



Dave Yost • Auditor of State



**LORAIN COUNTY RURAL WASTEWATER DISTRICT  
LORAIN COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Lorain County Rural Wastewater District  
Lorain County  
22898 West Road, P.O. Box 158  
Wellington, Ohio 4409-0158

To the Board of Trustees:

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, 2011 and December 31, 2010, as listed in the table of contents. These financial statements are the responsibility of the School'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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lorain County Rural Wastewater District, Lorain County, Ohio, as of December 31, 2011 and December 31, 2010, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 11 to the financial statements, the District has accumulated deficits of \$674,968 and \$931,504, as of and for the years ended December 31, 2011 and December 31, 2010, respectively. The District has relied on debt borrowings to pay certain obligations as they come due. Management's strategy in regard to this matter is described in Note 11 to the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2012, 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "Y" and "O".

**Dave Yost**  
Auditor of State

December 26, 2012

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2011 and 2010

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 \$674,968 at year end 2011.

The District's net assets increased by \$256,536 (27.5%) in 2011.

The District had an increase in Operating Revenues of \$17,584 (103.8%) in 2011. Operating Expenses decreased \$8,170 (-4.5%) in 2011.

The District recorded \$411,826 and \$1,015,542 of Intergovernmental revenue in 2011 and 2010, respectively. The Intergovernmental revenue resulted from the assumption of project costs by Avon Lake Municipal Utilities (ALMU).

### **OVERVIEW OF BASIC FINANCIAL STATEMENTS**

The District is a single fund using proprietary fund accounting, similar to a private sector business. The District is described in Note 2, 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 and 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 disbursements from operations, investing and financing activities. The statement summarizes where the cash was provided, cash used, and changes in the balances during the year.

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2011 and 2010

### SIGNIFICANT EVENTS AND EXPENDITURES DURING THE YEAR

The District has a cooperation agreement with Avon Lake Municipal Utilities (ALMU) whereby ALMU is making expenditures related to system construction. The following pertains to project expenditures made by ALMU.

In 2011, ALMU spent a significant amount of the year installing sanitary sewers in parts of Eaton and Carlisle Townships. In addition, the installation of the thirteen mile transmission line to carry the wastewater to the Avon Lake Pollution Control Center was continued.

The scheduled completion date for the Phase I project was to be November 4, 2010. Due to extensive legal issues in addition to weather-related delays, the project completion date was moved into 2011. The project was substantially completed and certified on November 18, 2011.

The District began receiving a monthly check from ALMU for their portion of waste collection in December, 2011.

### NET ASSETS

Table 1 summarizes the Net Assets of the District.

**TABLE 1**

	2011	2010	2009	2011 vs 2010		2010 vs 2009	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Current and other assets	\$ 827,951	\$ 47,119	\$ 754,270	\$ 780,832	1657.1%	(\$707,151)	-93.8%
Capital assets	31,358	32,091	34,079	(733)	-2.3%	(1,988)	-5.8%
Total assets	859,309	79,210	788,349	780,099	984.8%	(709,139)	-90.0%
Current and other liabilities:	1,475,277	951,714	2,481,956	523,563	55.0%	(1,530,242)	-61.7%
Long-term liabilities - debt	59,000	59,000	79,500	0	0.0%	(20,500)	-25.8%
Total liabilities	1,534,277	1,010,714	2,561,456	523,563	51.8%	(1,550,742)	-60.5%
Invested in capital assets	31,358	32,091	34,079	(733)	-2.3%	(1,988)	-5.8%
Unrestricted	(706,326)	(963,595)	(1,807,186)	257,269	26.7%	843,591	46.7%
Total Net Assets	\$ (674,968)	\$ (931,504)	\$ (1,773,107)	\$ 256,536	27.5%	\$ 841,603	47.5%



# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2011 and 2010

### NET ASSETS (Continued)

The District's Net Assets increased \$256,536 (27.5%) and \$841,603 (47.5%) in 2011 and 2010, respectively. These increases are a result of excess revenues over expenses.

### STATEMENT OF REVENUES AND EXPENSES (CHANGES IN NET ASSETS)

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

**TABLE 2**

	2011	2010	2009	2011 vs 2010		2010 vs 2009	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Operating revenue	\$ 34,529	\$ 16,945	\$ 15,146	\$ 17,584	103.8%	\$ 1,799	11.9%
Operating expenses	172,656	180,659	742,147	(8,003)	-4.4%	(561,488)	-75.7%
Depreciation expenses	733	900	1,067	(167)	-18.6%	(167)	-15.7%
Total expenses	173,389	181,559	743,214	(8,170)	-4.5%	(561,655)	-75.6%
Operating loss	(138,860)	(164,614)	(728,068)	25,754	15.6%	563,454	77.4%
Nonoperating revenue	414,586	1,036,381	2,216,916	(621,795)	-60.0%	(1,180,535)	-53.3%
Nonoperating expenses	19,190	30,164	130,093	(10,974)	-36.4%	(99,929)	-76.8%
Nonoperating loss	395,396	1,006,217	2,086,823	(610,821)	-60.7%	(1,080,606)	-51.8%
Change in net assets	256,536	841,603	1,358,755	(585,067)	-69.5%	(517,152)	-38.1%
Beginning net assets	(931,504)	(1,773,107)	(3,131,862)	841,603	47.5%	1,358,755	43.4%
Ending net assets	\$ (674,968)	\$ (931,504)	\$ (1,773,107)	\$ 256,536	27.5%	\$ 841,603	47.5%

Total Operating Expenses decreased \$8,170 (-4.5%) and \$561,655 (-75.6%) in 2011 and 2010, respectively, with the majority of the decrease due to legal and professional fees.

### CAPITAL ASSETS

The District had no change and a decrease of \$1,088(-2.8%) in Capital Assets (before depreciation) at the end of 2011 and 2010, respectively, as shown in Table 3.

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2011 and 2010

### CAPITAL ASSETS (Continued)

**TABLE 3**

	2011	2010	2009	2011 vs 2010		2010 vs 2009	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Land and easements	\$ 10,012	\$ 10,012	\$ 11,100	\$ -	0.0%	\$ (1,088)	-9.8%
Tanks, stations, and lines	23,825	23,825	23,825	-	0.0%	-	0.0%
Furniture and fixtures	4,029	4,029	4,029	-	0.0%	-	0.0%
Total before depreciation	37,866	37,866	38,954	0	0.0%	(1,088)	-2.8%
Accumulated depreciation	(6,508)	(5,775)	(4,875)	(733)	12.7%	(900)	18.5%
Total capital assets, net	\$ 31,358	\$ 32,091	\$ 34,079	\$ (733)	-2.3%	\$ (1,988)	-5.8%

### 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**

	2011	2010	2009	2011 vs 2010		2010 vs 2009	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Notes payable	\$ 59,000	\$ 59,000	\$ 79,500	\$ -	0.0%	\$ (20,500)	-25.8%
Non-current liabilities	\$ 59,000	\$ 59,000	\$ 79,500	-	0.0%	\$ (20,500)	-25.8%

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

### DEBT FINANCING

In 2010, the District refinanced its existing term debt into a promissory note allowing multiple draws up to \$500,000. In 2011 this debt was paid off by ALMU in conjunction with ALMU's assumption of system project costs from the District.

In 2010, the District obtained a line-of-credit from Lorain-Medina Rural Electric Cooperative, Inc.

### 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

## STATEMENTS OF NET ASSETS - PROPRIETARY FUND

December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
CURRENT ASSETS: (Note 2)		
Cash and cash equivalents	\$ 39,234	\$ 30,119
NONCURRENT ASSETS:		
Accounts receivable - Tap assessment	16,000	17,000
Deferred tap fee expense (Note 6)	772,717	-
Total noncurrent assets	<u>788,717</u>	<u>17,000</u>
CAPITAL ASSETS: (Note 2)		
Non-depreciable capital assets, net	10,012	10,012
Depreciable capital assets, net	<u>21,346</u>	<u>22,079</u>
	31,358	32,091
Total assets	<u>\$ 859,309</u>	<u>\$ 79,210</u>

(continued)

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

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## STATEMENTS OF NET ASSETS - PROPRIETARY FUND (continued)

December 31, 2011 and 2010

	2011	2010
<b><u>LIABILITIES</u></b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 471,245	\$ 444,330
Accrued payroll	10,750	6,069
Compensated absences payable	13,569	8,501
Accrued interest	33,713	24,488
Note payable - Line-of-credit (Note 4)	147,000	444,326
Total current liabilities	676,277	927,714
<b>NONCURRENT LIABILITIES: (Note 5)</b>		
Notes payable	59,000	59,000
Total non-current liabilities	59,000	59,000
<b>OTHER LIABILITIES:</b>		
Deposits	24,000	24,000
Tap fee (Note 6)	775,000	-
Total other liabilities	799,000	24,000
Total liabilities	1,534,277	1,010,714
<b>NET ASSETS:</b>		
Investment in capital assets	31,358	32,091
Unrestricted deficit	(706,326)	(963,595)
Total net assets	(674,968)	(931,504)
Total liabilities and net assets	\$ 859,309	\$ 79,210

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

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

### PROPRIETARY FUND

Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>OPERATING REVENUE:</b>		
Usage fee income	\$ 19,529	\$ 16,945
Co-op income	15,000	-
Total operating revenue	<u>34,529</u>	<u>16,945</u>
<b>OPERATING EXPENSES:</b>		
Bank fees	538	2,009
Computer expense	-	505
Consulting expense	-	842
Depreciation expense	733	900
Dues and subscriptions	145	310
Engineering expense	18,013	2,053
Insurance	4,651	8,996
Legal and professional fees	12,203	10,319
Mileage expense	-	1,775
Miscellaneous expense	416	1,524
Office supplies and expense	7,079	3,168
O.P.E.R.S.	11,396	16,421
Payroll taxes	5,299	2,712
Postage expense	265	1,313
Building rent	3,000	3,000
Tap fee expense	2,283	-
Telephone	688	731
Wages - Office	100,703	119,963
Wastewater treatment	5,977	5,018
Total operating expenses	<u>173,389</u>	<u>181,559</u>
<b>LOSS FROM OPERATIONS</b>	<u>(138,860)</u>	<u>(164,614)</u>
<b>NONOPERATING REVENUES:</b>		
Debt forgiveness	-	20,500
Interest income	15	26
Intergovernmental revenue	411,826	1,015,542
Miscellaneous income	2,745	313
Total nonoperating revenues	<u>414,586</u>	<u>1,036,381</u>
<b>NONOPERATING EXPENSES:</b>		
Interest expense	19,190	30,164
Total nonoperating expenses	<u>19,190</u>	<u>30,164</u>

(continued)

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

**LORAIN COUNTY RURAL WASTEWATER DISTRICT**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

**PROPRIETARY FUND** (continued)

**Years Ended December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
CHANGES IN NET ASSETS	\$ 256,536	\$ 841,603
BEGINNING NET ASSETS	<u>(931,504)</u>	<u>(1,773,107)</u>
ENDING NET ASSETS	<u>\$ (674,968)</u>	<u>\$ (931,504)</u>

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

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## STATEMENTS OF CASH FLOWS - PROPRIETARY FUND

Years Ended December 31, 2011 and 2010

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from usage fees	\$ 19,529	\$ 16,945
Cash received from co-op	15,000	-
Cash received from tap fee assessment	1,000	1,000
Cash paid to employees, professional contractors, and suppliers for services and benefits	(131,919)	(261,902)
Net cash used in operating activities	(96,390)	(243,957)
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
Cash received for easement refunds	-	1,088
Cash received for late fee and delinquencies	955	313
Cash paid for tap fee refund	-	(1,000)
Net cash provided by non-capital financing activities	955	401
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Borrowings on line-of-credit	114,500	248,687
Interest paid on debt	(9,965)	(7,698)
Net cash provided by capital and related to financing activities	104,535	240,989
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest earned	15	26
Net cash provided by investing activities	15	26
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	9,115	(2,541)
CASH AND CASH EQUIVALENTS - Beginning of year	30,119	32,660
CASH AND CASH EQUIVALENTS - End of year	\$ 39,234	\$ 30,119

(continued)

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

**LORAIN COUNTY RURAL WASTEWATER DISTRICT**

**STATEMENTS OF CASH FLOWS - PROPRIETARY FUND (continued)**

Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating loss	\$ (138,860)	\$ (164,614)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation	733	900
Change in assets:		
Accounts receivable	1,000	1,000
Deferred expenses	2,283	
Change in liabilities:		
Accounts payable	28,705	(90,803)
Accrued expenses	9,749	9,560
Net cash used in operating activities	<u>\$ (96,390)</u>	<u>\$ (243,957)</u>

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



# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

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 organized in the State of Ohio on February 4, 1997, under Ohio Revised Code Section 6119.02 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 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, 2011 and 2010

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

B. Basis of Presentation:

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 consist of capital assets, net of accumulated depreciation. 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 December 31, 2011 and December 31, 2010, the District reported a deficit of \$706,326 and \$963,595 in unrestricted net assets, respectively.

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 nonoperating.

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

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 in accordance with said budget. Thereafter, the Executive Director has the authority to authorize payment of any disbursement not to exceed \$3,000, provided there are sufficient funds appropriated and remaining in the account from which payment will be made. The Board may, from time-to-time, amend or supplement said appropriations and may also transfer any part of an unencumbered balance of an appropriation 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.

Depreciation expense for the years ended December 31, 2011 and 2010 was \$733 and \$900, respectively.

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

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

G. Capital Assets (Continued):

A summary of changes in capital assets for the year ended December 31, 2011 is as follows:

	Balance January 1, 2011	Additions	Deletions	Balance December 31, 2011
Land and easements	\$ 10,012	\$ -	\$ -	\$ 10,012
Tanks, stations, and lines	23,825	-	-	23,825
Furniture and fixtures	4,029	-	-	4,029
	<u>37,866</u>	<u>-</u>	<u>-</u>	<u>37,866</u>
Less accumulated depreciaton				
Tanks, stations, and lines	(1,951)	(595)	-	(2,546)
Furniture and fixtures	(3,824)	(138)	-	(3,962)
Total accumulated depreciation	<u>(5,775)</u>	<u>(733)</u>	<u>-</u>	<u>(6,508)</u>
Net capital assets	<u>\$ 32,091</u>	<u>\$ (733)</u>	<u>\$ -</u>	<u>\$ 31,358</u>

A summary of changes in capital assets for the year ended December 31, 2010 is as follows:

	Balance January 1, 2010	Additions	Deletions	Balance December 31, 2010
Land and easements	\$ 11,100	\$ -	\$ 1,088	\$ 10,012
Tanks, stations, and lines	23,825	-	-	23,825
Furniture and fixtures	4,029	-	-	4,029
	<u>38,954</u>	<u>-</u>	<u>1,088</u>	<u>37,866</u>
Less accumulated depreciaton				
Tanks, stations, and lines	(1,356)	(595)	-	(1,951)
Furniture and fixtures	(3,519)	(305)	-	(3,824)
Total accumulated depreciation	<u>(4,875)</u>	<u>(900)</u>	<u>-</u>	<u>(5,775)</u>
Net capital assets	<u>\$ 34,079</u>	<u>\$ (900)</u>	<u>\$ 1,088</u>	<u>\$ 32,091</u>

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.

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

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

H. Compensated Absences Payable (Continued):

Sick leave accumulates to employees at a rate of 4.6 hours for every 80 hours of service. In the event an employee has accrued unused sick leave, such employee shall, upon retirement or termination from employment, be entitled to receive an amount equal to one half of such accrued unused sick leave to a maximum of 100 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.

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 2011 and 2010, 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.

K. Tap Fees:

To receive service, customers are required to pay a tap fee that 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.

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.

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

Note 3. Deposits (Continued):

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.

Cash on Hand: At December 31, 2011, the District had \$150 in undeposited cash on hand, which is included in the Statement of Net Assets of the District as part of Cash and Cash Equivalents.

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 \$39,084 and \$29,919 and the bank balance was \$40,810 and \$33,689, 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 institution's 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, 2011 and 2010, respectively.

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

Note 4. Short-Term Liabilities:

Description	Balance January 1, 2010	Additions	Deletions	Balance December 31, 2011
<p>A line-of-credit in the amount of \$0, with \$0 unused in 2011 and \$500,000 with \$111,674 unused in 2010, is payable to FirstMerit Bank, N.A. In 2010, the loan was refinanced. The interest rate is based on an index which is the LIBOR Rate. Interest on this note is computed on a 30/360 simple interest basis. The District will make regular monthly interest payments beginning September 1, 2010. The interest on the unpaid balance is calculated using a rate of 4.0 percentage points over the index. The current index is .2575% per annum. The interest rate at December 31, 2010 was 4.2575%, . The line-of-credit requires one principal payment and accrued interest due on July 31, 2011. The District accrued interest of \$0 and \$1,378 to be paid in fiscal years 2011 and 2010, respectively.</p>	\$ 388,326	\$ 23,500	\$ 411,826	\$ -0-
<p>A line-of-credit in the amount of \$147,000, with \$0 unused in 2011 and \$56,000 used in 2010, is payable to Lorain-Medina Rural Electric Cooperative, Inc. The unpaid principal balance shall bear interest at the lesser of the line of credit interest rate which National Rural Utilities Cooperative Finance Corporation charges the Lender, or the line-of-credit interest rate which Co-Bank charges the Lender. The interest rate at December 31, 2011 and 2010 was 4.95% and 3.31%, respectively. The line-of-credit requires one principal payment and all accrued interest due 12 months from the date that said principal is advanced. The District accrued interest of \$4,974 and \$402, respectively.</p>	56,000 <u>\$ 444,326</u>	91,000 <u>\$ 114,500</u>	-0- <u>\$ 411,826</u>	147,000 <u>\$ 147,000</u>

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

**Note 5. Noncurrent Liabilities:**

A summary of non-current liabilities debt for the period January 1, 2010 through December 31, 2011, is as follows:

Description	Balance January 1, 2010	Additions	Deletions	Balance December 31, 2011
Lorain County Rural Wastewater District borrowed \$5,000 from Carlisle Township in March 1997 for the start-up/organization of this entity. Timing of repayment is contingent upon availability of funds.	\$ 5,000	\$ -0-	\$ -0-	\$ 5,000
Lorain County Rural Wastewater District borrowed \$5,000 from LaGrange Township in March 1997 for the start-up/organization of this entity. Timing of repayment is contingent upon availability of funds.	5,000	-0-	-0-	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. Timing of repayment is contingent upon availability of funds.	10,000	-0-	-0-	10,000
Lorain County Rural Wastewater District borrowed \$5,000 from Elyria Township in March 1997 for the start-up/organization of this entity. Timing of repayment is contingent upon availability of funds.	5,000	-0-	-0-	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. Timing of repayment is contingent upon availability of funds.	15,000	-0-	-0-	15,000
Lorain County Rural Wastewater District borrowed \$2,500 from Camden Township in April 2001 for the start-up/organization of this entity. Timing of repayment is contingent upon availability of funds.	2,500	-0-	-0-	2,500
Lorain County Rural Wastewater District borrowed \$5,500 from Grafton Township in April 2001 for the start-up/organization of this entity. Timing of repayment is contingent upon availability of funds.	5,500	-0-	-0-	5,500



# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

Note 5. Noncurrent Liabilities (Continued):

<u>Description</u>	<u>Balance January 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2011</u>
Lorain County Rural Wastewater District borrowed \$2,500 from Henrietta Township in December 2001 for the start-up/organization of this entity. Timing of repayment is contingent upon availability of funds.	\$ 2,500	\$ -0-	\$ -0-	\$ 2,500
Lorain County Rural Wastewater District borrowed \$2,500 from Pittsfield Township in February 2001 for the start-up/organization of this entity. Timing of repayment is contingent upon availability of funds.	2,500	-0-	-0-	2,500
Lorain County Rural Wastewater District borrowed \$500 from Rochester Township in June 2001 for the start-up/organization of this entity. Timing of repayment is contingent upon availability of funds.	500	-0-	-0-	500
Lorain County Rural Wastewater District borrowed \$2,500 from South Amherst Village in October 2001 for the start-up/organization of this entity. Timing of repayment is contingent upon availability of funds.	2,500	-0-	-0-	2,500
Lorain County Rural Wastewater District borrowed \$500 from Kipton Village in March 2001 for the start-up/organization of this entity. Timing of repayment is contingent upon availability of funds.	500	-0-	-0-	500
Lorain County Rural Wastewater District borrowed \$2,500 from Huntington Township in January 2002 for the start-up/organization of this entity. Timing of repayment is contingent upon availability of funds.	2,500	-0-	-0-	2,500
	<u>2,500</u>	<u>-0-</u>	<u>-0-</u>	<u>2,500</u>
	<u>\$ 59,000</u>	<u>\$ 0-</u>	<u>\$ -0-</u>	<u>\$ 59,000</u>

As of December 31, 2011 and 2010, the District owed \$24,596 and \$23,712, respectively, in accrued interest to the Lorain Medina Rural Electric Cooperative, Inc.

Note 6. Deferred Tap Fee:

Per the cooperative agreement between Lorain County Rural Wastewater District (LORCO) and Avon Lake Municipal Utilities (ALMU) dated December 7, 2009, LORCO shall pay a tap fee of \$775,000 to ALMU contingent upon the certification of the system. This agreement was amended on September 15, 2011 and the project certification date was November 18, 2011. Therefore, the repayment of the tap fees will be \$100,000 on each of the fourth, fifth, sixth, seventh, eighth, ninth and tenth anniversaries of the certification date and \$75,000 on the eleventh anniversary.

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

Note 6. Deferred Tap Fee (Continued):

The tap fee allows LORCO to tap into the ALMU system. The expense will be recognized over the 40 year life of the cooperative agreement. LORCO will pay the fee using revenue generated from system development.

LORCO shall pay ALMU \$31,754 on each of the fourth, fifth and sixth anniversaries of the certification date in respect of the accumulated interest for deferring the tap fee by three years based on the Weighted Average Cost of Funds.

ALMU shall pay LORCO a monthly payment of \$15,000 commencing one month after the certification date and each month thereafter during the term.

Note 7. Insurance:

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

Note 8. Retirement Commitments:

A. Retirement 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 in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member-directed plan, members accumulate retirement assets equal to the value of the member and (vested) employer contributions plus any investment earnings; and the Combined Plan—a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the member-directed plan. OPERS provides retirement, disability, survivor, death benefits, annual cost-of-living adjustments 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. The plan includes a medical plan, a prescription drug program and Medicare part B premium reimbursement. Chapter 145 of the Ohio Revised Code assigns the authority to establish and

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

Note 8. Retirement Commitments (Continued):

A. Retirement Plans (Continued):

amend benefit provisions to the OPERS. OPERS issues a publicly available stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to 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.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

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 member and employer contributions. For 2011, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan. The rate set for employee contributions for 2011 and 2010 was 10.0%, and the employer contribution rate was 14.00% 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, 2011, 2010, and 2009, was \$11,396, \$16,421, and \$9,314, respectively. Contributions to the member directed plan was \$18,674, \$25,082, and \$8,874, for the years then ended December 31, 2011, 2010, and 2009, respectively.

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

Note 8. 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 Post Employment Benefit (OPEB) as described in GASB Statement No. 45. OPERS Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The employer contribution rate was 14.00% of covered payroll from January 1 through December 31, 2011 and 2010. For 2011, the portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0% and 5.50% from January 1 through February 28, 2010 and 5.00% from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% for 2011 and 4.73% from January 1 through February 28, 2010, and 4.23% from March 1 through December 31, 2010.

The employer contributions, made by Lorain County Rural Wastewater District, used to fund post employment benefits were \$3,400, \$5,343, and \$2,334, for the years ended December 31, 2011, 2010, and 2009, respectively. The employer contributions were 100% each year.

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. Member and employer contribution rates for state and local employers increased January 1 of each year from 2006 to 2008.

Note 9. 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, 2011 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, 2011 and 2010 was \$3,000. As of December 31, 2011 and December 31, 2010, the District owed \$34,600 and \$31,600 in accrued rent.

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

Note 10. Administrative Arrangements:

The District has retained the services of the Director of Economic and Community Development of Lorain-Medina Rural Electric Cooperative, Inc. (LMRE) 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 LMRE one-hundred percent of the LMRE cost of wages beginning March 1, 2009, benefits and any other charges or expenses on a monthly basis. The wage agreement with LMRE terminated June 30, 2009. As of December 31, 2011 and 2010, the District owed \$190,860 and \$190,860, respectively, in accrued administrative costs.

Note 11. Accountability and Financial Outlook:

For the fiscal years ended December 31, 2011 and 2010, Lorain County Rural Wastewater District had a net gain of \$256,536 and \$841,603, respectively, and an accumulated deficit of \$674,968 and \$931,504, 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 additional projects, beyond Phase I of the system being developed with the Avon Lake Municipal Utilities, and thereby repay the indebtedness from revenues derived from consumers utilizing the District's wastewater services.

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# Dave Yost • Auditor of State

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

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

To the Board of Trustees:

We have audited the financial statements of the business-type activities of the Lorain County Rural Wastewater District, Lorain County, Ohio, (the District) as of and for the years ended December 31, 2011 and December 31, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 26, 2012, wherein we noted the District accumulated deficits as of and for the years ended December 31, 2011 and December 31, 2010, 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 the purpose of expressing our opinions on the financial statements, but not for the purpose of opining 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-01 described in the accompanying schedule of findings to be a material weakness.

### **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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as item 2011-02 through 2011-04.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated December 26, 2012.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

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



**Dave Yost**  
Auditor of State

December 26, 2012



**LORAIN COUNTY RURAL WASTEWATER DISTRICT  
LORAIN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2011 AND DECEMBER 31, 2010**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2011-01**

**Effects on Financial Statements – Material Weakness**

Sound financial reporting is the responsibility of the Executive Director and the Board of Trustees and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The following weaknesses were noted and subsequent adjustments made to the financial statements:

1. Per a cooperative agreement, Avon Lake Municipal Utilities (ALMU) reimbursed LORCO for expenditures made related to the Phase I construction project. Likewise, services performed relating to the Phase I project, that have not been paid, were paid by ALMU. To book the reimbursement and the settlement of payables, entries were made to “Prior Period Adjustment” to remove the Phase I expenditures and payables from the books. However, the Avon Lake Municipal Utilities did not assume LORCO’s expenses or debt. Rather amounts related to the Phase I construction were paid or reimbursed by ALMU on behalf of LORCO. LORCO retained ownership of the expenses and liability. Entries should have been made to Intergovernmental Revenue when ALMU pays amounts on LORCO’s behalf. Three adjusting entries were made to Intergovernmental Revenue totaling \$411,826 in FY2011 and \$470,812 in FY2010.
2. Per review of invoices maintained by LORCO, year-end payables in total were understated by \$25,682 in 2011 and \$16,156 in 2010. Entries were made to increase the liability/expense.
3. Engineering payments made by ALMU against LORCO’s payables in 2010 was not recognized. Entries were made to book Intergovernmental Revenue and decrease the payable of \$544,731.
4. In 2010, a participant in LORCO’s VPP Program was given their \$1,000 deposit back when they could not build on the property. The deposit liability was not reduced by \$1,000. An entry was made to reduce the Deposit Liability and Tap Fee Refund Expense.
5. An entry was made in 2010 to record the forgiveness of debt in the year that LORCO was notified of the forgiveness. Notes payable in 2010 were reduced by \$8,000.
6. Entries were made by the District to accrue interest from LMRE rent and administrative payable. However, no evidence has been obtained to confirm that interest was charged from the rent and administrative liabilities. Entries were made to remove calculated accrued interest/interest expense of \$10,796 in 2011 and \$11,648 in 2010.
7. Compensated absence liability was incorrectly calculated. Compensated Absences calculations in 2010 and 2011 included the balances from the year before. This treatment of the liability would be correct only if no leave is taken throughout the year. However, in 2010, one employee was terminated and was compensated for their leave. The other employee used leave throughout the year. Additionally, the District’s calculation did not include sick leave. Because a limited amount of sick leave is due upon termination, regardless of retirement, it is a short-term liability that should be treated like vacation. In total, compensated absences was overstated by \$5,460 in 2011 and \$3,990 in 2010.

**LORAIN COUNTY RURAL WASTEWATER DISTRICT  
LORAIN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2011 AND DECEMBER 31, 2010**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2011-01 (Continued)**

**Effects on Financial Statements – Material Weakness (Continued)**

8. An entry in 2010 was made by the District to add cash receipts that were not in their ledgers. However, \$500 in tap fee assessments, received from Lorain County, was misclassified as Usage Fee Income. An entry was made to reduce Usage Fee Income and reduce the Tap Assessment Receivable, since the tap fee assessments were recognized as income in 2007.
9. An entry in 2011 was made by the District to properly classify tap fee assessments received from the county. However, the entry understated miscellaneous income by \$500. An adjusting entry of \$500 was made to increase miscellaneous income.
10. Miscellaneous income and miscellaneous expense in 2011 were overstated by a tap fee amounting to \$5,000 that belonged to ALMU. The tap fee was initially posted as Tap Fee Income. A payment was subsequently remitted to ALMU to correct the error. The payment should have been posted as a negative receipt on LORCO's ledgers, so that income and expenses would not be improperly inflated. An entry was made to reduce these line items by \$5,000.
11. Because of the condition of LORCO's ledgers in 2011, the Executive Director's Cash Flow and Deferral spreadsheet was relied upon, rather than the financial ledgers. In it, the Executive Director posted that \$13,716 was the ending "book" balance for the First Merit checking account. The balance of the First Merit checking account at year-end was \$15,442. Therefore, \$1,726 was outstanding at year-end. The financial statements reported a cash balance that did not include the expenditure for the amounts outstanding. Therefore, cash balances were overstated by \$1,726. An entry was made to reduce 2011 cash balances.

The lack of controls over the posting of financial transactions and financial reporting and footnote disclosure resulted in material errors and irregularities that went undetected and decreases the reliability of financial data throughout the year.

Although the District has contracted with a third party to perform their GAAP conversion, we recommend that the District's management become more familiar with the contents of their financial statements to be sure all items are being properly recognized and recorded at year-end.

**Officials' Response:**

Items: 1, 3 – The nature of the Cooperative Agreement and the complexities of the intergovernmental payments caused many entries to be applied under different circumstances. After a review with the State Auditors these items were restated and are now in conformance with the requirements.

Items: 2, 4, 5, 6, 7, 8, 9, 10 and 11 – all of these items have been addressed and restated properly.

**LORAIN COUNTY RURAL WASTEWATER DISTRICT  
LORAIN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2011 AND DECEMBER 31, 2010**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2011-02**

**Certification of Availability of Funds - Material Noncompliance**

**Ohio Rev. Code Section 5705.28 (B)(2)** permits a comparable, but somewhat streamlined budget process for governments that do not levy taxes. Ohio Rev. Code Section 5705.28(B)(2) requires entities to follow Sections 5705.36, .38, .40, .41, .43, .44, and .45. Therefore, the District is required to follow Ohio Revised Code Section 5705.41 (D).

Ohio Revised Code Section 5705.41(D), provides that no subdivision or taxing authority shall make any contract or give any order involving the expenditure of money unless there is attached a certificate of the fiscal officer certifying that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in Sections 5705.41 (D)(1) and 5705.41 (D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" Certificate** - If the fiscal officer can certify that both at the time the contract or order was made ("then"), and at the time the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the District can authorize the drawing of a warrant for the payment of the amount due. The District has 30 days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution. Amounts less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.
2. **Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not extended beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

**LORAIN COUNTY RURAL WASTEWATER DISTRICT  
LORAIN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2011 AND DECEMBER 31, 2010**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2011-02 (Continued)**

**Certification of Availability of Funds - Material Noncompliance (Continued)**

One other exception that could apply to the District is related to payments made from the earnings of a public utility, which are exempted from the certification (and encumbering) requirements of Ohio Rev. Code Section 5705.41(D). However, these payments would still subject to the requirements of Ohio Rev. Code Section 5705.41(B).

The District did not receive significant earnings from public utilities to exempt them from the certification (and encumbering requirements) for the audit period.

During 2011, nine out of twelve (75 percent) of the expenditures tested for compliance were not certified by the District. Further, one out of three (33 percent) "then and now" certificates issued by the District and tested for compliance, was greater than \$3,000 and was not approved for "then and now" payment by resolution by the Board.

The practice above could lead to possible budgetary violations over disbursing more than appropriated.

We recommend that the District modify their procurement process to include the utilization of the "then and now" certificates for all of expenditures. The "then and now" certificates should be certified by the Executive Director, prior to or at the time that the contract or order is made. If the expenditure is \$3,000 and greater, the "then and now" certificates should be also be certified by the President and Vice President, prior to or at the time that the contract or order is made. The District must complete the "then and now" certificates within 30 days of payment. Further, if a "then and now" certificate is greater than or equal to \$3,000, the Board must approve payment of the "then and now" certificate by resolution.

**Officials' Response:**

The use of Then and Now certificates was sporadic because the LORCO Bookkeeper resigned in 2010. LORCO did not replace her and used contracted bookkeeping services through their Landlord, Lorain-Medina Rural Electric. Their bookkeeper was not familiar with the requirement of Then and Now Certificates or Purchase Orders. The Executive Director takes full responsibility for the lack of controls and is will be implementing a Purchase Order system in 2013 to eliminate this deficiency.

**FINDING NUMBER 2011-03**

**Incompatibility of Offices – Material Noncompliance**

**1984 Op. Atty. Gen. No. 84-059** states, ". . . because the township trustees select the members of the board of trustees of the regional water and sewer district, the township trustees may not themselves serve as members of such board. . . . The position of township trustee and trustee of a water and sewer district established pursuant to R.C. Chapter 6119 are incompatible."

**LORAIN COUNTY RURAL WASTEWATER DISTRICT  
LORAIN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2011 AND DECEMBER 31, 2010**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2011-03 (Continued)**

**Incompatibility of Offices – Material Noncompliance (Continued)**

Two positions are considered incompatible if one is subordinate to or a check upon the other, or if an individual serving in both positions would be subject to a conflict of interest. Because a sewer district may regulate the actions of a township with respect to the use of the district's projects and the use and distribution of the water supply, the district trustees act as a check upon the township trustees.

Further, a person who serves as a district trustee and township trustee could be called upon to represent the interests of both the township and sewer district during a particular transaction and thus be subject to a conflict of interest.

Of the 16 trustee members, 10 LORCO trustees are also township trustees in their townships of residence of the communities they represent. Serving as a District trustee and township trustee subjects them to interest conflicts because they are called upon to represent the interests of both the township and the District.

We recommend the member townships appoint a representative to the Board of Trustees who is a resident of the Township, but not a Township Trustee in accordance with 1984 Op. Atty. Gen. No. 84-059.

**Official's Response:**

LORCO Administrative Manual ARTICLE I, Section 1. States:

ARTICLE I. Membership.

Section 1. As Amended August 12, 2004

Persons shall be appointed to the Board of Trustees of the LORCO Rural Wastewater District according to the terms of the Petition to establish the District, and according to the amendment of such Petition by Court Entry dated February 4, 1997, and according to the terms of any amendments of such Petition which may occur in the future. All persons so appointed shall become Board members of the LORCO Rural Wastewater District, including those alternate members appointed to serve in the event of occasional or temporary absences of a regular appointed member, whether said appointment is to a position on the first Board, or whether said appointment is to fill the unexpired term of a Board member, or whether said appointment is to fill a Board position upon expiration of the regular term of a Board member.

The Petition to Establish the District states:

Section 6) A) (i): The Township Trustees of each Township, by majority vote, shall select and appoint one representative to serve on the District Board of Trustees. Such District Board Member must be a resident of the Township which appoints such Board Member.

Section 6) A) (ii): The Village Council of each Village, by majority vote, shall select and appoint one representative to serve on the District Board of Trustees. Such District Board Member must be a resident of the Village which appoints such Board Member.

**LORAIN COUNTY RURAL WASTEWATER DISTRICT  
LORAIN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2011 AND DECEMBER 31, 2010**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2011-03 (Continued)**

**Incompatibility of Offices – Material Noncompliance (Continued)**

The Lorain County Rural Wastewater District does not appoint the Trustees who represent the communities we serve. This decision is made by the Townships and the Villages.

In 2012 the Ohio Township Trustees Association lobbied the state legislature concerning this issue and the result was Amended HB 509 which amends ORC Section 505.012 and ORC Section 6119.02 and allows trustees to serve on 6119 boards. This law does not absolve them of conflicts on voting for specific projects that would directly affect their communities.

**Auditor of State Conclusion:** We agree this 2012 amendment to the ORC will permit LORCO to retain its existing appointment method if the trustees abstain when a vote affects their township of residence.

**FINDING NUMBER 2011-04**

**Conflict of Interest – Material Noncompliance**

**Ohio Rev. Code Section 2921.42 (A)** states that no public official shall knowingly do any of the following:

1. Authorize, or employ authority or influence of the public official's office to secure authorization of any public contract in which the public official, a member of the public official's family, or any of the public official's business associates has an interest;
2. Authorize, or employ the authority or influence of the public official's office to secure the investment of public funds in any share, bond, mortgage, or other security, with respect to which the public official, a member of the public official's family, or any of the public official's business associates either has an interest, is an underwriter, or receives any brokerage, origination, or servicing fees;
3. During the public official's term of office or within one year thereafter, occupy any position of profit in the prosecution of a public contract authorized by the public official or by a legislative body, commission, or board of which the public official was a member at the time of authorization, unless the contract was let by competitive bidding to the lowest and best bidder;
4. Have an interest in the profits or benefits of a public contract entered into by or for the use of the political subdivision or governmental agency or instrumentality with which the public official is connected;

A vote was taken by the LORCO Board of Trustees on April 23, 2009, to approve various construction contracts involving the installation of new sewer lines in Carlisle Township and Eaton Township. The Minutes indicate the Carlisle Township Trustee was not in attendance during this meeting. However, the Trustee from Eaton Township, was present at the meeting and participated in the voting. This poses a conflict of interest issue.

A contractual agreement was made with Avon Lake Municipal Utilities (ALMU), to take over several projects from LORCO, when LORCO was having difficulties securing funds. The December 2009 Resolution to approve this agreement was passed unanimously by the LORCO Trustees in attendance, including a Trustee who was employed by ALMU five months earlier. The District and other LORCO Trustees were not aware of his employment with ALMU. The Trustee subsequently resigned as a LORCO Trustee on January 15, 2010.

**LORAIN COUNTY RURAL WASTEWATER DISTRICT  
LORAIN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2011 AND DECEMBER 31, 2010**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2011-04 (Continued)**

**Conflict of Interest – Material Noncompliance (Continued)**

On May 13, 2010 the LORCO Board of Trustees voted and adopted Resolution No. 2010-09 which authorized the President of the Board and the Executive Director to enter into and execute loan agreements with Lorain-Medina Rural Electric (LMRE) Cooperative, Inc. In this case, a Board Member of the District also served as a Board Member of LMRE. This poses a conflict of interest issue.

Without an effective process for identifying and monitoring potential conflicts, the possibility of misuse or improper influence over purchasing or receipting is increased at the District.

The Board of Trustees must reiterate that when a Board of Trustees approves a contract, each member of the Board, which may have a conflict of interest, needs to abstain from the discussion or vote on the contract. Additionally, the District should have Trustees complete an annual conflict of interest form annually. The conflict of interest form should ask the Trustee to list their current employers and other pertinent information.

**Officials' Response:**

When both of these votes were taken it was our understanding the LORCO legal counsel advised the board member to abstain from voting on both issues. The trustee acted independently and created the conflict. This issue was examined by the Ohio Ethics Commission. LORCO has not been notified of their findings.

**LORAIN COUNT RURAL WASTEWATER DISTRICT  
LORAIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2011 AND DECEMBER 31, 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2010-01	Effects on Financial Statements – Material Weakness – Several reporting weaknesses were noted and adjustments were made to the financial statements.	No	Not Corrected. Reissued as Schedule of Findings item 2011-01.
2010-02	Certification of Availability of Funds – Material Noncompliance – Purchase order transactions tested were not certified by the Executive Director at the time the commitment was incurred. Also where “then and now” certificates were used and were over \$3,000, there was not a separate resolution in the Minutes for their approval.	No	Not Corrected. Reissued as Schedule of Findings item 2011-02.
2010-03	Incompatibility of Offices – Material Noncompliance – Two positions are considered incompatible if one is subordinate to or a check upon the other, or if an individual serving in both positions would be subject to a conflict of interest.	No	Not Corrected. Reissued as Schedule of Findings item 2011-03.



**LORAIN COUNT RURAL WASTEWATER DISTRICT  
LORAIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2011 AND DECEMBER 31, 2010  
(Continued)**

2010-04	Conflict of Interest – Material Noncompliance – (1) the approval of various construction contracts involved the vote of a Board Member who also was a Board Member in the Township which involved the construction contract, and (2) a contractual agreement between the District and Avon Lake Municipal Utilities (ALMU). A Board of Trustee Member, who participated in the approval of the agreement was also an employee of ALMU.	No.	Not Corrected. Reissued as Schedule of Findings item 2011-04
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# Dave Yost • 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 8, 2013