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**RURAL LORAIN COUNTY WATER AUTHORITY**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2000 AND 1999**

**OTHER INFORMATION**

**INDEPENDENT AUDITORS' REPORTS**

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**RADACHI AND COMPANY**

*Certified Public Accountants and Business Consultants*

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**STATE OF OHIO**  
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Board of Trustees  
Rural Lorain County Water Authority

We have reviewed the Independent Auditor's Report of the Rural Lorain County Water Authority, Lorain County, prepared by Radachi and Company for the audit period January 1, 1999 through December 31, 2000. Based upon this review, we have accepted this report in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

JIM PETRO  
Auditor of State

July 30, 2001

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# RURAL LORAIN COUNTY WATER AUTHORITY

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December 31, 2000 and 1999

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# **RADACHI AND COMPANY**

*Certified Public Accountants and Business Consultants*

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Trustees  
of Rural Lorain County Water Authority  
LaGrange, Ohio

We have audited the accompanying financial statements of Rural Lorain County Water Authority (a public subdivision) as of December 31, 2000 and 1999, and for the years then ended. These financial statements are the responsibility of Rural Lorain County Water Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 the Rural Lorain County Water Authority as of December 31, 2000 and 1999, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles in the United States of America.

The Statements of Operating Expenses on page 26 are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued a report dated June 29, 2001, on our consideration of Rural Lorain County Water Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, and a separate management letter dated July 2, 2001, on recommendations for record keeping. That report is an integral part of an audit in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

**RADACHI AND COMPANY**

June 29, 2001

# RURAL LORAIN COUNTY WATER AUTHORITY

## BALANCE SHEETS

December 31, 2000 and 1999

	2000	1999
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents:		
General	\$ 143,046	\$ 114,294
Working capital	530,662	2,045,623
Capital improvements (Note 2)	1,080,999	1,071,084
Receivables:		
Trade (net of allowance for doubtful accounts of \$3,000 in 2000 and \$3,000 in 1999)	594,519	499,740
Other	21,103	56,823
Interest	31,474	48,337
Inventory (Note 1)	319,525	254,835
Prepaid expenses (Note 1)	31,941	12,246
Deferred debt issue costs (Note 1)	890,853	941,196
Total current assets	3,644,122	5,044,178
RESTRICTED CASH AND INVESTMENTS: (Note 2)		
Bond reserve fund	2,368,535	2,342,837
Bond fund	1,124,232	637,382
Replacement and improvement fund	767,463	759,733
Project fund	4,822,276	8,854,566
Employee policy fund	319,769	245,730
	9,402,275	12,840,248
PROPERTY, PLANT, AND EQUIPMENT, AT COST: (Note 1)		
Land and easements	527,883	474,379
Buildings	1,795,921	662,668
Tanks, stations, and lines	40,056,166	37,681,314
Meters and replacements	1,105,168	1,056,878
Furniture and fixtures	768,232	324,129
Machinery, equipment, and vehicles	1,112,819	1,143,685
	45,366,189	41,343,053
Less: Accumulated depreciation	16,159,334	15,078,746
	29,206,855	26,264,307
Current construction lines	2,860,247	859,215
	32,067,102	27,123,522
	\$ 45,113,499	\$ 45,007,948

The accompanying notes are an integral part of the financial statements.  
See Independent Auditors' Report.



**RURAL LORAIN COUNTY WATER AUTHORITY**

BALANCE SHEETS

December 31, 2000 and 1999

	2000	1999
<u>LIABILITIES AND RETAINED EARNINGS</u>		
CURRENT LIABILITIES:		
Current portion of long-term debt		
Accounts payable	\$ 875,000	\$ 835,000
Taxes payable	411,527	476,441
Compensated absences payable (Note 1)	21,408	15,381
Deferred tap deposits (Note 4)	251,771	152,318
Advance deposits	5,756	(1,877)
Accrued expenses:	65,635	62,135
Wages		
Interest	23,033	13,230
Total current liabilities	352,315	227,846
	2,006,445	1,780,474
LONG-TERM DEBT: (Note 5)		
Bonds payable:		
1991 Series		
1993 Series	215,000	415,000
1999 Series	16,440,000	16,865,000
	9,690,000	9,900,000
Less: Current portion	26,345,000	27,180,000
	875,000	835,000
	25,470,000	26,345,000
RETAINED EARNINGS	17,637,054	16,882,474
	\$ 45,113,499	\$ 45,007,948

The accompanying notes are an integral part of the financial statements.  
See Independent Auditors' Report.

# RURAL LORAIN COUNTY WATER AUTHORITY

## STATEMENTS OF INCOME

Years Ended December 31, 2000 and 1999

	<u>2000</u>	<u>1999</u>
REVENUE:		
Water sales	\$ 7,782,749	\$ 7,418,658
Tap fees	<u>516,745</u>	<u>751,370</u>
	8,299,494	8,170,028
OPERATING EXPENSES	<u>6,922,925</u>	<u>6,652,716</u>
INCOME FROM OPERATIONS	1,376,569	1,517,312
OTHER INCOME:		
Penalty income	84,484	78,517
Miscellaneous	28,496	14,864
Hydrant maintenance fees	7,150	6,250
Discounts earned	499	793
Interest income	734,028	376,129
Gain on disposal of assets	<u>59,365</u>	<u>-0-</u>
	914,022	476,553
	<u>2,290,591</u>	<u>1,993,865</u>
OTHER EXPENSES:		
Interest expense	1,484,883	934,112
Bad debts	679	1,909
Bond premium amortization	<u>50,449</u>	<u>38,010</u>
	<u>1,536,011</u>	<u>974,031</u>
NET INCOME	<u>\$ 754,580</u>	<u>\$ 1,019,834</u>

The accompanying notes are an integral part of the financial statements.  
See Independent Auditors' Report.

**RURAL LORAIN COUNTY WATER AUTHORITY**

STATEMENTS OF RETAINED EARNINGS

Years Ended December 31, 2000 and 1999

	<u>2000</u>	<u>1999</u>
BALANCE - Beginning of year	\$ 16,882,474	\$ 15,862,640
ADDITION - Net income	<u>754,580</u>	<u>1,019,834</u>
BALANCE - End of year	<u><u>\$ 17,637,054</u></u>	<u><u>\$ 16,882,474</u></u>

The accompanying notes are an integral part of the financial statements.  
See Independent Auditors' Report.

# RURAL LORAIN COUNTY WATER AUTHORITY

## STATEMENTS OF CASH FLOWS

Years Ended December 31, 2000 and 1999

	2000	1999
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Income from operations	\$ 1,376,569	\$ 1,517,312
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation	1,352,251	1,254,498
Bond premium amortization	(50,449)	(38,010)
Gain on disposal of assets	(59,365)	-0-
Bad debt expense	(679)	(1,909)
(Increase) decrease in:		
Receivables	(42,195)	(97,557)
Inventory	(64,690)	(80,207)
Prepaid expenses	(19,695)	13,131
Deferred debt issue costs	50,343	(273,003)
Increase (decrease) in:		
Accounts payable	(64,914)	177,131
Taxes payable	6,027	(26,729)
Compensated absences payable	99,453	93,048
Deferred tap deposits	7,633	(4,091)
Advance deposits	3,500	50
Accrued expenses	134,271	(5,678)
Net cash provided by operating activities	2,728,060	2,527,986

The accompanying notes are an integral part of the financial statements.  
See Independent Auditors' Report.

# RURAL LORAIN COUNTY WATER AUTHORITY

## STATEMENTS OF CASH FLOWS

Years Ended December 31, 2000 and 1999

	<u>2000</u>	<u>1999</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase and construction of equipment	\$ (6,336,900)	\$ (1,399,477)
Proceeds from sale of equipment and land	159,799	19,560
Repayment from 1993 Series Bonds	(425,000)	(405,000)
Repayment/proceeds from 1999 Series Bonds	(210,000)	9,900,000
Repayment of 1991 Series Bonds	(200,000)	(190,000)
Interest paid on bonds	<u>(1,484,883)</u>	<u>(934,112)</u>
Net cash provided by (used in) capital and related financing activities	(8,496,984)	6,990,971
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest earned	<u>734,028</u>	<u>376,129</u>
Net cash provided by investing activities	734,028	376,129
CASH FLOWS FROM NONCAPITAL ACTIVITIES:		
Other nonoperating revenue	<u>120,629</u>	<u>100,424</u>
Net cash provided by noncapital activities	<u>120,629</u>	<u>100,424</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,914,267)	9,995,510
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>16,071,249</u>	<u>6,075,739</u>
CASH AND CASH EQUIVALENTS - End of Year	<u>\$ 11,156,982</u>	<u>\$ 16,071,249</u>

The accompanying notes are an integral part of the financial statements.  
See Independent Auditors' Report.

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2000 and 1999

Note 1. Summary of Significant Accounting Policies:

The Rural Lorain County Water Authority, a regional water district, is a political subdivision of the State of Ohio created by order of the Lorain County Common Pleas Court. The Authority was incorporated in the State of Ohio on August 23, 1973, as a corporation for the purpose of providing a water supply for domestic, industrial, and public use to users within and without the district. The district is exempt from federal income tax. The Authority 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. The following is a summary of significant accounting policies:

A. Introduction:

The financial statements of the Authority are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The Authority 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 on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

B. Basis of Accounting

The Rural Lorain County Water Authority prepares its financial statements based on the flow of economic resources (measurement focus) and the accrual basis of accounting. By virtue of its by-laws, the district is required to make appropriations in accordance with budgetary policies.

C. Investments:

Investment procedures are restricted by the Provisions of the Ohio Revised Code. Short-term investments consist of repurchase agreements, certificates of deposit, U.S. Government Income Funds, or U.S. Treasury Funds. Long-term investments consist of U.S. Treasury Bonds and Notes.

D. 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 General Manager. The Board may amend said budget as it deems proper. The Board of Trustees then approves the budget in its original or amended form.

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2000 and 1999

Note 1. Summary of Significant Accounting Policies (Continued):

D. Budgetary Process (Continued):

Appropriations - After the budget is approved by the Board, the Board then makes appropriations of funds in accordance with said budget. Thereafter, the General Manager has the authority to authorize payment of any disbursement not to exceed \$15,000, 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.

E. Inventory:

Inventory, which consists of raw materials, is stated at the lower of cost or market. In general, cost as applied to inventory valuation represents a moving average method whereby the cost per unit is recomputed after every addition to the inventory.

F. Property, Plant, and Equipment:

Property, plant, and equipment, 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:

Water Lines and Water Tanks	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 property, plant, and equipment, and the related allowance for depreciation is included as part of the total accumulated allowance for depreciation.

The Authority, by action of its Board, has adopted the policy of capitalizing meter replacement costs over a ten-year period with one-half year of depreciation being taken in the year of replacement. In 1992 and prior years, the Authority expensed all replacement meters at the time of installation.

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2000 and 1999

Note 1. Summary of Significant Accounting Policies (Continued):

F. Property, Plant, and Equipment (Continued):

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

Depreciation expense for the years ended December 31, 2000 and 1999, was \$1,352,251 and \$1,254,498, respectively.

A summary of changes in property, plant, and equipment for the year ended December 31, 2000, is as follows:

	Balance December 31, 1999	Additions	Deletions	Balance December 31, 2000
Land and easements	\$ 474,379	\$ 53,504	\$ -0-	\$ 527,883
Buildings	662,668	1,171,095	37,842	1,795,921
Tanks, stations, and lines	37,681,314	2,374,852	-0-	40,056,166
Meters and replacements	1,056,878	48,290	-0-	1,105,168
Furniture and fixtures	324,129	477,525	33,422	768,232
Machinery, equipment, and vehicles	<u>1,143,685</u>	<u>210,602</u>	<u>241,468</u>	<u>1,112,819</u>
Subtotal	41,343,053	4,335,868	312,732	45,366,189
Current construction lines	859,215	2,001,032	-0-	2,860,247
	<u>\$ 42,202,268</u>	<u>\$ 6,336,900</u>	<u>\$ 312,732</u>	<u>\$ 48,226,436</u>

A summary of changes in property, plant, and equipment for the year ended December 31, 1999, is as follows:

	Balance December 31, 1998	Additions	Deletions	Balance December 31, 1999
Land and easements	\$ 473,379	\$ 1,000	\$ -0-	\$ 474,379
Buildings	573,344	89,324	-0-	662,668
Tanks, stations, and lines	37,341,550	339,764	-0-	37,681,314
Meters and replacements	1,018,995	37,883	-0-	1,056,878
Furniture and fixtures	321,841	2,288	-0-	324,129
Machinery, equipment, and vehicles	<u>1,030,023</u>	<u>178,103</u>	<u>64,441</u>	<u>1,143,685</u>
Subtotal	40,759,132	648,362	64,441	41,343,053
Current construction lines	108,100	751,115	-0-	859,215
	<u>\$ 40,867,232</u>	<u>\$ 1,399,477</u>	<u>\$ 64,441</u>	<u>\$ 42,202,268</u>

G. Prepaid Expenses:

Prepaid expenses are amortized over their economic useful lives.



# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2000 and 1999

Note 1. Summary of Significant Accounting Policies (Continued):

H. Deferred Debt Issue Costs:

Bond issue costs are capitalized and amortized over the various terms of the 1991, 1993, and 1999 bonds using the straight-line method. Amortization expense for the years ended December 31, 2000 and December 31, 1999 was \$50,449 and \$38,010, respectively.

I. Tap Fees:

To receive service, customers are required to pay a tap fee which varies depending on when the deposit was made and the size of the meter. Fees are refundable in the event expansion does not occur in an area.

J. Compensated Absences Payable:

Employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the Authority. 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. Upon retirement, employees are entitled to 100% of their accumulated sick leave balance at the rate of pay at time of retirement if an employee was hired before December 31, 2000. If an employee is hired on or after January 1, 2001, and retires, their accumulated sick leave is paid out at the rate of pay that it was accrued. 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. Since 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 25 years of uninterrupted service, which would be paid in its entirety. The unrecorded estimated unused sick leave for the year ended December 31, 2000 and 1999, was \$373,615 and \$413,547, respectively; the recorded estimated unused sick leave and vacation for the years ended December 31, 2000 and 1999 reflected in the compensated absences payable amount on page 3 was \$251,771 and \$152,318, respectively.

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2000 and 1999

Note 1. Summary of Significant Accounting Policies (Continued):

K. Statements of Cash Flows:

For the purposes of the Statements of Cash Flows, all liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered cash equivalents. Because the Authority, at its option, can withdraw amounts within a three month time period on the 5-year Treasury Bills, the Treasury Bills are considered to be cash equivalents. Cash and cash equivalents as of December 31, 2000 and 1999, consist of:

	<u>2000</u>	<u>1999</u>
Cash:		
General	\$ 143,046	\$ 114,294
Working capital	530,662	2,045,623
Capital improvements	1,080,999	1,071,084
Restricted cash and investments	<u>9,402,275</u>	<u>12,840,248</u>
	<u>\$11,156,982</u>	<u>\$ 16,071,249</u>

L. 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 2. Restricted Funds:

A. Revenue Fund:

This fund receives all revenues from operations, and it is maintained in the custody of the Authority, separate and distinct from all other funds of the Authority. With the exception of investment income on funds other than the Revenue Fund, all revenue shall be deposited in the Revenue Fund. Expenditures from this fund are limited to all reasonable and proper expenses of operating, repairing, and maintaining the system, excluding depreciation and capital replacements. Also, required payments are made into the remaining funds from this fund.

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2000 and 1999

Note 2. Restricted Funds (Continued):

B. Bond Reserve Fund:

This fund shall be maintained in the custody of the Trustee as a trust fund and shall be used solely for the payment of bond service charges on the bonds, and to the extent provided herein, by purchase for cancellation or redemption of bonds. Payment shall be made by the Authority on or before the 20th of each month to fund this account until the balance exceeds one year's bond requirements. This fund was fully funded at the time bonds were issued.

C. Bond Fund:

This fund is maintained in the custody of the Trustee as a trust fund and is used solely for the payment of bond service charges provided herein, by purchase for cancellation or redemption of bonds. The Authority is required by bond agreement to make monthly payments to the fund for interest and redemption payments on or before the 20th of each month.

D. Replacement and Improvement Fund:

This fund is maintained in the custody of the Trustee as a trust fund separate and distinct from all other funds of the Authority. Payments of \$5,000 are made on or before the 20th of each month. The monies held in the Replacement and Improvement Fund are transferred to the Bond Fund, to the extent necessary from time-to-time, after applying to that purpose any monies then in the System Reserve Fund, to permit the payment of all obligations payable from the Bond Fund without drawing on the Bond Reserve Fund and, otherwise, shall be used solely to replace obsolete or worn-out equipment or to make improvements to the system, or, with funds in the Bond Fund and Bond Reserve Fund and other funds made available by the Authority, to retire by purchase or by call all or part of the Bonds from time-to-time outstanding. The Authority may borrow from this fund for any improvements unless it is in default of its bonds obligations.

E. Project Fund:

This fund is maintained in the custody of the Trustee as a separate account and monies in the fund will be used for expansion and capital additions to the water system.

The fund had a balance of \$4,822,276 and \$8,854,566 as of December 31, 2000 and 1999, respectively.

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2000 and 1999

Note 2. Restricted Funds (Continued):

F. System Reserve Fund (Capital Improvements):

This fund is maintained in the custody of the Authority as a trust fund separate and distinct from all other funds of the Authority. The monies held in the System Reserve Fund shall be transferred to the Bond Fund, to the extent necessary from time-to-time, to permit the payment of all obligations payable from the Bond Fund without drawing upon the Replacement and Improvement Fund or Bond Reserve Fund, or may be transferred to the appropriate fund of the Authority to permit the payment of principal and interest on any general obligation bonds, or notes issued in anticipation thereof, issued by the Authority to pay costs of improvements to the system, and otherwise may be used for any other lawful system purpose, including without limitation, the retirement of outstanding bonds by call for redemption or by purchase for cancellation.

G. Employee Policy Fund:

This fund is maintained in the custody of the Authority as a separate account. Monies in this fund will be used for employees entitled to their unused vacation pay and their unused accumulated sick leave balance at retirement.

H. Restricted Cash and Investments:

	<u>2000</u>	<u>1999</u>
Bond reserve fund	\$ 2,368,535	\$ 2,342,837
Bond fund	1,124,232	637,382
Replacement and improvement fund	767,463	759,733
Project fund	4,822,276	8,854,566
Employee policy fund	<u>319,769</u>	<u>245,730</u>
	<u>\$ 9,402,275</u>	<u>\$12,840,248</u>

Note 3. Equity in Pooled Cash and Investment:

The Rural Lorain County Water Authority maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the balance sheet as cash.

A. Legal Requirements:

Statutes require the classification of monies held by the Rural Lorain County Water Authority into three categories as follows:

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2000 and 1999

Note 3. Equity in Pooled Cash and Investment (Continued):

A. Legal Requirements (Continued):

Category 1 consists of "active" monies, those monies required to be kept in a "cash" or "near-cash" status for immediate use by the Authority treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of "inactive" monies, those monies not required for use within the current two-year period of designation of depositories. Inactive monies may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

Category 3 consists of "interim" monies, those monies that are not needed for immediate use but which will be needed before the end of the current period of depositories.

B. Deposits:

At December 31, 2000 and 1999, the carrying amount of the Authority deposits was \$2,014,475 and \$3,416,731, respectively, and the bank balance was \$2,064,892 and \$3,545,944, respectively. The entire bank balance was covered by federal depository insurance or by collateral held by the Authority's agent in the Authority's name.

C. Investments:

The Authority's investments are categorized to give an indication of the level of risk assumed by the Authority at year end. The categories are described as follows:

Category 1 - Insured or registered, with securities held by the Authority or its agent in the Authority's name.

Category 2 - Uninsured and unregistered, with securities held by the counter party's trust department or agent in the Authority's name.

Category 3 - Uninsured and unregistered, with securities held by the counter party, in its trust department, but not in the Authority's name.

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2000 and 1999

Note 3. Equity in Pooled Cash and Investment (Continued):

Investments, categorized by level of risk, for the year ended December 31, 2000, are as follows:

	CATEGORY			FAIR MARKET VALUE
	1	2	3	
Federated Treasury Obligation Fund			\$1,545,374	\$1,545,374
Certificate of Deposit	\$ 319,769			319,769
U.S. Treasury Funds, Bonds, and Notes			<u>7,537,132</u>	<u>7,537,132</u>
Total Investments	<u>\$ 319,769</u>	<u>\$ -0-</u>	<u>\$9,082,506</u>	<u>\$9,402,275</u>

Investments, categorized by level of risk, for the year ended December 31, 1999, are as follows:

	CATEGORY			CARRYING AMOUNT
	1	2	3	
Federated Treasury Obligation Fund			\$11,076,985	\$11,076,985
Certificate of Deposit	\$ 245,730			245,730
U.S. Treasury Funds, Bonds, and Notes			<u>1,517,533</u>	<u>1,517,533</u>
Total Investments	<u>\$ 245,730</u>	<u>\$ -0-</u>	<u>\$12,594,518</u>	<u>\$12,840,248</u>

Note 4. Deferred Tap Deposits:

Deferred tap deposits represent monies received for tap installation fees to be installed in the future. Tap fee income is recognized in subsequent periods as the taps are installed. The negative balance for 1999 reflects payments by the Authority for inspector's fees for which a deposit fee has not been received.

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2000 and 1999

Note 5. Long-Term Debt:

A summary of long-term debt for the year ended December 31, 2000, is as follows:

Description	Balance December 31, 1999	Issued	Retired	Balance December 31, 2000
\$4,825,000 Water Resource Improvement Revenue Bonds, Series 1991 originally issued with interest rates ranging from 4.9% to 6.8% with final maturity dates ranging from 1992 to 2001.	\$ 415,000		\$ 200,000	\$ 215,000
\$18,095,000 Water Resource Improvement and Refunding Revenue Bonds, Series 1993 originally issued with interest rates ranging from 2.55% to 5.25% with final maturity dates ranging from 1993 to 2018.	16,865,000		425,000	16,440,000
\$9,900,000 Water Resource Revenue Refunding Bonds, Series 1999 originally issued with interest rates ranging from 4.000% to 5.875% with final maturity dates ranging from 2000 to 2024.	<u>9,900,000</u>		<u>210,000</u>	<u>9,690,000</u>
	<u>\$27,180,000</u>	<u>\$ -0-</u>	<u>\$ 835,000</u>	<u>\$26,345,000</u>

A summary of long-term debt for the year ended December 31, 1999, is as follows:

Description	Balance December 31, 1998	Issued	Retired	Balance December 31, 1999
\$4,825,000 Water Resource Improvement Revenue Bonds, Series 1991 originally issued with interest rates ranging from 4.9% to 6.8% with final maturity dates ranging from 1992 to 2001.	\$ 605,000		\$ 190,000	\$ 415,000
\$18,095,000 Water Resource Improvement and Refunding Revenue Bonds, Series 1993 originally issued with interest rates ranging from 2.55% to 5.25% with final maturity dates ranging from 1993 to 2018.	17,270,000		405,000	16,865,000
\$9,900,000 Water Resource Revenue Refunding Bonds, Series 1999 originally issued with interest rates ranging from 4.000% to 5.875% with final maturity dates ranging from 2000 to 2024.	<u>9,900,000</u>		<u>595,000</u>	<u>9,900,000</u>
	<u>\$17,875,000</u>	<u>\$ 9,900,000</u>	<u>\$ 595,000</u>	<u>\$27,180,000</u>

See Independent Accountants' Report.

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2000 and 1999

Note 5. Long-Term Debt (Continued):

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of December 31, 2000, are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2001	\$ 2,284,259
2002	2,285,116
2003	2,287,204
2004	2,286,107
2005	2,291,969
2006 to 2024	<u>32,302,584</u>
Total Principal and Interest	43,737,239
Less: Interest	<u>17,392,239</u>
Liability as of December 31, 2000	<u>\$26,345,000</u>

The 1991, 1993, and 1999 Series bonds are payable from the revenues of the Authority after the payment of operating and maintenance costs. The bonds are secured by a pledge of the monies and securities on deposit in the Reserve Fund, the Replacement and Improvement Fund, and the System Reserve Fund. The bond indenture requires, among other provisions, that the Authority maintain the system in good operating condition and charge rates such that the necessary debt service payments can be made after operating and maintenance charges have been paid. In addition, the indenture requires the establishment of certain funds as discussed in Note 2.

Note 6. Insurance:

The Authority maintains comprehensive insurance coverage with private carriers for real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are 90 percent coinsured.

Note 7. Retirement Commitments:

A. Defined Benefit Pension Plans:

All Rural Lorain County Water Authority employees participate in the Public Employees Retirement System of Ohio ("PERS" System), a cost sharing multiple employer public employee retirement system operated by the State of Ohio. The State of Ohio accounts for the activities of the Retirement System. The "PERS" System is administered in accordance with Chapter 145 of the Ohio Revised Code.



# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2000 and 1999

Note 7. Retirement Commitments (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.

Contribution rates are statutorily authorized and actuarially determined. The rate set for employee contribution for 2000 and 1999 was 8.50% of their annual covered salary and the employer contribution rate was 13.55% of covered payroll. The statutory rate is identical to the actuarially determined rate. 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 2000 and 1999 was \$322,828 and \$203,039, 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 PERS 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 PERS and employers. The active plan participants in the PERS System are 401,000 and 360,532 for 2000 and 1999, respectively.

PERS issues a separate stand-alone report that can be obtained from PERS, 277 East Town Street, Columbus, Ohio 43215-4642.

Effective July 1, 1991, the Authority started a Voluntary Retirement Incentive Plan under the State of Ohio.

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2000 and 1999

Note 7. Retirement Commitments (Continued):

Three-Year Trend Information for PERS System of Ohio

<u>Year Ended</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>	<u>Net Pension Obligation</u>
12/31/98	\$1,700,572	100%	\$0
12/31/99	\$1,783,233	100%	\$0
12/31/00	\$1,766,772	100%	\$0

Schedule of Funding Progress for PERS System of Ohio

(Dollar amounts in millions)

<u>Actuarial Valuation Year</u>	<u>Actuarial Accrued Liabilities (AAL)</u>	<u>Valuation Assets</u>	<u>Unfunded AAL (UAAL)</u>	<u>Ratio of Assets to AAL</u>	<u>Active Member Payroll</u>	<u>UAAL as a % Active Member Payroll</u>
1997	\$34,971	\$33,846	\$1,125	97%	\$8,640	13%
1998	\$37,714	\$38,360	\$(646)*	102%	\$9,017	(7)%*
1999	\$43,070	\$43,060	\$10	100%	\$9,477	0%

\*Valuation assets were in excess of AAL.

B. Post-Employment Benefits:

The Public Employees Retirement System of Ohio provided 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. A portion of each employer's contribution to PERS is set aside for the funding of post-retirement health care based on the authority granted by State statute. The employer contribution rate was 13.55% from January 1 through December 31, 2000 and 1999.

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2000 and 1999

Note 7. Retirement Commitments (Continued):

Benefits are advanced-funded using the entry age normal actuarial cost method. Significant actuarial assumptions include a rate of return on investments of 7.75%, active employee payroll increases of 4.75% for inflation, and between .54 and 5.1% increase based on additional annual pay increases. Health care premiums were assumed to increase 5.5% annually. For actuarial purposes, assets are valued utilizing a method which recognizes book value plus or minus realized and unrealized investment gains and losses amortized at a 25 percent per annum over a four-year period. Assets are made up of domestic equity securities and domestic bonds, international equity securities, and real estate investments.

Note 8. Leasing Arrangements:

The Authority leases a copier under a 39-month operating lease that began February 1998, and expires April 2001. This lease requires rent in the amount of \$416 per month plus charges for additional copies over 4,000.

The following is a schedule of future minimum rental payments required under the above operating lease as of December 31, 2000:

<u>Year Ending</u> <u>December 31,</u>	<u>Amount</u>
2001	\$1,664

Office equipment lease for the years ended December 31, 2000 and 1999, was \$14,026 and \$11,779, respectively.

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2000 and 1999

Note 9. Commitments:

A. Water Purchase Agreements:

The Authority's original and primary source of water (approximately 85.1%) has been the City of Avon Lake's water treatment plant located in northern Lorain County. On April 30, 1975, the Authority signed a long-term water purchase agreement with the City of Avon Lake with maximum amounts of water to be supplied per month.

The Authority purchases water from the Village of New London (approximately 14.2%) as a supplement to the water purchased from the City of Avon Lake. In addition to the Avon Lake agreement, the Authority signed a long-term water purchase agreement in 1996 with New London with maximum amounts of water to be supplied per month.

B. Water Supply Agreements:

The Authority has long-term agreements with various villages and municipalities to provide water in emergencies and at monthly bulk rates. The terms of the agreements vary with each municipality as to rate and period of time.

## **SUPPLEMENTARY INFORMATION**

# RURAL LORAIN COUNTY WATER AUTHORITY

## STATEMENTS OF OPERATING EXPENSES

Years Ended December 31, 2000 and 1999

	2000	1999
OPERATING EXPENSES:		
Wages:		
Board	\$ 50,461	\$ 56,205
Other	1,031,967	921,444
P.E.R.S.	322,828	203,039
Payroll taxes	7,555	3,042
Insurance:		
Hospitalization	233,808	248,923
Life	4,831	4,622
General	18,797	38,490
Audit fees	40,692	88,693
Legal and professional fees	42,047	42,774
Engineering fees	12,953	33,126
Telephone	29,323	27,008
Depreciation expense	1,352,251	1,254,498
Utilities	24,099	19,005
Office equipment lease	14,026	11,779
Office supplies and expense	92,711	64,853
Clothing	17,420	15,719
Postage	46,046	50,127
Maintenance and repairs:		
Administration building and equipment	77,794	42,704
Vehicles	43,532	42,123
Water lines	25,084	21,799
Pump stations	23,644	57,859
Tanks	30,401	13,729
Travel and education expense	76,875	93,474
Gasoline	47,573	28,748
Water purchased	2,524,685	2,515,528
Distribution supplies	80,750	68,716
Electric pump stations and tanks	348,780	381,666
Tap installations	226,220	244,415
Outside contractors	-0-	15,624
Communications equipment	5,808	4,637
Bond administration expense	9,501	7,252
Miscellaneous expense	60,463	31,095
	\$ 6,922,925	\$ 6,652,716

See Independent Auditors' Report.

## **OTHER INFORMATION**

# RURAL LORAIN COUNTY WATER AUTHORITY

## APPOINTED OFFICIALS

As of December 31, 2000

<u>Appointed Officials</u>	<u>Township or Village</u>	<u>Title</u>	<u>Term of Office</u>
Dennis Abraham	Amherst Township	Trustee	01/01/99-12/31/02
George Green	Brighton Township	President	01/01/98-12/31/01
Edward Matus	Camden Township	Trustee	01/01/98-12/31/01
Eleanor Pryce	Carlisle Township	Trustee	01/01/99-12/31/02
Dale Rundle	Columbia Township	Trustee	01/01/99-12/31/02
Eugene Szczepanski	Eaton Township	Trustee	01/01/00-12/31/03
Dominic Ferritto	Grafton Township	Trustee	01/01/00-12/31/03
Rolland Angersbach	Henrietta Township	Trustee	01/01/00-12/31/03
Mary Beth Derikito	Huntington Township	Trustee	01/01/00-12/31/03
Albert Buck, Jr.	Kipton Village	Trustee	01/01/98-12/31/01
Barbara Harper	LaGrange Township	Trustee	01/01/01-12/31/04
Marjorie Barth	Litchfield Township	Trustee	01/01/99-12/31/02
Thomas Younglas	Penfield Township	Vice President	01/01/01-12/31/04
Richard Devies	Pittsfield Township	Trustee	01/01/98-12/31/01
Martin Drennan	Rochester Township	Trustee	01/01/00-12/31/01
Dora Miller	Rochester Village	Trustee	01/01/98-12/31/01
Richard S. Williams	New Russia Township	Trustee	01/01/98-12/31/01
Don Kostecki	Spencer Township	Trustee	01/01/00-12/31/01
Michael Canfield	Sullivan Township	Trustee	01/01/00-12/31/03
Walter Gary Smith	Troy Township	Trustee	01/01/98-12/31/01
J. Corbett Walker	Wellington Township	Secr/Treasurer	01/01/01-12/31/04
Gary Liston	Savannah Village	Trustee	01/01/01-12/31/04
Gary Goon	Polk Village	Trustee	01/01/00-12/31/03
George Walker	Ruggles Township	Trustee	01/01/00-12/31/03
Stanley Wares	Olmsted Falls City	Trustee	01/01/98-12/31/01
Bryan E. Rose	Homer Township	Trustee	08/14/01-12/31/04



# RURAL LORAIN COUNTY WATER AUTHORITY

## ADMINISTRATIVE PERSONNEL

As of December 31, 2000

<u>Name</u>	<u>Title</u>	<u>Contract Period</u>
Tim W. Mahoney	General Manager	01/01/98-12/31/02
Beverly Uline	Accounting Manager	

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# **RADACHI AND COMPANY**

*Certified Public Accountants and Business Consultants*

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900 East Broad Street, Suite A  
Elyria, Ohio 44035  
Telephone (440) 365-3115 • Fax (440) 365-4668

## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees  
of Rural Lorain County Water Authority  
LaGrange, Ohio

We have audited the financial statements of the Rural Lorain County Water Authority as of December 31, 2000 and 1999, and for the years then ended, and have issued our report thereon dated June 29, 2001. We conducted our audits in accordance with generally accepted auditing standards and standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

### **Compliance**

Compliance with laws, regulations, contracts, and grants applicable to the Water Authority is the Water Authority management's responsibility. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Water Authority's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**  
(Continued)

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements of Rural Lorain County Water Authority for the years ended December 31, 2000 and 1999, we considered its internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control structure components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated July 2, 2001.

This report is intended solely for the information and use of the Board of Trustees, management, others within the organization, and Ohio Auditor of State, and is not intended to be and should not be used by anyone other than these specified parties.

**RADACHI AND COMPANY**

June 29, 2001



STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

**RURAL LORAIN COUNTY WATER AUTHORITY**

**LORAIN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
AUGUST 14, 2001**