

Lorain County



Comprehensive Annual Financial Report

For The Year Ended December 31, 2006

Mark R. Stewart, Auditor



Introductory Section

Introductory Section



**Lorain County Auditor
Mark R. Stewart**

Comprehensive Annual Financial Report

For the Year Ended December 31, 2006



Lorain County Ohio

Mark R. Stewart
Lorain County Auditor

Prepared by:

J. Craig Snodgrass, CPA, CGFM
Chief Deputy Auditor

Lillian C. Brand
Comptroller

LORAIN COUNTY, OHIO
December 31, 2006

**LORAIN COUNTY, OHIO
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED DECEMBER 31, 2006**

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OFFICE OF THE AUDITOR
LORAIN COUNTY, OHIO

MARK R. STEWART
Auditor

August 28, 2007

Lorain County Commissioners:

Honorable Ted Kalo, President
Honorable Lori Kokoski
Honorable Elizabeth C. Blair

Citizens of Lorain County

I am pleased to present this Comprehensive Annual Financial Report (CAFR) for the County of Lorain, Ohio, for the year ended December 31, 2006. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the County, and specifically, the County Auditor's Office. This CAFR conforms to generally accepted accounting principles, as set forth by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources, and is representative of the County's commitment to provide financial information to the citizens of Lorain County. Preparation of this CAFR represents a continuing effort to improve the financial management of the County. The information contained in this CAFR will assist County officials in making management decisions and will provide the taxpayers of Lorain County with comprehensive financial data in a format that will enable them to gain a better understanding of the County's financial affairs.

The Comprehensive Annual Financial Report (CAFR) is presented in three sections:

1. The Introductory Section includes a Table of Contents, the Letter of Transmittal, a list of elected officials, the organization chart of the county government, the organizational chart of the County Auditor's Office, the Lorain County Geographical Information System Maps, and the GFOA Certificate of Achievement.
2. The Financial Section includes the Independent Auditor's Report, Management's Discussion and Analysis, the Financial Statements, which include explanatory notes and relevant supplemental financial statements and schedules for 2006.
3. The Statistical Section includes selected financial, economic, demographic, and other socioeconomic information about the County which may be used to extrapolate trends for comparative years.

This transmittal letter should be read in conjunction with the Management's Discussion and Analysis, which provides a narrative introduction, overview and analysis of the basic financial statements.

FORM OF GOVERNMENT AND REPORTING ENTITY

Lorain County, established in 1822, is located in northeastern Ohio, approximately 30 miles west of Cleveland, and covers an area of 495 square miles. It encompasses 33 cities, villages, and townships, the largest being the city of Lorain. The county seat is located in Elyria, which is the second largest city in the County. According to the 2000 census, the County had a population of 284,664, making it the ninth most populous of the 88 counties in the State.

The County has only those powers, and powers incidental thereto, conferred upon it by the State Constitution and statutes. A three member Board of Commissioners (the Board) is elected at large in even-numbered years for four-year overlapping terms. The Commissioners serve as the taxing authority, the contracting body, and the chief administrators of public services for the County. The Board of Commissioners creates and adopts the annual operating budget and makes the annual appropriation measure for expenditures of all County funds. In addition to the Board of Commissioners, the offices of County Auditor and County Treasurer, grouped under the category of general government, are of particular importance to financial affairs of the County.

The Auditor serves as the fiscal officer and property tax assessor for the County. One of the most important functions of the Auditor involves the assessing of real property for tax purposes. State law mandates a complete reappraisal of real property every six years as well as triennial updates between reappraisals. Once the County Treasurer collects taxes, the Auditor is responsible for distributing the tax settlement to the various governmental units. As chief fiscal officer of the County, no County contract or obligation may be made without the Auditor's certification that the funds have been lawfully appropriated, are available for payment, or are in the process of collection. In addition, the Auditor is responsible for the County payroll and has other statutory accounting functions. By State law the Auditor is secretary of the County Board of Revision and the County Budget Commission, and administrator of the County Data Processing Board.

The Treasurer collects property taxes, is the custodian of all funds and is responsible for investing all idle County funds as specified by law. The Treasurer is the distributing agent for expenditures authorized by the Board of Commissioners upon the Auditor's warrant. The Treasurer must make daily reports showing receipts, payments and balances to the County Auditor, and the books of account must always balance with those of the County Auditor. The Treasurer is a member of the County Budget Commission, which plays an important part in the financial administration of local governments throughout the County.

Other elected officials, serving four-year terms each, include Prosecutor, Sheriff, Engineer, Clerk of Courts, Recorder, and Coroner. Common Pleas Judges, Domestic Relations Judges, and the Probate Judge are also elected on a county-wide basis.

The County provides its citizens a wide range of services that include human and social services, health and community assistance services, road and bridge maintenance, and other general and administrative support services. The County also operates an enterprise fund sewer operation.

For financial reporting purposes, the County includes all funds, agencies, boards and commissions making up Lorain County (the Primary Government) and its Component Units in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity." 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 organizations 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. The Lorain County Regional Airport Authority, the Murray Ridge Production Center, Inc. and the Lorain County Port Authority have been included as discretely presented component units.

The County serves as fiscal agent for the following organizations which are included as agency funds in the report:

Lorain County General Health District
Lorain County Soil and Water Conservation District
Local Emergency Planning Commission
Lorain County Family and Children First Council

A complete discussion of the County's reporting entity is provided in Note 1 to the basic financial statements.

ECONOMIC CONDITION AND OUTLOOK

Lorain County is well situated in a diverse, industrialized region on the southern shore of Lake Erie, within a one-hour drive of the major cities of Cleveland and Akron. Approximately one-third of the United States population lives within a 500-mile radius of the County. The County enjoys the benefits of urbanization, while also offering a rural atmosphere and a variety of lifestyles for its inhabitants. The County is traversed by two major limited-access highways and a number of major State and U.S. Highways. Interstate Highways 80 and 90, major east-west transportation links, provide residents of the County direct access to major economic centers such as Chicago, Illinois, to the west and Cleveland, Ohio; Erie, Pennsylvania; and Buffalo and Rochester, New York to the east. State and U.S. Routes, such as U.S. 6 and 20 and State Routes 2, 57, 58, 254, and 611, provide excellent access to local and regional markets south, east and west. The excellent road network of the County has attracted over 41 common carriers that serve the area.

The County has access to other land transportation as well as sea or air. The County has access to major railroad systems and is currently served by Amtrak, ConRail, Norfolk and Southern, Chessie System and Lorain and West Virginia railroads. A major port located within the corporate limits of the County has facilities which provide ore-transshipping from ship to rail, and docks and other facilities for the receipt of gypsum ore, concrete and aggregates. The port is operated by the Lorain Port Authority, a political subdivision separate from the County. Air freight and air passenger service access is provided through the Lorain County Regional Airport in New Russia Township and Cleveland Hopkins International Airport and Burke Lakefront Airport in adjacent Cuyahoga County.

Numerous adult education opportunities complement the educational programs offered to the youth of the County. The Lorain County Community College provides the opportunity for the citizens of the County to further their education with associate degrees in various fields. The college has teamed-up with other major universities for students to obtain four-year and graduate degrees.

MAJOR INITIATIVES

The County completed a number of projects in 2006, continued numerous others and started new major construction and renovation projects to serve the public more efficiently and effectively in addition to promoting greater economic growth. The County has continued to invest in the infrastructure with the repaving of various highways and embarking on major sewer improvements in order to maintain the high level of service that the citizenry deserves.

In September of 2006 the County issued an Energy Conservation Bond for \$4,220,000 for the purpose of financing the cost of installation, modifications of installations, and remodeling certain County buildings to conserve energy. The after renovation savings on energy costs should be enough to offset the debt service and will not add an additional burden to the general fund. The project was initially started in 2005 but the majority of work was started and completed in 2006. Other renovation projects started prior to 2006 and completed during the year, include the County Engineer's office renovation at a cost of approximately \$260,000 and renovations to the County parking garage at \$530,000.

The County had numerous construction projects for its buildings that are near completion at the end of 2006. Major renovations to the County Administration Building, County Records Center and a much anticipated transportation hub all received extensive work in 2006. Approximately \$4.4 million has been spent on updating various areas of these buildings with additional expenditures to be made in 2007. Additionally, approximately \$209,000 was spent on repairing and repaving various parking lots.

In May 2004 the County completed a new 228,000 square foot Justice Center. The total capitalized construction costs of the project amounted to \$41.7 million. The total estimated costs of the project was \$46 million which included items other than the brick and mortar, was paid from cash reserves on hand, and issuance of \$25 million in bonds. The Justice Center was designed and built to accommodate for potential future growth. Since its opening, the County has expended an additional \$2.2 million in construction costs for the facility. Parts of these costs are due to the addition of a new General Division Judge and support staff that was scheduled to take office in January 2007. This will bring the total number of General Division Judges to six.

With the construction of this facility, the County relocated a number of departments from the Pre-1900's Courthouse to the Justice Center freeing up that office space. The County completed renovations in 2006 to these facilities enabling it to house other County departments. More than \$315,000 has been spent since late 2004 in construction and remodeling costs.

The County also has a number of ongoing sewer projects at year-end totaling more than \$500,000 at the end of 2006 and should be completed in 2007. These projects will provide much-needed sewers to the area to help meet the demands put on by the growth in the County and help spur development for these regions of the County.

County leadership is continuously exploring options and potential projects that will better serve and meet the needs of the public and these are just a few ongoing initiatives.

DEPARTMENT FOCUS

The featured department for this year's CAFR is the office of Probate Judge, The Honorable Frank J. Horvath.

The probate court is a division of the court of common pleas. The office of the probate judge is an elected position with a six-year term. The probate judge also serves as the clerk of the probate court and appoints deputy clerks to assist in carrying out the business of the court. The probate judge may also appoint a magistrate and investigators to assess the circumstances of any individual under the court's jurisdiction.

The Ohio Revised Code places over two hundred separate duties upon the probate court. A significant portion of these is administrative in nature, consisting of reviews of various applications, affidavits, reports, accountings, and other documents. Provided that the submitted matters are consistent with statutory and other legal requirements, the court grants the application or provides the requested relief. When a contested issue arises in the administrative process, court proceedings take on an adversarial character more commonly associated with trial courts.

The probate court is generally understood to be the court that handles decedent's estates and guardianships. Estate administration involves court oversight in the transfer of decedent's assets to beneficiaries and heirs. The court accomplishes this task by appointing executors or administrators, who collect the assets, pay outstanding debts, and then distribute the remaining assets to those who are entitled to receive them. The court reviews these actions by requiring a bond, when necessary, and by examining various documents, including inventory and accounting forms.

If a decedent dies with a will, the will controls the distribution of decedent's assets. If there is no will, the Ohio Revised Code determines which persons receive decedent's assets. If a will is contested, a jury determines whether or not a will is valid.

With regards to guardianships, the court may appoint a guardian either for a minor or for an incompetent adult. A guardian, under court supervision, is responsible for making personal and/or financial decisions for the ward. Court supervision is accomplished, in part, through the filing of reports and accountings by the guardian. Both a minor and an adult ward have a number of rights and protections to insure against an unnecessary or ineffective guardianship.

Other case types handled by the probate court include adoptions, name changes, granting marriage licenses, overseeing testamentary trusts and adjudicating mental illness commitments.

FINANCIAL INFORMATION

Basis of Accounting The County's accounting system is organized on a "fund" basis. Each fund or account group is a distinct self-balancing accounting entity. For financial reporting purposes, 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, the accounting records for all governmental and fiduciary funds are converted to the modified accrual basis, whereby revenues are recognized when measurable and available within the business cycle (within sixty days after year end), and expenditures are recognized when the fund liability is incurred.

Accounting records for the proprietary funds are converted to the accrual basis, whereby revenues are recognized when goods or services are measurable and earned, and expenses are recognized in the period in which they are incurred.

Internal Accounting Control In developing the County's accounting system, much consideration was given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding (1) the safeguarding of assets against loss from unauthorized use or disposition and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance is based on the assumption that the cost of internal accounting controls should not exceed the benefits expected to be derived from their implementation.

The County utilizes a fully automated accounting system as well as automated systems of control for fixed assets and payroll. These systems, coupled with the manual auditing of each voucher prior to payment by the accounting department of the Auditor's Office, ensure that the financial information generated is both accurate and reliable.

Budgetary Control The Board of County Commissioners adopts a permanent appropriation measure in December of the previous year. All disbursements and transfers of cash between funds require appropriation authority. Budgets are controlled at the department level within the general fund and at the fund level for all other funds. Purchase orders are approved by the department heads and are encumbered prior to their release to vendors. Those purchase orders which exceed the available appropriation are rejected until additional resources are secured. A computerized certification system allows the Auditor's office to ascertain the status of a department's appropriation prior to authorizing additional purchases from a certain account.

Debt Limitation - At December 31, 2006, general obligation bonds outstanding totaled \$29,840,000. During 2006, \$4,220,000 of general obligation bonds were issued and \$1,270,000 of general obligation bonds were retired. The County's total legal debt margin at December 31, 2006 was \$128,422,785.

The outstanding general obligation debt is primarily related to proceeds of bonds used either to construct or renovate buildings the County uses for its operations.

The County has a liability for loans from the Ohio Water Development Authority. Loan proceeds were used for ongoing sewer system improvements and are being repaid from special assessments charged to benefited property owners. At December 31, 2006, the special assessment liability for the loans was \$1,086,936.

Special Assessment Bonds outstanding at December 31, 2006, were \$4,308,195. Special Assessment Bonds are backed by the full faith and credit of the County. In the event of default by the property owners charged with the assessment, the County would be responsible for the debt service payments.

The County maintains an "A-1" credit rating on its long-term bonds from Moody's Investors Service, Inc. All bonds of the County are general obligation debt and are backed by its full faith and credit.

Cash Management - The County pools its cash to simplify cash management. All idle moneys are invested, with the earnings paid into the general fund and other qualifying funds as prescribed by Ohio law. The County invests in certificates of deposit, STAR Ohio, the State Treasurer's Investment Pool, U.S. Treasury Bills, U.S. Treasury notes, Federal Farm Credit Bank (FFCB) notes, Federal National Mortgage Association (FNMA) notes, Federal Home Loan Bank (FHLB) notes, Student Loan Market Association (SLMA) notes, National City Money Market Fund, Federal Home Loan Mortgage Company (FHLMC) notes, Federal securities, commercial paper, bankers acceptances and overnight repurchase agreements. Interest earned on investments is credited to the general fund, except as stipulated by State Statute or County resolution. Interest earnings for the primary government totaled \$7,811,432 during 2006.

A majority of the County's deposits are collateralized with securities held by the pledging financial institutions' trust department or agent in collateral pools that name the County as a participant. The face value of the pooled collateral must equal at least 110% of the public funds on deposit. The collateral is held by trustees, including the Federal Reserve Bank and designated third party trustees of the financial institutions.

Risk Management - The County maintains self-funded programs for health care benefits for County employees and their dependents. A risk manager monitors and processes all claims. The County carries stop loss insurance coverage for the health care program in the amounts of \$250,000 per occurrence. Vehicles and property are covered through the County Risk Sharing Authority (CORSA), and professional liability claims are covered through a contract with an external insurance company, the cost of which is allocated among both governmental and enterprise funds. Workers' compensation coverage is provided through participation in the State of Ohio Workers' Compensation program.

INDEPENDENT AUDIT

Varney, Fink & Associates, Inc. conducted an independent audit with respect to the basic financial statements for the year ended December 31, 2006. The unqualified opinion appears in the financial section of this report.

In addition to meeting the requirements set forth in state statutes, the audit was also designed to meet the requirements of the Single Audit Act Amendments of 1996. Information related to this audit, including the schedule of federal financial assistance, findings and recommendations, and the report on internal control and compliance are published in a separate report.

AWARDS

GFOA Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Lorain County for its Comprehensive Annual Financial Report for the year ended December 31, 2005. The Certificate of Achievement is the highest form of recognition in the area of governmental financial reporting.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such a report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

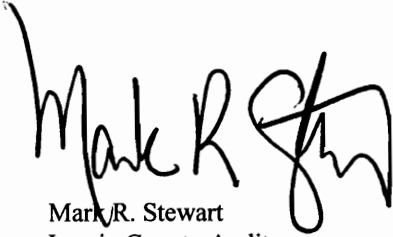
Acknowledgments

The preparation of a financial document of this magnitude is the result of a combined effort of a number of dedicated individuals who deserve recognition for their efforts. I wish to extend my appreciation to the entire staff of the

Auditor's office. Special thanks are extended to J. Craig Snodgrass, CPA, CGFM, Lillian Brand, Cheryl Litz, Carmella Phillips, Diane Schuster, Greg Holcomb, Maggie Barta, Jessica Basinski, Mike Resar, Lisa Hobart and the Budget Department.

In addition, I would like to express my appreciation to Steven G. Luca, CPA and James J. Czarney CPA of Frank, Seringer & Chaney, Inc. for their consultation and assistance in this project. Also, I wish to express my appreciation to the staff of the various County departments whose time and dedicated efforts made this report possible.

Respectfully yours,

A handwritten signature in black ink that reads "Mark R Stewart". The signature is written in a cursive style with a large initial "M" and a stylized "S" at the end.

Mark R. Stewart
Lorain County Auditor

Lorain County, Ohio
Elected Officials
As of December 31, 2006

Board of Commissioners

Elizabeth C. Blair

Ted Kalo

Lori Kokoski

County Auditor

Mark R. Stewart

County Treasurer

Daniel J. Talarek

Prosecuting Attorney

Dennis Will

Clerk of Courts

Ron Nabakowski

Coroner

Paul M. Matus

Sheriff

Phil R. Stammitti

Common Pleas Court Judges

Edward M. Zaleski

Lynett M. McGough (term ending 12/31/06)

James Burge (term commencing 01/05/07)

Thomas W. Janas (term ending 12/31/06)

Raymond Ewers (term commencing 01/01/07)

Mark Betleski

Christopher Rothgery

James Miraldi (term commencing 01/06/07)

Probate Court Judge

Frank J. Horvath

Domestic Relations Judges

David A. Basinski

Paulette Lilly (term ending 12/31/06)

David Basinski (term commencing 01/04/07)

Debra Boros

Engineer

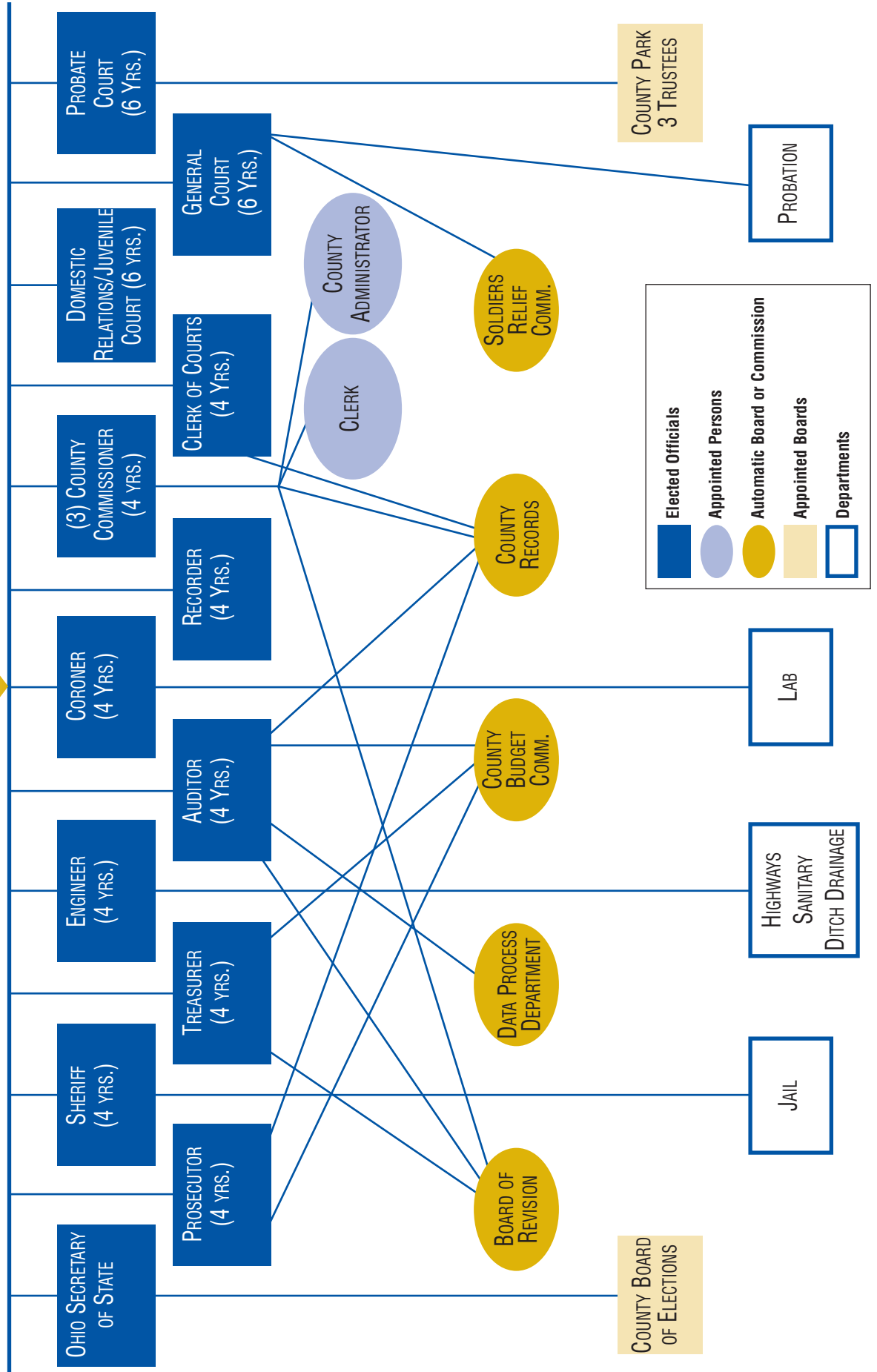
Kenneth P. Carney

Recorder

Judy Nedwick

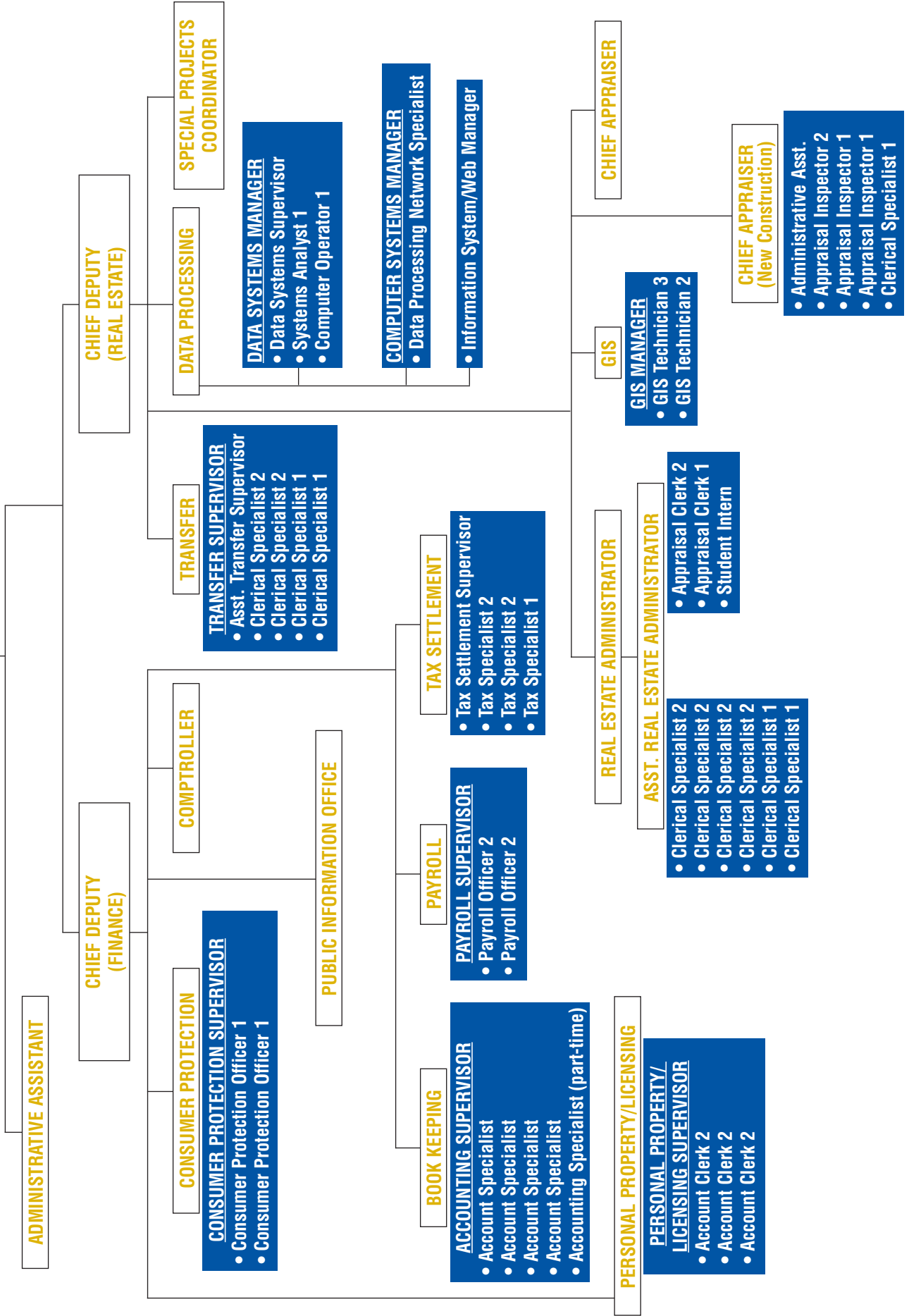
Lorain County Government

REGISTERED VOTERS



Lorain County Auditor's Organizational Chart

AUDITOR



Lorain County Airport



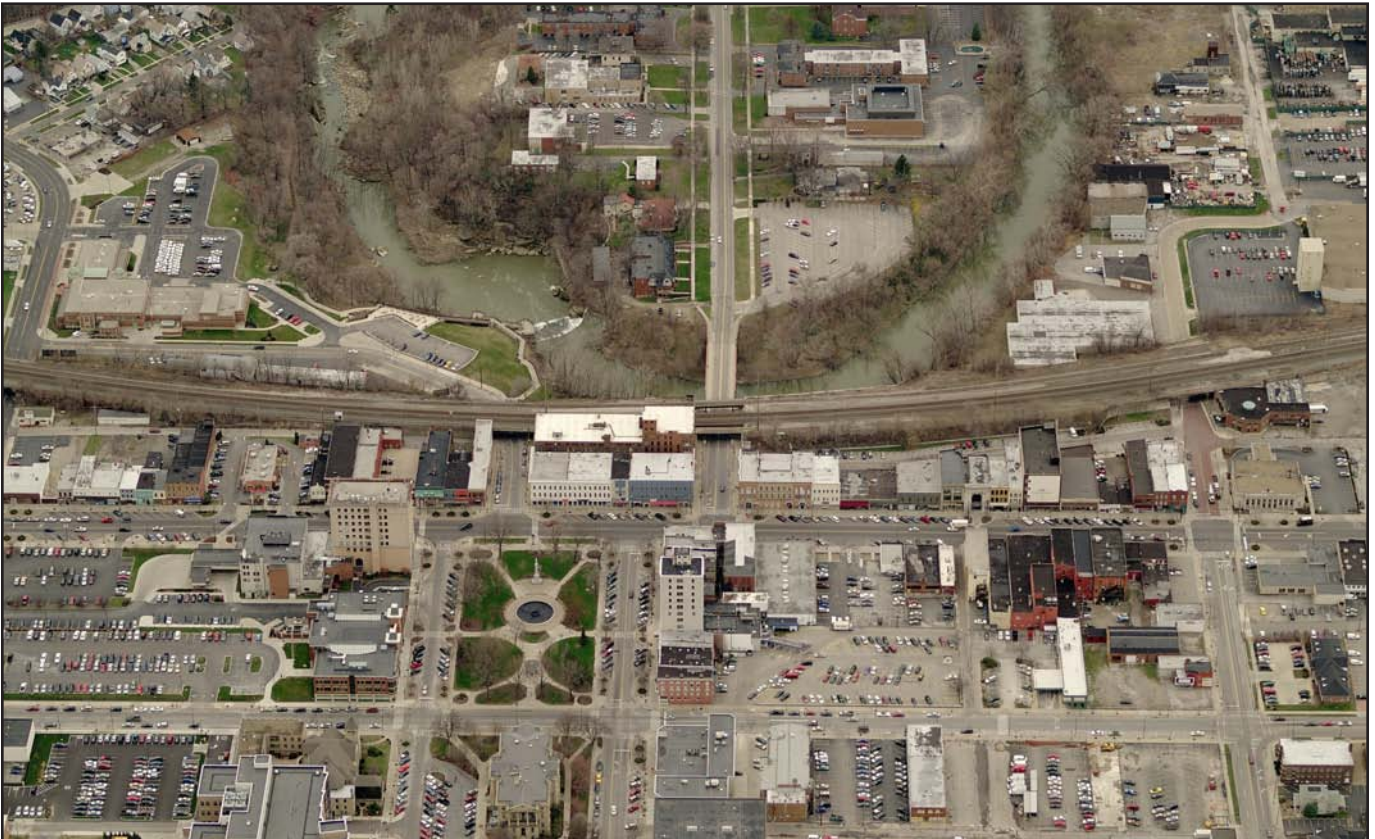
Downtown Amherst



I-90 and St. Rt. 83 - Avon



Downtown Elyria



Lake View



Lorain County Fairgrounds



Vermilion Shores



Certificate of Achievement for Excellence in Financial Reporting

Presented to

Lorain County
Ohio

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

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