

**CITY OF LORAIN
LORAIN COUNTY, OHIO**

SINGLE AUDIT REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2018**

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

OHIO AUDITOR OF STATE
KEITH FABER



88 East Broad Street
Columbus, Ohio 43215
IPARepor@ohioauditor.gov
(800) 282-0370

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

We have reviewed the *Independent Auditor's Report* of the City of Lorain, Lorain County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2018 through December 31, 2018. 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 "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

August 12, 2019

This page intentionally left blank.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
SINGLE AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2018**

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1-3
Management's Discussion and Analysis	5-20
Basic Financial Statements:	
Statement of Net Position	21
Statement of Activities	22
Balance Sheet - Governmental Funds	23
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities	24
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	25
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	26
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual - General Fund	27
Statement of Fund Net Position - Proprietary Funds	28
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds	29
Statement of Cash Flows - Proprietary Funds	30
Statement of Fiduciary Assets and Liabilities - Agency Funds	31
Notes to the Basic Financial Statements	33-99
Required Supplementary Information:	
Schedule of the City's Proportionate Share of the Net Pension Liability - Ohio Public Employees Retirement System - Last Five Years	100
Ohio Police and Fire Pension Fund - Last Five Years	101
Schedule of the City's Contributions - Pension	
Ohio Public Employees Retirement System - Last Six Years	102
Ohio Police and Fire Pension Fund - Last Ten Years	103
Schedule of the City's Proportionate Share of the Net OPEB Liability - Ohio Public Employees Retirement System - Last Two Years	104
Ohio Police and Fire Pension Fund - Last Two Years	105
Schedule of the City's Contributions - OPEB - Ohio Public Employees Retirement System - Last Four Years	106
Ohio Police and Fire Pension Fund - Last Ten Years	107
Notes to the Required Supplementary Information	108-109
Schedule of Expenditures of Federal Awards	110-111
Notes to the Schedule of Expenditures of Federal Awards	112-113
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	114-115
Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by The Uniform Guidance	116-117
Schedule of Findings and Questioned Costs	118-120
Schedule of Prior Audit Findings and Recommendations	121

This page intentionally left blank.

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

*Certified Public Accountants
5240 East 98th Street
Garfield Hts., Ohio 44125*

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

The Honorable Keith Faber
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, 2018, 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, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the basic financial statements, during 2018, the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedules of Net Pension and Postemployment Benefit Liabilities and Pension and Postemployment Benefit 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 June 28, 2019, 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

June 28, 2019

This page intentionally left blank.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
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, 2018. 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 2018 are:

- The fund balance in the General fund increased by \$1,940,020 in 2018 and ended with a balance of \$5,310,633. This sustained increase in fund balance over the last two years has enabled the City to begin setting aside money for the fund balance reserve with \$250,000 being added to the reserve in 2018.
- The City began the \$3.6 million Broadway Avenue Streetscape project for the purpose of revitalizing the downtown area.

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.

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

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

**CITY OF LORAIN
LORAIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
UNAUDITED**

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

**CITY OF LORAIN
LORAIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
UNAUDITED**

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 28 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 31 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 99 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain other information that the City believes readers will find useful. After the notes to the financial statements are the required supplementary information and notes to the required supplementary information related to the net pension liability and net OPEB liability. This information can be found on pages 100-109 of the report.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
UNAUDITED**

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, 2018 as compared to December 31, 2017.

**Table 1
Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2018	2017 *	2018	2017 *	2018	2017 *
Assets						
Current and Other Assets	\$52,980,852	\$45,633,481	\$42,445,586	\$35,273,145	\$95,426,438	\$80,906,626
Capital Assets, Net	115,990,687	113,471,852	208,254,459	207,063,447	324,245,146	320,535,299
<i>Total Assets</i>	168,971,539	159,105,333	250,700,045	242,336,592	419,671,584	401,441,925
Deferred Outflows of Resources						
Deferral on Refunding	510,111	563,793	-	-	510,111	563,793
Pension	6,717,535	11,694,918	2,145,673	4,063,564	8,863,208	15,758,482
OPEB	3,365,617	144,926	387,252	72,862	3,752,869	217,788
<i>Total Deferred Outflows of Resources</i>	10,593,263	12,403,637	2,532,925	4,136,426	13,126,188	16,540,063
Liabilities						
Current and Other Liabilities	6,348,110	2,950,789	884,887	1,355,112	7,232,997	4,305,901
Long-Term Liabilities:						
Due Within One Year	9,373,537	7,702,742	8,578,996	8,496,631	17,952,533	16,199,373
Due in More Than One Year						
Net Pension Liability	40,675,157	48,426,367	7,588,444	10,375,978	48,263,601	58,802,345
Net OPEB Liability	35,296,878	31,158,118	5,137,279	5,021,831	40,434,157	36,179,949
Other Amounts	61,193,526	63,895,890	119,556,708	121,865,128	180,750,234	185,761,018
<i>Total Liabilities</i>	152,887,208	154,133,906	141,746,314	147,114,680	294,633,522	301,248,586
Deferred Inflows of Resources						
Property Taxes	4,981,051	4,701,475	-	-	4,981,051	4,701,475
Payments in Lieu of Taxes	1,251,243	1,199,885	-	-	1,251,243	1,199,885
Pension	6,881,254	2,975,351	1,975,151	439,196	8,856,405	3,414,547
OPEB	1,628,001	-	548,576	-	2,176,577	-
<i>Total Deferred Inflows of Resources</i>	14,741,549	8,876,711	2,523,727	439,196	17,265,276	9,315,907
Net Position						
Net Investment in Capital Assets	52,041,234	52,178,690	83,190,334	78,339,690	135,231,568	130,518,380
Restricted	33,918,042	28,947,623	3,571,258	1,875,689	37,489,300	30,823,312
Unrestricted (Deficit)	(74,023,231)	(72,627,960)	22,201,337	18,703,763	(51,821,894)	(53,924,197)
<i>Total Net Position</i>	11,936,045	\$8,498,353	\$108,962,929	\$98,919,142	\$120,898,974	\$107,417,495

* Restated

The net pension liability (NPL) is the largest single liability reported by the City at December 31, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement 27." For fiscal year 2018, the City adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB).

**CITY OF LORAIN
LORAIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
UNAUDITED**

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 OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach.

This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the City's proportionate share of each plan's collective:

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

GASB notes that pension and OPEB 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 and other postemployment benefits. GASB noted that the unfunded portion of this 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 these liabilities. 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 Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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 retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *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 retirement system is responsible for the administration of the pension and OPEB plans.

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 or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, but are outside the control of the local government.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
UNAUDITED**

In the event that contributions, investment returns, and other changes are insufficient to keep up with required 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 and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the City's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the City is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2017, from \$39,511,545 to \$8,498,353 for Governmental Activities and from \$103,868,111 to \$98,919,142 for Business Type Activities.

As noted earlier, net position may serve over time as a useful indicator of a City's financial position. For the City, total assets and deferred outflows of resources exceed total liabilities and deferred inflows of resources by \$120,898,974 at December 31, 2018.

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 sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Total net position increased from 2017 to 2018. The increase in total assets is essentially the result of increases in cash and cash equivalents and capital assets, net. The changes in net pension liability, net OPEB liability, deferred inflows and outflows of resources for pension and OPEB are due to the recording of GASB Statement No. 68 and the implementation of GASB 75. Total liabilities excluding net pension liability and net OPEB liability decreased slightly from 2017 to 2018 by \$330,528 as a result of a reduction in other long term liabilities due to principal payments, which was offset by an increase in current liabilities for notes payable.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
UNAUDITED**

Table 2 shows the changes in net position for the years ended December 31, 2018 and 2017 and corresponds to the Statement of Activities on page 22.

**Table 2
Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program Revenues:						
Charges for Services	\$6,783,831	\$6,803,958	\$34,209,104	\$31,252,392	\$40,992,935	\$38,056,350
Operating Grants and Contributions	11,169,793	7,677,726	0	0	11,169,793	7,677,726
Capital Grants and Contributions	2,277,675	1,132,066	0	0	2,277,675	1,132,066
<i>Total Program Revenues</i>	<u>20,231,299</u>	<u>15,613,750</u>	<u>34,209,104</u>	<u>31,252,392</u>	<u>54,440,403</u>	<u>46,866,142</u>
General Revenues:						
Property Taxes	4,550,685	4,465,519	0	0	4,550,685	4,465,519
Municipal Income Taxes	24,856,006	23,494,464	0	0	24,856,006	23,494,464
Payments in Lieu of Taxes	1,114,533	1,271,454	0	0	1,114,533	1,271,454
Grants and Entitlements not						
Restricted to Specific Programs	3,374,706	3,229,531	0	0	3,374,706	3,229,531
Franchise Fees	682,691	556,384	0	0	682,691	556,384
Investment Earnings	911,515	403,358	0	126	911,515	403,484
Gain on Sale of Capital Assets	0	0	0	0	0	0
All Other Revenue	635,621	673,972	155,222	332,435	790,843	1,006,407
<i>Total General Revenues</i>	<u>36,125,757</u>	<u>34,094,682</u>	<u>155,222</u>	<u>332,561</u>	<u>36,280,979</u>	<u>34,427,243</u>
Total Revenues	<u>\$56,357,056</u>	<u>\$49,708,432</u>	<u>\$34,364,326</u>	<u>\$31,584,953</u>	<u>\$90,721,382</u>	<u>\$81,293,385</u>
Program Expense:						
General Government	9,825,167	9,827,165	0	0	9,825,167	9,827,165
Security of Persons and Property	25,710,018	25,018,893	0	0	25,710,018	25,018,893
Transportation	6,692,642	6,690,331	0	0	6,692,642	6,690,331
Public Health	246,802	155,259	0	0	246,802	155,259
Community and Environment	5,124,533	2,420,656	0	0	5,124,533	2,420,656
Economic Development	2,171,209	1,272,280	0	0	2,171,209	1,272,280
Leisure Time Activities	964,832	759,615	0	0	964,832	759,615
Interest and Fiscal Charges	2,226,836	2,445,732	0	0	2,226,836	2,445,732
Water Works	0	0	10,839,483	11,013,515	10,839,483	11,013,515
Water Pollution Control	0	0	13,438,381	12,931,206	13,438,381	12,931,206
Total Expenses	<u>52,962,039</u>	<u>48,589,931</u>	<u>24,277,864</u>	<u>23,944,721</u>	<u>77,239,903</u>	<u>72,534,652</u>
Increase (Decrease) in Net Position						
Before Transfers	3,395,017	1,118,501	10,086,462	7,640,232	13,481,479	8,758,733
Transfers	42,675	42,675	(42,675)	(42,675)	0	0
Increase in Net Position	<u>3,437,692</u>	<u>1,161,176</u>	<u>10,043,787</u>	<u>7,597,557</u>	<u>13,481,479</u>	<u>8,758,733</u>
Net Position, January 1, Restated	<u>8,498,353</u>	<u>N/A</u>	<u>98,919,142</u>	<u>N/A</u>	<u>107,417,495</u>	<u>N/A</u>
Net Position, December 31	<u>\$11,936,045</u>	<u>\$8,498,353</u>	<u>\$108,962,929</u>	<u>\$98,919,142</u>	<u>\$120,898,974</u>	<u>\$107,417,495</u>

**CITY OF LORAIN
LORAIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
UNAUDITED**

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$217,788 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report OPEB expense of \$2,974,921. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

	Governmental Activities	Business-Type Activities	Total
Total 2018 program expenses under GASB 75	\$ 52,962,039	\$ 24,277,864	\$ 77,239,903
OPEB expense under GASB 75	(2,616,086)	(358,835)	(2,974,921)
2018 contractually required pension contribution	70,016	9,201	79,217
Adjusted 2018 program expenses	50,415,969	23,928,230	74,344,199
Total 2017 program expenses under GASB 45	48,589,931	23,944,721	72,534,652
Increase (Decrease) in program expenses not related to OPEB	<u>\$ 1,826,038</u>	<u>\$ (16,491)</u>	<u>\$ 1,809,547</u>

Program revenues increased in 2018. This increase is due to mainly the increase in charges for services and operating grants and contributions. The dominating reason for the rise in charges for services is due to the increase in water and sewer rates charged to customers. The increase in operating grants and contributions is a result of a rise in Federal funding realized for various projects within the City. 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 \$1,853,736 from the prior year. The City saw an increase in municipal income tax and investment earnings.

Governmental Activities

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

In 2012, an additional .25 percent was approved by the citizens of Lorain for the Streets (money collected is in the streets special revenue fund). In 2018, the revenue from municipal income taxes increased \$1.4 million primarily as a result of an overall increase in income tax collections from employment within the City. The gain encompasses a rise in employer withholding, amounts collected on final returns filed for individuals and businesses, penalties for late filings, and estimated payments received. The income tax credit in effect for 2018 and future years is 100 percent of the tax paid to another city up to a maximum of 2.00 percent.

The second largest source of revenue in governmental activities, operating grants and contributions, which increased \$3.5 million from the prior year, is principally due to the escalation of activity in the \$15 million US EPA Lower Black River Area of Concern Remediation and Restoration Project grant of approximately \$2.6 million, and a boost in Community Development Block Grant (CDBG) funding.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
UNAUDITED**

The increase of \$1.1 million in capital grants and contributions is a direct result of a rise in Federal-Aid Highway Program grant revenue for the Baumhart Rd. street project,

Investment earnings grew by over \$500,000 from 2017 to 2018 and accounts for the largest increase in general revenues after municipal income taxes.

The minimal increase in property taxes is essentially due to a modest increase in the assessed valuation, and the resulting real estate tax collections, of property within the City as certified by the Lorain County Auditor.

The City has a strong economic development program, through their 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 2018 increased by \$4.4 million as compared to 2017. \$2.6 million of this increase was due to the implementation of GASB 75. Program expenses not related to OPEB increased \$1,826,038 (see table on previous page).

Of the program expenses not related to GASB 75, community and environment expenses saw the largest increase and were for environmental conservation projects, and operations that enhance the City's housing stock and business environment including building code enforcement, zoning and issuing permits. Expenditures for community and environment increased by approximately \$2.7 million due primarily to the rise in expenditures for the US EPA Lower Black River Area of Concern Remediation and Restoration Project. The City paid for these from grants and general revenues.

Growth in the economic development program expense relates to activities that promote the City's business and residential development and is directly associated with the increase in Community Development Block Grant funding.

Security of persons and property expenses saw an increase due to the expiration of the FEMA SAFER grant for the fire department in August 2018 and a decrease in expenditures for police vehicles and equipment over 2018.

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 and the Fire Department has a 1.7 mil real estate tax levy for fire personnel and equipment. This money is utilized to purchase new equipment that will better serve the community and maintain adequate staffing levels for police officers and fire personnel.

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

**CITY OF LORAIN
LORAIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
UNAUDITED**

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's construction on phase one of the Black River wastewater storage and conveyance tunnel was completed and placed in service in 2018. The cost of the tunnel was approximately \$72.4 million and is primarily financed through the Ohio Water Development Authority.

Projects completed in 2018, in addition to the Black River storage and conveyance tunnel, include the completion of the Westside water tower, phase I of the South Lorain Waterline Replacement project, the Washington and Reid Avenues waterline, the 2nd, 4th, 5th, 6th, Hamilton & Reid waterline replacement, and improvements to the Utilities Department administration building parking lot. Other projects were continued or undertaken including the South Lorain waterline replacement phase II and III, East Lorain, and West Lorain waterlines projects, a water treatment plant master plan, the Red Hill water transmission main, and the Cooper Foster Park Rd. sanitary sewer extension.

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 \$32,956,528, an increase of \$4.0 million in comparison with the prior year. Non-spendable fund balance of \$466,498 includes material and supplies inventory, prepaid expenses, and unclaimed monies. Fund balance in the amount of \$24,494,479 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 \$4,095,147 is committed to storm sewer maintenance and improvements, contractual obligations, and funds set aside for compensated absences and payroll reserve. Assigned fund balance includes \$288,154 for general governmental purchases on order in various departments. There is a deficit of \$5,677 that constitutes unassigned fund balance or all balances not previously classified.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
UNAUDITED**

The General Fund is the main operating fund of the City. The increase in fund balance is primarily due to a reduction in expenses for personal services in the fire department resulting from the award of the Federal Emergency Management Agency (FEMA) Staffing for Adequate Fire and Emergency Response (SAFER) grant and the resources provided from the 1.7 mil fire levy for Fire Department operations. Other factors that assisted in the fund balance increase were an upturn in municipal income tax collections and an increase in the City's earnings on investments..

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 of accumulated excess payments in lieu of taxes received specifically restricted for debt service on the City's various urban renewal bonds and fire levy real estate tax revenue set aside for future debt service payments on the 2017 Fire Improvements Bond.

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 increase in fund balance is directly related to the receipt of resources from capital financing activities and the accumulation of payments in lieu of taxes received designated for capital projects.

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 2018, the City amended its General Fund budget numerous times. The actual revenue amount was greater than the final budget. In 2018, the largest amendment of \$64,280 was made to the original budget to account for a portion of a rebate received from the Ohio Bureau of Workers Compensation. Additional amendments were made for the receipt of additional revenue from fines, charges for services, real estate taxes, and various other small grants and donations.

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

**CITY OF LORAIN
LORAIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
UNAUDITED**

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

Capital Assets and Debt Administration

Capital Assets

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

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$9,571,267	\$9,535,107	\$1,060,557	\$1,060,557	\$10,631,824	\$10,595,664
Easements	6,670,008	6,670,008	0	0	6,670,008	6,670,008
Construction in Progress	6,339,129	5,384,630	10,011,570	88,740,099	16,350,699	94,124,729
Buildings and						
Improvements	13,655,400	13,629,249	18,670,705	19,416,879	32,326,105	33,046,128
Machinery and						
Equipment	12,150,160	12,261,618	9,561,256	9,456,586	21,711,416	21,718,204
Furniture and						
Fixtures	228,642	176,427	0	0	228,642	176,427
Infrastructure:						
Streets and						
Sidewalks	67,376,081	65,814,813	0	0	67,376,081	65,814,813
Water Lines	0	0	53,594,756	43,807,987	53,594,756	43,807,987
Sewer Lines	0	0	115,355,615	44,581,339	115,355,615	44,581,339
<i>Total Capital Assets</i>	<u>\$115,990,687</u>	<u>\$113,471,852</u>	<u>\$208,254,459</u>	<u>\$207,063,447</u>	<u>\$324,245,146</u>	<u>\$320,535,299</u>

The most significant increase in governmental capital assets was in construction in progress and infrastructure. Major road projects that were completed in 2018 include the US Route 6 and State Route 57 rehabilitation and repair projects and thirteen other roadways within the City. The East Erie Avenue storm sewer outfall was also completed in 2018. Construction in progress includes the recognition of various street and other capital projects begun but not yet completed.

Business-type activities saw substantial additions to infrastructure and corresponds with the decrease in construction in progress. The most significant construction in progress additions were for the South Lorain waterline replacement phase II and III, East Lorain and West Lorain waterlines projects, a water treatment plant master plan, the Red Hill water transmission main, and the Cooper Foster Park Rd. sanitary sewer extension. Significant projects completed in 2018 include the Black River storage and conveyance tunnel, the Westside water tower, phase I of the South Lorain waterline and Washington and Reid Avenues waterline replacement projects. Other significant waterline replacement projects were continued or undertaken including the South Lorain phase II and III, East Lorain, and West Lorain waterline replacement.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
UNAUDITED**

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

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

Long-Term Obligations

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

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

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
General Obligation Bonds	\$41,311,711	\$43,981,697	0	\$0	\$41,311,711	\$43,981,697
Special Assessment Bonds	1,054,909	1,134,331	0	0	1,054,909	1,134,331
Long Term Note	2,710,584	0	0	0	2,710,584	0
OWDA Loans	0	0	124,828,995	128,424,837	124,828,995	128,424,837
HUD Section 108 Loans	0	1,270,000	0	0	0	1,270,000
Net Pension Liability	40,675,157	48,426,367	7,588,444	10,375,978	48,263,601	58,802,345
Net OPEB Liability	35,296,878	31,158,118	5,137,279	5,021,831	40,434,157	
ODOD Loan	690,602	940,233	0	0	690,602	940,233
OPWC Loans	1,974,145	2,005,994	0	0	1,974,145	2,005,994
ODOT Loans	7,018,952	7,083,728	0	0	7,018,952	7,083,728
Installment Loans	6,082,143	6,491,756	0	0	6,082,143	6,491,756
Capital Leases	2,248,195	1,018,178	1,959,857	298,920	4,208,052	1,317,098
Pollution Remediation	1,236,800	1,323,440	0	172,136	1,236,800	1,495,576
Compensated Absences	6,239,022	6,349,275	1,346,852	1,465,866	7,585,874	7,815,141
<i>Total</i>	<u>\$146,539,098</u>	<u>\$151,183,117</u>	<u>\$140,861,427</u>	<u>\$145,759,568</u>	<u>\$287,400,525</u>	<u>\$260,762,736</u>

The nineteen general obligation bonds include the Riverfront, Heritage, and Lighthouse Village urban renewal bonds, the Health Claims bond issued to defer the cost of the City's self-insurance claims, various purpose refunding bonds issued to refinance the City's 1995 Various Purpose, 1999 Accrued Pension Fund Liability, and the 2002 Safety/Service bond, a refunding bond for the 2008 Pellet Terminal bond issued for the purchase and improvement of the old pellet terminal industrial site located on the Black River, and the 2017 Fire Improvement bond for fire station improvements and equipment. 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, municipal income taxes, and payments in lieu of taxes in the case of the urban renewal bonds.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
UNAUDITED**

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

On June 20, 2018 the City issued \$2,700,000 in a Street Improvement Bond Anticipation Note for the Broadway Avenue Streetscape project at an annual interest rate of 2.75 percent that will mature on June 20, 2019. There are \$2,683,209 in unspent proceeds as of December 31, 2018.

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

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

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

The 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 eleven Ohio Department of Transportation (ODOT) state infrastructure bank (SIB) loans are for the rehabilitation and repaving of State Routes 57, 58 and 611, 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 and municipal income tax revenue pledged from the Streets fund and permissive license tax revenue pledged from the Permissive License fund.

The installment loans are for engineering services performed by the Lorain County engineer for road construction projects and for road improvements. A portion of the debt service is paid from municipal income tax revenue pledged from the Streets fund.

During 2018, the City entered into a capital lease for equipment and fleet vehicles for streets, parks, cemetery building department, water and water pollution control. Included in the 2018 lease are fleet vehicles consisting of pickup trucks and vans, dump trucks, a mini excavator, a tractor, equipment trailers, an asphalt recycler, diesel pumps, a camera truck, a jet/vactor combination truck, and zero turn mowers. In prior years the City entered into leases for police cruisers, copiers/scanners for various departments, the acquisition of computer hardware and software to upgrade the City's existing general accounting, utilities, and income tax systems, street, electrical, parks, cemetery, general sewer, fire, water, and water pollution control equipment, fleet vehicles, an IP phone system and software. The minimum lease payments required are paid from the General Fund, Streets, Cemetery, Parkland and Police Levy Special Revenue funds, and the Water Works and Water Pollution Control Enterprise funds.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
UNAUDITED**

The pollution remediation includes the estimated costs associated with the cleanup of environmental contamination on various sites along the Black River and at the former National Vapor Stove and Manufacturing Company (Stoveworks) industrial site.

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.

On December 10, 2018, Moody's Investors Service affirmed the City of Lorain's general obligation limited tax rating at Baa2 and revised the negative outlook to stable. According to the Credit Opinion by Moody's, the Baa2 rating reflects the City's continued weakness in the local economy that is reliant on manufacturing and the steel industry, moderate direct debt burden and elevated pension liability. The revision of the outlook from negative to stable reflects the City's return to balanced operations and a healthy reserve position. In addition, the rating also reflects the City's healthy alternate liquidity to internally support cash flow needs.

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 remains a component of the City's economy, the transformation has begun to materialize. In 2018, health care remained steady as Mercy Health and Cleveland Clinic ranked first and third in the top employers in the City. A total of 2,502 employees at both facilities worked during 2018. Grace Management Services, which operates nursing homes in the City with 489 employees, ranked seventh, and The Nord Center, a mental healthcare facility with 330 employees, ranked ninth. In December, 2018 unemployment rate for the City was 6.5 percent, down from 7.3 percent in December 2017. Meanwhile, the December 2018 unemployment rate for Lorain County was 5.2 percent and the State of Ohio was 4.8 percent (based on the Ohio Job & Family Services, Office of Workforce Development).

The City's 2018 residential/agricultural real estate property values rose slightly over the prior year. In 2018, property tax collections were the General Fund's third largest source of revenue. In 2018, the City collected \$2,040,171 from the property tax collections for the General Fund. This was \$43,545 more than that collected in 2017.

Personnel costs continue to be the General fund's largest and most challenging expenditure comprising 80 percent of the expense budget. All employees of the City were given one percent raises in 2018. Current employment contracts with the various bargaining units within the City are in effect until December 31, 2019 and will require careful analysis when renegotiated to ensure current revenue streams can continue to meet the requirements for personnel costs.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018
UNAUDITED**

The City's housing growth continued into 2018. The Villages at Lighthouse Point is a \$62 million-dollar development with an estimated 300 apartments. Phase I of the development is now complete with 146 units constructed along with a clubhouse. The 529 acre Martin's Run development remained steady. To date 904 homes or condominium units have been built with 273 lots still available for sale. The Cornerstone Farms, a 151 home project which began in late 2017, currently has completed several homes and construction of roadways is underway. Clover Communities, a senior apartment complex, began in the spring of 2017 and was completed in the summer of 2018.

The three story building has 119 units with one and two bedrooms available, community rooms, a fitness center and game room. Affordable housing continues to be a priority for the City.

Other projects in the City include the Broadway Avenue Streetscape and the Broadway Hotel. The Broadway Avenue Streetscape project will begin at West 10th Street and go north to West Erie Avenue and will include street improvements, new sidewalks, curbs, lighting, landscaping, signage and handicap ramps. The total cost of the project is estimated at \$3.6 million. The project is currently underway and should be completed by September 2019. The Broadway Hotel project is being undertaken by a private developer with plans to open a 55 room hotel in downtown Lorain that will also include a rooftop and fourth floor event space, restaurant and additional office and retail space. The project will cost an estimated \$10 million is scheduled to open in the fall of 2019. Both of these projects were undertaken in an effort to revitalize the City's downtown area to attract new businesses and to promote tourism in the area.

The City's Administration along with the Building, Housing and Planning department and the Lorain Port Authority remain diligent in working together to bring jobs and further development to the City.

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

**CITY OF LORAIN
LORAIN COUNTY, OHIO
STATEMENT OF NET POSITION
DECEMBER 31, 2018**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Equity in Pooled Cash and Cash Equivalents	\$ 24,740,212	\$ 34,531,324	\$ 59,271,536
Cash and Cash Equivalents:			
In Segregated Accounts	108,014	-	108,014
With Fiscal Agents	935,735	1,724,727	2,660,462
Materials and Supplies Inventory	1,237,364	648,258	1,885,622
Accounts Receivable	179,553	5,010,328	5,189,881
Accrued Interest Receivable	85,447	-	85,447
Intergovernmental Receivable	2,902,066	50,320	2,952,386
Internal Balances	(357,101)	357,101	-
Prepaid Items	129,922	24,490	154,412
Municipal Income Taxes Receivable	4,558,490	-	4,558,490
Property Taxes Receivable	6,111,481	-	6,111,481
Payments in Lieu of Taxes Receivable	1,251,243	-	1,251,243
Loans Receivable	7,421,248	99,038	7,520,286
Special Assessments Receivable	2,159,982	-	2,159,982
Assets held for Resale	1,517,196	-	1,517,196
Nondepreciable Capital Assets	22,580,404	11,072,127	33,652,531
Depreciable Capital Assets	93,410,283	197,182,332	290,592,615
Total Assets	<u>168,971,539</u>	<u>250,700,045</u>	<u>419,671,584</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferral on Refunding	510,111	-	510,111
Pension	6,717,535	2,145,673	8,863,208
OPEB	3,365,617	387,252	3,752,869
Total Deferred Outflows of Resources	<u>10,593,263</u>	<u>2,532,925</u>	<u>13,126,188</u>
LIABILITIES			
Accounts Payable	408,073	222,120	630,193
Contracts Payable	408,478	115,804	524,282
Accrued Wages and Benefits	1,269,444	428,447	1,697,891
Intergovernmental Payable	389,305	118,516	507,821
Matured Compensated Absences Payable	114,006	-	114,006
Accrued Interest Payable	257,817	-	257,817
Retainage Payable	157,373	-	157,373
Claims Payable	321,504	-	321,504
Notes Payable	3,022,110	-	3,022,110
Long-term Liabilities:			
Due within one year	9,373,537	8,578,996	17,952,533
Due in more than one year:			
Net Pension Liability	40,675,157	7,588,444	48,263,601
Net OPEB Liability	35,296,878	5,137,279	40,434,157
Other amounts	61,193,526	119,556,708	180,750,234
Total Liabilities	<u>152,887,208</u>	<u>141,746,314</u>	<u>294,633,522</u>
DEFERRED INFLOWS OF RESOURCES			
Property Taxes	4,981,051	-	4,981,051
Payments in Lieu of Taxes	1,251,243	-	1,251,243
Pension	6,881,254	1,975,151	8,856,405
OPEB	1,628,001	548,576	2,176,577
Total Deferred Inflows of Resources	<u>14,741,549</u>	<u>2,523,727</u>	<u>17,265,276</u>
NET POSITION			
Net Investment in Capital Assets	52,041,234	83,190,334	135,231,568
Restricted for:			
Capital Projects	10,974,931	1,724,727	12,699,658
Utility Reserve	-	1,846,531	1,846,531
Debt Service	1,204,089	-	1,204,089
Police	1,413,306	-	1,413,306
Fire	1,104,682	-	1,104,682
Streets	4,459,128	-	4,459,128
Community Development	14,462,241	-	14,462,241
Municipal Courts	185,592	-	185,592
Other Purposes	114,073	-	114,073
Unrestricted	(74,023,231)	22,201,337	(51,821,894)
Total Net Position	<u>\$ 11,936,045</u>	<u>\$ 108,962,929</u>	<u>\$ 120,898,974</u>

See accompanying notes to the basic financial statements.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

	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	\$ 25,710,018	\$ 1,430,633	\$ 1,380,372	\$ -	\$ (22,899,013)	\$ -	\$ (22,899,013)
Public Health	246,802	202,295	-	-	(44,507)	-	(44,507)
Leisure Time Activities	964,832	8,820	15,180	-	(940,832)	-	(940,832)
Community and Environment	5,124,533	835,928	4,000,925	-	(287,680)	-	(287,680)
Transportation	6,692,642	71,865	3,331,811	2,277,675	(1,011,291)	-	(1,011,291)
General Government	9,825,167	4,085,014	130,508	-	(5,609,645)	-	(5,609,645)
Economic Development	2,171,209	149,276	2,310,997	-	289,064	-	289,064
Interest and Fiscal Charges	2,226,836	-	-	-	(2,226,836)	-	(2,226,836)
<i>Total Governmental activities</i>	<u>52,962,039</u>	<u>6,783,831</u>	<u>11,169,793</u>	<u>2,277,675</u>	<u>(32,730,740)</u>	<u>-</u>	<u>(32,730,740)</u>
Business-type activities:							
Water Works	10,839,483	17,566,566	-	-	-	6,727,083	6,727,083
Water Pollution Control	13,438,381	16,642,538	-	-	-	3,204,157	3,204,157
<i>Total Business-type activities</i>	<u>24,277,864</u>	<u>34,209,104</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,931,240</u>	<u>9,931,240</u>
<i>Total</i>	<u>\$ 77,239,903</u>	<u>\$ 40,992,935</u>	<u>\$ 11,169,793</u>	<u>\$ 2,277,675</u>	<u>(32,730,740)</u>	<u>9,931,240</u>	<u>(22,799,500)</u>
General Revenues:							
Property Taxes levied for:							
General Purposes					2,049,647	-	2,049,647
Debt Service Purpose					717,986	-	717,986
Police Pension					215,396	-	215,396
Fire Pension					215,396	-	215,396
Fire Levy					1,352,260	-	1,352,260
Municipal Income Taxes levied for:							
General Purposes					20,014,840	-	20,014,840
Streets					2,420,583	-	2,420,583
Police Levy					2,420,583	-	2,420,583
Franchise Fees					682,691	-	682,691
Payments in Lieu of Taxes					1,114,533	-	1,114,533
Grants & Entitlements not restricted to specific programs					3,374,706	-	3,374,706
Investment Income					911,515	-	911,515
All Other Revenues					635,621	155,222	790,843
Total General Revenues					<u>36,125,757</u>	<u>155,222</u>	<u>36,280,979</u>
Transfers					42,675	(42,675)	-
Total General Revenues and Transfers					<u>36,168,432</u>	<u>112,547</u>	<u>36,280,979</u>
Change in Net Position					3,437,692	10,043,787	13,481,479
Net Position - Beginning of Year, Restated					8,498,353	98,919,142	107,417,495
Net Position - End of Year					<u>\$ 11,936,045</u>	<u>\$ 108,962,929</u>	<u>\$ 120,898,974</u>

See accompanying notes to the basic financial statements.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

	General Fund	General Obligation Bond Retirement	Capital Improvements	Other Governmental Funds	Total Governmental Funds
ASSETS					
Equity in Pooled Cash and Cash Equivalents	\$ 4,089,922	\$ 844,487	\$ 7,149,683	\$ 12,443,604	\$ 24,527,696
Cash and Cash Equivalents:					
In Segregated Accounts	108,014	-	-	-	108,014
With Fiscal Agents	39,364	-	-	896,371	935,735
Materials and Supplies Inventory	18,825	-	-	292,225	311,050
Accrued Interest Receivable	85,447	-	-	-	85,447
Accounts Receivable	166,640	-	12,913	-	179,553
Interfund Receivable	27,731	-	-	42,876	70,607
Intergovernmental Receivable	1,506,404	68,900	-	1,326,762	2,902,066
Prepaid Items	70,241	-	-	28,809	99,050
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	56,398	-	-	-	56,398
Municipal Income Taxes Receivable	3,646,792	-	-	911,698	4,558,490
Property Taxes Receivable	2,866,219	990,052	-	2,255,210	6,111,481
Special Assessments Receivable	950,916	-	-	1,209,066	2,159,982
Loans Receivable	-	-	-	7,421,248	7,421,248
Payments in Lieu of Taxes Receivable	-	833,420	212,421	205,402	1,251,243
Assets held for Resale	-	-	-	1,517,196	1,517,196
Total Assets	\$ 13,632,913	\$ 2,736,859	\$ 7,375,017	\$ 28,550,467	\$ 52,295,256
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 229,658	\$ -	\$ -	\$ 150,516	\$ 380,174
Accrued Wages and Benefits	985,529	-	-	265,950	1,251,479
Contracts Payable	19,674	-	343,656	45,148	408,478
Intergovernmental Payable	303,138	-	-	80,286	383,424
Matured Compensated Absences Payable	114,006	-	-	-	114,006
Retainage Payable	-	-	151,857	5,516	157,373
Interfund Payable	75,871	-	-	46,572	122,443
Claims Payable	1,350	-	-	-	1,350
Notes Payable	-	22,110	3,000,000	-	3,022,110
Total Liabilities	1,729,226	22,110	3,495,513	593,988	5,840,837
Deferred Inflows of Resources:					
Property Taxes	2,332,914	802,816	-	1,845,321	4,981,051
Payments in Lieu of Taxes	-	833,420	212,421	205,402	1,251,243
Unavailable Revenue - Delinquent Property Taxes	533,305	187,236	-	409,889	1,130,430
Unavailable Revenue - Municipal Income Taxes	1,752,104	-	-	438,026	2,190,130
Unavailable Revenue - Other	1,974,731	68,900	-	1,901,406	3,945,037
Total Deferred Inflows of Resources	6,593,054	1,892,372	212,421	4,800,044	13,497,891
Fund Balances:					
Nonspendable	145,464	-	-	321,034	466,498
Restricted	83,792	822,377	3,667,083	19,921,227	24,494,479
Committed	1,175,296	-	-	2,919,851	4,095,147
Assigned	288,154	-	-	-	288,154
Unassigned (Deficit)	3,617,927	-	-	(5,677)	3,612,250
Total Fund Balances	5,310,633	822,377	3,667,083	23,156,435	32,956,528
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 13,632,913	\$ 2,736,859	\$ 7,375,017	\$ 28,550,467	\$ 52,295,256

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, 2018**

Total Governmental Funds Balance 32,956,528

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 115,990,687

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

Delinquent property taxes	1,130,430	
Municipal income taxes	2,190,130	
Special assessments	2,159,982	
Intergovernmental	1,785,055	
Total	7,265,597	

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in Governmental funds, an interest expenditure is reported when due. (257,817)

Internal Service funds are used by management to charge the costs of certain activities, such as insurance and other services to individual funds. The assets and liabilities of the Internal Service funds are included in Governmental Activities in the Statement of Net Position. 436,140

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

Deferred Outflows - Pension	6,717,535	
Deferred Inflows - Pension	(6,881,254)	
Net Pension Liability	(40,675,157)	
Deferred Outflows - OPEB	3,365,617	
Deferred Inflows - OPEB	(1,628,001)	
Net OPEB Liability	(35,296,878)	
Total	(74,398,138)	

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	(41,175,491)	
Special assessment bonds	(1,054,509)	
Long-term bond anticipation notes	(2,700,000)	
OPWC Loans	(1,974,145)	
State Infrastructure Bank Loans	(7,018,952)	
Other Loans	(6,772,745)	
Unamortized premiums	(259,232)	
Unamortized discounts	112,028	
Deferral on refundings	510,111	
Compensated absences	(6,239,022)	
Capital leases	(2,248,195)	
Pollution Remediation	(1,236,800)	
Total	(70,056,952)	

Net Position of Governmental Activities 11,936,045

**CITY OF LORAIN
LORAIN COUNTY, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	General Fund	General Obligation Bond Retirement	Capital Improvements	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property Taxes	\$ 2,040,171	\$ 714,047	\$ -	\$ 1,794,687	\$ 4,548,905
Municipal Income Taxes	20,015,197	-	-	4,841,254	24,856,451
Payments in Lieu of Taxes	-	822,826	130,167	161,540	1,114,533
Intergovernmental	3,074,896	137,706	2,465,411	11,308,348	16,986,361
Interest	860,799	-	-	50,716	911,515
Fees, Licenses, and Permits	1,093,118	-	-	173,976	1,267,094
Fines and Forfeitures	1,119,131	-	-	890,753	2,009,884
Charges for Services	1,029,634	-	-	2,220,993	3,250,627
Contributions and Donations	1,250	-	-	2,386	3,636
Special Assessments	-	-	-	90,286	90,286
All Other Revenues	248,298	319,211	12,913	141,228	721,650
Franchise Fees	682,691	-	-	-	682,691
Total Revenues	30,165,185	1,993,790	2,608,491	21,676,167	56,443,633
EXPENDITURES					
Current:					
Security of Persons and Property	17,562,836	-	-	4,390,521	21,953,357
Public Health	216,631	-	-	-	216,631
Leisure Time Activities	797,780	-	-	-	797,780
Community and Environment	855,400	-	-	4,176,424	5,031,824
Transportation	-	-	-	3,676,987	3,676,987
Economic Development	137,117	-	-	1,919,859	2,056,976
General Government	7,778,369	31,815	-	397,227	8,207,411
Capital Outlay	60,801	-	6,132,899	1,793,531	7,987,231
Debt Service:					
Principal Retirement	150,319	3,967,560	-	1,957,596	6,075,475
Interest and Fiscal Charges	8,238	1,841,661	-	257,519	2,107,418
Debt Issuance Costs	-	33,823	-	3,825	37,648
Total Expenditures	27,567,491	5,874,859	6,132,899	18,573,489	58,148,738
Excess of Revenues (Under) Expenditures	2,597,694	(3,881,069)	(3,524,408)	3,102,678	(1,705,105)
OTHER FINANCING SOURCES (USES)					
Sale of Capital Assets	-	94,092	-	-	94,092
Inception of Capital Lease	336,508	-	-	1,402,483	1,738,991
Long-term Bond Anticipation Notes Issued	-	-	2,700,000	-	2,700,000
Loans Issued	-	-	1,130,632	-	1,130,632
Premium on Debt Issuance	-	16,659	-	4,509	21,168
Transfers In	90,524	3,804,642	-	462,192	4,357,358
Transfers Out	(1,084,706)	-	-	(3,226,653)	(4,311,359)
Total Other Financing Sources (Uses)	(657,674)	3,915,393	3,830,632	(1,357,469)	5,730,882
Net Change in Fund Balances	1,940,020	34,324	306,224	1,745,209	4,025,777
Fund Balances - Beginning of Year	3,370,613	788,053	3,360,859	21,411,226	28,930,751
Fund Balances - End of Year	\$ 5,310,633	\$ 822,377	\$ 3,667,083	\$ 23,156,435	\$ 32,956,528

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, 2018

Net Change in Fund Balances-Total Governmental Funds \$ 4,025,777

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 capital outlay exceeded depreciation in the current period.

Capital Outlay	\$ 7,439,633	
Depreciation	(4,794,083)	
Total		2,645,550

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. (126,715)

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

Delinquent property taxes	1,780	
Municipal income taxes	(445)	
Special assessments	(10,592)	
Intergovernmental	12,645	
Loans	(86,030)	
Total		(82,642)

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, pollution remediation and capital leases. (6,783,422)

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. 7,674,746

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

Pension		3,587,152
OPEB		70,016

Except for amounts reported as deferred inflows/outflows, changes in the net pension/OPEB liability are reported as pension/OPEB expense in the statement of activities.

Pension		(4,719,228)
OPEB		(2,616,086)

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	110,253	
Accrued interest on bonds	77,305	
Amortization of bond premiums and discounts	29,992	
Amortization of loss on refunding	(53,682)	
Total		163,868

Internal Service funds are used by management to charge costs to certain activities, such as insurance and other services to individual funds. The net revenue (expense) of Internal Service funds are reported in the Governmental Activities. (401,324)

Change in Net Position of Governmental Activities \$ 3,437,692

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, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property Taxes	\$ 2,004,112	\$ 2,030,871	\$ 2,040,171	\$ 9,300
Municipal Income Taxes	19,811,500	19,811,500	20,023,156	211,656
Other Taxes	575,000	575,000	659,086	84,086
Intergovernmental	2,913,039	2,970,148	3,065,761	95,613
Interest	275,000	275,000	466,268	191,268
Fees, Licenses and Permits	969,200	969,200	1,100,795	131,595
Fines and Forfeitures	1,049,000	1,094,000	1,121,155	27,155
Charges for Services	936,993	973,993	1,029,634	55,641
Contributions and Donations	25,000	25,500	1,250	(24,250)
All Other Revenues	60,202	124,482	132,594	8,112
Total Revenues	<u>28,619,046</u>	<u>28,849,694</u>	<u>29,639,870</u>	<u>790,176</u>
Expenditures:				
Current:				
Security of Persons and Property	17,913,365	17,972,082	17,520,113	451,969
Public Health Services	204,675	212,393	208,515	3,878
Leisure Time Activities	510,966	504,301	485,220	19,081
Community Environment	789,121	881,554	853,290	28,264
Economic Development	-	25,000	25,000	-
General Government	8,192,933	8,303,150	7,974,794	328,356
Debt Service				
Principal Retirement	129,571	134,477	131,887	2,590
Interest and Fiscal Charges	3,535	3,535	3,535	-
Total Expenditures	<u>27,744,166</u>	<u>28,036,492</u>	<u>27,202,354</u>	<u>834,138</u>
Excess of Revenues Over (Under) Expenditures	874,880	813,202	2,437,516	1,624,314
Other Financing Sources (Uses)				
Capital Leases Issued	-	27,433	27,433	-
Transfers In	200,000	200,000	-	(200,000)
Transfers Out	(1,254,801)	(1,222,048)	(1,221,711)	337
Total Other Financing Sources (Uses)	<u>(1,054,801)</u>	<u>(994,615)</u>	<u>(1,194,278)</u>	<u>(199,663)</u>
Net Change in Fund Balance	(179,921)	(181,413)	1,243,238	1,424,651
Fund Balance Beginning of Year	533,810	533,810	533,810	-
Prior Year Encumbrances	184,695	184,695	252,669	67,974
Fund Balance End of Year	<u>\$ 538,584</u>	<u>\$ 537,092</u>	<u>\$ 2,029,717</u>	<u>\$ 1,492,625</u>

See accompanying notes to the basic financial statements.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2018**

	Enterprise Funds			Governmental Activities
	Water Works	Water Pollution Control	Total	Internal Service Funds
ASSETS				
Current Assets:				
Equity in Pooled Cash and Cash Equivalents	\$ 14,571,328	\$ 18,113,465	\$ 32,684,793	\$ 156,118
Materials and Supplies Inventory	596,769	51,489	648,258	926,314
Accounts Receivable	2,502,990	2,507,338	5,010,328	-
Interfund Receivable	34	800	834	96,104
Intergovernmental Receivable	-	50,320	50,320	-
Prepaid Items	11,352	13,138	24,490	30,872
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	512,174	1,334,357	1,846,531	-
With Fiscal Agents	629,878	1,094,849	1,724,727	-
Loans Receivable	-	28,637	28,637	-
Total Current Assets	18,824,525	23,194,393	42,018,918	1,209,408
Noncurrent Assets:				
Loans Receivable	-	70,401	70,401	-
Capital Assets:				
Construction in Progress	8,475,888	2,596,239	11,072,127	-
Depreciable Assets, Net of Depreciation	60,763,493	136,418,839	197,182,332	179,193
Total Noncurrent Assets	69,239,381	139,085,479	208,324,860	179,193
Total Assets	88,063,906	162,279,872	250,343,778	1,388,601
DEFERRED OUTFLOWS OF RESOURCES				
Pension	1,072,069	1,073,604	2,145,673	82,771
OPEB	183,811	203,441	387,252	17,153
Total Deferred Outflows of Resources	1,255,880	1,277,045	2,532,925	99,924
LIABILITIES				
Current Liabilities:				
Accounts Payable	77,008	145,112	222,120	27,899
Accrued Wages and Benefits	184,366	244,081	428,447	17,965
Compensated Absences Payable	13,988	65,874	79,862	-
Contracts Payable	48,370	67,434	115,804	-
Intergovernmental Payable	53,201	65,315	118,516	5,881
Interfund Payable	11,561	10,091	21,652	23,450
Accrued Interest Payable	-	-	-	16,584
Claims Payable	-	-	-	320,154
General Obligation Bonds Payable	-	-	-	340,000
OWDA Loans Payable	2,653,788	5,455,393	8,109,181	-
Capital Leases Payable	178,872	211,081	389,953	-
Total Current Liabilities	3,221,154	6,264,381	9,485,535	751,933
Noncurrent Liabilities:				
Compensated Absences Payable	463,964	803,026	1,266,990	58,533
General Obligation Bonds Payable	-	-	-	2,585,000
OWDA Loans Payable	44,468,657	72,251,157	116,719,814	-
Capital Leases Payable	720,134	849,770	1,569,904	-
Net Pension Liability	3,601,899	3,986,545	7,588,444	336,121
Net OPEB Liability	2,438,439	2,698,840	5,137,279	227,550
Total Noncurrent Liabilities	51,693,093	80,589,338	132,282,431	3,207,204
Total Liabilities	54,914,247	86,853,719	141,767,966	3,959,137
DEFERRED INFLOWS OF RESOURCES				
Pension	935,308	1,039,843	1,975,151	97,497
OPEB	260,385	288,191	548,576	24,298
Total Deferred Inflows of Resources	1,195,693	1,328,034	2,523,727	121,795
NET POSITION				
Net Investment in Capital Assets	21,847,808	61,342,526	83,190,334	179,193
Restricted for:				
Capital Projects	629,878	1,094,849	1,724,727	-
Utility Reserve	512,174	1,334,357	1,846,531	-
Unrestricted	10,219,986	11,603,432	21,823,418	(2,771,600)
Total Net Position	\$ 33,209,846	\$ 75,375,164	108,585,010	\$ (2,592,407)

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

Net position business-type activities

377,919

\$ 108,962,929

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, 2018**

	<u>Enterprise Funds</u>			<u>Governmental Activities</u>
	<u>Water Works</u>	<u>Water Pollution Control</u>	<u>Total</u>	<u>Internal Service Funds</u>
OPERATING REVENUES				
Charges for Services	\$ 17,566,566	\$ 16,642,538	\$ 34,209,104	\$ 8,872,518
Miscellaneous	99,885	55,337	155,222	685
Total Operating Revenues	<u>17,666,451</u>	<u>16,697,875</u>	<u>34,364,326</u>	<u>8,873,203</u>
OPERATING EXPENSES				
Salaries	3,296,504	3,685,660	6,982,164	366,929
Fringe Benefits	1,927,097	2,063,377	3,990,474	239,174
Materials and Supplies	736,030	312,886	1,048,916	906,636
Utilities	514,592	841,588	1,356,180	-
Contractual Services	1,270,057	1,375,697	2,645,754	28,510
Depreciation	1,595,151	2,718,166	4,313,317	7,459
Claims	-	-	-	7,178,277
Other	286,371	289,006	575,377	2,461
Total Operating Expense	<u>9,625,802</u>	<u>11,286,380</u>	<u>20,912,182</u>	<u>8,729,446</u>
Operating Income	<u>8,040,649</u>	<u>5,411,495</u>	<u>13,452,144</u>	<u>143,757</u>
NONOPERATING REVENUES (EXPENSES)				
Loss on Sale of Capital Assets	(5,453)	(3,632)	(9,085)	(2,400)
Interest and Fiscal Charges	(1,232,804)	(2,175,446)	(3,408,250)	(220,310)
Total Nonoperating Revenues (Expenses)	<u>(1,238,257)</u>	<u>(2,179,078)</u>	<u>(3,417,335)</u>	<u>(222,710)</u>
Transfers In	10,000	10,000	20,000	-
Transfers Out	(29,225)	(33,450)	(62,675)	(3,324)
Change in Net Position	6,783,167	3,208,967	9,992,134	(82,277)
Net Position - Beginning of Year, Restated	26,426,679	72,166,197		(2,510,130)
Net Position - End of Year	<u>\$ 33,209,846</u>	<u>\$ 75,375,164</u>		<u>\$ (2,592,407)</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

51,653

Change in net position business-type activities

\$ 10,043,787

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, 2018**

	Enterprise Funds			Governmental Activities
	Water Works	Water Pollution Control	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Charges for Services	\$ 17,280,401	\$ 17,058,815	\$ 34,339,216	\$ 8,921,021
Other Cash Receipts	99,885	100,288	200,173	685
Cash Payments to Employees for Services and Benefits	(4,852,598)	(5,248,103)	(10,100,701)	(556,666)
Cash Payments for Goods and Services	(2,593,165)	(2,633,885)	(5,227,050)	(973,590)
Cash Payments for Claims	-	-	-	(7,203,754)
Other Cash Payments	(307,733)	(330,469)	(638,202)	(2,461)
Net Cash Provided by Operating Activities	<u>9,626,790</u>	<u>8,946,646</u>	<u>18,573,436</u>	<u>185,235</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Cash overdraft position assumed to be financed	-	-	-	(6,797)
Transfers In	10,000	10,000	20,000	-
Transfers Out	(29,225)	(33,450)	(62,675)	(3,324)
Net Cash Used in Noncapital Financing Activities	<u>(19,225)</u>	<u>(23,450)</u>	<u>(42,675)</u>	<u>(10,121)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from OWDA Loans	4,268,913	-	4,268,913	-
Proceeds from Capital leases	951,879	1,123,224	2,075,103	-
Principal Paid on Debt	(2,788,038)	(5,490,883)	(8,278,921)	(320,000)
Interest Paid on Debt	(1,232,804)	(2,175,446)	(3,408,250)	(222,025)
Payments for Capital Acquisitions	(4,735,052)	(1,126,575)	(5,861,627)	-
Net Cash Used in Capital and Related Financing Activities	<u>(3,535,102)</u>	<u>(7,669,680)</u>	<u>(11,204,782)</u>	<u>(542,025)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	6,072,463	1,253,516	7,325,979	(366,911)
Cash and Cash Equivalents - Beginning of Year	9,640,917	19,289,155	28,930,072	523,029
Cash and Cash Equivalents - End of Year	<u>\$ 15,713,380</u>	<u>\$ 20,542,671</u>	<u>\$ 36,256,051</u>	<u>\$ 156,118</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income	\$ 8,040,649	\$ 5,411,495	\$ 13,452,144	\$ 143,757
Adjustments:				
Depreciation	1,595,151	2,718,166	4,313,317	7,459
(Increase) Decrease in Assets and Deferred Outflows of Resources:				
Accounts Receivable	(286,234)	437,154	150,920	-
Intergovernmental Receivable	-	(22,400)	(22,400)	-
Materials and Supplies Inventory	(18,545)	(5,168)	(23,713)	14,489
Prepaid Items	44,886	14,802	59,688	(28,761)
Interfund Receivable	69	1,523	1,592	48,503
Deferred Outflows - Pension	811,046	1,106,845	1,917,891	115,452
Deferred Outflows - OPEB	(149,227)	(165,163)	(314,390)	(13,926)
Increase (Decrease) in Liabilities and Deferred Inflows of Resources:				
Accounts Payable	(66,142)	154,001	87,859	(52,584)
Contracts Payable	(50,267)	(261,794)	(312,061)	-
Accrued Wages and Benefits	(40,485)	6,370	(34,115)	3,938
Compensated Absences Payable	(89,794)	(29,220)	(119,014)	7,473
Intergovernmental Payable	(1,017)	10,137	9,120	1,037
Interfund Payable	(3,780)	(2,067)	(5,847)	-
Claims Payable	-	-	-	2,935
Net Pension Liability	(1,206,481)	(1,581,053)	(2,787,534)	(170,023)
Net OPEB Liability	54,798	60,650	115,448	5,114
Deferred Inflows - Pension	731,778	804,177	1,535,955	76,074
Deferred Inflows - OPEB	260,385	288,191	548,576	24,298
Net Cash Provided by Operating Activities	<u>\$ 9,626,790</u>	<u>\$ 8,946,646</u>	<u>\$ 18,573,436</u>	<u>\$ 185,235</u>
Schedule of Noncash Investing, Capital, and Related Financing Activities				
Net Impact of Accruals	\$ -	\$ 348,213	\$ 348,213	\$ -

See accompanying notes to the basic financial statements

**CITY OF LORAIN
LORAIN COUNTY, OHIO
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
DECEMBER 31, 2018**

	<u>Agency Funds</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 2,997,541
Liabilities	
Deposits Held and Due to Others	\$ 2,997,541

See accompanying notes to the basic financial statements

Notes to the Basic Financial Statements

City of Lorain, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2018

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 on the next page.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(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, 2018
(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.

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, 2018
(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, 2018
(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, pension and OPEB. 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 and OPEB plans are explained in Notes 15 and 16.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(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, OPEB 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, 2018, but which were levied to finance fiscal year 2019 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, 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 and OPEB plans are reported on the government-wide statement of net position and are explained in Notes 15 and 16.

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, 2018
(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 Litter Control fund and Garage Internal Service fund to cover deficit cash balances. These funds have an interfund payable for the amount received from the general fund and the general fund has an interfund receivable for the same amounts on the balance sheet.

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

During 2018, investments were limited to negotiable CDs, Repurchase agreement, Money Market Fund, Commercial Paper, Treasury Notes, 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.

For 2018, 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 \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

Governmental securities and negotiable certificates of deposit are reported at fair value, which is based on quoted market prices. Commercial paper is measured at amortized cost as it is a highly liquid debt instrument with a remaining maturity at the time of purchase of less than one year.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

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

Pooled Cash and Cash Equivalents (Continued)

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.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the General Fund during 2018 amounted to \$860,799, of which \$708,083 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, 2018, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

Deferred Charge on Refunding

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

Bond Premiums and Discounts

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

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(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 acquisition 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, 2018
(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/Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB plans 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, 2018
(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. Net pension/OPEB liability should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position is not sufficient for payment of those benefits.

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, 2018
(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 habitat conservation grant activities. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Interfund Activity

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

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

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water pollution control, water services, self-insurance programs, and garage.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

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

Operating Revenues and Expenses (Continued)

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**

During the year, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 85, *Omnibus 2017*, Statement No. 86, *Certain Debt Extinguishment Issues*, Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, and related guidance from (GASB) Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*.

GASB 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). These changes were incorporated in the City's fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

GASB 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. These changes were incorporated in the City's fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

GASB 75 established standards for measuring and recognizing Postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

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

The implementation of this pronouncement had the following effect on net position as reported December 31, 2017:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>	
Net Position December 31, 2017	\$ 39,511,545	\$ 103,868,111	\$ 143,379,656	
Adjustments:				
Net OPEB liability	(31,158,118)	(5,021,831)	(36,179,949)	
Deferred Outflow - Payments Subsequent to Measurement Date	<u>144,926</u>	<u>72,862</u>	<u>217,788</u>	
Restated Net Position December 31, 2017	<u>\$ 8,498,353</u>	<u>\$ 98,919,142</u>	<u>\$ 107,417,495</u>	

	<u>Water Works</u>	<u>Water Pollution Control</u>	<u>Total Enterprise</u>	<u>Internal Service</u>
Net Position December 31, 2017	\$ 28,775,736	\$ 74,766,109	\$ 103,541,845	\$ (2,290,921)
Adjustments:				
Net OPEB liability	(2,383,641)	(2,638,190)	(5,021,831)	(222,436)
Deferred Outflow - Payments Subsequent to Measurement Date	<u>34,584</u>	<u>38,278</u>	<u>72,862</u>	<u>3,227</u>
Restated Net Position December 31, 2017	<u>\$ 26,426,679</u>	<u>\$ 72,166,197</u>	<u>\$ 98,592,876</u>	<u>\$ (2,510,130)</u>

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

NOTE 4: ACCOUNTABILITY AND COMPLIANCE

Fund Deficits

Fund balances at December 31, 2018, included the following individual fund deficits:

<u>Nonmajor Funds:</u>	<u>Amount</u>
<u>Special Revenue Funds:</u>	
FEMA Safer Grant	\$ 5,677
 <u>Internal Service Funds:</u>	
Hospitalization	<u>3,088,732</u>
	<u>\$ 3,094,409</u>

The deficits in the FEMA Safer Grant Fund and Hospitalization Fund are due to accrued liabilities. The General Fund provides transfers when cash is required, not when accruals occur.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

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

Legal Compliance

The city had negative cash fund balances in the Indirect Costs Fund, Title IX EDA Business Fund, Police Special Revenue Fund, and the Garage Internal Service Fund in the amounts of \$14,132, \$9,522, \$80,943 and \$29,112, respectively, indicating that revenue from other sources were used to pay obligations contrary to Ohio Revised Code Section 5705.10 (H).

This space intentionally left blank

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(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	General Obligation Bond Retirement	Capital Improvements	Other Governmental Funds	Total
<i>Nonspendable</i>					
Prepaid Items	\$ 70,241	\$ -	\$ -	\$ 28,809	\$ 99,050
Materials and Supplies Inventory	18,825	-	-	292,225	311,050
Unclaimed Funds	56,398	-	-	-	56,398
<i>Total Nonspendable</i>	<u>145,464</u>	<u>-</u>	<u>-</u>	<u>321,034</u>	<u>466,498</u>
<i>Restricted for</i>					
Loans Receivable	-	-	-	7,421,248	7,421,248
Economic Development Projects	-	-	-	5,546,012	5,546,012
Road Improvements	-	-	3,667,083	2,812,360	6,479,443
Assets Held for Resale	-	-	-	1,517,196	1,517,196
Law Enforcement	-	-	-	1,294,141	1,294,141
Fire Levy	-	-	-	749,056	749,056
Municipal Court Operations	65,138	-	-	466,757	531,895
Debt Service Payments	-	822,377	-	384	822,761
Community Environment Enhancement	-	-	-	44,923	44,923
Cemetery Operations	18,654	-	-	-	18,654
Public Health Initiatives	-	-	-	93	93
Habitat Conservation	-	-	-	69,057	69,057
<i>Total Restricted</i>	<u>83,792</u>	<u>822,377</u>	<u>3,667,083</u>	<u>19,921,227</u>	<u>24,494,479</u>
<i>Committed to</i>					
Storm Sewer Maintenance and Repair	-	-	-	2,919,851	2,919,851
Payroll Reserve	757,562	-	-	-	757,562
Compensated Absences Reserve	245,057	-	-	-	245,057
Park Operations	115,532	-	-	-	115,532
Safety Services	26,076	-	-	-	26,076
Jail Operations	23,751	-	-	-	23,751
Economic Development Incentives	7,318	-	-	-	7,318
<i>Total Committed</i>	<u>1,175,296</u>	<u>-</u>	<u>-</u>	<u>2,919,851</u>	<u>4,095,147</u>
<i>Assigned to</i>					
Purchases on Order	288,154	-	-	-	288,154
<i>Total Assigned</i>	<u>288,154</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>288,154</u>
<i>Unassigned (Deficit)</i>	<u>3,617,927</u>	<u>-</u>	<u>-</u>	<u>(5,677)</u>	<u>3,612,250</u>
Total Fund Balances	<u>\$ 5,310,633</u>	<u>\$ 822,377</u>	<u>\$ 3,667,083</u>	<u>\$ 23,156,435</u>	<u>\$ 32,956,528</u>

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(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 is 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).

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
GAAP Basis	\$ 1,940,020
Revenue Accruals	(381,460)
Beginning Unrecorded Cash	29,601
Ending Unrecorded Cash	(112,081)
Expenditure Accruals	240,010
Excess of Revenue Over (Under) Expenditures	
Economic Development	95,608
Parkland	17,816
Compensated Absences	(125,000)
Payroll Reserve	(122,529)
Cemetery	(5,049)
Encumbrances (Budget Basis)	
outstanding at year end	(333,698)
Budget Basis	\$ 1,243,238

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

NOTE 7: DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

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

Deposits (Continued)

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

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

Deposits

Custodial Credit Risk The City has no deposit policy for custodial risk beyond the requirements of State statute. 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 the possession of an outside party. Protection of the City's cash and deposits is provided by the Federal Deposit Insurance Corporation (FDIC), as well as qualified securities pledged by the institution holding the assets.

Ohio law requires that deposits either be insured or protected by:

Eligible securities pledged to the City and deposited with a qualified trustee by the financial institution as security for repayment whose fair value at all times shall be at least 105 percent of the deposits being secured; or

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total fair value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. The City's financial institution had enrolled in OPCS as of December 31, 2018.

At year end, the carrying amount of the City's deposits was \$24,554,957, and the bank balance was \$25,459,244. The City's bank balance of \$499,542 was covered by federal depository insurance and \$311,285 uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name, and \$24,648,417 was uninsured and uncollateralized. Two of the three City's financial institutions were approved for a reduced collateral rate of 50 percent through the Ohio Pooled Collateral System, resulting in the uninsured and uncollateralized balance.

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".

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

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

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 City's remaining investments measured at fair value are valued using methodologies that incorporate market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. Market indicators and industry and economic events are also monitored, which could require the need to acquire further market data. (Level 2 inputs).

Investments are reported at fair value. As of December 31, 2018, the City had the following investments:

Rating by Standard & Poor's	Level	Investment	Measurement Value	Investment Maturities (in years)			Percentage of Total Investments
				<1	1-3	3-5	
N/A	N/A	Repurchase Agreement	\$ 2,507,276	\$ 2,507,276	\$ -	\$ -	6.19%
N/A	2	Negotiable CDs	238,617	-	-	238,617	0.59%
N/A	N/A	Money Market Fund	1,207,646	1,207,646	-	-	2.98%
A-1/P-1	2	Commerical Paper	10,295,855	10,295,855	-	-	25.44%
AA+	2	Treasury Notes	748,090	748,090	-	-	1.85%
AA+	2	FFCB	1,487,497	1,487,497	-	-	3.68%
AA+	2	FHLMC	971,207	716,331	-	254,876	2.40%
AA+	2	FNMA	4,885,681	3,026,772	1,858,909	-	12.07%
AA+	2	FHLB	501,336	278,480	222,856	-	1.24%
AAAM	N/A	STAR Ohio	17,631,616	17,631,616	-	-	43.56%
			<u>\$ 40,474,821</u>	<u>\$ 37,899,563</u>	<u>\$ 2,081,765</u>	<u>\$ 493,493</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, 2018
(Continued)

NOTE 8: RECEIVABLES

Receivables at December 31, 2018, 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 \$914,996. At December 31, 2018, the amount of delinquent special assessments was \$1,244,986.

The loans receivable at December 31, 2018, 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 \$7,421,248 on the basic financial statements is stated net of estimated uncollectible of \$1,589,963 with \$319,401 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, 2018, the fund has recorded a loan receivable balance of \$99,038 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 2018 for real and public utility property represent the collection of 2017 taxes.

Real property taxes received in 2018 were levied after October 1, 2017, on the assessed values as of January 1, 2017, the lien date. Real property taxes which were levied in 2018 are collected in and intended to finance 2019. 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 2018 represent the collection of 2017 taxes. Public utility property taxes received in 2018 became a lien on December 31, 2017, were levied after October 1, 2017, and are collected with real property taxes.

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

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

NOTE 8: **RECEIVABLES** (Continued)

The full tax rate for all City of Lorain operations for the year ended December 31, 2018, was \$7.66 per \$1,000 of assessed value. The assessed values of real and public utility property upon which 2018 property tax receipts were based are as follows:

Property Category	Assessed Value
Real Property	\$ 731,398,880
Public Utility Personal Property	84,301,680
Total	\$ 815,700,560

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, 2018, and for which there was an enforceable legal claim. In the governmental funds, the portion of the receivable not levied to finance 2018 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, 2018
(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	\$ 1,326,180
Gasoline Tax	609,810
Motor Vehicle License Tax	318,731
Homestead and Rollback	281,900
Grants	242,366
Permissive Tax	108,035
Liquor Licenses	15,044
Total Governmental Activities	<u>2,902,066</u>
<u>Business-Type Activities</u>	
Utilities Charges	<u>50,320</u>
Total	<u><u>\$ 2,952,386</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, 2018, the City has 101 properties remaining which are being held for resale.

This space intentionally left blank

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

NOTE 10: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018 was as follows:

	Balance 12/31/2017	Additions	Deletions	Balance 12/31/2018
Governmental Activities				
<i>Capital Assets, Not Being Depreciated:</i>				
Land	\$9,535,107	\$36,160	\$0	\$9,571,267
Easements	6,670,008	0	0	6,670,008
Construction in Progress	5,384,630	6,020,702	(5,066,203)	6,339,129
<i>Total Capital Assets, Not Being Depreciated</i>	<u>21,589,745</u>	<u>6,056,862</u>	<u>(5,066,203)</u>	<u>22,580,404</u>
<i>Capital Assets, Being Depreciated:</i>				
Buildings and Improvements	23,554,364	455,998	(20,000)	23,990,362
Machinery and Equipment	24,957,535	1,186,079	(1,027,330)	25,116,284
Furniture and Fixtures	326,417	69,241	0	395,658
Infrastructure:				
Streets, Sidewalks,				
Bridges and Storm Sewers	1,056,511,403	4,737,656	(7,264)	1,061,241,795
<i>Total Capital Assets, Being Depreciated</i>	<u>1,105,349,719</u>	<u>6,448,974</u>	<u>(1,054,594)</u>	<u>1,110,744,099</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(9,925,115)	(429,847)	20,000	(10,334,962)
Machinery and Equipment	(12,695,917)	(1,178,086)	907,879	(12,966,124)
Furniture and Fixtures	(149,990)	(17,026)	0	(167,016)
Infrastructure:				
Streets, Sidewalks,				
Bridges and Storm Sewers	(990,696,590)	(3,169,124)	0	(993,865,714)
<i>Total Accumulated Depreciation</i>	<u>(1,013,467,612)</u>	<u>(4,794,083) *</u>	<u>927,879</u>	<u>(1,017,333,816)</u>
Total Capital Assets, Being Depreciated, Net	<u>91,882,107</u>	<u>1,654,891</u>	<u>(126,715)</u>	<u>93,410,283</u>
Governmental Activities Capital Assets, Net	<u>\$113,471,852</u>	<u>\$7,711,753</u>	<u>(\$5,192,918)</u>	<u>\$115,990,687</u>

* Depreciation expense was charged to governmental functions as follows:

General Government	\$1,119,188
Security of Persons and Property	740,739
Transportation	2,682,356
Public Health	15,573
Community Environment	9,284
Economic Development	87,882
Leisure Time Activities	139,061
Total Depreciation Expense	<u>\$4,794,083</u>

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

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

	Balance 12/31/2017	Additions	Deletions	Balance 12/31/2018
Business - Type Activities				
Capital Assets, Not Being Depreciated:				
Land	\$1,060,557	\$0	\$0	\$1,060,557
Construction in Progress	88,740,099	4,753,280	(83,481,809)	10,011,570
<i>Total Capital Assets, Not Being Depreciated</i>	<u>89,800,656</u>	<u>4,753,280</u>	<u>(83,481,809)</u>	<u>11,072,127</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	53,176,239	98,665	(72,831)	53,202,073
Machinery and Equipment	28,614,738	745,549	0	29,360,287
Infrastructure:				
Water Lines	60,452,514	10,946,112	(3,632)	71,394,994
Sewer Lines	84,614,576	72,451,617	(3,632)	157,062,561
<i>Total Capital Assets, Being Depreciated</i>	<u>226,858,067</u>	<u>84,241,943</u>	<u>(80,095)</u>	<u>311,019,915</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(33,759,360)	(843,018)	71,010	(34,531,368)
Machinery and Equipment	(19,158,152)	(640,879)	0	(19,799,031)
Infrastructure:				
Water Lines	(16,644,527)	(1,155,711)	0	(17,800,238)
Sewer Lines	(40,033,237)	(1,673,709)	0	(41,706,946)
<i>Total Accumulated Depreciation</i>	<u>(109,595,276)</u>	<u>(4,313,317)</u>	<u>71,010</u>	<u>(113,837,583)</u>
Total Capital Assets, Being Depreciated, Net	<u>117,262,791</u>	<u>79,928,626</u>	<u>(9,085)</u>	<u>197,182,332</u>
Business - Type Activities Capital Assets, Net	<u>\$207,063,447</u>	<u>\$84,681,906</u>	<u>(\$83,490,894)</u>	<u>\$208,254,459</u>

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(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. In 2018 the City acquired a new ancillary policy specifically for cyber crime liability. Arthur J. Gallagher & Company is the administrator. PERC is a shared risk joint self-insurance pool restricted to mid-size public entities. The Travelers Indemnity Company covers up to \$500,000,000 per occurrence for real and personal property subject to a \$75,000 self-insured retention with the exception of \$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. The Travelers Casualty & Surety Company of America maintains the Crime/Dishonesty Insurance policy with a maximum liability of 2,000,000 with a retention of \$35,000 with the exception of coverage for money and securities which has a retention of \$500. The cyber liability ancillary policy is issued through BCS Insurance Company and provides coverage up to \$1,000,000 per occurrence with retention of \$15,000. 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	\$234,281,000
Liability:	10,000,000
General Liability	
Law Enforcement Liability	
Automobile Liability	
Public Officials Errors & Omissions	
Crime:	
Employee Dishonesty	2,000,000
Depositors Forgery	2,000,000
Computer Fraud	2,000,000
Money & Securities	25,000
Cyber Liability	1,000,000
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.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

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

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 2018 were \$650/single and \$1,500/family per month.

Employees pay \$80 per month for single coverage, \$160 for family + 1 coverage (example: employee and spouse only), and \$205 for family coverage in excess of two individuals. The Plan Administrator for the City determines these rates. Medical Mutual of Ohio, the third party administrator, processes and pays the medical and prescription drug claims. An excess coverage insurance (stop loss) policy covers claims in excess of \$125,000 per employee and an aggregate of \$7,501,275 per year. The \$125,000 specific threshold was exceeded by \$74,637. The City received an invoice credit for the excess. The aggregate was not exceeded.

Vision and dental benefits for the City's employees are provided through The Guardian Life Insurance Company of America. Vision benefits are administered by Vision Service Plan (VSP). The rate per month is \$12 for both single and family coverage for vision benefits only. The employees contribute 100 percent of the cost of dental insurance. Employees contribute \$3.39 for single coverage and \$7.67 for family coverage for vision and \$22.70 for single coverage and \$63.63 for family coverage for dental.

The claims liability of \$320,154 reported in the hospitalization fund at December 31, 2018 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 2017 and 2018 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2017	\$359,352	\$6,382,383	\$6,424,516	\$317,219
2018	317,219	7,206,689	7,203,754	320,154

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(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
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
2017 Pellet Terminal Refunding Bond	3.125-4.00	4,440,000	December 1, 2028
2017 Fire Department Improvement Bond	3.00-4.00	1,500,000	December 1, 2026
2017 Erie Avenue Road Improvement Bond	3.00-4.00	915,000	December 1, 2036
<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>Long-Term Bond Anticipation Note</i>			
2018 Broadway Streetscape Improvements	2.75	2,700,000	June 20, 2019
<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
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	240,418	July 1, 2030
2016 Local Roadway Rehab (#CI41U)	0.00	272,371	January 1, 2029
2017 Local Roadway Rehab (#CI07V)	0.00	180,414	January 1, 2030

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(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>			
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	577,103	February 8, 2023
2013 Local Roadway (5) (#SB130009)	3.00	1,986,249	July 26, 2028
2015 Local Roadway (12) (#SB160006)	3.00	955,503	November 3, 2022
2016 Local Roadway (7) & SR 57 (#SB160012)	3.00	1,651,250	June 1, 2026
2017 Local Roadway (12) (#SB170010)	3.00	1,415,849	July 1, 2027
2018 Local Roadway (12) (#SB180014)	3.00	6,000	September 1, 2025
<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
State of Ohio GRF Bond Loan	2.00 - 5.00	7,061,249	November 1, 2034
<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	68,074,637	January 1, 2036
2013 Oberlin Avenue Waterline Replacement (#6394)	3.09	3,920,087	January 1, 2034
2013 SR611 Waterline Replacement (#6416)	3.15	3,735,922	January 1, 2034
2013 Washington & Reid Ave. Waterline Replacement (#6461)	3.44	7,924,151	July 1, 2034
2013 Westside Elevated Tank (#6466)	3.29	3,733,655	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	4,256,286	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	July 1, 2035
2015 South Lorain Waterline Replacement Phase II (#7038)	2.91	5,878,090	July 1, 2036
2015 East Lorain Waterline Replacement Design (#7067)	3.57	156,302	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
2017 WTP Master Plan (#7865)	0.00	323,607	January 1, 2024
2017 Red Hill Transmission Main Design (#7916)	1.34	208,142	July 1, 2023
2018 South Lorain Waterline Replacement Phase III (#7998)	1.45	2,573,872	January 1, 2039
2018 West Lorain Waterline Improvement (#8099)	2.9	1,441,037	July 1, 2039

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

NOTE 12: LONG-TERM OBLIGATIONS (Continued)

Changes in bonds and other long-term obligations of the City during 2018 were as follows:

	Principal Outstanding 12/31/2017	Additions	Deletions	Principal Outstanding 12/31/2018	Due Within One Year
Governmental Activities					
<i>General Obligation Bonds:</i>					
1998 Capital Purposes	\$ 10,000	\$ -	\$ 10,000	\$ -	\$ -
2003 Park and Street Improvements (G.O. Portion)	470,055	-	67,634	402,421	71,015
2006 Lighthouse Urban Renewal Phase I	1,020,000	-	95,000	925,000	95,000
2007 Riverfront Urban Renewal Refunding	3,290,000	-	245,000	3,045,000	255,000
Unamortized Discount	(23,189)	-	(2,230)	(20,959)	-
2007A Colorado Avenue	300,000	-	25,000	275,000	25,000
2007A US Route 6	315,000	-	60,000	255,000	60,000
2007B Heritage Urban Renewal	875,000	-	65,000	810,000	65,000
Unamortized Discount	(2,880)	-	(267)	(2,613)	-
2010 Health Claims	3,245,000	-	320,000	2,925,000	340,000
2011 Street Improvements (G.O. Portion)	361,126	-	18,056	343,070	20,313
Unamortized Discount	(3,351)	-	(247)	(3,104)	-
2011 Various Purpose Refunding (G.O. Portion)	860,000	-	105,000	755,000	115,000
Unamortized Discount	(1,496)	-	(225)	(1,271)	-
2012 Jaeger Road	4,410,000	-	235,000	4,175,000	240,000
Unamortized Discount	(14,696)	-	(1,001)	(13,695)	-
2012 Various Purpose Refunding	3,260,000	-	360,000	2,900,000	365,000
Unamortized Discount	(1,100)	-	(127)	(973)	-
2013 Property Acquisition Bond	6,110,000	-	205,000	5,905,000	210,000
Unamortized Discount	(44,053)	-	(2,070)	(41,983)	-
2013 Street Improvements Bond	4,045,000	-	215,000	3,830,000	220,000
Unamortized Discount	(482)	-	(31)	(451)	-
2014 Street Improvements Bond	5,000,000	-	270,000	4,730,000	275,000
Unamortized Discount	(22,022)	-	(1,340)	(20,682)	-
2015 Riverfront Urban Renewal Phase II & III Refunding	3,500,000	-	185,000	3,315,000	190,000
Unamortized Premium	10,699	-	887	9,812	-
2017 Pellet Terminal Refunding Bond	4,440,000	-	-	4,440,000	370,000
Unamortized Premium	172,956	-	16,674	156,282	-
2017 Fire Department Improvements Bond	1,420,000	-	135,000	1,285,000	140,000
Unamortized Premium	71,319	-	8,521	62,798	-
2017 Erie Street Road Improvements Bond	895,000	-	35,000	860,000	35,000
Unamortized Premium	13,811	-	752	13,059	-
<i>Total General Obligation Bonds</i>	<u>43,981,697</u>	<u>-</u>	<u>2,669,986</u>	<u>41,311,711</u>	<u>3,091,328</u>
<i>Special Assessment Bonds with Government Commitment:</i>					
2003 Park and Street Improvements (S.A. Portion)	224,945	-	32,366	192,579	33,985
2009 Street Improvements	290,000	-	15,000	275,000	20,000
Unamortized Premium	7,321	-	624	6,697	-
2010 Street Improvements	180,000	-	10,000	170,000	10,000
Unamortized Discount	(2,736)	-	(212)	(2,524)	-
2011 Street Improvements	438,874	-	21,944	416,930	24,687
Unamortized Discount	(4,073)	-	(300)	(3,773)	-
<i>Total Special Assessment Bonds</i>	<u>1,134,331</u>	<u>-</u>	<u>79,422</u>	<u>1,054,909</u>	<u>88,672</u>
<i>Long-term Bond Anticipation Notes</i>					
2018 Broadway Streetscape Improvements	-	2,700,000	-	2,700,000	2,700,000
Unamortized Premium	-	21,168	10,584	10,584	-
<i>Total Long-term Bond Anticipation Notes</i>	<u>-</u>	<u>2,721,168</u>	<u>10,584</u>	<u>2,710,584</u>	<u>2,700,000</u>

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

NOTE 12: LONG-TERM OBLIGATIONS (Continued)

	Restated Principal Outstanding 12/31/2017	Additions	Deletions	Principal Outstanding 12/31/2018	Due Within One Year
Governmental Activities (continued)					
<i>HUD Section 108 Loans:</i>					
Colorado Industrial Park - Series 2010-A (B-99-MC-0016)	250,000	-	250,000	-	-
Land Acquisition - Series 2004-A (B-03-MC-39-0016)	1,020,000	-	1,020,000	-	-
<i>Total HUD Section 108 Loans</i>	<u>1,270,000</u>	<u>-</u>	<u>1,270,000</u>	<u>-</u>	<u>-</u>
<i>Other Long Term Obligations:</i>					
Net Pension Liability					
OPERS	\$ 14,931,286	\$ -	\$ 5,779,784	\$ 9,151,502	\$ -
OP&F	33,495,081	-	1,971,426	31,523,655	-
<i>Total Net Pension Liability</i>	<u>48,426,367</u>	<u>-</u>	<u>7,751,210</u>	<u>40,675,157</u>	<u>-</u>
Net OPEB Liability					
OPERS	6,056,222	139,226	-	6,195,448	-
OP&F	25,101,896	3,999,534	-	29,101,430	-
<i>Total Net OPEB Liability</i>	<u>31,158,118</u>	<u>4,138,760</u>	<u>-</u>	<u>35,296,878</u>	<u>-</u>
ODOD Urban Redevelopment Loans	940,233	-	249,631	690,602	249,145
OPWC Loans	2,005,994	292,082	323,931	1,974,145	288,194
ODOT State Infrastructure Bank Loans	7,083,728	838,550	903,326	7,018,952	1,018,798
Installment Loans	6,491,756	-	409,613	6,082,143	414,613
Capital Leases	1,018,178	1,738,991	508,974	2,248,195	482,351
Pollution Remediation	1,323,440	1,192,631	1,279,271	1,236,800	161,960
Compensated Absences	6,349,275	1,212,356	1,322,609	6,239,022	878,476
<i>Total Other Long Term Obligations</i>	<u>104,797,089</u>	<u>9,413,370</u>	<u>12,748,565</u>	<u>101,461,894</u>	<u>3,493,537</u>
<i>Total Governmental Activities</i>	<u>\$ 151,183,117</u>	<u>\$ 12,134,538</u>	<u>\$ 16,778,557</u>	<u>\$ 146,539,098</u>	<u>\$ 9,373,537</u>
Business-Type Activities					
<i>Ohio Water Development Authority Loans:</i>					
East Erie Waterlines	\$ 341,738	\$ -	\$ 166,296	\$ 175,442	\$ 175,442
E. 28th St. / Pearl Ave. Relief Sewer	180,631	-	70,691	109,940	72,763
Colorado Ave. / Root Rd. Waterline	106,175	-	33,277	72,898	35,349
Colorado / Root / E. Erie Waterline	570,402	-	181,958	388,444	190,015
Westside Waterline Replacement	599,037	-	161,457	437,580	169,035
Tacoma Avenue Relief Sewer	912,588	-	295,748	616,840	304,117
Idaho Avenue SSO Elimination	2,251,949	-	614,516	1,637,433	637,213
4W Waterline Replacement	2,575,139	-	104,458	2,470,681	109,639
Kay Drive Retention Basin	942,435	-	130,377	812,058	135,391
Amherst Township Relief Sewer	368,745	-	51,012	317,733	52,974
Pearl Road & Tacoma Pump Station	561,742	-	71,454	490,288	74,203
East Central Relief Sewer	1,996,546	-	171,978	1,824,568	179,962
Westside Relief Sewer	13,122,606	-	1,088,468	12,034,138	1,124,021
Brownell Avenue Waterline	469,091	-	38,139	430,952	39,863
Pearl Avenue Water Main	1,245,692	-	75,503	1,170,189	78,430
28th Street Waterline	1,374,845	-	72,623	1,302,222	75,890
Black River Tunnel Phase I	62,668,312	-	2,804,760	59,863,552	2,874,749
Oberlin Ave. Waterline Replacement	3,191,479	-	201,127	2,990,352	173,158
SR 611 Waterline Replacement	2,963,494	47,907	195,732	2,815,669	201,945
Washington & Reid Waterline Repl	6,859,225	-	278,998	6,580,227	327,712
Westside Elevated Tank	3,247,511	-	152,981	3,094,530	155,727
S. Lorain Waterline Repl. Phase I	4,030,486	-	173,002	3,857,484	180,414
Euclid Ave. Waterline Replacement	1,510,481	-	65,499	1,444,982	68,226
<i>Subtotal - Ohio Water Development Authority Loans:</i>	<u>\$ 112,090,349</u>	<u>\$ 47,907</u>	<u>\$ 7,200,054</u>	<u>\$ 104,938,202</u>	<u>\$ 7,436,238</u>

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

NOTE 12: LONG-TERM OBLIGATIONS (Continued)

	Restated Principal Outstanding 12/31/2017	Additions	Deletions	Principal Outstanding 12/31/2018	Due Within One Year
Business-Type Activities (continued)					
<i>Ohio Water Development Authority Loans (continued):</i>					
<i>Prior Page Subtotal:</i>	\$ 112,090,349	\$ 47,907	\$ 7,200,054	\$ 104,938,202	\$ 7,436,238
2nd, 4th, 5th, 6th, Hamilton & Reid Ave. Waterline Replacement	3,926,647	-	117,003	3,809,644	160,913
E. 31st St. Bridge Waterline Repl	549,682	-	24,839	524,843	25,632
Elyria Avenue Waterline Repl	1,304,523	-	59,939	1,244,584	61,483
S. Lorain Waterline Repl Phase II	5,525,102	-	209,911	5,315,191	236,793
East Lorain Waterline Repl Design	131,575	10,405	9,545	132,435	-
South Lorain Waterline Repl Phase III	200,050	2,373,822	-	2,573,872	-
Broadway, Skyline, Jaeger Waterline Replacement	3,832,050	-	151,647	3,680,403	156,292
Crehore Street Waterline Replacement	722,588	-	31,037	691,551	31,830
W Lorain Waterline Improvement	128,543	1,318,758	6,264	1,441,037	-
WTP Master Plan	6,582	317,025	-	323,607	-
Red Hill Transmission Main Design	7,146	200,996	54,516	153,626	-
<i>Total Ohio Water Development Authority Loans</i>	<u>128,424,837</u>	<u>4,268,913</u>	<u>7,864,755</u>	<u>124,828,995</u>	<u>8,109,181</u>
<i>Other Long Term Obligations:</i>					
Net Pension Liability					
Water - OPERS	4,808,380	-	1,206,481	3,601,899	-
Sewer - OPERS	5,567,598	-	1,581,053	3,986,545	-
<i>Total Net Pension Liability</i>	<u>10,375,978</u>	<u>-</u>	<u>2,787,534</u>	<u>7,588,444</u>	<u>-</u>
Net OPEB Liability					
Water - OPERS	2,383,641	54,798	-	2,438,439	-
Sewer - OPERS	2,638,190	60,650	-	2,698,840	-
<i>Total Net OPEB Liability</i>	<u>5,021,831</u>	<u>115,448</u>	<u>-</u>	<u>5,137,279</u>	<u>-</u>
Capital Leases	298,920	2,075,103	414,166	1,959,857	389,953
Pollution Remediation	172,136	-	172,136	-	-
Compensated Absences	1,465,866	15,192	134,206	1,346,852	79,862
<i>Total Other Long Term Obligations</i>	<u>17,334,731</u>	<u>2,205,743</u>	<u>3,508,042</u>	<u>16,032,432</u>	<u>469,815</u>
Total Business-Type Activities	<u>\$ 145,759,568</u>	<u>\$ 6,474,656</u>	<u>\$ 11,372,797</u>	<u>\$ 140,861,427</u>	<u>\$ 8,578,996</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, 2018, \$2,655,000 of the defeased bonds is still outstanding.

In 2017, the City defeased the Pellet Terminal Improvement 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, 2018, \$3,570,000 of the defeased bonds is still outstanding.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

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

The City has pledged a portion of permissive license tax revenues to repay \$915,000 in general obligation bonds issued in 2017 to finance the reconstruction and repair of local roadways. These bonds are payable solely from the permissive license tax revenue in the permissive license fund and is projected to use approximately 4 percent of the available permissive license tax over the life of the bonds.

Total principal and interest remaining on the bonds is \$1,207,000, payable through 2036. Principal and interest payments for the current year were \$69,094 and total permissive license tax revenues were \$1,028,878.

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 \$8,798,206, payable through 2034. Principal and interest payments for the current year were \$642,100 and total income tax revenues were \$2,421,622.

On June 20, 2018 the City issued \$2,700,000 in a Street Improvement Bond Anticipation Note for the Broadway Avenue Streetscape project at an annual interest rate of 2.75 percent that will mature on June 20, 2019. There are \$2,683,209 in unspent proceeds as of December 31, 2018.

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 permissive license tax revenues to repay \$4,028,602 in ODOT State infrastructure bank loans issued in 2016 through 2018 to finance the reconstruction and repair of local roadways. These loans are payable solely from the permissive license tax revenue in the permissive license fund and is projected to use approximately 32 percent of the available permissive license tax over the life of the loans. Total principal and interest remaining on the bonds is \$4,184,696, payable through 2027. Principal and interest payments for the current year were \$324,069 and total permissive license tax revenues were \$1,028,878.

The City has pledged a portion of municipal income tax revenues to repay \$4,319,518 in ODOT State infrastructure bank loans received in 2013 to finance the reconstruction and repair of local roadways. These loans are payable solely from the one-quarter percent municipal income tax revenue in the streets fund and is projected to use approximately 22 percent of the available municipal income tax over the life of the loan. Total principal and interest remaining on the loan is \$3,353,148, payable through 2028. Principal and interest payments for the current year were \$518,248 and total income tax revenues were \$2,421,622.

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.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

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

Total principal and interest remaining on the loan is \$7,785,653, payable through 2034. Principal and interest payments for the current year were \$499,281 and total income tax revenues were \$2,421,622.

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

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 2018 with the potential for additional costs in the future due to price increases. The City expects no recoveries to reduce the liability for the remediation.

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

The cost of the pollution remediation estimated by the firm is \$0 as of 2018, but the City continues to monitor the site and there is potential for additional remediation costs in the future. The containment plan is in place and the flow of the leachate into the Black River has been curbed.

The former location of the National Vapor Stove and Manufacturing Company (Stoveworks), which began operations around 1900, was voluntarily identified by the City for environmental assessment due to the nature of the previous land use. The property is owned by the City, a private owner and a local non-profit, and the area of concern consists of 5.25 acres and includes a 33,000 square foot former warehouse building. The City contracted with a certified consultant to perform an assessment of the property which was completed in December 2017. It was determined by the consultant that environmental remediation was necessary due to unacceptable concentrations of asbestos, arsenic, lead and ground water contamination, and the presence of underground storage tanks. The City has undertaken the remediation of the Stoveworks site, including the demolition of the building and removal underground storage tanks in order to comply with the Ohio Environmental Protection Agency's voluntary action plan standards for environmental contamination cleanup and the Ohio State Fire Marshall's underground storage tank corrective action program..

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

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

The cost of remediation is estimated to be \$373,360 as of 2018, subject to price increases and other required services not included in the estimate. The City expects no recoveries to reduce the liability for the cost of remediation.

Compensated absences and employer pension contributions have historically been, and will be, paid from the general fund, the community development, streets, FEMA SAFER grant, fire levy, 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 and employer pension contributions from the fund benefitting from their service. There is no repayment schedule for the net pension and OPEB liability. See Note 15 and 16 for additional information related to the net pension and net OPEB liability.

The 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, and the capital leases for copiers/scanners and equipment 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 39 percent of net revenues and less than 22 percent of total revenues. The total principal and interest remaining to be paid on the loans is \$55,310,043. Principal and interest payments for the current year were \$3,781,872, net revenues were \$9,635,800, and total revenues were \$17,666,451.

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 92 percent of net revenues and less than 45 percent of total revenues. The total principal and interest remaining to be paid on the loans is \$94,131,891. Principal and interest payments for the current year were \$7,455,220, net revenues were \$8,129,661, and total revenues were \$16,697,875.

The City's overall legal debt margin was \$58,708,031 at December 31, 2018.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

NOTE 12: LONG-TERM OBLIGATIONS (Continued)

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2018 are as follows:

Governmental Activities:

Years	General Obligation Bonds		Special Assessment Bonds		ODOD Urban Redevelopment Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$3,091,328	\$1,602,890	\$88,672	\$60,380	\$249,145	\$19,427
2020	3,218,092	1,491,907	91,908	56,095	256,704	11,238
2021	3,296,474	1,368,654	93,526	51,198	184,753	2,906
2022	3,407,113	1,239,044	97,887	46,107	0	0
2023	3,470,494	1,102,178	104,506	40,648	0	0
2024-2028	15,240,422	3,474,975	379,578	129,973	0	0
2029-2033	7,076,568	1,233,992	198,432	19,817	0	0
2034-2038	2,375,000	267,839	0	0	0	0
Total	<u>\$41,175,491</u>	<u>\$11,781,479</u>	<u>\$1,054,509</u>	<u>\$404,218</u>	<u>\$690,602</u>	<u>\$33,571</u>

Years	OPWC Loans	ODOT State Infrastructure Bank Loans		Installment Loans		Total Governmental Activities	
	Principal	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$288,194	\$1,018,798	\$160,290	\$414,613	\$203,360	\$5,150,750	\$2,046,347
2020	267,024	1,032,146	172,141	369,280	196,799	5,235,154	1,928,180
2021	240,003	1,046,975	140,944	347,000	189,434	5,208,731	1,753,136
2022	202,251	1,049,736	109,817	335,000	180,921	5,091,987	1,575,889
2023	187,143	706,390	79,642	325,000	170,943	4,793,533	1,393,411
2024-2028	687,230	2,164,907	149,080	1,790,000	680,786	20,262,137	4,434,814
2029-2033	102,300	0	0	2,130,000	320,591	9,507,300	1,574,400
2034-2038	0	0	0	371,250	11,571	2,746,250	279,410
Total	<u>\$1,974,145</u>	<u>\$7,018,952</u>	<u>\$811,914</u>	<u>\$6,082,143</u>	<u>\$1,954,405</u>	<u>\$57,995,842</u>	<u>\$14,985,587</u>

Business-Type Activities:

Years	OWDA Loans		Total Business-Type Activities	
	Principal	Interest	Principal	Interest
2019	\$8,109,181	\$3,472,363	\$8,109,181	\$3,472,363
2020	8,149,715	3,230,110	8,149,715	3,230,110
2021	7,364,506	2,992,976	7,364,506	2,992,976
2022	7,147,488	2,781,093	7,147,488	2,781,093
2023	7,368,431	2,569,135	7,368,431	2,569,135
2024-2028	37,433,665	9,513,046	37,433,665	9,513,046
2029-2033	32,978,731	4,248,238	32,978,731	4,248,238
2034-2036	11,652,701	430,555	11,652,701	430,555
Total	<u>\$120,204,418</u>	<u>\$29,237,516</u>	<u>\$120,204,418</u>	<u>\$29,237,516</u>

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(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, 2018	
	<u>Principal Outstanding</u>	<u>Amount Financed</u>
<i>Water Works:</i>		
East Lorain Waterline Replacement Design	\$132,435	\$201,074
South Lorain Waterline Replacement Phase III Design	2,573,872	3,871,924
West Lorain Waterline Improvement Planning	1,441,037	5,371,471
Water Treatment Plant Master Plan	323,607	494,104
Red Hill Transmission Main Design	153,626	561,136
Total Loans not Finalized	<u>\$4,624,577</u>	<u>\$10,499,709</u>

NOTE 13: **CAPITAL LEASES**

During 2018, the City entered into a lease for equipment and fleet vehicles for streets, parks, cemetery building department, water and water pollution control. Included in the 2018 lease are fleet vehicles consisting of pickup trucks and vans, dump trucks, a mini excavator, a tractor, equipment trailers, an asphalt recycler, diesel pumps, a camera truck, a jet/vactor combination truck, and zero turn mowers. In prior years the City entered into leases for police cruisers, copiers/scanners for various departments, the acquisition of computer hardware and software to upgrade the City's existing general accounting, utilities, and income tax systems, street, electrical, parks, cemetery, general sewer, fire, water, and water pollution control equipment, fleet vehicles, an IP phone system and software. 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 2018 lease for streets, parks, cemetery, building department, water, and water pollution control equipment, Fifth Third Bank, the lessor, deposited \$3,794,021 in an escrow account in 2018 so that the City could obtain the equipment from various vendors. \$1,157,711 was paid to the vendors in 2018 and the balance of \$2,636,310 will be paid to the vendors in 2019 at the direction of the City upon receipt of the equipment.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

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

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	\$9,779,877	\$4,166,141
Less Accumulated Depreciation:		
Machinery and Equipment	(3,977,654)	(1,102,976)
Capital Assets, Net	<u>\$5,802,223</u>	<u>\$3,063,165</u>

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of minimum lease payments as of December 31, 2018:

Year Ending December 31,	Governmental Activities	Business-Type Activities
2019	\$ 567,263	\$ 468,367
2020	555,813	466,046
2021	540,071	463,725
2022	537,005	463,725
2023	268,825	309,150
2023	0	0
Total Minimum Lease Payments	<u>2,468,977</u>	<u>2,171,013</u>
Less: Amount Representing Interest	(220,782)	(211,156)
Present Value of Minimum Lease Payments	<u>\$2,248,195</u>	<u>\$1,959,857</u>

NOTE 14: **COMPENSATED ABSENCES**

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

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(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, 2018
(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. City 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 62 with 5 years of service credit or Age 57 with 25 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, 2018
(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 City for member and employer contributions as follows:

	State and Local
2018 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee *	10.0 %
 2018 Actual Contribution Rates	
Employer:	
Pension **	14.0 %
Post-Employment Health Care Benefits **	0.0
Total Employer	14.0 %
 Employee	 10.0 %

* Member contributions within combined plan are not used to fund the defined benefit retirement allowance

** These pension and employer health care rates are for the traditional and combined plans. The employer contributions rate for the member-directed plan is allocated 4 percent for health care with remainder going to pension.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City’s contractually required contributions was \$2,067,230 for 2018. Of this amount, \$189,909 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, 2018
(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:

	<u>Police</u>	<u>Firefighters</u>
2018 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
2018 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
Total Employer	<u>19.50 %</u>	<u>24.00 %</u>
Employee	12.25 %	12.25 %

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(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 \$2,457,026 for 2018. Of this amount, \$182,795 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, 2017, 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, 2017, and was determined by rolling forward the total pension liability as of January 1, 2017, to December 31, 2017. 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	0.111445%	0.281688%	0.247134%	
Proportion of the Net Pension Liability Current Measurement Date	<u>0.106705%</u>	<u>0.276037%</u>	<u>0.237591%</u>	
Change in Proportionate Share	<u>-0.004740%</u>	<u>-0.005651%</u>	<u>-0.0095436%</u>	
Proportionate Share of the Net Pension Liability	\$ 16,739,946	\$ 16,941,636	\$ 14,582,019	\$ 48,263,601
Pension Expense	\$ 3,120,934	\$ 1,875,810	\$ 1,325,900	\$ 6,322,644

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(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, 2018, 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				
Changes of assumptions	\$ 2,000,526	\$ 738,236	\$ 635,415	\$ 3,374,177
Differences between expected and actual experience	17,095	257,101	221,292	495,488
Changes in proportion and differences between City contributions and proportionate share of contributions	316,103	153,184	-	469,287
City contributions subsequent to the measurement date	<u>2,067,230</u>	<u>1,318,113</u>	<u>1,138,913</u>	<u>4,524,256</u>
Total Deferred Outflows of Resources	<u>\$4,400,954</u>	<u>\$2,466,634</u>	<u>\$1,995,620</u>	<u>\$8,863,208</u>
Deferred Inflows of Resources				
Net difference between projected and actual earnings on pension plan investments	\$3,593,848	\$586,050	\$504,424	\$4,684,322
Differences between expected and actual experience	\$329,890	\$30,649	\$26,380	\$386,919
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>1,258,313</u>	<u>848,892</u>	<u>1,677,959</u>	<u>3,785,164</u>
Total Deferred Inflows of Resources	<u>\$5,182,051</u>	<u>\$1,465,591</u>	<u>\$2,208,763</u>	<u>\$8,856,405</u>

\$4,524,256 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31:	<u>OPERS</u>	<u>OP&F Police</u>	<u>OP&F Fire</u>	<u>Total</u>
2019	\$839,489	\$281,712	(\$46,175)	\$1,075,026
2020	(628,512)	127,635	(178,791)	(679,668)
2021	(1,582,541)	(479,371)	(701,256)	(2,763,168)
2022	(1,476,763)	(403,251)	(500,098)	(2,380,112)
2023	0	123,268	56,034	179,302
Thereafter	<u>0</u>	<u>32,937</u>	<u>18,230</u>	<u>51,167</u>
Total	<u>(\$2,848,327)</u>	<u>(\$317,070)</u>	<u>(\$1,352,056)</u>	<u>(\$4,517,453)</u>

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(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, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all prior periods included in the measurement in accordance with the requirements of GASB 67.

Wage Inflation	3.25 percent
Future Salary Increases, including inflation COLA or Ad Hoc COLA	3.25 to 10.75 percent including wage inflation Pre 1/7/2013 retirees; 3 percent, simple Post 1/7/2013 retirees; 3 percent, simple through 2018, then 2.15 percent simple
Investment Rate of Return	7.5 percent
Actuarial Cost Method	Individual Entry Age

Mortality rates were based on the RP-2014 Health Annuitant Mortality table. For males, Health Annuitant Mortality tables were used, adjusted for mortality improvement back to the observant period base of 2006 and then established the base year as 2015. For females, Health Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled Mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

The most recent experience study was completed for the five year period ended December 31, 2015.

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 three investment portfolios: the Defined Benefits portfolio, the Health Care 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.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

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

Actuarial Assumptions – OPERS (Continued)

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 annual money weighted rate of return expressing investment performance, net of investments expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 16.82 percent for 2017.

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 2017 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.20 %
Domestic Equities	19.00	6.37
Real Estate	10.00	5.26
Private Equity	10.00	8.97
International Equities	20.00	7.88
Other investments	18.00	5.26
Total	100.00 %	5.66 %

Discount Rate The discount rate used to measure the total pension liability was 7.5 percent, post-experience study results. 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 contractually required rates, as actuarially determined. 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 7.5 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 (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 29,725,879	\$ 16,739,946	\$ 5,913,591

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

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

Actuarial Assumptions – OPERS (Continued)

Changes Between Measurement Date and Report Date In October 2018, the OPERS Board adopted certain assumption changes which will impact their valuation prepared as of January 1, 2018. The most significant change is a reduction in the assumed actuarial rate of return from 7.50 percent to 7.20 percent. Although the exact amount of these changes is not known, it has the potential to impact the City's net pension liability.

Actuarial Assumptions – OP&F

OP&F's total pension liability as of December 31, 2017 is based on the results of an actuarial valuation date of January 1, 2017, 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, 2017, are presented below:

Valuation Date	January 1, 2017
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.00 percent
Projected Salary Increases	3.75 percent to 10.5 percent
Payroll Increases	3.25 percent
Inflation Assumptions	2.75 percent
Cost of Living Adjustments	2.20 percent and 3.00 percent Simple

Mortality rates for active members were based on the RP2014 Total employee and Healthy Annuitant Mortality Tables rolled back to 2006, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent. For disabled retirees, the mortality rates were based on the RP2014 Disabled Mortality Tables rolled back to 2006, and projected with the Conduent Modified 2016 Improvement Scale.

The most recent experience study was completed January 1, 2017.

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.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

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

Actuarial Assumptions – OP&F (Continued)

The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F’s target asset allocation as of December 31, 2017 are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash and Cash Equivalents	- %	0.00 %
Domestic Equity	16.00	5.21
Non-US Equity	16.00	5.40
Core Fixed Income *	20.00	2.37
Global Inflation Protected Securities	20.00	2.33
High Yield	15.00	4.88
Real Estate	12.00	5.65
Private Markets	8.00	7.99
Real Assets	5.00	6.87
Private Credit	8.00	7.36
 Total	 <u>120.00 %</u>	

Note: Assumptions are geometric
* levered 2x

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 8.00 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 8.00 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, 2018
(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 8.00 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 (7.00 percent), or one percentage point higher (9.00 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	\$ 43,700,052	\$ 31,523,655	\$ 21,592,689

NOTE 16: **DEFINED BENEFIT OPEB PLANS**

Net OPEB Liability

The net OPEB liability reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB 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 OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB liability represents the City's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB 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 these estimates 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 OPEB are financed; however, the City does receive the benefit of employees' services in exchange for compensation including OPEB.

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

NOTE 16: **DEFINED BENEFIT OPEB PLANS** (Continued)

Net OPEB Liability (Continued)

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

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - The 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.

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds 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. This trust is also used to fund health care for member-directed plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, member directed plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 75. See OPERS' CAFR referenced below for additional information.

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

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

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

NOTE 16: **DEFINED BENEFIT OPEB PLANS** (Continued)

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

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2018, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. 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 1.0 percent during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0 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 into the RMA for participants in the Member-Directed Plan for 2018 was 4.0 percent.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

The City's contractually required contribution was \$20,298 for 2018.

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

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing, multiple-employer defined post-employment healthcare plan administered by a third-party provider. This program is not guaranteed and is subject to change at any time upon action of the Board of Trustees. OP&F provides health care benefits including coverage for medical, prescription drug, dental, vision, and Medicare Part B Premium to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to postretirement 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 Government Accounting Standards Board (GASB) Statement No. 75.

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. 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.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

NOTE 16: **DEFINED BENEFIT OPEB PLANS** (Continued)

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

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 19.5 percent and 24 percent of covered payroll for police and fire employer units, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5 percent of covered payroll for police employer units and 24 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. There is one account for health care benefits and one account for Medicare Part B reimbursements. A separate health care trust accrual account is maintained for health care benefits under IRS Code Section 115 trust. An Internal Revenue Code 401(h) account is maintained for Medicare Part B reimbursements.

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. For 2018, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. 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 Sections 115 and 401(h).

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

The City's contractually required contribution to OP&F was \$58,919 for 2018. Of this amount, \$5,702 is reported as an intergovernmental payable.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. OP&F's total OPEB liability was measured as of December 31, 2017, and was determined by rolling forward the total OPEB liability as of January 1, 2017, to December 31, 2017. The City's proportion of the net OPEB liability was based on the City's share of contributions to the retirement plan relative to the contributions of all participating entities.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

NOTE 16: **DEFINED BENEFIT OPEB PLANS** (Continued)

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

Following is information related to the proportionate share and OPEB expense:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportion of the Net OPEB Liability			
Prior Measurement Date	0.109680%	0.528820%	
Proportion of the Net OPEB Liability			
Current Measurement Date	<u>0.104360%</u>	<u>0.513628%</u>	
Change in Proportionate Share	<u>-0.005320%</u>	<u>-0.015192%</u>	
Proportionate Share of the Net OPEB			
Liability	\$ 11,332,727	\$ 29,101,430	\$ 40,434,157
OPEB Expense	\$ 791,581	\$ 2,183,340	\$ 2,974,921

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$8,828	\$0	\$8,828
Changes of assumptions	825,143	2,839,681	3,664,824
City contributions subsequent to the measurement date	<u>20,298</u>	<u>58,919</u>	<u>79,217</u>
Total Deferred Outflows of Resources	<u>\$854,269</u>	<u>\$2,898,600</u>	<u>\$3,752,869</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$0	\$146,776	\$146,776
Net difference between projected and actual earnings on OPEB plan investments	844,213	191,558	1,035,771
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>365,933</u>	<u>628,097</u>	<u>994,030</u>
Total Deferred Inflows of Resources	<u>\$1,210,146</u>	<u>\$966,431</u>	<u>\$2,176,577</u>

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

NOTE 16: **DEFINED BENEFIT OPEB PLANS** (Continued)

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

\$79,217 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	OPERS	OP&F	Total
Year Ending December 31:			
2019	\$12,716	\$253,983	\$266,699
2020	12,716	253,983	266,699
2021	(190,553)	253,983	63,430
2022	(211,054)	253,985	42,931
2023	0	301,873	301,873
Thereafter	0	555,443	555,443
Total	(\$376,175)	\$1,873,250	\$1,497,075

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 and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

Wage Inflation	3.25 percent
Projected Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation
Single Discount Rate:	
Current measurement date	3.85 percent
Prior Measurement date	4.23 percent
Investment Rate of Return	6.50 percent
Municipal Bond Rate	3.31 percent
Health Care Cost Trend Rate	7.5 percent, initial 3.25 percent, ultimate in 2028
Actuarial Cost Method	Individual Entry Age

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

NOTE 16: **DEFINED BENEFIT OPEB PLANS** (Continued)

Actuarial Assumptions – OPERS (Continued)

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The most recent experience study was completed for the five year period ended December 31, 2015.

The long-term expected rate of return on health care 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.

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio is 15.2 percent for 2017.

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	34.00 %	1.88 %
Domestic Equities	21.00	6.37
Real Estate Investment Trust	6.00	5.91
International Equities	22.00	7.88
Other investments	17.00	5.39
Total	100.00 %	4.98 %

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

NOTE 16: **DEFINED BENEFIT OPEB PLANS** (Continued)

Actuarial Assumptions – OPERS (Continued)

Discount Rate A single discount rate of 3.85 percent was used to measure the OPEB liability on the measurement date of December 31, 2017. A single discount rate of 4.23 percent was used to measure the OPEB liability on the measurement date of December 31, 2016. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.50 percent and a municipal bond rate of 3.31 percent. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate The following table presents the City’s proportionate share of the net OPEB liability calculated using the single discount rate of 3.85 percent, as well as what the City’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.85 percent) or one-percentage-point higher (4.85 percent) than the current rate:

	1% Decrease (2.85%)	Current Discount Rate (3.85%)	1% Increase (4.85%)
City's proportionate share of the net OPEB liability	\$15,056,017	\$11,332,727	\$8,320,623

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent higher than the current rate.

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2018 is 7.50 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25 percent in the most recent valuation.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

NOTE 16: **DEFINED BENEFIT OPEB PLANS** (Continued)

Actuarial Assumptions – OPERS (Continued)

	1% Decrease	Current Health Care Cost Trend Rate Assumption	1% Increase
City's proportionate share of the net OPEB liability	\$10,843,004	\$11,332,727	\$11,838,598

Changes Between Measurement Date and Report Date

In October 2018, the OPERS Board adopted certain assumption changes which will impact their valuation prepared as of January 1, 2018. The most significant change is a reduction in the assumed actuarial rate of return from 6.50 percent to 6.00 percent. Although the exact amount of these changes is not known, it has the potential to impact the City's net OPEB liability.

Actuarial Assumptions – OP&F

OP&F's total OPEB liability as of December 31, 2017, is based on the results of an actuarial valuation date of January 1, 2017, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OP&F's actuaries in accordance with GASB Statement No. 74, 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.

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 and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

NOTE 16: **DEFINED BENEFIT OPEB PLANS** (Continued)

Actuarial Assumptions – OP&F (Continued)

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below.

Valuation Date	January 1, 2017, with actuarial liabilities rolled forward to December 31, 2017
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.0 percent
Projected Salary Increases	3.75 percent to 10.5 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent
Single discount rate:	
Current measurement date	3.24 percent
Prior measurement date	3.79 percent
Cost of Living Adjustments	3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent

Mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

<u>Age</u>	<u>Police</u>	<u>Fire</u>
67 or less	77 %	68 %
68-77	105	87
78 and up	115	120

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale.

<u>Age</u>	<u>Police</u>	<u>Fire</u>
59 or less	35 %	35 %
60-69	60	45
70-79	75	70
80 and up	100	90

The most recent experience study was completed for the five year period ended December 31, 2016, the prior experience study was completed December 31, 2011.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

NOTE 16: **DEFINED BENEFIT OPEB PLANS** (Continued)

Actuarial Assumptions – OP&F (Continued)

The long-term expected rate of return on OPEB 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 expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F’s target asset allocation as of December 31, 2017, are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash and Cash Equivalents	- %	0.00 %
Domestic Equity	16.00	5.21
Non-US Equity	16.00	5.40
Core Fixed Income *	20.00	2.37
Global Inflation Protected Securities*	20.00	2.33
High Yield	15.00	4.48
Real Estate	12.00	5.65
Private Markets	8.00	7.99
Timber	5.00	6.87
Master Limited Partnerships	<u>8.00</u>	7.36
Total	<u>120.00 %</u>	

Note: Assumptions are geometric.

* levered 2x

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 the 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 OPEB liability was calculated using the discount rate of 3.24 percent. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from members would be computed based on contribution requirements as stipulated by state statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return 8 percent. Based on those assumptions, OP&F’s fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, a municipal bond rate of 3.16 percent at December 31, 2017 and 3.71 percent at December 31, 2016, was blended with the long-term rate of 8 percent, which resulted in a blended discount rate of 3.24 percent. The municipal bond rate was determined using the S&P Municipal Bond 20 Year High Grade Rate Index. The OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments until 2025.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

NOTE 16: **DEFINED BENEFIT OPEB PLANS** (Continued)

Actuarial Assumptions – OP&F (Continued)

The long-term expected rate of return on health care investments was applied to projected costs through 2025, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate Net OPEB liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net OPEB liability calculated using the discount rate of 3.24 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.24 percent), or one percentage point higher (4.24 percent) than the current rate.

	1% Decrease (2.24%)	Current Discount Rate (3.24%)	1% Increase (4.24%)
City's proportionate share of the net OPEB liability	\$36,377,138	\$29,101,430	\$23,503,091

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate Net OPEB liability is sensitive to changes in the health care cost trend rate. The trend rate is the annual rate at which the cost of covered medical services is assumed to increase from the current year to the next year. Beginning in 2017, the per-capita costs are assumed to change by the following percentages each year:

	Non-Medicare	Non-AARP	AARP	Rx Drug	Medicare Part B
Year					
2017	-0.47%	-2.50%	4.50%	-0.47%	5.20%
2018	7.00%	7.00%	4.50%	7.00%	5.10%
2019	6.50%	6.50%	4.50%	6.50%	5.00%
2020	6.00%	6.00%	4.50%	6.00%	5.00%
2021	5.50%	5.50%	4.50%	5.50%	5.00%
2022	5.00%	5.00%	4.50%	5.00%	5.00%
2023 and Later	4.50%	4.50%	4.50%	4.50%	5.00%

To illustrate the potential impact, the following table presents the net OPEB liability calculated using the current healthcare cost trend current rates as outlined in the table above, a one percent decrease in the trend rates and a one percent increase in the trend rates.

	1% Decrease	Current Rates	1% Increase
City's proportionate share of the net OPEB liability	\$22,606,514	\$29,101,430	\$37,854,378

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

NOTE 16: **DEFINED BENEFIT OPEB PLANS** (Continued)

Actuarial Assumptions – OP&F (Continued)

Changes between Measurement Date and Report Date In March 2018, the OP&F Board of Trustees approved the implementation date and framework for a new health care model. Beginning January 1, 2019, the current self-insured health care plan will no longer be offered. In its place is a stipend-based health care model. A stipend funded by OP&F will be placed in individual Health Reimbursement Accounts that retirees will use to be reimbursed for health care expenses. The impact to the City’s NOL is not known.

NOTE 17: **SIGNIFICANT COMMITMENTS**

Contractual Commitments

As of December 31, 2018, the City had the following contract balances for various construction projects:

Broadway Avenue Streetscape	\$4,303,227
West Lorain Waterline Improvement	3,700,888
Sanitary Sewer Relining Project	1,299,449
South Lorain Waterline Replacement	1,252,579
Local Roadway Rehabilitation (12) - OPWC Round 31	998,797
Local Roadway Rehabilitation (12) - OPWC Round 32	795,310
Martins Run Pump Station Relocation Project	432,000
Municipal Court Case Management System	426,011
Baumhart Road Resurfacing	404,754
Redhill Boosted Water Pressure Zone Improvements	328,180
Stoveworks Site Pollution Remediation	280,124
Black River Remediation and Restoration Project	225,107
W. 21st St. Waterline Replacement	195,725
Water Treatment Plant (WTP) Master Plan	182,975
West Lorain Waterline Improvement Planning	176,773
South Lorain Waterline Replacement Design - Phase III	125,310
	15,127,209

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.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

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

Encumbrances (Continued)

At year end the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

<i>Governmental Funds:</i>	
General	\$288,154
Capital Improvements	4,433,595
Other Governmental Funds	1,790,716
Total Governmental	<u><u>\$6,512,465</u></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 2018, 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 220 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.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

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.

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 2018, the City made payments in the amount of \$509,891 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.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

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

Interfund Transfers (Continued)

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 continued funding of 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, community development, fire levy, police levy, police pension, and fire pension special revenue funds to the general obligation bond retirement fund.

A transfer was made from the municipal court special revenue fund to the municipal court improvements capital improvement fund for project costs related to the purchase and installation of a new court case management system.

Transfers made during the year ended December 31, 2018 were as follows:

<u>Transfer To</u>	<u>Transfer From</u>					<u>Totals</u>
	<u>Governmental Funds</u>		<u>Enterprise Funds</u>		<u>Internal Service Funds</u>	
	<u>General</u>	<u>Other Governmental Funds</u>	<u>Water Works</u>	<u>Water Pollution Control</u>		
<u>Governmental Funds</u>						
General	\$ 0	\$ 24,525	\$ 29,225	\$ 33,450	\$ 3,324	\$ 90,524
G.O. Bond Retirement	814,514	2,990,128	0	0	0	3,804,642
Other Governmental Funds	250,192	212,000	0	0	0	462,192
<i>Total Governmental Funds</i>	<u>1,064,706</u>	<u>3,226,653</u>	<u>29,225</u>	<u>33,450</u>	<u>3,324</u>	<u>4,357,358</u>
<u>Enterprise Funds</u>						
Water Works	10,000	0	0	0	0	10,000
Water Pollution Control	10,000	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>20,000</u>
<i>Total</i>	<u>\$ 1,084,706</u>	<u>\$ 3,226,653</u>	<u>\$ 29,225</u>	<u>\$ 33,450</u>	<u>\$ 3,324</u>	<u>\$ 4,377,358</u>

Interfund Balances

The interfund balances as of December 31, 2018 represent eliminating negative cash, unallocated municipal court fines, utility and petroleum costs.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

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

Interfund Balances (Continued)

Interfund balances for the year ended December 31, 2018 consisted of the following:

<u>Interfund Payable</u>	<u>Interfund Receivable</u>					<u>Totals</u>
	<u>Governmental Funds</u>		<u>Enterprise Funds</u>		<u>Internal Service Funds</u>	
	<u>General</u>	<u>Other Governmental Funds</u>	<u>Water Works</u>	<u>Water Pollution Control</u>		
<u>Governmental Funds</u>						
General	\$ -	\$ 42,876	\$ -	\$ 762	\$ 32,233	\$ 75,871
Other Governmental Funds	4,281	-	34	38	42,219	46,572
<i>Total Governmental Funds</i>	<u>4,281</u>	<u>42,876</u>	<u>34</u>	<u>800</u>	<u>74,452</u>	<u>122,443</u>
<u>Enterprise Funds</u>						
Water Works	-	-	-	-	11,561	11,561
Water Pollution Control	-	-	-	-	10,091	10,091
<i>Total Enterprise Funds</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,652</u>	<u>21,652</u>
<u>Internal Service Fund</u>						
Garage	23,450	-	-	-	-	23,450
<i>Total</i>	<u>\$ 27,731</u>	<u>\$ 42,876</u>	<u>\$ 34</u>	<u>\$ 800</u>	<u>\$ 96,104</u>	<u>\$ 167,545</u>

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, 2018.

Litigation

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

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

NOTE 23: **TAX ABATEMENTS**

As of December 31, 2018, 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.

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, 2018 was \$54,872.

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, 2018, the total amount of taxes abated through this program was \$35,994.

City of Lorain, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018
(Continued)

NOTE 24: SHORT-TERM OBLIGATIONS

The original issue date, interest rate, original issuance amount and maturity date for the City’s short-term obligation as follows:

GOVERNMENTAL FUNDS	Balance 12/31/17	Additions	Deletions	Balance 12/31/18
2018, 3.50% Service Complex Improvements	\$ -	\$ 3,000,000	\$ -	\$ 3,000,000
Unamortized Premium	-	22,110	-	22,110
<i>Total Governmental Funds</i>	\$ -	\$ 3,022,110	\$ -	\$ 3,022,110

On December 28, 2018 the City issued \$3,000,000 in an Infrastructure Bond Anticipation Note for the construction of a new multi-purpose service complex at an annual interest rate of 3.50 percent that will mature on July 17, 2019. No proceeds have been spent as of December 31, 2018.

NOTE 24: SUBSEQUENT EVENTS

On April 25, 2019 the City entered into a loan agreement with the Ohio Water Development Authority for the Black River Wastewater Treatment Plant Mechanical Bar Screen project in the amount of \$1,366,824. The loan is payable over a term of twenty years with payments to be made semi-annually beginning on July 1, 2021 at an interest rate of 2.09 percent.

In April 2019 the City placed a renewal of the five year temporary additional .25 percent income tax levy, for general fund purposes, on the May 7th primary election ballot. The tax levy renewal was approved by the electorate by a vote of 3,000 in favor of the levy to 1,997 against. The additional levy generates approximately \$2.4 million in revenue per year.

On June 19, 2019 the City refinanced the series 2018 \$2,700,000 Broadway Streetscape bond anticipation notes in the amount of \$2,700,000. The new bond anticipation notes have a maturity date of June 18, 2020 with an interest rate of 3.00 percent.

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 Five Years (1)

Traditional Plan	2018	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.106705%	0.111445%	0.122285%	0.116174%	0.116174%
City's Proportionate Share of the Net Pension Liability	\$16,739,946	\$25,307,264	\$21,181,303	\$14,011,822	\$13,695,342
City's Covered Payroll	\$14,092,454	\$14,020,158	\$15,027,383	\$14,248,142	\$13,936,769
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	118.79%	180.51%	140.95%	98.34%	98.27%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.66%	77.25%	81.08%	86.45%	86.36%

(1) Information prior to 2014 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.

See accompanying notes to the required supplementary information

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 Five Years (1)

Police	2018	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.2760370%	0.2816881%	0.2975640%	0.2917183%	0.2917183%
City's Proportionate Share of the Net Pension Liability	\$16,941,636	\$17,841,839	\$19,142,501	\$15,484,739	\$14,207,596
City's Covered Payroll	\$6,715,974	\$6,809,505	\$6,687,100	\$6,425,379	\$5,259,549
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	252.26%	262.01%	286.26%	240.99%	270.13%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.91%	68.36%	66.77%	71.71%	73.00%
Fire	2018	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.2375908%	0.2471344%	0.2708310%	0.2861849%	0.2861849%
City's Proportionate Share of the Net Pension Liability	\$14,582,019	\$15,653,242	\$17,422,748	\$15,191,020	\$13,938,103
City's Covered Payroll	\$4,695,264	\$5,041,979	\$5,111,362	\$5,096,447	\$4,319,624
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	310.57%	310.46%	340.86%	298.07%	322.67%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.91%	68.36%	66.77%	71.71%	73.00%

(1) Information prior to 2014 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.

See accompanying notes to the required supplementary information

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contributions	\$2,067,320	\$1,832,019	\$1,682,419	\$1,803,286	\$1,709,777	\$1,811,780
Contributions in Relation to the Contractually Required Contribution	<u>(\$2,067,320)</u>	<u>(\$1,832,019)</u>	<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>\$0</u>	<u>\$0</u>
City's Covered Payroll	\$0	\$14,092,454	\$14,020,158	\$15,027,383	\$14,248,142	\$13,936,769
Pension Contributions as a Percentage of Covered Payroll	14.00%	13.00%	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.

See accompanying notes to the required supplementary information

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

	<u>2018</u>	<u>2017</u>	<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>Contractually Required Contributions</u>										
Police	\$1,318,113	\$1,276,035	\$1,293,806	\$1,270,549	\$1,220,822	\$827,327	\$769,719	\$781,322	\$728,679	\$744,220
Fire	\$1,138,913	\$1,103,387	\$1,184,865	\$1,201,170	\$1,197,665	\$873,860	\$836,361	\$866,671	\$800,715	\$831,534
Total Required Contributions	\$2,457,026	\$2,379,422	\$2,478,671	\$2,471,719	\$2,418,487	\$1,701,187	\$1,606,080	\$1,647,993	\$1,529,394	\$1,575,754
Contributions in Relation to the Contractually Required Contribution	(\$2,457,026)	(\$2,379,422)	(\$2,478,671)	(\$2,471,719)	(\$2,418,487)	(\$1,701,187)	(\$1,606,080)	(\$1,647,993)	(\$1,529,394)	(\$1,575,754)
Contribution Deficiency / (Excess)	<u>\$0</u>									
City's Covered Payroll										
Police	\$6,937,437	\$6,715,974	\$6,809,505	\$6,687,100	\$6,425,379	\$5,259,549	\$6,037,012	\$6,128,016	\$5,715,129	\$5,837,020
Fire	\$4,846,438	\$4,695,264	\$5,041,979	\$5,111,362	\$5,096,447	\$4,319,624	\$4,848,470	\$5,024,180	\$4,641,826	\$4,820,487
<u>Pension Contributions as a Percentage of Covered Payroll</u>										
Police	19.00%	19.00%	19.00%	19.00%	19.00%	[1]	12.75%	12.75%	12.75%	12.75%
Fire	23.50%	23.50%	23.50%	23.50%	23.50%	[1]	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.

See accompanying notes to the required supplementary information

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

	<u>2018</u>	<u>2017</u>
City's Proportion of the Net OPEB Liability	0.104360%	0.109680%
City's Proportionate Share of the Net OPEB Liability	\$ 11,332,727	\$ 11,078,053
City's Covered Payroll	\$ 14,782,311	\$ 14,771,293
City's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	76.66%	75.00%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	54.14%	54.04%

(1) Information prior to 2017 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 calendar year end.

See accompanying notes to the required supplementary information

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

	<u>2018</u>	<u>2017</u>
City's Proportion of the Net OPEB Liability	0.513628%	0.528820%
City's Proportionate Share of the Net OPEB Liability	\$ 29,101,430	\$ 25,101,896
City's Covered Payroll	\$ 11,411,238	\$ 11,851,484
City's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	255.02%	211.80%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	14.13%	15.96%

(1) Information prior to 2017 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 calendar year end.

See accompanying notes to the required supplementary information

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 20,298	\$ 160,732	\$ 303,269	\$ 311,969
Contributions in Relation to the Contractually Required Contribution	<u>(20,298)</u>	<u>(160,732)</u>	<u>(303,269)</u>	<u>(311,969)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City Covered Payroll	\$ 15,497,350	\$ 14,782,311	\$ 14,771,293	\$ 16,016,935
Contributions as a Percentage of Covered Payroll	0.13%	1.09%	2.05%	1.95%

(1) Information prior to 2015 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

See accompanying notes to the required supplementary information

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually Required Contribution	\$ 58,919	\$ 57,056	\$ 57,892	\$ 58,634	\$ 62,503	\$ 314,024	\$ 734,754	\$ 752,759	\$ 699,080	\$ 719,368
Contributions in Relation to the Contractually Required Contribution	<u>(58,919)</u>	<u>(57,056)</u>	<u>(57,892)</u>	<u>(58,634)</u>	<u>(62,503)</u>	<u>(314,024)</u>	<u>(734,754)</u>	<u>(752,759)</u>	<u>(699,080)</u>	<u>(719,368)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>					
City Covered Payroll	\$ 11,783,875	\$ 11,411,238	\$ 11,851,484	\$ 11,798,462	\$ 11,521,826	\$ 9,579,173	\$ 10,885,482	\$ 11,152,196	\$ 10,356,955	\$ 10,657,507
Contributions as a Percentage of Covered Payroll	0.50%	0.50%	0.50%	0.50%	0.50%	3.62%	6.75%	6.75%	6.75%	6.75%

See accompanying notes to the required supplementary information

City of Lorain, Ohio
Notes to Required Supplementary Information

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Net Pension Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014-2018.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2016 and 2018. For 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the expected investment return was reduced from 8.00% to 7.50%, (b) the expected long-term average wage inflation rate was reduced from 3.75% to 3.25%, (c) the expected long-term average price inflation rate was reduced from 3.00% to 2.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality rates were updated to the RP-2014 Health Annuitant Mortality Table, adjusted for mortality improvement back to the observant period base year of 2006 and then established the base year as 2015 (f) mortality rates used in evaluating disability allowances were updated to the RP-2014 Disabled Mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and a base year of 2015 for males and 2010 for females (g) Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

Net OPEB Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2018.

Changes in assumptions: For 2018, the single discount rate changed from 4.23 percent to 3.85 percent

City of Lorain, Ohio
Notes to Required Supplementary Information

OHIO POLICE AND FIRE (OP&F) PENSION FUND

Net Pension Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014-2018.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2017. For 2018, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the investment rate of return was reduced from 8.25 percent to 8.00 percent (b) the projected salary increases was reduced from 4.25% to 3.75% (c) the payroll increases was reduced from 3.75% to 3.25% (d) the inflation assumptions was reduced from 3.25% to 2.75% (e) the cost of living adjustments was reduced from 2.60% to 2.20% (f) rates of withdrawal, disability and service retirement were updated to reflect recent experience (g) mortality rates were updated to the RP-2014 Total Employee and Health Annuitant Mortality Table, adjusted for mortality improvement back to the observant period base year of 2006 and then established the base year as 2016 (h) mortality rates used in evaluating disability allowances were updated to the RP-2014 Disabled Mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and a base year of 2016.

Net OPEB Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2018.

Changes in assumptions: For 2018, the single discount rate changed from 3.79 percent to 3.24 percent.

This page intentionally left blank.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Federal Grantor/ <i>Pass-Through Grantor/ Program Title</i>	Federal CFDA Number	Pass-Through Entity Number	Pass-Through to Subrecipient	Total Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>				
<i>Direct Programs</i>				
CDBG-Entitlement Grants Cluster:				
Community Development Block Grants/Entitlement Grants	14.218	B-14-MC-39-0016	\$ 0	\$ 404,822
Community Development Block Grants/Entitlement Grants	14.218	B-15-MC-39-0016	60,390	128,761
Community Development Block Grants/Entitlement Grants	14.218	B-16-MC-39-0016	202,540	288,254
Community Development Block Grants/Entitlement Grants	14.218	B-17-MC-39-0016	0	1,115,031
Community Development Block Grants/Entitlement Grants	14.218	B-18-MC-39-0016	0	106,276
Total CDBG-Entitlement Grants Cluster			262,930	2,043,144
HOME Investment Partnerships Program	14.239	M-14-MC-390220	0	10,610
HOME Investment Partnerships Program	14.239	M-14-MC-390220	0	13,131
<i>Total CFDA #14.239</i>			0	23,741
Total U.S. Department of Housing and Urban Development			262,930	2,066,885
<u>U.S. Department of Agriculture</u>				
<i>Passed Through Ohio Department of Natural Resources</i>				
Urban and Community Forestry Program	10.675	15-DG-11420004-018	0	15,180
Total U.S. Department of Agriculture			0	15,180
<u>U.S. Department of Commerce</u>				
<i>Direct Program</i>				
Economic Development Cluster:				
Economic Adjustment Assistance	11.307	N/A	0	2,700,743
<i>Total Economic Development Cluster</i>			0	2,700,743
<i>Passed Through Ohio Department of Natural Resources</i>				
Coastal Zone Management Administrative Awards	11.419	N916NO84190094	0	58,873
Total U.S. Department of Commerce			0	2,759,616
<u>U.S. Department of Justice</u>				
<i>Direct Programs</i>				
Public Safety Partnership and Community Policing Grants	16.710	2014-UMWX-0190	0	200,232
Equitable Sharing Program	16.922	N/A	0	8,123
<i>Total Direct Programs</i>			0	208,355
<i>Passed Through Office of Ohio Attorney General</i>				
Crime Victim Assistance	16.575	2018-VOCA-109310172	0	88,519
Crime Victim Assistance	16.575	2018-VOCA-130291356	0	615
Crime Victim Assistance	16.575	2018-VOCA-132132941	0	26,863
<i>Total CFDA #16.575</i>			0	115,997
<i>Total Passed Through Programs</i>			0	115,997
Total U.S. Department of Justice			0	324,352

(Continued)

**CITY OF LORAIN
LORAIN COUNTY, OHIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Number	Pass-Through to Subrecipient	Total Federal Expenditures
<u>U.S. Department of Transportation</u>				
<i>Passed Through Ohio Department of Transportation</i>				
<i>Highway Planning and Construction Cluster:</i>				
Highway Planning and Construction	20.205	PID No. 100169	0	1,750,313
Total Highway Planning and Construction Cluster			0	1,750,313
<i>Total Passed Through Ohio Department of Transportation</i>			0	1,750,313
 <i>Passed Through Ohio Department of Public Safety</i>				
<i>Highway Safety Cluster:</i>				
State and Community Highway Safety	20.600	STEP-2018	0	6,520
Total Highway Safety Cluster			0	6,520
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	1DEP-2018	0	6,864
Total Passed Through Ohio Department of Public Safety			0	13,384
Total U.S. Department of Transportation			0	1,763,697
 <u>U.S. Environmental Protection Agency</u>				
<i>Direct Program</i>				
Great Lakes Program	66.469	GL-00E01523-0	0	3,809,252
Great Lakes Program	66.469	GL-00E02282-0	0	181,941
Total CFDA #66.469			0	3,991,193
Total U.S. Environmental Protection Agency			0	3,991,193
 <u>U.S. Department of Homeland Security</u>				
<i>Direct Program</i>				
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	EMW-2015-FH-00515	0	1,084,796
Total U.S. Department of Homeland Security			0	1,084,796
 TOTAL EXPENDITURES OF FEDERAL AWARDS			 \$ 262,930	 \$ 12,005,719

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, 2018**

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, 2018. 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 position, 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, 2018
(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 U.S. 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, but are not included as disbursements on this Schedule.

These loans are collateralized by mortgages on the properties.

Activity in the CDBG Revolving Loan Fund during 2018 is as follows:

Beginning loan receivable balance as of January 1, 2018	\$ 7,166,203
Loans made	316,626
Loan principal repaid	(457,664)
Loans written off during the year	(69,508)
Ending loans receivable balance at December 31, 2018	<u>\$ 6,955,657</u>
Cash balances on hand in the revolving loan fund as of December 31, 2018	\$ 1,201,758
Administrative costs expended during 2018	0

The table above reports gross loans receivable. Of the loans receivable as of December 31, 2018, the City estimates \$1,202,713 to be uncollectible.

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

Certified Public Accountants

5240 East 98th Street

Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants

(216) 475 - 6136

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 Keith Faber
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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 28, 2019, wherein we noted the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

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 a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs that we considered a significant deficiency as item **2018-001**.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Response to Findings

The City's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

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

June 28, 2019

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

*Certified Public Accountants
5240 East 98th Street
Garfield Hts., Ohio 44125*

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

**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 Keith Faber
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, 2018. 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, 2018.

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

June 28, 2019

**CITY OF LORAIN
LORAIN COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

1. SUMMARY OF AUDITOR'S RESULTS

2018(i)	Type of Financial Statement Opinion	Unmodified
2018(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
2018(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
2018(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
2018(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
2018(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
2018(v)	Type of Major Programs' Compliance Opinions	Unmodified
2018(vi)	Are there any reportable findings under 2 CFR 200.516(a)?	No
2018(vii)	Major Programs (list): Highway Planning and Construction - CFDA #20.205 Great Lakes Program - CFDA #66.469	
2018(viii)	Dollar Threshold: A/B Program	Type A: \$750,000 Type B: All Others
2018(ix)	Low Risk Auditee?	No

**CITY OF LORAIN
LORAIN COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)**

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

Finding 2018-001 - Significant Deficiency – Employee Hours

Condition/Criteria

During our audit, we were informed of certain payroll issues and noted the following based on testing performed:

- Timesheets were altered by the previous Clerk of Courts. When reviewing timesheets, the previous Clerk of Courts was eliminating sick and vacation time used by employees and reclassifying it as regular hours worked instead, when the employees had not worked that day. In addition, the previous Clerk of Courts was adding overtime hours to employee timesheets when the employee had not worked any overtime. It was also noted that a few timesheets were missing for department employees and could not be provided to us for review.
- Employees in the Utility Department were taking and being paid for vacation time before they had earned any vacation time. According to the City's policy, employees do not receive any vacation time until they have completed one year of service. A few instances were noted in which employee used and was paid for vacation time prior to completing one year of service.

Cause/Effect

Altering of timesheets and recording of additional employee hours could result in an overstatement of payroll expense and liability to the City.

Also, lack of timesheets can cause improper recording of time used. In addition, vacation time, paid prior to an employee completing their first year of service, is not in compliance with City policy.

Recommendation

We recommend that the City maintain all timesheets on file and internal controls are established by the City to avoid timesheets being altered, so that payroll expense and liability is not misstated. We also recommend that vacation time be paid in accordance with City policy.

City's Response

- The elected official who altered employee timesheets and added overtime to employee timesheets, even though they did work any overtime, resigned her position after the Police Department investigated the matter.
- We will be implementing a City-wide automated payroll/timekeeping system as soon as possible. The City will also be amending ordinances which adds time at the beginning of the year and will return to the bi-weekly accrual of hours. Both the timekeeping system and the accrual addition changes will help ensure employees are not permitted to take time off they are not entitled to, as well as monitor employee hours worked.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)**

3. **FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.

This page intentionally left blank.

**CITY OF LORAIN
LORAIN COUNTY, OHIO
SCHEDULE OF PRIOR FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2018**

The prior issued audit report, as of December 31, 2018, included a material weakness and a significant deficiency.

Finding Number	Finding Summary	Status	Additional Information
2017-001	Material Weakness - Bank Reconciliations for Municipal Court Accounts	Partially corrected.	Reissued as a management letter recommendation.
2017-002	Significant Deficiency - Evaluating Uncollectible Loans	Corrective Action Taken	None

Management letter recommendations as of December 31, 2017, have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.

This page intentionally left blank.

OHIO AUDITOR OF STATE KEITH FABER



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
AUGUST 22, 2019**