



**LORAIN COUNTY RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2006 & 2005



Mary Taylor, CPA
Auditor of State

**LORAIN COUNTY RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Statement of Net Assets – Proprietary Fund December 31, 2006 and December 31, 2005	7
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Fund For the Years Ended December 31, 2006 and December 31, 2005	8
Statement of Cash Flows – Proprietary Fund For the Years Ended December 31, 2006 and December 31, 2005	9
Notes to the Basic Financial Statements	11
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	23
Schedule of Prior Audit Findings	25

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Board of Trustees
Lorain County Rural Wastewater District
Lorain County
22898 West Road, P.O. Box 158
Wellington, Ohio 44090-0158

We have audited the accompanying basic financial statements of the Lorain County Rural Wastewater District, Lorain County, Ohio, (the District) as of and for the years ended December 31, 2006 and December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lorain County Rural Wastewater District, Lorain County, Ohio as of December 31, 2006 and December 31, 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 10 to the financial statements, the District experienced financial difficulties and had negative Net Assets of \$2,249,735 and \$1,518,179 as of December 31, 2006 and December 31, 2005, respectively. The District has relied on debt borrowings to pay its obligations as they come due. Note 10 also describes Management's plans regarding this matter.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

November 6, 2007

LORAIN COUNTY RURAL WASTEWATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2006 and 2005

This discussion and analysis, along with the accompanying financial reports of Lorain County Rural Wastewater District (District), is designed to provide our customers, bondholders, creditors and other interested parties with a general overview of the District and its financial activities.

FINANCIAL HIGHLIGHTS

The total liabilities of the District exceeded assets by \$2,249,735 at year end 2006.

The District's net assets decreased by \$731,556 (48.2%) in 2006.

The District had no Operating Revenues. Operating Expenses increased \$35,218 (5.0%) in 2006.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

The District is a single fund using proprietary fund accounting, similar to private sector business. The District is described in Note 1, Summary of Significant Accounting Policies. The Basic Financial Statements are presented using the accrual basis of accounting as further described in the above-mentioned note.

The **Statement of Net Assets** includes all of the District's Assets and Liabilities. This statement provides information about the nature and amounts of investments in resources (assets) owned by the District, and obligations owed by the District (liabilities) on December 31. The District's net assets (equity) are the difference between assets and liabilities.

The **Statement of Revenues, Expenses, and Changes in Net Assets** provides information on the District's operations over the past year and the revenue collected from user fees, charges and late fees, and other income. Revenues are reported when earned and expenses are reported when incurred.

The **Statement of Cash Flows** provides information about the District's cash receipts and cash disbursements from operations, investing and financing activities. The statement summarizes where the cash was provided, cash uses, and changes in the balances during the year.

SIGNIFICANT EVENTS AND EXPENDITURES DURING THE YEAR

In 2006 a local bank agreed to provide funds, based on the USDA-Rural Development Guaranteed Loan Program, in the amount of \$24,700,000. In addition, the District applied to the Ohio Water Development Authority for a loan of \$5,400,000 to complete the financing package for the District's Phase-I, Carlisle-Eaton Wastewater Project.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2006 and 2005

SIGNIFICANT EVENTS AND EXPENDITURES DURING THE YEAR (Continued)

Twenty residential and commercial developers agreed to escrow \$1,700,000 on behalf of their respective projects to the District for consideration in the funding process.

All of the District's application reviews were 90% completed by the funding agencies in 2006.

The full environmental review was completed along with all permits to construct from the Ohio Department of Transportation.

A renewed agreement with the City of Avon Lake was achieved in regard to wastewater treatment. Avon Lake also agreed to finance the primary lift station and force main portion of the project. An agreement was reached whereby the District has a lease-purchase option on the line and appurtenances.

NET ASSETS

Table 1 summarizes the Net Assets of the District. Capital Assets are reported less accumulated depreciation. Invested in Capital, Net of Related Debt, are Capital Assets less outstanding debt that was used to acquire those assets.

TABLE 1

	2006	2005	2004	2006 vs 2005		2005 vs 2004	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Current and other assets	\$ 31,256	\$ 127,497	\$ 9,514	\$ (96,241)	-75.5%	\$ 117,983	1240.1%
Capital Assets	1,926	2,397	0	(471)	-19.6%	2,397	100.0%
Total assets	33,182	129,894	9,514	(96,712)	-74.5%	120,380	1265.3%
Long-term liabilities	79,500	79,500	79,500	0	0.0%	0	0.0%
Other liabilities	2,203,417	1,568,573	751,027	634,844	40.5%	817,546	108.9%
Total liabilities	2,282,917	1,648,073	830,527	634,844	38.5%	814,546	98.4%
Net assets							
Unrestricted	(2,249,735)	(1,518,179)	(821,013)	(731,556)	-48.2%	(697,166)	84.9%
Total Net Assets	<u>\$ (2,249,735)</u>	<u>\$ (1,518,179)</u>	<u>\$ (821,013)</u>	<u>\$ (731,556)</u>	<u>-48.2%</u>	<u>\$ (697,166)</u>	<u>84.9%</u>

The District's Net Assets decreased \$731,556 (48.2%) and \$697,166 (84.9%) in 2006 and 2005, respectively. These decreases are a result of excess expenses over revenues.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2006 and 2005

STATEMENT OF REVENUES & EXPENSES (CHANGES IN NET ASSETS)

Table 2 summarizes the changes in Revenues and Expenses and the resulting change in Net Assets.

TABLE 2

	2006	2005	2004	2006 vs 2005		2005 vs 2004	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Operating expenses	\$ 742,221	\$ 707,239	\$ 140,266	\$ 34,982	4.9%	\$ 566,973	404.2%
Depreciation expenses	472	236	13	236	100.0%	223	1715.4%
Total expenses	742,693	707,475	140,279	35,218	5.0%	567,196	404.3%
Operating loss	(742,693)	(707,475)	(140,279)	(35,218)	-5.0%	(567,196)	-404.3%
Non-operating revenues	11,137	10,309	3,500	828	8.0%	6,809	194.5%
Change in net assets	\$ (731,556)	\$ (697,166)	\$ (136,779)	\$ (34,390)	-4.9%	\$ (560,387)	-409.7%

Total Operating Expenses increased \$35,218 (5.0%) and \$567,196 (404.3%) in 2006 and 2005, respectively, with the majority of the increase due to legal and professional fees and engineering.

CAPITAL ASSETS

The District had no increase or decrease in Capital Assets (before depreciation) at the end of 2006, as shown in Table 3.

The District had an increase in Capital Assets of \$2,633 from 2004 to 2005 due to a computer and office furniture.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2006 and 2005

CAPITAL ASSETS (Continued)

TABLE 3

	2006	2005	2004	2006 vs 2005		2005 vs 2004	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Furniture and fixtures	\$ 4,029	\$ 4,029	\$ 1,396	0	0.0%	\$ 2,633	188.6%
Totals before depreciation	4,029	4,029	1,396	0	0.0%	2,633	188.6%
Accumulated depreciation	(2,103)	(1,632)	(1,396)	(471)	28.9%	(236)	16.9%
Total capital assets	<u>\$ 1,926</u>	<u>\$ 2,397</u>	<u>0</u>	<u>\$ (471)</u>	<u>-19.6%</u>	<u>\$ 2,397</u>	<u>100.0%</u>

DEBT

Table 4 summarizes the District's non-current liabilities. The District issued notes payable to finance much of its start-up/organization of the District.

TABLE 4

	2006	2005	2004	2006 vs 2005		2005 vs 2004	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Non-current liabilities							
Notes payable	\$ 79,500	\$ 79,500	\$ 79,500	\$0	0.0%	\$0	0.0%
Non-current liabilities	<u>\$ 79,500</u>	<u>\$ 79,500</u>	<u>\$ 79,500</u>	<u>0</u>	<u>0.0%</u>	<u>0</u>	<u>0.0%</u>

See Note 5 of the financial statements for a summary of the non-current liabilities.

DEBT COVERAGE

The District does not have operating revenue in 2006 to pay both interest and the current principal installments on its outstanding debt due to start-up/organization phase of the District. The District will have operating revenue in the future to cover interest and current principal, but currently the District is securing financing from the USDA to cover these costs.

CONTACT INFORMATION

Questions regarding this report and requests for additional information should be forwarded to the Executive Director of the Lorain County Rural Wastewater District, 22898 West Road, P.O. Box 158, Wellington, Ohio 44090.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

Statement of Net Assets - Proprietary Fund
December 31, 2006 and 2005

	2006	2005
ASSETS		
Current Assets: (Note 3)		
Cash and Cash Equivalents	\$ 31,256	\$ 127,497
Non-Current Assets: (Note 2)		
Capital assets:		
Depreciable capital assets, net	1,926	2,397
Total Assets	\$ 33,182	\$ 129,894
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 683,049	\$ 619,353
Accrued payroll	2,400	-
Compensated absences payable	3,110	3,242
Accrued interest	31,132	32,732
Note payable - Line of credit (Note 4)	1,458,726	889,246
Total current liabilities	2,178,417	1,544,573
Non-Current Liabilities: (Note 5)		
Notes payable	79,500	79,500
Total non-current liabilities	79,500	79,500
Other Liabilities:		
Deposits	25,000	24,000
Total Liabilities	2,282,917	1,648,073
NET ASSETS		
Capital Assets, Net of Related Debt	1,926	2,397
Unrestricted	(2,251,661)	(1,520,576)
Total net assets	(2,249,735)	(1,518,179)
Total Liabilities and Net Assets	\$ 33,182	\$ 129,894

The accompanying notes are an integral part of the financial statements.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
For The Years Ended December 31, 2006 and 2005

	2006	2005
OPERATING EXPENSES		
Administration expense	\$ 52,204	\$ 41,853
Bank fees	361	800
Computer expense	375	1,035
Depreciation expense	472	236
Dues and subscriptions	142	166
Engineering expense	434,540	508,978
Insurance	2,405	1,500
Interest expense	79,833	29,564
Legal and professional fees	83,262	78,274
License and permits	17,850	-
Mileage expense	1,103	1,594
Office supplies and expense	6,245	2,619
O.P.E.R.S.	11,143	4,580
Payroll taxes	1,549	1,637
Postage expense	837	907
Building rent	3,000	3,000
Telephone	602	575
Travel and education	1,138	2,684
Wages - Office	45,632	27,473
Total operating expenses	742,693	707,475
Operating loss	(742,693)	(707,475)
NON-OPERATING REVENUES		
Interest income	625	202
Miscellaneous income	10,512	10,107
Total non-operating revenues	11,137	10,309
NET ASSETS		
Decrease in Net Assets	(731,556)	(697,166)
Total Net Assets, beginning of year	(1,518,179)	(821,013)
Total Net Assets, end of year	\$ (2,249,735)	\$ (1,518,179)

The accompanying notes are an integral part of the financial statements.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

Statement of Cash Flows - Proprietary Fund
For The Years Ended December 31, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash paid to employees and professional contractors for services and benefits	(565,971)	(459,042)
Cash paid to suppliers for goods and services	(29,453)	-
Net cash used for operating activities	(595,424)	(459,042)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Cash received for feasibility study	-	8,000
Cash received for inspection fees	10,512	-
Cash received for environmental study		2,000
Cash received for invoice reimbursement		107
Net cash received for non-capital financing activities	10,512	10,107
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of property and equipment		(2,633)
Proceeds from short-term debt	569,480	889,246
Principal paid on short-term debt	-	(300,000)
Interest paid on debt	(81,434)	(19,897)
Net cash provided by capital and related financing activities	488,046	566,716
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest earned	625	202
Net cash provided by capital and related financing activities	625	202
Net increase (decrease) in cash and cash equivalents	(96,241)	117,983
Cash and cash equivalents - beginning of year	127,497	9,514
Cash and cash equivalents - end of year	31,256	127,497
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	(742,693)	(707,475)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:		
Depreciation	472	236
Interest expense	79,833	29,564
Change in liabilities:		
Accounts payable	64,515	190,572
Deposits	1,000	24,000
Accrued expenses	1,449	4,061
Net cash used for operating activities	\$ (595,424)	\$ (459,042)

The accompanying notes are an integral part of the financial statements.

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LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

Note 1. Reporting Entity:

Lorain County Rural Wastewater District, a regional sanitary sewer district, is a political subdivision of the State of Ohio. The District was incorporated in the State of Ohio on February 4, 1997, as a nonprofit corporation for the purpose of providing for the collection, treatment, and disposal of waste water within and without the district. The District is exempt from federal income tax. The District operates under a Board of Trustees which consists of as many members as equals the total number of villages and townships within this regional water district. Lorain County Rural Wastewater District is currently in the process of planning and developing a system for servicing future customers.

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

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

Note 2. Summary of Significant Accounting Policies:

The financial statements of the District are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued after November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

A. Basis of Accounting:

Lorain County Rural Wastewater District prepares its financial statements on an accrual basis. By virtue of its by-laws, the District is required to make appropriations in accordance with budgetary policies.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

Note 2. Summary of Significant Accounting Policies (Continued):

B. Basis of Presentation:

The District'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 District 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.

C. 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 District are included on the statement of net assets. The statement of 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 District finances and meets the cash flow needs of its enterprise activity.

D. 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 District through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District'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 District reported a deficit of \$2,251,661 in unrestricted net assets.

E. Operating Revenues and Expenses:

Operating revenues are those revenues that are generated directly from primary activities. For the District, 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 District. Revenues and expenses not meeting these definitions are reported as non-operating.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

Note 2. Summary of Significant Accounting Policies (Continued):

F. Budgetary Process:

Budget - Thirty days before the end of each fiscal year, a proposed budget of estimated revenues and expenditures for the succeeding fiscal year is submitted to the Board of Trustees by the Executive Director. The Board of Trustees then approves the budget in its original or amended form.

Appropriations - After the budget is approved by the Board, the Board then makes appropriations of funds in accordance with said budget. Thereafter, the Executive Director has the authority to authorize payment of any disbursement not to exceed \$5,000, provided there are sufficient funds appropriated and remaining in the account of the fund from which payment will be made. The Board may, from time-to-time, amend or supplement said appropriation of funds and may also transfer any part of an unencumbered balance of an appropriation of any fund to any purpose or object for which the appropriation for the current fiscal year has proved insufficient.

G. Capital Assets:

Capital Assets, including major renewals or betterments, are capitalized and stated at cost. Depreciation is provided on the straight-line method based on the estimated useful lives of the various classes of assets.

The ranges of estimated useful lives used in computing depreciation are as follows:

Sewer Lines	40 Years
Pump Stations	20 Years
Buildings	4-20 Years
Machinery, Equipment, and Office Furniture	3-10 Years

Fully depreciated assets still in active use are included in the gross amount of capital assets, and the related allowance for depreciation is included as part of the total accumulated allowance for depreciation.

Maintenance, repairs, and minor renewals are charged against earnings when incurred.

The District'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 2006 no interest costs were incurred on construction projects for the District.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

Note 2. Summary of Significant Accounting Policies (Continued):

G. Capital Assets (Continued):

Depreciation expense for the years ended December 31, 2006 and 2005 was \$472 and \$236, respectively.

A summary of changes in capital assets for the years ended December 31, 2006 is as follows:

	Balance December 31, 2005	Additions	Deletions	Balance December 31, 2006
Furniture and fixtures	\$ 4,029	\$ -0-	\$ -0-	\$ 4,029
Less accumulated depreciation				
Furniture and fixtures	(1,632)	(472)	-1-	(2,103)
Net Capital Assets	\$ 2,397	\$ (472)	\$ -1-	\$ 1,926

A summary of changes in capital assets for the year ended December 31, 2005, is as follows:

	Balance December 31, 2004	Additions	Deletions	Balance December 31, 2005
Furniture and fixtures	\$ 1,396	\$ 2,633	\$ -0-	\$ 4,029
Less accumulated depreciation				
Furniture and fixtures	(1,396)	(236)	-0-	(1,632)
Net Capital Assets	\$ -0-	\$ 2,397	\$ -0-	\$ 2,397

H. Compensated Absences Payable:

Employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the District. After one year of service, employees are entitled to all accrued vacation leave upon termination.

Sick leave accumulates to employees at a rate of 4.6 hours for every 80 hours of service. The maximum accumulation is 720 hours. In the event of the employee's death, 100% of their accumulated sick leave balance would be paid to the employee's life insurance beneficiary. The employees' accumulating rights to receive compensation for future absences are contingent upon the absences being caused by future illnesses, years of service at retirement, or death. A liability for unused sick leave is not recorded in the financial statements unless the employee has accumulated sick leave after becoming eligible for retirement, which would be payable in its entirety. The unrecorded estimated unused sick leave for the years ended December 31, 2006 and 2005 was \$9,248 and \$6,683, respectively.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

Note 2. Summary of Significant Accounting Policies (Continued):

I. Cash and Cash Equivalents:

For purposes of the Statements of Cash Flows, all liquid investments with a maturity of three months or less when purchased are considered cash equivalents. During 2006 and 2005, investments were limited to interest-bearing deposit accounts.

J. Use of Estimates:

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Note 3. Deposits:

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

Ohio Revised Code authorizes the District 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.

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. The District does not have a policy for custodial credit risk. At year-end, the carrying amount of the District's deposits was \$31,256 and \$127,497 and the bank balance was \$37,737 and \$128,156, respectively. The bank balance was covered by federal depository insurance provided by the Federal Deposit Insurance Corporation (FDIC) or collateralized by the financial institution's public entity deposit pool. Although securities were held by the pledging financial institutions trust department or agent in the District's name and all Ohio Revised Code requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

The District had no investments at December 31, 2006 and 2005, respectively.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

Note 4. Short-Term Liabilities:

Description	Balance January 1, 2005	Borrowed	Repaid	Balance December 31, 2006
A line-of-credit in the amount of \$1,600,000, with \$141,274 unused in 2006 and \$710,754 unused in 2005, is payable to FirstMerit Bank, N.A. The interest rate is equal to the sum of the One-Year U.S. Treasury Security Index plus 260 basis points (2.60%) per annum, as determined on the date of obligation, payable at maturity. The interest rate at December 31, 2006 and 2005 was 5.93%. The line-of-credit requires one principal payment and all accrued interest due on May 12, 2007 and May 12, 2006, respectively. The District accrued interest of \$19,646 and \$14,185 to be paid in fiscal years 2006 and 2005, respectively.	\$ 300,000	\$ 1,458,726	\$ 300,000	\$ 1,458,726

Note 5. Non-Current Liabilities:

A summary of non-current liabilities debt for the period January 1, 2005 through December 31, 2006, is as follows:

Description	Balance January 1, 2005	Borrowed	Repaid	Balance December 31, 2006
Lorain County Rural Wastewater District borrowed \$5,000 from Carlisle Township in March 1997 for the start-up/organization of this entity. Repayment is required when the construction loan is finalized.	\$ 5,000			\$ 5,000
Lorain County Rural Wastewater District borrowed \$10,000 from Eaton Township in March 1997 and \$5,500 in January 2001 for the start-up/organization of this entity. Repayment is required when the construction loan is finalized.	15,500			15,500
Lorain County Rural Wastewater District borrowed \$5,000 from LaGrange Township in March 1997 for the start-up/organization of this entity. Repayment is required when the construction loan is finalized.	5,000			5,000
Lorain County Rural Wastewater District borrowed \$5,000 from New Russia Township in March 1997 and \$5,000 in October 2000 for the start-up/organization of this entity. Repayment is required when the construction loan is finalized.	10,000			10,000
Lorain County Rural Wastewater District borrowed \$5,000 from Elyria Township in March 1997 for the start-up/organization of this entity. Repayment is required when the construction loan is finalized.	5,000			5,000

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

Note 5. Non-Current Liabilities (Continued):

<u>Description</u>	<u>Balance January 1, 2005</u>	<u>Borrowed</u>	<u>Repaid</u>	<u>Balance December 31, 2006</u>
Lorain County Rural Wastewater District borrowed \$5,000 from Lorain Health Board in March 1997 for the start-up/organization of this entity. Repayment is required when the construction loan is finalized.	\$ 5,000			\$ 5,000
Lorain County Rural Wastewater District borrowed \$10,000 from Lorain-Medina Rural Electric Cooperative, Inc. in June 1999 and \$5,000 in September 2000 for the start-up/organization of this entity. Repayment with interest is required when the construction loan is finalized.	15,000			15,000
Lorain County Rural Wastewater District borrowed \$2,500 from Camden Township in April 2001 for the start-up/organization of this entity. Repayment is required when the construction loan is finalized.	2,500			2,500
Lorain County Rural Wastewater District borrowed \$5,500 from Grafton Township in April 2001 for the start-up/organization of this entity. Repayment is required when the construction loan is finalized.	5,500			5,500
Lorain County Rural Wastewater District borrowed \$2,500 from Henrietta Township in December 2001 for the start-up/organization of this entity. Repayment is required when the construction loan is finalized.	2,500			2,500
Lorain County Rural Wastewater District borrowed \$2,500 from Pittsfield Township in February 2001 for the start-up/organization of this entity. Repayment is required when the construction loan is finalized.	2,500			2,500
Lorain County Rural Wastewater District borrowed \$500 from Rochester Townership in June 2001 for the start-up/organization of this entity. Repayment is required when the construction loan is finalized.	500			500
Lorain County Rural Wastewater District borrowed \$2,500 from South Amherst Village in October 2001 for the start-up/organization of this entity. Repayment is required when the construction loan is finalized.	2,500			2,500

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

Note 5. Non-Current Liabilities (Continued):

Description	Balance January 1, 2005	Borrowed	Repaid	Balance December 31, 2006
Lorain County Rural Wastewater District borrowed \$500 from Kipton Village in March 2001 for the Start-up/organization of this entity. Repayment is Required when the construction loan is finalized.	500			500
Lorain County Rural Wastewater District borrowed \$2,500 from Huntington Township in January 2002 for the start-up/organization of this entity. Repayment is required when the construction loan is finalized.	2,500			2,500
	\$ 79,500	\$ -0-	\$ -0-	\$ 79,500

As of December 31, 2006 and 2005, the District owed \$5,163 and \$4,338, respectively, in accrued interest to the Lorain Medina Rural Electric Cooperative, Inc.

Note 6. Insurance:

The District maintains comprehensive insurance coverage which includes Comprehensive General Liability, Wrongful Act Liability, and Automobile Liability.

Note 7. Retirement Commitments:

A. Defined Benefit Pension Plans:

Lorain County Rural Wastewater District contributes to the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer defined benefit pension plan operated by the State of Ohio. OPERS administers three separate pension plans: the Traditional Pension Plan—a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability, survivor and 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 postemployment health care coverage. Health care benefits are not statutorily guaranteed. Chapter 145 of the Ohio Revised Code assigns the authority to establish and amend benefit provisions to the OPERS. OPERS issues a publicly available stand-alone financial report. Interested parties may obtain a copy by writing to the OPERS at 277 East Town Street, Columbus, Ohio 43215-4642 or calling (614) 222-5601 or 1-800-222-PERS (7377). The State of Ohio accounts for the activities of the Retirement System, and the amount of that fund is not reflected in the accompanying financial statements.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

Note 7. Retirement Commitments (Continued):

A. Defined Benefit Pension Plans (Continued):

Benefits fully vest upon reaching 5 years of service and are established by state statute. Employees may retire at any age with 30 years of service, at age 60 with a minimum of 5 years of credited service, and at age 55 with a minimum of 25 years of service. Those individuals retiring with less than 30 years of service or less than age 65 receive reduced retirement benefits. Eligible employees are entitled to a retirement benefit, payable monthly for life, equal to 2.2% of their final average salary for each year of credited service up to 30 years. Employees are entitled to 2.5% of their final average salary for each year of service in excess of 30 years. Final average salary is the employee's average salary over the highest 3 years of earnings.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The rate set for employee contributions for 2006 and 2005 was 9.0% and 8.5%, respectively, and the employer contribution rate was 13.70% and 13.55%, respectively, of covered payroll. The rates are the actuarially determined contribution requirements for OPERS. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The difference between the total employer rate and the portion used to fund pension obligations is the amount used to fund the health care programs. Pension expense for the years ended December 31, 2006 and 2005, was \$11,143 and \$4,580, respectively.

The "Pension Benefit Obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the OPERS System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among OPERS and employers.

Historical trend information showing the OPERS System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's December 31, 2005 Comprehensive Annual Financial Report.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

Note 7. Retirement Commitments (Continued):

B. Post-Employment Benefits:

The Ohio Public Employees Retirement System provides post-retirement health care coverage to age-and-service retirees with ten or more years of qualifying Ohio service credits. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by OPERS meets the definition of an Other Postemployment Benefit (OPEB) 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 the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. The employer contribution rate was 13.70% and 13.55%, respectively, of covered payroll and 4.50% and 4.00%, respectively, were the portions used to fund health care from January 1 through December 31, 2006 and 2005.

An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2005. The investment assumption rate for 2005 was 6.50%. An annual increase of 4.00% compounded annually on active employee total payroll is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from .50% to 6.30%. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .50% to 6.00% for the next nine years. In subsequent years (10 and beyond), health care costs were assumed to increase at 4.00% (the projected wage inflation rate). All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets, not to exceed a 12% corridor.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

Note 7. Retirement Commitments (Continued):

B. Post-Employment Benefits (Continued):

OPEBs are advanced-funded on an actuarially determined basis. The Traditional Pension and Combined Plans had 369,214 active contributing participants as of December 31, 2006. The number of active contributing participants for both plans used in the December 31, 2005, actuarial valuation was 358,804. The employer contributions, made by Lorain County Rural Wastewater District, used to fund postemployment benefits were \$3,660 and \$1,352, for the years ended December 31, 2006 and 2005, respectively. Eleven billion one hundred million dollars (\$11,100,000,000) represents the actuarial value of Retirement Systems' net assets available for OPEB at December 31, 2005. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used was \$31.3 billion and \$20.2 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.

Note 8. Leasing Arrangements:

The District leases office space from Lorain-Medina Rural Electric Cooperative, Inc. This lease is for a one-year period ending December 31, 2006 and may be renewed for additional one year terms upon agreement of both parties. The lease requires rent in the amount of \$250 per month. Rent expense for the years ended December 31, 2006 and 2005 was \$3,000 and \$3,000, respectively. Deferred rental payments bear no interest through December 31, 2000, and thereafter bear an interest rate of 7% per annum, simple interest through June 2003, and 5.5% thereafter. As of December 31, 2006 and December 31, 2005, the District owed \$19,600 and \$16,600 in accrued rent and \$948 and \$783 in accrued interest, respectively.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

Note 9. Administrative Arrangements:

The District has retained the services of the Director of Economic and Community Development of Lorain-Medina Rural Electric Cooperative, Inc. as an independent contractor to be the Executive Director of the District. This agreement shall be for six months beginning January 1, 1998 and may be extended upon mutual agreement of all parties. The District shall pay to Lorain-Medina Rural Electric Cooperative, Inc. an amount equal to one-half of the Lorain-Medina Rural Electric Cooperative, Inc. cost of wages, benefits and any other charges or expenses on a monthly basis. Deferred payments bear no interest through December 31, 2000, and thereafter bear an interest rate of 7% per annum, simple interest through June 2003, and 5.5% thereafter. As of December 31, 2006 and 2005, the District owed \$214,390 and \$162,187, respectively, in accrued administrative costs and \$10,836 and \$7,965, respectively, in accrued interest.

Note 10. Accountability and Financial Outlook:

For the fiscal years ended December 31, 2006 and 2005, Lorain County Rural Wastewater District had a net loss of \$731,556 and \$697,166, respectively, and an accumulated deficit of \$2,249,735 and \$1,518,179, respectively. The net loss and accumulated deficit are the result of start up costs and operating expenses incurred by the District. The District's strategy is to develop and construct a sewer system and to repay the indebtedness from revenues derived from consumers utilizing the District's wastewater services. As of November 1, 2007, no construction has commenced and the District is restructuring and financing debt to meet debt demands. On December 14, 2006, the District adopted a balanced budget for 2007.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Lorain County Rural Wastewater District
Lorain County
22898 West Road, P.O. Box 158
Wellington, Ohio 44090-0158

We have audited the basic financial statement of the Lorain County Rural Wastewater District, Lorain County, Ohio, (the District) as of and for the years ended December 31, 2006 and December 31, 2005, and have issued our report thereon dated November 6, 2007, wherein we noted the District is experiencing financial difficulties, had negative Net Assets of \$2,249,735 and \$1,518,179 as of December 31, 2006 and December 31, 2005, respectively, and has relied on debt borrowings to pay its obligations as they come due. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more than inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note a certain noncompliance or other matter that we reported to the District's management in a separate letter dated November 6, 2007.

We intend this report solely for the information and use of the audit committee, management, and the Board of Trustees. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

November 6, 2007

**LORAIN COUNTY RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006 AND 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Ohio Rev. Code Section 5705.41(D) – Fiscal officer certification of purchase orders.	Yes	Finding no longer valid



Mary Taylor, CPA
Auditor of State

LORAIN COUNTY RURAL WASTEWATER DISTRICT

LORAIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 10, 2008**