



**Dave Yost • Auditor of State**

**City of Lorain  
Lorain County**

**Termination of Fiscal Watch**

**Local Government Services Section**



City of Lorain, Lorain County

Termination of Fiscal Watch

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For the Years Ending December 31, 2013, through December 31, 2015	

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# Dave Yost • Auditor of State

## Termination of Fiscal Watch

Pursuant to a request from the Mayor of the City of Lorain to remove the City from fiscal watch, the Auditor of State has conducted a review of the financial condition of the City as of December 31, 2012. This review has determined that the City of Lorain no longer meets the fiscal watch conditions set forth in Section 118.022 of the Ohio Revised Code. Accordingly, the City of Lorain's status of fiscal watch is hereby terminated as of October 21, 2013.

Accordingly, on behalf of the Auditor of State, this report is hereby submitted and filed with Chase Ritenauer, Mayor of the City of Lorain, and the Lorain County Budget Commission.

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

DAVE YOST  
Auditor of State

October 21, 2013

**Introduction**

The Auditor of State, in accordance with Section 118.021 of the Ohio Revised Code, is required to declare a city to be in a state of fiscal watch if it is determined that the city meets any one of the four conditions described in Section 118.022 of the Ohio Revised Code. These conditions are:

1. Significant accounts that have been due and payable for more than thirty days;
2. Substantial deficit fund balances;
3. Positive fund balances which exceed the balance in money and marketable securities held by the City; and
4. A forecasted deficit in the City's general fund for the current year.

At the request from the Mayor of the City Lorain (the City), a financial analysis was performed for the City to determine whether the City's financial condition met one of the criteria for the declaration of fiscal watch. As a result of the analysis, on October 17, 2002, the Auditor of State declared the City of Lorain to be in fiscal watch based on a forecasted general fund deficit for the calendar year ending December 31, 2002, in the amount of \$2,400,000.

In order to be removed from fiscal watch, the fiscal watch condition that resulted in the City being declared in fiscal watch must be eliminated and no new conditions may exist.

At the request of the Mayor of the City of Lorain, on January 23, 2013, the Auditor of State performed a financial analysis of the City's financial condition to determine if the City had improved its financial condition and eliminated the fiscal watch condition that warranted the fiscal watch declaration on October 17, 2002.

This report provides a detailed description of each condition, the specific procedures performed to determine if any of the conditions still existed as of December 31, 2012, and the corresponding results of our analysis.

**General and Special Funds Accounts Payable**

Section 118.022(A)(1) of the Ohio Revised Code defines a fiscal watch condition as the existence of either of the following situations:

- (a) All accounts that were due and payable from the general fund of a municipal corporation, county, or township at the end of the preceding fiscal year that had been due and payable for at least thirty days at the end of the fiscal year or to which a penalty was added for failure to pay by the end of the fiscal year, less the year end balance in the general fund, exceeded one-twelfth of the general fund budget for that year.
- (b) All accounts that were due and payable at the end of the preceding fiscal year from all funds of a municipal corporation, county, or township and that had been due and payable for at least thirty days at the end of the fiscal year or to which a penalty was added for failure to pay by the end of the fiscal year, less the year end balance in the general fund and in the respective special funds available to pay those accounts, exceeded one-twelfth of the available revenues during the preceding fiscal year, excluding nonrecurring receipts, of the general fund and of all specials funds from which such accounts are payable.

A schedule was prepared of all accounts payable as of December 31, 2012, that were due and payable from the general fund and from all funds, and that had been due and payable for at least thirty days or to which a penalty had been added for failure to pay as of December 31, 2012, including, but not limited to, final judgments, fringe benefit payments due and payable, and amounts due and payable to persons and other governmental entities, including any interest and penalties. There were no accounts payable due from the general fund or any special funds which were at least thirty days past due at the end of the year.

Conclusion: A fiscal watch condition does not exist under Section 118.022(A)(1)(a) or Section 118.022(A)(1)(b) of the Ohio Revised Code as of December 31, 2012. There were no accounts payable due from the general fund or any special funds which were at least thirty days past due at the end of the year.

### **Deficit Fund Balances**

Section 118.022(A)(2) of the Ohio Revised Code defines a fiscal watch condition as:

The existence of a condition in which the aggregate of deficit amounts of all deficit funds at the end of the preceding fiscal year, less the total of any year end balance in the general fund and in any special fund that may be transferred as provided in Section 5705.14 of the Ohio Revised Code to meet such deficit, exceeded one-twelfth of the total of the general fund budget for that year and the receipts to those deficit funds during that year other than from transfers from the general fund.

We examined the City's cash summary report by fund for any deficit funds. The City had no deficit fund balances as of December 31, 2012.

Conclusion: A fiscal watch condition does not exist under Section 118.022(A)(2) of the Ohio Revised Code as of December 31, 2012. All funds had positive balances at year end.

### **Treasury Deficiency**

Section 118.022(A)(3) of the Ohio Revised Code defines a fiscal watch condition as:

The existence of a condition in which, at the end of the preceding fiscal year, moneys and marketable investments in or held for the unsegregated treasury of a municipal corporation, county, or township, minus outstanding checks and warrants, were less in amount than the aggregate of the positive balances of the general fund and those special funds, the purposes of which the unsegregated treasury is held to meet, and such deficiency exceeded one-twelfth of the total amount received into the unsegregated treasury during the preceding fiscal year.

We calculated the unsegregated treasury balance of the City as of December 31, 2012. From the treasury balance, we subtracted the aggregate sum of all positive fund balances, the purpose of which the unsegregated treasury is held to meet, to determine the treasury deficiency.

City of Lorain, Lorain County

Termination of Fiscal Watch

Schedule I

Treasury Balance  
Ohio Revised Code Section 118.022(A)(3)  
As of December 31, 2012

	<u>Amounts at December 31, 2012</u>
Treasury Balance:	
Lorain National Bank Accounts	\$9,439,734
JP Morgan Chase Bank Accounts	1,881,320
Lorain National Bank Certificates of Deposit	1,571,565
STAR Ohio	11,710,095
Lorain National Bank Escrow Account	270,627
Huntington National Bank Escrow Account	2,472,302
Adjustments:	
Revenues not Recorded	(199,130)
Due to Other Accounts	(1,640,041)
Outstanding Checks	(821,278)
Other Adjustments	(30,324)
Due from Other Accounts	1,502,364
Non-Sufficient Funds	32,182
Deposits in Transit	176,938
Cash on Hand	8,075
Total Adjusted Treasury Balance	<u>26,374,429</u>
Less Positive Fund Balances:	
General	2,214,836
Street Construction	740,163
Permissive License	191,194
Health	782
Muni Court Computer	41,409
Legal Research	73,655
Muni Court Security	261,401
Muni Court Probation	115,211
Muni Court Operating	217,172
CDBG Block Grant	115,212
Bus. Dev. Rev. Loan	948,923
Rental Rehabilitation	115,688
UDAG Revolving	357,605
EDA Planning	3,767
Title IX EDA Loan	852,663
108 Loan Repayment	37,740
Title IX EDA Business	2,855
Neighborhood Stabilization	250,328

(continued)



City of Lorain, Lorain County

Termination of Fiscal Watch

Schedule I  
(continued)

Treasury Balance  
Ohio Revised Code Section 118.022(A)(3)  
As of December 31, 2012

	<u>Amounts at December 31, 2012</u>
Heritage TIF	\$12,104
Economic Development	122,623
Litter Control	62,193
Block Gr Rehab Rev Ln Fund	111,152
CAR-TIF	27,739
Home	54,780
Police Levy	577,658
Police Special Revenue	860,508
Law Enforcement	721,496
Indigent Drivers Alcohol	87,473
Police Pension	61,307
Fire Pension	23,715
Cemetery	2,558
Mandatory Drug	8,329
Parkland	28,663
Bond Retirement	383,434
Capital Improvements	713,553
General Sewer	563,413
Jaeger Road Project	3,992,721
Muni-Court Improvements	885
Water Works	1,029,312
O. M. & R. - Water	362,219
Water Pollution Control	7,571,214
O. M. & R. - Sewer	1,515,668
BRWWTP Construction	166,318
Water & Sewer Trust	98,503
Garage	92,001
Hospitalization	94,258
Flexible Spending-Employee	15,138
Workers Compensation	52,884
Life Insurance	23,769
OBES	10,929
Safety Forces Grants	19,409
Allotment & Improvement	48,219
County Sewer Fees	14,678
Waste Collection	91
PERS	61,949

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City of Lorain, Lorain County

Termination of Fiscal Watch

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Schedule I  
(continued)

Treasury Balance  
Ohio Revised Code Section 118.022(A)(3)  
As of December 31, 2012

	<u>Amounts at December 31, 2012</u>
Deposits Held	\$45,617
State Highway Patrol	2,371
Unclaimed Money	51,342
Contracts Trust	8,260
Vital Statistics	23,900
Municipal Court	<u>109,472</u>
Total Positive Fund Balances	<u>26,374,429</u>
 Treasury Balances Less Positive Fund Balances	 <u><u>\$0</u></u>

Conclusion: Schedule I indicates that a fiscal watch condition does not exist under Section 118.022(A)(3) of the Ohio Revised Code as of December 31, 2012. The treasury balance equaled the positive fund cash balances.

**Forecasted General Fund Deficit**

Section 118.022(A)(4) of the Ohio Revised Code defines a fiscal watch condition as:

The existence of a condition in which, based on an examination of the financial forecast approved by the legislative authority of a municipal corporation, county, or township, the Auditor of State certifies that the general fund deficit at the end of the current fiscal year will exceed one-twelfth of the general fund revenue from the preceding fiscal year.

**Financial Forecast**

Financial forecasting is an important management tool to assist the City in making sound financial decisions for avoiding a fiscal crisis in the future. A three-year forecast was prepared. After examining the financial forecast, the Auditor of State rendered a non-adverse report. The financial forecast is contained in Appendix A.

**Summary**

This analysis indicates that the fiscal watch conditions that existed at December 31, 2001, have been eliminated. The improvement in the City of Lorain's financial condition justifies the City's release from fiscal watch.

Because the above procedures were not sufficient to constitute an audit made in accordance with generally accepted auditing standards, we do not express an opinion on any of the specific accounts and fund balances referred to above. Had we performed additional procedures or had we prepared an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported.

**APPENDIX A**

**City of Lorain  
Lorain County**

**Financial Forecast**

**For the Years Ending December 31, 2013 through December 31, 2015**

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City of Lorain, Ohio

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# Dave Yost • Auditor of State

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

Based upon the requirement set forth in section 118.022(A)(4) of the Ohio Revised Code, the Local Government Services Section of the Auditor of State's Office has examined the accompanying forecasted statements of revenues, expenditures, expenses, and changes in fund balance of the general fund of the City of Lorain, for the three years ending December 31, 2015. These statements are presented on the budget basis of accounting used by the City of Lorain rather than on generally accepted accounting principles. The City of Lorain's management is responsible for the forecast. Our responsibility is to determine whether the City has met the criteria that allows for the fiscal watch to be terminated.

Based on our examination of the accompanying forecast, there is nothing in the forecast nor has anything come to our attention that indicates the fiscal watch should not be terminated. However, some assumptions inevitably will not materialize and unanticipated events and circumstances may occur; therefore, the actual results of operations during the forecast period will vary from the forecast and the variations may be material.

This report is intended solely for the use of the City of Lorain and should not be used for any other purpose. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

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

DAVE YOST  
Auditor of State

September 11, 2013

**City of Lorain, Lorain County**  
*Statement of Revenues, Expenditures and Changes in Fund Balance - Budget Basis*  
*For the Years Ended December 31, 2010 Through 2012, Actual*  
*and Ending December 31, 2013 Through 2015, Forecasted*  
**General Fund**

	2010 Actual	2011 Actual	2012 Actual
<b>Revenues</b>			
Property Taxes	\$2,717,000	\$1,987,000	\$2,195,000
Municipal Income Tax	14,713,000	16,514,000	16,339,000
Intergovernmental	7,905,000	7,321,000	5,854,000
Charges for Services	757,000	773,000	909,000
Licenses, Permits and Fees	1,274,000	1,433,000	1,464,000
Fines and Forfeitures	1,343,000	1,227,000	1,192,000
Investment Income	16,000	8,000	10,000
Contributions and Donations	570,000	100,000	178,000
Other	1,031,000	106,000	178,000
<b>Total Revenues</b>	<b>30,326,000</b>	<b>29,469,000</b>	<b>28,319,000</b>
<b>Expenditures</b>			
Current:			
General Government			
Civil Service:			
Wages and Benefits	103,000	74,000	76,000
Contractual Services	6,000	11,000	5,000
Materials and Supplies	0	0	0
Other	1,000	3,000	7,000
<b>Total Civil Service</b>	<b>110,000</b>	<b>88,000</b>	<b>88,000</b>
Council:			
Wages and Benefits	239,000	298,000	325,000
Contractual Services	4,000	4,000	0
Materials and Supplies	0	1,000	0
Capital Outlay	0	0	3,000
Other	22,000	8,000	11,000
<b>Total Council</b>	<b>265,000</b>	<b>311,000</b>	<b>339,000</b>
Mayor:			
Wages and Benefits	172,000	179,000	203,000
Contractual Services	0	0	0
Materials and Supplies	0	1,000	1,000
<b>Total Mayor</b>	<b>172,000</b>	<b>180,000</b>	<b>204,000</b>
Auditor:			
Wages and Benefits	420,000	468,000	500,000
Contractual Services	69,000	67,000	68,000
Materials and Supplies	27,000	15,000	23,000
Other	1,000	1,000	2,000
<b>Total Auditor</b>	<b>517,000</b>	<b>551,000</b>	<b>593,000</b>



2013 Forecasted	2014 Forecasted	2015 Forecasted
\$1,872,000	\$1,891,000	\$1,910,000
19,239,000	20,273,000	21,126,000
4,099,000	3,242,000	3,242,000
1,131,000	1,131,000	1,131,000
1,661,000	1,691,000	1,491,000
1,103,000	1,103,000	1,103,000
10,000	10,000	10,000
134,000	128,000	8,000
407,000	230,000	230,000
<u>29,656,000</u>	<u>29,699,000</u>	<u>30,251,000</u>
83,000	85,000	87,000
8,000	8,000	8,000
1,000	0	0
12,000	12,000	12,000
<u>104,000</u>	<u>105,000</u>	<u>107,000</u>
367,000	369,000	377,000
6,000	1,000	1,000
0	0	0
0	0	0
15,000	15,000	15,000
<u>388,000</u>	<u>385,000</u>	<u>393,000</u>
202,000	204,000	208,000
3,000	3,000	3,000
2,000	2,000	2,000
<u>207,000</u>	<u>209,000</u>	<u>213,000</u>
520,000	532,000	543,000
71,000	71,000	71,000
20,000	20,000	20,000
3,000	3,000	3,000
<u>614,000</u>	<u>626,000</u>	<u>637,000</u>

(continued)

**City of Lorain, Lorain County**  
*Statement of Revenues, Expenditures and Changes in Fund Balance - Budget Basis*  
*For the Years Ended December 31, 2010 Through 2012, Actual*  
*and Ending December 31, 2013 Through 2015, Forecasted*  
**General Fund**

	2010 Actual	2011 Actual	2012 Actual
Treasurer:			
Wages and Benefits	361,000	353,000	408,000
Contractual Services	44,000	37,000	46,000
Materials and Supplies	1,000	1,000	3,000
Capital Outlay	0	0	0
Other	24,000	14,000	12,000
<b>Total Treasurer</b>	<b>430,000</b>	<b>405,000</b>	<b>469,000</b>
Law Director:			
Wages and Benefits	618,000	702,000	712,000
Contractual Services	6,000	1,000	0
Materials and Supplies	5,000	5,000	6,000
Other	2,000	4,000	11,000
<b>Total Law Director</b>	<b>631,000</b>	<b>712,000</b>	<b>729,000</b>
Judges:			
Wages and Benefits	502,000	563,000	619,000
Contractual Services	13,000	7,000	13,000
Materials and Supplies	5,000	4,000	4,000
Other	4,000	1,000	1,000
<b>Total Judges</b>	<b>524,000</b>	<b>575,000</b>	<b>637,000</b>
Clerk of Courts:			
Wages and Benefits	641,000	742,000	829,000
Contractual Services	10,000	9,000	17,000
Materials and Supplies	65,000	57,000	59,000
Capital Outlay	0	0	0
Other	9,000	11,000	12,000
<b>Total Clerk of Courts</b>	<b>725,000</b>	<b>819,000</b>	<b>917,000</b>
Electrical:			
Wages and Benefits	360,000	422,000	410,000
Contractual Services	30,000	56,000	29,000
Materials and Supplies	13,000	32,000	57,000
Capital Outlay	0	0	96,000
Other	0	1,000	1,000
<b>Total Electrical</b>	<b>403,000</b>	<b>511,000</b>	<b>593,000</b>
Safety Service:			
Wages and Benefits	342,000	340,000	332,000
Contractual Services	3,144,000	1,695,000	1,602,000
Materials and Supplies	41,000	59,000	63,000
Capital Outlay	0	0	0
Other	189,000	114,000	133,000
<b>Total Safety Service</b>	<b>3,716,000</b>	<b>2,208,000</b>	<b>2,130,000</b>

2013 Forecasted	2014 Forecasted	2015 Forecasted
449,000	456,000	465,000
47,000	47,000	47,000
5,000	5,000	5,000
1,000	1,000	1,000
18,000	18,000	18,000
<u>520,000</u>	<u>527,000</u>	<u>536,000</u>
711,000	785,000	801,000
2,000	2,000	2,000
11,000	11,000	11,000
15,000	15,000	15,000
<u>739,000</u>	<u>813,000</u>	<u>829,000</u>
648,000	641,000	655,000
12,000	12,000	12,000
4,000	4,000	4,000
16,000	16,000	16,000
<u>680,000</u>	<u>673,000</u>	<u>687,000</u>
897,000	890,000	908,000
21,000	21,000	21,000
79,000	79,000	79,000
1,000	1,000	1,000
15,000	15,000	15,000
<u>1,013,000</u>	<u>1,006,000</u>	<u>1,024,000</u>
458,000	411,000	419,000
31,000	31,000	31,000
42,000	42,000	42,000
105,000	4,000	4,000
2,000	2,000	2,000
<u>638,000</u>	<u>490,000</u>	<u>498,000</u>
395,000	411,000	419,000
1,596,000	1,538,000	1,585,000
78,000	78,000	78,000
50,000	0	0
97,000	97,000	97,000
<u>2,216,000</u>	<u>2,124,000</u>	<u>2,179,000</u>

(continued)

**City of Lorain, Lorain County**  
*Statement of Revenues, Expenditures and Changes in Fund Balance - Budget Basis*  
*For the Years Ended December 31, 2010 Through 2012, Actual*  
*and Ending December 31, 2013 Through 2015, Forecasted*  
**General Fund**

	2010 Actual	2011 Actual	2012 Actual
Engineering:			
Wages and Benefits	528,000	483,000	128,000
Contractual Services	9,000	10,000	9,000
Materials and Supplies	9,000	16,000	17,000
Capital Outlay	0	0	21,000
Other	2,000	2,000	16,000
Total Engineering	<u>548,000</u>	<u>511,000</u>	<u>191,000</u>
Data Processing:			
Wages and Benefits	180,000	205,000	214,000
Contractual Services	248,000	276,000	254,000
Materials and Supplies	7,000	7,000	12,000
Capital Outlay	4,000	12,000	44,000
Other	1,000	4,000	1,000
Total Data Processing	<u>440,000</u>	<u>504,000</u>	<u>525,000</u>
Total General Government	<u>8,481,000</u>	<u>7,375,000</u>	<u>7,415,000</u>
Security of Persons and Property			
Police Department:			
Wages and Benefits	7,978,000	9,092,000	9,167,000
Contractual Services	216,000	250,000	241,000
Materials and Supplies	478,000	489,000	530,000
Capital Outlay	480,000	144,000	64,000
Total Police Department	<u>9,152,000</u>	<u>9,975,000</u>	<u>10,002,000</u>
Fire Department:			
Wages and Benefits	6,344,000	7,349,000	7,413,000
Contractual Services	225,000	78,000	147,000
Materials and Supplies	114,000	144,000	184,000
Capital Outlay	12,000	4,000	181,000
Other	8,000	22,000	21,000
Total Fire Department	<u>6,703,000</u>	<u>7,597,000</u>	<u>7,946,000</u>
Total Security of Persons and Property	<u>15,855,000</u>	<u>17,572,000</u>	<u>17,948,000</u>
Public Health			
Cemetery:			
Wages and Benefits	207,000	147,000	185,000
Contractual Services	9,000	16,000	8,000
Materials and Supplies	28,000	18,000	17,000
Capital Outlay	0	0	6,000
Total Cemetery	<u>244,000</u>	<u>181,000</u>	<u>216,000</u>
Dog Warden:			
Wages and Benefits	4,000	0	0
Materials and Supplies	0	1,000	0
Total Dog Warden	<u>4,000</u>	<u>1,000</u>	<u>0</u>
Total Public Health	<u>248,000</u>	<u>182,000</u>	<u>216,000</u>

2013 Forecasted	2014 Forecasted	2015 Forecasted
163,000	194,000	198,000
5,000	5,000	5,000
10,000	10,000	10,000
0	0	0
6,000	6,000	6,000
<u>184,000</u>	<u>215,000</u>	<u>219,000</u>
247,000	252,000	257,000
333,000	333,000	333,000
14,000	14,000	14,000
802,000	50,000	50,000
9,000	9,000	9,000
<u>1,405,000</u>	<u>658,000</u>	<u>663,000</u>
<u>8,708,000</u>	<u>7,831,000</u>	<u>7,985,000</u>
9,749,000	9,773,000	9,973,000
253,000	253,000	253,000
503,000	503,000	503,000
19,000	0	0
<u>10,524,000</u>	<u>10,529,000</u>	<u>10,729,000</u>
7,463,000	7,572,000	7,727,000
121,000	121,000	121,000
131,000	131,000	131,000
214,000	5,000	5,000
10,000	10,000	10,000
<u>7,939,000</u>	<u>7,839,000</u>	<u>7,994,000</u>
<u>18,463,000</u>	<u>18,368,000</u>	<u>18,723,000</u>
191,000	223,000	227,000
11,000	11,000	11,000
21,000	21,000	21,000
31,000	0	0
<u>254,000</u>	<u>255,000</u>	<u>259,000</u>
0	0	0
<u>0</u>	<u>0</u>	<u>0</u>
0	0	0
<u>254,000</u>	<u>255,000</u>	<u>259,000</u>

(continued)

**City of Lorain, Lorain County**  
*Statement of Revenues, Expenditures and Changes in Fund Balance - Budget Basis*  
*For the Years Ended December 31, 2010 Through 2012, Actual*  
*and Ending December 31, 2013 Through 2015, Forecasted*  
**General Fund**

	2010 Actual	2011 Actual	2012 Actual
Community Environment			
Building Inspection			
Wages and Benefits	313,000	353,000	330,000
Contractual Services	13,000	13,000	11,000
Materials and Supplies	11,000	15,000	14,000
Other	2,000	2,000	3,000
Total Community Environment	<u>339,000</u>	<u>383,000</u>	<u>358,000</u>
Economic Development			
St. Joseph Community Center:			
Contractual Services	630,000	0	480,000
Materials and Supplies	6,000	0	0
Other	1,000	24,000	0
Total Economic Development	<u>637,000</u>	<u>24,000</u>	<u>480,000</u>
Leisure Time Activities			
Parks Department:			
Wages and Benefits	115,000	106,000	171,000
Contractual Services	78,000	85,000	98,000
Materials and Supplies	119,000	136,000	141,000
Capital Outlay	0	0	0
Other	3,000	0	0
Total Leisure Time Activities	<u>315,000</u>	<u>327,000</u>	<u>410,000</u>
Debt Service			
Principal	526,000	605,000	266,000
Interest	109,000	108,000	18,000
Total Debt Service	<u>635,000</u>	<u>713,000</u>	<u>284,000</u>
Total Expenditures	<u>26,510,000</u>	<u>26,576,000</u>	<u>27,111,000</u>
Excess of Revenues Over Expenditures	<u>3,816,000</u>	<u>2,893,000</u>	<u>1,208,000</u>
<b>Other Financing Sources (Uses)</b>			
Capital Leases	0	0	919,000
Proceeds of Notes	300,000	0	0
Advances In	1,917,000	0	0
Advances Out	(1,714,000)	(206,000)	(100,000)
Transfers In	50,000	0	485,000
Transfers Out	<u>(1,236,000)</u>	<u>(1,587,000)</u>	<u>(1,916,000)</u>
Total Other Financing Sources (Uses)	<u>(683,000)</u>	<u>(1,793,000)</u>	<u>(612,000)</u>
Changes in Fund Balance	3,133,000	1,100,000	596,000
Fund Balance (Deficit) Beginning of Year	<u>(2,606,000)</u>	<u>527,000</u>	<u>1,627,000</u>
Fund Balance End of Year	<u><u>\$527,000</u></u>	<u><u>\$1,627,000</u></u>	<u><u>\$2,223,000</u></u>

<u>2013</u> <u>Forecasted</u>	<u>2014</u> <u>Forecasted</u>	<u>2015</u> <u>Forecasted</u>
308,000	381,000	389,000
17,000	17,000	17,000
13,000	13,000	13,000
6,000	6,000	6,000
<u>344,000</u>	<u>417,000</u>	<u>425,000</u>
55,000	25,000	26,000
0	0	0
0	0	0
<u>55,000</u>	<u>25,000</u>	<u>26,000</u>
299,000	378,000	385,000
144,000	144,000	144,000
143,000	143,000	143,000
33,000	50,000	50,000
6,000	6,000	6,000
<u>625,000</u>	<u>721,000</u>	<u>728,000</u>
294,000	381,000	340,000
27,000	24,000	16,000
<u>321,000</u>	<u>405,000</u>	<u>356,000</u>
<u>28,770,000</u>	<u>28,022,000</u>	<u>28,502,000</u>
<u>886,000</u>	<u>1,677,000</u>	<u>1,749,000</u>
734,000	0	0
0	0	0
100,000	71,000	20,000
(71,000)	(20,000)	(10,000)
31,000	25,000	25,000
<u>(2,211,000)</u>	<u>(2,491,000)</u>	<u>(2,304,000)</u>
<u>(1,417,000)</u>	<u>(2,415,000)</u>	<u>(2,269,000)</u>
(531,000)	(738,000)	(520,000)
<u>2,223,000</u>	<u>1,692,000</u>	<u>954,000</u>
<u>\$1,692,000</u>	<u>\$954,000</u>	<u>\$434,000</u>

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**Note 1 - The City**

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 Charleston in 1834. It was incorporated as a village under the name of Lorain in 1874 and became a city in 1896.

Legislative authority is vested in an 11 member City Council and a Council President. Council has three members who are elected at-large and eight who are elected from wards, all for two-year terms. The presiding officer is the President of Council, who is elected by City voters for a two-year term.

The City's chief administrative officer is the Mayor, who is elected to a four-year term. The Mayor is responsible for basic city services such as police, fire, streets, parks, water and sewer utilities, and community development. The Mayor appoints a Director of Public Safety/Service, department heads, boards, and commissions.

The City's chief financial officer is the Auditor, who is elected to a four-year term. The Auditor is responsible for keeping financial records and preparing financial reports of the City. The City's Treasurer is elected to a four-year term. The Treasurer is responsible for income tax and other revenue collections of the City. The Treasurer is the custodian of all monetary assets and is responsible for deposits and investments.

The City's chief legal counsel is the Law Director, who is elected to a four-year term. The Law Director represents the City in all its cases. Lorain has two Municipal Judges and a Clerk of Court, each of whom are elected to six-year terms.

On October 17, 2002, the Auditor of State's office declared the City of Lorain to be in a state of "Fiscal Watch" in accordance with Section 118.022 of the Ohio Revised Code. This declaration was a result of a forecasted deficit in excess of 1/12 of the preceding year's general fund revenue. The Auditor of State's Local Government Services Section provides monthly monitoring of cash balances. If the City's adjusted aggregate deficit fund balance reaches 1/6 of the general fund budget and the receipts of those deficit funds, the Auditor of State has the authority to declare the City in a state of fiscal emergency, at which time a Financial Planning and Supervision Commission to oversee the operation of the City would be required to be established.

The City of Lorain provides police and fire protection, planning, zoning, street construction, maintenance, and repair, water and sewer services, municipal court services, and general administrative services. The major departments include administration, police, fire, service, water, and sewer. The administration includes the Mayor, Council, Law Director, Auditor, Treasurer, and Director of Public Safety/Service. The operation of each of these services and departments is directly controlled by City Council through the budgetary process.

**Note 2 - Nature of Presentation**

This financial forecast presents, to the best of the City's knowledge and belief, the expected revenues, expenditures, expenses, and changes in fund balances for the forecast period. Accordingly, the forecast reflects the City's judgment, as of September 11, 2013, the date of the forecast, the expected conditions and its expected course of action. The assumptions disclosed herein are those that management believes are significant to the forecast. There will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.



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The forecast presents the fund that is significant to the operations of the City. This fund follows:

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 disbursed or transferred in accordance with Ohio law.

**Note 3 - Summary of Significant Accounting Policies**

**A. Basis of Accounting**

This financial forecast has been prepared on a basis of cash receipts, disbursements, and encumbrances, which is consistent with the budget basis of accounting (non-GAAP) used to prepare the historical financial statements. Under this basis of accounting, certain revenue and related assets are recognized when received rather than when earned and certain expenditures are recognized when paid rather than when the obligation is incurred. However, by virtue of Ohio law, the City is required to maintain the encumbrance method of accounting. This method requires purchase orders, contracts, and other commitments for the expenditure of monies to be recorded as the equivalent of an expenditure in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

**B. Fund Accounting**

The City maintains its accounting records in accordance with the principles of “fund” accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the segregation of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity that stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

**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 disbursed or transferred in accordance with Ohio law.

Special Revenue Funds - Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to disbursement for specified purposes, other than for debt service or capital projects.

Debt Service Funds - Debt service funds are used to account for and report resources that are restricted, committed, or assigned to disbursement for principal, interest, and related costs.

Capital Projects Funds - Capital projects funds are used to account for and report resources that are restricted, committed, or assigned for the acquisition or construction of major capital facilities and other capital assets (other than those financed by the enterprise funds).

Permanent Funds - Permanent funds account for and report financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for the benefit of the City.

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Proprietary Funds

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.

Internal Service Funds - Internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis.

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.

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of the budgetary documents within an established timetable. The major documents prepared are the certificate of estimated resources and the appropriations ordinance, both of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated.

Estimated Resources – On or about September 1, the County Budget Commission issues an official certificate of estimated resources to the City, which states the projected receipts of each fund. On or about January 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. Prior to December 31, the City must revise its budget so that total contemplated expenditures from any funds during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure.

Appropriations - A temporary appropriation measure to control cash disbursements may be passed on or about January 1 of each year if the annual appropriation for the full year is not ready for approval by City Council. The temporary appropriation measure remains in place until the annual appropriation measure is adopted for the entire year. By March 31, an annual appropriation ordinance must be legally enacted by the City Council. The appropriation measure may be amended or supplemented during the year as new information becomes available.

Encumbrances - The City uses the encumbrance method of accounting. Under this system, purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve a portion of the applicable appropriation.

D. Property, Plant and Equipment

Capital assets acquired or constructed for general governmental services are recorded as expenditures. Depreciation is not recorded for these capital assets as the purpose of the financial statements for the governmental services is to report the expenditure of resources, not costs.

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**Note 4 - General Revenue Assumptions**

**A. Property Taxes**

Property tax revenues consist of real property, public utility real and personal property, and prior to 2011, tangible personal property taxes. The City may request advances from the Lorain County Auditor as the taxes are collected. When final settlements are made, any amounts remaining to be distributed to the City are paid. Deductions for auditor and treasurer fees, advertising delinquent taxes, election expenses, and other fees are made at these settlement times. The amounts shown in the revenue section of the forecast represent gross property tax revenues.

State law allows for certain reductions in the form of rollbacks and homestead exemptions for residential real estate taxes. The State reimburses the City for all revenue lost due to these exemptions. The amount of the reimbursement is presented in the account “intergovernmental revenue”.

All property tax revenues are based on property valuations and levy rates. The County is required to reappraise property every six years and update the valuations every three years between the reappraisals. The last reappraisal was completed in 2012 for taxes collected in 2013. The next triennial update will take place in 2015 for taxes collected in 2016 with the next reappraisal scheduled for 2018. The City’s assessed values upon which property tax receipts were based for the last four years are as follows:

<u>Class of Property</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Real Property				
Residential and Agriculture	\$682,370,300	\$677,121,420	\$673,629,950	\$563,833,220
Commercial and Industrial	177,968,350	181,040,570	178,610,500	169,350,210
Public Utility				
Personal Property	59,104,670	58,216,700	57,286,180	58,135,160
Tangible Personal Property	<u>2,773,226</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Assessed Value	<u>\$922,216,546</u>	<u>\$916,378,690</u>	<u>\$909,526,630</u>	<u>\$791,318,590</u>

The property tax revenues are generated from inside millage receipted into the general fund, police pension fund, fire pension fund, and bond retirement fund. The full tax rate is \$4.96 per \$1,000 of assessed value.

Public utility real and personal property taxes are collected and settled by the County with real estate taxes and are recorded as general property taxes. Beginning in 2001, the Ohio General Assembly reduced the assessment rate for certain tangible personal property of electric and gas utilities from 88 percent to 25 percent. Starting in tax year 2005, the assessment rate for personal property owned by telephone utilities prior to 1995 was being phased down from 88 percent to 25 percent (in tax year 2007) over a three-year period. Beginning in 2007, House Bill 66 switched telephone companies from being public utilities to general business taxpayers and began a four-year phase out of the tangible personal property tax on local and inter-exchange telephone companies.

Real Property - Real property taxes decreased in 2013 due to a decrease in assessed values due to the 2012 reappraisal. Property values are expected to increase slightly in 2014 and 2015 due to the overall economy of the City.

Tangible Personal Property - Tangible personal property taxes have had a number of changes in the past several years. Effective for tax years 2005 and 2006, the assessment rate on inventory was to be reduced by 2 percent if the total statewide collections of personal property taxes for the second preceding year exceeded the total

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statewide collections of property taxes for the third preceding year. Effective for tax years 2007 and beyond, the assessment rate for inventory was to be reduced by 2 percent per year until completely phased out, regardless of the growth in collections.

Beginning in 2006, House Bill 66 phased out, by 25 percent each year, tangible personal property tax on most businesses' inventory, manufacturing machinery and equipment, and furniture and fixtures. This change supersedes the changes and phase-out periods addressed above. No tangible personal property taxes have been levied or collected since 2009 from general business taxpayers, except telephone companies whose last year to pay tangible personal property tax was 2010. The State of Ohio reimburses the City for the loss of tangible personal property taxes as a result of the changes in House Bill 66 within certain limitations (see Intergovernmental Revenues).

**B. Municipal Income Taxes**

The City levies a municipal income tax of two and one half percent (2.5 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. 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.

For the years 2010, 2011, and 2012, one and three-quarter percent (1.75 percent) was levied for general fund purposes, and one quarter percent (0.25 percent) is restricted for the police levy fund.

On July 2, 2012, Council passed ordinance number 102-12 which amended the City's income tax regulations to permanently increase the municipal income tax by one half percent (.5 percent). The ordinance was subsequently forwarded to the Lorain County Board of Elections to be placed on the November 6, 2012 general election ballot. The measure was passed by voters and became effective January 1, 2013. One quarter percent (0.25 percent) of the increase is restricted for the streets fund for general street repair and maintenance and one quarter percent (0.25 percent) is levied for general fund purposes.

Income tax revenue is anticipated to increase in 2013 due to two main factors. The primary reason is the additional .25 percent tax for the general fund that was approved by voters in 2012. Additionally, taxes on withholdings are anticipated to increase, based on the trend from the past several years as the local economy improves. The improving economy and additional jobs at several of the City's largest employers is also the primary reason for anticipated income tax increases in 2014 and 2015 as well.

**C. Intergovernmental Revenues**

Intergovernmental revenues include local government monies, property tax allocations for rollback and homestead, cigarette tax, liquor and beer permit fees and estate tax, and other miscellaneous grants. The local government funds are distributed monthly by the State to the City and by the County Auditor to the City. The property tax allocations for rollback, homestead, and tangible personal property are received from the State and are based on information provided by the County Auditor.

Beginning in 2006, the State reimbursed the City for lost revenue due to the phase-out of the tangible personal property tax. In the first five years, the City was fully reimbursed relative to prior law for revenue lost due to the taxable value reductions prescribed by House Bill 66. Over the next seven years, the reimbursements are phased-out. The reimbursement will be for the difference between the assessed values under prior law and the assessed values under House Bill 66. This means the City is only reimbursed for the difference between the amounts that would have been received under the prior law and the amounts actually received as the phase-outs in House Bill 66 are implemented.

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In 2011, HB153 accelerates the phase-out of the tangible personal property tax reimbursements by two percentage points per year based on the entity's 2010 tax year reimbursements.

State law grants tax relief in the form of a 10 percent reduction in residential real property tax bills. In addition, a 2.5 percent rollback is granted on residential property taxes. Tax relief is also granted to qualified elderly and disabled homeowners based on their income. The State reimburses the City for the loss of real property taxes caused by the homestead and rollback tax relief programs.

In tax collection year 2008, the State granted an additional homestead exemption for the first \$25,000 in market value. This exemption increases property tax allocation receipts and decreases general property tax receipts by an equal amount.

Section 503.12(B) of House Bill 66 established a Task Force to study potential sources of State funding for the local government and the local government revenue assistance programs that have the capacity for growth and stability in the funding levels and that considers the changes to the Ohio tax code. In December 2006, the Task Force submitted a report to the Governor and to the General Assembly setting forth its recommendations. The State Budget bill for fiscal years 2008 and 2009 replaced the percentage of tax methodology with a percentage of tax receipts formula. In general, the formula proposes that the three local government funds at the State level receive a percentage of the general revenue fund tax receipts in total collected by the State. In 2011, HB153 made reductions in the local government funding for fiscal years 2012 and 2013. These reductions will be approximately 25 percent and 50 percent less than 2011 funding amounts for 2012 and 2013, respectively. No increases are projected for future years.

The City will receive approximately \$2,650,000 in local government funding for 2013. This amount is anticipated to remain consistent throughout the forecast period.

Estate tax is included in the 2013 intergovernmental revenue, but has not been included in the 2014 or 2015 amounts. This is due to the elimination of the estate tax by the State as of January 1, 2013. The City has received some carryover revenue in 2013, but does not anticipate any additional significant estate tax revenue.

#### D. Charges for Services

Charges for services revenue represents various sales and reimbursements received by the City, including charges for police officer services for the Lorain Metropolitan Housing Authority, Lorain City School District, and the U.S. Marshall, as well as chargebacks to other City funds for general fund services. Revenues are expected to increase in 2013 due to the anticipated increase in chargebacks to enterprise funds for services rendered by general fund personnel as authorized by City ordinance. Receipts are expected to remain relatively constant for the forecasted years 2014 and 2015.

#### E. Licenses, Permits, and Fees

Licenses, permits, and fees revenue represent building permits, building licenses, various other licenses and permits, and cable franchise fees. Amounts collected for the various permits, inspections and fees typically remain approximately the same annually. However, in 2013 and 2014, additional revenue is anticipated due to a \$73 million building project being constructed by the Lorain City School District. In 2015, revenue is anticipated to return to historical levels. Cable franchise fees are based upon a percentage of gross receipts collected by the cable provider. No increase is anticipated in cable franchise fees as more individuals are looking into other options besides cable, as at the same time, cable customers pay more for the service.

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**F. Fines and Forfeitures**

Fines and forfeitures revenue includes fines and court costs generated by the City's municipal court, as well as parking and other fines. A slight decrease in this revenue is anticipated, as there are less civil cases being filed in 2013 than in 2012. The 2013 revenue level is expected to remain consistent in 2014 and 2015.

**G. Investment Income**

Interest revenue is expected to be minimal due to very low interest rates throughout the forecast period.

**H. Contributions and Donations**

The City receives donations throughout the year from various sources, including individuals and businesses, and these donations fluctuate from year to year. In 2012, the City received \$120,000 from Mercy Regional Medical Center, a member of Catholic Health Partners, for use as required matching funds for an Ohio Environmental Protection Agency, Clean Ohio Revitalization Fund (CORF) grant to be used at the St. Joseph Community Center located in the City or for other purposes if mutually agreed upon with the City and the Lorain County Commissioners. Mercy has committed to another \$120,000 in additional matching funds for 2013 and 2014. The estimated contributions and donations are anticipated to be \$8,000 for 2015.

**I. Other Revenues**

Other revenues include a variety of miscellaneous reimbursements. In 2013, this revenue is estimated to increase, as the City is receiving a rebate from the Bureau of Workers' Compensation. In 2014 and 2015 other revenue is anticipated to return to a lower level, based upon revenue received historically.

**Note 5 - Expenditure Assumptions**

**A. Wages and Benefits**

Wages and benefits expenditures represent the salaries, wages and longevity paid to the employees and elected officials compensation, along with related benefits. All employees receive their compensation on a bi-weekly basis.

City Council, by ordinance, sets the salary or hourly rates and other forms of compensation, such as longevity, for the elected officials and employees, including bargaining unit employees. Those terms and conditions generally are the products of negotiations with representatives of the bargaining units. Non-bargaining employee compensation is set by City Council and generally parallels the negotiated agreements.

The basis for forecasted salaries, wages, and benefits are the current pay rates, existing staffing levels, negotiated union contracts, and City ordinances. Staffing levels are anticipated to remain fairly consistent throughout the forecast period. In addition, the forecast includes payment for a PERS retirement incentive option, higher position pay, compensatory time sell back and known retirement payouts. Hospitalization benefits were also increased for 2013.

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The bargaining units that represent the City's full time employees, contract expiration date, and the expected wage increase for each are as follows:

1. **United Steel Workers Local 6621** with a Labor Agreement Expiration Date of September 30, 2014.
  - a. Represents full-time City employees in the parks, garage, electrical, engineering, street, water, building and water pollution control departments, and certain other City departments not represented by other bargaining units.
  - b. The City is estimating a wage increase of 2 percent annually for 2014 and 2015.
2. **Lorain Firefighters Association**, International Association of Firefighters with a Labor Agreement Expiration Date of December 31, 2013.
  - a. The City is estimating a wage increase of 2 percent annually for 2014 and 2015.
3. **Fraternal Order of Police Lodge No. 3**, Lorain with a Labor Agreement Expiration Date of December 31, 2013.
  - a. The City is estimating a wage increase of 2 percent annually for 2014 and 2015.
4. **Ohio Patrolmen's Benevolent Association** (Dispatchers) with a Labor Agreement Expiration Date of December 31, 2013.
  - a. The City is estimating a wage increase of 2 percent annually for 2014 and 2015.
5. **Ohio Patrolmen's Benevolent Association** (Detention Officers) with a Labor Agreement Expiration Date of December 31, 2013.
  - a. The City is estimating a wage increase of 2 percent annually for 2014 and 2015.

The remaining full-time City employees currently either are not authorized to join a bargaining unit or have not elected to do so. The City is estimating a wage increase of 2 percent annually for these employees for 2014 and 2015. The forecast for 2013 does not include pay increases for any employees.

The City provides health care benefits to its employees under a self-insured program. Under this program each fund and department is charged a premium for each employee per month. This program also provides prescription drugs, vision coverage, and a spousal reimbursement plan and includes administrative and stop loss fees. The premium per employee for 2012 was \$860 a month for January through July and \$960 a month for August through December. The premium for the forecast period is \$975 per employee per month. The premiums include a portion to pay debt service on a \$5 million health care general obligation bond issued in 2010.

Workers' compensation is based on the City's assigned rate and the amount of wages paid in a calendar year. Premiums are paid in the following calendar year.

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**B. Contractual Services**

This category is predicted to be fairly consistent during the forecast period from year to year in all departments with the exception of the fire and safety/service departments. The fire department estimate for 2013 and forward include a reduction for the expiration of a U.S. Department of Homeland Security, Assistance to Firefighters grants in the amount of \$129,000 and the safety/service department estimate for 2013 is decreased by \$166,000 due to elimination of expenditures for an Ohio Environmental Protection Agency, Clean Ohio Revitalization Fund (CORF) grant for cleanup at the decommissioned Ford plant in the City.

**C. Materials and Supplies**

All expenditures for material and supplies are assumed to remain close to 2013 forecasted levels. An effort has been made by all departments to limit expenditures on all material and supplies and this effort will continue throughout the forecast period.

**D. Capital Outlay**

Capital outlay for the general fund in 2012 is elevated by the expenditures for equipment in association with the capital lease the City entered into. Capital outlay for the general fund in 2013 is elevated by the expenditures for software, hardware and equipment in association with the capital lease the City entered into in July 2013. Capital outlay expenditures are expected to be minimal for the forecasted years 2014 and 2015. Due to the financial issues the City encountered in the past ten years, much of the parks department was eliminated in 2010. With the passage of the one quarter percent income tax increase effective for 2013, the City has restored the parks department, adding employees and programs. The forecast anticipates parks capital expenditures in each year for anticipated equipment purchases.

**E. Other**

Other includes all sources of expenditures not classified elsewhere and includes official expenses, legal advertising, dues, and damages and judgments. All expenditures for other expenses are assumed to remain relatively consistent for all forecast years.

**F. Debt Service**

Debt service includes forecasted payments for capital leases payable by the general fund based on actual amortization schedules. The general fund transfers monies to the general obligation and special assessment bond retirement funds to supplement those funds for the purpose of paying debt service on the City's general obligation and special assessment debt. Transfers to these funds are detailed in Note 5-G.

**G. Transfers and Advances Out**

The City transfers resources to various funds each year. The general fund transfers money to other funds to support programs and for debt service.

Below are the transfers for 2012 and the anticipated transfers-out for the forecast period:



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	Transfers Out			
	2012 Actual	2013 Forecast	2014 Forecast	2015 Forecast
Transfer to Streets	\$225,000	\$167,000	\$225,000	\$225,000
Transfer to Health Services	199,000	150,000	125,000	125,000
Transfer to General Obligation Bond Retirement	1,315,000	1,381,000	1,768,000	1,700,000
Transfer to Special Assessment Bond Retirement	78,000	73,000	71,000	72,000
Transfer to Economic Development	99,000	94,000	100,000	100,000
Transfer to Community Development	0	200,000	120,000	0
Transfer to Compensated Absences	0	96,000	32,000	32,000
Transfer to Payroll Reserve	0	50,000	50,000	50,000
Totals	<u>\$1,916,000</u>	<u>\$2,211,000</u>	<u>\$2,491,000</u>	<u>\$2,304,000</u>

The increase in transfers is associated with the anticipated increase in debt service requirements for 2013 and future years. The balance of the transfers is expected to remain stable throughout the forecast years.

As part of the 2013 budgeting process, City Council passed ordinances to create two new funds – a payroll reserve fund (for those years where there is a 27<sup>th</sup> pay) and a compensated absences fund (for separation payouts upon employee retirements). Transfers out to these two new funds have been included in the forecast.

Advances represent amounts lent to other funds to meet cash flow requirements for reimbursable grants and related indirect costs accounted for in separate funds of the City as required by State statute. City Council authorizes the advance of funds through the passage of an ordinance. Advances out in one year become advances in the following year, as the loans made by general fund are repaid by the other funds. Below are the actual advances for 2012 and the anticipated advances out for the forecasted years:

	Advances Out			
	2012 Actual	2013 Forecast	2014 Forecast	2015 Forecast
Advance to Indirect Costs	\$56,000	\$25,000	\$10,000	\$5,000
Advance to EDI Special Grant	5,000	5,000	5,000	5,000
Advance to Energy Efficiency & Conservation Block Grant	0	1,000	0	0
Advance to HUD Lead Hazard Grant	4,000	5,000	5,000	0
Advance to Neighborhood Stabilization Grant III	31,000	35,000	0	0
Advance to Municipal Court Improvement	4,000	0	0	0
Totals	<u>\$100,000</u>	<u>\$71,000</u>	<u>\$20,000</u>	<u>\$10,000</u>

The advance to indirect costs fund is expected to be reduced each year based on the assumption that the indirect cost rate charged will be amended to reduce the deficit balance in the fund. The various grant fund advances are eliminated in the succeeding year the grant expires and cash flow requirements are no longer present. The City plans on no other advances as it is anticipated that all other funds are suitably financed and will have adequate balances available for operations.

**City of Lorain, Lorain County**  
*Summary of Significant Accounting Policies and Forecast Assumptions*  
*For the Years Ending December 31, 2013, through 2015*

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**Note 6 - Other Funds**

The City has numerous other funds that account for resources that are restricted for specific purposes. These funds are anticipated to have sufficient resources to meet their obligations during the forecasted period. In addition, there are certain funds that annually rely upon a subsidy from the general fund to meet their obligations. These subsidies are reported as transfers out and have been addressed in the transfers section above.

***Employee Benefit Self-Insurance Fund***

The City provides medical and prescription drug benefits through a self-insurance program. The City maintains an internal service fund to account for and finance its uninsured risks of loss in this program. A third party administrator reviews all claims which are then paid by the City. The City pays a monthly premium for each employee into the internal service fund. The premium is paid by the fund that pays the salary for the employee. Monthly premiums are recommended by the third party administrator and approved by the City Council. The fund purchases annual stop loss coverage for claims in excess of \$125,000 per person, per year and an aggregate of \$5,199,743. The City anticipates that the monthly premium charged during 2013 will be sufficient to cover the claims and administrative costs.

**Note 7 - Contingencies**

**A. Litigation**

The City is party to legal proceedings. The City management is of the opinion that the ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

**B. Grants**

The City received 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 adverse effect on the overall financial position during the forecast period.



# Dave Yost • Auditor of State

**CITY OF LORAIN**

**LORAIN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
OCTOBER 21, 2013**