

# **City of Lorain, Ohio**

---



## **Basic Financial Statements**

**For the Year Ended December 31, 2014**



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

City of Lorain  
Lorain County  
200 West Erie Avenue  
Lorain, Ohio 44052

To the City Council:

### ***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 (the City), as of and for the year ended December 31, 2014, 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 preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider 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 to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

***Opinion***

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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General, Streets and Community Development funds thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

*Supplementary and Other Information*

Our audit was conducted to opine on the City's basic financial statements taken as a whole.

The Schedule of Federal Awards Expenditures presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2015, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine 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's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

November 16, 2015

**This page intentionally left blank.**



**City of Lorain, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2014*  
*Unaudited*

---

The discussion and analysis of the City of Lorain's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2014. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the transmittal letter, as well as 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 2014 are:

- \$5,790,000 in general obligation bonds were issued in 2014 for roadway improvements.
- \$28.2 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.
- \$5.17 million in Ohio Public Works Commission, State Infrastructure Bank, and General Revenue Fund Bond loans were received for various roadway improvements within the City.
- Municipal income tax collections increased \$2.5 million over prior year receipts.

## **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).

**City of Lorain, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2014*  
*Unaudited*

---

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

**City of Lorain, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2014*  
*Unaudited*

---

---

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 31 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 35 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 36 through 77 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, 2014 as compared to December 31, 2013.

**City of Lorain, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2014*  
*Unaudited*

**TABLE 1**  
**Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
<b>Assets</b>						
Current and Other Assets	\$51,981,004	\$56,691,593	\$25,579,343	\$20,823,011	\$77,560,347	\$77,514,604
Capital Assets,						
Non-Depreciable	36,590,812	30,015,506	65,930,615	43,807,297	102,521,427	73,822,803
Depreciable, Net	74,368,583	74,859,383	103,065,249	99,049,411	177,433,832	173,908,794
<i>Total Assets</i>	<u>162,940,399</u>	<u>161,566,482</u>	<u>194,575,207</u>	<u>163,679,719</u>	<u>357,515,606</u>	<u>325,246,201</u>
<b>Deferred Outflows of Resources</b>						
Deferred Charge on Refunding	178,477	191,216	0	0	178,477	191,216
<b>Liabilities</b>						
Current and Other Liabilities	3,992,459	3,963,325	3,710,889	3,472,685	7,703,348	7,436,010
Long-Term Liabilities:						
Due Within One Year	7,462,761	6,698,958	5,298,889	5,103,734	12,761,650	11,802,692
Due in More Than One Year	69,956,340	65,419,893	101,260,528	78,476,299	171,216,868	143,896,192
<i>Total Liabilities</i>	<u>81,411,560</u>	<u>76,082,176</u>	<u>110,270,306</u>	<u>87,052,718</u>	<u>191,681,866</u>	<u>163,134,894</u>
<b>Deferred Inflows of Resources</b>						
Property Taxes	3,012,288	3,053,865	0	0	3,012,288	3,053,865
<b>Net Position</b>						
Net Investment in Capital Assets	51,159,721	52,754,936	63,946,153	62,156,781	115,105,874	114,911,717
Restricted:						
Capital Projects	894,206	2,235,651	102,519	0	996,725	2,235,651
Debt Service	4,182,380	4,073,508	0	0	4,182,380	4,073,508
Utility Reserve	0	0	1,687,859	1,955,578	1,687,859	1,955,578
Capital Leases	106,303	1,366,060	0	1,034,851	106,303	2,400,911
Other Purposes	20,708,392	21,279,402	0	0	20,708,392	21,279,402
Unrestricted (Deficit)	<u>1,644,026</u>	<u>912,100</u>	<u>18,568,370</u>	<u>11,479,791</u>	<u>20,212,396</u>	<u>12,391,891</u>
<i>Total Net Position</i>	<u>\$78,695,028</u>	<u>\$82,621,657</u>	<u>\$84,304,901</u>	<u>\$76,627,001</u>	<u>\$162,999,929</u>	<u>\$159,248,658</u>

As noted earlier, net position may serve over time as a useful indicator of a City's financial position. The largest portion of the City's net position reflects its investment in capital assets (e.g. land, construction in progress, buildings, improvements, machinery and equipment, furniture and fixtures and infrastructure including water and sewer lines), less any outstanding debt used to acquire those assets.

Total net position increased from 2013 to 2014. The growth in current and other assets is essentially the result of increases in cash and cash equivalents from operations and capital financing activities. The increase includes over \$32 million in capital asset additions for equipment purchases and infrastructure improvements which is partially offset by current year depreciation. Total liabilities increased from 2013 to 2014 as a result of the rise in long-term liabilities especially outstanding debt.

Table 2 shows the changes in net position for the years ended December 31, 2014 and 2013 and corresponds to the Statement of Activities on page 22.

**City of Lorain, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2014*  
*Unaudited*

**Table 2**  
**Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
<b>Revenues:</b>						
Program Revenues:						
Charges for Services and Assessments	\$7,848,260	\$8,018,296	\$27,517,437	\$24,546,199	\$35,365,697	\$32,564,495
Operating Grants and Contributions	3,003,691	8,461,891	0	0	3,003,691	8,461,891
Capital Grants and Contributions	11,590	2,972,669	0	1,833,799	11,590	4,806,468
<i>Total Program Revenues</i>	<i>10,863,541</i>	<i>19,452,856</i>	<i>27,517,437</i>	<i>26,379,998</i>	<i>38,380,978</i>	<i>45,832,854</i>
General Revenues:						
Property Taxes	3,882,823	2,479,505	0	0	3,882,823	2,479,505
Municipal Income Taxes	26,119,973	23,560,252	0	0	26,119,973	23,560,252
Payments in Lieu of Taxes	1,087,189	890,274	0	0	1,087,189	890,274
Grants and Entitlements not						
Restricted to Specific Programs	3,082,275	3,390,815	0	0	3,082,275	3,390,815
Franchise Fees	559,324	594,936	0	0	559,324	594,936
Investment Earnings	41,999	36,297	126	29	42,125	36,326
Gain on Sale of Capital Assets	0	0	13,682	8,480	13,682	8,480
Miscellaneous	511,440	3,738,577	73,524	195,782	584,964	3,934,359
<i>Total General Revenues</i>	<i>35,285,023</i>	<i>34,690,656</i>	<i>87,332</i>	<i>204,291</i>	<i>35,372,355</i>	<i>34,894,947</i>
<b>Total Revenues</b>	<b>46,148,564</b>	<b>54,143,512</b>	<b>27,604,769</b>	<b>26,584,289</b>	<b>73,753,333</b>	<b>80,727,801</b>
<b>Program Expense:</b>						
General Government	9,931,897	6,233,640	0	0	9,931,897	6,233,640
Security of Persons and Property	22,469,683	25,189,457	0	0	22,469,683	25,189,457
Transportation	9,671,890	9,841,983	0	0	9,671,890	9,841,983
Public Health	1,042,506	2,054,913	0	0	1,042,506	2,054,913
Community Environment	693,218	440,263	0	0	693,218	440,263
Economic Development	3,002,782	2,828,155	0	0	3,002,782	2,828,155
Leisure Time Activities	857,777	941,124	0	0	857,777	941,124
Interest and Fiscal Charges	2,497,985	2,337,966	0	0	2,497,985	2,337,966
Water Works	0	0	8,625,957	9,190,069	8,625,957	9,190,069
Water Pollution Control	0	0	11,208,367	10,683,486	11,208,367	10,683,486
<b>Total Expenses</b>	<b>50,167,738</b>	<b>49,867,501</b>	<b>19,834,324</b>	<b>19,873,555</b>	<b>70,002,062</b>	<b>69,741,056</b>
<b>Increase (Decrease) in Net Position</b>						
<b>Before Transfers</b>	(4,019,174)	4,276,011	7,770,445	6,710,734	3,751,271	10,986,745
Transfers	92,545	87,516	(92,545)	(87,516)	0	0
<b>Increase (Decrease) in Net Position</b>	<b>(3,926,629)</b>	<b>4,363,527</b>	<b>7,677,900</b>	<b>6,623,218</b>	<b>3,751,271</b>	<b>10,986,745</b>
<b>Net Position, January 1 -</b>						
<b>Restated (See Note 3)</b>	<b>82,621,657</b>	<b>78,258,130</b>	<b>76,627,001</b>	<b>70,003,783</b>	<b>159,248,658</b>	<b>148,261,913</b>
<b>Net Position, December 31</b>	<b>\$78,695,028</b>	<b>\$82,621,657</b>	<b>\$84,304,901</b>	<b>\$76,627,001</b>	<b>\$162,999,929</b>	<b>\$159,248,658</b>

**City of Lorain, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2014*  
*Unaudited*

---

Program revenues decreased in 2014. This decrease is reflected in both operating grants and contributions and capital grants and contributions. Charges for services saw a modest increase over 2013. While program revenues provide considerable assistance in the provision of governmental services, the burden of governmental support is met by general revenues such as municipal income taxes, property taxes, and unrestricted grants and entitlements. General revenues increased by approximately \$500,000 from the prior year. The City saw an increase in municipal income tax revenue, property taxes and payments in lieu of taxes received and other than a reduction in local government grants and entitlements, the remainder of other general revenue sources remained relatively stable with the exception of miscellaneous revenue.

#### ***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 2014, the revenue from income taxes increased by over \$2.5 million primarily as a result of a combination of increased employment within the City and the 2012 income tax rate increase of .50 percent which became effective on January 1, 2013. The income tax credit in effect for 2014 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 2014 but remains relatively stable.

The marked decline in operating and capital grants and contributions is a result of various grants for infrastructure, equipment, health services, and habitat conservation either being completed or substantially completed in the prior year. Additionally, the community development fund loan repayment revenue saw a \$1.3 million reduction due to the large loan payoffs received in the prior year.

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.

The one-time receipt of a \$3 million legal settlement in 2013 is indicative of the decline in miscellaneous general revenue.

Total governmental program expenses for 2014 were up approximately \$300,000 as compared to 2013 predominately due to increased expenditures for the general government and community environment functions. 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 2014 the police department purchased 2 new vehicles, updated the police station access control and intercom system, and purchased a mobile forensics unit to process crime scenes more efficiently and effectively.

**City of Lorain, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2014*  
*Unaudited*

---

The Fire Department is funded with General Fund revenues. The Department continues to upgrade emergency fire and rescue equipment, as needed, to better serve the community. In 2014, the fire department purchased a new aerial ladder truck.

Transportation expenses were for the depreciation, maintenance and repairs to the City's roads and infrastructure. Expenditures for transportation were relatively consistent with the prior year. The City paid for these from general revenues, license plate fees, and State gas taxes.

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.

#### ***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 Citywide sanitary sewer overflow (SSO) elimination program. The Washington and Reid Avenues waterline replacement project was completed in 2014. Other waterline replacement projects were continued or undertaken including State Route 611, Eagle Avenue, Euclid Avenue, South Lorain waterline project, and the 2<sup>nd</sup>, 4<sup>th</sup>, 5<sup>th</sup>, 6<sup>th</sup>, Hamilton and Reid Avenues waterlines. Concurrently, the construction of the Westside Water Tower is also in progress.

#### ***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 \$32,673,465, a decrease of \$2.1 million in comparison with the prior year. Nonspendable fund balance of \$634,050 includes material and supplies inventory, prepaid expenses, and unclaimed monies. Fund balance in the amount of \$27,183,010 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 \$2,494,321 is committed to storm sewer maintenance and improvements, contractual obligations, and funds set aside for compensated absences and payroll reserve. Assigned fund balance includes \$237,340 for general governmental purchases on order in various departments. There is a surplus of \$2,124,744 that constitutes unassigned fund balance or all balances not previously classified.

**City of Lorain, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2014*  
*Unaudited*

---

The General Fund is the main operating fund of the City. The decrease in fund balance is the result of an increase in wages and benefits for its employees in 2014 due to new bargaining unit contracts for Police, Fire, Dispatchers and Corrections Officers.

The Streets Fund accounts for the accumulation of resources to pay for the maintenance and repair of dedicated streets and highways within the City.

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.

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 2014, the City amended its General Fund budget numerous times. The actual revenue amount was less than the final budget. Municipal income taxes collected were over anticipated receipts by approximately \$287,000 as a result of employer contributions related to employment within the City and accounts for the largest positive variance in the revenue budget. Charges for services came in under the final estimated budget by roughly \$350,000 and accounted for the 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 2014 amendments of approximately \$600,000 were made to the original budget to account for larger than anticipated municipal income tax revenues, police 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

**City of Lorain, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2014*  
*Unaudited*

---

beginning in 2011. The City set aside \$25,000 in 2010, \$250,000 in 2011, 2012 and 2013 and \$225,000 in 2014. The budget stabilization reserve currently has a balance of \$1,000,000 and is not available for appropriation in 2015. The ordinance includes provisions for repayment in circumstances where the funds must be used by the General Fund. In the event it is necessary to use all or a portion 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)**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Land	\$9,511,357	\$9,519,239	\$1,060,557	\$1,060,557	\$10,571,914	\$10,579,796
Easements	6,659,949	6,659,949	0	0	6,659,949	6,659,949
Construction in Progress	20,419,506	13,836,318	64,870,058	42,746,740	85,289,564	56,583,058
Buildings and Improvements	14,662,890	15,058,543	21,586,132	22,456,801	36,249,022	37,515,344
Machinery and Equipment	13,249,597	12,231,410	8,882,005	8,689,888	22,131,602	20,921,298
Furniture and Fixtures	187,284	203,706	0	0	187,284	203,706
Infrastructure:						
Streets and Sidewalks	46,268,812	47,365,724	0	0	46,268,812	47,365,724
Water Lines	0	0	24,166,568	17,998,111	24,166,568	17,998,111
Sewer Lines	0	0	48,430,545	49,904,612	48,430,545	49,904,612
<i>Total Capital Assets</i>	<i>\$110,959,395</i>	<i>\$104,874,889</i>	<i>\$168,995,865</i>	<i>\$142,856,709</i>	<i>\$279,955,260</i>	<i>\$247,731,598</i>

The most significant increases in governmental capital assets were in construction in progress and machinery and equipment. Construction in progress includes the recognition of various street and other capital projects begun but not yet completed. Major equipment purchases include a complete computer operating system upgrade with new hardware and software, a new aerial ladder truck for the fire department, two new vehicles, diving gear and a new dive team equipment trailer for the police department, and dump trucks, leaf loaders, and an asphalt recycler for the street department. The largest decrease in governmental capital assets is in infrastructure which is 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, Oberlin Avenue waterline, State Route 611 waterline replacement, Washington and Reid Avenues waterline, phase one of the South Lorain waterlines project, and Euclid Avenue waterline, which were started in 2013, and the 2<sup>nd</sup>, 4<sup>th</sup>, 5<sup>th</sup>, 6<sup>th</sup>, Hamilton

**City of Lorain, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2014*  
*Unaudited*

---

and Reid Avenues waterline and East 31<sup>st</sup> Street Bridge waterline projects that commenced in 2014. The increase in water lines is due to the completion of the Washington and Reid Avenues waterline replacement project in 2014.

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**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
General Obligation Bonds	\$49,052,111	\$46,007,912	\$1,207,951	\$1,806,793	\$50,260,062	\$47,814,705
Special Assessment Bonds	1,367,743	1,439,566	0	0	1,367,743	1,439,566
OWDA Loans	0	0	101,438,182	76,768,586	101,438,182	76,768,586
HUD Section 108 Loans	1,975,000	2,200,000	0	0	1,975,000	2,200,000
ODOD Loan	1,623,099	1,837,449	0	0	1,623,099	1,837,449
OPWC Loans	2,330,197	2,533,138	0	0	2,330,197	2,533,138
ODOT Loans	5,046,775	3,788,746	0	0	5,046,775	3,788,746
Installment Loans	4,351,553	1,154,523	0	0	4,351,553	1,154,523
Capital Leases	3,216,717	4,471,716	2,459,013	3,169,758	5,675,730	7,641,474
Pollution Remediation	863,440	854,891	220,410	401,215	1,083,850	1,256,106
Claims and Judgments	58,885	117,668	0	0	58,885	117,668
Compensated Absences	7,533,581	7,713,242	1,233,861	1,433,681	8,767,442	9,146,923
<i>Total</i>	<i>\$77,419,101</i>	<i>\$72,118,851</i>	<i>\$106,559,417</i>	<i>\$83,580,033</i>	<i>\$183,978,518</i>	<i>\$155,698,884</i>

The eighteen general obligation bonds include the Riverfront, Heritage, and Lighthouse Village urban renewal bonds, an energy conservation bond, 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.

**City of Lorain, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2014*  
*Unaudited*

---

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.

The twenty-six 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.

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-one 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 36<sup>th</sup> 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 improvements to one of the City's fire stations, 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.

**City of Lorain, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2014*  
*Unaudited*

---

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 May 14, 2014.

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 2014 unemployment rate for the City was 7.5 percent, down from 8.6 percent in December 2013, while the unemployment rate for Lorain County was 5.7 percent and the State of Ohio was 5.1 percent (based on the Ohio Job & Family Services, Office of Workforce Development).

The City's overall financial condition in 2014 has improved over 2013 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 \$2,999,220 in 2013 to \$2,410,690 in 2014 due largely to increases in wages and benefits for the City's employees. 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 2014, the City signed new contracts with the Fraternal Order of Police, which represents the City's Police Officers, the International Association of Firefighters, which represents the City's Firefighters, the Ohio Patrolmen's Benevolent Association, which represents the City's Police Dispatchers and the Fraternal Order of Police, Ohio Labor Council, Inc. which represents the City's Corrections Officers – these contracts all expire December 31, 2016. The City has experienced a 2 percent increase in wages and benefits for its employees in 2014 due to these new bargaining unit contracts.

The City's residential/agricultural real estate property values decreased 16 percent, from 2011 to 2012 as a result of the County's sexennial reappraisal to adjust the true value of real property to reflect the current market values. In 2014, property tax collections were the General Fund's third largest source of revenue. In 2014, the City collected \$1,919,641 from the property tax collections for the General Fund. This was \$63,372 more than that collected in 2013.

Below are some of the current developments affecting three 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.

**City of Lorain, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2014*  
*Unaudited*

---

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.

- U.S. Steel Corp. announced that it is considering investing \$100 million in the Lorain Tubular Operations four seamless hot mill to expand the size capacity of its pipe to six inches to further meet the increased demand of the on-shore exploration of oil and gas resources and market demand for larger pipe. This project is currently on hold.
- In May 2012 Republic Steel, the City's fourth largest employer, broke ground on a planned \$85.2 million investment in its Lorain facilities which will go toward installing a new electric arc furnace and supporting equipment. The new furnace began production in the 4<sup>th</sup> quarter 2014. Republic makes highly engineered steel at the plant which has the strength needed for automotive and industrial applications. The additional capacity created by the furnace is expected to increase production by one million tons of steel per year and create an estimated 449 new jobs at the Lorain facility and add more than \$1 billion in annual economic activity to Ohio. Approximately 300 jobs were created by year end.
- 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 add new jobs. This addition will bring the total size of the facility to 200,000 square feet. Construction on this addition has not yet started.
- Emerson Network Power opened an Advanced Engineering Center at its Lorain facility in 2014. The center will be responsible for accelerating next-generation power and controller technology for all forms of communications networks. It has not been determined how many jobs have been added as a result of the opening of the center.

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.

**City of Lorain, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2014*  
*Unaudited*

---

---

**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:

Ronald L. Mantini, Auditor

[Ron\\_Mantini@cityoflorain.org](mailto:Ron_Mantini@cityoflorain.org)

or

Anita J. Harper, Chief Deputy Auditor

[Anita\\_Harper@cityoflorain.org](mailto:Anita_Harper@cityoflorain.org)

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

**This page intentionally left blank.**



## **Basic Financial Statements**

**City of Lorain, Ohio**  
*Statement of Net Position*  
*December 31, 2014*

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$16,574,552	\$20,012,224	\$36,586,776
Cash and Cash Equivalents:			
In Segregated Accounts	569,557	0	569,557
With Fiscal Agents	201,222	49,005	250,227
Accounts Receivable	656,470	4,082,474	4,738,944
Inventory Held for Resale	1,976,520	0	1,976,520
Materials and Supplies Inventory	1,628,050	832,881	2,460,931
Internal Balances	117,574	(117,574)	0
Intergovernmental Receivable	7,640,428	287,017	7,927,445
Prepaid Items	370,973	200,511	571,484
Municipal Income Taxes Receivable	3,525,973	0	3,525,973
Property Taxes Receivable	4,042,243	0	4,042,243
Payments in Lieu of Taxes Receivable	515,831	0	515,831
Special Assessments Receivable	3,251,114	0	3,251,114
Loans Receivable	10,910,497	232,805	11,143,302
Nondepreciable Capital Assets	36,590,812	65,930,615	102,521,427
Depreciable Capital Assets, Net	74,368,583	103,065,249	177,433,832
<i>Total Assets</i>	<i>162,940,399</i>	<i>194,575,207</i>	<i>357,515,606</i>
<b>Deferred Outflows of Resources</b>			
Deferred Charge on Refunding	178,477	0	178,477
<b>Liabilities</b>			
Accounts Payable	616,504	582,635	1,199,139
Contracts Payable	965,989	0	965,989
Accrued Wages and Benefits	703,740	260,064	963,804
Matured Compensated Absences Payable	14,304	7,611	21,915
Intergovernmental Payable	715,067	201,891	916,958
Retainage Payable	280,475	2,655,616	2,936,091
Accrued Interest Payable	281,479	3,072	284,551
Claims Payable	414,901	0	414,901
Long-Term Liabilities:			
Due Within One Year	7,462,761	5,298,889	12,761,650
Due In More Than One Year	69,956,340	101,260,528	171,216,868
<i>Total Liabilities</i>	<i>81,411,560</i>	<i>110,270,306</i>	<i>191,681,866</i>
<b>Deferred Inflows of Resources</b>			
Property Taxes	3,012,288	0	3,012,288
<b>Net Position</b>			
Net Investment in Capital Assets	51,159,721	63,946,153	115,105,874
Restricted for:			
Capital Projects	894,206	102,519	996,725
Debt Service	4,182,380	0	4,182,380
Utility Reserve	0	1,687,859	1,687,859
Community Development	15,378,522	0	15,378,522
Streets	2,455,685	0	2,455,685
Police	1,660,891	0	1,660,891
Municipal Courts	1,142,850	0	1,142,850
Capital Leases	106,303	0	106,303
Other Purposes	70,444	0	70,444
Unrestricted	1,644,026	18,568,370	20,212,396
<i>Total Net Position</i>	<i>\$78,695,028</i>	<i>\$84,304,901</i>	<i>\$162,999,929</i>

See accompanying notes to the basic financial statements

**City of Lorain, Ohio**  
*Statement of Activities*  
*For the Year Ended December 31, 2014*

	Program Revenues			
	Expenses	Charges for Services and Assessments	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities</b>				
General Government	\$9,931,897	\$4,982,590	\$40,488	\$4,110
Security of Persons and Property	22,469,683	1,112,135	89,540	7,480
Transportation	9,671,890	100,687	2,675,768	0
Public Health	1,042,506	803,042	192,697	0
Community Environment	693,218	793,603	5,198	0
Economic Development	3,002,782	39,621	0	0
Leisure Time Activities	857,777	16,582	0	0
Interest and Fiscal Charges	2,497,985	0	0	0
<i>Total Governmental Activities</i>	<i>50,167,738</i>	<i>7,848,260</i>	<i>3,003,691</i>	<i>11,590</i>

<b>Business-Type Activities</b>				
Water Works	8,625,957	11,001,386	0	0
Water Pollution Control	11,208,367	16,516,051	0	0
<i>Total Business-Type Activities</i>	<i>19,834,324</i>	<i>27,517,437</i>	<i>0</i>	<i>0</i>
<i>Total</i>	<i>\$70,002,062</i>	<i>\$35,365,697</i>	<i>\$3,003,691</i>	<i>\$11,590</i>

**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

Gain on Sale of Capital Assets

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
(\$4,904,709)	\$0	(\$4,904,709)
(21,260,528)	0	(21,260,528)
(6,895,435)	0	(6,895,435)
(46,767)	0	(46,767)
105,583	0	105,583
(2,963,161)	0	(2,963,161)
(841,195)	0	(841,195)
(2,497,985)	0	(2,497,985)
 (39,304,197)	 0	 (39,304,197)
  0	 2,375,429	 2,375,429
 0	 5,307,684	 5,307,684
 0	 7,683,113	 7,683,113
 (39,304,197)	 7,683,113	 (31,621,084)
  2,414,850	 0	 2,414,850
262,501	0	262,501
263,252	0	263,252
942,220	0	942,220
 20,923,911	 0	 20,923,911
2,598,426	0	2,598,426
2,597,636	0	2,597,636
1,087,189	0	1,087,189
 3,082,275	 0	 3,082,275
559,324	0	559,324
41,999	126	42,125
0	13,682	13,682
511,440	73,524	584,964
 35,285,023	 87,332	 35,372,355
 92,545	 (92,545)	 0
 35,377,568	 (5,213)	 35,372,355
 (3,926,629)	 7,677,900	 3,751,271
 82,621,657	 76,627,001	 159,248,658
 <b>\$78,695,028</b>	 <b>\$84,304,901</b>	 <b>\$162,999,929</b>

**City of Lorain, Ohio**

*Balance Sheet  
Governmental Funds  
December 31, 2014*

	General	Streets	Community Development	Capital Improvements	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Equity in Pooled Cash and Cash Equivalents	\$1,625,585	\$1,097,583	\$3,808,523	\$5,010,162	\$4,892,660	\$16,434,513
Cash and Cash Equivalents:						
In Segregated Accounts	410,709	0	0	158,848	0	569,557
With Fiscal Agents	54,540	2,001	94,919	0	49,762	201,222
Accounts Receivable	138,610	0	0	25,634	492,226	656,470
Inventory Held for Resale	0	0	1,976,520	0	0	1,976,520
Materials and Supplies Inventory	49,920	98,556	1,214	0	64,005	213,695
Interfund Receivable	330,282	0	0	0	149,094	479,376
Intergovernmental Receivable	1,465,069	917,635	4,717,956	300,657	239,111	7,640,428
Prepaid Items	333,408	285	3,992	0	31,552	369,237
Municipal Income Taxes Receivable	2,829,808	340,488	0	0	355,677	3,525,973
Property Taxes Receivable	2,593,338	0	0	0	1,448,905	4,042,243
Payments in Lieu of Taxes Receivable	0	0	65,175	43,702	406,954	515,831
Special Assessments Receivable	635,408	0	0	0	2,615,706	3,251,114
Loans Receivable	0	0	10,776,964	0	133,533	10,910,497
Restricted Assets:						
Equity in Pooled Cash and Cash Equivalents	51,118	0	0	0	0	51,118
<i>Total Assets</i>	<u>\$10,517,795</u>	<u>\$2,456,548</u>	<u>\$21,445,263</u>	<u>\$5,539,003</u>	<u>\$10,879,185</u>	<u>\$50,837,794</u>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts Payable	\$362,698	\$106,794	\$20,475	\$0	\$99,944	\$589,911
Contracts Payable	0	0	0	906,502	59,487	965,989
Accrued Wages and Benefits	556,351	49,614	8,133	0	75,159	689,257
Matured Compensated Absences Payable	0	0	14,304	0	0	14,304
Intergovernmental Payable	594,642	38,537	11,286	0	58,255	702,720
Retainage Payable	0	0	0	280,475	0	280,475
Interfund Payable	176,646	48,091	596	0	285,954	511,287
Accrued Interest Payable	0	0	0	0	9,528	9,528
<i>Total Liabilities</i>	<u>1,690,337</u>	<u>243,036</u>	<u>54,794</u>	<u>1,186,977</u>	<u>588,327</u>	<u>3,763,471</u>
<b>Deferred Inflows of Resources</b>						
Property Taxes	1,932,561	0	0	0	1,079,727	3,012,288
Unavailable Revenue	2,747,451	639,417	4,164,556	43,702	3,793,444	11,388,570
<i>Total Deferred Inflows of Resources</i>	<u>4,680,012</u>	<u>639,417</u>	<u>4,164,556</u>	<u>43,702</u>	<u>4,873,171</u>	<u>14,400,858</u>
<b>Fund Balances</b>						
Nonspendable	434,446	98,841	5,206	0	95,557	634,050
Restricted	467,807	1,475,254	17,220,707	4,308,324	3,710,918	27,183,010
Committed	597,163	0	0	0	1,897,158	2,494,321
Assigned	237,340	0	0	0	0	237,340
Unassigned (Deficit)	2,410,690	0	0	0	(285,946)	2,124,744
<i>Total Fund Balances</i>	<u>4,147,446</u>	<u>1,574,095</u>	<u>17,225,913</u>	<u>4,308,324</u>	<u>5,417,687</u>	<u>32,673,465</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u><u>\$10,517,795</u></u>	<u><u>\$2,456,548</u></u>	<u><u>\$21,445,263</u></u>	<u><u>\$5,539,003</u></u>	<u><u>\$10,879,185</u></u>	<u><u>\$50,837,794</u></u>

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, 2014*

**Total Governmental Fund Balances** \$32,673,465

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

Capital assets used in governmental activities are not financial resources  
 and therefore are not reported in the funds. 110,959,395

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	\$3,251,114
Delinquent Property Taxes	1,029,955
Intergovernmental	5,841,865
Municipal Income Taxes	592,886
Payments in Lieu of Taxes	515,831
Loans	<u>156,919</u>

Total 11,388,570

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)	(2,931,284)
Capital Assets	(173,988)
Bonds Payable	4,114,476
Compensated Absences	72,201
Internal Balances	<u>104,768</u>

Total 1,186,173

In the statement of activities, interest is accrued on outstanding bonds,  
 whereas in governmental fund, an interest expenditure is reported when due. (271,951)

Long-term liabilities are not due and payable in the current period therefore  
 they are not reported in the funds:

General Obligation Bonds	(49,226,583)
Special Assessment Bonds	(1,366,895)
HUD Section 108 Loans	(1,975,000)
OPWC Loans	(2,330,197)
State Infrastructure Bank Loans	(5,046,775)
Other Loans	(5,974,652)
Compensated Absences	(7,533,581)
Capital Leases	(3,216,717)
Pollution Remediation	(863,440)
Bond Premium	(21,050)
Bond Discount	194,674
Claims and Judgments	(58,885)
Deferred Charge on Refunding	<u>178,477</u>

Total (77,240,624)

*Net Position of Governmental Activities* \$78,695,028

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, 2014*

	General	Streets	Community Development	Capital Improvements	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Property Taxes	\$1,919,641	\$0	\$0	\$0	\$1,191,279	\$3,110,920
Payments in Lieu of Taxes	0	0	139,546	25,634	854,850	1,020,030
Municipal Income Taxes	20,834,994	2,589,575	0	0	2,586,871	26,011,440
Charges for Services	1,156,026	0	0	0	2,136,970	3,292,996
Licenses and Permits	1,540,878	0	32,267	0	364,230	1,937,375
Fines and Forfeitures	1,091,821	0	0	0	780,595	1,872,416
Intergovernmental	2,930,592	2,173,897	2,259,300	484,985	908,261	8,757,035
Franchise Fees	559,324	0	0	0	0	559,324
Special Assessments	0	0	0	0	79,496	79,496
Interest	31,279	0	3,106	0	7,614	41,999
Contributions and Donations	160,114	0	0	0	0	160,114
Miscellaneous	108,309	32,223	7,922	53	362,479	510,986
<i>Total Revenues</i>	<i>30,332,978</i>	<i>4,795,695</i>	<i>2,442,141</i>	<i>510,672</i>	<i>9,272,645</i>	<i>47,354,131</i>
<b>Expenditures</b>						
Current:						
General Government	7,893,076	0	0	0	377,507	8,270,583
Security of Persons and Property	19,240,514	0	0	0	3,005,760	22,246,274
Transportation	0	4,301,691	0	0	262,964	4,564,655
Public Health	194,970	0	0	0	768,846	963,816
Community Environment	637,999	0	0	0	5,198	643,197
Economic Development	187,333	0	2,072,211	0	0	2,259,544
Leisure Time Activities	645,139	0	0	0	0	645,139
Capital Outlay	0	0	0	12,384,958	1,081,021	13,465,979
Debt Service:	0	0	0	0	0	0
Principal Retirement	386,410	432,573	439,350	0	3,881,623	5,139,956
Interest and Fiscal Charges	24,637	21,733	162,546	0	1,932,651	2,141,567
Bond Issuance Costs	0	0	0	157,197	0	157,197
<i>Total Expenditures</i>	<i>29,210,078</i>	<i>4,755,997</i>	<i>2,674,107</i>	<i>12,542,155</i>	<i>11,315,570</i>	<i>60,497,907</i>
<i>Excess of Revenues Over (Under) Expenditures</i>	<i>1,122,900</i>	<i>39,698</i>	<i>(231,966)</i>	<i>(12,031,483)</i>	<i>(2,042,925)</i>	<i>(13,143,776)</i>
<b>Other Financing Sources (Uses)</b>						
Bonds Issued	0	0	0	5,790,000	0	5,790,000
Loans Received	0	0	0	5,176,714	0	5,176,714
Discount on Debt Issuance	0	0	0	(26,816)	0	(26,816)
Transfers In	116,340	561,500	100,000	0	3,307,548	4,085,388
Transfers Out	(2,066,561)	(607,414)	(100,290)	(236,589)	(982,974)	(3,993,828)
<i>Total Other Financing Sources (Uses)</i>	<i>(1,950,221)</i>	<i>(45,914)</i>	<i>(290)</i>	<i>10,703,309</i>	<i>2,324,574</i>	<i>11,031,458</i>
<i>Net Change in Fund Balances</i>	<i>(827,321)</i>	<i>(6,216)</i>	<i>(232,256)</i>	<i>(1,328,174)</i>	<i>281,649</i>	<i>(2,112,318)</i>
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<i>4,974,767</i>	<i>1,580,311</i>	<i>17,458,169</i>	<i>5,636,498</i>	<i>5,136,038</i>	<i>34,785,783</i>
<i>Fund Balances End of Year</i>	<i>\$4,147,446</i>	<i>\$1,574,095</i>	<i>\$17,225,913</i>	<i>\$4,308,324</i>	<i>\$5,417,687</i>	<i>\$32,673,465</i>

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, 2014*

**Net Change in Fund Balances - Total Governmental Funds** (\$2,112,318)

*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 Asset Additions	\$14,280,665
Current Year Depreciation	(7,784,928)
Total	6,495,737

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. (411,231)

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

Delinquent Property Taxes	771,903
Intergovernmental	(3,844,811)
Municipal Income Taxes	108,533
Special Assessments	79,206
Payments in Lieu of Taxes	106,252
Total	(2,778,917)

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	(5,790,000)
Bond Discount	26,816
Loans Received	(5,176,714)
Total	(10,939,898)

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	5,139,956
Internal Service Fund	273,395
Total	5,413,351

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

Accrued Interest	(334,399)
Amortization of Bond Premium	1,864
Amortization of Bond Discount	(11,144)
Amortization of Deferred Charge on Refunding	(12,739)
Total	(356,418)

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	179,661
Claims and Judgments	58,783
Pollution Remediation	(8,549)
Vacation Benefits	9,457
Total	239,352

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	775,192
Capital Assets	5,464
Compensated Absences	5,418
Principal Retirement	(273,395)
Interest Expense	295,283
Internal Balance	(284,249)
Total	523,713

*Change in Net Position of Governmental Activities* (\$3,926,629)

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, 2014*

	Budgeted Amounts		Variance with Final Budget
	Original	Final	Positive (Negative)
<b>Revenues:</b>			
Property Taxes	\$1,958,919	\$1,958,919	\$1,919,641
Municipal Income Taxes	19,798,171	20,319,171	20,606,719
Charges for Services	1,465,771	1,497,911	1,147,479
Licenses and Permits	1,715,575	1,713,953	1,540,878
Fines and Forfeitures	1,108,500	1,111,504	902,466
Intergovernmental	2,950,813	2,986,075	2,927,803
Franchise Fees	600,000	600,000	565,394
Interest	15,100	15,100	41,635
Contributions and Donations	120,000	120,000	160,114
Miscellaneous	1,565,384	1,577,124	1,557,673
<i>Total Revenues</i>	<i>31,298,233</i>	<i>31,899,757</i>	<i>31,369,802</i>
			(529,955)
<b>Expenditures:</b>			
Current:			
General Government	8,513,670	8,694,021	8,875,482
Security of Persons and Property	19,029,859	19,445,390	19,235,816
Public Health	200,428	206,006	195,151
Community Environment	629,590	640,844	629,288
Economic Development	45,000	45,000	25,000
Leisure Time Activities	684,612	658,846	638,806
Debt Service:			
Principal Retirement	383,525	383,525	383,525
Interest and Fiscal Charges	33,730	24,730	24,518
<i>Total Expenditures</i>	<i>29,520,414</i>	<i>30,098,362</i>	<i>30,007,586</i>
			90,776
<i>Excess of Revenues Over Expenditures</i>	<i>1,777,819</i>	<i>1,801,395</i>	<i>1,362,216</i>
			(439,179)
<b>Other Financing Sources (Uses):</b>			
Advances In	188,970	188,970	135,172
Transfers In	0	45,893	45,893
Transfers Out	(2,498,989)	(2,682,513)	(2,297,961)
<i>Total Other Financing Sources (Uses)</i>	<i>(2,310,019)</i>	<i>(2,447,650)</i>	<i>(2,116,896)</i>
			330,754
<i>Net Change in Fund Balance</i>	<i>(532,200)</i>	<i>(646,255)</i>	<i>(754,680)</i>
			(108,425)
<i>Fund Balance Beginning of Year</i>	<i>1,047,856</i>	<i>1,047,856</i>	<i>1,047,856</i>
Prior Year Encumbrances Appropriated	541,614	541,614	541,614
<i>Fund Balance End of Year</i>	<i>\$1,057,270</i>	<i>\$943,215</i>	<i>\$834,790</i>
			(\$108,425)

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  
Streets Fund  
For the Year Ended December 31, 2014*

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	Positive (Negative)
<b>Revenues:</b>				
Municipal Income Tax	\$2,443,521	\$2,443,521	\$2,559,762	\$116,241
Intergovernmental	2,131,000	2,131,000	2,160,991	29,991
Miscellaneous	500	29,810	32,223	2,413
<i>Total Revenues</i>	<i>4,575,021</i>	<i>4,604,331</i>	<i>4,752,976</i>	<i>148,645</i>
<b>Expenditures:</b>				
Current:				
Transportation	3,955,800	4,514,986	4,347,227	167,759
Debt Service:				
Principal Retirement	432,574	432,574	432,573	1
Interest and Fiscal Charges	22,950	22,950	22,950	0
<i>Total Expenditures</i>	<i>4,411,324</i>	<i>4,970,510</i>	<i>4,802,750</i>	<i>167,760</i>
<i>Excess of Revenues Over (Under) Expenditures</i>	<i>163,697</i>	<i>(366,179)</i>	<i>(49,774)</i>	<i>316,405</i>
<b>Other Financing Sources (Uses):</b>				
Transfers In	561,500	561,500	561,500	0
Transfers Out	(512,818)	(607,416)	(607,414)	2
<i>Total Other Financing Sources (Uses)</i>	<i>48,682</i>	<i>(45,916)</i>	<i>(45,914)</i>	<i>2</i>
<i>Net Change in Fund Balance</i>	<i>212,379</i>	<i>(412,095)</i>	<i>(95,688)</i>	<i>316,407</i>
<i>Fund Balance Beginning of Year</i>	<i>343,752</i>	<i>343,752</i>	<i>343,752</i>	<i>0</i>
<i>Prior Year Encumbrances Appropriated</i>	<i>675,598</i>	<i>675,598</i>	<i>675,598</i>	<i>0</i>
<i>Fund Balance End of Year</i>	<i>\$1,231,729</i>	<i>\$607,255</i>	<i>\$923,662</i>	<i>\$316,407</i>

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, 2014*

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	
<b>Revenues:</b>				
Payments in Lieu of Taxes	\$123,340	\$125,507	\$139,546	\$14,039
Licenses and Permits	20,000	29,067	31,367	2,300
Intergovernmental	2,388,618	7,193,381	3,013,950	(4,179,431)
Interest	2,790	2,790	3,104	314
Miscellaneous	17,350	21,170	7,922	(13,248)
<i>Total Revenues</i>	<u>2,552,098</u>	<u>7,371,915</u>	<u>3,195,889</u>	<u>(4,176,026)</u>
<b>Expenditures:</b>				
Current:				
Economic Development	2,140,964	8,297,618	3,259,017	5,038,601
Debt Service:				
Principal Retirement	216,454	604,349	439,350	164,999
Interest and Fiscal Charges	162,546	162,546	162,546	0
<i>Total Expenditures</i>	<u>2,519,964</u>	<u>9,064,513</u>	<u>3,860,913</u>	<u>5,203,600</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>32,134</u>	<u>(1,692,598)</u>	<u>(665,024)</u>	<u>1,027,574</u>
<b>Other Financing Sources (Uses):</b>				
Advances Out	(16,089)	(34,826)	(34,617)	209
Transfers In	316,968	215,314	100,000	(115,314)
Transfers Out	(100,290)	(100,290)	(100,290)	0
<i>Total Other Financing Sources (Uses)</i>	<u>200,589</u>	<u>80,198</u>	<u>(34,907)</u>	<u>(115,105)</u>
<i>Net Change in Fund Balance</i>	<u>232,723</u>	<u>(1,612,400)</u>	<u>(699,931)</u>	<u>912,469</u>
<i>Fund Balance Beginning of Year</i>	<u>3,709,794</u>	<u>3,709,794</u>	<u>3,709,794</u>	<u>0</u>
Prior Year Encumbrances Appropriated	<u>520,986</u>	<u>520,986</u>	<u>520,986</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$4,463,503</u>	<u>\$2,618,380</u>	<u>\$3,530,849</u>	<u>\$912,469</u>

See accompanying notes to the basic financial statements

**City of Lorain, Ohio**  
*Statement of Fund Net Position*  
*Proprietary Funds*  
*December 31, 2014*

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Water Works	Water Pollution Control	Total	Internal Service Funds
<b>Assets</b>				
<i>Current Assets</i>				
Equity in Pooled Cash and Cash Equivalents	\$543,901	\$17,726,950	\$18,270,851	\$88,921
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	529,778	1,211,595	1,741,373	0
With Fiscal Agents	15,588	33,417	49,005	0
Accounts Receivable	1,707,699	2,374,775	4,082,474	0
Materials and Supplies Inventory	767,516	65,365	832,881	1,414,355
Interfund Receivable	191	2,572	2,763	85,278
Intergovernmental Receivable	0	287,017	287,017	0
Prepaid Items	112,811	87,700	200,511	1,736
Loans Receivable	0	27,973	27,973	0
<i>Total Current Assets</i>	<u>3,677,484</u>	<u>21,817,364</u>	<u>25,494,848</u>	<u>1,590,290</u>
<i>Noncurrent Assets</i>				
Loans Receivable	0	204,832	204,832	0
Non-Depreciable Capital Assets	19,699,034	46,231,581	65,930,615	0
Depreciable Capital Assets, Net	<u>32,424,907</u>	<u>70,640,342</u>	<u>103,065,249</u>	<u>173,988</u>
<i>Total Noncurrent Assets</i>	<u>52,123,941</u>	<u>117,076,755</u>	<u>169,200,696</u>	<u>173,988</u>
<i>Total Assets</i>	<u>55,801,425</u>	<u>138,894,119</u>	<u>194,695,544</u>	<u>1,764,278</u>
<b>Liabilities</b>				
<i>Current Liabilities</i>				
Accounts Payable	292,456	290,179	582,635	26,593
Accrued Wages and Benefits	114,350	145,714	260,064	14,483
Matured Compensated Absences Payable	0	7,611	7,611	0
Intergovernmental Payable	94,391	107,500	201,891	12,347
Retainage Payable	502,712	2,152,904	2,655,616	0
Accrued Interest Payable	2,973	99	3,072	0
Interfund Payable	6,374	9,195	15,569	40,561
Claims Payable	0	0	0	414,901
Capital Leases Payable	368,814	343,509	712,323	0
Compensated Absences Payable	0	35,799	35,799	0
Pollution Remediation Payable	0	59,440	59,440	0
Bonds Payable	583,963	27,559	611,522	289,476
OWDA Loans	<u>1,789,512</u>	<u>2,090,293</u>	<u>3,879,805</u>	<u>0</u>
<i>Total Current Liabilities</i>	<u>3,755,545</u>	<u>5,269,802</u>	<u>9,025,347</u>	<u>798,361</u>
<i>Long-Term Liabilities (Net of Current Portion)</i>				
Capital Leases Payable	919,010	827,680	1,746,690	0
Compensated Absences Payable	513,594	684,468	1,198,062	72,201
Pollution Remediation Payable	0	160,970	160,970	0
Bonds Payable	596,429	0	596,429	3,825,000
OWDA Loans	<u>32,087,326</u>	<u>65,471,051</u>	<u>97,558,377</u>	<u>0</u>
<i>Total Long-Term Liabilities</i>	<u>34,116,359</u>	<u>67,144,169</u>	<u>101,260,528</u>	<u>3,897,201</u>
<i>Total Liabilities</i>	<u>37,871,904</u>	<u>72,413,971</u>	<u>110,285,875</u>	<u>4,695,562</u>
<b>Net Position</b>				
Net Investment in Capital Assets	15,800,904	48,145,249	63,946,153	149,512
Restricted For:				
Utility Reserve	476,264	1,211,595	1,687,859	0
Capital Leases	69,102	33,417	102,519	0
Unrestricted (Deficit)	<u>1,583,251</u>	<u>17,089,887</u>	<u>18,673,138</u>	<u>(3,080,796)</u>
<i>Total Net Position (Deficit)</i>	<u>\$17,929,521</u>	<u>\$66,480,148</u>	<u>84,409,669</u>	<u>(\$2,931,284)</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 (104,768)

Net position business-type activities \$84,304,901

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, 2014*

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Water Works	Pollution Control	Total	Internal Service Funds
<b>Operating Revenues</b>				
Charges for Services	\$11,001,386	\$16,516,051	\$27,517,437	\$8,530,448
Miscellaneous	45,643	27,881	73,524	0
<i>Total Operating Revenues</i>	<u>11,047,029</u>	<u>16,543,932</u>	<u>27,590,961</u>	<u>8,530,448</u>
<b>Operating Expenses</b>				
Personal Services	4,479,198	4,818,839	9,298,037	638,988
Materials and Supplies	533,909	730,720	1,264,629	1,201,086
Contractual Services	839,727	1,321,221	2,160,948	3,403
Claims	0	0	0	5,597,093
Basic Utilities	512,728	739,357	1,252,085	0
Other Expense	307,854	442,944	750,798	2,535
Depreciation	997,202	2,464,891	3,462,093	5,464
<i>Total Operating Expenses</i>	<u>7,670,618</u>	<u>10,517,972</u>	<u>18,188,590</u>	<u>7,448,569</u>
<i>Operating Income</i>	<u>3,376,411</u>	<u>6,025,960</u>	<u>9,402,371</u>	<u>1,081,879</u>
<b>Non-Operating Revenues (Expenses)</b>				
Gain on Sale of Capital Assets	10,177	3,505	13,682	616
Interest	126	0	126	0
Loss on Disposal of Assets	(13,005)	0	(13,005)	0
Interest and Fiscal Charges	(1,097,775)	(832,208)	(1,929,983)	(295,283)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(1,100,477)</u>	<u>(828,703)</u>	<u>(1,929,180)</u>	<u>(294,667)</u>
<i>Income Before Transfers</i>	<u>2,275,934</u>	<u>5,197,257</u>	<u>7,473,191</u>	<u>787,212</u>
Transfers Out	<u>(37,701)</u>	<u>(41,839)</u>	<u>(79,540)</u>	<u>(12,020)</u>
<i>Change in Net Position</i>	<u>2,238,233</u>	<u>5,155,418</u>	<u>7,393,651</u>	<u>775,192</u>
<i>Net Position (Deficit) Beginning of Year</i>	<u>15,691,288</u>	<u>61,324,730</u>		<u>(3,706,476)</u>
<i>Net Position (Deficit) End of Year</i>	<u>\$17,929,521</u>	<u>\$66,480,148</u>		<u>(\$2,931,284)</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			<u>284,249</u>	
Change in net position business-type activities			<u>\$7,677,900</u>	

See accompanying notes to the basic financial statements

**City of Lorain, Ohio**  
**Statement of Cash Flows**  
**Proprietary Funds**  
*For the Year Ended December 31, 2014*

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Water Works	Water Pollution Control	Total	Internal Service Funds
<b>Increase (Decrease) in Cash and Cash Equivalents</b>				
<b>Cash Flows from Operating Activities</b>				
Cash Received from Customers	\$10,948,061	\$16,665,074	\$27,613,135	\$0
Cash Received from Transactions with Other Funds	0	0	0	8,445,330
Cash Payments for Goods and Services	(2,538,954)	(2,840,822)	(5,379,776)	(1,366,372)
Cash Payments for Employee Services and Benefits	(4,607,465)	(4,930,162)	(9,537,627)	(631,059)
Cash Payments for Claims	0	0	0	(5,760,068)
Other Operating Revenues	45,643	55,854	101,497	0
<i>Net Cash Provided by Operating Activities</i>	<u>3,847,285</u>	<u>8,949,944</u>	<u>12,797,229</u>	<u>687,831</u>
<b>Cash Flows from Noncapital Financing Activities</b>				
Principal Paid on Bonds	0	0	0	(250,000)
Interest Paid on Bonds	0	0	0	(293,200)
Advances In	0	0	0	40,561
Advances Out	(142,360)	0	(142,360)	(65,291)
Transfers Out	(37,701)	(41,839)	(79,540)	(12,020)
<i>Net Cash Used for Noncapital Financing Activities</i>	<u>(180,061)</u>	<u>(41,839)</u>	<u>(221,900)</u>	<u>(579,950)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Acquisition of Capital Assets	(11,617,691)	(18,048,380)	(29,666,071)	0
Sale of Capital Assets	16,190	6,458	22,648	616
OWDA Loans Received	11,277,125	16,929,056	28,206,181	0
Principal Paid on Bonds	(568,568)	(26,344)	(594,912)	(23,395)
Interest Paid on Bonds	(53,250)	(2,345)	(55,595)	(2,083)
Principal Paid on OWDA Loans	(1,276,979)	(2,259,606)	(3,536,585)	0
Interest Paid on OWDA Loans	(999,325)	(789,444)	(1,788,769)	0
Principal Paid on Capital Leases	(367,860)	(342,885)	(710,745)	0
Interest Paid on Capital Leases	(25,433)	(22,795)	(48,228)	0
Capital Grant	0	296,760	296,760	0
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(3,615,791)</u>	<u>(4,259,525)</u>	<u>(7,875,316)</u>	<u>(24,862)</u>
<b>Cash Flows from Investing Activities</b>				
Interest	126	0	126	0
Net Increase in Cash and Cash Equivalents	51,559	4,648,580	4,700,139	83,019
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>1,037,708</u>	<u>14,323,382</u>	<u>15,361,090</u>	<u>5,902</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$1,089,267</u>	<u>\$18,971,962</u>	<u>\$20,061,229</u>	<u>\$88,921</u>

(continued)

**City of Lorain, Ohio**  
*Statement of Cash Flows*  
*Proprietary Funds (continued)*  
*For the Year Ended December 31, 2014*

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Water Works	Water Pollution Control	Total	Internal Service Funds
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>				
Operating Income	\$3,376,411	\$6,025,960	\$9,402,371	\$1,081,879
<i>Adjustments:</i>				
Depreciation	997,202	2,464,891	3,462,093	5,464
(Increase) Decrease in Assets:				
Accounts Receivable	(54,068)	156,942	102,874	0
Interfund Receivable	(103)	(1,319)	(1,422)	(85,118)
Intergovernmental Receivable	0	(257,766)	(257,766)	0
Materials and Supplies Inventory	(158,255)	177,386	19,131	(111,654)
Prepaid Items	(76,889)	(66,895)	(143,784)	520
Loans Receivable	0	27,973	27,973	0
Increase (Decrease) in Liabilities:				
Accounts Payable	73,888	(11,282)	62,606	(48,426)
Contracts Payable	(42,394)	(109,933)	(152,327)	0
Accrued Wages and Benefits	(24,359)	71	(24,288)	2,472
Claims Payable	0	0	0	(162,975)
Claims and Judgments Payable	(3,374)	(2,213)	(5,587)	(802)
Compensated Absences Payable	(90,463)	(102,900)	(193,363)	5,418
Interfund Payable	6,374	9,195	15,569	0
Intergovernmental Payable	(10,071)	(6,281)	(16,352)	1,053
Retainage Payable	(146,614)	515,839	369,225	0
Pollution Remediation Payable	0	(180,805)	(180,805)	0
<i>Total Adjustments</i>	<i>470,874</i>	<i>2,923,984</i>	<i>3,394,858</i>	<i>(394,048)</i>
<i>Net Cash Provided by Operating Activities</i>	<i>\$3,847,285</i>	<i>\$8,949,944</i>	<i>\$12,797,229</i>	<i>\$687,831</i>

**Noncash Capital Financing Activities**

In 2014 the Water Fund transferred assets to the General Government resulting in a Loss on Disposal of Assets in the amount of \$13,005

See accompanying notes to the basic financial statements

**City of Lorain, Ohio**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Funds*  
*December 31, 2014*

**Assets**

Equity in Pooled Cash and Cash Equivalents	<u><u>\$2,547,021</u></u>
--	---------------------------

**Liabilities**

Deposits Held and Due to Others	<u><u>\$2,547,021</u></u>
---------------------------------	---------------------------

See accompanying notes to the basic financial statements



**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

---

## **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 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.

### ***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.

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

---

**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:

**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.

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

---

**Streets Special Revenue Fund** This fund accounts for and reports voted municipal income tax and that portion of State gasoline tax and motor vehicle registration fees restricted for the maintenance and repair of dedicated streets within the City. Included in this fund as a subfund for State highway for that portion of the State gasoline tax, motor vehicle registration fees designated for State highways and street maintenance within the City.

**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.

**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 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.

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

---

### ***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 a 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 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

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

---

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 include a deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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 as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2014, but which were levied to finance 2015 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.

**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.

***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.

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

---

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 fire pension fund, water works fund, and the hospitalization fund to cover deficit cash balances. The fire pension, water works, 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 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. Investments with an original maturity of more than three months, not purchased from the pool, are reported as investments.

During 2014, 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, 2014.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the General Fund during 2014 amounted to \$31,279 of which 92.85 percent or \$29,041 was assigned from other City funds.

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

---

***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, 2014, 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.

***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

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

---

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:

<b>Description</b>	<b>Estimated Lives</b>
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

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 can either be paid to the employee in the subsequent year

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

---

or placed in the employee's vacation bank, within certain limits, to be paid upon retirement. Any outstanding liability for amounts to be paid to employees in the subsequent year is recorded as "vacation benefits payable" on the statement of net position rather than as long-term liability.

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 and compensated absences 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:

***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

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

---

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, as each are equally binding) 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.

#### ***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 health services, municipal court activities and police and fire pension payments.

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

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

---

### ***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 – Restatement of Prior Year’s Fund Balance and Net Position**

### ***Restatement of Fund Balance/Net Position – Governmental Activities***

In 2013 cash and cash equivalents in segregated accounts in the General fund was overstated by \$185,794 due to a portion of the cash in the Municipal Court accounts being reclassified to agency fund status. This correction had the following effect on fund balance at December 31, 2013:

	General	Streets	Community Development	Capital Improvements	Other Governmental Funds	Total Governmental Funds
Fund Balances, December 31, 2013	\$5,160,561	\$1,580,311	\$17,458,169	\$5,636,498	\$5,136,038	\$34,971,577
Restatement:						
Cash and Cash Equivalents						
In Segregated Accounts	(185,794)	0	0	0	0	(185,794)
Restated Fund Balances, December 31, 2013	<u>\$4,974,767</u>	<u>\$1,580,311</u>	<u>\$17,458,169</u>	<u>\$5,636,498</u>	<u>\$5,136,038</u>	<u>\$34,785,783</u>

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

---

This correction had the following effect on the governmental activities net position as of December 31, 2013:

	Governmental Activities
Net Position, December 31, 2013	\$ 82,807,451
Restatement:	
Cash and Cash Equivalents	
In Segregated Accounts	(185,794)
Restated Net Position, December 31, 2013	<hr/> \$ 82,621,657 <hr/> =====

In addition, this correction had the effect of increasing the December 31, 2013 balance of the Agency funds, assets and liabilities by \$185,794.

#### **Note 4 – Fund Deficits and Legal Compliance**

##### ***Fund Deficits***

Fund balances at December 31, 2014 included the following individual fund balance deficits:

<b>Nonmajor Funds:</b>	<b>Deficit</b>
<hr/>	
Special Revenue Funds:	
Police Pension	\$132,330
Fire Pension	147,839
Indigent Drivers	174
<hr/>	
Internal Service Fund:	
Hospitalization	4,430,066

The deficit in the police pension, fire pension, and indigent drivers 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.

##### ***Legal Compliance***

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

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

---

<b>Major Fund:</b>	<b>Final Appropriations</b>	<b>Expenditures Plus Encumbrances</b>	<b>Excess</b>
General Fund:			
Treasurer			
Contractual Services	\$78,619	\$85,983	(\$7,364)
Capital Outlay	1,000	1,178	(178)
Judges			
Materials and Supplies	3,037	3,060	(23)
Clerk of Courts			
Wages and Benefits	1,001,802	1,006,156	(4,354)
Safety/Service			
Contractual Services	1,658,479	2,006,090	(347,611)
Fire Department			
Contractual Services	98,127	100,755	(2,628)
Parks Department			
Contractual Services	140,550	145,453	(4,903)

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

### **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**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

---

Fund Balances	General Fund	Streets	Community Development	Capital Improvements	Other Governmental Funds	Total
<b><u>Nonspendable:</u></b>						
Prepads	\$333,408	\$285	\$3,992	\$0	\$31,552	\$369,237
Material and Supplies Inventory	49,920	98,556	1,214	0	64,005	213,695
Unclaimed Monies	51,118	0	0	0	0	51,118
<i>Total Nonspendable</i>	<i>434,446</i>	<i>98,841</i>	<i>5,206</i>	<i>0</i>	<i>95,557</i>	<i>634,050</i>
<b><u>Restricted for:</u></b>						
Loans Receivable	0	0	10,776,964	0	0	10,776,964
Road Improvements	0	1,473,253	0	4,308,324	433,827	6,215,404
Economic Development Projects	0	0	4,372,304	0	0	4,372,304
Inventory Held for Resale	0	0	1,976,520	0	0	1,976,520
Law Enforcement	0	0	0	0	1,682,055	1,682,055
Municipal Court Operations	410,709	0	0	0	587,487	998,196
Debt Service Payments	0	0	94,919	0	879,002	973,921
Equipment Purchases	54,540	2,001	0	0	49,762	106,303
Community Environment Enhancement	0	0	0	0	70,351	70,351
Drug and Alcohol Enforcement	0	0	0	0	8,341	8,341
Cemetery Operations	2,558	0	0	0	0	2,558
Public Health Initiatives	0	0	0	0	93	93
<i>Total Restricted</i>	<i>467,807</i>	<i>1,475,254</i>	<i>17,220,707</i>	<i>4,308,324</i>	<i>3,710,918</i>	<i>27,183,010</i>
<b><u>Committed to:</u></b>						
Storm Sewer Maintenance and Repair	0	0	0	0	1,897,158	1,897,158
Payroll Reserve	265,231	0	0	0	0	265,231
Compensated Absences Reserve	200,182	0	0	0	0	200,182
Park Operations	73,670	0	0	0	0	73,670
Economic Development Incentives	30,793	0	0	0	0	30,793
Jail Operations	27,287	0	0	0	0	27,287
<i>Total Committed</i>	<i>597,163</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>1,897,158</i>	<i>2,494,321</i>
<b><u>Assigned to:</u></b>						
Purchases on Order:						
Purchased/Contracted Services	146,531	0	0	0	0	146,531
Materials and Supplies	48,837	0	0	0	0	48,837
Capital Outlay	41,972	0	0	0	0	41,972
<i>Total Assigned</i>	<i>237,340</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>237,340</i>
Unassigned (Deficits)	2,410,690	0	0	0	(285,946)	2,124,744
<b>Total Fund Balances</b>	<b>\$4,147,446</b>	<b>\$1,574,095</b>	<b>\$17,225,913</b>	<b>\$4,308,324</b>	<b>\$5,417,687</b>	<b>\$32,673,465</b>

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

---

***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 will be 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 is established. Amounts in the reserve are not available for appropriation unless approved by City Council by a majority vote. The balance of the reserve at December 31, 2014 is \$1,000,000.

**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.

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

---

**Net Change in Fund Balance**

	<b>General</b>	<b>Streets</b>	<b>Community Development</b>
GAAP Basis	(\$827,321)	(\$6,216)	(\$232,256)
Net Adjustment for Revenue Accruals	1,044,953	(41,322)	226,182
Beginning Unrecorded Cash	15,408	(299)	240
Ending Unrecorded Cash	(23,537)	(1,098)	(160,915)
Loan Repayments	0	0	688,241
Net Adjustment for Expenditure Accruals	(698,327)	112,891	(218,974)
Loans Issued	0	0	(758,220)
Debt Interest & Fiscal Charges	0	(1,217)	0
Advances In	135,172	0	0
Advances Out	0	0	(34,617)
Excess of Revenue Over (Under) Expenditures			
Economic Development	(167,206)	0	0
Parkland	30,805	0	0
Encumbrances	<u>(264,627)</u>	<u>(158,427)</u>	<u>(209,612)</u>
Budget Basis	<u><u>(\$754,680)</u></u>	<u><u>(\$95,688)</u></u>	<u><u>(\$699,931)</u></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, 2014*

---

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, \$14,490,235 of the City's bank balance of \$15,490,235 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*  
*For The Year Ended December 31, 2014*

---

### ***Investments***

Investments are reported at fair value. As of December 31, 2014, the City had the following investments:

<b>Description</b>	<b>Fair Value</b>	<b>Investment Maturities</b>	<b>Credit Rating</b>	<b>% of Total Investment</b>
		<b>Less Than 1 Year</b>		
Money Market Funds	\$517,850	\$517,850	AAAm	2.16%
STAR Ohio	23,406,034	23,406,034	AAAm	71.80%
Total Investments	<b>\$23,923,884</b>	<b>\$23,923,884</b>		

**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, 2014, 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 \$1,180,130. At December 31, 2014, the amount of delinquent special assessments was \$1,450,816.

The loans receivable at December 31, 2014, 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 \$10,776,964 on the basic financial statements is stated net of estimated uncollectible of \$604,440 with \$483,694 collectible in one year.

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

---

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, 2014 the fund has recorded a loan receivable balance of \$133,533 as a result of this transaction, with \$15,057 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, 2014 the fund has recorded a loan receivable balance of \$232,805 as a result of these transactions, with \$27,973 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 2014 for real and public utility property represent the collection of 2013 taxes.

Real property taxes received in 2014 were levied after October 1, 2013, on the assessed values as of January 1, 2013, the lien date. Real property taxes which were levied in 2014 are collected in and intended to finance 2015. 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 2014 represent the collection of 2013 taxes. Public utility property taxes received in 2014 became a lien on December 31, 2013, were levied after October 1, 2013, 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, 2014, was \$4.96 per \$1,000 of assessed value. The assessed values of real and public utility property upon which 2014 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, 2014, and for which there was an enforceable legal claim. In the governmental funds, the portion of the receivable not levied to finance 2014 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, 2014*

---

***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:

<u>Governmental Activities</u>	<u>Amount</u>
Grants	\$5,090,425
Local Government	1,298,511
Gasoline Tax	591,273
Motor Vehicle Tax	326,362
Homestead and Rollback	280,977
Permissive Tax	39,522
Liquor and Beer Tax	10,433
Other Taxes	2,925
Total Governmental Activities	<u>7,640,428</u>

  

<u>Business-Type Activities</u>	<u></u>
Grants	249,129
Utility Charges	37,888
Total Business-Type Activities	<u>287,017</u>
 Total	 <u>\$7,927,445</u>

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

---

**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, 2014, the City has 142 properties remaining which are being held for resale.

**Note 10 - Capital Assets**

Capital asset activity for the year ended December 31, 2014 was as follows:

	Balance 12/31/2013	Additions	Deletions	Balance 12/31/2014
<b>Governmental Activities</b>				
<i><b>Capital Assets, Not Being Depreciated:</b></i>				
Land	\$9,519,239	\$0	(\$7,882)	\$9,511,357
Easements	6,659,949	0	0	6,659,949
Construction in Progress	13,836,318	12,614,099	(6,030,911)	20,419,506
<i>Total Capital Assets, Not Being Depreciated</i>	<i>30,015,506</i>	<i>12,614,099</i>	<i>(6,038,793)</i>	<i>36,590,812</i>
<i><b>Capital Assets, Being Depreciated:</b></i>				
Buildings and Improvements	23,850,961	43,374	0	23,894,335
Machinery and Equipment	22,548,500	2,315,651	(692,982)	24,171,169
Furniture and Fixtures	328,472	0	0	328,472
Infrastructure:				
Streets, Sidewalks,				
Bridges and Storm Sewers	1,018,924,906	5,338,452	(197,074)	1,024,066,284
<i>Total Capital Assets, Being Depreciated</i>	<i>1,065,652,839</i>	<i>7,697,477</i>	<i>(890,056)</i>	<i>1,072,460,260</i>
Less Accumulated Depreciation:				
Buildings and Improvements	(8,792,418)	(439,027)	0	(9,231,445)
Machinery and Equipment	(10,317,090)	(1,091,189)	486,707	(10,921,572)
Furniture and Fixtures	(124,766)	(16,422)	0	(141,188)
Infrastructure:				
Streets, Sidewalks,				
Bridges and Storm Sewers	(971,559,182)	(6,238,290)	0	(977,797,472)
<i>Total Accumulated Depreciation</i>	<i>(990,793,456)</i>	<i>(7,784,928)*</i>	<i>486,707</i>	<i>(998,091,677)</i>
<b>Total Capital Assets, Being Depreciated, Net</b>	<b>74,859,383</b>	<b>(87,451)</b>	<b>(403,349)</b>	<b>74,368,583</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$104,874,889</b>	<b>\$12,526,648</b>	<b>(\$6,442,142)</b>	<b>\$110,959,395</b>

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

	Balance 12/31/2013	Additions	Deletions	Balance 12/31/2014
<b>Business - Type Activities</b>				
<i><b>Capital Assets, Not Being Depreciated:</b></i>				
Land	\$1,060,557	\$0	\$0	\$1,060,557
Construction in Progress	<u>42,746,740</u>	<u>28,952,566</u>	<u>(6,829,248)</u>	<u>64,870,058</u>
<i>Total Capital Assets, Not Being Depreciated</i>	<u>43,807,297</u>	<u>28,952,566</u>	<u>(6,829,248)</u>	<u>65,930,615</u>
<i><b>Capital Assets, Being Depreciated:</b></i>				
Buildings and Improvements	52,877,073	6,195	0	52,883,268
Machinery and Equipment	27,182,570	755,490	(134,114)	27,803,946
Infrastructure:				
Water Lines	31,594,327	6,763,339	(25,122)	38,332,544
Sewer Lines	<u>84,463,045</u>	<u>17,729</u>	<u>(17,729)</u>	<u>84,463,045</u>
<i>Total Capital Assets, Being Depreciated</i>	<u>196,117,015</u>	<u>7,542,753</u>	<u>(176,965)</u>	<u>203,482,803</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(30,420,272)	(876,864)	0	(31,297,136)
Machinery and Equipment	(18,492,682)	(541,402)	112,143	(18,921,941)
Infrastructure:				
Water Lines	(13,596,216)	(569,760)	0	(14,165,976)
Sewer Lines	<u>(34,558,434)</u>	<u>(1,474,067)</u>	<u>0</u>	<u>(36,032,501)</u>
<i>Total Accumulated Depreciation</i>	<u>(97,067,604)</u>	<u>(3,462,093)</u>	<u>112,143</u>	<u>(100,417,554)</u>
<i>Total Capital Assets, Being Depreciated, Net</i>	<u>99,049,411</u>	<u>4,080,660</u>	<u>(64,822)</u>	<u>103,065,249</u>
<i>Business - Type Activities Capital Assets, Net</i>	<u>\$142,856,708</u>	<u>\$33,033,226</u>	<u>(\$6,894,070)</u>	<u>\$168,995,864</u>

\* Depreciation expense was charged to governmental functions as follows:

General Government	\$1,836,631
Security of Persons and Property	676,292
Transportation	4,966,399
Public Health	33,220
Community Environment	4,318
Economic Development	86,271
Leisure Time Activities	181,797
<i>Total Depreciation Expense</i>	<u>\$7,784,928</u>

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

---

## **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:

<b>Type of Coverage</b>	<b>Limits of Coverage</b>
Property Including Auto Physical Damage	\$221,294,000
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 2014 were \$1,635/single and \$1,595/family in January, for February through December, \$600/single and \$1,430/family. Employees covered under separate ordinances for non-bargaining, management, United Steelworkers Local 6621 and elected officials pay \$80 per month for family coverage and \$40 a month for single coverage per month. The Police, Dispatchers, Corrections Officers and Fire pay \$56/single and

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

---

\$124/family. 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 \$6,399,911 per year. The \$125,000 specific threshold was exceeded by \$251,524. 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 2014, the City did not provide dental coverage.

The claims liability of \$414,901 reported in the hospitalization fund at December 31, 2014 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 2013 and 2014 were:

	<b>Balance at Beginning of Year</b>	<b>Current Year Claims</b>	<b>Claim Payments</b>	<b>Balance at End of Year</b>
2013	\$502,495	\$5,343,340	\$5,267,959	\$577,876
2014	577,876	5,597,093	5,760,068	414,901

### **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

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

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>			
1997 Local Roadway Rehab (#CI04A)	0.00	18,040	January 1, 2014
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
2002 Local Roadway Rehab (#CI22F)	0.00	236,844	July 1, 2014
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	January 1, 2021
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	January 1, 2029
2013 Local Roadway Rehab (#CI24P)	0.00	186,004	January 1, 2028
<i>Ohio Department of Transportation State Infrastructure Bank Loans:</i>			
E. 36th Street Rehab Phase II (#SB060011)	3.00	449,506	October 25, 2014
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	419,147	February 8, 2023
2013 Washington & Reid Avenue Rehab (#SB130005)	3.00	990,754	February 8, 2023
2013 SR611 (#SB130006)	3.00	435,167	February 8, 2023
2013 Local Roadway (5) (#SB130009)	3.00	1,986,249	September 1, 2028

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

---

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
<i>Installment Loans:</i>			
Fire Station Improvements	4.20 %	\$50,000	November 30, 2014
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	3,409,707	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)	6.12	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	July 1, 2023
2006 East Central Relief Sewer (#4548)	4.59	3,400,652	July 1, 2025
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, 2030
2012 Black River Tunnel Phase I (#6166)	2.48	40,540,909	January 1, 2036
2013 Eagle Road Waterline Design (#6293)	3.74	249,712	July 1, 2018
2013 Oberlin Avenue Waterline Replacement (#6394)	3.09	3,888,789	January 1, 2034
2013 SR611 Waterline Replacement (#6416)	3.15	3,438,494	January 1, 2034
2013 Washington & Reid Ave. Waterline Replacement (#6461)	3.44	6,723,090	July 1, 2034
2013 Westside Elevated Tank (#6466)	3.29	2,712,117	January 1, 2035
2013 South Lorain Waterline Replacement Phase 1 (#6542)	4.24	4,370,269	July 1, 2034
2013 Euclid Avenue Waterline Replacement (#6614)	4.12	1,615,521	July 1, 2034
2014 2nd, 4th, 5th, 6th, Hamilton & Reid Waterline Repl (#6716)	3.95	1,865,658	January 1, 2036
2014 E. 31st St. Bridge Waterline Replacement (#6789)	3.31	57,653	January 1, 2035

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

Changes in bonds and other long-term obligations of the City during 2014 were as follows:

	Principal Outstanding 12/31/13	Additions	Deletions	Principal Outstanding 12/31/14	Due Within One Year
<b>Governmental Activities</b>					
<i>General Obligation Bonds:</i>					
Capital Purposes	\$50,000	\$0	\$10,000	\$40,000	\$10,000
Riverfront Urban Renewal Phase II & III	3,840,000	0	135,000	3,705,000	140,000
Unamortized Premium	13,101	0	1,242	11,859	0
Park and Street Improvements	720,300	0	57,489	662,811	60,870
Energy Conservation	593,566	0	290,088	303,478	303,478
Lighthouse Urban Renewal Phase I	1,360,000	0	80,000	1,280,000	85,000
2007 Riverfront Urban Renewal Refunding	4,170,000	0	205,000	3,965,000	215,000
Unamortized Discount	(32,115)	0	(2,230)	(29,885)	0
2007A Colorado Avenue	390,000	0	20,000	370,000	20,000
2007A US Route 6	525,000	0	50,000	475,000	50,000
2007B Heritage Urban Renewal	1,110,000	0	55,000	1,055,000	60,000
Unamortized Discount	(3,949)	0	(267)	(3,682)	0
2008 Pellet Terminal Improvement	4,670,000	0	195,000	4,475,000	205,000
Unamortized Discount	(54,092)	0	(3,664)	(50,428)	0
2010 Health Claims	4,340,000	0	250,000	4,090,000	265,000
2011 Street Improvements	431,093	0	15,799	415,294	18,057
Unamortized Discount	(4,339)	0	(247)	(4,092)	0
2011 Various Purpose Refunding	1,590,000	0	260,000	1,330,000	270,000
Unamortized Discount	(2,397)	0	(225)	(2,172)	0
2012 Jaeger Road	5,320,000	0	220,000	5,100,000	225,000
Unamortized Discount	(18,702)	0	(1,001)	(17,701)	0
2012 Various Purpose Refunding	5,315,000	0	500,000	4,815,000	505,000
Unamortized Discount	(1,608)	0	(127)	(1,481)	0
2013 Property Acquisition	6,885,000	0	190,000	6,695,000	190,000
Unamortized Discount	(52,338)	0	(2,070)	(50,268)	0
2013 Street Improvements	4,855,000	0	195,000	4,660,000	200,000
Unamortized Discount	(608)	0	(31)	(577)	0
2014 Street Improvements	0	5,790,000	0	5,790,000	260,000
Unamortized Discount	0	(26,816)	(771)	(26,045)	0
<i>Total General Obligation Bonds</i>	<u>46,007,912</u>	<u>5,763,184</u>	<u>2,718,985</u>	<u>49,052,111</u>	<u>3,082,405</u>
<i>Special Assessment Bonds with Government Commitment:</i>					
Park and Street Improvements	344,700	0	27,511	317,189	29,130
Street Improvements	350,000	0	15,000	335,000	15,000
Unamortized Premium	9,813	0	622	9,191	0
Street Improvements	220,000	0	10,000	210,000	10,000
Unamortized Discount	(3,581)	0	(211)	(3,370)	0
Street Improvements	523,907	0	19,201	504,706	21,943
Unamortized Discount	(5,273)	0	(300)	(4,973)	0
<i>Total Special Assessment Bonds</i>	<u>1,439,566</u>	<u>0</u>	<u>71,823</u>	<u>1,367,743</u>	<u>76,073</u>
<i>HUD Section 108 Loans:</i>					
Colorado Industrial Park	750,000	0	125,000	625,000	125,000
Land Acquisition	1,450,000	0	100,000	1,350,000	105,000
<i>Total HUD Section 108 Loans</i>	<u>2,200,000</u>	<u>0</u>	<u>225,000</u>	<u>1,975,000</u>	<u>230,000</u>
<i>Other Obligations:</i>					
ODOD Urban Redevelopment Loans	1,837,449	0	214,350	1,623,099	220,854
OPWC Loans	2,533,138	186,004	388,945	2,330,197	353,814
ODOT State Infrastructure Bank Loans	3,788,746	1,581,003	322,974	5,046,775	381,129
Installment Loans	1,154,523	3,409,707	212,677	4,351,553	604,613
Capital Leases	4,471,716	0	1,254,999	3,216,717	1,084,499
Pollution Remediation	854,891	8,549	0	863,440	0
Claims and Judgments	117,668	0	58,783	58,885	58,885
Compensated Absences	7,713,242	404,237	583,898	7,533,581	1,370,489
<i>Total Governmental Activities</i>	<u>\$72,118,851</u>	<u>\$11,352,684</u>	<u>\$6,052,434</u>	<u>\$77,419,101</u>	<u>\$7,462,761</u>

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

	Principal Outstanding 12/31/13	Additions	Deletions	Principal Outstanding 12/31/14	Due Within One Year
<b>Business-Type Activities</b>					
<i>General Obligation Bonds:</i>					
Energy Conservation - Water	\$17,531	\$0	\$8,568	\$8,963	\$8,963
Energy Conservation - Sewer	53,903	0	26,344	27,559	27,559
Various Purpose Refunding - Water	1,725,000	0	560,000	1,165,000	575,000
Unamortized Premium	10,359	0	3,930	6,429	0
<i>Total General Obligation Bonds</i>	<u>1,806,793</u>	<u>0</u>	<u>598,842</u>	<u>1,207,951</u>	<u>611,522</u>
<i>Ohio Water Development Authority Loans:</i>					
East Erie Waterlines	924,631	0	134,237	790,394	141,620
E. 28th St./Pearl Ave. Relief Sewer	443,830	0	62,977	380,853	64,822
Colorado Ave./Root Rd. Waterline	220,897	0	26,137	194,760	27,764
Colorado/Root/E. Erie Waterline	1,224,283	0	153,004	1,071,279	159,780
Westside Waterline Replacement	1,175,538	0	134,279	1,041,259	140,700
Tacoma Avenue Relief Sewer	2,016,403	0	264,513	1,751,890	271,998
Idaho Avenue SSO Elimination	4,498,786	0	531,528	3,967,258	551,162
4W Waterline Replacement	2,945,884	0	86,069	2,859,815	90,337
Kay Drive Retention Basin	1,282,608	0	174,069	1,108,539	0
Amherst Township Relief Sewer	482,550	0	85,075	397,475	0
Pearl Road & Tacoma Pump Station	801,474	0	40,859	760,615	63,805
East Central Relief Sewer	2,611,468	0	143,430	2,468,038	150,088
Westside Relief Sewer	17,107,020	35,902	957,155	16,185,767	988,418
Brownell Avenue Waterline	605,850	0	31,957	573,893	33,402
Pearl Avenue Water Main	1,520,558	0	64,847	1,455,711	67,361
28th Street Waterline	1,614,873	0	40,391	1,574,482	63,640
Black River Tunnel Phase I	23,647,755	16,893,154	0	40,540,909	0
Eagle Rd. Waterline Design	38,372	211,340	0	249,712	0
Oberlin Ave. Waterline Replacement	3,619,527	269,262	173,861	3,714,928	179,275
SR 611 Waterline Replacement	3,136,209	302,285	172,729	3,265,765	178,213
Washington & Reid Waterline Repl	5,348,752	1,374,338	144,462	6,578,628	296,418
Westside Elevated Tank	1,051,247	1,660,870	0	2,712,117	156,790
S. Lorain Waterline Repl. Phase 1	269,820	4,100,449	84,065	4,286,204	173,515
Euclid Ave. Waterline Replacement	180,251	1,435,270	30,941	1,584,580	63,809
2nd, 4th, 5th, 6th, Hamilton & Reid Ave.					
Waterline Replacement	0	1,865,658	0	1,865,658	0
E. 31st St. Bridge Wateline Repl	0	57,653	0	57,653	16,888
<i>Total Ohio Water Development Authority Loans</i>	<u>76,768,586</u>	<u>28,206,181</u>	<u>3,536,585</u>	<u>101,438,182</u>	<u>3,879,805</u>
<i>Other Obligations:</i>					
Capital Leases	3,169,758	0	710,745	2,459,013	712,323
Pollution Remediation	401,215	0	180,805	220,410	59,440
Compensated Absences	1,433,681	449,595	649,415	1,233,861	35,799
<i>Total Business-Type Activities</i>	<u>\$83,580,033</u>	<u>\$28,655,776</u>	<u>\$5,676,392</u>	<u>\$106,559,417</u>	<u>\$5,298,889</u>

General obligation bonds will be paid from the general obligation bond retirement debt service fund and the garage and hospitalization internal service funds. 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.

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

---

In 2007, the City defeased a 2000 waterfront 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, 2014, \$3,375,000 of the defeased bonds is still outstanding.

In 2014, the City issued general obligation bonds in the amount of \$5,790,000. The bonds are for various roadway improvements within the City. The bonds were issued with interest rates varying from 2 percent to 3.75 percent, were issued for a twenty year period with final maturity on December 1, 2034, and were sold at a discount of \$26,816. The bonds will be retired through the general obligation bond retirement debt service fund.

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 16 percent of the available municipal income tax over the life of the bonds. Total principal and interest remaining on the bonds is \$11,373,307, payable through 2034. Principal and interest payments for the current year were \$408,871 and total income tax revenues were \$2,559,762.

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 \$760,566 in ODOT State infrastructure bank loans issued from 2006 to 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 12 percent of the available gas tax revenue over the life of the loans. Total principal and interest remaining on the loans is \$132,073, payable through 2017. Principal and interest payments for the current year were \$141,507 and total gas tax revenues were \$1,181,706.

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 \$3,409,707 in installment loans received in 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 2 percent of the available municipal income tax over the life of the bonds. Total principal and interest remaining on the bonds is \$5,628,546, payable through 2025. Principal and interest payments for the current year were \$41,082 and total income tax revenues were \$2,559,762.

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 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

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

---

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 2014 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 \$220,410 as of 2014 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. The judgment will be paid from the community development special revenue fund.

Compensated absences have historically been, and will be, paid from the general fund, the community development, streets, health services, police levy, municipal court computer and municipal court probation 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 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 general obligation bonds for sewer improvements, 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 2036. 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 bonds are expected to require less than 53 percent of net revenues and less than 21 percent of total revenues. The total principal and interest remaining to be paid on the loans is \$49,624,540. Principal and interest payments for the current year were \$2,301,426, net revenues were \$4,373,613, and total revenues were \$11,047,029.

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 bonds are expected to require less than 37 percent of net revenues

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

---

and less than 19 percent of total revenues. The total principal and interest remaining to be paid on the loans is \$89,096,987. Principal and interest payments for the current year were \$3,066,779, net revenues were \$8,490,851, and total revenues were \$16,543,932.

The City's overall legal debt margin was \$49,182,771 at December 31, 2014. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2014 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
2015	\$3,082,405	\$2,013,130	\$76,073	\$74,520	\$230,000	\$95,724	\$220,854	\$50,076
2016	2,697,308	1,908,680	77,692	71,326	235,000	87,347	227,554	42,817
2017	2,790,690	1,818,280	79,310	67,912	240,000	77,993	234,458	35,338
2018	2,695,690	1,722,396	79,310	64,146	245,000	67,928	241,571	27,632
2019	2,781,329	1,623,674	88,671	60,380	255,000	57,212	248,900	19,692
2020-2024	15,347,000	6,296,172	458,000	228,861	770,000	142,881	449,762	14,626
2025-2029	12,422,193	2,960,643	402,807	106,773	0	0	0	0
2030-2034	5,839,968	915,750	105,032	8,201	0	0	0	0
2035-2039	1,570,000	164,000	0	0	0	0	0	0
Total	<u>\$49,226,583</u>	<u>\$19,422,725</u>	<u>\$1,366,895</u>	<u>\$682,119</u>	<u>\$1,975,000</u>	<u>\$529,085</u>	<u>\$1,623,099</u>	<u>\$190,181</u>

Years	OPWC	ODOT			Total			
	Loans	State Infrastructure Bank Loans	Installment Loans	Governmental Activities	Principal	Interest	Principal	Interest
2015	\$353,814	\$381,129	\$72,371	\$604,613	\$266,135	\$4,948,888	\$2,571,956	
2016	337,277	668,456	154,948	469,613	239,270	4,712,900	2,504,388	
2017	307,911	688,659	134,744	437,113	222,537	4,778,141	2,356,804	
2018	277,494	665,120	114,259	409,613	209,573	4,613,798	2,205,934	
2019	228,138	679,929	94,156	414,614	203,360	4,696,581	2,058,474	
2020-2024	620,967	1,268,629	206,215	1,711,280	898,748	20,625,638	7,787,503	
2025-2029	196,386	694,853	47,717	304,707	190,339	14,020,946	3,305,472	
2030-2034	8,210	0	0	0	0	5,953,210	923,951	
2035-2039	0	0	0	0	0	1,570,000	164,000	
Total	<u>\$2,330,197</u>	<u>\$5,046,775</u>	<u>\$824,410</u>	<u>\$4,351,553</u>	<u>\$2,229,962</u>	<u>\$65,920,102</u>	<u>\$23,878,482</u>	

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

---

***Business-Type Activities:***

Years	GO Bonds		OWDA Loans		Total Business-Type Activities	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$611,522	\$37,276	\$2,814,897	\$1,306,113	\$3,426,419	\$1,343,389
2016	590,000	18,438	2,995,081	1,246,893	3,585,081	1,265,331
2017	0	0	3,182,182	1,147,779	3,182,182	1,147,779
2018	0	0	3,323,893	1,026,750	3,323,893	1,026,750
2019	0	0	3,450,089	900,554	3,450,089	900,554
2020-2024	0	0	12,156,913	2,886,544	12,156,913	2,886,544
2025-2029	0	0	7,371,634	925,475	7,371,634	925,475
2030-2034	0	0	1,287,339	133,475	1,287,339	133,475
Total	<u>\$1,201,522</u>	<u>\$55,714</u>	<u>\$36,582,028</u>	<u>\$9,573,583</u>	<u>\$37,783,550</u>	<u>\$9,629,297</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:

Enterprise Funds	December 31, 2014	
	Principal Outstanding	Amount Financed
<i>Water Works:</i>		
Eagle Rd. Waterline Design	\$249,712	\$536,770
Oberlin Ave. Waterline Replacement	3,714,928	4,726,214
State Route 611 Waterline Replacement	3,265,765	4,724,713
Washington and Reid Ave. Waterline Replacement	6,578,628	8,215,167
Westside Elevated Tank	2,712,117	4,351,539
South Lorain Waterline Replacement - Phase I	4,286,204	5,211,921
Euclid Ave. Waterline Replacement	1,584,580	1,893,447
2nd, 4th, 5th, 6th, Hamilton & Reid Ave.		
Waterline Replacement	1,865,658	4,682,738
E. 31st St. Bridge Waterline Replacement	57,653	469,688
<i>Water Pollution Control:</i>		
Black River Tunnel Phase I	<u>40,540,909</u>	<u>67,065,952</u>
Total Loans not Finalized	<u>\$64,856,154</u>	<u>\$101,878,149</u>

**Note 13 - Capital Leases**

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

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

---

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. \$3,887,901 was paid to the vendors in 2013 and 2014 and the balance of \$99,062 will be paid to the vendors in 2015 at the direction of the City upon receipt of the equipment.

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. \$4,115,214 was paid to the vendors in 2012, 2013 and 2014 and the balance of \$56,246 will be paid to the vendors in 2015 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:

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>
<i><b>Capital Assets, Being Depreciated:</b></i>		
Machinery and Equipment	\$8,728,734	\$3,575,251
Less Accumulated Depreciation:		
Machinery and Equipment	<u>(2,182,697)</u>	<u>(397,535)</u>
<i><b>Capital Assets, Net</b></i>	<u><b>\$6,546,037</b></u>	<u><b>\$3,177,716</b></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, 2014:

<b>Year Ending December 31,</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>
2015	\$1,141,918	\$748,238
2016	955,345	747,406
2017	955,345	747,406
2018	<u>265,559</u>	<u>289,768</u>
Total Minimum Lease Payments	<u>3,318,167</u>	<u>2,532,818</u>
Less: Amount Representing Interest	<u>(101,450)</u>	<u>(73,805)</u>
Present Value of Minimum Lease Payments	<u><b>\$3,216,717</b></u>	<u><b>\$2,459,013</b></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.

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

---

## **Note 15 - Defined Benefit Pension Plans**

### ***Ohio Public Employee Retirement System***

Plan Description - The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member-directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the combined plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the traditional plan benefit. Member contributions, the investment of which is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to the Ohio Public Employees Retirement System, 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 statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll. For the year ended December 31, 2014, members in state and local classifications contributed 10 percent of covered payroll. For 2014, member and employer contribution rates were consistent across all three plans.

The City's 2014 contribution rate was 14 percent. The portion of the City's contribution used to fund pension benefits is net of postemployment health care benefits. The portion of the City's contribution allocated to health care for members in both the traditional and combined plans was 2 percent for 2014. Effective January 1, 2015, the portion of the employer contribution allocated to health care remained at 2 percent. Employer contribution rates are actuarially determined.

The City's required contribution for pension obligations to the traditional and combined plans for the years ended December 31, 2014, 2013, and 2012 was \$1,796,962, \$1,902,071 and \$1,399,617, respectively. For 2014, 91.36 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2013 and 2012. Contributions to the member-directed plan for 2014 were \$42,825 made by the City and \$40,213 made by plan members.

### ***Ohio Police and Fire Pension Fund***

Plan Description - The City contributes to the Ohio Police and Fire Pension Fund (OPF), a cost-sharing, multiple-employer defined benefit pension plan. 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

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

---

required supplementary information for the plan. The report that may be obtained by visiting the OPF website at [www.op-f.org](http://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 - Employer and employee contribution rates are set by the Ohio Revised Code. From January 1, 2014, through July 1, 2014, plan members were required to contribute 10.75 percent of their annual covered salary. From July 2, 2014, through December 31, 2014, plan members were required to contribute 11.5 percent of their annual covered salary. Throughout 2014, employers were required to contribute 19.5 percent for police officers and 24 percent for firefighters.

The OPF pension fund is authorized by the Ohio Revised Code to allocate a portion of the employer contribution to retiree health care benefits. For 2014, the portion of the City's contribution used to fund pension benefits was 19 percent of covered payroll for police officers and 23.5 percent of covered payroll for firefighters. The City's contribution to OPF for police and firefighters pension was \$1,306,903 and \$1,288,400 for the year ended December 31, 2014, \$827,237 and \$873,860 for the year ended December 31, 2013, and \$769,719 and \$836,361 for the year ended December 31, 2012. For 2014, 92.96 percent for police and 90.59 percent for firefighters has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2013 and 2012.

## **Note 16 - Post Employment Benefits**

### ***Ohio Public Employees Retirement System (OPERS)***

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 a cost-sharing, multiple-employer defined benefit postemployment health care plan for qualifying members of both the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including postemployment health care coverage. The plan includes a medical plan, a prescription drug program, and Medicare Part B premium reimbursement.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional and combined plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The postemployment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through contributions to OPERS. A

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

---

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 covered payroll of active members. In 2014, state and local employers contributed 14 percent of covered payroll. This is the maximum employer contribution rate permitted by the Ohio Revised Code.

Each year, the OPERS retirement board determines the portion of the employer contribution rate that will be set aside for funding postemployment health care benefits. The portion of the employer contribution allocated to health care for members in both the traditional and combined plans was 2 percent for 2014. Effective January 1, 2015, the portion of the employer contribution allocated to health care remained at 2 percent for both plans as recommended by the OPERS actuary.

The OPERS retirement board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or the retiree's surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the postemployment health care plan.

The City's contribution allocated to fund postemployment health care benefits for the years ended December 31, 2014, 2013, and 2012 was \$299,354, \$146,455 and \$559,687, respectively. For 2014, 91.36 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2013 and 2012.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 9, 2012, with a transition plan commencing on January 1, 2014. With the passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contribution toward the health care fund after the end of the transition period.

#### ***Ohio 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](http://www.op-f.org) or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

---

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 contribution made to the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2014, the employer contribution allocated to the health care plan was .5 percent of covered payroll. The amount of employer contribution allocated to the health care plan each year is subject to the Trustees' primary responsibility 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 contribution to OPF which was allocated to fund postemployment health care benefits for police and firefighters was \$34,872 and \$27,631 for the year ended December 31, 2014, \$172,173 and \$141,851 for the year ended December 31, 2013, and \$407,401 and \$327,353 for the year ended December 31, 2012. For 2014, 71.79 percent has been contributed for both police and firefighters with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2013 and 2012.

## **Note 17 – Significant Commitments**

### ***Contractual Commitments***

As of December 31, 2014, the open construction contracts for the street and general sewer, water, and water pollution control departments were \$11,620,438, \$2,646,295 and \$27,847,542 respectively.

The City has numerous open construction contracts for various local roadway repair and replacement projects throughout the City. These open contracts include \$7,823,197 with Underground Utilities, Inc., \$1,602,657 with Smith Paving Inc., \$768,788 with Terminal Ready Mix, \$500,488 with Kokosing Construction Co., \$443,881 with Karvo Paving Company, and \$87,662 with Fabrizi Trucking and Paving Co., Inc. For the Jaeger Road project the City had open construction contracts with KS Associates in the amount of \$4,802 for engineering services and \$91,997 with Fabrizi Trucking and Paving Co., Inc. for roadway construction. In addition the City had an open construction contracts of \$208,646 with CT Consultants for engineering services and \$13,987 with Terminal Ready Mix for construction on the Martins Run storm sewer project.

The water department open construction contracts, in association with the Ohio Water Development Authority, includes \$741,421 with Jones and Henry for engineering services and construction oversight of the Washington and Reid Avenues waterline, \$101,772 with Underground Utilities, Inc. for construction

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

---

of the Euclid Avenue water main project, and \$83,797 with CT Consultants for engineering services and construction oversight of the Oberlin Avenue water main. The State Route 611 waterline project has open contracts of \$321,407 with CT Consultants for engineering services and construction oversight. The water department also has an open contract in the amount of \$1,397,898 with Landmark Structures LP for the construction of a Westside water tower.

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 \$22,468,295, \$2,093,000 and \$1,102,000 respectively. In partnership with the National Oceanic and Atmospheric Association (NOAA) the water pollution control department has open construction contracts with Mark Haynes Construction for the Black River Restoration project in the amount of \$858,278. In addition, the City has contracted with Coldwater Consulting, LLC for professional services related to the management of the ongoing commitment to improve the ecology of the Lower Black River. The balance of the contract is \$61,800. 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 \$1,264,169.

Remaining commitment amounts were encumbered at year end.

#### ***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:

<b><i>Governmental Funds:</i></b>		<b><i>Business-Type Funds:</i></b>	
General Fund	\$264,627	Water	\$957,935
Streets	158,427	Water Pollution Control	2,150,338
Community Development	209,612	Total Business-Type	<u>\$3,108,273</u>
Capital Improvements	4,665,351		
Nonmajor Funds	<u>1,092,043</u>		
Total Governmental	<u>\$6,390,060</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 2014, the City contributed \$19,073 to the agency.

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

---

***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. The City of Lorain did not contribute to NOPEC during 2014. 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](http://www.nopecinfo.org).

**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

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

---

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 2014, the City made payments in the amount of \$512,859 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 computer, municipal court security, municipal court probation, 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.

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 operating, community development, police levy, police pension, and fire pension special revenue funds, and the capital improvements fund to the general obligation bond retirement fund.

Transfers made during the year ended December 31, 2014 were as follows:

Transfer To	Transfer From									
	Governmental Funds				Enterprise Funds				Governmental Funds - Internal Service	
	General	Streets	Community Development	Capital Improvements	Governmental Funds	Water Works	Water Pollution Control	Garage	Hospitalization	Totals
<b>Transfer To</b>										
<b>Governmental Funds</b>										
General	\$0	\$15,953	\$0	\$0	\$8,827	\$37,701	\$41,839	\$11,694	\$326	\$116,340
Streets	350,319	0	0	0	211,181	0	0	0	0	561,500
Community Development	100,000	0	0	0	0	0	0	0	0	100,000
Other Governmental Funds	1,616,242	591,461	100,290	236,589	762,966	0	0	0	0	3,307,548
<b>Total</b>	<b>\$2,066,561</b>	<b>\$607,414</b>	<b>\$100,290</b>	<b>\$236,589</b>	<b>\$982,974</b>	<b>\$37,701</b>	<b>\$41,839</b>	<b>\$11,694</b>	<b>\$326</b>	<b>\$4,085,388</b>

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

---

***Balances***

The interfund balances as of December 31, 2014 represent eliminating negative cash, unallocated municipal court fines, utility and petroleum costs.

Interfund Payable	Interfund Receivable					
	Governmental Funds		Enterprise Funds		Internal Service Fund	
	General	Other Governmental Funds	Water Works	Water Pollution Control	Garage	Totals
<b>Governmental Funds</b>						
General	\$0	\$148,960	\$0	\$2,363	\$25,323	\$176,646
Streets	0	0	0	0	48,091	48,091
Community Development	0	134	191	209	62	596
Other Governmental Funds	281,174	0	0	0	4,780	285,954
<i>Total Governmental Funds</i>	281,174	149,094	191	2,572	78,256	511,287
<b>Enterprise Fund</b>						
Water Works	4,710	0	0	0	1,664	6,374
Water Pollution Control	3,837	0	0	0	5,358	9,195
<i>Total Business-Type Activities</i>	8,547	0	0	0	7,022	15,569
<b>Internal Service Fund</b>						
Garage	40,561	0	0	0	0	40,561
<i>Total</i>	\$330,282	\$149,094	\$191	\$2,572	\$85,278	\$567,417

**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. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. 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, 2014.

***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.

**City of Lorain, Ohio**  
*Notes to The Basic Financial Statements*  
*For The Year Ended December 31, 2014*

---

### **Note 23 - Subsequent Events**

On February 26, 2015 the City signed a loan agreement with the Ohio Water Development Authority for the replacement of the Elyria Avenue waterline for \$1,500,554. The loan is payable over a term of twenty years with payments to be made semi-annually beginning in 2015 at an interest rate of 2.56 percent.

On June 25, 2015 the City signed a loan agreement with the Ohio Water Development Authority for the South Lorain waterline replacement phase 2 for \$6,188,707. The loan is payable over a term of twenty years with payments to be made semi-annually beginning in 2016 at an interest rate of 2.91 percent.

On July 30, 2015 the City signed a loan agreement with the Ohio Water Development Authority for the East Lorain waterline replacement design for \$190,966. The loan is payable over a term of five years with payments to be made semi-annually beginning in 2016 at an interest rate of 3.57 percent.

On July 30, 2015 the City signed a loan agreement with the Ohio Water Development Authority for the South Lorain waterline replacement phase 3 design for \$207,524. The loan is payable over a term of five years with payments to be made semi-annually beginning in 2016 at an interest rate of 3.57 percent.

On August 12, 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 & 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. The general obligation urban renewal bonds were issued for an eighteen year period with final maturity during fiscal year 2032. 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 urban renewal bonds.

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

On August 28, 2015 the City signed an Ohio Department of Transportation State Infrastructure Bank loan agreement for thirteen local roadway improvement projects for \$1,336,739. The loan is payable over a term of five 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 August 31, 2015 the City was awarded a \$15,095,000 three year grant from the U.S. Environmental Protection Agency for the purpose of addressing habitat-related beneficial use impairments in the Black River area of concern. Issues to be addressed include loss of fish and wildlife population, degradation of fish and wildlife habitat, and degradation of benthos. The project will remove and remediate 24 acres of impacted material within the floodplain and create in-stream habitat. In addition over 500,000 cubic yards of steel mill by-product will be removed from the floodplain.