RURAL LORAIN COUNTY WATER AUTHORITY

INDEPENDENT AUDITOR'S REPORT

FOR THE YEARS ENDED DECEMBER 31, 2002
AND DECEMBER 31, 2001

Auditor of State
Betty Montgomery

Board of Trustees
Rural Lorain County Water Authority
4201 State Route 303
P.O. Box 567
LaGrange, OH 44050

We have reviewed the Independent Auditor's Report of the Rural Lorain County Water Authority, prepared by Gary B. Fink & Associates, Inc., for the audit period January 1, 2001 through December 31, 2002. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

August 22, 2003

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RURAL LORAIN COUNTY WATER AUTHORITY
FOR THE YEARS ENDED DECEMBER 31, 2002
AND DECEMBER 31, 2001

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GARY B. FINK & ASSOCIATES, INC.

CERTIFIED PUBLIC ACCOUNTANTS
121 College Street
Wadsworth, Ohio 44281
330/336-1706 Fax 330/334-5118

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Rural Lorain County Water Authority
4201 State Route 303
PO Box 567
LaGrange, OH 44050

We have audited the accompanying financial statements of the Rural Lorain County Water Authority (a public subdivision), as of and for the years ended December 31, 2002 and 2001, as listed in the table of contents. These financial statements are the responsibility of the Rural Lorain County Water Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Rural Lorain County Water Authority, as of December 31, 2002 and 2001, and the results of its operations and cash flows for the years then ended in conformity with accounting principles, generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 10, 2003 on our consideration of the Rural Lorain County Water Authority'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.

INDEPENDENT AUDITOR'S REPORT (continued)

Our audit was performed for the purpose of forming an opinion on the financial statements of the Rural Lorain County Water Authority, taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

GARY B. FINK & ASSOCIATES, INC.
Certified Public Accountants

July 10, 2003

FINANCIAL STATEMENTS

RURAL LORAIN COUNTY WATER AUTHORITY

BALANCE SHEETS

December 31, 2002 and 2001

	2002	2001
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents:		
General	$ 98,914	$ 134,605
Working capital	754,272	1,258,782
Capital improvements (Note 2)	582,636	132,021
Receivables:		
Trade (net of allowance for doubtful accounts of $3,000 in 2002 and $3,000 in 2001)	650,231	505,027
Other	76,914	88,102
Interest	16,397	33,951
Inventory (Note 1)	266,584	263,428
Prepaid expenses (Note 1)	51,194	45,132
Deferred debt issue costs (Note 1)	796,234	842,240
Total current assets	3,293,376	3,303,288
RESTRICTED CASH AND INVESTMENTS: (Note 2)	5,906,841	5,626,110
PROPERTY, PLANT, AND EQUIPMENT, AT COST: (Note 1)	56,394,198	46,222,246
Less: Accumulated depreciation	19,055,941	17,339,097
	37,338,257	28,883,149
Current construction	94,425	6,788,068
	37,432,682	35,671,217
	$ 46,632,899	$ 44,600,615

See accompanying notes to the financial statements.

RURAL LORAIN COUNTY WATER AUTHORITY

BALANCE SHEETS

December 31, 2002 and 2001

	2002	2001
LIABILITIES AND RETAINED EARNINGS		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 965,000	$ 920,000
Accounts payable	388,319	324,766
Taxes payable	25,012	11,065
Compensated absences payable (Note 1)	238,829	204,288
Tenant deposits	80,382	72,635
Accrued expenses:		
Wages	28,998	13,310
Interest	330,552	341,276
Total current liabilities	2,057,092	1,887,340
LONG-TERM DEBT: (Note 4)		
Bonds payable:		
1993 Series	15,300,000	15,995,000
1999 Series	9,250,000	9,475,000
Notes payable	2,590,180	-0-
	27,140,180	25,470,000
Less: Current portion	965,000	920,000
	26,175,180	24,550,000
RETAINED EARNINGS	18,400,627	18,163,275
	$ 46,632,899	$ 44,600,615

See accompanying notes to the financial statements.

RURAL LORAIN COUNTY WATER AUTHORITY

STATEMENTS OF INCOME

Years Ended December 31, 2002 and 2001

	2002	2001
REVENUE:		
Water sales	$ 8,380,230	$ 8,205,601
Tap fees	826,718	781,433
	9,206,948	8,987,034
OPERATING EXPENSES	7,985,426	7,876,166
INCOME FROM OPERATIONS	1,221,522	1,110,868
OTHER INCOME:		
Penalty income	94,471	96,099
Miscellaneous	76,439	47,758
Hydrant maintenance fees	8,275	7,075
Discounts earned	866	512
Interest income	281,650	686,705
Gain on disposal of assets	5,400	26,293
	467,101	864,442
	1,688,623	1,975,310
OTHER EXPENSES:		
Interest expense	1,402,816	1,398,220
Bad debts	2,485	2,286
Bond premium amortization	45,970	48,583
	1,451,271	1,449,089
NET INCOME	$ 237,352	$ 526,221

See accompanying notes to the financial statements.

RURAL LORAIN COUNTY WATER AUTHORITY

STATEMENTS OF RETAINED EARNINGS

Years Ended December 31, 2002 and 2001

	2002	2001
BALANCE - Beginning of period	$ 18,163,275	$ 17,637,054
ADDITION - Net income	237,352	526,221
BALANCE - End of period	$ 18,400,627	$ 18,163,275

See accompanying notes to the financial statements.

RURAL LORAIN COUNTY WATER AUTHORITY

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2002 and 2001

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income from operations	$ 1,221,522	$ 1,110,868
Adjustment to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation expense	1,732,902	1,530,851
Bond premium amortization	(45,970)	(48,583)
Bad debts	(2,485)	(2,286)
(Increase) decrease in:		
Receivables	(116,462)	20,016
Inventory	(3,156)	56,097
Prepaid expenses	(6,062)	(13,191)
Deferred debt issue costs	46,006	48,613
Increase (decrease) in:		
Accounts payable	63,553	(86,761)
Taxes payable	13,947	(10,343)
Compensated absences payable	34,541	(47,483)
Deferred tap deposits	0	(5,756)
Advanced deposits	7,747	7,000
Accrued expenses	4,964	(20,762)
Net cash provided by operating activities	2,951,047	2,538,280

See accompanying notes to the financial statements.

RURAL LORAIN COUNTY WATER AUTHORITY

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2002 and 2001

	2002	2001
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property and equipment and current construction	$ (3,494,367)	$ (5,152,848)
Proceeds from sale of equipment and land	5,400	44,175
Repayment of 1993 Series Bonds	(695,000)	(445,000)
Repayment of 1999 Series Bonds	(225,000)	(215,000)
Repayment of 1991 Series Bonds	0	(215,000)
Proceeds from notes payables	2,590,180	0
Interest paid on bonds	(1,402,816)	(1,398,220)
Net cash used in capital and related financing activities	(3,221,603)	(7,381,893)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest earned	281,650	686,705
Net cash provided by investing activities	281,650	686,705
CASH FLOWS FROM NON-CAPITAL ACTIVITIES:		
Other non-operating activities	180,051	151,444
Net cash provided by non-capital activities	180,051	151,444
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	191,145	(4,005,464)
CASH AND CASH EQUIVALENTS - Beginning of period	7,151,518	11,156,982
CASH AND CASH EQUIVALENTS - End of period	$ 7,342,663	$ 7,151,518

See accompaying notes to the financial statements.

Note 1. Summary of Significant Accounting Policies:

The Rural Lorain County Water Authority, a regional water district, is a political subdivision of the State of Ohio created by order of the Lorain County Common Pleas Court. The Authority was incorporated in the State of Ohio on August 23, 1973, as a nonprofit corporation for the purpose of providing a water supply for domestic, industrial, and public use to users within and without the district. The Authority is exempt from federal income tax. The Authority operates under a Board of Trustees, which consists of as many members as equals the total number of villages and townships within this regional water district. The following is a summary of significant accounting policies:

A. Introduction:

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

B. Basis of Accounting:

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

C. Investments:

Investment procedures are restricted by the Provisions of the Ohio Revised Code. During 2002 and 2001, investments were limited to repurchase agreements, certificates of deposit, U.S. Government Income Funds, or U.S. Treasury Funds.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

D. Budgetary Process:

Budget - Thirty days before the end of each fiscal year a proposed budget of estimated revenues and expenditures for the succeeding fiscal year is submitted to the Board of Trustees by the General Manager. The Board may amend said budget as it deems proper. The Board of Trustees then approves the budget in its original or amended form.

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

D. Budgetary Process (Continued):

Appropriations - After the budget is approved by the Board, the Board then makes appropriations of funds in accordance with said budget. Thereafter, the General Manager has the authority to authorize payment of any disbursement not to exceed $15,000, provided there are sufficient funds appropriated and remaining in the account of the fund from which payment will be made. The Board may, from time-to-time, amend or supplement said appropriation of funds and may also transfer any part of an unencumbered balance of an appropriation of any fund to any purpose or object for which the appropriation for the current fiscal year has proved insufficient. During the year, supplemental appropriations were authorized; however, none of these amendments are significant.

E. Inventory:

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

F. Property, Plant, and Equipment:

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

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

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

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

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

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

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

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

Depreciation expense for the years ended December 31, 2002 and 2001, was $1,732,902 and $1,530,851, 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
Land and easements	$ 529,883	$ 500	$ -0-	$ 530,383
Buildings	2,104,668	67,251	-0-	2,171,919
Tanks, stations, and lines	40,589,227	9,908,489	-0-	50,497,716
Meters and replacements	1,158,158	76,348	-0-	1,234,506
Furniture and fixtures	719,370	15,467	-0-	734,837
Machinery, equipment, and vehicles	1,120,940	119,957	16,060	1,224,837
Subtotal	46,222,246	10,188,012	16,060	56,394,198
Current construction lines	6,788,068	3,071,684	9,765,327	94,425
	$ 53,010,314	$ 13,259,696	$ 9,781,387	$ 56,488,623

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
Land and easements	$ 527,883	$ 2,000	$ -0-	$ 529,883
Buildings	1,795,921	308,747	-0-	2,104,668
Tanks, stations, and lines	40,056,166	533,061	-0-	40,589,227
Meters and replacements	1,105,168	52,990	-0-	1,158,158
Furniture and fixtures	768,232	184,480	233,342	719,370
Machinery, equipment, and vehicles	1,112,819	143,749	135,628	1,120,940
Subtotal	45,366,189	1,225,027	368,970	46,222,246
Current construction lines	2,860,247	3,927,821	-0-	6,788,068
	$ 48,226,436	$ 5,152,848	$ 368,970	$ 53,010,314

G. Prepaid Expenses:

Prepaid expenses are amortized over their economic useful lives.

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

H. Deferred Debt Issue Costs:

Bond issue costs are capitalized and amortized over the various terms of the 1991, 1993, and 1999 bonds using the straight-line method. Amortization expense for the years ended December 31, 2002 and 2001 was $45,970 and $48,583, respectively.

I. 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.

J. Compensated Absences Payable:

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

Sick leave accumulates to employees at a rate of 4.6 hours for every 80 hours of service. Upon retirement, employees are entitled to 100% of their accumulated sick leave balance at the rate of pay at time of retirement if an employee was hired before December 31, 2000. If an employee is hired on or after January 1, 2001, and retires, their accumulated sick leave is paid out at the rate of pay that it was accrued. In the event of the employee's death, 100% of their accumulated sick leave balance would be paid to the employee's life insurance beneficiary. The employees' accumulating rights to receive compensation for future absences are contingent upon the absences being caused by future illnesses, years of service at retirement, or death. A liability for unused sick leave is not recorded in the financial statements unless the employee has accumulated sick leave after becoming eligible for retirement, which would be payable in its entirety. The unrecorded estimated unused sick leave for the years ended December 31, 2002 and 2001, was $427,932 and $418,920, respectively; the recorded estimated unused sick leave and vacation for the years ended December 31, 2002 and 2001 reflected in the compensated absences payable amount on page 3 was $238,829 and $204,288, respectively.

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

K. Statements of Cash Flows:

For the purposes of the Statements of Cash Flows, all liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered cash equivalents. Because the Authority, at its option, can withdraw amounts within a three month time period on the 5-year Treasury Bills, the Treasury Bills are considered to be cash equivalents. Cash and cash equivalents as of December 31, 2002 and 2001, consist of:

	2002	2001
Cash:		
General	$ 98,914	$ 134,605
Working capital	754,272	1,258,782
Capital improvements	582,636	132,021
Restricted cash and investments	5,906,841	5,626,110
	$ 7,342,663	$ 7,151,518

L. Use of Estimates:

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

Note 2. Restricted Funds:

A. Revenue Fund:

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

Note 2. Restricted Funds (Continued):

B. Bond Reserve Fund:

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

C. Bond Fund:

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

D. Replacement and Improvement Fund:

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

E. Project Fund:

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

The fund had a balance of $997,898 and $1,084,678 as of December 31, 2002 and 2001, respectively.

Note 2. Restricted Funds (Continued):

F. System Reserve Fund (Capital Improvements):

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

G. Employee Policy Fund:

This fund is maintained in the custody of the Authority as a separate account. Payments of $10,000 are made each month. Monies in this fund will be used for employees entitled to 100% of their accumulated sick leave balance after becoming eligible for retirement.

H. Restricted Cash and Investments:

	2002	2001
Bond reserve fund	$ 2,521,476	$ 2,497,969
Bond fund	1,104,574	878,068
Replacement and improvement fund	774,311	773,268
Project fund	997,898	1,084,678
Employee policy fund	508,582	392,127
	$ 5,906,841	$ 5,626,110

Note 3. Equity in Pooled Cash and Investment:

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

A. Legal Requirements:

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

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

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

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

B. Deposits:

At December 31, 2002 and 2001, the carrying amount of the Authority deposits was $1,944,404 and $1,917,535, respectively, and the bank balance was $1,924,840 and $1,892,273, respectively. Of the bank balance, $300,000 and $400,000 was covered by federal depository insurance for both 2002 and 2001, respectively; and, $1,624,840 for 2002 and $1,492,273 for 2001 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed noncompliance with federal requirements could potentially subject the Authority to a successful claim by the FDIC.

C. Investments:

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

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

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

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

C. Investments (Continued):

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

Investments, categorized by level of risk, for the years ended December 31, 2002, are as follows:

	CATEGORY 1	CATEGORY 2	CATEGORY 3	FAIR MARKET VALUE
Federated Treasury Obligation Fund	$ -0-	$ -0-	$2,673,542	$ 2,673,542
U.S. Treasury Funds, Bonds, and Notes	-0-	-0-	2,724,717	2,724,717
Total Investments	$ -0-	$ -0-	$5,938,259	$ 5,398,259

Investments, categorized by level of risk, for the year ended December 31, 2001, are as follows:

	CATEGORY 1	CATEGORY 2	CATEGORY 3	FAIR MARKET VALUE
Federated Treasury Obligation Fund	$ -0-	$ -0-	$ 2,108,024	$ 2,108,024
U.S. Treasury Funds, Bonds, and Notes	-0-	-0-	3,125,959	3,125,959
Total Investments	$ -0-	$ -0-	$ 5,233,983	$ 5,233,983

D. Restricted Cash:

Restricted cash for the year ended December 31, 2002, is as follows:

	FAIR MARKET VALUE
Certificate of Deposit	$ 508,582
Total Restricted Cash	508,582
Total Investments	5,398,259
Total Restricted Cash and Investments	$ 5,906,841

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

D. Restricted Cash (Continued):

Restricted cash for the year ended December 31, 2001, is as follows:

	FAIR MARKET VALUE
Certificate of Deposit	$ 392,127
Total Restricted Cash	392,127
Total Investments	5,233,983
Total Restricted Cash and Investments	$ 5,626,110

Note 4. Long-Term Debt:

A summary of long-term debt for the year ended December 31, 2002, is as follows:

Description	Balance December 31, 2001	Issued	Retired	Balance December 31, 2002
$18,095,000 Water Resource Improvement and Refunding Revenue Bonds, Series 1993 originally issued with interest rates ranging from 2.55% to 5.25% with final maturity dates ranging from 1993 to 2018	$ 15,995,000	$ -0-	$ 695,000	$ 15,300,000
$9,900,000 Water Resource Revenue Refunding Bonds, Series 1999 originally issued with interest rates ranging from 4.000% to 5.875% with final maturity dates ranging from 2000 to 2024	9,475,000	-0-	225,000	9,250,000
A note payable in the amount of $2,590,180 is due to FirstMerit Bank, N.A. and Trust. An additional $659,820 is available to be borrowed. The note requires monthly interest payments at 4.25% with a maturity date of July 2003. The note is guaranteed by the USDA. At maturity, USDA will pay off this note with FirstMerit Bank, N.A. and payments will be amortized over forty years.	-0-	2,590,180	-0-	2,590,180
	$ 25,470,000	$ 2,590,180	$ 920,000	$ 27,140,180

Note 4. Long-Term Debt (Continued):

A summary of long-term debt for the year ended December 31, 2001, is as follows:

Description	Balance December 31, 2000	Issued	Retired	Balance December 31 2001
$4,825,000 Water Resource Improvement Revenue Bonds, Series 1991 originally issued with interest rates ranging from 4.9% to 6.8% with final maturity dates ranging from 1992 to 2001	$ 215,000	$ -0-	$ 215,000	$ 0
$18,095,000 Water Resource Improvement and Refunding Revenue Bonds, Series 1993 originally issued with interest rates ranging from 2.55% to 5.25% with final maturity dates ranging from 1993 to 2018	16,440,000	-0-	445,000	15,995,000
$9,900,000 Water Resource Revenue Refunding Bonds, Series 1999 originally issued with interest rates ranging from 4.000% to 5.875% with final maturity dates ranging from 2000 to 2024	9,690,000	-0-	215,000	9,475,000
	$ 26,345,000	$ -0-	$ 875,000	$ 25,470,000

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of December 31, 2002, are as follows:

Year Ending December 31,	Amount
2003	$ 2,287,204
2004	2,468,467
2005	2,477,993
2006	2,481,707
2007	2,484,412
2008 to 2024	32,810,123
Total Principal and Interest	45,009,906
Less: Interest	17,869,726
Liability as of December 31, 2002	$27,140,180

Note 4. Long-Term Debt (Continued):

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

Note 5. Insurance:

The Authority is exposed to various tasks of loss related to torts, theft, damage to or destruction of assets, errors and omissions, employee injuries, and natural disasters.

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

Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction of coverage from the prior year.

Note 6. Retirement Commitments:

A. Defined Benefit Pension Plans:

Rural Lorain County Water Authority 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 provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. 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) 466-2085 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.

Note 6. Retirement Commitments (Continued):

A. Defined Benefit Pension Plans (Continued):

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

The Ohio Revised Code provides statutory authority for employee and employer contributions. The rate set for employee contribution for 2002 and 2001 was 8.5% and the employer contribution rate was 13.55% 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, 2002 and 2001 was $394,139 and $607,712, respectively.

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

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

Historical trend information showing the OPERS System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's December 31, 2001 Comprehensive Annual Financial Report.

Note 6. 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 the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. The employer contribution rate is 13.55% of covered payroll and 5.00% was the portion used to fund health care from January 1 through December 31, 2002.

An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2001. The investment assumption rate for 2001 was 8.00%. An annual increase of 4.00% compounded annually on active employee total payroll is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from .50% to 6.30%. Health care costs were assumed to increase 4.00% annually. All investments are carried to market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets.

OPEBs are advanced-funded on an actuarially determined basis. The number of active contributing participants in the State of Ohio was 402,041. The employer contributions, made by Rural Lorain County Water Authority, used to fund postemployment benefits were $42,063 for the year ended December 31, 2002. Eleven billion six hundred million dollars ($11,600,000,000) represents the actuarial value of Retirement Systems' net assets available for OPEB at December 31, 2001. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used was $16.4 billion and $4.8 billion, respectively.

Note 6. Retirement Commitments (Continued):

B. Post-Employment Benefits (Continued):

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of Health Care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" elgibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

C. Retirement Incentive Plan:

The Authority adopted the Retirement Incentive Plan, which is adopted under guidelines of the Ohio Public Employees Retirement System. Participation in the Plan shall be available to eight percent (8%) of employees of the Authority, per year, who are employed at their offices and are members of Ohio Public Employees Retirement System. Pursuant to the terms of the Plan, service credit for each participating employee shall be purchased by the Authority in an amount equal to the lesser of the following:

1. Five (5) years of service credit or
2. An amount of service credit equal to 1/5 of the total service of record credited to the participating employee in the OPERS, exclusive of the service credit purchased under this plan.

An employee of the Authority eligible to participate in the Plan, shall meet the following criteria:

1. The employee is or will be eligible to retire under the Ohio Public Employees Retirement System of the Ohio Revised Code on or before the date of termination of the Plan.
2. The employee agrees to retire within 90 days after receiving notice from OPERS that service credit has been purchased for the employee pursuant to the Plan.
3. Employees with less than eighteen (18) months of service with the Authority shall have the right to elect to participate in this Plan only after all other eligible employees have been given the opportunity to elect to participate.

Retirement Incentive Plan expense for the years ended December 31, 2002 and 2001, was $150,065 and $368,029, respectively.

Note 7. Leasing Arrangements:

The Authority leases two copiers under 39 and 48-month operating leases that began in October 2001 and April 2002, and expire in January 2005 and March 2006, respectively. These leases require rent in the amount of $292 and $527 per month plus charges for additional copies over 4,000 and 2,500, respectively.

The following is a schedule of future minimum rental payments required under the above operating leases as of December 31, 2002:

Year Ending December 31,	Amount
2003	$ 9,828
2004	9,828
2005	6,616
2006	1,581
	$ 27,853

Office equipment lease for the years ended December 31, 2002 and 2001, was $16,457 and $14,090, respectively.

Note 8. Commitments:

A. Water Purchase Agreements:

The Authority's original and primary source of water (approximately 78.1%) has been the City of Avon Lake's water treatment plant located in northern Lorain County. On April 30, 1975, the Authority signed a long-term water purchase agreement with the City of Avon Lake with maximum amounts of water to be supplied per month.

The Authority purchases water from the Village of New London (approximately 14.8%) as a supplement to the water purchased from the City of Avon Lake. In addition to the Avon Lake agreement, the Authority signed a long-term water purchase agreement in 1996 with New London with maximum amounts of water to be supplied per month.

B. Water Supply Agreements:

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

SUPPLEMENTARY INFORMATION

RURAL LORAIN COUNTY WATER AUTHORITY

STATEMENTS OF OPERATING EXPENSES

Years Ended December 31, 2002 and 2001

	2002	2001
OPERATING EXPENSES:		
Wages:		
Board	$ 61,567	$ 56,127
Other	1,093,973	970,322
O.P.E.R.S.	394,139	607,712
Payroll taxes	10,651	2,808
Insurance:		
Hospitalization	244,474	246,155
Life	4,703	4,855
General	54,602	35,205
Audit and professional fees	55,290	81,482
Legal fees	82,870	72,014
Engineering fees	13,210	6,554
Telephone	28,556	31,951
Depreciation expense	1,732,902	1,530,851
Utilities	29,799	26,879
Billing expense	8,005	-0-
Office equipment lease	16,457	14,090
Office supplies and expense	121,585	105,355
Clothing	16,898	19,581
Postage	72,767	73,919
Maintenance and repairs:		
Administration building and equipment	152,585	116,779
Vehicles	69,359	51,201
Water lines	47,192	39,107
Pump stations	55,575	35,116
Tanks	25,095	14,008

See accompanying notes to the financial statements.

RURAL LORAIN COUNTY WATER AUTHORITY

STATEMENTS OF OPERATING EXPENSES

Years Ended December 31, 2002 and 2001

	2002	2001
OPERATING EXPENSES (Continued):		
Travel and education expense	$ 73,728	$ 40,305
Gasoline	32,850	34,692
Water purchased	2,622,962	2,844,154
Distribution supplies	93,900	66,816
Electric pump stations and tanks	383,993	390,751
Tap installations	296,175	257,831
Communications equipment	14,370	6,611
Bond administration expense	4,545	8,054
Miscellaneous expense	70,649	84,881
	$ 7,985,426	$ 7,876,166

See accompanying notes to the financial statements.

GARY B. FINK & ASSOCIATES, INC.

CERTIFIED PUBLIC ACCOUNTANTS
121 College Street
Wadsworth, Ohio 44281
330/336-1706   Fax 330/334-5118

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

Board of Trustees
Rural Lorain County Water Authority
4201 State Route 303
PO Box 567
LaGrange, OH 44050

We have audited the financial statements of the Rural Lorain County Water Authority, as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated July 10, 2003. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

Compliance with laws, regulations, contracts and grants applicable to the Water Authority is the Water Authority management's responsibility. As part of obtaining reasonable assurance about whether Rural Lorain County Water Authority'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 audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to Management of the Rural Lorain County Water Authority, in a separate letter dated July 10, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Rural Lorain County Water Authority'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 operations that we consider to be material weaknesses. However, we noted a matter involving internal control over financial reporting that we have reported to Management of the Rural Lorain County Water Authority, in a separate letter dated July 10, 2003.

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

This report is intended for the information and use of management, the Board of Trustees, audit committee, management, others within the organization, Ohio Auditor of State and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

GARY B. FINK & ASSOCIATES, INC.
Certified Public Accountants

July 10, 2003

GARY B. FINK & ASSOCIATES, INC.

CERTIFIED PUBLIC ACCOUNTANTS
121 College Street
Wadsworth, Ohio 44281
330/336-1706 Fax 330/334-5118

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133*

Board of Trustees
Rural Lorain County Water Authority
4201 State Route 303
PO Box 567
LaGrange, OH 44050

Compliance

We have audited the compliance of the Rural Lorain County Water Authority, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the years ended December 31, 2002. The Rural Lorain County Water Authority's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Rural Lorain County Water Authority's management. Our responsibility is to express an opinion on the Rural Lorain County Water Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Rural Lorain County Water Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Rural Lorain County Water Authority's compliance with those requirements.

In our opinion, Rural Lorain County Water Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2002.

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133* (continued)

Internal Control Over Compliance

The management of Rural Lorain County Water Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Rural Lorain County Water Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management, the Board of Trustees, audit committee, management, others within the organization, Ohio Auditor of State and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

GARY B. FINK & ASSOCIATES, INC.
Certified Public Accountants

July 10, 2003

Rural Lorain County Water Authority
Schedule of Expenditures of Federal Awards
For the Years Ended December 31, 2002 and December 31, 2001

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Identifying Entity Number	Federal Expenditures
U.S. Department of Agriculture			
Water and Waste Disposal Systems for Rural Communities	10.76	----	$2,373,286
Total Expenditures of Federal Awards			$2,373,286

The notes to this Schedule are an integral part of this Schedule.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND DECEMBER 31, 2001

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is a summary of the activity of the Rural Lorain County Water Authority's federal award program. The schedule has been prepared on the cash basis of accounting. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations.*

NOTE B – FUNDING SOURCES

Funds for the program are from a Rural Development Guaranteed Loan of $1,750,000 and a Rural Development Direct Loan of $1,500,000. As of December 31, 2002 the Rural Lorain County Water Authority has borrowed $2,590,180.

RURAL LORAIN COUNTY WATER AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §505

FOR THE YEARS ENDED DECEMBER 31, 2002 AND DECEMBER 31, 2001

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of auditor's report issued on the financial statements	Unqualified Opinion
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the financial statement level?	No
(d)(1)(ii)	Were there any other reportable conditions in internal control reported at the financial statement level?	No
(d)(1)(iii)	Was there any material noncompliance reported at the financial statement level?	No
(d)(1)(iv)	Were there any material weaknesses in internal control over major programs reported?	No
(d)(1)(iv)	Were there any other reportable conditions in internal control over major programs reported?	No
(d)(1)(v)	Type of auditor's report issued on compliance for major programs	Unqualified Opinion
(d)(1)(vi)	Were there any reportable audit findings under §510?	No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §505
(CONTINUED)

(d)(1)(vii)	Major Program:	Water and Waste Disposal Systems for Rural Communities, CFDA #10.760
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: >$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

   None

3. **FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

   None

Auditor of State
Betty Montgomery

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RURAL LORAIN COUNTY WATER AUTHORITY

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
SEPTEMBER 23, 2003