

Lorain County, Ohio
Notes to Financial Statements
For the Year Ended December 31, 2005

NOTE 1 - REPORTING ENTITY

Lorain County, Ohio (the County) was created in 1822. The County is governed by a board of three Commissioners elected by the voters of the County. The County Commissioners serve as the taxing authority, the contracting body, and the chief administrators of public services for the County. Other officials elected by the voters of the County that manage various segments of the County's operations are the county auditor, treasurer, recorder, clerk of courts, coroner, engineer, prosecuting attorney, sheriff, five common pleas court judges, one probate court judge, and three domestic relations court judges.

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the County are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the County. For Lorain County, this includes the Children's Services Board, the Board of Mental Retardation and Developmental Disabilities (MRDD), the Board of Mental Health, the Job and Family Services Department, and all departments and activities that are directly operated by the elected County officials.

Component units are legally separate organizations for which the County is financially accountable. The County is financially accountable for an organization if the County appoints a voting majority of the organization's governing board and (1) the County is able to significantly influence the programs or services performed or provided by the organizations; or (2) the County is legally entitled to or can otherwise access the organization's resources; the County is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the County is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the County in that the County approves the budget, the issuance of debt, or the levying of taxes.

Discretely Presented Component Units. The component units column on the financial statements identifies the financial data of the following component units: Lorain County Regional Airport Authority, Murray Ridge Production Center, Inc. and Lorain County Port Authority. They are reported separately to emphasize that they are legally separate from the County.

Lorain County Regional Airport Authority. The Airport Authority is statutorily created as a separate and distinct political subdivision of the State. Lorain County appoints the nine Airport Authority Trustees. Lorain County approves the budget and all applications for State and Federal grants. Based on this relationship, the Airport Authority is a component unit of Lorain County. Separately issued financial statements can be obtained from the Lorain County Regional Airport Authority, 44050 Russia Road, Elyria, Ohio 44035.

Murray Ridge Production Center, Inc. (Workshop). The Workshop is a legally separate, nongovernmental not-for-profit corporation, served by a self-appointing board of trustees. The Workshop, under a contractual agreement with the Lorain County Board of Mental Retardation and Developmental Disabilities, provides sheltered employment for mentally retarded or handicapped adults in Lorain County. The Lorain County Board of MRDD provides the Workshop with staff salaries, transportation, equipment (except that used directly in the production of goods or rendering of services), staff to administer and supervise training programs, and other funds as necessary for the operation of the Workshop. Based on the significant services and resources provided by the County to the Workshop and the Workshop's sole purpose of providing assistance to the retarded and handicapped adults of Lorain County, the Murray Ridge Production Center, Inc. is reflected as a component unit of Lorain County. The Workshop operates on a fiscal year ending June 30. Separately issued financial statements can be obtained from the Murray Ridge Production Center, Inc. of Lorain County, 1095 Infirmary Road, Elyria, Ohio 44035.

The Lorain County Port Authority. The Lorain County Port Authority was created by statute as a separate and distinct political subdivision of the State. The purpose of the Lorain County Port Authority is to promote economic development by assisting private industry initiatives; by encouraging development and redevelopment; and by promoting investment in business, industrial and transportation projects. As of December 31, 2005, the Authority has a liability to the County in the amount of \$126,866 for past operating advances. Under GASB

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Statement No. 14, this is considered to be a financial burden on the County; also the County can impose its will on the Authority through the appointment of the members of the Board of Directors. Therefore, the Authority is a component unit of Lorain County. Separately issued financial statements can be obtained from the Lorain County Port Authority, Lorain County Administration Building, Elyria, Ohio 44035.

The County is associated with certain organizations which are defined as a Risk Sharing Pool, Jointly Governed Organizations or Related Organizations. These organizations are presented in Note 10, Note 11 and Note 12 to the financial statements. These organizations are:

County Risk Sharing Authority, Inc.
Lorain County Cluster
Northeast Ohio Areawide Coordinating Agency
Lorain County Metropolitan Park District
Lorain County Community College
Community Based Correctional Facility

As the custodian of public funds, the County Treasurer invests all public moneys held on deposit in the County treasury. In the case of the separate agencies, boards and commissions listed below, the County serves as fiscal agent, but is not financially accountable for their operations nor are the entities fiscally dependent on the County. Accordingly, the activity of the following entities are presented as agency funds within Lorain County's financial statements:

General Health District. The five member Board of Health which oversees the operation of the Health District is elected by a District Advisory Council comprised of township trustees and mayors of participating municipalities. The Board adopts its own budget, hires and fires its own staff, and operates autonomously from the County.

Soil and Water Conservation District. The Soil and Water Conservation District is created by statute as a separate and distinct political subdivision of the State. The five supervisors of the Soil and Water Conservation District are elected officials authorized to contract and sue on behalf of the District. The Supervisors adopt their own budget, authorize District expenditures, hire and fire staff, and do not rely on the County to finance deficits.

Local Emergency Planning Commission. The Local Emergency Planning Commission is statutorily created as a separate and distinct political subdivision of the State. Its members are appointed by the Emergency Response Commission. The Commission adopts its own budget, authorizes expenditures, hires and fire staff, and operates autonomously from the County. The activity of the Local Emergency Planning Commission is reported to the Emergency Response Commission.

Lorain County Family and Children First Council. The Lorain County Family and Children First Council was created by Ohio Revised Code and is governed by a multi-member board. The purpose of the Council is to identify ways in which Lorain County child serving systems can provide services to the community in the most efficient and effective manner.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the County have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The County also applies Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, to its governmental and business type activities and to its enterprise funds provided they do not conflict with or contradict GASB pronouncements. The more significant of the County's accounting policies are described below.

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A. Basis of Presentation

The County's basic financial statements consist of government-wide financial statements, including a Statement of Net Assets and a Statement of Activities, and Fund Financial Statements, which provide a more detailed level of financial information.

Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the County as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the County that are governmental in nature and those that are considered business-type activities.

The Statement of Net Assets presents the financial condition of the governmental and business-type activities of the County at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the County's governmental activities and business-type activities. 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 County, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the County.

Fund Financial Statements

During the year, the County segregates transactions related to certain County 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 County at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

The County 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. Each category, in turn, is divided into separate fund types. The following categories and fund types are used by the County:

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 purpose 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 liabilities is reported as fund balance. The following are the County's major governmental funds:

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

Job and Family Services. The fund accounts for various federal and state grants used to provide public assistance to general relief recipients and pay their providers of medical assistance, and for certain public social services.

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Children Services. The fund accounts for federal and state welfare subsidies and veteran's administration and social security payments. Major expenditures are for support and placement of children.

Mental Retardation and Development Disabilities Fund (MRDD). The fund accounts for the operation of a school and the costs of administering a workshop for the mentally retarded and developmentally disabled. Revenue sources are a countywide property tax levy, federal and state grants, and subsidies from the Ohio Department of Education and the Ohio Department of Mental Retardation and Developmental Disabilities.

Community Mental Health. The fund accounts for the operation of providing mental health services and facilities for the citizens of Lorain County. Revenue sources are a countywide property tax levy, federal and state grants, and subsidies from the Ohio Department of Mental Health.

Q Construction. The fund accounts for monies used for acquisition and construction of various projects within the county.

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The County's 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 County's major proprietary funds:

Enterprise Funds. This fund is used to account for the County's Sewer System and the Lorain County Transit. It is financed and operated in a manner similar to private sector business enterprises where the intent is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Internal Service Fund. This fund is used to account for the medical self-insurance fund. It is used to account for the financing of services provided by one department or agency to other departments or agencies of the County on a cost-reimbursement basis.

Fiduciary Funds

Fiduciary funds are used to account for assets held by the County in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. There are two types of fiduciary funds, trust and agency. The County has no trust funds. The County's agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the County are included in the Statement of Net Assets.

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 current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balance reflect 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

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statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

Like the government-wide financial statements, the enterprise funds are accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets. The Statement of Changes in Revenues, Expenses, and Changes in Fund Net Assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The Statement of Cash Flows reflects how the County finances and meets the cash flow needs of its enterprise activities.

D. 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. Governmental funds use the modified accrual basis of accounting; enterprise funds and fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Nonexchange Transactions

Revenues 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 the modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means 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 County, available means expected to be received within sixty days after year end.

Nonexchange transactions, in which the County receives value without directly giving equal value in return, include property taxes, sales taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenues from sales taxes is recognized in the period in which the sales are made. 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 County must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the County on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at year end; sales taxes, charges for services, fines and forfeitures, state-levied locally shared taxes (including gasoline tax and motor vehicle license tax), grants, interest, and rent.

Deferred Revenues

Deferred revenues arise when assets are recognized before the revenue recognition criteria have been satisfied.

Property taxes for which there was an enforceable legal claim at December 31, 2005, but were levied to finance 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

On governmental fund financial statements, receivables that were not collected within the available period are recorded as deferred revenue.

Expenses/Expenditures

On the accrual basis, expenses are recognized at the time they are incurred.

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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.

E. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The Law Enforcement Trust Fund is included in with the Nonmajor Special Revenue section without a budget. 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 established a limit on the amount the County Commissioners may appropriate. The Appropriation Resolution is the County Commissioners' authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the County Commissioners. The legal level of control has been established by County Commissioners at the fund level except for the General Fund, which is at the fund department level.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the County Auditor. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts when the original appropriations were adopted. These appropriations were made before the end of the prior year and before the year end fund balances were known. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final Amended Certificate of Estimated Resources issued during 2005.

The appropriations 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 the County Commissioners during the year.

The County's budgetary process accounts for certain transactions on a basis other than GAAP. The major difference between the budget basis and the GAAP basis are:

- (1) Revenues are recorded when received in cash (budget) as opposed to when susceptible to accruals (GAAP)
- (2) Expenditures are recorded when encumbered, or paid in cash (budget), as opposed to when susceptible to accrual (GAAP).

The actual results of operations, compared to the final appropriation, which include amendments to the original appropriation, for each fund type by expenditure function and revenue source are presented in the Statement of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual (non-GAAP Budgetary Basis). The difference between the accrual and cash basis statements was not significant. The reserve for encumbrances is carried forward as part of the budgetary authority for the next year and is included in the revised budget amounts shown in the budget to actual comparisons.

F. Equity in Pooled Cash and Cash Equivalents

To improve cash management, cash received by the County is pooled in a central bank account. Moneys for all funds, including the proprietary funds, are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through County records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet. During 2005, investments were limited to certificates of deposit, overnight repurchase agreements, National City Money Market Fund, interest in STAR Ohio, the State Treasurer's Investment Pool, U.S. Treasury notes, Federal Farm Credit Bank (FFCB) notes, Federal National Mortgage Association (FNMA) notes, Federal Home Loan Bank (FHLB) notes, Federal Home Loan Mortgage Company (FHLMC) notes, Student Loan Marketing Association (SLMA), Federal Securities, commercial paper, and bankers acceptances. Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at a fair value which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost. Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest earned on

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investments is credited to the general fund, except as stipulated by State statute or County resolution. Interest revenue credited to the general fund during 2005 totaled \$4,632,072, which includes \$3,889,481 assigned from other County funds.

The County utilizes a financial institution to service bonded debt as principal and interest payments come due and to administer the community development block grant revolving loans. The balance in this account is presented on the balance sheet as "cash and cash equivalents with fiscal agents" and represents deposits. The County has segregated bank accounts for moneys held separate from the County's central bank account. These interest bearing depository accounts are presented on the combined balance sheet as "cash and cash equivalents."

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the County are considered to be cash equivalents. Investments with an original maturity of more than three months are considered to be investments.

G. Inventory

Inventories of all funds are stated at cost which is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as expenditures in the governmental fund types when purchased and as expenses in the proprietary fund type when used.

H. Interfund Assets/Liabilities

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "due from other funds" or "due to other funds" on the balance sheet. These amounts are eliminated in the governmental and business-type activities columns of the Statement of Net Assets, except for any residual amounts due between governmental and business-type activities, which are presented as internal balances.

I. Capital Assets and Depreciation

Capital assets are reported in the governmental activities column of the government-wide Statement of Net Assets but are not reported in the fund financial statements. Capital assets used by the enterprise funds are reported in both the business-type activities column of the government-wide statement of net assets and in the respective funds.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The County maintains a capitalization threshold of fifteen thousand dollars for property, plant and equipment and ten thousand dollars for infrastructure items. The County's infrastructure consists of roads, bridges, and culverts. 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 capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

All capital assets are depreciated, except for land and improvements 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 County'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>Years</u>
Buildings and Building Improvements	50
Machinery and Equipment	5 – 25
Vehicles	5
Infrastructure	10 – 50
Sewerlines	40 – 90

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J. 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 County will compensate the employees for the benefits through paid time off or some other means. 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 County's past experience of making termination payments.

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

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using current expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The non-current portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

K. Accrued and Long-Term Liabilities

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences and contractually required pension contributions that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year. Loans are recognized as a liability on the fund financial statements when due.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted by the County or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The County's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

M. Fund Balance Reserves

The county reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Fund balance reserves have been established for encumbrances, inventory, advances, notes receivable, loans receivable and debt service.

N. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise funds. For the County, these revenues are charges for services for the sewer and transit service. Operating expenses are the necessary costs incurred to provide the service that is primary activity of the fund. Revenues and expenses not meeting these definitions are reported as non-operating.

O. Interfund Transactions

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general revenues.

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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 nonoperating revenues/expenses in enterprise funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

P. Estimates

The preparation of 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.

Q. Restatement of Prior Year Net Assets

In 2005, the County has restated the beginning balance of the General Fund and Solid Waste Fund.

The General Fund was decreased by \$335,434 for Housing Trust Fund charges due the state for prior years. The Solid Waste Fund, a Nonmajor Governmental Fund was increased by \$403,659 which represents monies previously advanced for a revolving loan fund.

The restatement to the Beginning Net Assets is as follows:

Governmental Funds - Restatement

	General	NonMajor Governmental Funds
Fund Balance as Previously Reported	\$39,881,461	\$38,428,138
Housing Trust Fund - Accounts Payable	(335,434)	-
Solid Waste – Note Receivable	-	50,000
Solid Waste – Cash with Fiscal Agents	-	353,659
Fund Balance as Restated December 31, 2004	\$39,546,027	\$38,831,797

Governmental Activities Funds - Restatement

Net Assets as Previously Reported	\$280,895,601
Housing Trust Fund – Accounts Payable	(335,434)
Solid Waste – Note Receivable	50,000
Solid Waste – Cash with Fiscal Agents	353,659
Net Assets as Restated December 31, 2004	\$280,963,826

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R. Entity-Wide Reconciliations

The following details reconciling items between entity-wide and government-wide financial statements for the year ended December 31, 2005:

Reconciliation of Net Assets:	
Long-Term Liabilities:	
General Obligation Bonds	\$ 8,900,000
Special Assessment Bonds	4,603,893
Justice Center Bonds	17,990,000
Total Long-Term Liability Adjustment	<u>\$31,493,893</u>
Internal Service:	
Net Assets-Government-Wide	\$7,899,592
Entity-Wide Payable	(10,884)
Total Internal Service, Net Assets	<u>\$7,888,708</u>
Reconciliation of Changes in Net Assets:	
Capital Outlay Adjustment:	
Government-Wide Capital Outlay	\$7,259,645
Depreciation-Entity-Wide	(5,391,018)
Excess Capital Outlay	<u>\$ 1,868,627</u>
Issuance of Long-Term Debt:	
Proceeds from Long-Term Debt	\$(5,560,000)
Principal Paid	7,120,662
Net Principal Paid	<u>\$ 1,560,662</u>
Internal Service:	
Change in Net Assets-Government-Wide	\$2,375,824
Additional Entity-Wide Expenses	(3,080)
Internal Service, Change in Net Assets, Entity-Wide	<u>\$2,372,744</u>

NOTE 3 – DEFICIT IN NET ASSETS

The following funds had deficit in net assets at December 31, 2005:

	Deficit
Special Revenue Funds:	
Dog and Kennel	\$ (3,477)
Certificate of Title	(12,084)
Bascule Bridge	(73,189)
County Erosion Control	(9,785)
Community Housing Improvement	(60,066)

The special revenue funds deficit fund balances resulted from the application of generally accepted accounting principles. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

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NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the County into three categories.

1. Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the County treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.
2. Inactive deposits are public deposits that the County 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 not 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.
3. Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but 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.

Protection of the County's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public money deposited with the institution.

Interim monies are permitted to 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 and 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 provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
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) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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The County 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 County.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the County, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits – Custodial credit risk is the risk that, in the event of bank failure, the County’s deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution.

At December 31, 2005, the carrying amount of all County deposits was \$43,013,077. Of the County’s bank balance of \$31,339,703, \$1,625,816 was covered by FDIC. The remaining \$29,713,887 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Although all state statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the County to a successful claim by the FDIC.

Investments- As of December 31, 2005, the County had the following investments and maturities:

	Fair Value	Investment Maturity (in years)	
		Less than One Year	1 – 2
STAR Ohio	\$25,127,406	\$25,127,406	\$ -
FHLMC	20,726,146	8,908,428	11,817,718
FNMA	22,959,102	12,346,875	10,612,227
FHLB	17,306,719	6,426,406	10,880,313
FFCB	7,851,875	2,966,562	4,885,313
Overnight Repurchase Agreement	1,994,506	1,994,506	-
Total Investments	\$95,965,754	\$57,770,183	\$38,195,571

Interest Rate Risk – The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. According to the County’s policy, investments made by the Treasurer must mature within five years from the date of purchase with an average weighted maturity not to exceed two years.

Lorain County, Ohio
Notes to Financial Statements
For the Year Ended December 31, 2005

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Investments had the following ratings by Standard & Poors.

FNMA	AAA
FHLB	AAA
FFCB	AAA
FHLMC	AAA
STAR Ohio	AAA
Overnight Repurchase Agreement	Unrated

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Overnight Repurchase Agreement, STAR Ohio, Federal Home Loan Bank Discount Notes, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation Discount Notes and the Federal National Mortgage Association Discount Notes are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty’s trust department or agent but not in the County’s name. The County has no investment policy dealing with investment custodial credit risk beyond the requirement in State Statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Concentration of Credit Risk is the possibility of loss attributed to the magnitude of the County’s investment in a single issuer. The County’s investments are in STAR Ohio, Federal Home Loan Mortgage Corporation Discount Notes, Federal National Mortgage Association Discount Notes, Federal Home Loan Bank Discount Notes, Federal Farm Credit Bank Discount Notes and Overnight Repurchase Agreement. These investments are 26%, 22%, 24%, 18%, 8% and 2% respectively, of the County’s total investments. The County’s policy places no limit on the amount that may be invested in any one issuer.

STAR Ohio is an investment pool managed by the State Treasurer’s Office that allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s share price that is the price the investment could be sold for on December 31, 2005.

NOTE 5 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the County. Real property taxes collected in 2005 are levied after October 1, 2004, on the assessed value as of January 1, 2004, the lien date. Assessed values are established by State law at 35% of appraised market value. All property is required to be revalued every six years. Real property taxes collected in 2005 were intended to finance 2005 operations.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements, at true value (normally 88% of cost). Public utility property taxes paid in 2005 became a lien December 31, 2004, are levied after October 1, 2004, and are collected in 2005 with real property taxes. 2005 tangible personal property taxes are levied after October 1, 2004, on the value as of December 31, 2004. Collections are made in 2005. Tangible personal property assessments are 18.75% of actual value.

The full tax rate for all County operations applied to real property for the fiscal year ended December 31, 2005 was \$13.49 per \$1,000 of assessed value. The assessed values upon which the 2005 taxes were collected were as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	\$5,378,463,050
Tangible Personal:	
General	497,439,716
Public Utilities	291,960,240
Total	<u><u>\$6,167,863,006</u></u>

Lorain County, Ohio
Notes to Financial Statements
For the Year Ended December 31, 2005

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits earlier or later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The County Treasurer collects property tax on behalf of all taxing districts within the County. The County Auditor periodically remits to the taxing districts their portions of the taxes collected. Collections of the taxes and remittance of them to the taxing districts are accounted for in various agency funds of the County.

Accrued property taxes receivable represents delinquent taxes outstanding and real, tangible personal, and public utility taxes, which were measurable as of December 31, 2005.

NOTE 6 - PERMISSIVE SALES AND USE TAX

In 1986, the County Commissioners, by resolution, imposed a .5% tax on all retail sales made in the County. During 1994, the County approved, by levy, a .25% sales tax for the construction, operation and maintenance of a jail facility. Collection started in July of 1995. This activity is presented in the jail facility operation special revenue fund and the jail facility construction capital projects fund. Vendor collections of the tax are paid to the State Treasurer by the twenty-third day of the month following collection. The State Tax Commissioner certifies to the State Auditor the amount of the tax to be returned to the County. The Tax Commissioner's certification must be made within forty-five days after the end of the month. The State Auditor then has five days to draw the warrant payable to the County.

Proceeds of the .5% tax are credited to the general fund and the .25% are credited to the jail facility operation special revenue fund and the jail facility construction capital projects fund. Amounts measurable and available at year-end are accrued as revenue. During 2005, sales tax revenue amounted to \$22,040,916.

Lorain County, Ohio
Notes to Financial Statements
For the Year Ended December 31, 2005

NOTE 7 - RECEIVABLES

Receivables as of year end for the government's individual major funds and nonmajor, internal service and sewer system funds in the aggregate are deemed collectible in full and are as follows:

	<u>General</u>	<u>Job & Family Services</u>	<u>Children Services</u>	<u>Community Mental Health</u>	<u>MRDD</u>	<u>Sewer System</u>	<u>County Transit</u>	<u>Internal Service Fund</u>	<u>Q Construction</u>	<u>Nonmajor Governmental Funds</u>
Receivables:										
Interest	\$ 653,046	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,194
Property and other Taxes	7,440,024	-	8,524,925	9,957,181	17,002,167	-	-	-	-	4,612,151
Sales Tax	2,248,663	-	-	-	-	-	-	-	-	1,123,132
Accounts	176,371	1,309	1,136	2,839	266,830	15,727	89,859	1,767	-	841,708
Loans	-	-	-	220,220	-	-	-	-	-	-
Notes	-	-	-	-	-	-	-	-	-	599,467
al Assessment	-	-	-	-	-	150,996	-	-	-	4,854,857
overnmental	296,037	9,033,780	4,843,686	1,644,307	3,690,056	19,496	134,728	163,452	1,162,034	14,121,224
Government	5,180,705	-	-	-	-	-	-	-	-	-
	<u>\$15,994,846</u>	<u>\$9,035,089</u>	<u>\$13,369,747</u>	<u>\$11,824,547</u>	<u>\$20,959,053</u>	<u>\$186,219</u>	<u>\$224,587</u>	<u>\$165,219</u>	<u>\$1,162,034</u>	<u>\$26,155,733</u>

Lorain County, Ohio
Notes to Financial Statements
For the Year Ended December 31, 2005

NOTE 8 – CAPITAL ASSETS

Construction-In-Progress: The County has active construction projects as of December 31, 2005, of \$2.5 million for a Transportation Center, Energy Conservation Project and numerous building restoration and improvement projects. There are also a number of sewer projects in process for \$461,000.

Capital asset activity for the County for the year ended December 31, 2005, appears on the following page.

Depreciation expense was charged to functions and programs of the County as follows:

Governmental Activities:		
Legislative & Executive		\$ 411,419
Judicial		970,027
Public Safety		500,809
Public Works		3,110,460
Health		69,852
Human Services		328,451
Total Depreciation Expense –Governmental Activities		<u>\$5,391,018</u>
Business-Type Activities:		
Buildings, Structures and Improvements		\$ 2,633
Vehicles		149,584
Sewer Plants		4,457
Sewer Lines		245,633
Water Lines		29,737
Total Depreciation Expense –Business-Type Activities		<u>\$ 432,044</u>

Activity for the Component Units for the years ended December 31, 2005 and June 30, 2005 are as follows:

	<u>Beginning Balance</u>	<u>Changes in Assets</u>	<u>Ending Balance</u>
Capital Assets, Not Being Depreciated:			
Land	\$2,153,589	\$ -	\$2,153,589
Construction In Progress	5,200,805	(4,033,838)	1,166,967
Total Capital Assets, Not Being Depreciated	<u>7,354,394</u>	<u>(4,033,838)</u>	<u>3,320,556</u>
Capital Assets Being Depreciated:			
Buildings, Structures and Improvements	6,587,410	4,852,699	11,440,109
Vehicles	185,761	-	185,761
Machinery & Equipment	544,221	316,690	860,911
Total Capital Assets, Being Depreciated	<u>7,317,392</u>	<u>5,169,389</u>	<u>12,486,781</u>
Less Accumulated Depreciation:			
Buildings, Structures and Improvements	2,944,115	306,487	3,250,602
Vehicles	119,916	12,566	132,482
Machinery & Equipment	367,647	(47,121)	320,526
Total Accumulated Depreciation	<u>3,431,678</u>	<u>271,932</u>	<u>3,703,610</u>
Total Capital Assets, Being Depreciated, Net	<u>3,885,714</u>	<u>4,897,457</u>	<u>8,783,171</u>
Component Units Capital Assets, Net	<u>\$11,240,108</u>	<u>\$ 863,619</u>	<u>\$12,103,727</u>

Lorain County, Ohio
Notes to Financial Statements
For the Year Ended December 31, 2005

Activity for the Governmental Activities for the year ended December 31, 2005 are as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 5,205,223	\$ -	\$ 126,341	\$ 5,078,882
Construction In Progress	1,037,511	2,176,907	679,251	2,535,167
Total Capital Assets, Not Being Depreciated	<u>6,242,734</u>	<u>2,176,907</u>	<u>805,592</u>	<u>7,614,049</u>
Capital Assets Being Depreciated:				
Buildings, Structures and Improvements	91,619,684	4,314,953	91,805	95,842,832
Vehicles	5,221,780	346,847	718,618	4,850,009
Machinery & Equipment	5,262,236	242,261	190,891	5,313,606
Furniture & Fixtures	130,040	-	-	130,040
Infrastructure	89,943,120	-	-	89,943,120
Total Capital Assets, Being Depreciated	<u>\$192,176,860</u>	<u>\$ 4,904,061</u>	<u>\$ 1,001,314</u>	<u>\$196,079,607</u>
Less Accumulated Depreciation:				
Buildings, Structures and Improvements	\$ 17,134,857	\$ 1,824,155	\$ 60,591	\$ 18,898,421
Vehicles	4,047,325	275,294	710,679	3,611,940
Machinery & Equipment	2,952,693	262,104	138,292	3,076,505
Furniture & Fixtures	90,745	16,732	-	107,477
Infrastructure	39,379,294	3,012,733	-	42,392,027
Total Accumulated Depreciation	<u>63,604,914</u>	<u>5,391,018</u>	<u>909,562</u>	<u>68,086,370</u>
Total Capital Assets, Being Depreciated, Net	<u>128,571,946</u>	<u>(486,957)</u>	<u>91,752</u>	<u>127,993,237</u>
Governmental Activities Capital Assets, Net	<u>\$134,814,680</u>	<u>\$1,689,950</u>	<u>\$ 897,344</u>	<u>\$135,607,286</u>

Activity for the Business-Type Activities for the year ended December 31, 2005 are as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 51,684	\$ -	\$ -	\$ 51,684
Construction in Progress	-	461,646	-	461,646
Total Capital Assets, Not Being Depreciated	<u>51,684</u>	<u>461,646</u>	<u>-</u>	<u>513,330</u>
Capital Assets Being Depreciated:				
Buildings, Structures and Improvements	250,000	-	-	250,000
Vehicles	2,375,823	269,288	-	2,645,111
Sewer Plants	222,829	-	-	222,829
Sewer Lines	12,281,672	-	-	12,281,672
Water Lines	1,862,800	-	-	1,862,800
Total Capital Assets, Being Depreciated	<u>\$16,993,124</u>	<u>\$ 269,288</u>	<u>\$ -</u>	<u>\$17,262,412</u>
Less Accumulated Depreciation:				
Buildings, Structures and Improvements	\$ 120,966	\$ 2,633	\$ -	\$ 123,599
Vehicles	1,271,933	149,584	-	1,421,517
Sewer Plants	171,199	4,457	-	175,656
Sewer Lines	2,876,535	245,633	-	3,122,168
Water Lines	1,255,999	29,737	-	1,285,736
Total Accumulated Depreciation	<u>5,696,632</u>	<u>432,044</u>	<u>-</u>	<u>6,128,676</u>
Total Capital Assets, Being Depreciated, Net	<u>11,296,492</u>	<u>(162,756)</u>	<u>-</u>	<u>11,133,736</u>
Business-Type Activities Capital Assets, Net	<u>\$11,348,176</u>	<u>\$298,890</u>	<u>\$ -</u>	<u>\$11,647,066</u>

Lorain County, Ohio
Notes to Financial Statements
For the Year Ended December 31, 2005

NOTE 9 - RISK MANAGEMENT

The County 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 County entered into contracts with CORSA (see Note 10) for various insurance, which includes the following types of insurance, amount of coverage and the amount of deductible:

<u>Type of Coverage</u>	<u>Coverage</u>	<u>Deductible</u>
Law Professional	\$ 1,000,000	\$5,000
Automobile Fleet Liability	1,000,000	5,000
Fire	269,946,542	5,000
Boiler and Machinery	100,000,000	5,000
Extra Expense	1,000,000	5,000
Valuable Papers	1,000,000	5,000
Electronic Data Processing	Replacement Cost	5,000
Miscellaneous Equipment	Actual Cash Value	5,000
Contractors' Equipment	Actual Cash Value	5,000
Umbrella Liability	5,000,000	-

All employees of the County are covered by a blanket bond, while certain individuals in policy-making roles are covered by separate, higher limit bond coverage.

Settled claims have not exceeded commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

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

The County established a medical self-insurance fund (an internal service fund) to account for and finance uninsured risks of loss. The predominant participant is the County. Under this program, the medical self-insurance fund provides coverage for up to a maximum of \$250,000 for each individual claim. The County purchased commercial insurance for claims in excess of coverage provided by the fund and for all other risks of loss.

All funds of the County participate in the program and make payments to the medical self-insurance fund based on actuarial estimates of the amounts needed to pay prior and current year claims. The claims liability of \$2,041,285 reported in the fund at December 31, 2005, is estimated by the third-party administrator and is based on the requirements of GASB Statement No. 30, *Risk Financing Omnibus*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the fund's claims liability amount in 2003, 2004 and 2005 were:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2003	\$2,039,319	\$12,043,129	\$11,824,406	\$2,258,042
2004	2,258,042	12,700,572	13,295,880	1,662,734
2005	1,662,734	14,997,388	14,618,837	2,041,285

Lorain County, Ohio
Notes to Financial Statements
For the Year Ended December 31, 2005

NOTE 10 - RISK SHARING POOL

The County Risk Sharing Authority, Inc. (CORSA) is a risk sharing pool made up of fifty-five counties in Ohio. CORSA was formed as an Ohio nonprofit corporation for the purpose of establishing the CORSA Insurance/Self-Insurance Program, a group primary and excess insurance/self-insurance and risk management program. Member counties agree to jointly participate in coverage of losses and pay all contributions necessary for the specified insurance coverage provided by CORSA. This coverage includes comprehensive general liability, automobile liability, certain property insurance and public officials' errors and omissions liability insurance.

Each member county has one vote on all matters requiring a vote, to be cast by a designated representative. The affairs of the Corporation are managed by an elected board of not more than nine trustees. Only county commissioners of member counties are eligible to serve on the board. No county may have more than one representative on the board at any time. Each member county's control over the budgeting and financing of CORSA is limited to its voting authority and any representation it may have on the board of trustees. CORSA has issued certificates of participation in order to provide adequate cash reserves. The certificates are secured by the member counties' obligations to make coverage payments to CORSA. The participating counties have no responsibility for the payment of certificates. The County does not have an equity interest in CORSA. The County's payment for insurance to CORSA in 2005 was \$819,137.

NOTE 11 - JOINTLY GOVERNED ORGANIZATIONS

A. Lorain County Cluster

Lorain County Cluster provides services to multi-need youth in Lorain County. Members of the Cluster include Lorain County School Systems, Board of Mental Retardation and Developmental Disabilities, Lorain County Mental Health Board, Lorain County Children Services, Lorain County Addiction and Recovery Services Board, Lorain County Health District, and Ohio Department of Youth Services. The operation of the Cluster is controlled by an advisory committee, which consists of a representative from each agency. Funding comes from services provided by each of the participants.

B. Northeast Ohio Areawide Coordinating Agency

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 37 members including the three County Commissioners. The board exercises total control over the operation of the corporation including budgeting, appropriating, contracting and designating management. Each participant's degree of control is limited to its representation on the board. During 2005 the County contributed \$46,105.

NOTE 12 - RELATED ORGANIZATIONS

A. Lorain County Metropolitan Park District

The three Park District Commissioners are appointed by the Probate Judge of the County. The Park District hires and fires its own staff and does not rely on the County to finance deficits. The County is not financially accountable for the Park District nor is the Park financially dependent on the County. The Park District serves as its own budgeting, taxing and debt issuance authority. The Park District did not receive any funding from the County during 2005.

B. Lorain County Community College

The County is responsible for appointing the trustees of the Lorain County Community College, but the County's accountability does not extend beyond making the appointments. The College did not receive any funding from the County during 2005.

Lorain County, Ohio
Notes to Financial Statements
For the Year Ended December 31, 2005

C. Community Based Correctional Facility

The Community Based Correctional Facility Board is composed of four common pleas court judges from Lorain County and two common pleas court judges from neighboring Medina County. The County's accountability does not extend beyond serving as fiscal agent for pass-through grants. The Community Based Correctional Facility Board did not receive any funding from the County during 2005.

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System (OPERS)

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6701 or 800-222-7377.

For the year ended December 31, 2005, the members of all three plans were required to contribute 8.5% of their annual covered salaries. The County's contribution rate for pension benefits for 2005 was 13.55% for employees other than law enforcement. For law enforcement employees, the employee contribution is 10.1% and the employer contribution is 16.7%. The Ohio Revised Code provides statutory authority for member and employer contributions. The County's required contributions to OPERS for the years ended December 31, 2005, 2004 and 2003 were \$11,416,245, \$10,975,861, and \$10,488,535, respectively. The full amount has been contributed for 2004 and 2003. 93% has been contributed for 2005 with the remainder being reported as a liability.

B. State Teacher's Retirement System (STRS)

Lorain County participates in the State Teacher's Retirement System of Ohio (STRS), a cost sharing, multiple-employer public employee retirement system. STRS is a statewide plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

Effective July 1, 2001, two new plan options were offered to selected members. New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan

Lorain County, Ohio
Notes to Financial Statements
For the Year Ended December 31, 2005

DB Plan Benefits-Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional .10% is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contribution plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits- Benefits are established under Chapter 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Combined Plan Benefits- Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005 a reemployed retiree may alternatively receive a refund of members contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for defined benefit plan participants.

The Defined Benefit and Combined Plans offer access to health coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of those members who die before retirement age may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary for each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Contribution requirements and the contributions

Lorain County, Ohio
Notes to Financial Statements
For the Year Ended December 31, 2005

actually made for the fiscal year ended June 30, 2005 were 10.0% of covered payroll for members and 14% for employers. The Lorain County's contribution to STRS for the years ended December 31, 2005, 2004 and 2003 were \$211,220, \$203,599 and \$195,922 respectively. The full amount has been contributed for 2005, 2004 and 2003.

STRS Ohio issues a stand-alone financial report. Additional information or copies of STRS Ohio's 2005 *Comprehensive Annual Financial Report* can be requested by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, or by calling (614) 227-4090.

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System (OPERS)

In addition to the pension benefits described in Note 13, OPERS provides post retirement health care coverage to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post employment health care coverage. In order to qualify for post retirement health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and qualified survivor benefit recipients is available. The health care coverage provided by the retirement system is considered an Other Post employment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement program is separated into two divisions, law enforcement and public safety with separate employee contribution rates and benefits. The 2005 employer contribution rate was 13.55% of covered payroll and 4% was used to fund health care for the year. For law enforcement employees, the employer contribution rate was 16.7% of which 4% was used to fund health care. The portion of the employer contributions used to fund health care was \$430,247 for employees not engaged in law enforcement and \$26,403 for law enforcement employees.

Benefits are advanced-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8%, an annual increase in active employee total payroll of 4% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.3% based on additional annual pay increases. Health care premiums were assumed to increase 4% annually.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 376,109. The County's actual contributions for 2005, which were used to fund post employment benefits, were \$3,333,310. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

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B. State Teacher's Retirement System (STRS)

State Teachers Retirement System of Ohio (STRS OHIO) provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code (R.C), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. The R.C. grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal years ended June 30, 2005 and 2004, the Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For Lorain County, this amount equaled \$15,081 during 2005. The balance in the Health Care Stabilization Fund was \$3.3 billion on June 30, 2005. For the fiscal year ended June 30, 2005 net health care costs paid by STRS Ohio were \$254,780,000. There were 115,395 eligible benefit recipients.

NOTE 15 - OTHER EMPLOYEE BENEFITS

Compensated Absences

Vacation leave is earned at rates, which vary depending upon length of service and standard workweek. Current policy permits vacation leave to be carried forward with supervisory approval. County employees are paid for earned, unused vacation leave at the time of termination of employment. Vacation leave is recognized as a liability in the period in which it is earned.

Sick leave is earned at various rates for every eighty hours worked by various departments. Current policy permits sick leave to be accumulated without limit. At the time of separation with the County, the majority of employees who have five or more years of public service under OPERS, shall receive cash payment of sick leave not to exceed 1000 hours. The employee shall retain any remaining leave balance for credit upon re-employment in the public service. This sick leave conversion payment shall be based on the employee's rate of pay at the time of separation or death.

The estate of the deceased employee shall be eligible for 100% of the employee's sick leave balance as of the date of their death, providing they are otherwise qualified to receive such benefit (five years of service under OPERS). Such payment shall be made in accordance with 2113.04 of the Ohio Revised Code, or shall be paid to the employee's estate.

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

For governmental funds, the current portion of unpaid compensated absences is that amount expected to be paid using expendable available financial resources, and is reported as an accrued liability in the fund from which the individuals who have accumulated the unpaid compensated absences are paid. The non-current portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences of \$102,483 is reported as a fund liability.

Lorain County, Ohio
Notes to Financial Statements
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NOTE 16 - OUTSTANDING DEBT

A. Short-Term Debt

Short-term note debt activity for the year ended December 31, 2005, consisted of the following:

	<u>Balance 1/1/05</u>	<u>Issued</u>	<u>(Retired)</u>	<u>Balance 12/31/05</u>
2005-4.0% Energy Conservation Note Due 9/06/06	\$ -	\$3,990,000	\$ -	\$3,990,000
2005-3.0% Sewer Improvements Note Due 3/08/06	-	700,000	-	700,000
Total Short-Term Notes	<u>\$ -</u>	<u>\$4,690,000</u>	<u>\$ -</u>	<u>\$4,690,000</u>

The above notes are backed by the full faith and credit of the County. The notes will be repaid from governmental fund revenues. On February 23, 2006 the Sewer Improvement note was refinanced with a \$725,000 note due August 22, 3006.

B. Bonded Long-Term Debt

Changes in long-term obligations of the County during 2005 were as follows:

	<u>Balance 1/1/05</u>	<u>Issued</u>	<u>(Retired)</u>	<u>Balance 12/31/05</u>	<u>Amount Due In One Year</u>
General Obligation Bonds- Unvoted					
1996-3.80% to 5.50% Public Improvement	\$ 5,590,000	\$ -	\$(5,590,000)	\$ -	\$ -
2002-3.00% to 5.50% Justice Center Bonds	18,705,000	-	(715,000)	17,990,000	735,000
2004-2.00% to 4.35% Various Improvements	3,870,000	-	(145,000)	3,725,000	145,000
2005-3.00% to 5.00% General Obligation Refunding Bonds	-	5,560,000	(385,000)	5,175,000	390,000
Total General Obligation Bonds -Unvoted	<u>28,165,000</u>	<u>5,560,000</u>	<u>(6,835,000)</u>	<u>26,890,000</u>	<u>1,270,000</u>
Special Assessment Bonds- Governmental Commitment					
1987-7.875% Sanitary Sewer	300,000	-	(100,000)	200,000	100,000
2000-5.480% Allison Ditch Improvement	4,555	-	(662)	3,893	698
2000-4.45% to 5.95% Sanitary Sewer	505,000	-	(20,000)	485,000	20,000
2001-2.50% to 5.00% Sewer System Improvement	4,080,000	-	(165,000)	3,915,000	175,000
Total Special Assessment Bonds	<u>4,889,555</u>	<u>-</u>	<u>(285,662)</u>	<u>4,603,893</u>	<u>295,698</u>
Total Bonded Long-Term Debt	<u>\$33,054,555</u>	<u>\$5,560,000</u>	<u>\$(7,120,662)</u>	<u>\$31,493,893</u>	<u>\$1,565,698</u>

On July 5, 2005 the County issued \$5.56 million in General Obligation Bonds with an average interest of 4.475 percent to advance refund \$5.59 million of outstanding 1996 public Improvement Bonds with an average interest rate of 5.464 percent. The net proceeds of \$5.7 million (after premium and accrued interest recognized of \$322,000 and \$144,000 in underwriting fees, insurance and other costs) were used to advance refund all of the outstanding \$7,885,000 County of Lorain, Ohio, Public Improvements Bonds, Series 1996 and to pay certain costs of issuance related thereto.

Lorain County, Ohio
Notes to Financial Statements
For the Year Ended December 31, 2005

Although the advance refunding resulted in the recognition of an accounting loss of \$143,808 for the year ended December 31, 2005, the County in effect reduced its aggregate debt service payments by almost \$475,900 over the next 12 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$394,000.

Calculation of Difference in Cash Flow Requirement and Economic Gain

Cash Flow Difference

Old debt service cash flows		\$7,610,015
New debt service cash flows	\$7,146,813	-
Less accrued interest included In 7/05/05 payment	(12,642)	7,134,171
		<u>\$475,844</u>

Economic Gain

Present value of old debt service Cash Flows		\$6,260,664
Present value of new debt service Cash Flows	\$5,879,290	
Less accrued interest included In 7/05/05 payment	(12,642)	5,866,995
		<u>\$394,016</u>

C. Other Long-Term Debt

	<u>Balance 1/1/05</u>	<u>Issued</u>	<u>(Retired)</u>	<u>Balance 12/31/05</u>	<u>Amount Due In One Year</u>
OWDA Loans					
Sewer Improvement 101 – 5.20%	\$ 359,144	\$ -	\$ (37,252)	\$ 321,892	\$ 39,214
Sewer Improvement 102 – 4.80%	721,177	-	(61,536)	659,641	64,525
Sewer Improvement 103 – 4.56%	<u>247,755</u>	<u>-</u>	<u>(18,871)</u>	<u>228,884</u>	<u>19,742</u>
Total OWDA Loan	<u>\$ 1,328,076</u>	<u>\$ -</u>	<u>\$(117,659)</u>	<u>\$1,210,417</u>	<u>\$123,481</u>

The Ohio Water Development Authority Loans (OWDA) will be repaid with special assessments. In the event that a property owner would fail to pay the assessment, payment would be made by the County.

Lorain County, Ohio
Notes to Financial Statements
For the Year Ended December 31, 2005

The following is a summary of the future annual principal and interest debt service requirements for long-term obligations:

Year Ending	<u>GOVERNMENTAL ACTIVITIES</u>				<u>BUSINESS-TYPE ACTIVITIES</u>	
	<u>General Obligation</u>		<u>Special Assessments</u>		<u>Ohio Water Development Authority</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 1,270,000	\$ 1,235,949	\$ 295,698	\$ 224,691	\$ 123,481	\$ 57,347
2007	1,315,000	1,197,094	310,736	209,565	129,592	51,237
2008	1,360,000	1,154,634	215,776	193,345	136,005	44,824
2009	1,400,000	1,108,676	225,819	184,402	142,736	38,092
2010	1,455,000	1,059,251	225,864	174,782	149,801	31,026
2011-2015	8,235,000	4,305,961	1,315,000	711,410	528,802	50,885
2016-2020	7,855,000	2,260,570	1,675,000	350,548	-	-
2021-2025	4,000,000	359,210	340,000	17,000	-	-
Total	<u>\$26,890,000</u>	<u>\$12,681,345</u>	<u>\$4,603,893</u>	<u>\$2,065,743</u>	<u>\$1,210,417</u>	<u>\$273,411</u>

Change in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Ending Balance</u>	<u>Amount Due In One Year</u>
Governmental Activities:					
Bonds Payable:					
General Obligations Bonds	\$28,165,000	\$5,560,000	\$ (6,835,000)	\$26,890,000	\$1,270,000
Special Assessment Debt With Government Commitment	4,889,555	-	(285,662)	4,603,893	295,698
Total Bonds Payable	33,054,555	5,560,000	(7,120,662)	31,493,893	1,565,698
Compensated Absences	10,265,074	7,609,006	(5,905,694)	11,968,386	3,954,061
Governmental Activity- Long Term Liabilities	<u>\$43,319,629</u>	<u>\$13,169,006</u>	<u>\$(13,026,356)</u>	<u>\$43,462,279</u>	<u>\$5,519,759</u>
Business-Type Activities:					
OWDA Loans	\$ 1,328,076	\$ -	\$ (117,659)	\$ 1,210,417	\$ 123,481
Compensated Absences	84,372	52,224	(34,113)	102,483	36,106
Business-Type Activity - Long Term Liabilities	<u>\$ 1,412,448</u>	<u>\$ 52,224</u>	<u>\$ (151,772)</u>	<u>\$ 1,312,900</u>	<u>\$ 159,587</u>

General obligation bonds are direct obligations of the County and will be paid from the general bond retirement debt service fund using property tax revenues. 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 County. Compensated absences will be paid from the fund, which the employees' salaries are paid. Delinquent special assessments due the county at December 31, 2005 was \$225,951.

Lorain County, Ohio
Notes to Financial Statements
For the Year Ended December 31, 2005

NOTE 17 - CONDUIT DEBT OBLIGATIONS

From time to time, the County has issued Healthcare Revenue Bonds to provide financial assistance to health care organizations and Economic Development Bonds for private-sector entities for the acquisition and construction of facilities deemed to be in the public interest. Servicing these debts is the sole obligation of the entities, which received the debt proceeds. Neither the County, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of December 31, 2005, there were fifteen series of Healthcare Revenue Bonds and four Economic Development Bonds outstanding with aggregate principal amounts payable of \$1,193,975,000 and \$28,200,000, respectively.

NOTE 18 - INTERFUND TRANSACTIONS

Due To/Due From other funds balances as of December 31, 2005 follow:

<u>Payable Fund</u>	<u>Receivable Fund</u>	<u>Amount</u>
Job and Family Services	General Fund	\$90,295
Job and Family Services	Children Services	332,154
Job and Family Services	MRDD	5,181
Job and Family Services	Nonmajor Governmental Funds	158,110
Job and Family Services	Internal Service Fund	519,396
Nonmajor Governmental Funds	Job and Family Services	1,829
Nonmajor Governmental Funds	General Fund	1,241,290
Enterprise Fund	General Fund	152,200
Q Construction	General Fund	1,139,000
Children Services	General Fund	15,713
Nonmajor Governmental Funds	General Fund	189,641
General Fund	Nonmajor Governmental Funds	4,868
Nonmajor Governmental Funds	Nonmajor Governmental Funds	45,213
Children Services	Nonmajor Governmental Funds	1,058
MRDD	Nonmajor Governmental Funds	2,018
Enterprise Fund	Nonmajor Governmental Funds	1,644
Nonmajor Governmental Funds	Internal Service Fund	58,148
Total – All Funds		<u>\$3,957,758</u>

Due To/Due From balances resulted from the routine lag between the dates interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Advances from/to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Q Construction	\$ 11,918,086
	Nonmajor Governmental Funds	669,443
	Enterprise Fund	357,449
		<u>\$12,944,978</u>

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Inter Fund Transfers:

	<u>Transfers in:</u>				<u>Total</u>
	<u>General Fund</u>	<u>Nonmajor Governmental</u>	<u>Internal Service Funds</u>	<u>Enterprise Funds</u>	
Transfers Out :					
General Fund	\$ -	\$3,261,847	\$178,590	\$ -	\$3,440,437
MRDD	-	1,999,000	-	-	1,999,000
Q Construction	-	-	-	461,646	461,646
NonMajor Governmental	14,883	-	-	-	14,883
Total Transfers In	<u>\$14,883</u>	<u>\$5,260,847</u>	<u>\$178,590</u>	<u>\$461,646</u>	<u>\$5,915,966</u>

All balances in the Due From/Due To schedule resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. The balance of \$669,443 due to the General Fund for advances to Nonmajor Governmental Funds results from cash flow issues in those funds.

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them; to move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payment become due, and use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 19 – BUDGETARY BASIS OF ACCOUNTING

A reconciliation for the major governmental funds at December 31, 2005 from the budget basis to a GAAP basis for excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses follows:

	<u>General Fund</u>	<u>Job and Family Services</u>	<u>Children Services</u>	<u>MRDD</u>	<u>Community Mental Health</u>
Budget Basis	\$(4,679,706)	\$(1,162,430)	\$(54,044)	\$(384,785)	\$(1,192,048)
Net Adjustment for Revenue Accruals	984,185	2,443,027	738,392	1,226,922	679,092
Net Adjustment for Expenditure Accruals	(1,237,512)	(1,334,308)	2,786	(192,294)	1,815,604
Net Adjustment for Encumbrances	2,889,103	481,778	5,421	567,391	100,866
Net Adjustments for Other Financing Sources (Uses) Accruals	178,685	-	-	-	(200,000)
GAAP Basis	<u>\$(1,865,245)</u>	<u>\$ 428,067</u>	<u>\$692,555</u>	<u>\$1,217,234</u>	<u>\$ 1,203,514</u>

NOTE 20 - FOOD STAMPS

The County's Department of Job and Family Services (Welfare) distributed, through contracting issuance centers, federal food stamps to entitled recipients within Lorain County. The receipt and issuance of these stamps have the characteristics of

Lorain County, Ohio
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federal "grants"; however, Job and Family Services merely acts in an intermediary capacity. Therefore, the inventory value of these stamps is not reflected in the accompanying financial statements as the only economic interest related to these stamps rests with the ultimate recipient. Food stamp activity in the County's Department of Job and Family Services for the year ended December 31, 2005, follows:

Balance 1/1/05	Receipts	Disbursements	Balance 12/31/05
\$4,831	\$ -	\$(2,423)	\$2,408

NOTE 21 – TRANSFER FROM PRIMARY GOVERNMENT

The component units received \$309,263 of operating funds from The Primary Government. These amounts are included under Legislative and Executive miscellaneous allocations to component units in the General Fund.

NOTE 22 - CONTINGENT LIABILITIES

A. Grants

The County received financial assistance from Federal and State agencies in the forms of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the County at December 31, 2005.

B. Litigation

As of December 31, 2005, the County was a party to various legal proceedings. The ultimate disposition of these proceedings is not presently determinable, but will not, in the opinion of the County, have a material adverse effect on the continued operation of the County.

NOTE 23 - RELATED PARTY TRANSACTIONS

During 2005 the County provided facilities, certain equipment, transportation and salaries for administration, implementation and supervision of its programs to Murray Ridge Production Center, Inc. Murray Ridge Production Center, Inc., a discretely presented component unit of Lorain County, disclosed \$174,142 for such contributions.

NOTE 24 - CONTRACTUAL COMMITMENTS

During 2005, the County entered into various contracts for building construction and renovations totaling \$11,694,413. The amount paid on the contracts were \$7,425,262 with \$78,647 unused as actual costs were less than the contracted amount, leaving an outstanding contractual commitment of \$4,190,504.

NOTE 25 – GUARANTEE

In a resolution dated August 15, 2002 the County has guaranteed (by the pledge of the lodging excise tax receipts and all of the non-tax revenue fund of the County) the principle and interest payments due on \$1,245,000 of bonds issued by the Lorain County Port Authority on behalf of the Lorain County Visitors Bureau, Inc. for the purpose of constructing a new Visitor's Center and Bureau Office. The principle will be repaid in various amounts in the years 2003 thru 2023.

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For the Year Ended December 31, 2005

NOTE 26 – SUBSEQUENT EVENT

On February 23, 2006 the County refinanced \$725,000 of the Sewer Improvement note. The note is now due August 22, 2006.

NOTE 27 - LORAIN COUNTY REGIONAL AIRPORT AUTHORITY

1. Reporting Entity

The Lorain County Regional Airport Authority (Airport) was established pursuant to Ohio Revised Code Section 308.03 by resolution of the Lorain County Commissioners. The Airport is governed by a nine member Board of Trustees (Board), all of whom are appointed by the Lorain County Commissioners. The Board has the authority to exercise all of the powers and privileges provided under the law. These powers include the ability to sue or be sued in its corporate name, the power to establish and collect rates, rentals and other charges, the authority to acquire, construct, operate, manage and maintain airport facilities, the authority to buy and sell real and personal property, and the authority to issue debt for acquiring or constructing any facility or permanent improvement. Lorain County has contributed money to the airport to continue operations. Since the Airport imposes a financial burden on the County, the Airport is reported as a component unit of Lorain County.

The reporting entity for the Airport is comprised of all departments, boards and agencies that are not legally separate from the Airport, any component units of the Airport and any other organizations that would need to be included to ensure that the financial statements of the Airport are not misleading.

Component units are legally separate organizations for which the Airport is financially accountable. The Airport is financially accountable for an organization if the Airport appoints a voting majority of the organization's governing board and (1) the Airport is able to significantly influence the programs or services performed or provided by the organization; or (2) the Airport is legally entitled to or can otherwise access the organization's resources; the Airport is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or the Airport is obligated for the debt of the organization. Based on the application of these criteria, the Airport has no component units.

2. Summary of Significant Accounting Policies

The financial statements of the Airport have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Airport also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Airport's accounting policies are described below.

Basis of Presentation - The Airport's financial statements consist of a statement of net assets, a statement of revenue, expenses and changes in net assets, and a statement of cash flows.

The Airport uses a single enterprise fund 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.

Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

Measurement Focus - The enterprise fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the Airport are included on the statement of net assets. The statement of

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changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Airport finances and meets the cash flow needs of its enterprise activity.

Basis of Accounting - Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Airport's financial statements are prepared using the accrual basis of accounting.

Revenue is recorded on the accrual basis when the exchange takes place. Expenses are recognized at the time they are incurred.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents - For purposes of the statement of cash flows, the Airport considers all highly liquid investments with a maturity of three months or less (demand deposits with banks) to be cash equivalents. During 2005, Airport investments were limited to interest bearing deposit accounts.

Net Assets - Net assets represent the difference between assets and liabilities. New assets invested in capital assets, net or related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted by the Airport, or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Airport's policy is to apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. At year end the Airport had \$9,428 in restricted net assets for other purposes.

Operating revenues and expenses - Operating revenues are those revenues that are generated directly from primary activities. For the Airport, these revenues are charges for services and other operating income. Operating expenses are the necessary costs incurred to provide the goods or service that are the primary activity of the Airport. Revenues and expenses not meeting these definitions are reported as non-operating.

Grants - Grants received for the acquisition or construction of capital assets, are recorded as contributions when earned. Grants are earned when costs relating to such capital assets, which are reimbursable under the terms of the grants, have been incurred.

Capital Assets - Capital Assets, including infrastructure assets, purchased or constructed by the Airport are recorded at original cost. Land improvements, buildings, equipment and vehicles are depreciated using the straight-line method over the estimated useful lives of the assets. A useful life of 20 to 40 years is used for land improvements and buildings, and 5 to 15 years is used for equipment and vehicles.

Cost and related accumulated depreciation of capital assets sold or otherwise retired are removed from the accounts, and gains or losses on disposition or credited to or charged against income.

Routine maintenance, repairs, renewals, and replacement costs are charged against income. Expenditures, which materially increase values or extend useful lives, are capitalized.

The Airport's policy is to capitalize net interest on the enterprise fund construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project, and the interest earned from temporary investments of the debt proceeds over the same period. Capitalized interest is amortized on a straight-line basis over the estimated useful life of the asset. For 2005 no interest costs were incurred on construction projects for the Airport.

Lorain County, Ohio
Notes to Financial Statements
For the Year Ended December 31, 2005

3. Deposits

The following information is provided to give an indication of the steps the Airport takes to protect its cash deposits and the level of risk assumed for certain investments.

Ohio Revised code authorizes the Airport to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; obligations of the United States government, its agencies and instrumentalities; bonds and other obligations of the State of Ohio; certain money market mutual funds and secured repurchase agreements and the State Treasurer's investment pool. Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited.

At year-end, the carrying amount of the Airport's deposits was \$187,123 (which includes petty cash of \$300) and the bank balance was \$303,364. Of the bank balance, \$100,000 was covered by federal depository insurance provided by the Federal Deposit Insurance Corporation (FDIC), and \$203,364 was uncollateralized and uninsured. Although securities were held by the pledging financial institutions trust department or agent in the Airport's name and all Ohio Revised Code requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the Airport to a successful claim by the FDIC.

The Airport had no investments at December 31, 2005.

4. Changes in Capital Assets

Capital asset activity for the year ended December 31, 2005 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	\$2,153,589	\$ -	\$ -	\$2,153,589
Construction In Progress	5,200,805	1,195,035	(5,228,873)	1,166,967
Total Capital Assets, Not Being Depreciated	7,354,394	1,195,035	(5,228,873)	3,320,556
Capital Assets, Being Depreciated:				
Land Improvements	5,403,556	4,852,699	-	10,256,255
Buildings	1,183,854	-	-	1,183,854
Equipment	471,211	376,174	(79,334)	768,051
Vehicles	185,761	-	-	185,761
Total Capital Assets, Being Depreciated	7,244,382	5,228,873	(79,334)	12,393,921
Less Accumulated Depreciation:				
Land Improvements	(2,790,160)	(272,259)	-	(3,062,419)
Buildings	(153,955)	(34,228)	-	(188,183)
Equipment	(367,647)	(31,319)	78,440	(320,526)
Vehicles	(119,916)	(12,566)	-	(132,482)
Total Accumulated Depreciation	(3,431,678)	(350,372)	78,440	(3,703,610)
Capital Assets, Net	<u>\$11,167,098</u>	<u>\$6,073,536</u>	<u>\$(5,229,767)</u>	<u>\$12,010,867</u>

5. Receivables

In the normal course of operating the Airport, credit is granted to Airport tenants and customers. The Board believes no allowance for receivables doubtful of collection is necessary, and none has been provided.

Lorain County, Ohio
Notes to Financial Statements
For the Year Ended December 31, 2005

6. Lease of Premises

Various lease agreements have been entered into for office, hanger and land rental through December 1, 2018, with options to extend the lease terms. Future base rental incomes for the leases as of December 31, 2005 are as follows:

2006	\$ 85,092
2007	85,092
2008	85,092
2009	85,092
2010	49,038
Thereafter	157,575

A 99 year lease agreement has also been entered into for land rental of three parcels of land totaling 2.7105 acres through the year 2078 and is renewable forever. The lease provides for a base ground rental use of \$7,289 per year to be adjusted upward by a function of the Consumer Price Index. For the year ended December 31, 2005 rental income was \$9,533.

Various lease agreements have been entered into for office and hangar space on a month-to-month basis. Rental income from these rentals was \$1,836 for the year ended December 31, 2005.

7. Compensated Absences

The Airport allows employees to accumulate unused sick leave. This policy provides that upon an employee's death or retirement, the employee shall receive cash payment of one third of the value of his or her legally accrued and unused sick leave, to a maximum of 333 1/3 hours. The sick leave conversion payment shall be based on the average of the employees base salary rates for the most recent three years. Sick leave benefits are accrued as a liability using the vested method. In December 2005, the Board signed a new employment contract with the Airport Executive Director, which granted him, payment of all accumulated vacation and sick leave as stipulated in the prior agreement.

At December 31, 2005 the liability for accrued vacation leave and sick leave is approximately \$26,613.

8. Pension Plan

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705.

For the year ended December 31, 2005, the members of all three plans were required to contribute 8.5% of their annual covered salaries. The Airport's contribution rate for pension benefits for 2005 was 8.55%. The Ohio Revised Code provides statutory authority for member and employer contributions. The Airport's contribution to OPERS for the years

Lorain County, Ohio
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ending December 31, 2005, 2004 and 2003 was \$38,048, \$36,269 and \$61,054 respectively, equal to the required contributions for those years.

9. Other Post Employment Benefits (OPEB)

In addition to the pension benefits described in Note 8. OPERS provides post retirement health care coverage, in accordance with the Ohio Revised Code, to age and service retirees with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2005 local government employer contribution rate was 13.31% of covered payroll; 5% of covered payroll was the portion that was used to fund health care. For the calendar year 2005, Airport contributions equal to 5% of covered payroll was used to fund health care expenses.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.0%, an annual increase in active employee total payroll of 4% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.3% based on additional annual pay increases. Health care premiums were assumed to increase 4% annually.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 % of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 376,109. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of Health Care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

10. Risk Management

The Airport is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injury to employees; and natural disasters. Through Lorain County, the Airport is covered under the County Risk Sharing Authority, Inc. (CORSA). CORSA is a risk sharing pool made up of thirty-nine counties in Ohio and was formed as an Ohio nonprofit corporation for the purpose of establishing the CORSA Insurance/Self-Insurance Program, a group of primary and excess insurance/self-insurance and risk management program. CORSA insures the Airport for general liability, errors and omissions, property and automobile. The Airport has purchased commercial insurance for aviation and airport and hanger keepers liability. The Airport also carries employee health and accident insurance and a bond on key management positions. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

Lorain County, Ohio
Notes to Financial Statements
For the Year Ended December 31, 2005

11. Contingent Liabilities

The Airport receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits may require refunding to the grantor agencies. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial statements included herein or on the overall financial position of the Airport as of December 31, 2005.

12. Subsequent Event

On May 26, 2005 the Lorain County Commissioners have passed a resolution to authorize the County Administrator and County Prosecutor's office to take the necessary action in transferring all county airport assets from the direct control of ownership of the Lorain County Airport Authority to the direct control and ownership of the Lorain County Board of Commissioners.

NOTE 28 - MURRAY RIDGE PRODUCTION CENTER, INC.

1. Summary of Significant Accounting Policies

- A. Equipment - These assets are stated at cost and depreciated on the straight-line and declining-balance methods over the estimated useful lives of the various assets.

Maintenance and repairs are charged against earnings when incurred. Additions and major renewals are capitalized.

- B. Income Taxes - Murray Ridge Production Center, Inc., is a non-profit corporation and is exempt from Federal income taxes under Section 501 (c) (3) of the Internal Revenue Code.
- C. Donated Services - Donated services of management, direct supervision, rent, etc., have been provided by the Lorain County Board of Mental Retardation/Developmental Disabilities. During the year ended June 30, 2005 the value of these services was estimated to be \$174,142.
- D. Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. Concentrations of Credit Risk

Financial instruments that potentially subject the organization to credit risk include cash on deposit with five financial institutions amounting to \$402,537 at June 30, 2005, which was insured for \$339,741 by the Federal Deposit Insurance Corporation. The organization had extended unsecured credit to regular customers amounting to \$229,405 at June 30, 2005.

3. Investments

Investments at June 30, 2005 consist of the bonds and funds, which are recorded at fair value.

4. Investment Income

Investment income for the year ended June 30, 2005, consisted of interest income, dividend income, and gains and losses, both realized and unrealized.

Lorain County, Ohio
Notes to Financial Statements
For the Year Ended December 31, 2005

5. Restricted Funds

During the year ended June 30, 2005, the board restricted a certain amount of previously unrestricted funds for future operating reserves.

NOTE 29 - LORAIN COUNTY PORT AUTHORITY

1. Summary of Significant Accounting Policies

- A. Reporting Entity – The Lorain County Port Authority (the Authority) was created by the Lorain County Board of Commissioners in 2001 to enhance economic development in Lorain County. The Authority is created in accordance with Section 4582.22 of the Ohio Revised Code.

The Authority is governed by a five-member Board of Directors (the Board) appointed by the Lorain County Board of Commissioners. The initial Board is serving staggered terms. Each successor shall serve for a term of four years, except when a person is appointed to fill a vacancy, which is to be appointed to serve only the unexpired term. Members of the Board are eligible for re-appointment. The Board controls the employment of the Executive Director who is responsible for the day-to-day operations.

The Authority's financial reporting entity has been defined in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14 "The Reporting Entity". The financial statements include all divisions and operations for which the Authority is financially accountable. Financial accountability exists if a primary government/component unit appoints a majority of an organization's governing board and is able to impose its will on that organization. Financial accountability may also be deemed to exist if there is a potential for the organization to provide financial benefits to, or impose financial burdens on, the primary government/component unit. On this basis, no governmental organization other than the Authority itself is included in the financial reporting entity.

As of December 31, 2005, the Authority has a liability to the County in the amount of \$126,866 for past operating advances. Under GASB Statement No. 14, this is considered to be a financial burden on the County; also the County can impose its will on the Authority through the appointment of the members of the Board of Directors. Therefore, the Authority is a component unit of the County whose financial statements are discretely presented in the County's financial statements.

- B. Basis of Accounting – The accompanying financial statements have been prepared on the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred. All transactions are accounted for in a single business-type fund. The Authority applies all GASB pronouncements as well as Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless the pronouncements conflict with or contradict GASB pronouncements. The Authority has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

Operating revenues and expenses generally result from providing services in connection with principal ongoing operations of the Authority. Operating revenues consist of application fees and administrative fees. Operating expenses include professional services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

- C. Budgetary Process – Ohio Revised Code Section 4582.39 requires the Authority to prepare a budget annually. This budget includes estimated receipts and appropriations and is prepared on the cash basis of accounting.
- D. Cash, Cash Equivalents and Investments – The Ohio Revised Code prescribes allowable deposits and investments. For purposes of the Statement of Cash Flows, the Authority considers all highly liquid

Lorain County, Ohio
Notes to Financial Statements
For the Year Ended December 31, 2005

investments with maturity of three months or less when purchased to be cash equivalents. Investments are reported at fair value, which is based on quoted market prices.

- E. Estimates – The preparation of 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 expected.

2. Change in Accounting Principle

For fiscal year 2005, the Authority has implemented GASB Statement No. 40, “Deposit and Investment Risk Disclosure”, and amendment of GASB Statement No. 3. GASB Statement No. 40 addresses common deposit and investment risk related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. This Statement is designed to inform financial statement users about deposit and investment risk that could affect a government’s ability to provide services and meet its obligations.

3. Cash, Cash Equivalents and Investments

The provisions of the Ohio Revised Code govern the investments and deposits of Authority monies. In accordance with these statutes, only financial institutions located in Ohio are eligible to hold public deposits. The statutes also permit the Authority to invest its monies in certificate of deposit, savings accounts, money market accounts, the State Treasurer’s Asset Reserve (STAR Ohio) investment pool and obligations of the United States government or certain agencies thereof. The Authority may also enter into repurchase agreements with any eligible depository for a period not exceeding thirty days.

Public depositories must give security for all public funds on deposit. These institutions may specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds or by a single collateral pool established by the financial institution to secure the repayment of all public money deposited with the institution.

Deposits – At December 31, 2005, the carrying amount of the Authority’s deposits was \$38,061 and the bank balance of the Authority’s deposits was \$35,998. Federal Depository Insurance covered the entire bank balance.

Investments – As of December 31, 2005, the Authority had the following investments and maturities:

Investment Type	Fair Value	Investment Maturity Less than One Year
First American Government Obligation Fund	\$2,507,208	\$2,507,208

Interest Rate Risk: The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. Accordingly to the Authority’s policy, investments made by the Treasurer must mature within five years from the date of purchase with an average weighted maturity not to exceed two years.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Investments had the following ratings by Standard & Poors.

First American Government Obligation Fund	AAAm
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Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Lorain County, Ohio
Notes to Financial Statements
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Concentration of Credit Risk is the possibility of loss attributed to the magnitude of the Authority's investment in a single issuer. One hundred percent of the Authority's investments are in First American Government Obligation Fund. The Authority's policy places no limit on the amount that may be invested in any one issuer.

4. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; injury and natural disasters. Through Lorain County, the Authority is covered under the County Risk Sharing Authority, Inc. (CORSA). CORSA is a risk sharing pool made up of thirty-nine counties in Ohio and was formed as an Ohio non-profit corporation for the purpose of establishing the CORSA Insurance/Self-Insurance Program, a group of primary and excess insurance/self-insurance and risk management programs. The Authority has not had any claims that exceeded insurance coverage.

A surety bond of \$25,000 through Ohio Casualty Insurance Group covers the Board Secretary.

5. Bond Fund Program

The Authority has established a Bond Fund Program to provide long-term, fixed interest rate financing for qualified industrial, commercial and public projects. The primary purpose of the Bond Fund Program is to further economic development efforts and investment in Lorain County through the retention and creation of quality, private sector jobs.

The State of Ohio Department of Development (ODOD) awarded the Authority a grant of \$1,000,000, received in April 2003, which was deposited into the Bond Fund Program Reserve account. The conditional grant from ODOD is for 20 years, with the interest earned on the fund remitted back to ODOD through December 2012. Beginning 2013 and continuing through December 2023, 50% of the interest earned is required to be remitted back to ODOD. On December 31, 2001, the Authority received a \$1,500,000 grant from Lorain County for the Bond Fund Program, which was also deposited into the Bond Fund Program Reserve account.

Under the Program, debt service requirements on each bond issue are to be secured by a pledge of amounts to be received under lease or loan agreements with borrowers who utilize the financial facilities. In addition, all borrowers are required to provide a letter of credit as additional security for the related bonds. Amounts in the Bond Fund Program Reserve may be used for debt service in the event the borrower is unable to make the required payments under the lease.

Amounts held in the Authority's Bond Fund Program Reserve was \$2,507,208 at December 31, 2005 and are reflected in the Statement of Net Assets.

6. RELATED PARTY TRANSACTIONS

The Authority utilizes certain Lorain County employees without reimbursement and the Director of the Authority is also a member of the Board.