

**CITY OF LORAIN
LORAIN COUNTY, OHIO**

AUDIT REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2016**

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



Dave Yost • Auditor of State

Members of City Council
City of Lorain
200 West Erie Ave
Lorain, Ohio 44052

We have reviewed the *Independent Auditor's Report* of the City of Lorain, Lorain County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2016 through December 31, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Lorain is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

August 31, 2017

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**CITY OF LORAIN
LORAIN COUNTY, OHIO
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2016**

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

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INDEPENDENT AUDITOR'S REPORT

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

The Honorable Dave Yost
Auditor of State
State of Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lorain, Lorain County, Ohio, (the City) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lorain as of December 31, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof and the budgetary comparison for the General Fund and the Community Development Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 3 to the basic financial statements, the Ohio Police and Fire Pension (OP&F) had made a revision to the total net pension liability based on the census file provided to its actuary. The City has restated its December 31, 2015 net position as a result. Also, as described in Note 23 to the financial statements, the City has experienced a financial shortfall which has resulted in deficit spending. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedules of Net Pension Liabilities and Pension Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



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

July 24, 2017

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**CITY OF LORAIN
LORAIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
UNAUDITED**

The discussion and analysis of the City of Lorain's ("the City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2016. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2016 are:

- \$3,181,140 was awarded to the City through the Federal Emergency Management Agency (FEMA) in July 2016 for a Staffing for Adequate Fire and Emergency Response (SAFER) grant to support operations of the fire department.
- A 1.7 mil, five year, temporary levy was passed by the voters of the City in November 2016 for the express purpose of supporting operations of the fire department. The additional levy is anticipated to generate an additional \$1,355,000 annually beginning in 2017.
- \$22.4 million in Ohio Water Development loans were received for various waterline projects throughout the City and for the continuing construction of phase one of the Black Rive wastewater storage and conveyance tunnel project.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

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The *Statement of Activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of the cash flows*.

Thus, revenue and expenses reported in this statement for some items will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

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

Fund Financial Statements

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

Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, the Community Development Fund, the General Obligation Bond Retirement Fund, and the Capital Improvements Fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

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

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Proprietary Funds

The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water works and water pollution control (sewer) services. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City maintains two internal service funds: the Garage Fund, which accounts for charges to various departments for fuel and maintenance on vehicles and equipment, and the Hospitalization Fund, which accounts for the hospital/medical and prescription drug benefits for the self-insurance program for the employees of the City. The services provided by these funds predominately benefit governmental rather than business-type functions. They have been included within *governmental activities* in government-wide financial statements.

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

The proprietary fund financial statements can be found beginning on page 29 of this report.

Fiduciary Funds

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

The fiduciary fund financial statement can be found on page 32 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 33 through 90 of this report.

Government-Wide Financial Analysis

The Statement of Net Position provides the perspective of the City as a whole. Table 1 provides a summary of the City's net position at December 31, 2016 as compared to December 31, 2015.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
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**Table 1
Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2016	2015 *	2016	2015	2016	2015 *
Assets						
Current and Other Assets	\$40,239,481	\$40,327,671	\$33,967,064	\$32,567,262	\$74,206,545	\$72,894,933
Capital Assets, Net	113,502,764	113,803,054	206,443,215	186,435,539	319,945,979	300,238,593
<i>Total Assets</i>	153,742,245	154,130,725	240,410,279	219,002,801	394,152,524	373,133,526
Deferred Outflows of Resources						
Deferral on Refunding	152,965	165,738	-	-	152,965	165,738
Pension	13,326,328	5,267,050	3,229,279	1,045,874	16,555,607	6,312,924
<i>Total Deferred Outflows of Resources</i>	13,479,293	5,432,788	3,229,279	1,045,874	16,708,572	6,478,662
Liabilities						
Current and Other Liabilities	3,314,791	3,376,952	3,061,990	2,598,590	6,376,781	5,975,542
Long-Term Liabilities:						
Due Within One Year	6,670,723	7,141,155	8,493,727	9,125,112	15,164,450	16,266,267
Due in More Than One Year						
Net Pension Liability	48,656,196	38,942,735	8,402,183	5,744,846	57,058,379	44,687,581
Other Amounts	63,360,873	67,895,461	127,248,759	112,769,115	190,609,632	180,664,576
<i>Total Liabilities</i>	122,002,583	117,356,303	147,206,659	130,237,663	269,209,242	247,593,966
Deferred Inflows of Resources						
Property Taxes	4,404,492	3,046,612	-	-	4,404,492	3,046,612
Payments in Lieu of Taxes	1,473,203	679,787	-	-	1,473,203	679,787
Pension	990,891	145,235	162,345	100,925	1,153,236	246,160
<i>Total Deferred Inflows of Resources</i>	6,868,586	3,871,634	162,345	100,925	7,030,931	3,972,559
Net Position						
Net Investment in Capital Assets	54,440,199	53,910,007	72,192,548	66,031,772	126,632,747	119,941,779
Restricted	24,881,607	17,380,798	2,034,018	1,950,412	26,915,625	19,331,210
Unrestricted (Deficit)	(40,971,437)	(32,955,229)	22,043,988	21,727,903	(18,927,449)	(11,227,326)
<i>Total Net Position</i>	38,350,369	38,335,576	96,270,554	89,710,087	134,620,923	128,045,663

* Restated

The City has adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27*, which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

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

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

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

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

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

As a result of implementing GASB 68, the City is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

As noted earlier, net position may serve over time as a useful indicator of a City's financial position. For the City, total assets and deferred outflows of resources exceed total liabilities and deferred inflows of resources by \$134,620,923 at December 31, 2016.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
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The largest portion of the City's net position reflects its investment in capital assets (e.g. land, easements, construction in progress, buildings and improvements, machinery and equipment, furniture and fixtures and infrastructure including water and sewer lines, streets, sidewalks, bridges, and storm sewers), less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sourced, since the capital assets themselves cannot be used to liquidate these liabilities.

Total net position increased from 2015 to 2016. The increase in total assets is essentially the result of increases in capital assets. Net pension liability, deferred inflows and outflows of resources increased due to the recording of GASB Statement No. 68. Total liabilities excluding net pension liability increased from 2015 to 2016 by over \$9 million as a result of an increase in other long term liabilities related to capital financing activities.

Table 2 shows the changes in net position for the years ended December 31, 2016 and 2015 and corresponds to the Statement of Activities on page 22.

**Table 2
Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program Revenues:						
Charges for Services	\$7,330,629	\$6,948,251	\$29,120,607	\$31,803,363	\$36,451,236	\$38,751,614
Operating Grants and Contributions	7,509,369	4,170,332	0	0	7,509,369	4,170,332
Capital Grants and Contributions	1,306,426	1,813,149	0	0	1,306,426	1,813,149
<i>Total Program Revenues</i>	16,146,424	12,931,732	29,120,607	31,803,363	45,267,031	44,735,095
General Revenues:						
Property Taxes	3,225,958	2,958,245	0	0	3,225,958	2,958,245
Municipal Income Taxes	25,694,843	25,156,148	0	0	25,694,843	25,156,148
Payments in Lieu of Taxes	1,320,906	475,760	0	0	1,320,906	475,760
Grants and Entitlements not						
Restricted to Specific Programs	3,156,948	3,320,977	0	0	3,156,948	3,320,977
Franchise Fees	592,446	568,167	0	0	592,446	568,167
Investment Earnings	103,401	58,187	128	171	103,529	58,358
Gain on Sale of Capital Assets	7,000	0	0	0	7,000	0
All Other Revenue	816,803	334,937	850,901	120,572	1,667,704	455,509
<i>Total General Revenues</i>	34,918,305	32,872,421	851,029	120,743	35,769,334	32,993,164
Total Revenues	\$51,064,729	\$45,804,153	\$29,971,636	\$31,924,106	\$81,036,365	\$77,728,259

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**Table 2
Changes in Net Position (continued)**

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Program Expense:						
General Government	9,769,323	10,350,706	0	0	9,769,323	10,350,706
Security of Persons and Property	24,258,410	23,012,734	0	0	24,258,410	23,012,734
Transportation	6,786,125	8,284,638	0	0	6,786,125	8,284,638
Public Health	929,404	1,138,242	0	0	929,404	1,138,242
Community and Environment	3,044,509	2,254,623	0	0	3,044,509	2,254,623
Economic Development	3,196,136	4,091,522	0	0	3,196,136	4,091,522
Leisure Time Activities	671,672	854,229	0	0	671,672	854,229
Interest and Fiscal Charges	2,436,999	2,683,552	0	0	2,436,999	2,683,552
Water Works	0	0	10,239,278	9,974,096	10,239,278	9,974,096
Water Pollution Control	0	0	13,129,249	11,587,440	13,129,249	11,587,440
Total Expenses	51,092,578	52,670,246	23,368,527	21,561,536	74,461,105	74,231,782
Increase (Decrease) in Net Position						
Before Transfers	(27,849)	(6,866,093)	6,603,109	10,362,570	6,575,260	3,496,477
Transfers	42,642	43,303	(42,642)	(43,303)	0	0
Increase (Decrease) in Net Position	14,793	(6,822,790)	6,560,467	10,319,267	6,575,260	3,496,477
Net Position, January 1 - Restated (See Note 3)	38,335,576	N/A	89,710,087	79,390,820	128,045,663	N/A
Net Position, December 31	\$38,350,369	\$38,335,576	\$96,270,554	\$89,710,087	\$134,620,923	\$128,045,663

Program revenues increased in 2016. This increase is due to the increase in operating grants and contributions, offset by decreases in both charges for services and capital grants and contributions. While program revenues provide considerable assistance in the provision of governmental services, the burden of governmental support is met by general revenues such as municipal income taxes, property taxes, and unrestricted grants and entitlements. General revenues increased by \$2,776,170 from the prior year. The City saw an increase mainly in municipal income tax revenue, payments in lieu of taxes received, and all other revenues.

Governmental Activities

There are several revenue sources that fund the City's governmental activities. Income tax revenues account for one of the largest sources of revenue. The income tax rate for the general fund of the City is 2.00 percent and was last amended in 2012. In 1992 an additional .25 percent was approved by the citizens of Lorain for the Police (money collected is in a separate police levy fund).

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In 2012 an additional .25 percent was approved by the citizens of Lorain for the Streets (money collected is in the streets special revenue fund). In 2016, the revenue from income taxes increased over \$.5 million primarily as a result of increased collections for estimated payments and the identification of additional delinquent accounts. The income tax credit in effect for 2016 and future years is 100 percent of the tax paid to another city up to the City's total current tax rate of 2.50 percent.

The second largest source of revenue in governmental activities, operating grants and contributions, increased in correlation with the receipt of funding from Federal and State grants for habitat conservation along the Black River and police and fire department personnel.

The decrease in capital grants and contributions is the result of a decrease in the utilization of State grant funding for infrastructure construction and repair.

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

Total governmental program expenses for 2016 decreased by \$1.6 million as compared to 2015 predominately due to a reduction in transportation expenses.

Transportation expenses were for the depreciation, maintenance and repairs to the City's roads and infrastructure. Expenditures for transportation declined as major road projects undertaken in prior years were completed in 2016. The City paid for these from general revenues, license plate fees, State gas taxes, and capital financing and grants.

In addition to financial support from General Fund revenues, the Police Department has a special income tax levy of .25 percent which is used for additional police officers and equipment. This money is utilized to purchase new equipment that will better serve our community and provide extra police officers. In 2016 the police department modernized their emergency operations center.

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

Business-Type Activities

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

The Utilities Department continued construction on phase one of the Black River wastewater storage and conveyance tunnel. Phase one of the tunnel project is estimated to cost approximately \$69 million and is primarily financed through the Ohio Water Development Authority. This is the final phase of the City wide sanitary sewer overflow (SSO) elimination program. The E. 31st St. bridge waterline replacement project was completed in 2016.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
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Other waterline replacement projects were continued or undertaken including the South Lorain, East Lorain, Crehore St., and the Broadway, Skyline, and Jaeger waterline projects. Concurrently, work on the construction of the Westside Water Tower continued in 2016 and is nearing completion.

The City's Funds

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

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balances may serve as a useful measure of the City's net resources available for spending at the end of the year. Information about the City's governmental funds begins on page 23. These funds are accounted for using the modified accrual basis of accounting.

As of the end of the current year, the City of Lorain's governmental funds reported combined ending fund balances of \$22,577,482, a decrease of \$3.8 million in comparison with the prior year. Non-spendable fund balance of \$494,013 includes material and supplies inventory, prepaid expenses, and unclaimed monies. Fund balance in the amount of \$20,404,506 is restricted to indicate that it is not available for new spending because it has already been restricted by parties outside of the City or pursuant to enabling legislation. It is restricted for economic development, inventory held for resale, debt service, police and municipal court operations, and capital projects. Fund balance in the amount of \$2,647,854 is committed to storm sewer maintenance and improvements, contractual obligations, and funds set aside for compensated absences and payroll reserve. Assigned fund balance includes \$103,987 for general governmental purchases on order in various departments. There is a deficit of \$1,072,878 that constitutes unassigned fund balance or all balances not previously classified.

The General Fund is the main operating fund of the City. The decrease in fund balance is primarily due to a decline in revenue received from fees collected, licenses and permits issued and charges for services.

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

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

The Capital Improvements Fund accounts for State grants and loans, bond proceeds, transfers in and various other financing sources used for the construction of various improvements of the City. The decline in fund balance is directly related to the expenditure of prior year bond proceeds.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
UNAUDITED**

General Fund Budgeting Highlights

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

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

During the course of 2016, the City amended its General Fund budget numerous times. The actual revenue amount was less than the final budget. In 2016, the largest amendment of \$730,000 was made to the original budget to account for a reduced amount of anticipated material collection fees.

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

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

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

**CITY OF LORAIN
LORAIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
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Capital Assets and Debt Administration

Capital Assets

**Table 3
Capital Assets (Net of Depreciation)**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Land	\$9,535,107	\$9,535,107	\$1,060,557	\$1,060,557	\$10,595,664	\$10,595,664
Easements	6,670,008	6,659,949	0	0	6,670,008	6,659,949
Construction in Progress	9,436,464	16,064,699	97,003,789	74,886,404	106,440,253	90,951,103
Buildings and Improvements	14,112,406	14,417,021	20,262,291	20,828,906	34,374,697	35,245,927
Machinery and Equipment	11,855,804	12,630,716	8,788,407	9,250,864	20,644,211	21,881,580
Furniture and Fixtures	191,723	194,452	0	0	191,723	194,452
Infrastructure:						
Streets and Sidewalks	61,701,252	54,301,110	0	0	61,701,252	54,301,110
Water Lines	0	0	33,697,782	33,450,401	33,697,782	33,450,401
Sewer Lines	0	0	45,630,389	46,958,407	45,630,389	46,958,407
<i>Total Capital Assets</i>	<u>\$113,502,764</u>	<u>\$113,803,054</u>	<u>\$206,443,215</u>	<u>\$186,435,539</u>	<u>\$319,945,979</u>	<u>\$300,238,593</u>

The most significant increase in governmental capital assets was in infrastructure and corresponds with the decrease in construction in progress as various road projects were completed in 2016. Major road projects that were completed in 2016 include Cooper Foster Park, Pearl Avenue and Clinton Avenue and twenty-eight other roadways within the City. Construction in progress includes the recognition of various street and other capital projects begun but not yet completed. Decreases in governmental capital assets are attributed to depreciation.

Business-type activities saw substantial additions to construction in progress. The most significant construction in progress additions were for phase one of the Black River tunnel construction which began in 2012, and various water works projects including the E. 31st St. bridge waterline replacement project, which was completed in 2016. Other waterline replacement projects were continued or undertaken including the South Lorain, East Lorain, Crehore St., and the Broadway, Skyline, and Jaeger waterline projects. Concurrently, work on the construction of the Westside Water Tower continued in 2016 and is nearing completion.

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

**CITY OF LORAIN
LORAIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
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See Note 10 of the Notes to the Basic Financial Statements for additional information on the City's capital assets.

Long-Term Obligations

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

**Table 4
Outstanding Long-Term Obligations at Year End**

	Governmental Activities		Business-Type Activities		Total	
	2016	2015 *	2016	2015	2016	2015 *
General Obligation Bonds	\$43,554,560	\$46,261,523	\$0	\$592,499	\$43,554,560	\$46,854,022
Special Assessment Bonds	1,213,753	1,291,557	0	0	1,213,753	1,291,557
OWDA Loans			133,427,818	118,058,749	133,427,818	118,058,749
HUD Section 108 Loans	1,510,000	1,745,000	0	0	1,510,000	1,745,000
Net Pension Liability	48,656,196	38,942,735	8,402,183	5,744,846	57,058,379	44,687,581
ODOD Loan	1,174,691	1,402,245	0	0	1,174,691	1,402,245
OPWC Loans	2,167,727	2,158,019	0	0	2,167,727	2,158,019
ODOT Loans	5,634,987	5,103,288	0	0	5,634,987	5,103,288
Installment Loans	6,928,869	7,084,821	0	0	6,928,869	7,084,821
Capital Leases	896,269	2,224,730	822,849	1,765,443	1,719,118	3,990,173
Pollution Remediation	863,440	863,440	185,022	206,019	1,048,462	1,069,459
Compensated Absences	6,087,300	6,901,993	1,306,797	1,271,517	7,394,097	8,173,510
<i>Total</i>	<u>\$118,687,792</u>	<u>\$113,979,351</u>	<u>\$144,144,669</u>	<u>\$127,639,073</u>	<u>\$262,832,461</u>	<u>\$241,618,424</u>

* Restated, See Note 3

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

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

**CITY OF LORAIN
LORAIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
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The thirty-one Ohio Water Development Authority (OWDA) loans are for water and sewer projects dating back to 2000. The major loans are for waterline replacements and projects related to the sanitary sewer overflow (SSO) project mandated by the Environmental Protection Agency.

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

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

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

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

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

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

The City has entered into capitalized lease obligations for software and hardware upgrades, various equipment including fire trucks, street sweepers, dump trucks, excavation and snow removal equipment for the Street Department, a crane/boom truck for the Electrical Department, IP phone equipment and copiers/scanners for all City departments, police cruisers, and a high pressure jet truck for the Water Pollution Control Department. The minimum lease payments required are paid from the General Fund, Streets, Parkland and Police Levy Special Revenue funds, General Sewer Capital Projects Fund, and the Water Works and Water Pollution Control Enterprise funds.

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

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

**CITY OF LORAIN
LORAIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
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On June 21, 2016, Moody's Investors Service downgraded the City of Lorain's general obligation limited tax rating to Baa2 and assigned a negative outlook. According to the Credit Opinion by Moody's, the Baa2 rating reflects the city's weakening economy that is reliant on the steel industry, decline in key revenue sources, deficit cash basis fund balance for fiscal year 2015, moderate direct debt burden and elevated pension liability. The rating also reflects the City's healthy alternate liquidity to internally support cash flow needs as well as sizable budget cuts completed in fiscal year 2016.

See Notes 12 and 13 to the basic financial statements for additional information on the City's outstanding debt obligations.

Economic Factors and Current Financial Issues

In its continuing effort to address economic issues affecting the City, management continues to promote diversification of employment within its boundaries. Although the steel industry is certainly still an important component of the City's economy, 2016 saw major workforce reductions with the layoff of over 200 employees and the idling of the Republic Engineering plant. Conversely, over the last five years the retail and health care industries have made substantial gains in employment by adding nearly 1,300 jobs citywide. The December 2016 unemployment rate for the City was 7.3 percent, up from 6.0 percent in December 2015, due primarily to the steel industry layoffs previously noted. Meanwhile, the December 2016 unemployment rate for Lorain County was 5.8 percent and the State of Ohio was 4.9 percent (based on the Ohio Job & Family Services, Office of Workforce Development).

The City's 2016 residential/agricultural real estate property values again increased slightly over the prior year. In 2016, property tax collections were the General Fund's third largest source of revenue. In 2016, the City collected \$1,941,459 from the property tax collections for the General Fund. This was \$55,950 more than that collected in 2015.

- Three of Lorain's top ten employers are with health care. Mercy Hospital is the City's top employer with 1,738 employees. The Cleveland Clinic Foundation is the City's third largest employer with approximately 711 employees and The Nord Center is the eighth largest employer with 250 employees. These figures represent the employer trend elsewhere in the county, where three of the top employers in the county are health care facilities.
- Lorain's Lighthouse Village development represents an investment of over \$100 million and \$100 million in annual sales. To date, approximately 1000 jobs have been created and hundreds of thousands of additional tax dollars have been a result.
- Lorain has three large housing projects that have been ongoing or recently approved. The Villages at Lighthouse Point is a \$62 million-dollar development with nearly 300 apartments and a shopping center. The Martin's Run development saw a great increase in new home contracts during 2016 and the Clover Communities is a 125-unit apartment complex for seniors was approved.

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

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

Contacting the City's Finance Department

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the City's finances and show the City's accountability for all money it receives, spends or invests.

Questions concerning any information provided in this report or requests for additional financial information should be addressed to:

Karen A. Shawver, Auditor
Karen_Shawver@cityoflorain.org

or

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

City of Lorain
200 W. Erie Ave. – 6th Floor
Lorain, OH 44052-164

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**CITY OF LORAIN
LORAIN COUNTY, OHIO
STATEMENT OF NET POSITION
DECEMBER 31, 2016**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Equity in Pooled Cash and Cash Equivalents	\$ 10,555,418	\$ 28,041,480	\$ 38,596,898
Cash and Cash Equivalents:			
In Segregated Accounts	125,566	-	125,566
With Fiscal Agents	2,094	1,712	3,806
Materials and Supplies Inventory	1,179,019	585,491	1,764,510
Accounts Receivable	369,332	4,812,013	5,181,345
Accrued Interest Receivable	18,129	-	18,129
Intergovernmental Receivable	3,462,312	28,422	3,490,734
Internal Balances	(192,289)	192,289	-
Prepaid Items	242,813	131,813	374,626
Municipal Income Taxes Receivable	4,820,902	-	4,820,902
Property Taxes Receivable	5,536,528	-	5,536,528
Payments in Lieu of Taxes Receivable	1,473,203	-	1,473,203
Loans Receivable	8,821,610	173,844	8,995,454
Special Assessments Receivable	2,152,825	-	2,152,825
Assets held for Resale	1,672,019	-	1,672,019
Nondepreciable Capital Assets	25,641,579	98,064,346	123,705,925
Depreciable Capital Assets	87,861,185	108,378,869	196,240,054
Total Assets	153,742,245	240,410,279	394,152,524
DEFERRED OUTFLOWS OF RESOURCES			
Deferral on Refunding	152,965	-	152,965
Pension	13,326,328	3,229,279	16,555,607
Total Deferred Outflows of Resources	13,479,293	3,229,279	16,708,572
LIABILITIES			
Accounts Payable	466,539	544,164	1,010,703
Contracts Payable	364,877	901,610	1,266,487
Accrued Wages and Benefits	1,168,565	418,092	1,586,657
Intergovernmental Payable	376,442	115,130	491,572
Matured Compensated Absences Payable	146,295	-	146,295
Accrued Interest Payable	269,120	2,500	271,620
Retainage Payable	159,101	1,080,494	1,239,595
Claims Payable	363,852	-	363,852
Long-term Liabilities:			
Due within one year	6,670,723	8,493,727	15,164,450
Due in more than one year:			
Net Pension Liability (See Note 15)	48,656,196	8,402,183	57,058,379
Other amounts	63,360,873	127,248,759	190,609,632
Total Liabilities	122,002,583	147,206,659	269,209,242
DEFERRED INFLOWS OF RESOURCES			
Property Taxes	4,404,492	-	4,404,492
Payments in Lieu of Taxes	1,473,203	-	1,473,203
Pension	990,891	162,345	1,153,236
Total Deferred Inflows of Resources	6,868,586	162,345	7,030,931
NET POSITION			
Net Investment in Capital Assets	54,440,199	72,192,548	126,632,747
Restricted for:			
Capital Projects	3,395,982	206,618	3,602,600
Utility Reserve	-	1,827,400	1,827,400
Debt Service	1,373,259	-	1,373,259
Police	1,964,851	-	1,964,851
Fire	294,343	-	294,343
Streets	1,785,004	-	1,785,004
Community Development	15,832,499	-	15,832,499
Municipal Courts	190,654	-	190,654
Other Purposes	45,015	-	45,015
Unrestricted	(40,971,437)	22,043,988	(18,927,449)
Total Net Position	\$ 38,350,369	\$ 96,270,554	\$ 134,620,923

See accompanying notes to the basic financial statements.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental activities:							
Security of Persons and Property	\$ 24,258,410	\$ 882,092	\$ 756,054	\$ -	\$ (22,620,264)	\$ -	\$ (22,620,264)
Public Health	929,404	514,910	156,707	-	(257,787)	-	(257,787)
Leisure Time Activities	671,672	-	-	-	(671,672)	-	(671,672)
Community and Environment	3,044,509	144,575	2,071,070	-	(828,864)	-	(828,864)
Transportation	6,786,125	65,585	2,011,207	1,306,426	(3,402,907)	-	(3,402,907)
General Government	9,769,323	5,712,796	27,625	-	(4,028,902)	-	(4,028,902)
Economic Development	3,196,136	10,671	2,486,706	-	(698,759)	-	(698,759)
Interest and Fiscal Charges	2,436,999	-	-	-	(2,436,999)	-	(2,436,999)
<i>Total Governmental activities</i>	<u>51,092,578</u>	<u>7,330,629</u>	<u>7,509,369</u>	<u>1,306,426</u>	<u>(34,946,154)</u>	<u>-</u>	<u>(34,946,154)</u>
Business-type activities:							
Water Works	10,239,278	15,460,695	-	-	-	5,221,417	5,221,417
Water Pollution Control	13,129,249	13,659,912	-	-	-	530,663	530,663
<i>Total Business-type activities</i>	<u>23,368,527</u>	<u>29,120,607</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,752,080</u>	<u>5,752,080</u>
Total	<u>\$ 74,461,105</u>	<u>\$ 36,451,236</u>	<u>\$ 7,509,369</u>	<u>\$ 1,306,426</u>	<u>(34,946,154)</u>	<u>5,752,080</u>	<u>(29,194,074)</u>
General Revenues:							
Property Taxes levied for:							
General Purposes					1,798,642	-	1,798,642
Debt Service Purpose					735,096	-	735,096
Police Pension					189,868	-	189,868
Fire Pension					189,868	-	189,868
Fire Levy					312,484	-	312,484
Municipal Income Taxes levied for:							
General Purposes					19,914,097	-	19,914,097
Streets					2,890,373	-	2,890,373
Police Levy					2,890,373	-	2,890,373
Franchise Fees					592,446	-	592,446
Payments in Lieu of Taxes					1,320,906	-	1,320,906
Grants & Entitlements not restricted to specific programs					3,156,948	-	3,156,948
Investment Income					103,401	128	103,529
Gain on Sale of Capital Assets					7,000	-	7,000
All Other Revenues					816,803	850,901	1,667,704
Total General Revenues					<u>34,918,305</u>	<u>851,029</u>	<u>35,769,334</u>
Transfers					42,642	(42,642)	-
Total General Revenues and Transfers					<u>34,960,947</u>	<u>808,387</u>	<u>35,769,334</u>
Change in Net Position					14,793	6,560,467	6,575,260
Net Position - Beginning of Year, as Restated					38,335,576	89,710,087	128,045,663
Net Position - End of Year					<u>\$ 38,350,369</u>	<u>\$ 96,270,554</u>	<u>\$ 134,620,923</u>

See accompanying notes to the basic financial statements.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	General Fund	Community Development	General Obligation Bond Retirement	Capital Improvements	Other Governmental Funds	Total Governmental Funds
ASSETS						
Equity in Pooled Cash and Cash Equivalents	\$ -	\$ 5,192,617	\$ 618,940	\$ 1,369,980	\$ 2,725,762	\$ 9,907,299
Cash and Cash Equivalents:						
In Segregated Accounts	117,791	-	-	7,775	-	125,566
With Fiscal Agents	-	2,094	-	-	-	2,094
Materials and Supplies Inventory	7,972	10,114	-	-	204,010	222,096
Accrued Interest Receivable	18,129	-	-	-	-	18,129
Accounts Receivable	184,447	-	-	-	184,885	369,332
Interfund Receivable	481,221	-	-	-	1,053,821	1,535,042
Intergovernmental Receivable	1,414,982	520,754	45,473	-	1,481,103	3,462,312
Prepaid Items	202,620	1,499	-	-	36,703	240,822
Restricted Assets:						
Equity in Pooled Cash and Cash Equivalents	31,095	-	-	-	-	31,095
Municipal Income Taxes Receivable	3,856,722	-	-	-	964,180	4,820,902
Property Taxes Receivable	2,569,603	-	899,147	-	2,067,778	5,536,528
Special Assessments Receivable	773,968	-	-	-	1,378,857	2,152,825
Loans Receivable	-	8,719,956	101,654	-	-	8,821,610
Payments in Lieu of Taxes Receivable	-	228,118	1,033,783	211,302	-	1,473,203
Assets held for Resale	-	1,672,019	-	-	-	1,672,019
Total Assets	\$ 9,658,550	\$ 16,347,171	\$ 2,698,997	\$ 1,589,057	\$ 10,097,099	\$ 40,390,874
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
Liabilities:						
Accounts Payable	\$ 206,339	\$ 57,725	\$ -	\$ -	\$ 117,189	\$ 381,253
Accrued Wages and Benefits	949,917	22,306	-	-	180,575	1,152,798
Contracts Payable	30,852	122,109	-	-	211,916	364,877
Intergovernmental Payable	288,594	6,156	-	-	76,519	371,269
Matured Compensated Absences Payable	89,024	9,614	-	-	47,657	146,295
Accrued Interest Payable	1,077	-	-	-	2,346	3,423
Retainage Payable	-	-	-	159,101	-	159,101
Interfund Payable	1,103,687	500	-	-	547,021	1,651,208
Claims Payable	4,500	-	-	-	-	4,500
Total Liabilities	2,673,990	218,410	-	159,101	1,183,223	4,234,724
Deferred Inflows of Resources:						
Property Taxes	2,044,205	-	715,301	-	1,644,986	4,404,492
Payments in Lieu of Taxes	-	228,118	1,033,783	211,302	-	1,473,203
Unavailable Revenue - Delinquent Property Taxes	525,398	-	183,846	-	422,792	1,132,036
Unavailable Revenue - Municipal Income Taxes	2,054,053	-	-	-	513,512	2,567,565
Unavailable Revenue - Other	1,722,698	-	147,127	-	2,131,547	4,001,372
Total Deferred Inflows of Resources	6,346,354	228,118	2,080,057	211,302	4,712,837	13,578,668
Fund Balances:						
Nonspendable	241,687	11,613	-	-	240,713	494,013
Restricted	89,760	15,889,030	618,940	1,218,654	2,588,122	20,404,506
Committed	957,950	-	-	-	1,689,904	2,647,854
Assigned	103,987	-	-	-	-	103,987
Unassigned (Deficit)	(755,178)	-	-	-	(317,700)	(1,072,878)
Total Fund Balances	638,206	15,900,643	618,940	1,218,654	4,201,039	22,577,482
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 9,658,550	\$ 16,347,171	\$ 2,698,997	\$ 1,589,057	\$ 10,097,099	\$ 40,390,874

See accompanying notes to the basic financial statements.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2016**

Total Governmental Funds Balance \$ 22,577,482

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Capital Assets used in Governmental Activities are not financial resources and, therefore, are not reported in the funds 113,502,764

Other long-term assets are not available to pay for current-period expenditures and, therefore, are unavailable revenues in the funds:

Delinquent property taxes	1,132,036	
Municipal income taxes	2,567,565	
Special assessments	2,152,825	
Intergovernmental	1,746,893	
Loans	101,654	
Total	7,700,973	7,700,973

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in Governmental funds, an interest expenditure is reported when due. (265,697)

Internal Service funds are used by management to charge the costs of certain activities, such as insurance to individual funds. The assets and liabilities of the Internal Service funds are included in Governmental Activities in the Statement of Net Position. 1,034,237

The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:

Deferred Outflows - Pension	13,326,328	
Deferred Inflows - Pension	(990,891)	
Net Pension Liability	(48,656,196)	
Total	(36,320,759)	(36,320,759)

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

General obligation bonds	(43,706,871)	
HUD Section 108 Loans	(1,510,000)	
Special assessment bonds	(1,213,129)	
OPWC Loans	(2,167,727)	
State Infrastructure Bank Loans	(5,634,987)	
Other Loans	(8,103,560)	
Unamortized discounts	171,218	
Unamortized premiums	(19,531)	
Deferral on refundings	152,965	
Compensated absences	(6,087,300)	
Capital leases	(896,269)	
Pollution Remediation	(863,440)	
Total	(69,878,631)	(69,878,631)

Net Position of Governmental Activities \$ 38,350,369

See accompanying notes to the basic financial statements.

CITY OF LORAIN
LORAIN COUNTY, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	General Fund	Community Development	General Obligation Bond Retirement	Capital Improvements	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property Taxes	\$ 1,941,459	\$ -	\$ 784,673	\$ -	\$ 409,480	\$ 3,135,612
Municipal Income Taxes	19,075,004	-	-	-	4,680,365	23,755,369
Payments in Lieu of Taxes	-	217,385	954,832	161,147	-	1,333,364
Intergovernmental	2,937,595	2,480,408	138,925	1,121,541	5,809,172	12,487,641
Interest	99,092	4,309	-	-	-	103,401
Fees, Licenses, and Permits	1,323,109	133,375	-	-	269,057	1,725,541
Fines and Forfeitures	796,464	-	-	-	882,092	1,678,556
Rentals	14,969	11,200	-	-	-	26,169
Charges for Services	757,823	-	-	-	2,542,755	3,300,578
Contributions and Donations	27,625	-	-	-	14,900	42,525
Special Assessments	-	-	-	-	88,631	88,631
All Other Revenues	329,019	38,166	334,413	13	129,946	831,557
Franchise Fees	592,446	-	-	-	-	592,446
Total Revenues	27,894,605	2,884,843	2,212,843	1,282,701	14,826,398	49,101,390
EXPENDITURES						
Current:						
Security of Persons and Property	18,160,019	-	-	-	3,605,769	21,765,788
Public Health	126,532	-	-	-	759,413	885,945
Leisure Time Activities	471,913	-	-	-	-	471,913
Community and Environment	670,846	-	-	-	1,918,343	2,589,189
Transportation	-	-	-	-	3,079,944	3,079,944
Economic Development	36,930	2,921,830	-	-	-	2,958,760
General Government	7,279,415	-	53,997	-	430,766	7,764,178
Capital Outlay	24,927	385,868	-	4,243,880	2,703,111	7,357,786
Debt Service:						
Principal Retirement	421,487	462,554	3,863,344	-	986,903	5,734,288
Interest and Fiscal Charges	12,392	81,080	2,004,343	-	89,320	2,187,135
Total Expenditures	27,204,461	3,851,332	5,921,684	4,243,880	13,573,569	54,794,926
Excess of Revenues (Under) Expenditures	690,144	(966,489)	(3,708,841)	(2,961,179)	1,252,829	(5,693,536)
OTHER FINANCING SOURCES (USES)						
Sale of Capital Assets	186	7,724	21,063	-	22,124	51,097
Loans Issued	-	-	-	1,811,490	-	1,811,490
Transfers In	90,916	-	3,637,569	-	183,564	3,912,049
Transfers Out	(1,499,863)	(100,689)	-	-	(2,265,531)	(3,866,083)
Total Other Financing Sources (Uses)	(1,408,761)	(92,965)	3,658,632	1,811,490	(2,059,843)	1,908,553
Net Change in Fund Balances	(718,617)	(1,059,454)	(50,209)	(1,149,689)	(807,014)	(3,784,983)
Fund Balances - Beginning of Year	1,356,823	16,960,097	669,149	2,368,343	5,008,053	26,362,465
Fund Balances - End of Year	\$ 638,206	\$ 15,900,643	\$ 618,940	\$ 1,218,654	\$ 4,201,039	\$ 22,577,482

See accompanying notes to the basic financial statements.

**CITY OF LORAIN
LORAIN COUNTY, OHIO**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

Net Change in Fund Balances-Total Governmental Funds \$ (3,784,983)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Capital Outlay	\$ 5,597,142	
Depreciation	(5,853,335)	
Total		(256,193)

In the Statement of Activities, only the loss on the disposal of capital assets is reported, whereas, in the Governmental Funds, the proceeds from the disposals increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of the capital assets. (44,097)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Delinquent property taxes	90,346	
Municipal income taxes	1,939,474	
Special assessments	(25,999)	
Intergovernmental	(30,972)	
Loans	(14,754)	
Payments in Lieu of Taxes	(12,458)	
Total		1,945,637

Other financing sources in the Governmental funds increase long-term liabilities in the Statement of Net Position. These sources were attributed to the issuance of loans. (1,811,490)

Repayment of long term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 6,012,050

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows 3,471,298

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (5,971,137)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in Governmental funds.

Compensated absences	814,693	
Accrued interest on bonds	36,653	
Amortization of bond premiums and discounts	(10,233)	
Amortization of loss on refunding	(12,773)	
Total		828,340

Internal Service funds are used by management to charge costs to certain activities, such as insurance to individual funds. The net revenue (expense) of Internal Service funds are reported in the Governmental Activities. (374,632)

Change in Net Position of Governmental Activities \$ 14,793

See accompanying notes to the basic financial statements.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET (NON-GAAP BASIS) AND ACTUAL –
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenues:				
Property Taxes	\$ 1,956,871	\$ 1,956,871	\$ 1,941,459	\$ (15,412)
Municipal Income Taxes	19,008,535	19,008,535	19,627,150	618,615
Other Taxes	570,000	570,000	582,587	12,587
Intergovernmental	3,302,661	3,304,161	2,944,930	(359,231)
Interest	45,000	45,000	119,251	74,251
Fees, Licenses and Permits	1,953,871	1,233,871	1,295,967	62,096
Fines and Forfeitures	1,181,410	1,201,410	944,547	(256,863)
Charges for Services	982,945	982,945	757,823	(225,122)
All Other Revenues	648,872	662,543	381,073	(281,470)
Total Revenues	<u>29,650,165</u>	<u>28,965,336</u>	<u>28,594,787</u>	<u>(370,549)</u>
Expenditures:				
Current:				
Security of Persons and Property	17,132,527	17,159,006	18,091,422	(932,416)
Public Health Services	180,754	133,394	124,047	9,347
Leisure Time Activities	592,589	494,417	469,126	25,291
Community Environment	775,676	737,676	679,411	58,265
General Government	8,091,726	7,401,204	7,457,833	(56,629)
Debt Service				
Principal Retirement	345,829	320,829	420,403	(99,574)
Interest and Fiscal Charges	12,829	12,829	12,829	-
Total Expenditures	<u>27,131,930</u>	<u>26,259,355</u>	<u>27,255,071</u>	<u>(995,716)</u>
Excess of Revenues Over (Under) Expenditures	2,518,235	2,705,981	1,339,716	(1,366,265)
Other Financing Sources				
Notes Issued	525,000	525,000	-	(525,000)
Transfers In	211,927	211,927	205,550	(6,377)
Transfers Out	(1,636,881)	(1,826,427)	(1,826,414)	13
Total Other Financing Sources	<u>(899,954)</u>	<u>(1,089,500)</u>	<u>(1,620,864)</u>	<u>(531,364)</u>
Net Change in Fund Balance	1,618,281	1,616,481	(281,148)	(1,897,629)
Fund Balance Beginning of Year	(1,830,059)	(1,830,059)	(1,830,059)	-
Prior Year Encumbrances	316,516	316,516	316,516	-
Fund Balance End of Year	<u>\$ 104,738</u>	<u>\$ 102,938</u>	<u>\$ (1,794,691)</u>	<u>\$ (1,897,629)</u>

See accompanying notes to the basic financial statements.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET (NON-GAAP BASIS) AND ACTUAL –
COMMUNITY DEVELOPMENT
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Payments in Lieu of Taxes	\$185,000	\$201,550	\$217,385	\$15,835
Licenses and Permits	157,609	157,609	133,375	(24,234)
Intergovernmental	8,473,578	8,473,578	3,337,723	(5,135,855)
Interest	2,675	2,675	1,430	(1,245)
Rentals	0	0	11,200	11,200
Miscellaneous	986	986	38,166	37,180
<i>Total Revenues</i>	<u>8,819,848</u>	<u>8,836,398</u>	<u>3,739,279</u>	<u>(5,097,119)</u>
Expenditures:				
Current:				
Economic Development	7,573,575	7,616,827	2,924,377	4,692,450
Debt Service:				
Principal Retirement	485,304	485,304	462,554	22,750
Interest and Fiscal Charges	85,068	85,068	81,080	3,988
<i>Total Expenditures</i>	<u>8,143,947</u>	<u>8,187,199</u>	<u>3,468,011</u>	<u>4,719,188</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>675,901</u>	<u>649,199</u>	<u>271,268</u>	<u>(377,931)</u>
Other Financing Sources (Uses):				
Sale of Land	194,872	194,872	7,724	(187,148)
Transfers Out	(100,689)	(100,689)	(100,689)	0
<i>Total Other Financing Sources (Uses)</i>	<u>94,183</u>	<u>94,183</u>	<u>(92,965)</u>	<u>(187,148)</u>
<i>Net Change in Fund Balance</i>	770,084	743,382	178,303	(565,079)
<i>Fund Balance Beginning of Year</i>	2,928,062	2,928,062	2,928,062	0
Prior Year Encumbrances Appropriated	1,556,049	1,556,049	1,556,049	0
<i>Fund Balance End of Year</i>	<u>\$5,254,195</u>	<u>\$5,227,493</u>	<u>\$4,662,414</u>	<u>(\$565,079)</u>

**CITY OF LORAIN
LORAIN COUNTY, OHIO
STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2016**

	Enterprise Funds			Governmental Activities
	Water Works	Water Pollution Control	Total	Internal Service Funds
ASSETS				
Current Assets:				
Equity in Pooled Cash and Cash Equivalents	\$ 5,259,099	\$ 20,750,075	\$ 26,009,174	\$ 617,024
Materials and Supplies Inventory	515,922	69,569	585,491	956,923
Accounts Receivable	2,490,698	2,321,315	4,812,013	-
Interfund Receivable	213	1,642	1,855	150,079
Intergovernmental Receivable	-	28,422	28,422	-
Prepaid Items	82,552	49,261	131,813	1,991
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	681,633	1,350,673	2,032,306	-
With Fiscal Agents	856	856	1,712	-
Loans Receivable	-	28,637	28,637	-
Total Current Assets	9,030,973	24,600,450	33,631,423	1,726,017
Noncurrent Assets:				
Loans Receivable	-	145,207	145,207	-
Capital Assets:				
Construction in Progress	25,075,770	72,988,576	98,064,346	-
Depreciable Assets, Net of Depreciation	41,305,530	67,073,339	108,378,869	193,312
Total Noncurrent Assets	66,381,300	140,207,122	206,588,422	193,312
Total Assets	75,412,273	164,807,572	240,219,845	1,919,329
DEFERRED OUTFLOWS OF RESOURCES				
Pension	1,496,495	1,732,784	3,229,279	157,526
Total Deferred Outflows of Resources	1,496,495	1,732,784	3,229,279	157,526
LIABILITIES				
Current Liabilities:				
Accounts Payable	131,251	412,913	544,164	85,286
Accrued Wages and Benefits	200,121	217,971	418,092	15,767
Compensated Absences Payable	24,519	107,071	131,590	-
Contracts Payable	284,607	617,003	901,610	-
Retainage Payable	63,580	1,016,914	1,080,494	-
Intergovernmental Payable	54,755	60,375	115,130	5,173
Interfund Payable	21,416	14,352	35,768	-
Accrued Interest Payable	1,242	1,258	2,500	19,906
Claims Payable	-	-	-	359,352
General Obligation Bonds Payable	-	-	-	300,000
Pollution Remediation Payable	-	17,700	17,700	-
OWDA Loans Payable	2,867,608	4,952,901	7,820,509	-
Capital Leases Payable	286,682	237,246	523,928	-
Total Current Liabilities	3,935,781	7,655,704	11,591,485	785,484
Noncurrent Liabilities:				
Compensated Absences Payable	518,886	656,321	1,175,207	44,656
General Obligation Bonds Payable	-	-	-	3,245,000
Pollution Remediation Payable	-	167,322	167,322	-
OWDA Loans Payable	43,870,554	81,736,755	125,607,309	-
Capital Leases Payable	169,414	129,507	298,921	-
Net Pension Liability	3,893,695	4,508,488	8,402,183	409,862
Total Noncurrent Liabilities	48,452,549	87,198,393	135,650,942	3,699,518
Total Liabilities	52,388,330	94,854,097	147,242,427	4,485,002
DEFERRED INFLOWS OF RESOURCES				
Pension	75,233	87,112	162,345	7,919
Total Deferred Inflows of Resources	75,233	87,112	162,345	7,919
NET POSITION				
Net Investment in Capital Assets	19,187,042	53,005,506	72,192,548	193,312
Restricted for:				
Capital Projects	205,762	856	206,618	-
Utility Reserve	476,727	1,350,673	1,827,400	-
Unrestricted	4,575,674	17,242,112	21,817,786	(2,609,378)
Total Net Position	\$ 24,445,205	\$ 71,599,147	96,044,352	\$ (2,416,066)

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

226,202

Net position business-type activities

\$ 96,270,554

See accompany notes to the basic financial statements.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Enterprise Funds			Governmental Activities
	Water Works	Water Pollution Control	Total	Internal Service Funds
OPERATING REVENUES				
Charges for Services	\$ 15,460,695	\$ 13,659,912	\$ 29,120,607	\$ 8,627,507
Miscellaneous	134,875	716,026	850,901	-
Total Operating Revenues	<u>15,595,570</u>	<u>14,375,938</u>	<u>29,971,508</u>	<u>8,627,507</u>
OPERATING EXPENSES				
Salaries	3,059,269	3,452,954	6,512,223	277,385
Fringe Benefits	1,964,007	2,181,449	4,145,456	285,320
Materials and Supplies	782,051	477,273	1,259,324	1,387,638
Utilities	463,709	725,764	1,189,473	1,385
Contractual Services	937,408	1,253,210	2,190,618	1,961
Depreciation	1,258,615	2,333,432	3,592,047	6,664
Claims	-	-	-	6,462,918
Other	285,292	310,634	595,926	1,580
Total Operating Expense	<u>8,750,351</u>	<u>10,734,716</u>	<u>19,485,067</u>	<u>8,424,851</u>
Operating Income	<u>6,845,219</u>	<u>3,641,222</u>	<u>10,486,441</u>	<u>202,656</u>
NONOPERATING REVENUES (EXPENSES)				
Loss on Sale of Capital Assets	-	(5,650)	(5,650)	-
Interest	128	-	128	-
Interest and Fiscal Charges	(1,510,195)	(2,411,816)	(3,922,011)	(279,631)
Total Nonoperating Revenues (Expenses)	<u>(1,510,067)</u>	<u>(2,417,466)</u>	<u>(3,927,533)</u>	<u>(279,631)</u>
Transfers In	10,000	10,000	20,000	-
Transfers Out	(29,224)	(33,418)	(62,642)	(3,324)
Change in Net Position	<u>5,315,928</u>	<u>1,200,338</u>	<u>6,516,266</u>	<u>(80,299)</u>
Net Position - Beginning of Year	<u>19,129,277</u>	<u>70,398,809</u>		<u>(2,335,767)</u>
Net Position - End of Year	<u>\$ 24,445,205</u>	<u>\$ 71,599,147</u>		<u>\$ (2,416,066)</u>

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

44,201

Change in net position business-type activities

\$ 6,560,467

See accompany notes to the basic financial statements.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Enterprise Funds			Governmental Activities
	Water Works	Water Pollution Control	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Charges for Services	\$ 15,348,186	\$ 14,647,901	\$ 29,996,087	\$ 8,584,852
Other Cash Receipts	134,875	737,531	872,406	-
Cash Payments to Employees for Services and Benefits	(4,827,986)	(5,408,245)	(10,236,231)	(569,174)
Cash Payments for Goods and Services	(1,864,206)	(2,387,496)	(4,251,702)	(689,487)
Cash Payments for Claims	-	-	-	(6,152,307)
Other Cash Payments	(316,747)	(343,935)	(660,682)	(1,625)
Net Cash Provided by Operating Activities	<u>8,474,122</u>	<u>7,245,756</u>	<u>15,719,878</u>	<u>1,172,259</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers In	10,000	10,000	20,000	-
Transfers Out	(29,224)	(33,418)	(62,642)	(3,324)
Net Cash Used in Noncapital Financing Activities	<u>(19,224)</u>	<u>(23,418)</u>	<u>(42,642)</u>	<u>(3,324)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from OWDA Loans	9,863,303	12,624,123	22,487,426	-
Principal Paid on Debt	(3,203,873)	(5,447,078)	(8,650,951)	(280,000)
Interest Paid on Debt	(1,559,308)	(2,379,302)	(3,938,610)	(259,725)
Payments for Capital Acquisitions	(10,090,988)	(13,131,884)	(23,222,872)	(19,784)
Net Cash Used in Capital and Related Financing Activities	<u>(4,990,866)</u>	<u>(8,334,141)</u>	<u>(13,325,007)</u>	<u>(559,509)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on Investments	128	-	128	-
Net Increase (Decrease) in Cash and Cash Equivalents	3,464,160	(1,111,803)	2,352,357	609,426
Cash and Cash Equivalents - Beginning of Year	2,477,428	23,213,407	25,690,835	7,598
Cash and Cash Equivalents - End of Year	<u>\$ 5,941,588</u>	<u>\$ 22,101,604</u>	<u>\$ 28,043,192</u>	<u>\$ 617,024</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income	\$ 6,845,219	\$ 3,641,222	\$ 10,486,441	\$ 202,656
Adjustments:				
Depreciation	1,258,615	2,333,432	3,592,047	6,664
(Increase) Decrease in Assets and Deferred Outflows of Resources:				
Accounts Receivable	(112,525)	991,283	878,758	-
Intergovernmental Receivable	-	(3,665)	(3,665)	-
Materials and Supplies Inventory	65,635	(13,508)	52,127	646,956
Prepaid Items	11,511	17,678	29,189	(1,991)
Interfund Receivable	16	371	387	(42,655)
Deferred Outflows - Pension	(1,011,822)	(1,171,583)	(2,183,405)	(106,507)
Increase (Decrease) in Liabilities and Deferred Inflows of Resources:				
Accounts Payable	(84,232)	(470,440)	(554,672)	56,487
Contracts Payable	284,607	584,447	869,054	-
Accrued Wages and Benefits	16,521	(869)	15,652	(4,348)
Compensated Absences Payable	14,700	20,580	35,280	(3,033)
Retainage Payable	-	(28,520)	(28,520)	-
Intergovernmental Payable	(84,021)	(80,815)	(164,836)	(11,100)
Interfund Payable	9,986	298	10,284	(14,103)
Claims Payable	-	(33,000)	(33,000)	310,611
Net Pension Liability	1,231,449	1,425,888	2,657,337	129,626
Deferred Inflows - Pension	28,463	32,957	61,420	2,996
Net Cash Provided by (Used in) Operating Activities	<u>\$ 8,474,122</u>	<u>\$ 7,245,756</u>	<u>\$ 15,719,878</u>	<u>\$ 1,172,259</u>
Schedule of Noncash Investing, Capital, and Related Financing Activities				
Payables impacting capital outlays	\$ 410	\$ (544,572)	\$ (544,162)	\$ -

See accompanying notes to the basic financial statements

**CITY OF LORAIN
LORAIN COUNTY, OHIO
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
DECEMBER 31, 2016**

	<u>Agency Funds</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 2,657,476</u>
Liabilities	
Deposits Held and Due to Others	<u>\$ 2,657,476</u>

See accompanying notes to the basic financial statements

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016

NOTE 1: DESCRIPTION OF THE CITY AND REPORTING ENTITY

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

Reporting Entity

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

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

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Basis of Presentation

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

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

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

Fund Accounting

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

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

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Fund Accounting (Continued)

Governmental Funds (continued)

The following are the City's major governmental funds:

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

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

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

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

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

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

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

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

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

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

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Fund Accounting (Continued)

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

Measurement Focus

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

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

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

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Basis of Accounting

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

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include municipal income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 8). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Basis of Accounting (Continued)

Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the City, deferred inflows of resources include property taxes, payments in lieu of taxes, pension and unavailable revenue. Property taxes and payments in lieu of taxes represent amounts for which there is an enforceable legal claim as of December 31, 2016, but which were levied to finance fiscal year 2017 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, municipal income taxes, special assessments, loans and intergovernmental grants and entitlements. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities found on page 24. Deferred inflows of resources related to pension are reported on the government-wide statement of net position and are explained in Note 15.

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

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

Budgetary Data

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

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

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Budgetary Data (Continued)

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

Pooled Cash and Cash Equivalents

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

The general fund made advances to the health services fund and FEMA Safer Grant fund to cover deficit cash balances. The health services and FEMA Safer Grant funds have an interfund payable for the amount received from the general fund and the general fund has an interfund receivable for the same amounts on the balance sheet. The general sewer capital improvements fund made an advance to the general fund to cover a deficit cash balance. The general fund has an interfund payable for the amount received from the general sewer fund and the general sewer fund has an interfund receivable for the same amount on the balance sheet.

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

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are presented on the financial statements as cash equivalents. Investments with an original maturity of more than three months, not purchased from the pool, are reported as investments.

During 2016, investments were limited to negotiable CDs, U.S. debt securities and STAR Ohio. The City's investment in State Treasury Asset Reserve of Ohio (STAR Ohio) is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company and is recognized as an external investment pool by the City. The city measures their investment in STAR Ohio as the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Pooled Cash and Cash Equivalents (Continued)

For 2016, there were no limitation or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the General Fund during 2016 amounted to \$99,092 all of which was assigned from other City funds.

Inventory Held for Resale

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

Materials and Supplies Inventory

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

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2016, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

Deferred Charge on Refunding

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

Bond Premiums and Discounts

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

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments or imposed by the law through constitutional provisions or enabling legislation. Restricted assets in the general fund represent money set aside for unclaimed monies. Restricted assets in the water works and water pollution control enterprise funds are for amounts held for operation, maintenance and replacement contingencies per the applicable City ordinance.

Capital Assets

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

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

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

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

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Capital Assets (Continued)

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

Interfund Balances

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

Compensated Absences

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

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

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

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

Accrued Liabilities and Long-Term Obligations

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

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Accrued Liabilities and Long-Term Obligations (Continued)

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

Fund Balance

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

The classifications are as follows:

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

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

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

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

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Fund Balance (Continued)

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

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

Net Position

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

Net position restricted for other purposes include resources for litter control and SAMHSA pride grant activities.

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

Interfund Activity

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

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

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Operating Revenues and Expenses

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

Estimates

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

NOTE 3: **CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION**

Change in Accounting Principles

The City has implemented the following Governmental Accounting Standards Board (GASB) Statements:

GASB Statement No. 72, *Fair Value Measurement of Application*. The objective of this Statement is to address accounting and financial reporting issues related to fair value measurement. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The City implemented these changes in the 2016 financial statements; however, there was no effect on the beginning net position/fund balance.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement no. 73 did not have an effect on the financials statements of the City.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The implementation of GASB Statement no. 76 did not have an effect on the financials statements of the City.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 3: CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION (Continued)

Change in Accounting Principles (Continued)

GASB Statement No. 77, *Tax Abatement Disclosures*. This Statement requires disclosure of tax abatement information about (1) a reporting government’s own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government’s tax revenues. The City implemented these changes in the 2016 financial statements; however, there was no effect on the beginning net position/fund balance.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The implementation of GASB Statement no. 78 did not have an effect on the financials statements of the City.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. The implementation of GASB Statement no. 79 did not have an effect on the financials statements of the City.

Restatement of Net Position

Ohio Police and Fire Pension Fund (OP&F) had to make a revision to the census file provided to its actuary. The revisions are due to the information reported late that impacted the January 1, 2014 census file used to determine the total net pension liability. As a result of the additional information, the December 31, 2014 and January 1, 2014 numbers presented have been restated by OP&F.

The restatement had the following impact on net position as reported December 31, 2015:

	<u>Governmental Activities</u>
Net Position as of December 31, 2015	\$39,073,543
Adjustments:	
Net Pension Liability	(737,967)
Restated Net Position December 31, 2015	<u><u>\$38,335,576</u></u>

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 4: **ACCOUNTABILITY AND COMPLIANCE**

Fund Deficits

Fund balances at December 31, 2016, included the following individual fund deficits:

Nonmajor Funds:	Amount
<i>Special Revenue Funds:</i>	
Health Services	\$ 149,280
Police Pension	1,758
Habitat Conservation	119,904
FEMA SAFER Grant	46,758
<i>Internal Service Funds:</i>	
Hospitalization	3,355,221
	\$ 3,672,921

The deficits in the Habitat Conservation Fund and Hospitalization Fund are due to accrued liabilities. The deficits in the Health Services Fund, Police Pension Fund and FEMA SAFER Grant are due to negative cash balances and accrued liabilities. The General Fund provides transfers when cash is required, not when accruals occur.

Legal Compliance

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

	Total Final Appropriations	Total Expenditures	Difference
<u>General Fund</u>			
E100 - Council	396,886	399,515	(2,629)
E300 - Auditor	670,201	678,404	(8,203)
E500 - Law Director	811,819	848,937	(37,118)
E600 - Judges	585,787	604,869	(19,082)
E700 - Clerks of Court	888,077	919,786	(31,709)
S400 - Police	10,258,864	10,581,589	(322,725)
S500 - Fire	7,030,467	7,679,397	(648,930)
S600 - Electrical	80,541	110,868	(30,327)
V100 - Service/Service Director	2,169,291	2,197,503	(28,212)
V410 - RTI Material Collection	335,619	416,475	(80,856)
<u>Major Governmental Funds</u>			
G.O. Bond Retirement			
D301 - Bond Retirement	5,924,069	5,926,446	(2,377)

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

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 4: **ACCOUNTABILITY AND COMPLIANCE** (Continued)

Legal Compliance (Continued)

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

Major Funds:	Amount
General Fund	\$ 1,632,658
<u>Nonmajor Funds:</u>	
<u><i>Special Revenue Funds:</i></u>	
Health Services	101,842
Municipal Court Security	41,207
Victim of Crime Advocate Grant	2,388
CDBG Block Grant	367,992
EDA Planning	92,793
FEMA SAFER Grant	392,039
<u><i>Proprietary Funds</i></u>	
Black River Waste Water Treatment Plant Construction	5,512
<u><i>Agency Funds</i></u>	
Workers Compensation	52,216
	\$ 2,688,647

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City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 5: FUND BALANCES

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the government funds.

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General Fund	Community Development	General Obligation Bond Retirement	Capital Improvements	Other Governmental Funds	Total
<i>Nonspendable</i>						
Prepaid Items	\$ 202,620	\$ 1,499	\$ -	\$ -	\$ 36,703	\$ 240,822
Material and Supplies Inventory	7,972	10,114	-	-	204,010	222,096
Unclaimed Monies	31,095	-	-	-	-	31,095
<i>Total Nonspendable</i>	<u>241,687</u>	<u>11,613</u>	<u>-</u>	<u>-</u>	<u>240,713</u>	<u>494,013</u>
<i>Restricted for</i>						
Loans Receivable	-	8,719,956	-	-	-	8,719,956
Economic Development Projects	-	5,494,961	-	-	-	5,494,961
Road Improvements	-	-	-	1,218,654	886,572	2,105,226
Inventory Held for Resale	-	1,672,019	-	-	-	1,672,019
Law Enforcement	-	-	-	-	1,386,615	1,386,615
Fire Pension	-	-	-	-	715	715
Municipal Court Operations	69,790	-	-	-	269,205	338,995
Debt Service Payments	-	2,094	618,940	-	-	621,034
Community Environment Enhancement	-	-	-	-	44,922	44,922
Cemetery Operations	5,263	-	-	-	-	5,263
Safety Services	14,707	-	-	-	-	14,707
Public Health Initiatives	-	-	-	-	93	93
<i>Total Restricted</i>	<u>89,760</u>	<u>15,889,030</u>	<u>618,940</u>	<u>1,218,654</u>	<u>2,588,122</u>	<u>20,404,506</u>
<i>Committed to</i>						
Storm Sewer Maintenance and Repair	-	-	-	-	1,689,904	1,689,904
Payroll Reserve	512,504	-	-	-	-	512,504
Compensated Absences Reserve	195,057	-	-	-	-	195,057
Auditor	26,070	-	-	-	-	26,070
Park Operations	80,733	-	-	-	-	80,733
Safety Services	11,276	-	-	-	-	11,276
Jail Operations	750	-	-	-	-	750
Economic Development Incentives	131,560	-	-	-	-	131,560
<i>Total Committed</i>	<u>957,950</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,689,904</u>	<u>2,647,854</u>
<i>Assigned to</i>						
Purchases on Order	103,987	-	-	-	-	103,987
<i>Total Assigned</i>	<u>103,987</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>103,987</u>
<i>Unassigned (Deficit)</i>						
	(755,178)	-	-	-	(317,700)	(1,072,878)
Total Fund Balances	<u>\$ 638,206</u>	<u>\$ 15,900,643</u>	<u>\$ 618,940</u>	<u>\$ 1,218,654</u>	<u>\$ 4,201,039</u>	<u>\$ 22,577,482</u>

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 6: BUDGETARY BASIS OF ACCOUNTING

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

The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Unrecorded cash represents amounts received but not included as revenue on the budgetary statements, but are reported on the operating statements prepared using GAAP.
4. Encumbrances are treated as expenditures (budget) rather than as a part of restricted, committed, or assigned fund balance (GAAP).
5. Advances In and Advances Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
6. Some funds are included in the General Fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 6: **BUDGETARY BASIS OF ACCOUNTING** (Continued)

Adjustments necessary to convert the results of operations at the end of the year on the GAAP basis to the budget basis are as follows:

	General	Community Development
GAAP Basis	\$ (718,617)	\$ (1,059,454)
Revenue Accruals	701,702	858,039
Beginning Unrecorded Cash	70,868	(394)
Ending Unrecorded Cash	(34,549)	(7,016)
Expenditure Accruals	117,191	912,409
Excess of Revenue Over (Under) Expenditures		
Economic Development	(126,799)	-
Parkland	(38,034)	-
Compensated Absences	80,125	-
Payroll Reserve	(122,496)	-
Cemetary	(2,705)	-
Encumbrances (Budget Basis) outstanding at year end	(207,834)	(525,281)
Budget Basis	\$ (281,148)	\$ 178,303

NOTE 7: **DEPOSITS AND INVESTMENTS**

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

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

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

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

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 7: **DEPOSITS AND INVESTMENTS** (Continued)

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
6. The State Treasurer's investment pool (STAR Ohio);
7. Time certificates of deposit or savings or deposit accounts, including but not limited to, passbook accounts; and
8. Commercial paper and bankers' acceptances if training requirements have been met.

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

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

Cash on Hand

The City has \$7,775 in undeposited cash on hand, which is reported on the balance sheet as part of "Equity in Pooled Cash and Cash Equivalents".

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in possession of an outside party. At year end, the carrying amount of the City's deposits was \$12,021,414, and the bank balance was \$13,209,592. \$1,288,092 of the City's bank balance was covered by Federal Depository Insurance and the remaining amount of \$11,921,500 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agency, but not in the City's name.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 7: **DEPOSITS AND INVESTMENTS** (Continued)

Deposits (Continued)

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

Investments

STAR Ohio is measured at net asset value per share while all other investments are measured at fair value. Fair value is determined by quoted market prices and acceptable other pricing methodologies. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The following table identifies the City's recurring fair value measurement as of December 31, 2016. As previously discussed Star Ohio is reported at its net asset value. All other investments of the City are valued using quoted market prices (Level 1 and Level 2 inputs).

As of December 31, 2016, the City had the following investments:

Rating by Standard & Poor's	Investment	Measurement Value	Investment Maturities (in years)		Percentage of Total Investments
			<1	1-3	
N/A	Negotiable CDs	\$ 1,891,032	\$ 695,693	\$ 1,195,339	6.44%
AA+	FHLMC	3,051,178	-	3,051,178	10.39%
AAAM	STAR Ohio	24,412,347	24,412,347	-	83.17%
		<u>\$ 29,354,557</u>	<u>\$ 25,108,040</u>	<u>\$ 4,246,517</u>	<u>100.00%</u>

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

Credit Risk All of the City's investments in United States debt securities carry a rating of AA+ by Standard & Poor's. STAR Ohio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The City has no investment policy that addresses credit risk.

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

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 8: RECEIVABLES

Receivables at December 31, 2016, consisted primarily of municipal income taxes, property taxes, payments in lieu of taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, loans, and accounts (billings for utility service).

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

Special assessments expected to be collected in more than one-year amount to \$1,105,802. At December 31, 2016, the amount of delinquent special assessments was \$1,047,023.

The loans receivable at December 31, 2016, include revolving loans made to private enterprises under the United States Department of Housing and Urban Development Community Development Block Grant Program. The loans are due on various dates with a large portion not due until the related property is sold or the debtor becomes deceased. The loans receivable balance of \$8,719,955 on the basic financial statements is stated net of estimated uncollectible of \$1,773,044 with \$367,890 collectible in one year.

In April of 2002, the City entered into an installment loan agreement with Horizon Activities Center Inc. for the sale of real estate owned by the City, deemed no longer needed for public use, in the amount of \$250,000. The loan has a term of 20 years at 5.75 percent interest with monthly payments of \$1,755. Per the Ohio Revised Code, Section 5705.10, the proceeds from this sale are deposited in the general obligation bond retirement fund. At December 31, 2016, the fund has recorded a loan receivable balance of \$101,654 as a result of this transaction, with \$15,625 collectible in one year.

The City's sewer department issued zero percent interest emergency loans to property owners in 2007 to provide some immediate relief to replace property damaged due to a major sewer line collapse. At December 31, 2016, the fund has recorded a loan receivable balance of \$173,844 as a result of these transactions, with \$28,637 collectible in one year.

Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City of Lorain. Property tax revenues received in 2016 for real and public utility property represent the collection of 2015 taxes.

Real property taxes received in 2016 were levied after October 1, 2015, on the assessed values as of January 1, 2015, the lien date. Real property taxes which were levied in 2016 are collected in and intended to finance 2017. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in 2016 represent the collection of 2015 taxes. Public utility property taxes received in 2016 became a lien on December 31, 2015, were levied after October 1, 2015, and are collected with real property taxes.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 8: **RECEIVABLES** (Continued)

Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The full tax rate for all City of Lorain operations for the year ended December 31, 2016, was \$4.96 per \$1,000 of assessed value. The assessed values of real and public utility property upon which 2016 property tax receipts were based are as follows:

Property Category	Assessed Value
Real Property	\$ 728,770,420
Public Utility Personal Property	68,480,260
Total	\$ 797,250,680

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

Property taxes receivable represents real and public utility property taxes and outstanding delinquencies which were measurable as of December 31, 2016, and for which there was an enforceable legal claim. In the governmental funds, the portion of the receivable not levied to finance 2016 operations is offset to deferred inflows of resources – property taxes. On the full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

Income Tax

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

Payment in Lieu of Taxes

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

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 8: **RECEIVABLES** (Continued)

Intergovernmental Receivables

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

<u>Governmental Activities</u>	<u>Amount</u>
Local Government	\$ 1,280,826
Grants	949,091
Gasoline Tax	590,248
Motor Vehicle License Tax	310,348
Homestead and Rollback	280,000
Permissive Tax	51,799
Total Governmental Activities	<u>3,462,312</u>
<u>Business-Type Activities</u>	
Utilities Charges	<u>28,422</u>
Total	<u><u>\$ 3,490,734</u></u>

NOTE 9: **INVENTORY HELD FOR RESALE**

Inventory held for resale represents land purchased and homes purchased and repaired to be resold under the Community Development infill housing and neighborhood stabilization projects. As of December 31, 2016, the City has 118 properties remaining which are being held for resale.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 10: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016 was as follows:

	Balance 12/31/2015	Additions	Deletions	Balance 12/31/2016
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$ 9,535,107	\$ -	\$ -	\$ 9,535,107
Easements	6,659,949	10,059	-	6,670,008
Construction in Progress	16,064,699	4,953,920	(11,582,155)	9,436,464
<i>Total Capital Assets, Not Being Depreciated</i>	<u>32,259,755</u>	<u>4,963,979</u>	<u>(11,582,155)</u>	<u>25,641,579</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	24,081,548	138,232	-	24,219,780
Machinery and Equipment	24,619,535	409,032	(160,614)	24,867,953
Furniture and Fixtures	351,652	12,717	-	364,369
Infrastructure: Streets, Sidewalks, Bridges and Storm Sewers	<u>1,037,139,032</u>	<u>11,655,337</u>	<u>-</u>	<u>1,048,794,369</u>
<i>Total Capital Assets, Being Depreciated</i>	<u>1,086,191,767</u>	<u>12,215,318</u>	<u>(160,614)</u>	<u>1,098,246,471</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(9,664,527)	(442,847)	-	(10,107,374)
Machinery and Equipment	(11,988,819)	(1,139,847)	116,517	(13,012,149)
Furniture and Fixtures	(157,200)	(15,446)	-	(172,646)
Infrastructure: Streets, Sidewalks, Bridges and Storm Sewers	<u>(982,837,922)</u>	<u>(4,255,195)</u>	<u>-</u>	<u>(987,093,117)</u>
<i>Total Accumulated Depreciation</i>	<u>(1,004,648,468)</u>	<u>(5,853,335)*</u>	<u>116,517</u>	<u>(1,010,385,286)</u>
Total Capital Assets, Being Depreciated, Net	<u>81,543,299</u>	<u>6,361,983</u>	<u>(44,097)</u>	<u>87,861,185</u>
Governmental Activities Capital Assets, Net	<u>\$ 113,803,054</u>	<u>\$ 11,325,962</u>	<u>\$ (11,626,252)</u>	<u>\$ 113,502,764</u>

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 10: **CAPITAL ASSETS** (Continued)

	Balance 12/31/2015	Additions	Deletions	Balance 12/31/2016
Business - Type Activities				
<i>Capital Assets, Not Being Depreciated:</i>				
Land	\$ 1,060,557	\$ -	\$ -	\$ 1,060,557
Construction in Progress	74,886,404	22,753,460	(636,075)	97,003,789
<i>Total Capital Assets, Not Being Depreciated</i>	<u>75,946,961</u>	<u>22,753,460</u>	<u>(636,075)</u>	<u>98,064,346</u>
<i>Capital Assets, Being Depreciated:</i>				
Buildings and Improvements	52,962,328	275,769	-	53,238,097
Machinery and Equipment	28,716,025	139,397	(81,119)	28,774,303
Infrastructure:				
Water Lines	48,331,111	1,072,822	-	49,403,933
Sewer Lines	84,463,045	-	-	84,463,045
<i>Total Capital Assets, Being Depreciated</i>	<u>214,472,509</u>	<u>1,487,988</u>	<u>(81,119)</u>	<u>215,879,378</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(32,133,422)	(842,384)	-	(32,975,806)
Machinery and Equipment	(19,465,161)	(596,204)	75,469	(19,985,896)
Infrastructure:				
Water Lines	(14,880,710)	(825,441)	-	(15,706,151)
Sewer Lines	(37,504,638)	(1,328,018)	-	(38,832,656)
<i>Total Accumulated Depreciation</i>	<u>(103,983,931)</u>	<u>(3,592,047)</u>	<u>75,469</u>	<u>(107,500,509)</u>
Total Capital Assets, Being Depreciated, Net	<u>110,488,578</u>	<u>(2,104,059)</u>	<u>(5,650)</u>	<u>108,378,869</u>
Business - Type Activities Capital Assets, Net	<u>\$ 186,435,539</u>	<u>\$ 20,649,401</u>	<u>\$ (641,725)</u>	<u>\$ 206,443,215</u>

* Depreciation expense was charged to governmental functions as follows:

General Government	\$1,382,549
Security of Persons and Property	682,224
Transportation	3,489,490
Public Health	30,485
Community Environment	7,250
Economic Development	85,655
Leisure Time Activities	175,682
Total Depreciation Expense	<u>\$5,853,335</u>

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 11: **RISK MANAGEMENT**

Property and Liability

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

<u>Type of Coverage</u>	<u>Limits of Coverage</u>
Property Including Auto Physical Damage	\$229,152,000
Liability:	10,000,000
General Liability	
Law Enforcement Liability	
Automobile Liability	
Public Officials Errors & Omissions	
Crime:	
Employee Dishonesty	500,000
Depositors Forgery	50,000
Money & Securities	50,000
Boiler & Machinery	100,000,000

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

Workers' Compensation

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

Health Insurance Benefits

The City manages the hospital/medical, and prescription drug benefits for its employees on a self-insured basis through the hospitalization self-insurance internal service fund. Rates for 2016 were \$650/single and \$1,500/family.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 11: **RISK MANAGEMENT** (Continued)

Employees pay either \$154 per month for family coverage, \$139 if they provide proof of an annual physical, or \$124 if they provide proof of an annual physical and sign documentation that they do not smoke. The cost for single coverage is \$71.00 per month, or \$63.50 if they provide proof of an annual physical, or \$56.00 if they provide proof of an annual physical and sign documentation that they do not smoke. The Plan Administrator for the City determines these rates. Medical Mutual of Ohio, the third party administrator, processes and pays the medical and prescription drug claims. An excess coverage insurance (stop loss) policy covers claims in excess of \$125,000 per employee and an aggregate of \$7,475,267 per year. The \$125,000 specific threshold was exceeded by \$4,063. The City received an invoice credit for the excess. The aggregate was not exceeded.

Vision benefits for its employees are fully insured by Vision Service Plan (VSP). The City began providing dental coverage to all employees. Rates for family coverage are \$50.98 and \$18.19 for single coverage. Employees contribute \$9.18 for family coverage and \$3.28 for single coverage.

The claims liability of \$359,352 reported in the hospitalization fund at December 31, 2016 was estimated by the third-party administrator and is based on the requirements of Governmental Accounting Standards Board Statement 30 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expense and does not include other allocated claim adjustment expenses. Changes in the fund's claims liability amount for 2015 and 2016 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2015	\$414,901	\$5,914,073	\$6,280,233	\$48,741
2016	48,741	6,462,918	6,152,307	359,352

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 12: LONG-TERM OBLIGATIONS

The original issue date, interest rate, original issuance amount and maturity date for each of the City's long-term obligations follows:

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
<i>General Obligation Bonds:</i>			
1998 Capital Purposes	3.80 - 5.00 %	\$ 3,680,000	December 1, 2018
2003 Park and Street Improvements (G.O. Portion)	2.00 - 5.00	1,200,500	December 1, 2023
2006 Lighthouse Urban Renewal Phase I	4.10 - 5.00	1,510,000	December 1, 2026
2007 Riverfront Urban Renewal Refunding	4.00 - 4.30	4,970,000	December 1, 2028
2007A Colorado Avenue	4.00 - 4.125	505,000	December 1, 2027
2007A US Route 6	4.00 - 4.125	775,000	December 1, 2022
2007B Heritage Urban Renewal	4.00 - 4.20	1,315,000	December 1, 2028
2008 Pellet Terminal Improvement	6.00 - 6.75	5,440,000	December 1, 2028
2010 Health Claims	6.50 - 7.00	5,000,000	December 1, 2025
2011 Street Improvements (G.O. Portion)	2.00 - 5.45	455,920	December 1, 2031
2011 Various Purpose Refunding (G.O. Portion)	3.00 - 4.75	2,074,175	December 1, 2024
2012 Jaeger Road	2.00 - 4.00	5,535,000	December 1, 2032
2012 Various Purpose Refunding	2.00 - 3.30	5,815,000	December 1, 2026
2013 Property Acquisition Bond	2.00 - 4.10	6,885,000	December 1, 2038
2013 Street Improvements Bond	2.00 - 4.00	5,105,000	December 1, 2032
2014 Street Improvements Bond	2.00 - 3.875	5,790,000	December 1, 2034
2015 Riverfront Urban Renewal Phase II & III Refunding	3.00 - 3.625	3,845,000	December 1, 2032
<i>Special Assessment Bonds with Government Commitment:</i>			
2003 Park and Street Improvements (S.A. Portion)	2.00 - 5.00	574,500	December 1, 2023
2009 Street Improvements	5.00 - 7.25	390,000	December 1, 2029
2010 Street Improvements	4.00 - 5.875	245,000	December 1, 2030
2011 Street Improvements	2.00 - 5.45	554,080	December 1, 2031
<i>HUD Section 108 Loans:</i>			
Colorado Industrial Park - Series 2010-A (B-99-MC-0016)	4.40 - 6.00	2,000,000	August 1, 2019
Land Acquisition - Series 2004-A (B-03-MC-39-0016)	3.50 - 6.00	2,200,000	August 1, 2024
<i>Ohio Public Works Commission Loans:</i>			
Oak Point Road Improvements (#CI002)	0.00	405,776	January 1, 2021
Longbrook Bridge Replacement (#CI01D)	0.00	250,000	July 1, 2021
California Avenue (#CI31D)	0.00	483,645	January 1, 2022
2004 Local Roadway Rehab (#CI33H)	0.00	123,575	January 1, 2016
E. 36th Street Rehab Phase I (#CI29I)	0.00	463,749	January 1, 2017
2005 Local Roadway Rehab (#CI19I)	0.00	144,591	January 1, 2018
E. 36th Street Rehab Phase II (#CI44J)	0.00	242,147	July 1, 2018
2006 Local Roadway Rehab (#CI09J)	0.00	225,000	January 1, 2019
2007 Local Roadway Rehab (#CI13K)	0.00	133,224	January 1, 2019
2008 Local Roadway Rehab (#CI33L)	0.00	447,645	January 1, 2020
2009 Local Roadway Rehab (#CI48M)	0.00	70,314	January 1, 2020
2008 Local Roadway Rehab (#CI11L)	0.00	130,376	July 1, 2023
2010 Local Roadway Rehab (#CI32N)	0.00	577,480	January 1, 2026
2011 Local Roadway Rehab (#CI17N)	0.00	60,329	January 1, 2022
2012 Local Roadway Rehab (#CI12O)	0.00	200,848	January 1, 2027
Washington Avenue Bridge (#CI36O)	0.00	123,154	July 1, 2031
2013 Local Roadway Rehab (#CI24P)	0.00	186,004	January 1, 2028
2014 Local Roadway Rehab (#CI46R)	0.00	296,634	July 1, 2026
2015 Local Roadway Rehab (#CI26T)	0.00	223,777	July 1, 2030

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 12: LONG-TERM OBLIGATIONS (Continued)

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
<i>Ohio Department of Transportation State Infrastructure Bank Loans:</i>			
2007 Local Roadway Rehab (#SB080001)	3.00 %	\$ 311,060	October 25, 2017
North Ridge Road Project (#SB090002)	3.00	74,815	January 30, 2019
Local Roadway Rehab and State Route 58 (#SB090007)	3.00	1,200,395	August 26, 2019
Oberlin Avenue Phase I (#SB110003)	3.00	308,998	January 12, 2021
2013 Issue 2 (LRR Rnd 25) (#SB130004)	3.00	425,341	February 8, 2023
2013 Washington & Reid Avenue Rehab (#SB130005)	3.00	1,330,825	February 8, 2023
2013 SR611 (#SB130006)	3.00	547,201	February 8, 2023
2013 Local Roadway (5) (#SB130009)	3.00	1,986,249	July 26, 2028
2015 Local Roadway (12) (#SB160006)	3.00	704,875	July 1, 2022
2016 Local Roadway (7) & SR 57 (#SB160012)	3.00	412,715	May 31, 2026
<i>Installment Loans</i>			
Lorain County Engineer - Tower Boulevard	0.00	503,332	April 30, 2019
Lorain County Engineer - Cooper Foster Park Road	0.00	272,801	September 15, 2020
Lorain County Engineer - Oberlin Avenue Phase I	0.00	220,000	October 13, 2021
Lorain County Engineer - Oberlin Avenue Phase II	0.00	200,000	April 1, 2022
Court Case Management System	3.44	425,000	June 1, 2017
State of Ohio GRF Bond Loan	2.00 - 5.00	7,061,249	November 1, 2034
<i>Enterprise General Obligation Bonds:</i>			
2011 Various Purpose Refunding (Water Fund Portion)	3.00 - 4.75	3,140,825	December 1, 2016
<i>Ohio Water Development Authority Loans:</i>			
2000 East Erie Waterlines (#2037)	5.50	2,211,916	January 1, 2020
2000 E. 28th St./Pearl Ave. Relief Sewer, Pump Station (#2321)	2.91	1,137,701	July 1, 2020
2001 Colorado Ave./Root Rd. Waterline Replacement (#3188)	6.13	449,287	January 1, 2021
2001 Colorado/Root/E. Erie Waterline Replacement (#3253)	4.38	2,712,348	January 1, 2021
2001 Westside Waterline Replacement (#3284)	4.64	2,425,073	July 1, 2021
2001 Tacoma Avenue Relief Sewer (#2322)	2.81	4,860,364	January 1, 2021
2001 Idaho Avenue SSO Elimination (#3268)	3.66	9,744,494	July 1, 2021
2003 4W Waterline Replacement (Various locations) (#3814)	4.90	3,585,574	July 1, 2034
2004 Kay Drive Retention Basin (#4150)	3.81	2,295,633	July 1, 2024
2004 Amherst Township Relief Sewer (#4151)	3.81	898,208	July 1, 2024
2004 Pearl Road & Tacoma Pump Station (#4156)	3.81	1,282,116	January 1, 2025
2006 East Central Relief Sewer (#4548)	4.59	3,400,652	July 1, 2027
2006 Westside Relief Sewer (#4586)	3.24	22,145,154	July 1, 2028
2007 Brownell Avenue Waterline (#4775)	4.47	770,575	January 1, 2028
2010 Pearl Avenue Water Mains (#5628)	3.84	1,700,936	January 1, 2031
2011 28th Street Waterline (#5863)	4.45	1,749,427	January 1, 2032
2012 Black River Tunnel Phase I (#6166)	2.48	66,611,482	January 1, 2036
2013 Oberlin Avenue Waterline Replacement (#6394)	3.09	3,920,087	January 1, 2034
2013 SR611 Waterline Replacement (#6416)	3.15	3,635,283	January 1, 2034
2013 Washington & Reid Ave. Waterline Replacement (#6461)	3.44	7,299,054	July 1, 2034
2013 Westside Elevated Tank (#6466)	3.29	3,716,163	January 1, 2035
2013 South Lorain Waterline Replacement Phase 1 (#6542)	4.24	4,581,899	July 1, 2034
2013 Euclid Avenue Waterline Replacement (#6614)	4.12	1,719,793	July 1, 2034
2014 2nd, 4th, 5th, 6th, Hamilton & Reid Waterline Repl (#6716)	3.95	4,016,784	January 1, 2036
2014 E. 31st St. Bridge Waterline Replacement (#6789)	3.31	619,678	January 1, 2035
2015 Elyria Avenue Waterline Replacement (#6917)	2.56	1,447,864	January 1, 2035
2015 South Lorain Waterline Replacement Phase II (#7038)	2.91	5,792,717	July 1, 2036
2015 East Lorain Waterline Replacement Design (#7067)	3.57	76,479	July 1, 2021
2015 South Lorain Waterline Replacement Design Phase III (#7068)	3.57	196,754	July 1, 2021
2015 Broadway, Skyline, Jaeger Waterline Replacement (#7086)	3.04	3,979,190	January 1, 2037
2016 Crehore Street, Waterline Replacement (#7264)	2.54	767,700	July 1, 2036

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 12: LONG-TERM OBLIGATIONS (Continued)

Changes in bonds and other long-term obligations of the City during 2016 were as follows:

	Restated Principal Outstanding 12/31/2015	Additions	Deletions	Principal Outstanding 12/31/2016	Due Within One Year
Governmental Activities					
<i>General Obligation Bonds:</i>					
1998 Capital Purposes	\$ 30,000	\$ 0	\$ 10,000	\$ 20,000	\$ 10,000
2003 Park and Street Improvements (G.O. Portion)	601,941	0	64,252	537,689	67,634
2006 Lighthouse Urban Renewal Phase I	1,195,000	0	85,000	1,110,000	90,000
2007 Riverfront Urban Renewal Refunding	3,750,000	0	225,000	3,525,000	235,000
Unamortized Discount	(27,655)	0	(2,236)	(25,419)	
2007A Colorado Avenue	350,000	0	25,000	325,000	25,000
2007A US Route 6	425,000	0	55,000	370,000	55,000
2007B Heritage Urban Renewal	995,000	0	60,000	935,000	60,000
Unamortized Discount	(3,415)	0	(268)	(3,147)	
2008 Pellet Terminal Improvement	4,270,000	0	220,000	4,050,000	235,000
Unamortized Discount	(46,764)	0	(3,674)	(43,090)	
2010 Health Claims	3,825,000	0	280,000	3,545,000	300,000
2011 Street Improvements (G.O. Portion)	397,238	0	18,056	379,182	18,056
Unamortized Discount	(3,845)	0	(247)	(3,598)	
2011 Various Purpose Refunding (G.O. Portion)	1,060,000	0	100,000	960,000	100,000
Unamortized Discount	(1,947)	0	(226)	(1,721)	
2012 Jaeger Road	4,875,000	0	230,000	4,645,000	235,000
Unamortized Discount	(16,700)	0	(1,003)	(15,697)	
2012 Various Purpose Refunding	4,310,000	0	520,000	3,790,000	530,000
Unamortized Discount	(1,354)	0	(127)	(1,227)	
2013 Property Acquisition Bond	6,505,000	0	195,000	6,310,000	200,000
Unamortized Discount	(48,198)	0	(2,075)	(46,123)	
2013 Street Improvements Bond	4,460,000	0	205,000	4,255,000	210,000
Unamortized Discount	(546)	0	(33)	(513)	
2014 Street Improvements Bond	5,530,000	0	260,000	5,270,000	270,000
Unamortized Discount	(24,705)	0	(1,343)	(23,362)	
2015 Riverfront Urban Renewal Phase II & III Refunding	3,845,000	0	165,000	3,680,000	180,000
Unamortized Premium	12,473	0	887	11,586	
<i>Total General Obligation Bonds</i>	<u>46,261,523</u>	<u>0</u>	<u>2,706,963</u>	<u>43,554,560</u>	<u>2,820,690</u>
<i>Special Assessment Bonds with Government Commitment:</i>					
2003 Park and Street Improvements (S.A. Portion)	288,059	0	30,748	257,311	32,366
2009 Street Improvements	320,000	0	15,000	305,000	15,000
Unamortized Premium	8,569	0	624	7,945	
2010 Street Improvements	200,000	0	10,000	190,000	10,000
Unamortized Discount	(3,160)	0	(212)	(2,948)	
2011 Street Improvements	482,762	0	21,944	460,818	21,944
Unamortized Discount	(4,673)	0	(300)	(4,373)	
<i>Total Special Assessment Bonds</i>	<u>1,291,557</u>	<u>0</u>	<u>77,804</u>	<u>1,213,753</u>	<u>79,310</u>
<i>HUD Section 108 Loans:</i>					
Colorado Industrial Park - Series 2010-A (B-99-MC-0016)	500,000	0	125,000	375,000	125,000
Land Acquisition - Series 2004-A (B-03-MC-39-0016)	1,245,000	0	110,000	1,135,000	115,000
<i>Total HUD Section 108 Loans</i>	<u>1,745,000</u>	<u>0</u>	<u>235,000</u>	<u>1,510,000</u>	<u>240,000</u>

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 12: LONG-TERM OBLIGATIONS (Continued)

	Restated Principal Outstanding 12/31/2015	Additions	Deletions	Principal Outstanding 12/31/2016	Due Within One Year
Governmental Activities (continued)					
<i>Other Long Term Obligations:</i>					
Net Pension Liability					
OPERS	\$ 8,266,972	\$ 3,823,975	\$ -	\$ 12,090,947	\$ -
OP&F	30,675,763	5,889,486	0	36,565,249	0
<i>Total Net Pension Liability</i>	<u>38,942,735</u>	<u>9,713,461</u>	<u>0</u>	<u>48,656,196</u>	<u>0</u>
ODOD Urban Redevelopment Loans	1,402,245	0	227,554	1,174,691	234,458
OPWC Loans	2,158,019	338,775	329,067	2,167,727	337,574
ODOT State Infrastructure Bank Loans	5,103,288	1,159,054	627,355	5,634,987	653,623
Installment Loans	7,084,821	313,661	469,613	6,928,869	437,113
Capital Leases	2,224,730	0	1,328,461	896,269	578,050
Pollution Remediation	863,440	0	0	863,440	0
Compensated Absences	6,901,993	699,844	1,514,537	6,087,300	1,289,905
<i>Total Other Long Term Obligations</i>	<u>64,681,271</u>	<u>12,224,795</u>	<u>4,496,587</u>	<u>72,409,479</u>	<u>3,530,723</u>
Total Governmental Activities	<u>\$ 113,979,351</u>	<u>\$ 12,224,795</u>	<u>\$ 7,516,354</u>	<u>\$ 118,687,792</u>	<u>\$ 6,670,723</u>
Business-Type Activities					
<i>General Obligation Bonds:</i>					
Various Purpose Refunding - Water	\$ 590,000	\$ 0	\$ 590,000	\$ 0	\$ 0
Unamortized Premium	2,499	0	2,499	0	0
<i>Total General Obligation Bonds</i>	<u>592,499</u>	<u>0</u>	<u>592,499</u>	<u>0</u>	<u>0</u>
<i>Ohio Water Development Authority Loans:</i>					
East Erie Waterlines	648,774	0	149,409	499,365	157,627
E. 28th St. / Pearl Ave. Relief Sewer	316,031	0	66,722	249,309	68,678
Colorado Ave. / Root Rd. Waterline	166,996	0	29,493	137,503	31,328
Colorado / Root / E. Erie Waterline	911,499	0	166,854	744,645	174,243
Westside Waterline Replacement	900,559	0	147,304	753,255	154,218
Tacoma Avenue Relief Sewer	1,479,892	0	279,695	1,200,197	287,609
Idaho Avenue SSO Elimination	3,416,095	0	571,518	2,844,577	592,628
4W Waterline Replacement	2,769,478	0	94,818	2,674,660	99,521
Kay Drive Retention Basin	1,159,349	23,768	115,134	1,067,983	125,548
Amherst Township Relief Sewer	417,356	9,299	8,787	417,868	49,123
Pearl Road & Tacoma Pump Station	696,810	0	66,260	630,550	68,808
East Central Relief Sewer	2,317,950	0	157,056	2,160,894	164,348
Westside Relief Sewer	15,197,349	0	1,020,702	14,176,647	1,054,041
Brownell Avenue Waterline	540,491	0	34,911	505,580	36,489
Pearl Avenue Water Main	1,388,350	0	69,973	1,318,377	72,685
28th Street Waterline	1,510,843	0	66,503	1,444,340	69,495
Black River Tunnel Phase I	53,995,530	12,615,952	2,669,851	63,941,631	2,736,474
Oberlin Ave. Waterline Replacement	3,565,328	1,623	184,858	3,382,093	190,614
SR 611 Waterline Replacement	3,247,733	36,608	183,871	3,100,470	189,708
Washington & Reid Waterline Repl	6,828,067	30,107	306,702	6,551,472	317,344
Westside Elevated Tank	3,559,373	0	161,990	3,397,383	167,364
S. Lorain Waterline Repl. Phase I	4,324,319	0	127,940	4,196,379	165,893
Euclid Ave. Waterline Replacement	1,625,043	0	51,680	1,573,363	62,882
<i>Subtotal - Ohio Water Development Authority Loans:</i>	<u>\$ 110,983,215</u>	<u>\$ 12,717,357</u>	<u>\$ 6,732,031</u>	<u>\$ 116,968,541</u>	<u>\$ 7,036,668</u>

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 12: LONG-TERM OBLIGATIONS (Continued)

	Restated Principal Outstanding 12/31/2015	Additions	Deletions	Principal Outstanding 12/31/2016	Due Within One Year
Business-Type Activities (continued)					
<i>Ohio Water Development Authority Loans (continued):</i>					
<i>Prior Page Subtotal:</i>	\$ 110,983,215	\$ 12,717,357	\$ 6,732,031	\$ 116,968,541	\$ 7,036,668
2nd, 4th, 5th, 6th, Hamilton & Reid Ave. Waterline Replacement	4,016,784	0	161,596	3,855,188	168,043
E. 31st St. Bridge Waterline Repl	417,646	179,429	23,324	573,751	24,069
Elyria Avenue Waterline Repl	982,157	436,747	59,039	1,359,865	60,559
S. Lorain Waterline Repl Phase II	1,377,975	4,414,742	115,967	5,676,750	237,021
East Lorain Waterline Repl Design	18,941	57,538	4,774	71,705	43,249
South Lorain Waterline Repl Design	192,800	103,954	5,188	191,566	43,479
Broadway, Skyline, Jaeger Waterline Replacement	169,231	3,809,959	0	3,979,190	174,082
Crehore Street Waterline Replacement	0	767,700	16,438	751,262	33,339
<i>Total Ohio Water Development Authority Loans</i>	<u>118,058,749</u>	<u>22,487,426</u>	<u>7,118,357</u>	<u>133,427,818</u>	<u>7,820,509</u>
<i>Other Long Term Obligations:</i>					
Net Pension Liability					
Water - OPERS	2,662,246	1,231,449	0	3,893,695	0
Sewer - OPERS	3,082,600	1,425,888	0	4,508,488	0
<i>Total Net Pension Liability</i>	<u>5,744,846</u>	<u>2,657,337</u>	<u>0</u>	<u>8,402,183</u>	<u>0</u>
Capital Leases	1,765,443	0	942,594	822,849	523,928
Pollution Remediation	206,019	0	20,997	185,022	17,700
Compensated Absences	1,271,517	385,774	350,494	1,306,797	131,590
<i>Total Other Long Term Obligations</i>	<u>8,987,825</u>	<u>3,043,111</u>	<u>1,314,085</u>	<u>10,716,851</u>	<u>673,218</u>
Total Business-Type Activities	<u>\$ 127,639,073</u>	<u>\$ 25,530,537</u>	<u>\$ 9,024,941</u>	<u>\$ 144,144,669</u>	<u>\$ 8,493,727</u>

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

In 2007, the City defeased a 2000 Riverfront Urban Renewal General Obligation Bond in order to take advantage of lower interest rates. The proceeds of the new bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. On December 31, 2016, \$3,035,000 of the defeased bonds is still outstanding.

The City has pledged a portion of municipal income tax revenues to repay \$8,825,000 in general obligation bonds issued in 2013 and 2014 to finance the reconstruction and repair of local roadways. These bonds are payable solely from the one-quarter percent municipal income tax revenue in the streets fund and is projected to use approximately 27 percent of the available municipal income tax over the life of the bonds. Total principal and interest remaining on the bonds is \$10,085,306, payable through 2034. Principal and interest payments for the current year were \$642,700 and total income tax revenues were \$2,408,283.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 12: **LONG-TERM OBLIGATIONS** (Continued)

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

The City has pledged a portion of future motor vehicle gas tax revenues to repay \$311,060 in ODOT State infrastructure bank loans issued in 2008, to finance the reconstruction and repair of local roadways. These loans are payable solely from the motor vehicle gas tax revenue in the streets fund and were projected to use approximately 4 percent of the available gas tax revenue over the life of the loans. Total principal and interest remaining on the loans is \$44,024, payable through 2017. Principal and interest payments for the current year were \$44,024 and total gas tax revenues were \$1,180,495.

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

The City has pledged a portion of municipal income tax revenues to repay a \$7,061,249 installment loan to finance the reconstruction and repair of local roadways. This loan is payable solely from the one-quarter percent municipal income tax revenue in the streets fund and is projected to use approximately 21 percent of the available municipal income tax over the life of the loan. Total principal and interest remaining on the loan is \$8,782,024, payable through 2034. Principal and interest payments for the current year were \$500,538 and total income tax revenues were \$2,408,283.

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

In an effort to revitalize its downtown area, in 2002 the City purchased the old pellet terminal site, a total of 19 acres, on the Black River for future development. This site was previously used for storing, loading and unloading iron ore pellets onto ships and by rail for use in northeast Ohio steel production since the 1890's and was also the location of the former Brush Beryllium Plant until 1948. The City voluntarily determined that due to the nature of the previous land use, an environmental assessment on the property was warranted before any development could commence. The City contracted with a certified consultant in 2006 to assess the property. It was determined by the consultant that environmental remediation was necessary due to unacceptable concentrations of beryllium, lead, and other miscellaneous chemicals and to comply with the Ohio Environmental Protection Agency's voluntary action plan standards for environmental contamination cleanup.

The cost of the remediation estimated by the consultants is \$863,440 as of 2016 with the potential for additional costs in the future due to price increases. The City expects no recoveries to reduce the liability for the remediation.

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

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 12: **LONG-TERM OBLIGATIONS** (Continued)

The cost of the remediation estimated by the firm is \$185,022 as of 2016 with the potential for additional costs in the future due to price increases. The City expects no recoveries to reduce the liability for the remediation.

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

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

The City has pledged future revenues to repay OWDA loans in the Water Works fund. The debt is payable solely from net revenues and is payable through 2037. Net revenues include all revenues received by the water utility less all operating expenses other than depreciation expense. Annual principal and interest payments on the loans are expected to require less than 55 percent of net revenues and less than 25 percent of total revenues. The total principal and interest remaining to be paid on the loans is \$63,825,061. Principal and interest payments for the current year were \$3,647,276, net revenues were \$8,103,962, and total revenues were \$15,595,698.

The City has pledged future revenues to repay OWDA loans in the Water Pollution Control fund. The debt is payable solely from net revenues and is payable through 2036. Net revenues include all revenues received by the sewer utility less all operating expenses other than depreciation expense. Annual principal and interest payments on the loans are expected to require less than 30 percent of net revenues and less than 17 percent of total revenues. The total principal and interest remaining to be paid on the loans is \$107,570,091. Principal and interest payments for the current year were \$7,345,946, net revenues were \$5,974,654, and total revenues were \$14,375,938.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 12: LONG-TERM OBLIGATIONS (Continued)

The City's overall legal debt margin was \$47,294,103 at December 31, 2016. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2016 are as follows:

Governmental Activities:

Years	General Obligation Bonds		Special Assessment Bonds		HUD Section 108 Loans		ODOD Urban Redevelopment Loan	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$2,820,690	\$1,786,146	\$79,310	\$67,912	\$240,000	\$36,115	\$234,458	\$35,338
2018	2,725,690	1,690,487	79,310	64,146	245,000	31,408	241,571	27,632
2019	2,806,329	1,593,578	88,671	60,380	255,000	25,912	248,900	19,692
2020	2,933,092	1,486,844	91,908	56,095	135,000	19,343	256,452	11,511
2021	3,006,474	1,367,291	93,526	51,198	145,000	16,670	193,310	3,116
2022-2026	15,549,346	4,824,901	420,654	178,500	490,000	27,573	0	0
2027-2031	9,500,250	1,907,374	359,750	58,045	0	0	0	0
2032-2036	3,550,000	487,911	0	0	0	0	0	0
2037-2041	815,000	50,430	0	0	0	0	0	0
Total	<u>\$43,706,871</u>	<u>\$15,194,962</u>	<u>\$1,213,129</u>	<u>\$536,276</u>	<u>\$1,510,000</u>	<u>\$157,021</u>	<u>\$1,174,691</u>	<u>\$97,289</u>

Years	OPWC Loans		ODOT State Infrastructure Bank Loans		Installment Loans		Total Governmental Activities	
	Principal	Principal	Interest	Principal	Interest	Principal	Interest	
2017	\$337,574	\$653,623	\$131,122	\$437,113	\$222,537	\$4,802,768	\$2,279,170	
2018	324,371	787,074	138,459	409,613	209,574	4,812,629	2,161,706	
2019	275,015	828,929	120,516	414,613	203,360	4,917,457	2,023,438	
2020	231,206	677,443	96,815	369,280	196,799	4,694,381	1,867,407	
2021	195,164	675,552	76,339	347,000	189,434	4,656,026	1,704,048	
2022-2026	665,305	1,654,597	158,339	1,695,000	800,812	20,474,902	5,990,125	
2027-2031	139,092	357,769	13,516	1,985,000	471,786	12,341,861	2,450,721	
2032-2036	0	0	0	1,271,250	92,213	4,821,250	580,124	
2037-2041	0	0	0	0	0	815,000	50,430	
Total	<u>\$2,167,727</u>	<u>\$5,634,987</u>	<u>\$735,106</u>	<u>\$6,928,869</u>	<u>\$2,386,515</u>	<u>\$62,336,274</u>	<u>\$19,107,169</u>	

Business-Type Activities:

Years	OWDA Loans		Total Business-Type Activities	
	Principal	Interest	Principal	Interest
2017	\$7,526,360	\$3,883,414	\$7,526,360	\$3,883,414
2018	7,770,439	3,658,711	7,770,439	3,658,711
2019	8,022,898	3,426,465	8,022,898	3,426,465
2020	8,061,235	3,186,408	8,061,235	3,186,408
2021	7,273,777	2,951,524	7,273,777	2,951,524
2022-2026	36,744,217	11,566,474	36,744,217	11,566,474
2027-2031	33,687,180	6,133,964	33,687,180	6,133,964
2032-2036	19,347,990	1,323,308	19,347,990	1,323,308
Total	<u>\$128,434,096</u>	<u>\$36,130,268</u>	<u>\$128,434,096</u>	<u>\$36,130,268</u>

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 12: **LONG-TERM OBLIGATIONS** (Continued)

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

<u>Enterprise Funds</u>	December 31, 2016	
	Principal	Amount
	Outstanding	Financed
<i>Water Works:</i>		
East Lorain Waterline Replacement Design	\$ 71,705	\$ 192,079
South Lorain Waterline Replacement Phase III Design	191,566	213,554
Broadway, Skyline, Jaeger Waterline Replacement	3,979,190	4,707,797
Crehore Street Waterline Replacement	751,261	849,929
Total Loans not Finalized	\$4,993,722	\$5,963,359

NOTE 13: **CAPITAL LEASES**

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

As part of the agreement for the 2013 lease for the computer hardware/software upgrade, and the parks, cemetery, streets, general sewer, water and water pollution control equipment, Fifth Third Bank, the lessor, deposited \$3,986,963 in an escrow account in 2013 so that the City could obtain the equipment from various vendors. \$3,985,251 was paid to the vendors in 2013 through 2016 and the balance of \$1,712 will be paid to the vendors in 2017 at the direction of the City upon receipt of the equipment. At year-end, capital assets that have been received have been recorded for these capital leases.

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

	Governmental Activities	Business-Type Activities
<i>Capital Assets, Being Depreciated:</i>		
Machinery and Equipment	\$8,825,234	\$3,889,048
Less Accumulated Depreciation:		
Machinery and Equipment	(3,074,451)	(741,423)
<i>Capital Assets, Net</i>	\$5,750,783	\$3,147,625

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 13: **CAPITAL LEASES** (Continued)

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of minimum lease payments as of December 31, 2016:

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2017	\$591,703	\$535,008
2018	288,459	294,410
2019	22,900	4,642
2020	11,450	2,321
Total Minimum Lease Payments	914,512	836,381
Less: Amount Representing Interest	(18,243)	(13,532)
Present Value of Minimum Lease Payments	<u>\$896,269</u>	<u>\$822,849</u>

NOTE 14: **COMPENSATED ABSENCES**

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

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City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 15: **DEFINED BENEFIT PENSION PLAN**

Net Pension Liability

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

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

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

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

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

Plan Description – Ohio Public Employees Retirement System (OPERS)

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

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 15: **DEFINED BENEFIT PENSION PLAN** (Continued)

Plan Description – Ohio Public Employees Retirement System (OPERS) (Continued)

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS’ fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

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

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

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

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

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

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 15: **DEFINED BENEFIT PENSION PLAN** (Continued)

Plan Description – Ohio Public Employees Retirement System (OPERS) (Continued)

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

	State and Local
2016 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
 2016 Actual Contribution Rates	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	2.0 %
Total Employer	14.0 %
Employee	10.0 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City’s contractually required contributions was \$1,682,419 for 2016. Of this amount, \$184,109 is reported as an intergovernmental payable.

Plan Description – Ohio Police & Fire Pension Fund (OP&F)

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

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

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 15: **DEFINED BENEFIT PENSION PLAN** (Continued)

Plan Description – Ohio Police & Fire Pension Fund (OP&F) (Continued)

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

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

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

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

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

	Police	Firefighters
2016 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
2016 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
Total Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 15: **DEFINED BENEFIT PENSION PLAN** (Continued)

Plan Description – Ohio Police & Fire Pension Fund (OP&F) (Continued)

Employer contribution rates are expressed as a percentage of covered payroll. The City’s contractually required contribution to OP&F was \$2,478,671 for 2016. Of this amount, \$184,939 is reported as an intergovernmental payable.

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

The net pension liability for OPERS was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F’s total pension liability was measured as of December 31, 2015, and was determined by rolling forward the total pension liability as of January 1, 2015, to December 31, 2015. The City’s proportion of the net pension liability was based on the City’s share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	OPERS Traditional Pension Plan	OP&F Police	OP&F Fire	Total
Proportion of the Net Pension Liability Prior Measurement Date	0.116174%	0.2917180%	0.2861850%	
Proportion of the Net Pension Liability Current Measurement Date	<u>0.118312%</u>	<u>0.2975640%</u>	<u>0.2708310%</u>	
Change in Proportionate Share	<u>0.002138%</u>	<u>0.0058460%</u>	<u>-0.0153540%</u>	
Proportionate Share of the Net Pension Liability	\$ 20,493,130	\$ 19,142,501	\$ 17,422,748	\$ 57,058,379
Pension Expense	\$ 2,879,465	\$ 2,268,497	\$ 1,939,630	\$ 7,087,592

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 15: **DEFINED BENEFIT PENSION PLAN** (Continued)

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

At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>	<u>OP&F Police</u>	<u>OP&F Fire</u>	<u>Total</u>
Deferred Outflows of Resources				
Net difference between projected and actual earnings on pension plan investments	\$6,023,699	\$3,115,664	\$2,835,755	\$11,975,118
Changes in proportion and differences between City contributions and proportionate share of contributions	170,175	249,224	0	419,399
City contributions subsequent to the measurement date	<u>1,682,419</u>	<u>1,293,806</u>	<u>1,184,865</u>	<u>4,161,090</u>
Total Deferred Outflows of Resources	<u>\$7,876,293</u>	<u>\$4,658,694</u>	<u>\$4,020,620</u>	<u>\$16,555,607</u>
Deferred Inflows of Resources				
Differences between expected and actual experience	\$395,966	\$53,751	\$48,923	\$498,640
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>0</u>	<u>0</u>	<u>654,596</u>	<u>654,596</u>
Total Deferred Inflows of Resources	<u>\$395,966</u>	<u>\$53,751</u>	<u>\$703,519</u>	<u>\$1,153,236</u>

\$4,161,090 reported as deferred outflows of resources related to pension resulting from City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>OPERS</u>	<u>OP&F Police</u>	<u>OP&F Fire</u>	<u>Total</u>
Year Ending December 31:				
2017	\$1,395,961	\$858,103	\$611,180	\$2,865,244
2018	1,492,280	858,103	611,180	2,961,563
2019	1,546,502	858,101	611,179	3,015,782
2020	1,363,165	692,009	460,008	2,515,182
2021	0	37,663	(135,552)	(97,889)
Thereafter	<u>0</u>	<u>7,158</u>	<u>(25,759)</u>	<u>(18,601)</u>
Total	<u>\$5,797,908</u>	<u>\$3,311,137</u>	<u>\$2,132,236</u>	<u>\$11,241,281</u>

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 15: **DEFINED BENEFIT PENSION PLAN** (Continued)

Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.75 percent
Future Salary Increases, including inflation COLA or Ad Hoc COLA	4.25 to 10.05 percent including wage inflation Pre 1/7/2013 retirees; 3 percent, simple Post 1/7/2013 retirees; 3 percent, simple through 2018, then 2.80% simple
Investment Rate of Return	8 percent
Actuarial Cost Method	Individual Entry Age

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

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

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

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 0.40 percent for 2015.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 15: **DEFINED BENEFIT PENSION PLAN** (Continued)

Actuarial Assumptions – OPERS (Continued)

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2015 and the long-term expected real rates of return:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.31 %
Domestic Equities	20.70	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	18.30	7.40
Other investments	18.00	4.59
Total	100.00 %	5.28 %

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

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the City's proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	\$ 32,650,563	\$ 20,493,130	\$ 10,238,720

Changes Between Measurement Date and Report Date In October 2016, the OPERS Board of Trustees adopted certain assumption changes which impacted their annual actuarial valuation prepared as of December 31, 2016. The most significant changes are a reduction in the expected investment return to 7.50% from 8.00%, the expected long-term average wage inflation was reduced to 3.25% from 3.75%, the expected long-term average price inflation was reduced to 2.50% from 3.00% and a change to various demographic assumptions. Although the exact amount of these changes is not known, the impact to the City's net pension liability is expected to be significant.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 15: **DEFINED BENEFIT PENSION PLAN** (Continued)

Actuarial Assumptions – OP&F

OP&F’s total pension liability as of December 31, 2015 is based on the results of an actuarial valuation date of January 1, 2015, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F’s actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2015, are presented below:

Valuation Date	January 1, 2015
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
Cost of Living Adjustments	2.60 percent and 3.00 percent

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 15: **DEFINED BENEFIT PENSION PLAN** (Continued)

Actuarial Assumptions – OP&F (Continued)

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2015 are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>10 year Expected Real Rate of Return **</u>	<u>30 year Expected Real Rate of Return **</u>
Cash and Cash Equivalents	- %		
Domestic Equity	16.00	6.50 %	7.80 %
Non-US Equity	16.00	6.70	8.00
Core Fixed Income *	20.00	3.50	5.35
Global Inflation Protected *	20.00	3.50	4.73
High Yield	15.00	6.35	7.21
Real Estate	12.00	5.80	7.43
Private Markets	8.00	9.50	10.73
Timber	5.00	6.55	7.35
Master Limited Partnerships	8.00	9.65	10.75
 Total	 <u>120.00 %</u>		

* levered 2x

** numbers include inflation

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

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

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 15: **DEFINED BENEFIT PENSION PLAN** (Continued)

Actuarial Assumptions – OP&F (Continued)

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

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$ 48,224,665	\$ 36,565,249	\$ 26,688,576

NOTE 16: **POST-EMPLOYMENT BENEFITS**

Ohio Public Employees Retirement System

Plan Description - Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan—a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

In March 2016, OPERS received two favorable rulings from the Internal Revenue Service (IRS) allowing OPERS to consolidate all health care assets into the OPERS 115 Health Care Trust. Transition to the new health care trust structure was completed July 1, 2016. As of December 31, 2016, OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which fund multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage. OPERS funds a Retiree Medical Account (RMA) for participants in the Member-Directed Plan. At retirement or refund, participants can be reimbursed for qualified medical expenses from their vested RMA balance.

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. Please see the Plan Statement in the OPERS 2015 CAFR for details.

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

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 16: **POST-EMPLOYMENT BENEFITS** (Continued)

Ohio Public Employees Retirement System (Continued)

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml#CAFR>, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

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

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2016, State and Local employers contributed at a rate of 14.00 percent of earnable salary. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.00 percent during calendar year 2016. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2017 decreased to 1.00 percent for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the RMA for participants in the Member-Directed Plan for 2016 was 4.00 percent.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2016, 2015, and 2014 were \$303,153, \$323,033 and \$299,354, respectively. For 2016, 91 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2015 and 2014.

Ohio Police and Fire Pension Fund

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

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or statutory survivor benefit or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 16: **POST-EMPLOYMENT BENEFITS** (Continued)

Ohio Police and Fire Pension Fund (Continued)

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

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, OH 43215-5164, and is also available on OP&F's website at www.op-f.org.

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50 percent and 24.00 percent of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50 percent of covered payroll for police employer units and 24.00 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB plan.

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 Trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The portion of employer contributions allocated to health care was 0.50 percent of covered payroll from January 1, 2016 thru December 31, 2016. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of the Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$33,897 and \$23,995 for the year ended December 31, 2016, \$33,673 and \$24,961 for the year ended December 31, 2015, and \$34,872 and \$27,631 for the year ended December 31, 2014. 92 percent has been contributed for police and 93 percent has been contributed for firefighters for 2016. The full amount has been contributed for 2015 and 2014.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 17: SIGNIFICANT COMMITMENTS

Contractual Commitments

As of December 31, 2016, the open construction contracts for the parks, street and general sewer, water, and water pollution control departments were \$4,090,158, \$2,574,726 and \$1,788,114 respectively.

The City has numerous open construction contracts for various local roadway repair and replacement projects throughout the City. These open contracts include \$1,334,367 with Smith Paving & Excavating Inc., \$1,055,154 with Karvo Paving Company, \$500,488 with Kokosing Construction Co., \$460,652 with Terminal Ready Mix, \$247,288, with Richland Engineering Ltd, and \$167,659 with Fabrizi Trucking & Paving Co., Inc. In addition the City had an open construction contracts of \$74,137 with Fabrizi Trucking & Paving Co., Inc. for the repair of the East Erie Avenue storm sewer outfall, \$23,996 with Smith Paving & Excavating, Inc. for repairs to various storm sewer catch basins throughout the City, \$13,987 with Terminal Ready Mix for construction on the Martins Run storm sewer project and \$4,715 with S.M. Fox Construction for upgrades to the restrooms at Century Park.

The water department open construction contracts, in association with the Ohio Water Development Authority, includes the following projects:

Washington and Reid Avenues Waterline Replacement	\$ 912,093
Crehore St. Waterline Replacement	886,824
W. 21st St. Waterline Replacement	296,364
2nd, 4th, 5th, 6th, Hamilton & Reid Waterline Replacement	269,280
East Lorain Waterline Replacement Design	98,300
South Lorain Waterline Replacement, Phase I, II, III	94,373
Westside Elevated Tank	17,492
	<u>\$ 2,574,726</u>

In conjunction with the Ohio Water Development Authority, the water pollution control department has open construction contracts with Electrical Corporation of America and Walsh/Super Excavator, JV for construction, and Malcolm-Pirnie/Arcadis for engineering and construction oversight of the Black River storage and conveyance tunnel project in the amount of \$745,088, \$433,942, and \$378,197 respectively. The water pollution control department also has open construction contracts with North Bay Construction for upgrades to the odor control system and primary clarifiers at the Philip Q. Maiorana wastewater treatment plant in the amount of \$169,289.

Remaining commitment amounts were encumbered at year end.

Encumbrances

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

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 17: **SIGNIFICANT COMMITMENTS** (Continued)

<i>Governmental Funds:</i>		<i>Business-Type Funds:</i>	
General Fund	\$ 103,987	Water	\$ 356,404
Community Development	347,287	Water Pollution Control	2,498,246
Capital Improvements	650,844	Total Business-Type	<u>\$ 2,854,650</u>
Nonmajor Funds	517,114		
Total Governmental	<u>\$ 1,619,232</u>		

NOTE 18: **JOINTLY GOVERNED ORGANIZATION**

Northeast Ohio Areawide Coordinating Agency

The Northeast Ohio Areawide Coordinating Agency (NOACA) was created by the County Commissioners of Cuyahoga, Geauga, Lake, Lorain and Medina Counties and is responsible for transportation and environmental planning in the five county region. NOACA is controlled by a 45 member board that includes the Mayor of the City of Lorain. The board exercises total control over the operation of the corporation including budgeting, appropriating, contracting and designing management. Each participant's degree of control is limited to its representation on the board. During 2016, the City contributed \$9,867 to the agency.

Northeast Ohio Public Energy Council

The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of energy. NOPEC is currently comprised of over 130 members in 13 counties who have been authorized by ballot to purchase energy on behalf of their citizens.

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

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the thirteen-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. Financial information can be obtained by contacting NOPEC, 31360 Solon Rd, Suite 33, Solon, Ohio 44139 or at the website www.nopecinfo.org.

NOTE 19: **RELATED ORGANIZATION**

The Lorain Port Authority was formed to promote waterborne commerce, provide economic opportunities and to enhance public access to waterways within the City of Lorain. The Mayor of the City appoints the nine Port Authority Board Members. The Port Authority hires and fires its own staff and does not rely on the City to finance deficits.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 19: **RELATED ORGANIZATION** (Continued)

The City is not financially accountable for the Port Authority nor is the Port Authority financially dependent on the City. The Port Authority serves as its own budgeting, taxing, and debt issuance authority.

NOTE 20: **SHARED RISK POOL**

Public Entity Risk Consortium (PERC)

The City participates in PERC, a shared risk joint self-insurance pool restricted to mid-size public entities including pools. PERC was formed as an Ohio not-for-profit corporation as authorized by Ohio Revised Code Section 2744.081 and operates a property, crime, and liability insurance program. The Public Entity Risk Consortium (PERC) is a shared risk pool comprised of Tuscarawas County, Wayne County, the City of Lorain and the member participants of four pools: the Buckeye Ohio Risk Management Association, Inc. (BORMA); the Midwest Pool Risk Management Agency, Inc. (MPRMA); the Ohio Housing Authority Property and Casualty, Inc. (OHAPCI); and the State Housing Authority Risk Pool Association, Inc. (SHARP). Each member appoints one person to represent the City on the Board of Trustees. The Board of Directors consists of five trustees as determined by Board of Trustee vote. The Board of Directors governs and administers PERC. Each member's control over the budgeting and financing of PERC is limited to its voting authority and any representation it may have on the Board of Directors. Participation in PERC is by written application subject to approval of the Board of Directors and the payment of premiums. Members are required to remain members of PERC until the end of the PERC fiscal year (November 30). Any member may withdraw from PERC at the end of the PERC fiscal year upon providing at least three months prior written notice. After withdrawal, the former member continues to be fully obligated for its portion of any claim against the assets of the joint self-insurance pool that was created during the term of its membership. In addition, any distribution of surplus PERC funds allocable to the withdrawing member are forfeited by the withdrawing member and is distributed to the then remaining members in proportion to their interest in the surplus funds or other equitable manner as determined by the Board of Directors. In 2016, the City made payments in the amount of \$507,444 to PERC. Financial information may be obtained from Arthur J. Gallagher Risk Management Services, Inc., MK Ferguson Plaza, 1500 West Third Street, Suite 405, Cleveland, OH 44113.

NOTE 21: **INTERFUND TRANSFERS AND BALANCES**

Interfund Transfers

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

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

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

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 21: **INTERFUND TRANSFERS AND BALANCES** (Continued)

Transfers made during the year ended December 31, 2016 were as follows:

Transfer To	Transfer From						Totals
	Governmental Funds			Enterprise Funds			
	General	Community Development	Other Governmental Funds	Water Works	Water Pollution Control	Internal Service Funds	
<u>Governmental Funds</u>							
General	\$ 0	\$ 0	\$ 24,950	\$ 29,224	\$ 33,418	\$ 3,324	\$ 90,916
G.O. Bond Retirement	1,296,299	100,689	2,240,581	0	0	0	3,637,569
Other Governmental Funds	183,564	0	0	0	0	0	183,564
<i>Total Governmental Funds</i>	<u>1,479,863</u>	<u>100,689</u>	<u>2,265,531</u>	<u>29,224</u>	<u>33,418</u>	<u>3,324</u>	<u>3,912,049</u>
<u>Enterprise Funds</u>							
Water Works	10,000	0	0	0	0	0	10,000
Water Pollution Control	10,000	0	0	0	0	0	10,000
<i>Total Enterprise Funds</i>	<u>20,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>20,000</u>
<i>Total</i>	<u>\$ 1,499,863</u>	<u>\$ 100,689</u>	<u>\$ 2,265,531</u>	<u>\$ 29,224</u>	<u>\$ 33,418</u>	<u>\$ 3,324</u>	<u>\$ 3,932,049</u>

Interfund Balances

The interfund balances as of December 31, 2016 represent eliminating negative cash, unallocated municipal court fines, utility and petroleum costs.

Interfund balances for the year ended December 31, 2016 consisted of the following:

Interfund Payable	Interfund Receivable					Totals
	Governmental Funds		Enterprise Funds			
	General	Other Governmental Funds	Water Works	Water Pollution Control	Internal Service Funds	
<u>Governmental Funds</u>						
General	\$ 0	\$ 1,053,719	\$ 0	\$ 1,457	\$ 48,511	\$ 1,103,687
Community Development	0	102	213	185	0	500
Other Governmental Funds	476,965	0	0	0	70,056	547,021
<i>Total Governmental Funds</i>	<u>476,965</u>	<u>1,053,821</u>	<u>213</u>	<u>1,642</u>	<u>118,567</u>	<u>1,651,208</u>
<u>Enterprise Funds</u>						
Water Works	1,947	0	0	0	19,469	21,416
Water Pollution Control	2,309	0	0	0	12,043	14,352
<i>Total Enterprise Funds</i>	<u>4,256</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>31,512</u>	<u>35,768</u>
<i>Total</i>	<u>\$ 481,221</u>	<u>\$ 1,053,821</u>	<u>\$ 213</u>	<u>\$ 1,642</u>	<u>\$ 150,079</u>	<u>\$ 1,686,976</u>

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 22: **CONTINGENCIES**

Grants

The City receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. In 2015, the Federal Bureau of Investigation began reviewing the Community Development Block Grant program expenses for compliance with terms and conditions specified in the grant award. Any disallowed claims resulting from such audits could become a liability of the City. However, in the opinion of management, any such disallowed claims would not have a material effect on the overall financial position of the City at December 31, 2016.

Litigation

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

NOTE 23: **GOING CONCERN**

Ohio Revised Code Section 5705.10, in part, requires that money paid into any fund shall be expended only after such fund received monies to cover expenditures. The City has experienced a financial shortfall which has resulted in deficit spending in the general fund of \$1,632,658, per the City's cash position report at December 31, 2016. Continued operations are dependent upon the City's ability to meet financing requirements and current obligations.

The City's financial operations in the general fund are expected to improve as a result of the passage of the additional real estate tax levy for fire department operations in 2016.

NOTE 24: **TAX ABATEMENTS**

As of December 31, 2016, the City of Lorain provided tax incentives under two programs: The Community Reinvestment Area (CRA) and the Job Creation Incentive Program.

Real Estate tax abatements: Pursuant to Ohio Revised Code Chapter 3735.65-.70, the City established its first Community Reinvestment Area (CRA) in 1980 with amendments in 1985, 1988, 1989, 1990 and 2010. Legislation passed by Lorain City Council determined boundaries in which the tax abatement is permitted. The City of Lorain currently has five (5) CRA areas in the city.

CRA Areas 1 through 4 have tax abatements granted for the following period:

50% exemption of real estate tax on improvements for one year, unless otherwise contractually agreed to by the City Council, city Administration, and the owner/developer of such improvements as described in ORC Section 3735.67.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 24: **TAX ABATEMENTS** (Continued)

CRA Area 5 has tax abatements granted for the following periods:

- a) 10 years for the remodeling of every dwelling containing not more than two family units upon which the cost of remodeling is at least two thousand, five hundred dollars as described in division A of ORC Section 3735.67.
- b) 12 years for the remodeling of every dwelling containing more than two units, and commercial or industrial properties, upon which the cost of remodeling is at least five thousand dollars as described in division B of ORC Section 3735.67.
- c) 15 years for the construction of every dwelling, commercial or industrial structures as described in Section C of ORC 3735.67.

The City of Lorain authorizes incentives through passage of public ordinances. The City is permitted to enter into a Community Reinvestment Area Tax Abatement Agreement with individual developers and set forth terms and conditions for each specific agreement to promote commercial development.

The total amount of taxes abated for the year ended December 31, 2016 was \$148,496.

Income tax abatement programs: Pursuant to Ohio Revised Code Chapter 718 and City Ordinance, the City provides an incentive to eligible companies based upon their gross annual payroll, the amount of income tax generated annually and the number of jobs created and/or maintained by the business. The abatement is administered as a refund based on the prior year's withholding taxes. Also, the time period of the incentive in years, is negotiated on an individual basis with the City Administration and each company. The City of Lorain has only one active Job Creation Incentive agreement. For the calendar year ended December 31, 2016, the total amount of taxes abated through this program was \$40,417.

NOTE 25: **SUBSEQUENT EVENTS**

On May 3, 2017, the City issued \$6,855,000 in general obligation refunding and improvement bonds at interest rates varying from 3.0 percent to 4.0 percent. The bond issue included \$4,440,000 to advance refund \$4,050,000 of the City's 2008 Pellet Terminal bonds, \$1,500,000 for fire department improvements, and \$915,000 for East and West Erie Avenue street improvements.

The advance refunding bonds were sold at a net premium of \$183,554. Proceeds of \$4,500,712 (after underwriting fees and other insurance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt payments on the refunded 2008 Pellet Terminal bonds. The refunding bonds were issued with interest rates ranging from 3.125 percent to 4.0 percent for a 12 year period with a final maturity at December 1, 2028.

The refunding resulted in a difference between the acquisition price and the net carrying amount of the old debt of \$383,939. The City completed the refunding to reduce its total debt service payments over the next 12 years and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$441,434.

The \$1,500,000 fire department improvement bonds were sold at a net premium of \$76,735. The bonds were issued with interest rates ranging from 3.0 percent to 4.0 percent for a term of 10 years with a final maturity at December 1, 2026.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2016
(Continued)

NOTE 25: **SUBSEQUENT EVENTS** (Continued)

The \$915,000 East and West Erie Avenue street improvement bonds were sold at a net premium of \$14,289. The bonds were issued with interest rates ranging from 3.0 percent to 4.0 percent for a term of 20 years with a final maturity at December 1, 2036.

On May 17, 2017, the City signed a loan agreement with the Ohio Water Development Authority for the West Lorain Waterline Improvement Planning for \$250,574. The loan is payable over a term of five years with payments to be made semi-annually beginning on July 1, 2018 at an interest rate of 3.58 percent.

On July 11, 2017, the City signed an Ohio Department of Transportation State Infrastructure Bank loan agreement for twelve local roadway improvement projects for \$1,547,329. The loan is payable over a term of eight years with payments to be made semi-annually beginning in 2020 at an interest rate of 3.00 percent. The City has pledged its permissive license tax and street levy municipal income tax as the source of repayment for this loan.

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

Traditional Plan	2015	2014	2013
City's Proportion of the Net Pension Liability	0.118312%	0.116174%	0.116174%
City's Proportionate Share of the Net Pension Liability	\$20,493,130	\$14,011,822	\$13,695,342
City's Covered-Employee Payroll	\$15,027,383	\$14,248,142	\$13,936,769
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	136.37%	98.34%	98.27%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.08%	86.45%	86.36%

(1) Information prior to 2013 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

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

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

Police	2015	2014	2013
City's Proportion of the Net Pension Liability	0.2975640%	0.2917183%	0.2917183%
City's Proportionate Share of the Net Pension Liability	\$19,142,501	\$15,484,739	\$14,207,596
City's Covered-Employee Payroll	\$6,687,100	\$6,425,379	\$5,259,549
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	286.26%	240.99%	270.13%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.77%	71.71%	73.00%
Fire	2015	2014	2013
City's Proportion of the Net Pension Liability	0.2708310%	0.2861849%	0.2861849%
City's Proportionate Share of the Net Pension Liability	\$17,422,748	\$15,191,020	\$13,938,103
City's Covered-Employee Payroll	\$5,111,362	\$5,096,447	\$4,319,624
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	340.86%	298.07%	322.67%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.77%	71.71%	73.00%

(1) Information prior to 2013 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

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

City of Lorain, Ohio
Required Supplementary Information
Schedule of the City's Contributions
Ohio Public Employees Retirement System
Last Four Years (1)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contributions	\$1,682,419	\$1,803,286	\$1,709,777	\$1,811,780
Contributions in Relation to the Contractually Required Contribution	<u>(1,682,419)</u>	<u>(1,803,286)</u>	<u>(1,709,777)</u>	<u>(1,811,780)</u>
Contribution Deficiency / (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>City's Covered-Employee Payroll</u>				
Traditional Plan	\$14,020,158	\$15,027,383	\$14,248,142	\$13,936,769
<u>Pension Contributions as a Percentage of Covered-Employee Payroll</u>				
Traditional Plan	12.00%	12.00%	12.00%	13.00%

(1) Information prior to 2013 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
<u>Contractually Required Contributions</u>										
Police	\$1,293,806	\$1,270,549	\$1,220,822	\$827,327	\$769,719	\$781,322	\$728,679	\$744,220	\$795,343	\$1,083,052
Fire	\$1,184,865	\$1,201,170	\$1,197,665	\$873,860	\$836,361	\$866,671	\$800,715	\$831,534	\$814,490	\$1,115,934
Total Required Contributions	\$2,478,671	\$2,471,719	\$2,418,487	\$1,701,187	\$1,606,080	\$1,647,993	\$1,529,394	\$1,575,754	\$1,609,833	\$2,198,986
Contributions in Relation to the Contractually Required Contribution	(\$2,478,671)	(\$2,471,719)	(\$2,418,487)	(\$1,701,187)	(\$1,606,080)	(\$1,647,993)	(\$1,529,394)	(\$1,575,754)	(\$1,609,833)	(\$2,198,986)
Contribution Deficiency / (Excess)	<u>\$0</u>									
City's Covered-Employee Payroll										
Police	\$6,809,505	\$6,687,100	\$6,425,379	\$5,259,549	\$6,037,012	\$6,128,016	\$5,715,129	\$5,837,020	\$6,237,984	\$8,494,525
Fire	\$5,041,979	\$5,111,362	\$5,096,447	\$4,319,624	\$4,848,470	\$5,024,180	\$4,641,826	\$4,820,487	\$4,721,681	\$6,469,183
<u>Pension Contributions as a Percentage of Covered- Employee Payroll</u>										
Police	19.00%	19.00%	19.00%	[1]	12.75%	12.75%	12.75%	12.75%	12.75%	12.75%
Fire	23.50%	23.50%	23.50%	[1]	17.25%	17.25%	17.25%	17.25%	17.25%	17.25%

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

**CITY OF LORAIN
LORAIN COUNTY, OHIO
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2016**

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014, 2015, and 2016.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014, 2015, and 2016. See the notes to the basic financial statements for the methods and assumptions in this calculation.

OHIO POLICE AND FIRE (OP&F) PENSION FUND

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014, 2015, and 2016.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014, 2015, and 2016. See the notes to the basic financial statements for the methods and assumptions in this calculation.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Grant Number	Passed Through Subrecipients	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>				
<i>Direct Awards</i>				
CDBG - Entitlement Grants Cluster:				
Community Development Block Grants/Entitlement Grants	14.218	B-13-MC-39-0016	\$ 0	\$ 135,654
Community Development Block Grants/Entitlement Grants	14.218	B-14-MC-39-0016	0	389,751
Community Development Block Grants/Entitlement Grants	14.218	B-15-MC-39-0016	0	384,721
Community Development Block Grants/Entitlement Grants	14.218	B-16-MC-39-0016	0	217,459
Community Development Block Grants/Entitlement Grants	14.218	B-09-MC-39-0010	20,786	37,314
Community Development Block Grants/Entitlement Grants	14.218	B-11-MC-39-0010	1,034	1,034
Total CDBG - Entitlement Grants Cluster			<u>21,820</u>	<u>1,165,933</u>
Total U.S. Department of Housing and Urban Development			<u>21,820</u>	<u>1,165,933</u>
<u>U.S. Department of Agriculture</u>				
<i>Direct Award:</i>				
Urban and Community Forestry Program	10.675	15-DG-11420004-015	0	60,570
Total U.S. Department of Agriculture			<u>0</u>	<u>60,570</u>
<u>U.S. Department of Commerce</u>				
<i>Direct Awards</i>				
Economic Development Cluster:				
Economic Adjustment Assistance	11.307	N/A	0	2,633,181
Total Economic Development Cluster			<u>0</u>	<u>2,633,181</u>
Habitat Conservation (Black River Heron Rookery Restoration)	11.463	NA14NMF4630284	0	499,859
Habitat Conservation (Black River Heron Rookery Restoration Phase II Design)	11.463	NA14NMF4630283	0	2,817
Total CFDA #11.463			<u>0</u>	<u>502,676</u>
Total U.S. Department of Commerce			<u>0</u>	<u>3,135,857</u>
<u>U.S. Department of the Interior</u>				
<i>Direct Award</i>				
Great Lakes Restoration	15.662	F15AP00588	0	267,915
Total U.S. Department of the Interior			<u>0</u>	<u>267,915</u>
<u>U.S. Department of Justice</u>				
<i>Direct Award</i>				
Public Safety Partnership and Community Policing Grants	16.710	2014-UMWX-0190	0	113,912
<i>Direct Award</i>				
Equitable Sharing Program	16.922	N/A	0	26,599
<i>Passed Through Lorain County</i>				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2013-H4051-OH-DJ	0	18,707
<i>Passed Through Ohio Attorney General</i>				
Edward Byrne Memorial Justice Assistance Grant- Crime Victim Assistance	16.738	2014-JG-A02-6947	0	2,388
<i>Passed Through City of Cleveland</i>				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2014-JG-A02-6947	0	4,203
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2012-DB-BX-K019	0	4,407
Total CFDA #16.738			<u>0</u>	<u>8,610</u>
Total Passed Through City of Cleveland			<u>0</u>	<u>8,610</u>
Total U.S. Department of Justice			<u>0</u>	<u>170,216</u>

(Continued)

**CITY OF LORAIN
LORAIN COUNTY, OHIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016
(CONTINUED)**

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Grant Number	Passed Through Subrecipients	Federal Expenditures
<u>U. S. Department of Transportation</u>				
<i>Passed Through the Ohio Department of Transportation</i>				
Highway Planning and Construction Cluster:				
Highway Planning and Construction	20.205	PID No. 98844	0	185,435
Highway Planning and Construction	20.205	PID No. 100169	0	30,894
Total Highway Planning and Construction Cluster			<u>0</u>	<u>216,329</u>
Total U.S. Department of Transportation			<u>0</u>	<u>216,329</u>
<u>U.S. Environmental Protection Agency</u>				
<i>Direct Award</i>				
Great Lakes Program	66.469	GL-00E01523-0	0	1,308,256
<i>Passed Through Ohio Environmental Protection Agency</i>				
Clean Water State Revolving Fund Cluster:				
Capitalization Grants for Clean Water State Revolving Funds	66.458	CS390532-0017	0	12,615,952
Total Clean Water State Revolving Fund Cluster			<u>0</u>	<u>12,615,952</u>
Total U.S. Environmental Protection Agency			<u>0</u>	<u>13,924,208</u>
<u>U.S. Department of Health and Human Services</u>				
<i>Passed Through Lorain County General Health District</i>				
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness				
	93.074	47-1-001-2-PH-0817	0	25,925
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness				
	93.074	47-1-001-2-PH-0716	0	31,285
Total CFDA #93.074			<u>0</u>	<u>57,210</u>
<i>Total Passed Through Lorain County General Health District</i>			<u>0</u>	<u>57,210</u>
<i>Passed Through City of Cleveland Department of Public Health</i>				
Centers for Disease Control and Prevention - Investigations and Technical Assistance				
	93.283	47-1-001-2-PH-0716	0	766
<i>Total Passed Through Cleveland Department of Public Health</i>				
<i>Passed Through Cuyahoga County Board of Health</i>				
EBOLA Support: Transmission and Prevention, Control, Public Health Preparedness, Vaccine Development				
	93.823	01810012EB0116	0	13,623
<i>Total Passed Through Cuyahoga County Board of Health</i>			<u>0</u>	<u>13,623</u>
Total U.S. Department of Health and Human Services			<u>0</u>	<u>71,599</u>
<u>U.S. Department of Homeland Security</u>				
<i>Direct Award</i>				
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	EMW-2015-FH-00515	0	651,650
Total U.S. Department of Homeland Security			<u>0</u>	<u>651,650</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 21,820</u>	<u>\$ 19,664,277</u>

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

**CITY OF LORAIN
LORAIN COUNTY, OHIO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 1: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the City of Lorain, Ohio, under programs of the federal government for the year ended December 31, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Lorain, Ohio, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Lorain, Ohio.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3: INDIRECT COST RATE

The City of Lorain, Ohio, has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 4: SUBRECIPIENTS

The City passes through certain federal assistance received from the U.S. Department of Housing and Urban Development (HUD) to other governments or not-for-profit agencies (subrecipients). As described above in Note 2, the City records expenditures of federal monies to subrecipients when paid in cash.

The subrecipient agencies have certain compliance responsibilities related to administering these federal programs. Under the Uniform Guidance, the City is responsible for monitoring subrecipients to help assure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements, and that performance goals are achieved.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016
(CONTINUED)**

NOTE 5: COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) REVOLVING LOAN PROGRAMS

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

These loans are collateralized by mortgages on the properties.

Activity in the CDBG revolving loan fund during 2016 is as follows:

Beginning loans receivable balance as of January 1, 2016	\$ 8,294,581
Loans made	421,764
Loan principal repaid	(758,889)
Loans written off during year	<u>(108,806)</u>
Ending loans receivable balance as of December 31, 2016	<u>\$ 7,848,650</u>
Cash balance on hand in the revolving loan fund as of December 31, 2016	\$ 2,305,179
Administrative costs expended during 2016	20,641

The table above reports gross loans receivable. Of the loans receivable as of December 31, 2016, the City estimates \$1,773,044 to be uncollectible.

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Garfield Hts., Ohio 44125*

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Ohio Society of Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

The Honorable Dave Yost
Auditor of State
State of Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lorain, Lorain County, Ohio, (the City) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 24, 2017, wherein we noted the Ohio Police and Fire Pension (OP&F) had made a revision to the total net pension liability based on the census file provided to its actuary. The City has restated its December 31, 2015 net position as a result. Also we noted the City has experienced a financial shortfall which has resulted in deficit spending.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs that we considered significant deficiencies as items **2016-001, 2016-002, and 2016-004.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items **2016-003 and 2016-005.**

City's Response to Findings

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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

July 24, 2017

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

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

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

The Honorable Dave Yost
Auditor of State
State of Ohio

Report on Compliance for Each Major Federal Program

We have audited the City of Lorain, Lorain County, Ohio's (the City) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2016. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the City of Lorain complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

Report on Internal Control over Compliance

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

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

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

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



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

July 24, 2017

**CITY OF LORAIN
LORAIN COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

1. SUMMARY OF AUDITOR'S RESULTS

2016(i)	Type of Financial Statement Opinion	Unmodified
2016(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
2016(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
2016(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
2016(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
2016(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
2016(v)	Type of Major Programs' Compliance Opinions	Unmodified
2016(vi)	Are there any reportable findings under 2 CFR 200.516(a)?	No
2016(vii)	Major Programs (list):	
	Capitalization Grants for Clean Water State Revolving Funds - CFDA #66.458	
	Staffing for Adequate Fire and Emergency Response (SAFER) - CFDA #97.083	
	Great Lakes Program - CFDA #66.469	
2016(viii)	Dollar Threshold: A/B Programs	Type A: \$750,000 Type B: All Others
2016(ix)	Low Risk Auditee?	No

**CITY OF LORAIN
LORAIN COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(CONTINUED)**

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

Finding 2016-001- Significant Deficiency - Bank Reconciliations for Municipal Court Accounts

Condition/Criteria

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

The Court has not reconciled its seven bank accounts from October 2013 through December 2016.

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

Cause/Effect

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

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

As a result, we were unable to substantiate the accuracy or completeness of the amounts collected and distributed by the Municipal Court during fiscal year 2016. This includes amounts distributed to the City. We were also unable to test if the Municipal Court complied with the various requirements delineated in the Ohio Revised Code.

Recommendation

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

City Response

We have \$22,568.23 to be disbursed from 2014 which are backdated receipted that we had to re-enter into AMCAD due to lost data (March 1, 2014 through May 9, 2014) along with the temporary receipted that we used from May 9, 2014 through August 8, 2014.

We have reconciled the 7 bank accounts for the months of December 2015 and December 2016 and have started reconciled the other months.

As of January 1, 2017, we no longer have a Restitution Bank Account 01154397 due to a \$0.00 balance and no activity. When we went live October 1, 2013, all restitution checks were issued from the Criminal Division.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(CONTINUED)**

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

Finding 2016-002 - Significant Deficiency - Evaluating Uncollectible Loans

Condition/Criteria

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

Per our examination of certain loan files designated as uncollectible or write-off, we noted they were incomplete and lacked a clear rationale to be designated as uncollectible or written-off. We also noted that the designation of loans from collectible to uncollectible or written off were inconsistent.

Cause/Effect

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

Recommendation

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

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

City Response

The City reviewed its loan servicing and associated policies and procedures pertaining to debt write-off, to assure consistency with the various Code of Federal Regulations (CFR) that apply to the various programs. This includes, but is not limited to codifying or establishing departmental policies, which would be effectuated via the various subrecipient agreements required for the administration of the City's loan programs. In 2017, the City approved and adopted these policies.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(CONTINUED)**

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

Finding 2016-003 - Material Noncompliance - Negative Cash Fund Balances

Condition/Criteria

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

During our review of the City's records, we noted that several funds had negative cash fund balances at December 31, 2016:

<u>Fund</u>	
General	\$ 1,632,658
Health	101,842
Municipal Court Security	41,207
VOCA Grant	2,388
Community Development Block Grant	367,992
EDA Planning	92,793
FEMA Safer Grant	392,039
Workers' Compensation	52,216
BRWWTP Construction	5,512

Cause/Effect

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

Recommendation

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

City Response

The City will review its expense obligations on a regular basis and take the necessary steps to reduce future expenses to avoid deficit fund balances and ensure compliance. Several of the instances listed above were due to reimbursable grant receipts carried over to 2017. The City anticipates 2017 expenditures to remain under the appropriated amounts for all funds and departments.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(CONTINUED)**

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

Finding 2016-004 - Significant Deficiency - Utilities Department

Condition/Criteria

In February 2016, the Utilities Department installed new software for the Department. The process of installing and implementing the new software resulted in the following deficiencies in the operation of the Department during 2016:

- ◆ Bank reconciliations of the Utilities Department's accounts were not completed for 2016. The Department was unable to produce the documents necessary to accurately perform the reconciliations that are prepared by the City Treasurer.
- ◆ The City's refuse company offers a fuel credit to their customers, which the City passes along to its customers on their bill. During our review of customer bills within the system, we noted that the system shows the refuse credit being applied to the Water Department. Subsequently, the credit is being applied to the Water Department on the financial reports.
- ◆ When the customer listing was transferred to the new software, the City was sending current utility bills to current and prior residents of the property.
- ◆ Due to the issues with the system, the City sent out utility bills to customers late for one billing period.

Cause/Effect

- ◆ Timely reconciliation of the bank statements is critical in confirming the cash balance for the Utilities Department. Also, bank reconciliations are a necessary control for detecting any cash recording errors and/or theft within the Department.
- ◆ The financial statements have the possibility of becoming materially misstated if reductions in revenue are recorded to an incorrect fund.
- ◆ Duplicate bills for the same address could cause receivables to be overstated due to outstanding bills that should not have been out by the Department.
- ◆ Utility bills being sent out late could create cash problems for the Department. Customers will not be able to meet their payment deadline if sufficient time is not given to pay the bill. The Utility Department has obligations to pay itself and needs the funds available to meet those obligations.

Recommendation

We recommend that the City communicate with the software provider so the Utilities Department has all the tools necessary to operation its system efficiently. We recommend the Utilities Department discuss with the software provider the critical reports the Department needs to run in order to reconcile all revenues that comes into the City, as well as discuss how to change allocation of funds to prevent any possible misstatements from the Utilities Department. We also recommend that the customer listing within the system be reviewed to ensure that only one account exists for each property, as well as conduct a subsequent investigation of accounts with errors.

City Response

The City will implement these recommendations in 2017.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(CONTINUED)**

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

Finding 2016-005 - Material Noncompliance - Total Expenditures Exceed Final Appropriations

Condition/Criteria

During our review of budgetary procedures, we noted that the following funds had total expenditures that exceeded final appropriations, which is contrary to Ohio Revised Code Section 5705.41(B):

	<u>Total Final</u> <u>Appropriations</u>	<u>Total</u> <u>Expenditures</u>	<u>Difference</u>
<u>General Fund</u>			
E100 - Council	\$ 396,886	\$ 399,515	\$ (2,629)
E300 - Auditor	670,201	678,404	(8,203)
E500 - Law Director	811,819	848,937	(37,118)
E600 - Judges	585,787	604,869	(19,082)
E700 - Clerk of Courts	888,077	919,786	(31,709)
S400 - Police	10,258,864	10,581,589	(322,725)
S500 - Fire	7,030,467	7,679,397	(648,930)
S600 - Electrical	80,541	110,868	(30,327)
V100 - Service/Service Director	2,169,291	2,197,503	(28,212)
V410 - RTI Material Collection	335,619	416,475	(80,856)
<u>Major Governmental Funds</u>			
<u>General Obligation Bond Retirement</u>			
D301 - Bond Retirement	5,924,069	5,926,446	(2,377)

Cause/Effect

The City's total expenditures were in excess of final appropriations.

Recommendation

We recommend that the City exercise due care to ensure total expenditures do not exceed final appropriations. This will assist the City in avoiding negative fund balances and also ensure they are in compliance with Ohio Revised Code Section 5705.41(B).

City Response

The City's 2017 appropriations were passed in an amount which eliminates the entire budget deficit and will eliminate the deficit cash balance in the General Fund.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**CITY OF LORAIN
LORAIN COUNTY, OHIO
SCHEDULE OF PRIOR FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2016**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Status</u>	<u>Additional Information</u>
2015-001	Material Weakness - Internal Control Over Financial Reporting and Compliance Violation	Corrective action taken and Finding is fully corrected.	None.
2015-002	Material Weakness - Internal Controls Over Reporting of ODOT Projects	Corrective action taken and Finding is fully corrected.	None.
2015-003	Significant Deficiency - Bank Reconciliations for Municipal Court Accounts	Not corrected.	Reissued as Finding 2016-001.
2015-004	Significant Deficiency - Evaluating Uncollectible Loans	Not corrected.	Reissued as Finding 2016-002.
2015-005	Material Noncompliance - Negative Cash Fund Balances	Not corrected.	Reissued as Finding 2016-003.

The prior audit report, as of December 31, 2015, also included management letter recommendations. Management letter recommendations as of December 31, 2015, have been corrected, repeated, or procedures instituted to prevent occurrences in this audit 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
SEPTEMBER 12, 2017