



**Auditor of State
Betty Montgomery**

**LORCO RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

TABLE OF CONTENTS

Title	Page
Independent Accountants' Report	1
Balance Sheets as of December 31, 2002 and 2001	3
Statements of Revenues, Expenses and Changes in Accumulated Deficits as of December 31, 2002 and 2001	4
Statements of Cash Flows as of December 31, 2002 and 2001	5
Notes to the Financial Statements	7
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	17
Schedule of Findings	19

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

We have audited the accompanying financial statements of the LORCO Rural Wastewater District, Lorain County, Ohio, (the District) as of and for the years ended December 31, 2002 and December 31, 2001. 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 audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the LORCO Rural Wastewater District, Lorain County, Ohio, as of December 31, 2002 and December 31, 2001, and the results of its operations and the cash flows of its proprietary fund for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 7 to the financial statements, the District has incurred net losses of \$118,623 and \$85,332 and has accumulated deficits of \$575,633 and \$457,010, for the years ended December 31, 2002 and December 31, 2001, respectively. The District has relied on debt borrowings to pay its obligations as they come due. Management's strategy in regard to these matters is described in Note 7 to the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

May 12, 2003

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361
www.auditor.state.oh.us

This page intentionally left blank.

**LORCO RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

BALANCE SHEETS

December 31, 2002 and 2001

ASSETS

	2002	2001
CURRENT ASSETS: (Note 1)		
Cash and cash equivalents	\$ 993	\$ 3,330
 PROPERTY, PLANT, AND EQUIPMENT, AT COST:		
Furniture and fixtures	1,396	1,396
Less: Accumulated depreciation	(1,184)	(985)
	212	411
 TOTAL ASSETS	\$ 1,205	\$ 3,741

LIABILITIES AND ACCUMULATED DEFICITS

LIABILITIES:		
Accounts payable	230,166	128,722
Accrued interest	67,345	55,202
Notes Payable	279,327	276,827
TOTAL LIABILITIES	576,838	460,751
 ACCUMULATED DEFICITS	(575,633)	(457,010)
TOTAL LIABILITIES AND ACCUMULATED DEFICITS	\$ 1,205	\$ 3,741

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

**LORCO RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN ACCUMULATED DEFICITS

December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
REVENUES:		
Charges for Services	\$ 5,000	\$ -
TOTAL REVENUES	<u>5,000</u>	<u>-</u>
OPERATING EXPENSES:		
Administration expense	21,274	20,406
Advertising expense	95	0
Bank fees	110	66
Committee meeting expense	0	60
Depreciation expense	199	199
Dues and subscriptions	50	100
Engineering expense	43,766	20,109
Insurance	500	500
Interest expense	12,142	19,544
Legal and professional fees	39,235	19,505
Loan fees	699	0
Mileage expense	1,135	848
Office supplies and expense	860	480
Postage expense	583	474
Building rent	2,400	2,400
Telephone	575	641
TOTAL OPERATING EXPENSES	<u>123,623</u>	<u>85,332</u>
NET LOSS	(118,623)	(85,332)
ACCUMULATED DEFICITS, JAN 1	<u>(457,010)</u>	<u>(371,678)</u>
ACCUMULATED DEFICITS, DEC 31	<u>\$ (575,633)</u>	<u>\$ (457,010)</u>

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

**LORCO RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

STATEMENTS OF CASH FLOWS

December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	\$(118,623)	\$ (85,332)
Adjustments to reconcile net loss from operations to net cash provided by operating activities:		
Depreciation	199	199
Increase in:		
Accounts payable	101,444	39,588
Accrued expenses	12,143	19,544
Net cash used in operating activities	<u>(4,837)</u>	<u>(26,001)</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from long-term debt	<u>2,500</u>	<u>22,000</u>
Net cash provided by capital and related financing activities	<u>2,500</u>	<u>22,000</u>
 DECREASE IN CASH	 (2,337)	 (4,001)
 CASH AND CASH EQUIVALENTS - Beginning of year	 <u>3,330</u>	 <u>7,331</u>
 CASH AND CASH EQUIVALENTS - End of year	 <u>\$ 993</u>	 <u>\$ 3,330</u>

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

This page intentionally left blank.

**LORCO RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and 2001

Note 1. Summary of Significant Accounting Policies:

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

A. Introduction:

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

B. Basis of Accounting:

LORCO 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.

C. Budgetary Process:

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

Appropriations - Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. Appropriation Authority includes current year appropriations plus encumbrances carried over from the prior year (if any). The Board must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end. The General Manager has the authority to authorize payment of any disbursement not to exceed \$10,000, provided there are sufficient funds appropriated and remaining in the account of the fund from which payment will be made.

Estimated Resources - Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1.

Encumbrances - The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The District did not use the encumbrance method of accounting.

Compliance - Contrary to Ohio Revised Code Section 5705.36, the District certified USDA loan proceeds of \$750,000 and \$717,030 in OWDA loan proceeds that were to be received in Fiscal Years 2002 and 2001, respectively. These proceeds were not received by the District and a reduced amended certificate was not obtained.

Contrary to Ohio Revised Code 5705.41 (D), the District did not properly certify the availability of funds.

**LORCO RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2002 and 2001

(CONTINUED)

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

C. Budgetary Process (Continued):

Contrary to Ohio Rev. Code Section 5705.41 (B), the District's expenditures exceeded appropriations at the legal level of budgetary control as of December 31, 2001 for the accounting fees account by \$4,030.

D. Property and Equipment:

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

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

Machinery, Equipment, and Office Furniture 3-10 Years

Fully depreciated assets still in active use are included in the gross amount of property and equipment, 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, 2002 and 2001 was \$199 and \$199, respectively.

A summary of changes in property, plant, and equipment for the year ended December 31, 2002, is as follows:

	Balance December 31, 2001	Additions	Deletions	Balance December 31, 2002
Furniture and fixtures	1,396	-0-	-0-	1,396
Less Accumulated Depreciation	(985)	(199)		(1,184)
Total:	\$ 411	\$ (199)	\$ -0-	\$ 212

A summary of changes in property, plant, and equipment for the year ended December 31, 2001, is as follows:

	Balance December 31, 2000	Additions	Deletions	Balance December 31, 2001
Furniture and fixtures	1,396	-0-	-0-	1,396
Less Accumulated Depreciation	(786)	(199)		(985)
Total:	\$610	\$ (199)	\$ -0-	\$ 411

E. Cash:

Deposits are insured by the Federal Depository Insurance Corporation. 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.

**LORCO RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and 2001
(CONTINUED)

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

F. Use of Estimates:

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

Note 2. Debt:

A summary of changes in debt for the period ended December 31, 2002, is as follows:

Description	Balance January 1, 2002	Borrowed	Repaid	Balance December 31, 2002
LORCO Rural Wastewater District has a line of credit with the Ohio Water Development Authority of \$791,856 with \$591,331 unused. Interest began accruing on January 1, 1998 at 6.11% per annum. This note is being paid in one balloon payment of principal plus interest due January 2003.	\$199,827			\$199,827
LORCO Rural Wastewater District borrowed \$5,000 from Carlisle Township in March 1997 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.	5,000			5,000
LORCO 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, at 0%. Repayment is required when the construction loan is finalized.	15,500			15,500
LORCO Rural Wastewater District borrowed \$5,000 from LaGrange Township in March 1997 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.	5,000			5,000
LORCO 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, at 0%. Repayment is required when the construction loan is finalized.	10,000			10,000

**LORCO RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and 2001
(CONTINUED)

Note 2. Debt (Continued):

Description	Balance January 1, 2002	Borrowed	Repaid	Balance December 31, 2002
LORCO Rural Wastewater District borrowed \$5,000 from Elyria Township in March 1997 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.	5,000			5,000
LORCO Rural Wastewater District borrowed \$5,000 from Lorain Health Board in March 1997 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.	5,000			5,000
LORCO Rural Wastewater District borrowed \$10,000 from Lorain-Medina Rural Electric Cooperative, Inc. in June 1999 at 7% per annum effective FY 2001 and \$5,000 in September 2000 for the start-up/organization of this entity. Repayment is required when the construction loan is finalized.	15,000			15,000
LORCO Rural Wastewater District borrowed \$2,500 from Camden Township in April 2001 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.	2,500			2,500
LORCO Rural Wastewater District borrowed \$5,500 from Grafton Township in April 2001 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.	5,500			5,500
LORCO Rural Wastewater District borrowed \$2,500 from Henrietta Township in December 2001 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.	2,500			2,500
LORCO Rural Wastewater District borrowed \$2,500 from Pittsfield Township in February 2001 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.	2,500			2,500

**LORCO RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and 2001
(CONTINUED)

Note 2. Debt (Continued):

Description	January 1, 2002	Borrowed	Repaid	December 31, 2002
LORCO Rural Wastewater District borrowed \$500 from Rochester Township in June 2001 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.	500			500
LORCO Rural Wastewater District borrowed \$2,500 from South Amherst Village in October 2001 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.	2,500			2,500
LORCO Rural Wastewater District borrowed \$500 from Kipton Village in March 2001 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.	500			500
LORCO Rural Wastewater District borrowed \$2,500 from Huntington Township in January 2002 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.		2,500		2,500
	<u>\$276,827</u>	<u>\$2,500</u>	<u>\$-0-</u>	<u>\$279,327</u>

As of December 31, 2002, the District owed \$59,483 and \$2,100 in accrued interest to the Ohio Water Development Authority and Lorain Medina Rural Electric Cooperative, Inc., respectively.

**LORCO RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and 2001
(CONTINUED)

Note 2. Debt (Continued):

A summary of changes in debt for the period ended December 31, 2001, is as follows:

<u>Description</u>	<u>Balance January 1, 2001</u>	<u>Borrowed</u>	<u>Repaid</u>	<u>Balance December 31, 2001</u>
LORCO Rural Wastewater District has a line of credit with the Ohio Water Development Authority of \$791,856 with \$592,029 unused. Interest began accruing on January 1, 1998 at 6.11% per annum. This note is being paid in one balloon payment of principal plus interest due January 2003.	\$199,827			\$199,827
LORCO Rural Wastewater District borrowed \$5,000 from Carlisle Township in March 1997 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.	5,000			5,000
LORCO 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, at 0%. Repayment is required when the construction loan is finalized.	10,000	\$5,500		15,500
LORCO Rural Wastewater District borrowed \$5,000 from LaGrange Township in March 1997 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.	5,000			5,000
LORCO 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, at 0%. Repayment is required when the construction loan is finalized.	10,000			10,000
LORCO Rural Wastewater District borrowed \$5,000 from Elyria Township in March 1997 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.	5,000			5,000

**LORCO RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and 2001
(CONTINUED)

Note 2. Debt (Continued):

Description	Balance January 1, 2001	Borrowed	Repaid	Balance December 31, 2001
LORCO Rural Wastewater District borrowed \$5,000 from Lorain Health Board in March 1997 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.	5,000			5,000
LORCO Rural Wastewater District borrowed \$10,000 from Lorain-Medina Rural Electric Cooperative, Inc. in June 1999 at 7% per annum effective FY 2001 and \$5,000 in September 2000 for the start-up/organization of this entity. Repayment is required when the construction loan is finalized.	15,000			15,000
LORCO Rural Wastewater District borrowed \$2,500 from Camden Township in April 2001 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.		\$2,500		2,500
LORCO Rural Wastewater District borrowed \$5,500 from Grafton Township in April 2001 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.		5,500		5,500
LORCO Rural Wastewater District borrowed \$2,500 from Henrietta Township in December 2001 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.		2,500		2,500
LORCO Rural Wastewater District borrowed \$2,500 from Pittsfield Township in February 2001 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.		2,500		2,500
LORCO Rural Wastewater District borrowed \$500 from Rochester Township in June 2001 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.		500		500

**LORCO RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2002 and 2001

(CONTINUED)

Note 2. Debt (Continued):

Description	Balance January 1, 2001	Borrowed	Repaid	Balance December 31, 2001
LORCO Rural Wastewater District borrowed \$2,500 from South Amherst Village in October 2001 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.		2,500		2,500
LORCO Rural Wastewater District borrowed \$500 from Kipton Village in March 2001 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.		500		500
	<u>\$ 254,827</u>	<u>\$ 22,000</u>	<u>\$ 0-</u>	<u>\$ 276,827</u>

As of December 31, 2001, the District owed \$50,046 and \$1,050 in accrued interest to the Ohio Water Development Authority and Lorain Medina Rural Electric Cooperative, Inc., respectively.

Note 3. Insurance:

The district maintains comprehensive insurance coverage which includes Comprehensive General Liability and Wrongful Act Liability.

Note 4. Leasing Arrangements:

The district leases office space from Lorain-Medina Rural Electric Cooperative, Inc. This lease is for a one-year period and may be renewed for an additional one year terms upon agreement of both parties. The lease requires rent in the amount of \$200 per month. Rent expense for the years ended December 31, 2002 and December 31, 2001 was \$2,400 and \$2,400 respectively. Deferred rental payments bear no interest through December 31, 2000 and thereafter bear an interest rate of 7% per annum, simple interest. As of December 31, 2002 and December 31, 2001, the District owed \$8,800 and \$6,400 in accrued rent and \$616 and \$448 in accrued interest, respectively.

Note 5. Administrative Arrangements:

The district has retained the services of the Director of Economic and Community Development of Lorain-Medina Rural Electric Cooperative, Inc. as an independent contractor to be the Executive Director of the district. This agreement shall be for six months beginning January 1, 1998 and may be extended upon mutual agreement of all parties. The district shall pay to Lorain-Medina Rural Electric Cooperative, Inc. an amount equal to one-half of the Lorain-Medina Rural Electric Cooperative, Inc. cost of wages, benefits and any other charges or expenses on a monthly basis. Deferred payments bear no interest through December 31, 2000 and thereafter bear an interest rate of 7% per annum, simple interest. As of December 31, 2002 and December 31, 2001, the District owed \$73,521 and \$52,250 in accrued administrative costs and \$5,146 and \$3,658 in accrued interest, respectively.

**LORCO RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and 2001
(CONTINUED)

Note 6. Subsequent Events:

LORCO Rural Wastewater District borrowed \$300,000 from FirstMerit Bank, N.A. on January 17, 2003. This loan requires one principal payment of \$300,000 plus interest at 4.25% due on January 17, 2004.

The loan balance of \$199,827 plus interest and fees of \$60,181 payable to the Ohio Water Development Authority was paid off by LORCO Rural Wastewater District on January 17, 2003 with proceeds from FirstMerit Bank, N.A.

Note 7. Accountability and Financial Outlook:

For fiscal years ended December 31, 2002 and 2001, LORCO Rural Wastewater District had net losses of \$118,623 and \$85,332 and accumulated deficits of \$575,633 and \$457,010, respectively. These net losses and accumulated deficits were the result of start up costs and operating expenses incurred by the District. From December 31, 2002 to May 12, 2003, the District continued to experience losses and deficits. The District's strategy is to develop and construct a sewer system and to repay the indebtedness from revenues derived from consumers utilizing the District's wastewater services. As of May 12, 2003 no construction has commenced and the District is restructuring or financing debt to meet debt demands.

This page intentionally left blank.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of the LORCO Rural Wastewater District, Lorain County, Ohio, (the District) as of and for the years ended December 31, 2002 and December 31, 2001, and have issued our report thereon dated May 12, 2003, wherein we noted the District incurred significant net losses and accumulated deficits as of December 31, 2002 and December 31, 2001, and has relied on debt borrowings to pay its obligations as they come due. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2002-001 through 2002-003.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated May 12, 2003.

LORCO Rural Wastewater District
Lorain County
Independent Accountants' Report on Compliance and
on Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of the Finance/Audit Committee, management and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

May 12, 2003

**LORCO RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

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

Finding Number	2002-001
-----------------------	-----------------

Ohio Rev. Code Section 5705.41(D) states, in part, that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer 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 encumbrances.

This section also provides two exceptions to the above requirements:

- § If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was appropriated and free of any previous encumbrances, the Board of Trustees may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate (a then and now certificate), if such expenditure is otherwise valid.

- § If the amount involved is less than one thousand dollars, the fiscal officer may authorize it to be paid without the affirmation of the Board of Trustees.

There were 12 out of 12 expenditures reviewed in which the expenditure commitment was entered into prior to receiving the Fiscal Officer's certification and neither exception listed above applied.

This weakness could allow expenditures to exceed the total available retained earnings/fund balance, appropriations and/or the current year revenues.

We recommend the District properly certify the availability of funds for any orders or contracts involving the expenditure of money to ensure compliance with this requirement. Where prior certification is not feasible, we encourage the District to utilize then and now certificates or blanket certificates.

Finding Number	2002-002
-----------------------	-----------------

Ohio Rev. Code Section 5705.36 states, in part, a reduced amended certificate must be obtained if the amount of the deficiency will reduce available resources below the current level of appropriation. In addition, total appropriations made during a fiscal year from any fund must not exceed the amount contained in the certificate of estimated resources or the amended certificate of estimated resources which was certified prior to making the appropriation or supplemental appropriation.

During Fiscal Years 2002 and 2001, the District certified estimated revenues of \$750,000 in USDA loan proceeds and \$717,030 in OWDA loan proceeds, respectively. These proceeds were not received by the District and a reduced amended certificate was not obtained even though actual available resources were not sufficient to cover the current level of appropriations.

**LORCO RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001
(Continued)**

Finding Number (Continued)	2002-002
-----------------------------------	-----------------

We recommend the District amend the certificate of estimated resources when a deficiency will reduce available resources below the current level of appropriation. Furthermore, total appropriations made during a fiscal year from any fund must not exceed the amount contained in the certificate of estimated resources or the amended certificate of estimated resources.

Finding Number	2002-003
-----------------------	-----------------

Ohio Rev. Code Sections 5705.41(B) & (D) prohibits a subdivision or taxing unit from making an expenditure or an expenditure plus encumbrances unless it has been properly appropriated. The following account had expenditures exceeding appropriations as of December 31, 2001:

<u>Account</u>	<u>Appropriation</u>	<u>Expenditures</u>	<u>Variance</u>
Accounting Fees	\$ 1,200	\$ 5,230	\$ (4,030)

This weakness could allow expenditures in the above accounts or fund to exceed the total of the available fund balance, the appropriation account and/or the current year revenues. This also increases the risk of negative retained earnings/fund balance.

We recommend the District compare appropriations to expenditures plus encumbrances at the legal level of control to ensure compliance with this requirement. This comparison should be performed on a monthly basis, at a minimum.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

LORCO 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
JULY 1, 2003**