



Dave Yost • Auditor of State

**LORAIN COUNTY RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statements of Net Assets – Proprietary Fund December 31, 2010 and 2009	7
Statements of Revenues, Expenses and Changes in Net Assets – Proprietary Fund For the Years Ended December 31, 2010 and 2009	9
Statement of Cash Flows – Proprietary Fund For the Years Ended December 31, 2010 and 2009	11
Notes to the Basic Financial Statements	13
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	27
Schedule of Findings	29
Schedule of Prior Audit Findings	36

This page intentionally left blank.



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, 2010 and December 31, 2009, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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, 2010 and December 31, 2009, 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 10 to the financial statements, the District has accumulated deficits of \$931,504 and \$1,773,107, as of and for the years ended December 31, 2010 and December 31, 2009, 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 10 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 "D" and "Y".

Dave Yost
Auditor of State

December 26, 2012

LORAIN COUNTY RURAL WASTEWATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2010 and 2009

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 \$931,504 at year end 2010.

The District's net assets increased by \$841,603 (47.5%) in 2010.

The District had an increase in Operating Revenues of \$1,799 (11.9%). Operating Expenses decreased \$561,655 (-75.6%) in 2010.

The District recorded \$1,015,542 and \$2,216,786 of Intergovernmental revenue in 2010 and 2009, 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 1, Summary of Significant Accounting Policies. The Basic Financial Statements are presented using the accrual basis of accounting as further described in the above-mentioned note.

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

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

The **Statement of Cash Flows** provides information about the District's cash receipts and 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, 2010 and 2009

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 2010, ALMU spent a significant amount of the year installing sanitary sewers in parts of Eaton Township and parts of Carlisle Township. In addition, the installation of the thirteen mile transmission line to carry the wastewater to the Avon Lake Pollution Control Center was begun.

Also, in 2010 a majority of the outstanding construction easements from private property owners were acquired. The District Board of Trustees also responded to legal challenges from the City of Elyria and Eaton Township. In both cases the District prevailed on these challenges and the project continued to move forward.

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. By year end approximately 85% of the collection system and 60% of the transmission system had been completed. These project costs are recorded and capitalized at ALMU.

Beginning late 2011, the District will begin receiving a monthly check from ALMU for their portion of waste collection.

NET ASSETS

Table 1 summarizes the Net Assets of the District.

	2010	2009	2008	2010 vs 2009		2009 vs 2008	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Current and other assets	\$ 47,119	\$ 754,270	\$ 77,298	\$ (707,151)	-93.8%	676,972	875.8%
Capital assets	32,091	34,079	28,646	(1,988)	-5.8%	5,433	19.0%
Total assets	79,210	788,349	105,944	(709,139)	-90.0%	682,405	644.1%
Current and other liabilities	951,714	2,481,956	3,158,306	(1,530,242)	-61.7%	(676,350)	-21.4%
Long-term liabilities - debt	59,000	79,500	79,500	(20,500)	-25.8%	0	0.0%
Total liabilities	1,010,714	2,561,456	3,237,806	(1,550,742)	-60.5%	(676,350)	-20.9%
Invested in capital assets	32,091	34,079	28,646	(1,988)	-5.8%	5,433	19.0%
Unrestricted	(963,595)	(1,807,186)	(3,160,508)	843,591	46.7%	1,353,322	42.8%
Total Net Assets	\$ (931,504)	\$ (1,773,107)	\$ (3,131,862)	\$ 841,603	47.5%	\$ 1,358,755	43.4%

LORAIN COUNTY RURAL WASTEWATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2010 and 2009

NET ASSETS (Continued)

The District's Net Assets increased \$841,603 (47.5%) and \$1,358,755 (43.4%) in 2010 and 2009, 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

	2010	2009	2008	2010 vs 2009		2009 vs 2008	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Operating revenue	\$ 16,945	\$ 15,146	\$ 15,268	\$ 1,799	11.9%	\$ (122)	-0.8%
Operating expenses	180,659	742,147	288,728	(561,488)	-75.7%	453,419	157.0%
Depreciation expenses	900	1,067	1,051	(167)	-15.7%	16	1.5%
Total expenses	181,559	743,214	289,779	(561,655)	-75.6%	453,435	156.5%
Operating loss	(164,614)	(728,068)	(274,511)	563,454	77.4%	(453,557)	-165.2%
Nonoperating revenue	1,036,381	2,216,916	85	(1,180,535)	-53.3%	2,216,831	2608036.5%
Nonoperating expenses	30,164	130,093	127,355	(99,929)	-76.8%	2,738	2.1%
Nonoperating loss	1,006,217	2,086,823	(127,270)	(1,080,606)	-51.8%	2,214,093	-1739.7%
Change in net assets	841,603	1,358,755	(401,781)	(517,152)	-38.1%	1,760,536	438.2%
Beginning net assets	(1,773,107)	(3,131,862)	(2,730,081)	1,358,755	43.4%	(401,781)	-14.7%
Ending net assets	<u>\$ (931,504)</u>	<u>\$ (1,773,107)</u>	<u>\$ (3,131,862)</u>	<u>\$ 841,603</u>	47.5%	<u>\$ 1,358,755</u>	43.4%

Total Operating Expenses decreased/increased \$561,655 (-75.6%) and \$453,435 (156.5%) in 2010 and 2009, respectively, with the majority of the decrease/increase due to legal and professional fees and engineering.

CAPITAL ASSETS

The District had a decrease/increase of \$1,088 (-2.8%) and \$6,500 (20.0%) in Capital Assets (before depreciation) at the end of 2010 and 2009, respectively, as shown in Table 3.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2010 and 2009

CAPITAL ASSETS (Continued)

TABLE 3

	2010	2009	2008	2010 vs 2009		2009 vs 2008	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Land and easements	\$ 10,012	\$ 11,100	\$ 4,600	\$ (1,088)	-9.8%	\$ 6,500	141.3%
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	38,954	32,454	(1,088)	-2.8%	6,500	20.0%
Accumulated depreciation	(5,775)	(4,875)	(3,808)	(900)	18.5%	(1,067)	28.0%
Total capital assets, net	<u>\$ 32,091</u>	<u>\$ 34,079</u>	<u>\$ 28,646</u>	<u>\$ (1,988)</u>	<u>-5.8%</u>	<u>\$ 5,433</u>	<u>19.0%</u>

DEBT

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

TABLE 4

	2010	2009	2008	2010 vs 2009		2009 vs 2008	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Notes payable	\$ 59,000	\$ 79,500	\$ 79,500	\$ (20,500)	-25.8%	\$ -	0.0%
Total long-term debt	59,000	79,500	79,500	(20,500)	-25.8%	-	0.0%
Non-current liabilities	<u>\$ 59,000</u>	<u>\$ 79,500</u>	<u>\$ 79,500</u>	<u>(20,500)</u>	<u>-25.8%</u>	<u>\$ -</u>	<u>0.0%</u>

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. The loan is secured by the District's ability to make assessments to property owners.

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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 30,119	\$ 32,660
Due from Avon Lake Municipal Utilities	-	703,610
Non-Current Assets:		
Accounts receivable - Tap assessment	17,000	18,000
Capital assets: (Note 2)		
Non-Depreciable capital assets, net	10,012	11,100
Depreciable capital assets, net	22,079	22,979
	<u>32,091</u>	<u>34,079</u>
Total Assets	<u>\$ 79,210</u>	<u>\$ 788,349</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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	444,330	\$ 1,308,740
Accrued payroll	6,069	3,090
Compensated absences payable	8,501	1,920
Accrued interest	24,488	50,281
Note payable - Line of credit (Note 4)	444,326	1,092,925
Total current liabilities	<u>927,714</u>	<u>2,456,956</u>
Non-Current Liabilities: (Note 5)		
Notes payable	59,000	79,500
Total non-current liabilities	<u>59,000</u>	<u>79,500</u>
Other Liabilities:		
Deposits	24,000	25,000
Total Liabilities	<u>1,010,714</u>	<u>2,561,456</u>
NET ASSETS		
Investment in Capital Assets	32,091	34,079
Unrestricted deficit	(963,595)	(1,807,186)
Total net assets	<u>(931,504)</u>	<u>(1,773,107)</u>
Total Liabilities and Net Assets	<u>\$ 79,210</u>	<u>\$ 788,349</u>

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

For the Years Ended December 31, 2010 and 2009

	2010	2009
OPERATING REVENUE		
Usage fee income	\$ 16,945	\$ 15,146
Total operating revenue	16,945	15,146
OPERATING EXPENSES		
Administration expense	-	68,191
Bank fees	2,009	737
Computer expense	505	309
Consulting expense	842	7,000
Depreciation expense	900	1,067
Dues and subscriptions	310	335
Easements	-	3,859
Engineering expense	2,053	282,497
Insurance	8,996	10,634
Legal and professional fees	10,319	298,074
License and permits	-	1,184
Mileage expense	1,775	1,621
Miscellaneous expense	1,524	-
Office supplies and expense	3,168	4,806
O.P.E.R.S.	16,421	9,314
Payroll taxes	2,712	1,372
Postage expense	1,313	835
Building rent	3,000	3,000
Telephone	731	988
Wages - Office	119,963	43,071
Wastewater treatment	5,018	4,320
Total operating expenses	181,559	743,214
Operating loss	(164,614)	(728,068)
NON-OPERATING REVENUES		
Debt forgiveness	20,500	-
Interest income	26	26
Intergovernmental revenue	1,015,542	2,216,786
Miscellaneous income	313	104
Total non-operating revenues	1,036,381	2,216,916
NON-OPERATING EXPENSES		
Asset transfer loss	-	4,780
Interest expense	30,164	125,313
Tap fee refund	-	-
Total non-operating expenses	30,164	130,093

(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)

For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CHANGES IN NET ASSETS	841,603	1,358,755
BEGINNING NET ASSETS	<u>(1,773,107)</u>	<u>(3,131,862)</u>
ENDING NET ASSETS	<u>\$ (931,504)</u>	<u>\$ (1,773,107)</u>

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

LORAIN COUNTY RURAL WASTEWATER DISTRICT

STATEMENTS OF CASH FLOWS - PROPRIETARY FUND

For the Years Ended December 31, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from usage fees	\$ 16,945	\$ 15,146
Cash received from tap fee assessment	1,000	1,000
Cash paid to employees, professional contractors and suppliers for services and benefits	(261,902)	(86,734)
Net cash used for operating activities	(243,957)	(70,588)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Cash received for easement refunds	1,088	-
Cash received for late fee	313	104
Cash paid for tap fee refund	(1,000)	-
Net cash provided by non-capital financing activities	401	104
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property and equipment, net	-	(11,280)
Borrowings on line of credit	248,687	56,100
Interest paid on debt	(7,698)	-
Net cash provided by capital and related to financing activities	240,989	44,820
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest earned	26	26
Net cash provided by investing activities	26	26
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,541)	(25,638)
CASH AND CASH EQUIVALENTS - Beginning of year	32,660	58,298
CASH AND CASH EQUIVALENTS - End of year	\$ 30,119	\$ 32,660

(continued)

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

LORAIN COUNTY RURAL WASTEWATER DISTRICT

STATEMENTS OF CASH FLOWS - PROPRIETARY FUND (continued)

For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (164,614)	\$ (728,068)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:		
Depreciation	900	1,067
Change in assets:		
Accounts receivable	1,000	1,000
Change in liabilities:		
Accounts payable	(90,803)	652,553
Accrued expenses	9,560	2,860
Net cash used for operating activities	<u>\$ (243,957)</u>	<u>\$ (70,588)</u>

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

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

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, 2010 and 2009

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, consists 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, 2010 and December 31, 2009 the District reported a deficit of \$963,595 and \$1,807,186 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 non-operating.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

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, 2010 and 2009 was \$900 and \$1,067, respectively.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

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, 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
	38,954	-	1,088	37,866
Less accumulated depreciaton				
Tanks, stations, and lines	(1,356)	(595)		(1,951)
Furniture and fixtures	(3,519)	(305)	-	(3,824)
Total accumulated depreciation	(4,875)	(900)	-	(5,775)
Net capital assets	\$ 34,079	\$ (900)	\$ 1,088	\$ 32,091

A summary of changes in capital assets for the year ended December 31, 2009 is as follows:

	Balance January 1, 2009	Additions	Deletions	Balance December 31, 2009
Land and easements	\$ 4,600	\$ 11,280	\$ 4,780	\$ 11,100
Tanks, stations, and lines	23,825	-	-	23,825
Furniture and fixtures	4,029	-	-	4,029
	32,454	11,280	4,780	38,954
Less accumulated depreciaton				
Tanks, stations, and lines	(761)	(595)		(1,356)
Furniture and fixtures	(3,047)	(472)	-	(3,519)
Total accumulated depreciation	(3,808)	(1,067)	-	(4,875)
Net capital assets	\$ 28,646	\$ 10,213	\$ 4,780	\$ 34,079

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, 2010 and 2009

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 2010 and 2009, 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, 2010 and 2009

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, 2010, the District had \$200 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 \$29,919 and \$32,460 and the bank balance was \$33,689 and \$32,460, respectively. The bank balance was covered by federal depository insurance provided by the Federal Deposit Insurance Corporation (FDIC) or collateralized by the financial institution's public entity deposit pool. Although securities were held by the pledging financial institutions trust department or agent in the District's name and all Ohio Revised Code requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

The District had no investments at December 31, 2010 and 2009, respectively.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

Note 4. Short-Term Liabilities:

Description	Balance January 1, 2009	Additions	Deletions	Balance December 31, 2010
<p>A line-of-credit in the amount of \$500,000, with \$111,674 unused in 2010 and \$2,125,000 with \$1,008,480 unused in 2009, 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 and 2009 was 4.2575% and 6.7%, respectively. The line-of-credit requires one principal payment and accrued interest due on July 31, 2011. The District accrued interest of \$1,378 and \$3,865 to be paid in fiscal years 2010 and 2009, respectively.</p>	\$ 1,916,150	\$ 732,275	\$ 2,260,099	\$ 388,326
<p>A line-of-credit with \$56,000 used, 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, 2010 was 3.31%. 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 \$402.</p>	<div style="text-align: center;">-0-</div> <div style="text-align: right;">\$ 1,916,150</div>	<div style="text-align: center;">56,000</div> <div style="text-align: right;">\$ 788,275</div>	<div style="text-align: center;">-0-</div> <div style="text-align: right;">\$ 2,260,099</div>	<div style="text-align: center;">56,000</div> <div style="text-align: right;">\$ 444,326</div>

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

Note 5. Non-Current Liabilities:

A summary of non-current liabilities debt for the period January 1, 2009 through December 31, 2010, is as follows:

Description	Balance January 1, 2009	Additions	Deletions	Balance December 31, 2010
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 \$10,000 from Eaton Township in March 1997 and \$5,500 in January 2001 for the start-up/organization of this entity. In 2010, \$15,500 of debt was forgiven. Timing of repayment is contingent upon availability of funds.	15,500	-0-	15,500	-0-
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 \$5,000 from Lorain County General Health District in March 1997 for the start-up/organization of this entity. In 2010, \$5,000 of debt was forgiven. Timing of repayment is contingent upon availability of funds.	5,000	-0-	5,000	-0-
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, 2010 and 2009

Note 5. Non-Current Liabilities (Continued):

Description	Balance January 1, 2009	Additions	Deletions	Balance December 31, 2010
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>\$ 79,500</u>	<u>\$ -0-</u>	<u>\$ 20,500</u>	<u>\$ 59,000</u>

As of December 31, 2010 and 2009, the District owed \$23,712 and \$22,827, respectively, in accrued interest to the Lorain Medina Rural Electric Cooperative, Inc.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

Note 6. Insurance:

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

Note 7. Retirement Commitments:

A. Defined Benefit Pension Plans:

Lorain County Rural Wastewater District contributes to the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer defined benefit pension plan operated by the State of Ohio. OPERS administers three separate pension plans: the Traditional Pension Plan—a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan 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 amend benefit provisions to the OPERS. OPERS issues a publicly available stand-alone financial report. Interested parties may obtain a copy by writing to the OPERS at 277 East Town Street, Columbus, Ohio 43215-4642 or calling (614) 222-5601 or 1-800-222-PERS (7377). The State of Ohio accounts for the activities of the Retirement System, and the amount of that fund is not reflected in the accompanying financial statements.

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.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

Note 7. Retirement Commitments (Continued):

A. Defined Benefit Pension Plans (Continued):

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

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2010, 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 2010 and 2009 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, 2010, 2009, and 2008, was \$16,421, \$9,314, and \$7,395, respectively. Contributions to the member directed plan was \$25,082, \$8,874, and \$7,395, for the years then ended December 31, 2010, 2009, and 2008, respectively.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

Note 7. Retirement Commitments (Continued):

B. Post-Employment Benefits:

The Ohio Public Employees Retirement System provides post-retirement health care coverage to age-and-service retirees with ten or more years of qualifying Ohio service credits. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 45. OPERS Post Employment Health Care plans 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, 2010 and 2009. For 2010, the portion of employer contributions allocated to health care for members in the Traditional Plan was 5.50% from January 1 through February 28, 2010 and 5.00% from March 1 through December 31, 2010, and 7.00% from January 1 through March 31, 2009 and 5.5% from April 1 through December 31, 2009. The portion of employer contributions allocated to health care for members in the Combined Plan was 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 \$5,343, \$2,334, and \$3,697, for the years ended December 31, 2010, 2009, and 2008, 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 8. Leasing Arrangements:

The District leases office space from Lorain-Medina Rural Electric Cooperative, Inc. This lease is for a one-year period ending December 31, 2010 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, 2010 and 2009 was \$3,000 and \$3,000, respectively. As of December 31, 2010 and December 31, 2009, the District owed \$31,600 and \$28,600 in accrued rent.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

Note 9. Administrative Arrangements:

The District has retained the services of the Director of Economic and Community Development of Lorain-Medina Rural Electric Cooperative, Inc. (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, 2010 and 2009, the District owed \$190,860 and \$442,946, respectively, in accrued administrative costs.

Note 10. Accountability and Financial Outlook:

For the fiscal years ended December 31, 2010 and 2009, Lorain County Rural Wastewater District had net gain of \$841,603 and \$1,358,755, respectively, and an accumulated deficit of \$931,504 and \$1,773,107, respectively. The accumulated deficit is 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.

This page intentionally left blank.



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, 2010 and December 31, 2009, 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, 2010 and December 31, 2009, 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 2010-01 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 items 2010-02 through 2010-04.

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, 2010 AND DECEMBER 31, 2009**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
--

FINDING NUMBER 2010-01

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. Adjusting entries were made to Intergovernmental Revenue totaling \$470,812 in 2010 and \$2,084,753 in 2009.
2. Similar to the above adjustment, Phase I payables and the related expenses accrued during the year were reversed to remove them from the books. An adjustment was made to correct the reversing entries, which in total, increased reversed payables and expenses by \$576,778 in 2009.
3. Per review of invoices maintained by LORCO, year-end payables in total were understated by \$16,156 in 2010 and \$3,335 in 2009. Entries were made to increase the liability/expense.
4. 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.
5. 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.
6. 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.
7. In 2009, the District made entries to increase interest and administrative expenses totaling \$132,034 to offset the “Due from ALMU Receivable.” The proper offset should have been to Intergovernmental Revenue. An adjusting entry was made to increase Intergovernmental Revenue by \$132,034 and to reverse the expenditure entries made by the District.
8. Interest accrued at 12/12/09 amounting to \$23,590 was incorrectly added to the principal balance of the First Merit Line-of-Credit. An entry was made to remove the accrued interest from the Note Payable balance and increase accrued interest.
9. 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 \$11,648 in 2010 and \$10,457 in 2009.

**LORAIN COUNTY RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2010 AND DECEMBER 31, 2009**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
--

FINDING NUMBER 2010-01 (Continued)

Effects on Financial Statements – Material Weakness (Continued)

10. Compensated absence liability was incorrectly calculated. The calculation in 2009 included more leave than what was actually earned. Compensated Absences calculations in 2010 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 \$3,990 in 2010 and \$4,032 in 2009.
11. 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.

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, 2, 4, 7 – 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: 3, 5, 6, 8, 9, 10 and 11 – all of these items have been addressed and restated properly.

FINDING NUMBER 2010-02

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).

**LORAIN COUNTY RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2010 AND DECEMBER 31, 2009**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
--

FINDING NUMBER 2010-02 (Continued)

Certification of Availability of Funds - Material Noncompliance (Continued)

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.

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.

**LORAIN COUNTY RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2010 AND DECEMBER 31, 2009**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
--

FINDING NUMBER 2010-02 (Continued)

Certification of Availability of Funds - Material Noncompliance (Continued)

During 2009, two out of 24 (eight percent) tested "then and now" certificates were greater than 30 days, were greater than \$3,000, and were not approved for "then and now" payment by resolution by the Board. Certification of Availability of Funds. Additionally in 2009, one out of 24 (four percent) expenditures tested for compliance was not certified by the District. During 2010, for the most part, the District discontinued the practice of certifying expenditures, which resulted in 13 out of 21 (62 percent) expenditures tested for compliance were not certified by the District.

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.

Official's 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 2010-03

Incompatibility of Office – 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."

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.

**LORAIN COUNTY RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2010 AND DECEMBER 31, 2009**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
--

FINDING NUMBER 2010-03 (Continued)

Incompatibility of Office – Material Noncompliance (Continued)

Of the 16 trustee members, 10 LORCO trustees are also township trustees in their township 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.

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.

**LORAIN COUNTY RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2010 AND DECEMBER 31, 2009**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
--

FINDING NUMBER 2010-04

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.

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.

**LORAIN COUNTY RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2010 AND DECEMBER 31, 2009**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2010-04 (Continued)

Conflict of Interest – Material Noncompliance (Continued)

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, 2010 AND DECEMBER 31, 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2008-001	Material Noncompliance – Incompatibility of Offices – 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 2010-03.



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