio'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Lorain, Ohio's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Lorain, Ohio's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 City of Lorain, Ohio's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses and which are identified as **Finding 2015-001 and 2015-002**.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies and which are identified as **Finding 2015-003 and 2015-004**.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lorain, Ohio'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as **Finding 2015-001 and 2015-005**.

City of Lorain, Ohio's Response to Findings

The City of Lorain, Ohio's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City of Lorain, Ohio's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 City of Lorain, Ohio'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 City of Lorain, Ohio's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

James G. Zupka, CPA,
President

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Inc., ou=Accounting, email=jgzupka@ibglobal.net, c=US
Date: 2017.02.15 15:27:27 -0500

James G. Zupka, CPA, Inc.
Certified Public Accountants

January 26, 2017

JAMES G. ZUPKA, C.P.A., INC.

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**REPORT ON COMPLIANCE FOR EACH MAJOR AND ON
INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

Members of City Council
City of Lorain
Lorain, Ohio

Honorable Dave Yost
Auditor of State
State of Ohio

Report on Compliance for Each Major Federal Program

We have audited the City of Lorain, Lorain County, Ohio's (the City) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the City of Lorain, Ohio's major federal programs for the year ended December 31, 2015. The City of Lorain, Ohio's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Lorain, Ohio's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Lorain, Ohio's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Lorain, Ohio's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Lorain, Ohio, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

Report on Internal Control Over Compliance

Management of the City of Lorain, Ohio is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Lorain, Ohio's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Lorain, Ohio's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type to compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

James G. Zupka
CPA, President

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President
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o=James G. Zupka, CPA, Inc., ou=Accounting,
email=jgzcpa@isbrglobal.net, c=US
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James G. Zupka, CPA, Inc.
Certified Public Accountants

January 26, 2017

**CITY OF LORAIN
LORAIN COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

1. SUMMARY OF AUDITOR'S RESULTS

2015(i)	Type of Financial Statement Opinion	Unmodified
2015(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
2015(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
2015(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
2015(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
2015(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
2015(v)	Type of Major Programs' Compliance Opinions	Unmodified
2015(vi)	Are there any reportable findings under 2 CFR 200.516(a)?	No
2015(vii)	Major Programs (list):	
	Community Development Block Grant - CFDA #14.218	
	Capitalization Grants for Clean Water State Revolving Funds - CFDA #66.458	
	Habitat Conservation - CFDA #11.463	
	Highway Planning and Construction - CFDA#20.205	
	Economic Adjustment Assistance - CFDA#11.307	
2015(viii)	Dollar Threshold: A/B Programs	Type A: \$750,000 Type B: All Others
2015(ix)	Low Risk Auditee?	No

**CITY OF LORAIN
LORAIN COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015
(CONTINUED)**

2. **FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

Finding 2015-001 - Material Weakness - Internal Controls Over Financial Reporting and Compliance Violation

Condition/Criteria

Ohio Administration Code 117-2-03(B) and 125:3-1-01 (A)(2), Ohio Revised Code Sections 117.38, 1724.05, and 1726.11, and Auditor of State Bulletin 2015-07 - Annual Financial Reporting - state, in part, ... “All other entity types required to file with the Auditor of State are required to report via the Hinkle System for periods ended in 2015 and thereafter”. Also, per Ohio Revised Code Section 117.38, entities filing on a GAAP-basis must file annual reports within 150 days of the entity’s fiscal year end, unless an extension is granted by the Auditor of State.

The City of Lorain did not file its annual report within 150 days of its fiscal year end, nor within the extended time granted by the Auditor of State.

Financial reporting is the responsibility of the City Auditor’s Office and is essential to ensure the information provided to the readers of the financial statements is complete, accurate, and timely. In addition, we noted the following errors in the financial statements:

- ◆ An overstatement of special assessments receivable in the Special Assessment Fund and an understatement of special assessment receivable in the General Fund.
- ◆ An understatement of accounts receivable in the Water Works Fund and the Water Pollution Control Fund.
- ◆ An overstatement of intergovernmental receivable in the Community Development Block Grant Fund.
- ◆ Posting of contracts payable in incorrect funds.

As a result, audit adjustments were posted to correct financial activity for 2015.

Cause/Effect

The lack of controls over filing complete and accurate financial statements on a timely basis can result in errors and irregularities that may go undetected and decreases the reliability of the financial data at year end.

Recommendation

We recommend that the City implement controls and procedures related to the financial reporting that will enable management to identify, prevent, detect, and correct potential misstatements in the financial statements and footnotes.

City Response

The City has implemented procedures to timely prepare and review the financial statements for accuracy prior to submission.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015
(CONTINUED)**

2. **FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS** (Continued)

Finding 2015-002 - Material Weakness in Internal Control Over Reporting of ODOT Projects

Condition/Criteria

We noted the City improperly excluded expenditure amounts from the Schedule of Expenditures of Federal Awards (SEFA) and from the financial statements relating to CFDA #20.205 due to a lack of communication between the City's Engineering Department and the City Auditor's Office. The expenditures related to payments the Ohio Department of Transportation (ODOT) made directly to contractors.

The City's internal control structure and processes should provide for the proper communication and recording of all expenditures and facilitate the preparation of a complete and accurate SEFA.

The expenditures were posted to correct financial activity for 2015 in the GAAP - basis report.

Cause/Effect

Controls are not in place to ensure all expenditures are being accounted for, including those paid directly by ODOT. The lack of controls over the accounting of expenditures could result in an understatement of expenses required to be reported in the financial statements and on the Schedule of Expenditures of Federal Awards, and decrease the reliability of financial data throughout the year. This can also lead to errors when identifying major programs.

Recommendation

We recommend that the City adopt procedures specifically over the direct payments made by ODOT to the vendors to help ensure the information accurately reflects the expenditures incurred throughout the year, increasing the reliability of the financial data at year-end.

City Response

The City had a meeting with the City Engineer about ODOT projects and the City Engineer will continuously communicate with the City Auditor for proper financial reporting of these projects.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015
(CONTINUED)**

2. **FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS** (Continued)

Finding 2015-003- Significant Deficiency - Bank Reconciliations for Municipal Court Accounts

Condition/Criteria

Based on our review of the Municipal Court bank reconciliations, we noted that the Clerk of Court is responsible for collecting and distributing Court revenue to appropriate individuals and jurisdictions. There are seven branch divisions and each has its own bank account (Traffic/Criminal, Civil, Small Claims, Restitution, Trusteeship, Landlord/Tenant, and Jury and Witness Fees).

The Court has not reconciled its seven bank accounts from October 2013 through December 2015.

Also, there have been errors with and concerns over the most current software. The Court's computer system crashed, which resulted in lost data for a few months in the prior year and this data could not be restored. In addition, manual temporary receipts were issued while the Court's computer system was down, which needed to be re-entered into the system.

Cause/Effect

Timely reconciliation of cash receipts and disbursements is critical in determining the cash fund balances and obligation of the Court divisions. The reconciliation process verifies that the cash balance reported in each Court division agrees to the adjusted balance per the bank statement, and it is also used to determine whether all cash receipts and disbursements have been properly recorded and distributed.

Lack of timely reconciliations could result in errors or irregularities, including theft, which would not be detected by management in a timely manner. Also, the ability of the Municipal Court to efficiently and effectively conduct its operations and diminish its transparency regarding the Court's operations could be hindered.

As a result, we were unable to substantiate the accuracy or completeness of the amounts collected and distributed by the Municipal Court during fiscal year 2015. This includes amounts distributed to the City. Also, we were unable to test if the Municipal Court complied with the various requirements delineated in the Ohio Revised Code.

Recommendation

We recommend that Court management take appropriate steps to ensure all bank accounts are reconciled on a monthly basis and supported by accurate Court system generated reports.

City Response

We are in the process of completing a manual bank reconciliation currently. We have been able to identify and disperse most of our money to the various agencies. We still have approximately \$34,000 to properly identify and we are continuing to work on that task.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015
(CONTINUED)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding 2015-004 - Significant Deficiency - Evaluating Uncollectible Loans

Condition/Criteria

The City reports outstanding loans issued as loan receivables on its financial statements. Each year, the City obtains schedules of such loan activity from the Lorain Development Corporation, which administers these loans on behalf of the City to assist the City in recording the loans receivable on its financial statements.

When we examined certain loan files designated as uncollectible or write-off, they were incomplete and lacked a clear rationale to be designated as uncollectible or written-off. Also, the designation of loans from collectible to uncollectible or written off were inconsistent.

Cause/Effect

Incomplete files and unclear designation of loans diminish the reliability of the loans receivable balance, including the calculation of allowance for uncollectible loans and could result in misstatements to the financial statements.

Recommendation

To increase control and accountability over the loans receivable balance reported on the financial statements, including the allowance for uncollectible loans, we recommend that the City establish a GAAP policy documenting the method for calculating the allowance for uncollectible accounts and the specific criteria involved in evaluating the collectability of such loans, including write-offs. This policy should also identify the individuals involved in reviewing and approving such write-offs.

It should be noted when developing such a policy that some laws, such as Federal regulations, may prohibit writing off uncollectible loans receivable. However, we consider this to be independent of GAAP valuation considerations. The City can still comply with these laws by carrying uncollectible accounts on the receivable listing and offsetting these accounts with a bad debt allowance contra account.

City Response

The City is reviewing its loan servicing and associated policies and procedures pertaining to debt write-off, to assure consistency with the various Code of Federal Regulations (CFR) that apply to the various programs. This includes, but is not limited to codifying or establishing departmental policies, which would be effectuated via the various subrecipient agreements required for the administration of the City's loan programs.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015
(CONTINUED)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding 2015-005 - Material Noncompliance - Negative Cash Fund Balances

Condition/Criteria

Ohio Revised Code Section 5705.10 (H) requires that monies paid into any fund shall be used only for the purposes for which such fund is established. A fund with a negative fund balance signifies that monies from other funds were used to meet their obligations.

During our review of the City's records, we noted that several funds had negative cash fund balances at December 31, 2015:

<u>Fund</u>	
General	\$ 1,545,374
Health	31,778
Habitat Conservation	168,458
Hospitalization	14,627
Community Development Block Grant	90,551
EDA Planning	90,701

Cause/Effect

Negative cash fund balances infer revenues from other sources were borrowed to pay obligations of these funds. Additionally, money spent for purposes other than specified in grant agreements could result in the loss of future grant awards.

Recommendation

We recommend that the City monitor its cash fund balances on a regular basis in order to ensure that sufficient cash is on hand to pay for obligations and that the City utilize advances/transfers when necessary. We also recommend that the City review its expense obligations on a regular basis and take the necessary steps to reduce expenses to avoid deficit fund balances.

City Response

In November 2016, the voters of the City passed an additional real estate levy which is anticipated to generate approximately \$1.3 million annually for the operations of the fire department for the next five years.

In addition, the City will review its expense obligations on a regular basis and take the necessary steps to reduce future expenses to avoid deficit fund balances.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**CITY OF LORAIN
LORAIN COUNTY, OHIO
SCHEDULE OF PRIOR FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2015**

<u>Number</u>	<u>Finding Summary</u>	<u>Corrected?</u>	<u>Not Corrected; Partially Corrected; Significantly Different Corrective Finding Action Taken, or Finding Not Valid: Explanation</u>
2014-001	Significant Deficiency - Bank Reconciliations for Municipal Court Accounts	No	Not Corrected. Repeated as Finding 2015-003.
2014-002	Significant Deficiency - Evaluating Uncollectible Loans - GAAP Policy	No	Not Corrected. Reissued as Finding 2015-004.
2014-003	Noncompliance/Material Weakness - Quarterly SF-425 Reports	Yes	
2014-004	Noncompliance/Material Weakness - Suspension and Debarment	Yes	
2014-005	Noncompliance/Material Weakness - Request for Release of Funds (RROF) and Environmental Plan	Yes	

The prior audit report, as of December 31, 2014, also included management letter recommendations. Management letter recommendations as of December 31, 2014, have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.

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Dave Yost • Auditor of State

CITY OF LORAIN

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
APRIL 11, 2017