



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

City of Lorain
Lorain County, Ohio

Fiscal Watch Analysis
At December 31, 2001 and the Year Ending
December 31, 2002

Local Government Services Division

City of Lorain

Fiscal Watch Analysis

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Certification of Deficit and Declaration of Fiscal Watch

The Auditor of State performed a fiscal analysis of the City of Lorain pursuant to Section 118.022 of the Ohio Revised Code. The analysis took the form of a review of financial conditions at December 31, 2001 and the examination of a financial forecast of the general fund for the year ending December 31, 2002. Based on the examination of the financial forecast of the general fund of the City of Lorain, the Auditor of State does hereby certify a deficit in the general fund of \$2,400,000 for the year ending December 31, 2002. On the basis of this certified deficit, a fiscal watch exists at the City of Lorain as defined by Section 118.022(A)(4) of the Ohio Revised Code.

Accordingly, on behalf of the Auditor of State, this report is hereby submitted and filed with Craig Foltin, Mayor of the City of Lorain; John Rich, President of Council; Ronald L. Mantini, City Auditor, and the Lorain County Budget Commission.

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO
Auditor of State

October 17, 2002

City of Lorain

Fiscal Watch Analysis

Introduction

As provided by Sections 118.021 and 118.022(A) of the Ohio Revised Code, the Auditor of State, as requested by Mayor Craig Foltin of the City of Lorain, performed a fiscal watch analysis of the City of Lorain, Lorain County.

This report sets forth a fiscal watch analysis as of December 31, 2001 and for the period ending December 31, 2002. For a fiscal watch to be declared, based on an analysis at December 31, 2001, any one of three conditions described below must exist at the date. A fiscal watch may also be declared based on a financial forecast for the current year if certain criteria are met for the forecast period.

The guidelines for performing such an analysis are set forth in Sections 118.022 of the Ohio Revised Code. The specific procedures performed for each of the fiscal watch conditions identified in Section 118.022 of the Ohio Revised Code are presented below.

Past Due Accounts Payable from the General Fund and All Funds

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 the 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 such accounts, exceeded one-twelfth of the available revenues during the preceding fiscal year, excluding nonrecurring receipts, of the general fund and of all special funds from which such accounts are payable.

We prepared a schedule of accounts payable as of December 31, 2001, that were due and payable from the general fund, 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, 2001. From this amount we subtracted the year-end fund balance available in the general fund to determine if the accounts payable in excess of the available fund balance exceeded one-twelfth of the general fund budget for that year. The accounts payable includes checks issued and recorded as expenditures, but held by the City at year-end.

City of Lorain

Fiscal Watch Analysis

Schedule I

General Fund Accounts Payable Over Thirty Days Past Due
Ohio Revised Code Section 118.022(A)(1)(a)
As of December 31, 2001

	Payables Over 30 Days Past Due	General Fund Balance Available	Payables In Excess of Available Balance	One-Twelfth of General Fund Budget	Accounts Payable Surplus
General Fund	\$176,375	\$0	\$176,375	\$2,109,407	\$1,933,032

We prepared a second schedule of accounts payable as of December 31, 2001, that were due and payable from all funds for at least thirty days or to which a penalty was added as of December 31, 2001. From this amount we subtracted the year end fund balance in the general fund and the respective special funds available to pay such outstanding bills. We then determined if the accounts payable in excess of the available fund balance exceeded one-twelfth of the available revenues during 2001, excluding non-recurring receipts, of the general fund and of all special funds from which such accounts are lawfully payable. The accounts payable includes checks issued and recorded as expenditures, but held by the City at year-end. A corresponding adjustment was also made to the available fund balance.

Schedule II

Accounts Payable from All Funds Over Thirty Days Past Due
Ohio Revised Code Section 118.022(A)(1)(b)
As of December 31, 2001

Funds	Payables Over 30 Days Past Due	Fund Balance Available	Payables In Excess of Available Balance	One-Twelfth of Available Revenues	Accounts Payable Surplus
General Fund	\$176,375	\$0	\$176,375	\$2,009,152	\$1,832,777
Street Construction Fund	176	13,301	0	0	0
Health Fund	346	22,446	0	0	0
CDBG Fund	28,063	3,086,159	0	0	0
Police Levy	26,711	826,530	0	0	0
Capital Improvements Fund	64,608	467,432	0	0	0
Riverfront Urban Renewal Fund	5,539	1,439,861	0	0	0
Water Fund	912	1,909,535	0	0	0
Sewer Fund	1,081	10,263,593	0	0	0
Internal Service Fund	454	199,779	0	0	0
Total Amount of Surplus					<u>\$1,832,777</u>

Conclusion: Schedules I and II indicate that a fiscal watch condition does not exist under Section 118.022(A)(1). Accounts payable which were at least thirty days past due at year-end did not exceed the available balance in the general fund plus one-twelfth of the general fund budget and the available balance in the general fund and the respective special revenue funds, plus one-twelfth of the available revenues for 2001.

City of Lorain

Fiscal Watch Analysis

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 its 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 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 computed the adjusted aggregate sum of all deficit funds as of December 31, 2001, by subtracting all accounts payable and encumbrances from year-end cash fund balances of each fund. We then determined if the aggregate deficit fund balance exceeded one-twelfth of the general fund budget and the receipts of those deficit funds. After computing the unprovided portion of the aggregate deficit, we subtracted funds that may be transferred, as provided in Section 5705.14 of the Revised Code, to meet such deficits.

Deficit Fund Balances					Schedule III
Ohio Revised Code Section 118.022(A)(2)					
As of December 31, 2001					
Funds	Fund Balances	Accounts Payable and Encumbrances	Adjusted Aggregate Funds With Deficit Balances	One-Twelfth General Fund Budget/Revenues Lawfully Available	Provided (Unprovided) Portion of Aggregate Deficit
General Fund	(\$1,384,838)	\$263,397	(\$1,648,235)	\$2,109,407	\$461,172
Permissive License Fund	10,121	66,509	(56,388)	22,899	(33,489)
Police Pension Fund	(117,100)	260,465	(377,565)	97,764	(279,801)
Fire Pension Fund	(405)	267,940	(268,345)	85,266	(183,079)
Capital Improvements Fund	467,432	621,099	(153,667)	326,947	0
Total	<u>(\$1,024,790)</u>	<u>\$1,479,410</u>	<u>(\$2,504,200)</u>	<u>\$2,642,283</u>	35,197
Funds Available for Transfer					0
Total Provided Portion of Aggregate Deficit					<u>\$35,197</u>

Conclusion: Schedule III indicates that a fiscal watch condition does not exist under Section 118.022(A)(2) of the Ohio Revised Code as of December 31, 2001. The adjusted aggregate balance of those funds with a deficit at December 31, 2001 did not exceed one-twelfth of the general fund budget and the revenues lawfully available to the respective deficit funds.

City of Lorain

Fiscal Watch Analysis

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 the 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 verified the City's reconciled bank balances to its fund cash balance as of December 31, 2001. The City's total bank cash balances were reduced by \$2,539,342, because those amounts are legally restricted by bond indenture. The City's water and sewer fund balances were reduced by \$1,211,611 and \$1,327,731, respectively, as well. 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 deficit. We then subtracted from the treasury deficit one-twelfth of the amount received into the treasury during 2001, to determine the treasury deficiency.

Treasury Balances		Schedule IV
Ohio Revised Code Section 118.022(A)(3)		
As of December 31, 2001		
		Amounts December 31, 2001
		<u>2001</u>
<u>Bank Balances</u>		
Lorain National Bank Accounts		\$5,768,638
Bank One Accounts		4,278,857
Escrow Accounts		555,369
Certificates of Deposits		12,322,835
Total Cash		<u>22,925,699</u>
<u>Less: Adjustments</u>		
Petty Cash		7,125
Outstanding Checks		(2,074,693)
Miscellaneous Adjustments		170,915
Total Adjustments		<u>(1,903,778)</u>
Total Treasury Balance		<u>21,029,046</u>
<u>Positive Cash Fund Balances:</u>		
Street Construction Fund		14,850
Permissive License Fund		74,635
Health Fund		25,257
Muni Court Computer Fund		271,774
Legal Research Fund		147,017
Muni Court Security Fund		31,341
CDBG Fund		4,353,312

(continued)

City of Lorain

Fiscal Watch Analysis

Schedule IV

Treasury Balances
Ohio Revised Code Section 118.022(A)(3)
As of December 31, 2001
(continued)

	Amounts December 31, 2001
Litter Control Fund	\$377
Police Levy Fund	841,856
Law Enforcement Fund	1,293,637
Indigent Drivers Alcohol	113,624
Cemetery Fund	73,276
Mandatory Drug Fund	11,714
Parkland Fund	64,154
Bond Retirement Fund	223,523
Special Assessment Fund	33,605
Capital Improvements Fund	983,057
General Sewer Fund	249,527
Riverfront Urban Renewal Fund	2,246,646
Muni Court Improvements Fund	428,605
Water Fund	967,795
Sewer Fund	9,670,461
Internal Service Fund	201,296
Street Excavation Fund	10,660
Allotment and Improvement Fund	53,767
Deposits Held Fund	87,324
State Highway Patrol Fund	1,641
Contracts Trust Fund	1,041
Vital Statistics Fund	7,278
Municipal Court Fund	131,184
Total Positive Fund Balances	<u>22,614,234</u>
Treasury Balances Less Positive Fund Balances	(1,585,188)
One-Twelfth Treasury Receipts	<u>12,736,959</u>
Excess of One-Twelfth Treasury Receipts over Treasury Balance Less Positive Fund Balances	<u>\$11,151,771</u>

Conclusion: Schedule IV indicates that a fiscal watch condition does not exist under Section 118.022(A)(3) of the Ohio Revised Code as of December 31, 2001. The treasury balance less the positive fund cash balances did not exceed one-twelfth of the treasury receipts as of December 31, 2001.

City of Lorain

Fiscal Watch Analysis

Financial Forecast

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

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.

The Lorain City Council, in Resolution Number 40-02, approved a financial forecast of the general fund for the year ending December 31, 2002. The Auditor of State examined the forecast and issued a report dated October 11, 2002 (see Appendix A). The financial forecast anticipates a deficit in the general fund of \$2,400,000 which exceeds one-twelfth (\$1,973,000) of the preceding year's general fund revenue.

Conclusion: The financial forecast of the general fund for the year ending December 31, 2002 indicates that a fiscal watch exists under Section 118.022(A)(4) of the Ohio Revised Code. The forecasted deficit of \$2,400,000 exceeds one-twelfth of the general fund revenue from the prior year by \$425,000.

Summary

A fiscal watch exists at the City of Lorain as defined in Section 118.022(A)(4) of the Ohio Revised Code and presented in Appendix A.

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 made 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 to you.

Appendix - A

City of Lorain
Financial Forecast
For the Year Ending December 31, 2002

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City Council
City of Lorain
200 W. Erie Ave.
Lorain, Ohio 44052

Independent Accountant's Report

We have examined the accompanying forecasted statement of revenues, expenditures, and changes in fund balance-budget basis of the general fund of the City of Lorain for the year ending December 31, 2002. The City's management is responsible for the forecast. Our responsibility is to express an opinion on the forecast based on our examination.

Our examination was conducted in accordance the attestation standards established by the American Institute of Certified Public Accountants, and accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecast. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the accompanying forecast is presented in conformity with guidelines for presentation of a forecast established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for managements forecast. However, 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. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The financial statements for the years ended December 31, 2000 and 2001 were audited by other accountants and they rendered an unqualified opinion on those financial statements in reports dated June 4, 2001 and May 3, 2002, respectively. We have not performed any auditing procedures since.

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO
Auditor of State

October 11, 2002

City of Lorain, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget Basis
For the Years Ended December 31, 2000 and 2001, Actual; and
Ending December 31, 2002, Forecasted

General Fund

	2000 Actual	2001 Actual	2002 Forecasted	Variance Increase (Decrease)
<u>Revenues</u>				
Municipal Income Tax	\$15,202,000	\$14,411,000	\$13,722,000	(\$689,000)
Property and Other Taxes	2,317,000	2,275,000	2,221,000	(54,000)
Charges for Services	465,000	466,000	578,000	112,000
Fines, Licenses and Permits	1,438,000	1,569,000	1,675,000	106,000
Intergovernmental	4,887,000	4,771,000	4,663,000	(108,000)
Investment Income	122,000	33,000	5,000	(28,000)
Other	95,000	152,000	179,000	27,000
Total Revenues	<u>24,526,000</u>	<u>23,677,000</u>	<u>23,043,000</u>	<u>(634,000)</u>
<u>Other Financing Sources</u>				
Operating Transfers In	0	67,000	14,000	(53,000)
Advances In	0	0	60,000	60,000
Other Financing Sources	1,000	1,000	1,000	0
Total Other Financing Sources	<u>1,000</u>	<u>68,000</u>	<u>75,000</u>	<u>7,000</u>
Total Revenues and Other Financing Sources	<u>24,527,000</u>	<u>23,745,000</u>	<u>23,118,000</u>	<u>(627,000)</u>
<u>Expenditures</u>				
Current:				
General Government				
Civil Service				
Personal Services	65,000	68,000	73,000	5,000
Materials and Supplies	2,000	0	0	0
Contractual Services	5,000	6,000	2,000	(4,000)
Other	5,000	5,000	2,000	(3,000)
Total Civil Service	<u>77,000</u>	<u>79,000</u>	<u>77,000</u>	<u>(2,000)</u>
Council				
Personal Services	245,000	266,000	263,000	(3,000)
Materials and Supplies	1,000	1,000	1,000	0
Contractual Services	25,000	16,000	8,000	(8,000)
Capital Outlay	1,000	2,000	0	(2,000)
Other	5,000	5,000	5,000	0
Total Council	<u>277,000</u>	<u>290,000</u>	<u>277,000</u>	<u>(13,000)</u>
Mayor				
Personal Services	137,000	152,000	142,000	(10,000)
Materials and Supplies	3,000	3,000	2,000	(1,000)
Contractual Services	7,000	7,000	7,000	0
Total Mayor	<u>147,000</u>	<u>162,000</u>	<u>151,000</u>	<u>(11,000)</u>

(continued)

City of Lorain, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget Basis
For the Years Ended December 31, 2000 and 2001, Actual; and
Ending December 31, 2002, Forecasted

General Fund
(continued)

	2000 Actual	2001 Actual	2002 Forecasted	Variance Increase (Decrease)
Auditor				
Personal Services	\$455,000	\$474,000	\$455,000	(\$19,000)
Materials and Supplies	19,000	22,000	19,000	(3,000)
Contractual Services	61,000	52,000	54,000	2,000
Capital Outlay	2,000	2,000	0	(2,000)
Other	2,000	1,000	0	(1,000)
Total Auditor	<u>539,000</u>	<u>551,000</u>	<u>528,000</u>	<u>(23,000)</u>
Treasurer				
Personal Services	385,000	410,000	387,000	(23,000)
Materials and Supplies	24,000	24,000	19,000	(5,000)
Contractual Services	15,000	10,000	10,000	0
Capital Outlay	3,000	0	0	0
Total Treasurer	<u>427,000</u>	<u>444,000</u>	<u>416,000</u>	<u>(28,000)</u>
Law Director				
Personal Services	552,000	596,000	577,000	(19,000)
Materials and Supplies	19,000	17,000	16,000	(1,000)
Contractual Services	5,000	1,000	2,000	1,000
Capital Outlay	10,000	11,000	10,000	(1,000)
Other	1,000	0	3,000	3,000
Total Law Director	<u>587,000</u>	<u>625,000</u>	<u>608,000</u>	<u>(17,000)</u>
Judges				
Personal Services	489,000	521,000	656,000	135,000
Materials and Supplies	4,000	1,000	4,000	3,000
Contractual Services	24,000	18,000	18,000	0
Other	5,000	3,000	4,000	1,000
Total Judges	<u>522,000</u>	<u>543,000</u>	<u>682,000</u>	<u>139,000</u>
Clerk of Courts				
Personal Services	579,000	701,000	632,000	(69,000)
Materials and Supplies	65,000	52,000	48,000	(4,000)
Contractual Services	13,000	13,000	11,000	(2,000)
Capital Outlay	10,000	0	0	0
Other	0	0	3,000	3,000
Total Clerk of Courts	<u>667,000</u>	<u>766,000</u>	<u>694,000</u>	<u>(72,000)</u>

(continued)

City of Lorain, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget Basis
For the Years Ended December 31, 2000 and 2001, Actual; and
Ending December 31, 2002, Forecasted

General Fund
(continued)

	2000 Actual	2001 Actual	2002 Forecasted	Variance Increase (Decrease)
Electrical				
Personal Services	\$393,000	\$325,000	\$347,000	\$22,000
Materials and Supplies	49,000	43,000	35,000	(8,000)
Contractual Services	21,000	12,000	48,000	36,000
Other	1,000	1,000	3,000	2,000
Total Electrical	<u>464,000</u>	<u>381,000</u>	<u>433,000</u>	<u>52,000</u>
Safety/Service Director				
Personal Services	527,000	546,000	439,000	(107,000)
Materials and Supplies	96,000	88,000	76,000	(12,000)
Contractual Services	1,032,000	1,110,000	1,098,000	(12,000)
Capital Outlay	15,000	3,000	3,000	0
Other	351,000	133,000	154,000	21,000
Total Safety/Service Director	<u>2,021,000</u>	<u>1,880,000</u>	<u>1,770,000</u>	<u>(110,000)</u>
Engineering				
Personal Services	458,000	594,000	640,000	46,000
Materials and Supplies	14,000	12,000	11,000	(1,000)
Contractual Services	4,000	5,000	6,000	1,000
Capital Outlay	5,000	0	22,000	22,000
Other	2,000	1,000	2,000	1,000
Total Engineering	<u>483,000</u>	<u>612,000</u>	<u>681,000</u>	<u>69,000</u>
Data Processing				
Personal Services	103,000	116,000	126,000	10,000
Materials and Supplies	44,000	30,000	34,000	4,000
Contractual Services	118,000	85,000	109,000	24,000
Capital Outlay	49,000	20,000	10,000	(10,000)
Other	1,000	1,000	1,000	0
Total Data Processing	<u>315,000</u>	<u>252,000</u>	<u>280,000</u>	<u>28,000</u>
Total General Government	<u>6,526,000</u>	<u>6,585,000</u>	<u>6,597,000</u>	<u>12,000</u>
Security of Persons and Property				
Police Department				
Personal Services	6,635,000	7,095,000	6,875,000	(220,000)
Materials and Supplies	403,000	334,000	330,000	(4,000)
Contractual Services	195,000	338,000	257,000	(81,000)
Total Police Department	<u>7,233,000</u>	<u>7,767,000</u>	<u>7,462,000</u>	<u>(305,000)</u>

(continued)

City of Lorain, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget Basis
For the Years Ended December 31, 2000 and 2001, Actual; and
Ending December 31, 2002, Forecasted

General Fund
(continued)

	2000 Actual	2001 Actual	2002 Forecasted	Variance Increase (Decrease)
Fire Department				
Personal Services	\$6,144,000	\$6,345,000	\$6,276,000	(\$69,000)
Materials and Supplies	149,000	130,000	90,000	(40,000)
Contractual Services	72,000	74,000	92,000	18,000
Capital Outlay	33,000	13,000	3,000	(10,000)
Other	48,000	37,000	9,000	(28,000)
Total Fire Department	<u>6,446,000</u>	<u>6,599,000</u>	<u>6,470,000</u>	<u>(129,000)</u>
 Total Security of Persons and Property	 <u>13,679,000</u>	 <u>14,366,000</u>	 <u>13,932,000</u>	 <u>(434,000)</u>
 Public Health and Welfare				
Cemetery				
Personal Services	170,000	154,000	145,000	(9,000)
Materials and Supplies	40,000	34,000	35,000	1,000
Contractual Services	9,000	9,000	2,000	(7,000)
Total Cemetery	<u>219,000</u>	<u>197,000</u>	<u>182,000</u>	<u>(15,000)</u>
 Dog Warden				
Personal Services	97,000	103,000	54,000	(49,000)
Materials and Supplies	8,000	8,000	4,000	(4,000)
Total Dog Warden	<u>105,000</u>	<u>111,000</u>	<u>58,000</u>	<u>(53,000)</u>
 Total Public Health and Welfare	 <u>324,000</u>	 <u>308,000</u>	 <u>240,000</u>	 <u>(68,000)</u>
 Community Environment				
Building Inspection				
Personal Services	473,000	523,000	417,000	(106,000)
Materials and Supplies	18,000	13,000	13,000	0
Contractual Services	7,000	20,000	47,000	27,000
Capital Outlay	37,000	14,000	0	(14,000)
Other	2,000	2,000	4,000	2,000
Total Building Inspection	<u>537,000</u>	<u>572,000</u>	<u>481,000</u>	<u>(91,000)</u>
 Total Community Environment	 <u>537,000</u>	 <u>572,000</u>	 <u>481,000</u>	 <u>(91,000)</u>

(continued)

City of Lorain, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget Basis
For the Years Ended December 31, 2000 and 2001, Actual; and
Ending December 31, 2002, Forecasted

General Fund
(continued)

	2000 Actual	2001 Actual	2002 Forecasted	Variance Increase (Decrease)
Leisure Time Activities				
Parks and Recreation				
Personal Services	\$1,170,000	\$1,260,000	\$621,000	(\$639,000)
Materials and Supplies	165,000	158,000	131,000	(27,000)
Contractual Services	117,000	122,000	147,000	25,000
Capital Outlay	22,000	15,000	4,000	(11,000)
Other	9,000	9,000	7,000	(2,000)
Total Parks and Recreation	<u>1,483,000</u>	<u>1,564,000</u>	<u>910,000</u>	<u>(654,000)</u>
Total Leisure Time Activities	<u>1,483,000</u>	<u>1,564,000</u>	<u>910,000</u>	<u>(654,000)</u>
Debt Service				
Principal Retirement	34,000	37,000	19,000	(18,000)
Interest and Fiscal Charges	4,000	2,000	2,000	0
Total Debt Service	<u>38,000</u>	<u>39,000</u>	<u>21,000</u>	<u>(18,000)</u>
<u>Other Financing Uses</u>				
Advances Out	0	60,000	0	(60,000)
Operating Transfers Out	1,984,000	2,160,000	1,593,000	(567,000)
Total Other Financing Uses	<u>1,984,000</u>	<u>2,220,000</u>	<u>1,593,000</u>	<u>(627,000)</u>
Total Expenditures	<u>24,571,000</u>	<u>25,654,000</u>	<u>23,774,000</u>	<u>(1,880,000)</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(44,000)	(1,909,000)	(656,000)	1,253,000
Cash Balance (Deficit), January 1	<u>259,000</u>	<u>215,000</u>	<u>(1,694,000)</u>	<u>(1,909,000)</u>
Cash Balance (Deficit), December 31	215,000	(1,694,000)	(2,350,000)	(656,000)
Estimated Encumbrances, December 31	<u>104,000</u>	<u>65,000</u>	<u>50,000</u>	<u>(15,000)</u>
Unencumbered Fund Balance (Deficit), December 31	<u>\$111,000</u>	<u>(\$1,759,000)</u>	<u>(\$2,400,000)</u>	<u>(\$641,000)</u>

City of Lorain, Ohio
Schedule of Expenditures by Object and Department - Budget Basis
For the Years Ended December 31, 2000 and 2001, Actual; and
Ending December 31, 2002, Forecasted

General Fund

Object/Department	2000 Actual	2001 Actual	2002 Forecasted	Variance Inc./Dec.) 2002/2001
<u>Personal Services</u>				
Civil Service	\$65,000	\$68,000	\$73,000	\$5,000
Council	245,000	266,000	263,000	(3,000)
Mayor	137,000	152,000	142,000	(10,000)
Auditor	455,000	474,000	455,000	(19,000)
Treasurer	385,000	410,000	387,000	(23,000)
Law Director	552,000	596,000	577,000	(19,000)
Judges	489,000	521,000	656,000	135,000
Clerk of Courts	579,000	701,000	632,000	(69,000)
Electrical	393,000	325,000	347,000	22,000
Safety/Service	527,000	546,000	439,000	(107,000)
Engineering	458,000	594,000	640,000	46,000
Data Processing	103,000	116,000	126,000	10,000
Police	6,635,000	7,095,000	6,875,000	(220,000)
Fire	6,144,000	6,345,000	6,276,000	(69,000)
Cemetery	170,000	154,000	145,000	(9,000)
Dog Warden	97,000	103,000	54,000	(49,000)
Building Inspection	473,000	523,000	417,000	(106,000)
Parks	1,170,000	1,260,000	621,000	(639,000)
Total Personal Services	19,077,000	20,249,000	19,125,000	(1,124,000)
<u>Materials and Supplies</u>				
Civil Service	2,000	0	0	0
Council	1,000	1,000	1,000	0
Mayor	3,000	3,000	2,000	(1,000)
Auditor	19,000	22,000	19,000	(3,000)
Treasurer	24,000	24,000	19,000	(5,000)
Law Director	19,000	17,000	16,000	(1,000)
Judges	4,000	1,000	4,000	3,000
Clerk of Courts	65,000	52,000	48,000	(4,000)
Electrical	49,000	43,000	35,000	(8,000)
Safety/ Service	96,000	88,000	76,000	(12,000)
Engineering	14,000	12,000	11,000	(1,000)
Data Processing	44,000	30,000	34,000	4,000
Police	403,000	334,000	330,000	(4,000)
Fire	149,000	130,000	90,000	(40,000)
Cemetery	40,000	34,000	35,000	1,000
Dog Warden	8,000	8,000	4,000	(4,000)
Building Inspection	18,000	13,000	13,000	0
Parks	165,000	158,000	131,000	(27,000)
Total Materials and Supplies	1,123,000	970,000	868,000	(102,000)

(continued)

City of Lorain, Ohio
Schedule of Expenditures by Object and Department - Budget Basis
For the Years Ended December 31, 2000 and 2001, Actual; and
Ending December 31, 2002, Forecasted

General Fund
(continued)

Object/Department	2000 Actual	2001 Actual	2002 Forecasted	Variance Inc./(Dec.) 2002/2001
<u>Contractual Services</u>				
Civil Service	5,000	6,000	2,000	(4,000)
Council	25,000	16,000	8,000	(8,000)
Mayor	7,000	7,000	7,000	0
Auditor	61,000	52,000	54,000	2,000
Treasurer	15,000	10,000	10,000	0
Law Director	5,000	1,000	2,000	1,000
Judges	24,000	18,000	18,000	0
Clerk of Courts	13,000	13,000	11,000	(2,000)
Electrical	21,000	12,000	48,000	36,000
Safety/Service	1,032,000	1,110,000	1,098,000	(12,000)
Engineering	4,000	5,000	6,000	1,000
Data Processing	118,000	85,000	109,000	24,000
Police	195,000	338,000	257,000	(81,000)
Fire	72,000	74,000	92,000	18,000
Cemetery	9,000	9,000	2,000	(7,000)
Building Inspection	7,000	21,000	47,000	26,000
Parks	117,000	122,000	147,000	25,000
Total Contractual Services	1,730,000	1,899,000	1,918,000	19,000
<u>Capital Outlay</u>				
Council	1,000	2,000	0	(2,000)
Auditor	2,000	1,000	0	(1,000)
Treasurer	3,000	0	0	0
Law Director	10,000	11,000	10,000	(1,000)
Clerk of Courts	10,000	0	0	0
Safety/Service	15,000	3,000	3,000	0
Engineering	5,000	0	22,000	22,000
Data Processing	49,000	20,000	10,000	(10,000)
Fire	33,000	13,000	3,000	(10,000)
Building Inspection	37,000	14,000	0	(14,000)
Parks	22,000	15,000	4,000	(11,000)
Total Capital Outlay	187,000	79,000	52,000	(27,000)

(continued)

City of Lorain, Ohio
Schedule of Expenditures by Object and Department - Budget Basis
For the Years Ended December 31, 2000 and 2001, Actual; and
Ending December 31, 2002, Forecasted

General Fund
(continued)

Object/Department	2000 Actual	2001 Actual	2002 Forecasted	Variance Inc./-(Dec.) 2002/2001
Other				
Civil Service	5,000	5,000	2,000	(3,000)
Council	5,000	5,000	5,000	0
Auditor	2,000	1,000	0	(1,000)
Law Director	1,000	0	3,000	3,000
Judges	5,000	3,000	4,000	1,000
Clerk of Courts	0	0	3,000	3,000
Electrical	1,000	1,000	3,000	2,000
Safety/Service	351,000	133,000	154,000	21,000
Engineering	2,000	1,000	2,000	1,000
Data Processing	1,000	1,000	1,000	0
Fire	48,000	37,000	9,000	(28,000)
Building Inspection	2,000	2,000	4,000	2,000
Parks	9,000	9,000	7,000	(2,000)
Total Other	432,000	198,000	197,000	(1,000)
Debt Service				
Principal Retirement	34,000	37,000	19,000	(18,000)
Interest and Fiscal Charges	4,000	2,000	2,000	0
Total Debt Service	38,000	39,000	21,000	(18,000)
Other Financing Uses				
Advances	0	60,000	0	(60,000)
Operating Transfers	1,984,000	2,160,000	1,593,000	(567,000)
Total Other Financing Uses	1,984,000	2,220,000	1,593,000	(627,000)
Total Expenditures and Other Uses	\$24,571,000	\$25,654,000	\$23,774,000	(\$1,880,000)

City of Lorain, Ohio
 Summary of Significant Forecast Assumptions and Accounting Policies
 For the Year Ending December 31, 2002

Note 1 - The City

The City of Lorain, Ohio (The City) operates as a statutory City under the laws and regulations as set forth under the Ohio Constitution. Legislative authority is vested in a twelve-member City Council and a Council President elected by the voters of the City. The Council fixes compensation of City officials and employees, and enacts ordinances and resolutions including, but not limited to, City services, tax levies, appropriating and borrowing money. The City's chief administrative officer, elected by the voters, is the Mayor. The Mayor is the contracting body, and is responsible for basic City services such as police, fire, streets, parks, and community development. The Mayor appoints a Director of Public Safety/Service, department heads, boards and commissions. The City Auditor and City Treasurer, both of whom are elected, are responsible for fiscal control of the financial resources of the City. In addition, there are other officials elected by the voters of the City that manage various segments of the City's operations. These are the Law Director, the Clerk of Courts, and two Municipal Court Judges. Although these elected officials manage the internal operations of their respective departments, the City Council authorizes and serves as the budget and taxing authority of the City including these departments.

Note 2 - Nature of the Forecast

This financial forecast, to the best of the knowledge and belief of the City of Lorain, presents the expected revenues, expenditures, and changes in fund balance of the General Fund. Accordingly, the forecast reflects the City's judgment of the expected conditions and its expected course of action as of October 11, 2002, the date of this forecast. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecasted and actual results will usually arise because events and circumstances frequently do not occur as expected, and those differences may be material.

For presentation in the forecast, the general fund has been adjusted to exclude the activity of other governmental funds combined with the general fund for reporting purposes. The exclusion of this activity has generated differences with the audited financial statements for the calendar years ended December 31, 2000 and 2001. These differences are as follows:

	2000	2001
<u>Revenue and Other Financing Sources</u>		
General Fund as Previously Reported	\$24,541,000	\$23,785,000
Funds Combined with the General Fund		
For Reporting Purposes	(14,000)	(40,000)
Total Revenue and Other Financing Sources	24,527,000	23,745,000
<u>Expenditures and Other Financing Uses</u>		
General Fund as Previously Reported	24,573,000	25,656,000
Funds Combined with the General Fund		
For Reporting Purposes	(2,000)	(2,000)
Total Expenditures and Other Financing Uses	24,571,000	25,654,000

continued

City of Lorain, Ohio
 Summary of Significant Forecast Assumptions and Accounting Policies
 For the Year Ending December 31, 2002

	2000	2001
Excess of Revenues and Other Sources under Expenditures and Other Uses	(44,000)	(1,909,000)
Cash Fund Balance at Beginning of Year	259,000	215,000
Cash Fund Balance at End of Year	215,000	(1,694,000)
Encumbrances Outstanding at Year End	(104,000)	(65,000)
Fund Balance at Year End	\$111,000	(\$1,759,000)

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 used to prepare the historical budget and actual 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. - Basis of Presentation - Fund Accounting

The City maintains its accounting 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 restrictions require the recording of specific revenues and expenditures. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The City uses various fund types and funds to report on its financial position and the results of its operations. The fund types and restrictions associated with each type are as follows:

General Fund - The general fund is the operating fund of the City and is used to account for all financial resources except those required to be accounted for 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.

Special Revenue Funds - Special revenue funds are established to account for the proceeds of specific revenue sources (other than amounts relating to major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Funds - Debt service funds are used to account for the accumulation of resources for, and the payment of, general and special assessment long-term debt principal and interest.

Capital Projects Funds - Capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

City of Lorain, Ohio
Summary of Significant Forecast Assumptions and Accounting Policies
For the Year Ending December 31, 2002

Enterprise Funds - The enterprise funds are financed and operated in a manner similar to private business enterprises where the intent is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis are financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Internal Service Funds - The internal service funds are used to 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 funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The City only utilizes the agency fund type. Agency funds are purely custodial (assets equal liabilities) and thus 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 budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation 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. The legal level of budgetary control is at the object level within each department and fund. Any budgetary modifications at this level may only be made by resolution of the City Council.

Tax Budget. During the first Council meeting in July, the Mayor presents the annual operating budget for the following fiscal year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

Estimated Resources. The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes levies and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund and the estimated beginning of the year fund balance. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation ordinance. On or about January 1, the certificate of estimated resources is amended to include the actual unencumbered fund balances at December 31 of the preceding year. The certificate may be further amended during the year if the City Auditor determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased.

Appropriations. A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, department, and object level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified.

City of Lorain, Ohio
 Summary of Significant Forecast Assumptions and Accounting Policies
 For the Year Ending December 31, 2002

Lapsing of Appropriation. At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding year and is not re-appropriated.

Encumbrances. As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations at the fund, department, and object level.

Note 4 - General Operating Assumptions

The City will continue to operate and maintain current service levels and pay all obligations. In addition, the City will continue to monitor and limit expenditures on materials, supplies and capital outlay. The forecast contains those expenditures the City has determined to be necessary to preserve the health, welfare, and safety of the citizens of the City.

Note 5 - Significant Assumptions for Revenues and Other Financing Sources

A. - Municipal Income Tax

The City levies a municipal income tax of one and three-quarter percent on substantially all income earned within the City as well as the incomes of residents earned outside the City. Employers within the City are required to withhold the tax from their employees and remit the tax to the City monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration and return annually. By City ordinance, income tax proceeds are credited to the general fund (one and one-half percent) and to the police levy fund (one-quarter percent).

The general fund's share of income tax revenue, net of refunds, is anticipated to decrease \$689,000 while the total income tax revenues are anticipated to decrease approximately \$800,000 from the prior year. A decrease of approximately \$130,000 is anticipated due to Sparkle Market, CVS Pharmacy, Wickens, Herzer and Panza, and Hematology and Oncology Center closing or moving out of the City. In addition, layoffs have occurred with local businesses. The significant businesses that have laid off employees, the estimated number of employees, and the estimated loss in income tax revenue is as follows:

<u>Business/Employer</u>	<u>Estimated Workers</u>	<u>Estimated Loss</u>
Marconi Communications	875 workers	\$550,000
Republic Engineered Products	250-300 workers and 15% pay	95,000
Lorain City Schools	83 workers	25,000

The City has adopted Ordinance No. 139-02 to increase the municipal income tax by one quarter of one percent commencing January 1, 2003. This issue will be on the November 2002 ballot. No additional revenue is included in the forecast because voter approval cannot be predicted and the effective date, if approved, is subsequent to the forecast period.

City of Lorain, Ohio
Summary of Significant Forecast Assumptions and Accounting Policies
For the Year Ending December 31, 2002

B. - General and Tangible Personal Property Tax

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2002 for real and public utility property taxes represents collections of 2001 taxes. Property tax payments received during 2002 for tangible personal property (other than public utility property) are for 2002 taxes.

2002 real property taxes are levied after October 1, 2002 on the assessed value as of January 1, 2002, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2002 real property taxes are collected in and intended to finance 2003.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2002 public utility property taxes, which became a lien December 31, 2001, are levied after October 1, 2002, and are collected in 2003 with real property taxes.

2002 tangible personal property taxes are levied after October 1, 2001, on the value as of December 31, 2001. Collections are made in 2002. Tangible personal property assessments are 25 percent of true value.

The amount forecasted for property taxes is based on actual collections and the estimated October personal property tax settlement. In both 2001 and 2002, one of the largest tax payers in the City did not make their personal property tax payment resulting in losses of revenue to the general fund of \$241,000 and \$261,000, respectively.

C. - Charges for Services

The increase in charges for services of \$112,000 is due to utility department charge backs for fire hydrant inspections not charged back in previous years. The estimates for the balance of 2002 include an additional \$41,000 for the fire department charge backs. The remainder of the revenue in this category should remain relatively consistent with 2000 and 2001 receipts.

D. - Fines, License and Permits

The increase in this category is due to a five to ten percent increase in fines and court costs imposed by the Judges of the Lorain Municipal Court. The City expects the income for the rest of the year to remain consistent with prior years with the exception of the above-mentioned increases.

E. - Intergovernmental

Intergovernmental revenue consists mainly of local government, local governmental revenue assistance, and estate and inheritance taxes. Other revenue is received from liquor and beer permits, homestead and rollback, federal and state aid and grants, and cigarette tax.

The decrease of \$108,000 in intergovernmental revenue is due to the local government and local government revenue assistance and estate and inheritance taxes. The decrease in the local government and local government revenue assistance is due to House Bill 94 and related adjustments outlined in House Bill 405. Currently, the City is estimating this revenue based on the levels as established by HB 94 and information provided by the county budget commission. Estate and inheritance taxes are based primarily on actual collections which are approximately \$67,000 less than the 2001 collections.

City of Lorain, Ohio
Summary of Significant Forecast Assumptions and Accounting Policies
For the Year Ending December 31, 2002

State law grants tax relief in the form of a ten percent reduction in real property tax bills. In addition, a two and one-half 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 as a result of the above (rollback and homestead). Property tax allocation revenue is based on estimated and actual settlements. All other intergovernmental revenue is assumed to be fairly consistent with prior years.

F. - Investment Income

The drop in investment income is due to a combination of lack of funds to invest and reduced interest rates. This situation is expected to extend through the end of the year.

G. - Other

An influx of private party donations for the Parks Department has increased the City's other income over prior years. Revenues for the remainder of the year are not significant.

H. - Transfers and Advances-in

The transfer-in for 2002 is anticipated to be \$14,000. This amount represents the unclaimed moneys held by the City for at least five years that may be transferred to the general fund under Section 9.39 of the Ohio Revised Code.

Advances represent amounts lent to other funds to meet cash flow requirements in the current or prior year, which are being repaid to the general fund. Outstanding advances to other funds in the amount of \$60,000 are anticipated to be repaid by year-end.

Note 6 - Significant Assumptions for Expenditures and Other Financing Uses

A. - Personal Services

Personal service expenditures represent the salaries and wages paid to elected officials and City employees, employer contributions to the State pension systems, health care benefits, life insurance, workers' compensation, unemployment compensation, and other compensation and benefits arising from negotiated agreements. The amounts forecasted for salaries and wages are based on the current pay rates and existing staff levels. Employee benefits are also based on existing rates and staff levels for the year.

Full time City employees are represented by one of several bargaining units which all have contracts effective January 1, 2001 through December 31, 2003. In general, these agreements allow for annual increases of three and one-half percent at the beginning of each year. Dispatchers receive an annual increase of four percent. Correction officers receive an annual increase of six percent. The bargaining units include the following:

- a. United Steel Workers Local 6621
- b. Lorain Firefighters Association, International Association of Firefighters
- c. Fraternal Order of Police Lodge No. 3, Lorain
- d. Fraternal Order of Police Lodge No. 3, Lorain (Promoted Unit)
- e. Ohio Patrolmen's Benevolent Association (Dispatchers, Corrections Officers)

City of Lorain, Ohio
Summary of Significant Forecast Assumptions and Accounting Policies
For the Year Ending December 31, 2002

City Council, by ordinance, establishes the terms and conditions of employment for City employees. Those terms and conditions generally are the products of negotiations with representatives of the bargaining units. Non-bargaining unit employee compensation is set by Council and generally parallels the negotiated agreements.

In November 2001, the City gave layoff notices to 58 of its employees. Ultimately, 41 employees (36 paid out of the general fund) were laid off, including seven police personnel, eight firefighters, 18 laborers and eight other employees. Subsequently, the City entered into written memoranda of understanding with its three major bargaining units (the Fraternal Order of Police, Lodge 3, the International Association of Firefighters, Local 267, and the United Steel Workers of America, Local 6621) governing such matters as employee priorities upon any further layoffs and reassignment of current personnel.

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. The premium is \$530. The City also provides life insurance, vision, and, for certain employees, dental benefits, all under premium-based policies.

All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Public Employees Retirement System of Ohio. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. Employees are required to contribute 8.5 percent of their annual-covered salary and the employer contributes 13.55 percent of annual-covered salary.

All full-time police officers and firefighters contribute to the Ohio Police and Fire Pension Fund (OP&F). OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and by Chapter 742 of the Ohio Revised Code. Police and firefighters are required to contribute 10 percent of their annual-covered salary and the City is required to contribute 18 percent for police and 24 percent for firefighters.

B. - Materials and Supplies

A concerted effort has been made by all departments to limit expenditures on all materials and supplies. This effort will continue throughout the forecast period.

C. - Contractual Services

This category has remained consistent with prior years. A concerted effort has been made by all departments to limit expenditures on contractual services. This effort will continue throughout the forecast period.

City of Lorain, Ohio
 Summary of Significant Forecast Assumptions and Accounting Policies
 For the Year Ending December 31, 2002

D. - Transfers Out

The City transfers resources to various funds each year. Below are the transfers for the last two years and the anticipated transfers-out for 2002:

Transfers-out	2000	2001	2002
Transfer to Street	\$790,000	\$979,000	\$356,000
Transfer to Health	519,000	424,000	379,000
Transfer to Bond Retirement	670,000	507,000	649,000
Transfer to Capital Improvement	0	250,000	0
Transfer to Hospitalization	0	0	181,000
Transfer to Police Pension	0	0	28,000
Transfer to Permissive License	5,000	0	0
Totals	<u>\$1,984,000</u>	<u>\$2,160,000</u>	<u>\$1,593,000</u>

The decrease in transfers is mainly due to layoffs in the street department and unfilled vacancies in the health department.

Note 7 - Encumbrances

The City uses the encumbrance method of accounting. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve a portion of the applicable appropriation. The estimated encumbrances at year-end are based the prior year and limitations on expenditures for materials and supplies.

Note 8 - Other Funds

The City has numerous funds on the books that are restricted for specific purposes; however, certain funds rely on operating transfers from the general fund. Transfers-out to these funds have been addressed under Note 6-D. Other funds that may require a transfer from the general fund are as follows:

Street Fund - The street fund accounts for a portion of State gasoline tax and motor vehicle registration fees used for maintenance and repair of dedicated streets within the City. Included in this fund is a sub fund for State highways that also receives a portion of the State gasoline tax, motor vehicle registration fees which are designated for the maintenance of State highways within the City. It has been determined that this fund will end the year with a deficit balance of \$356,000 and this amount has been included in the forecast.

Health Services Fund - The health services fund accounts for revenues received from local health permits, nursing fees, clinic fees, and grants used to fund public health services within the City. It has been determined that this fund will end the year with a deficit balance of \$379,000 and this amount has been included in the forecast.

City of Lorain, Ohio
Summary of Significant Forecast Assumptions and Accounting Policies
For the Year Ending December 31, 2002

General Obligation Bond Retirement - The general obligation bond retirement accounts for the accumulation of resources to pay principal and interest on general obligation debt. The general obligation bond fund receives property taxes from a .2 mill allocation of the City's inside millage. As of the date of the forecast, the fund has a balance of \$682,000. An operating transfer in the amount of \$649,000 is necessary to meet the debt service requirements for the rest of the year and this amount has been included in the forecast.

Capital Improvements Fund - The capital improvements fund accounts for grants, operating transfers from the general fund, and various other sources used for the construction of various improvements within the City. No transfers are anticipated from the general fund this year.

Garage Fund - The garage fund accounts for the maintenance and repair on City vehicles and equipment. The cost of operating the garage is charged monthly to the various funds and department that use the garage. The forecast assumes the billings to the funds and departments will be paid through November 2002 and no advance or operating transfer will be needed.

Hospitalization Fund - The hospitalization fund accounts for the self-funded health care benefits provided to City employees. Each department is charged a monthly premium of \$530 per employee, per month. The premiums are used to pay claims and the administrative costs of the health care program. The cost of claims for the past few months has remained at a high level in comparison to prior years. The deficit balance in the fund as of the date of the forecast is approximately \$63,000. The City estimates claims to remain at their current level and, based on this level, the expenses of the program will exceed the available balance and premiums due for the remainder of the year. The amount that may be transferred from the general fund, or charged in the form of additional premiums, has been estimated to be \$181,000 and has been included in the forecast.

Police Pension Fund - The police pension fund accounts for property taxes used to pay a portion of the employers police pension contributions. Management estimates that \$28,000 is needed to meet the quarterly pension contribution due and this amount has been included in the forecast.

Note 9 - Pending Litigation

The City is a party to various legal proceedings. Management is of the opinion that settlement, if any, during the forecast period would not have a significant impact on the general fund.



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OFFICE OF THE AUDITOR

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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 17, 2002**