



Dave Yost • Auditor of State

**LORAIN COUNTY RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the Lorain County Rural Wastewater District, Lorain County, Ohio, (the District), as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our opinion.

Opinion

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, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2014, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

September 30, 2014

LORAIN COUNTY RURAL WASTEWATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2013 and 2012

(Unaudited)

This discussion and analysis, along with the accompanying financial reports of Lorain County Rural Wastewater District (District), is designed to provide our customers, 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 \$690,423 at year end 2013.

The District's net position increased by \$6,335 (0.9%) in 2013.

The District had an increase in Operating Revenues of \$4,526 (2.2%) in 2013. Operating Expenses decreased \$3,496 (-1.9%) in 2013.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

The District is a single fund using proprietary fund accounting, similar to a private sector business. The District is described in Note 2, Summary of Significant Accounting Policies. The Basic Financial Statements are presented using the accrual basis of accounting as further described in the above-mentioned note.

The **Statement of Net Position** 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 position (equity) is the difference between assets and liabilities.

The **Statement of Revenues and Expenses, and Changes in Net Position** 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, 2013 and 2012
(Unaudited)

SIGNIFICANT EVENTS AND EXPENDITURES DURING THE YEAR

Robert Berner resigned as the District's Executive Director effective June 28, 2013. Former Executive Director, Fred Alspach, was hired as a consultant on an interim basis during the Board's search for a new Executive Director. Eugene M. Toy was hired as Executive Director effective August 26, 2013.

NET POSITION

Table 1 summarizes the Net Position of the District.

TABLE 1

	2013	2012	2011	2013 vs 2012		2012 vs 2011	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Current and other assets	\$ 839,308	\$ 821,138	\$ 827,951	\$ 18,170	2.2%	\$ (6,813)	-0.8%
Capital assets	30,098	30,694	31,358	(596)	-1.9%	(664)	-2.1%
Total assets	869,406	851,832	859,309	17,574	2.1%	(7,477)	-0.9%
Current and other liabilities	1,500,829	1,489,590	1,475,277	11,239	0.8%	14,313	1.0%
Long-term liabilities - debt	59,000	59,000	59,000	-	0.0%	-	0.0%
Total liabilities	1,559,829	1,548,590	1,534,277	11,239	0.7%	14,313	0.9%
Invested in capital assets	30,098	30,694	31,358	(596)	-1.9%	(664)	-2.1%
Unrestricted	(720,521)	(727,452)	(706,326)	6,931	-1.0%	(21,126)	3.0%
Total Net Position	\$ (690,423)	\$ (696,758)	\$ (674,968)	\$ 6,335	0.9%	\$ (21,790)	-3.2%

LORAIN COUNTY RURAL WASTEWATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2013 and 2012
(Unaudited)

NET POSITION (Continued)

The District's Net Position increased/decreased \$6,335 (0.9%) and \$21,790 (-3.2%) in 2013 and 2012, respectively. These increases/decreases are a result of excess revenues/expenses over expenses/revenues.

STATEMENT OF REVENUES AND EXPENSES (CHANGES IN NET POSITION)

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

TABLE 2

	2013	2012	2011	2013 vs 2012		2012 vs 2011	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Operating revenue	\$ 205,716	\$ 201,190	\$ 34,529	\$ 4,526	2.2%	\$ 166,661	482.7%
Operating expenses	181,664	185,160	172,656	(3,496)	-1.9%	12,504	7.2%
Depreciation expenses	596	664	733	(68)	-10.2%	(69)	-9.4%
Total expenses	182,260	185,824	173,389	(3,564)	-1.9%	12,435	7.2%
Operating income/(loss)	23,456	15,366	(138,860)	8,090	-52.6%	154,226	111.1%
Nonoperating revenue	5,346	265	414,586	5,081	1917.4%	(414,321)	-99.9%
Nonoperating expenses	22,467	37,421	19,190	(14,954)	-40.0%	18,231	95.0%
Nonoperating (loss)/income	(17,121)	(37,156)	395,396	20,035	-53.9%	(432,552)	-109.4%
Change in net position	6,335	(21,790)	256,536	28,125	-129.1%	(278,326)	-108.5%
Beginning net position	(696,758)	(674,968)	(931,504)	(21,790)	-3.2%	256,536	27.5%
Ending net position	\$ (690,423)	\$ (696,758)	\$ (674,968)	\$ 6,335	0.9%	\$ (21,790)	-3.2%

Total Operating Expenses decreased/increased \$3,496 (-1.9%) and \$12,504 (7.2%) in 2013 and 2012, respectively, with the majority of the decrease/increase due to legal and professional fees.

CAPITAL ASSETS

The District had no change in Capital Assets (before depreciation) at the end of 2013 and 2012, respectively, as shown in Table 3.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2013 and 2012
(Unaudited)

CAPITAL ASSETS (Continued)

TABLE 3

				2013 vs 2012		2012 vs 2011	
	2013	2012	2011	Dollar Change	Percent Change	Dollar Change	Percent Change
Land and easements	\$ 10,012	\$ 10,012	\$ 10,012	\$ -	0.0%	\$ -	0.0%
Tanks, stations, and lines	23,825	23,825	23,825	-	0.0%	-	0.0%
Furniture and fixtures	4,029	4,029	4,029	-	0.0%	-	0.0%
Total before depreciation	37,866	37,866	37,866	-	0.0%	-	0.0%
Accumulated depreciation	(7,768)	(7,172)	(6,508)	(596)	8.3%	(664)	10.2%
Total capital assets, net	\$ 30,098	\$ 30,694	\$ 31,358	\$ (596)	-1.9%	\$ (664)	-2.1%

See Note 2 of the financial statements for additional information on Capital Assets.

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

				2013 vs 2012		2012 vs 2011	
	2013	2012	2011	Dollar Change	Percent Change	Dollar Change	Percent Change
Notes payable	\$ 59,000	\$ 59,000	\$ 59,000	\$ -	0.0%	\$ -	0.0%
Non-current liabilities	\$ 59,000	\$ 59,000	\$ 59,000	\$ -	0.0%	\$ -	0.0%

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

DEBT FINANCING

In 2010, the District obtained a \$147,000 line-of-credit from Lorain-Medina Rural Electric Cooperative, Inc. See Note 2 of the financial statements for additional information on this liability.

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 POSITION - PROPRIETARY FUND

December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
CURRENT ASSETS: (Note 2)		
Cash and cash equivalents	\$ 90,341	\$ 35,796
Due from Avon Lake Municipal Utilities	-	16,000
Total current assets	<u>90,341</u>	<u>51,796</u>
NON-CURRENT ASSETS:		
Accounts receivable - Tap assessment	15,000	16,000
Capitalized tap fee expense (Note 6)	733,967	753,342
Total non-current assets	<u>748,967</u>	<u>769,342</u>
CAPITAL ASSETS: (Note 2)		
Non-depreciable capital assets, net	10,012	10,012
Depreciable capital assets, net	20,086	20,682
	<u>30,098</u>	<u>30,694</u>
Total assets	<u>\$ 869,406</u>	<u>\$ 851,832</u>

(continued)

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

LORAIN COUNTY RURAL WASTEWATER DISTRICT

STATEMENTS OF NET POSITION - PROPRIETARY FUND (continued)

December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<u>LIABILITIES AND NET POSITION</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 474,814	\$ 477,930
Accrued payroll	6,059	8,716
Compensated absences payable	4,413	9,809
Accrued interest	93,543	71,135
Note payable - Line-of-credit (Note 4)	147,000	147,000
Total current liabilities	<u>725,829</u>	<u>714,590</u>
 NON-CURRENT LIABILITIES: (Note 5)		
Notes payable	<u>59,000</u>	<u>59,000</u>
 OTHER LIABILITIES:		
Tap fee (Note 6)	<u>775,000</u>	<u>775,000</u>
Total liabilities	<u><u>1,559,829</u></u>	<u><u>1,548,590</u></u>
 NET POSITION:		
Investment in capital assets	30,098	30,694
Unrestricted deficit	(720,521)	(727,452)
Total net position	<u>(690,423)</u>	<u>(696,758)</u>
Total liabilities and net position	<u><u>\$ 869,406</u></u>	<u><u>\$ 851,832</u></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 POSITION - PROPRIETARY FUND

Years Ended December 31, 2013 and 2012

	2013	2012
OPERATING REVENUE:		
Usage fee income	\$ 25,716	\$ 21,190
Co-op income	180,000	180,000
Total operating revenue	205,716	201,190
OPERATING EXPENSES:		
Bank fees	436	354
Computer expense	2,147	2,286
Consulting expense	10,540	-
Depreciation expense	596	664
Dues and subscriptions	260	410
Engineering expense	8,593	-
Insurance	2,500	2,620
Legal and professional fees	28,479	35,679
Mileage expense	1,861	1,827
Miscellaneous expense	872	372
Office supplies and expense	2,519	3,562
O.P.E.R.S.	10,870	11,900
Payroll taxes	2,338	3,217
Postage expense	229	558
Building rent	3,000	3,000
Tap fee expense	19,375	19,375
Telephone	1,225	864
Travel & entertainment	27	-
Wages - Office	77,147	90,240
Wastewater treatment	9,246	8,896
Total operating expenses	182,260	185,824
INCOME FROM OPERATIONS	23,456	15,366
NONOPERATING REVENUES:		
Interest income	-	3
Miscellaneous income	5,280	133
Penalty	66	129
Total nonoperating revenues	5,346	265
NONOPERATING EXPENSES:		
Interest expense	22,441	37,421
Penalties	26	-
Total nonoperating expenses	22,467	37,421

(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 POSITION -
PROPRIETARY FUND (continued)**

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CHANGE IN NET POSITION	\$ 6,335	\$ (21,790)
NET POSITION - Beginning of period	<u>(696,758)</u>	<u>(674,968)</u>
NET POSITION - End of period	<u>\$ (690,423)</u>	<u>\$ (696,758)</u>

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

LORAIN COUNTY RURAL WASTEWATER DISTRICT

STATEMENTS OF CASH FLOWS - PROPRIETARY FUND

Years Ended December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from usage fees	\$ 25,716	\$ 21,190
Cash received from co-op	195,000	165,000
Cash received from tap fee assessment	1,000	-
Cash paid to employees, professional contractors, and suppliers for services and benefits	(173,458)	(164,893)
Net cash provided by (used in) operating activities	48,258	21,297
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Cash received - Miscellaneous	5,280	133
Cash received for late fee and delinquencies	66	129
Cash received for developer deposit	1,000	-
Cash paid for developer deposit	-	(25,000)
Cash paid for penalty and interest	(59)	-
Net cash provided by (used in) non-capital financing activities	6,287	(24,738)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest earned	-	3
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	54,545	(3,438)
CASH AND CASH EQUIVALENTS - Beginning of year	35,796	39,234
CASH AND CASH EQUIVALENTS - End of year	\$ 90,341	\$ 35,796

(continued)

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

LORAIN COUNTY RURAL WASTEWATER DISTRICT

STATEMENTS OF CASH FLOWS - PROPRIETARY FUND

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income	\$ 23,456	\$ 15,366
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation	596	664
Change in assets:		
Accounts receivable	16,000	(15,000)
Deferred expenses	19,375	19,375
Change in liabilities:		
Accounts payable	(3,116)	6,685
Accrued expenses	(8,053)	(5,793)
Net cash provided by (used in) operating activities	<u>\$ 48,258</u>	<u>\$ 21,297</u>

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

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

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 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.

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, 2013 and 2012

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 position, 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 position. The statement of changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its enterprise activity.

D. Net Position:

Net position represents the difference between assets and liabilities. Net position investment in capital assets consists of capital assets, net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on its 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 position is available. At December 31, 2013 and December 31, 2012, the District reported a deficit of \$720,521 and \$727,452 in unrestricted net position, respectively.

E. Operating Revenues and Expenses:

Operating revenues are those revenues that are generated directly from primary activities. For the District, these revenues are charges for services and other operating income. Operating expenses are the necessary costs incurred to provide the goods or service that are the primary activity of the District. Revenues and expenses not meeting these definitions are reported as nonoperating.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

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 expensed when incurred.

Depreciation expense for the years ended December 31, 2013 and 2012 was \$596 and \$664, respectively.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

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, 2013 is as follows:

	Balance January 1, 2013	Additions	Deletions	Balance December 31, 2013
Land and easements	\$ 10,012	\$ -	\$ -	\$ 10,012
Tanks, stations, and lines	23,825	-	-	23,825
Furniture and fixtures	4,029	-	-	4,029
	<u>37,866</u>	<u>-</u>	<u>-</u>	<u>37,866</u>
Less accumulated depreciaton				
Tanks, stations, and lines	(3,141)	(596)	-	(3,737)
Furniture and fixtures	(4,031)	-	-	(4,031)
Total accumulated depreciation	<u>(7,172)</u>	<u>(596)</u>	<u>-</u>	<u>(7,768)</u>
Net capital assets	<u>\$ 30,694</u>	<u>\$ (596)</u>	<u>\$ -</u>	<u>\$ 30,098</u>

A summary of changes in capital assets for the year ended December 31, 2012 is as follows:

	Balance January 1, 2012	Additions	Deletions	Balance December 31, 2012
Land and easements	\$ 10,012	\$ -	\$ -	\$ 10,012
Tanks, stations, and lines	23,825	-	-	23,825
Furniture and fixtures	4,029	-	-	4,029
	<u>37,866</u>	<u>-</u>	<u>-</u>	<u>37,866</u>
Less accumulated depreciaton				
Tanks, stations, and lines	(2,546)	(595)	-	(3,141)
Furniture and fixtures	(3,962)	(69)	-	(4,031)
Total accumulated depreciation	<u>(6,508)</u>	<u>(664)</u>	<u>-</u>	<u>(7,172)</u>
Net capital assets	<u>\$ 31,358</u>	<u>\$ (664)</u>	<u>\$ -</u>	<u>\$ 30,694</u>

H. Compensated Absences Payable:

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

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

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

H. Compensated Absences Payable (Continued):

Effective March 8, 2012, per employment contract, there is no distinction between vacation days, sick days and personal days. It is now a definitive period of time. The definitive period of time is 35 days per calendar year during the term of employment. Unused leave time may be accrued and carried over year to year, and may be accumulated without limit and used for that purpose in accordance with the District's policy for sick time. At the end of the contract term, any accrued leave time, up to a maximum of 30 days, will be paid or carried over to a new contract per the District's option. If paid, it will be computed at the then-current rate of pay.

Effective August 26, 2013, per employment contract, there is no distinction between vacation days, sick days and personal days. It is now a definitive period of time. The definitive period of time is 20 days per calendar year during the term of employment. Unused leave time may be accrued and carried over year to year, and may not exceed 10 days to be used for that purpose in accordance with the employment agreement. At the end of the contract term, any accrued leave time, up to a maximum of 20 days, will be paid or carried over to a new contract per the District's option. If paid, it will be computed at the then-current rate of pay.

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 2013 and 2012, 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.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

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.

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, 2013 and December 31, 2012, the District had \$60 and \$162, respectively, in undeposited cash on hand, which is included in the Statement of Net Position 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 \$90,281 and \$35,634 and the bank balance was \$95,238 and \$35,669, respectively. The bank balance was covered by federal depository insurance provided by the Federal Deposit Insurance Corporation (FDIC). Although securities were held by the pledging financial institution's trust department or agent in the District's name and all Ohio Revised Code requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

The District had no investments at December 31, 2013 and 2012, respectively.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

Note 4. Short-Term Liabilities:

Description	Balance January 1, 2012	Additions	Deletions	Balance December 31, 2013
A line-of-credit in the amount of \$147,000, with \$0 unused in 2013 and \$0 unused in 2012, 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, 2013 and 2012 was 3.2% and 3.2%, respectively. The loan agreement requires principal and accrued interest to be paid within twelve months of the advance of funds. Subject to this requirement, the note is past due. Lorain-Medina Rural Electric Cooperative, Inc. has no intention of calling the loan. However, the loan is due upon demand. The District accrued interest of \$4,769 and \$5,184, respectively.	\$ 147,000	\$ -0-	\$ -0-	\$ 147,000

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

Note 5. Noncurrent Liabilities:

A summary of non-current liabilities debt for the period January 1, 2012 through December 31, 2013, is as follows:

Description	Balance January 1, 2012	Additions	Deletions	Balance December 31, 2013
Lorain County Rural Wastewater District borrowed \$5,000 from Carlisle Township in March 1997 for the start-up/organization of this entity. Timing of repayment is contingent upon availability of funds.	\$ 5,000	\$ -0-	\$ -0-	\$ 5,000
Lorain County Rural Wastewater District borrowed \$5,000 from LaGrange Township in March 1997 for the start-up/organization of this entity. Timing of repayment is contingent upon availability of funds.	5,000	-0-	-0-	5,000
Lorain County Rural Wastewater District borrowed \$5,000 from New Russia Township in March 1997 and \$5,000 in October 2000 for the start-up/organization of this entity. Timing of repayment is contingent upon availability of funds.	10,000	-0-	-0-	10,000
Lorain County Rural Wastewater District borrowed \$5,000 from Elyria Township in March 1997 for the start-up/organization of this entity. Timing of repayment is contingent upon availability of funds.	5,000	-0-	-0-	5,000
Lorain County Rural Wastewater District borrowed \$10,000 from Lorain-Medina Rural Electric Cooperative, Inc. in June 1999 and \$5,000 in September 2000 for the start-up/organization of this entity. Timing of repayment is contingent upon availability of funds.	15,000	-0-	-0-	15,000
Lorain County Rural Wastewater District borrowed \$2,500 from Camden Township in April 2001 for the start-up/organization of this entity. Timing of repayment is contingent upon availability of funds.	2,500	-0-	-0-	2,500
Lorain County Rural Wastewater District borrowed \$5,500 from Grafton Township in April 2001 for the start-up/organization of this entity. Timing of repayment is contingent upon availability of funds.	5,500	-0-	-0-	5,500

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

Note 5. Noncurrent Liabilities (Continued):

Description	Balance January 1, 2012	Additions	Deletions	Balance December 31, 2013
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>59,000</u>	<u>0-</u>	<u>0-</u>	<u>59,000</u>

As of December 31, 2013 and 2012, the District owed \$11,366 and \$25,481, respectively, in accrued interest to the Lorain-Medina Rural Electric Cooperative, Inc.

Note 6. Deferred Tap Fee:

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

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

Note 6. Deferred Tap Fee (Continued):

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

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

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

Note 7. Insurance:

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District maintains comprehensive insurance coverage which includes Comprehensive General Liability, Wrongful Act Liability, and Automobile Liability. Settled claims have not exceeded insurance coverage in the past three years and there has been no significant reduction in coverage from prior years.

Note 8. Retirement Commitments:

A. Retirement Plans:

Lorain County Rural Wastewater District contributes to the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer defined benefit pension plan operated by the State of Ohio. OPERS administers three separate pension plans: the Traditional Pension Plan—a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and (vested) employer contributions plus any investment earnings; and the Combined Plan—a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan. OPERS provides retirement, disability, survivor, death benefits, annual cost-of-living adjustments and post-retirement health care coverage to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage. Health care benefits are not statutorily guaranteed.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

Note 8. Retirement Commitments (Continued):

A. Retirement Plans (Continued):

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 OPERS. OPERS issues a publicly available stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS at 277 East Town Street, Columbus, Ohio 43215-4642 or calling (614) 222-5601 or 1-800-222-PERS (7377). The State of Ohio accounts for the activities of the Retirement System, and the amount of that fund is not reflected in the accompanying financial statements.

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 2013, 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 2013 and 2012 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, 2013, 2012, and 2011, was \$10,870, \$11,900, and \$11,396, respectively. Contributions to the member directed plan was \$19,119, 22,361, and \$18,674, for the years then ended December 31, 2013, 2012, and 2011, respectively.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

Note 8. Retirement Commitments (Continued):

B. Post-Employment Benefits:

The Ohio Public Employees Retirement System provides post-retirement health care coverage to age-and-service retirees with ten or more years of qualifying Ohio service credits. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 45. OPERS Post Employment Health Care Plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The employer contribution rate was 14.00% of covered payroll from January 1 through December 31, 2013 and 2012. The portion of employer contributions allocated to health care for members in the Traditional Plan was 1.0% and 4.0% from January 1 through December 31, 2013 and 2012, respectively. The portion of employer contributions allocated to health care for members in the Combined Plan was 1.0% and 6.05% for January 1 through December 31, 2013 and 2012, respectively. Effective January 1, 2014, the portion of employer contributions allocated to healthcare was raised to 2 percent for both plans, as recommended by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The employer contributions, made by Lorain County Rural Wastewater District, used to fund post employment benefits were \$776, \$3,400, and \$3,400, for the years ended December 31, 2013, 2012, and 2011, respectively. The employer contributions were 100% each year.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

Note 9. Leasing Arrangements:

The District leases office space from Lorain-Medina Rural Electric Cooperative, Inc. This lease is for a one-year period ending December 31, 2013 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, 2013 and 2012 was \$3,000. As of December 31, 2013 and December 31, 2012, the District owed \$34,600 and \$34,600 in accrued rent.

Note 10. Administrative Arrangements:

The District had 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. The wage agreement with LMRE terminated June 30, 2009. As of December 31, 2013 and 2012, the District owed \$190,860 and \$190,860, respectively, in accrued administrative costs.

Note 11. Accountability and Financial Outlook:

For the fiscal years ended December 31, 2013 and 2012, Lorain County Rural Wastewater District had a net income/loss of \$6,335 and \$21,790, respectively, and an accumulated deficit of \$690,423 and \$696,758, respectively. The net income/loss and accumulated deficit are the result of start-up costs and operating expenses incurred by the District. The District's strategy is to develop additional projects, beyond Phase I of the system being developed with the Avon Lake Municipal Utilities, and thereby repay the indebtedness from revenues derived from consumers utilizing the District's wastewater services.

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S 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

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Lorain County Rural Wastewater District, Lorain County, Ohio, (the District) as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 30, 2014.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. 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 internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. We consider finding 2013-001 described in the accompanying schedule of findings to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2013-002 described in the accompanying schedule of findings to be a significant deficiency.

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, opining 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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2013-003.

District's Response to Findings

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.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

September 30, 2014

**LORAIN COUNTY RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2013 AND 2012**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2013-001

Material Weakness – Financial Statement Errors:

Management is responsible for implementing and maintaining an internal control system designed to enable management to determine the accuracy of the District's financial statement transactions. Also, management is responsible for developing and maintaining complete and accurate financial records.

Our financial statement testing noted the following:

- Compensated absences payable were overstated by \$4,882 and \$6,863 for 2012 and 2013, respectively, due to errors in the calculations. These errors were adjusted to the financial statements.
- Accounts payable were overstated by \$1,434 and \$5,728 for 2012 and 2013, respectively, due to errors in the calculations. These errors were adjusted to the financial statements.

The District should exercise due care when posting GAAP transactions to help ensure the GAAP journal entries are correct and posted to the proper funds and accounts. Management should also review the draft GAAP journal entries and financial statements to help ensure they are supported by sufficient documentation, reconciled to the trial balances, free of obvious errors and omissions, and consistent with their financial expectations. These procedures should help avoid GAAP financial statement errors and help ensure more accurate financial reporting.

Officials' Response: The District acknowledges the comment and will work to correct the issue.

FINDING NUMBER 2013-002

Significant Deficiency – Receipt Procedures:

Receipt cycle internal controls are necessary to help ensure receipts collected by an entity are properly posted to the accounting system and timely deposited with the entity's financial institution. Basic receipt internal controls should include, but not be limited to, use of secured accounting software, pre-numbered receipts, batch report summaries, and daily reconciliations of deposit tickets to receipt postings. Additionally, the process and records should be periodically reviewed by individuals independent of the receipt process to ensure it is functioning properly.

During 2012 through May 2013, the District documented its receipt collections on an Excel spreadsheet. The spreadsheet had no built-in controls to ensure transactions were properly recorded and could not be changed or deleted after-the-fact. Pre-numbered receipts were inconsistently used and there was no consistent process for reconciling daily collections to the receipt postings and deposit tickets. Additionally, monitoring of the process by individuals independent of the process was non-existent. After May 2013, the District contracted its receipt collection process to the Avon Lake Municipal Utilities.

FINDING NUMBER 2013-002 - (Continued)

Significant Deficiency – Receipt Procedures (Continued):

Failure to implement and follow basic receipt internal controls could result in improper transactions posting, financial statement errors, theft and/or loss of public funds.

The District should ensure basic receipt internal controls are implemented and consistently followed at all times.

Officials' Response: As noted in the Finding, the District now contracts receipt collection with Avon Lake Regional Water. Receipt collection is no longer performed by the District.

FINDING NUMBER 2013-003

Noncompliance Finding – Expenditure Certification:

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

Ohio Revised Code § 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.

FINDING NUMBER 2013-003 – (Continued)

Noncompliance Finding – Expenditure Certification – (Continued):

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 § 5705.41(D). However, these payments would still subject to the requirements of Ohio Rev. Code § 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.

14 of 20 disbursements tested did not have certification purchase orders or “Then and Now” certificates. Unless the exceptions noted above are used, prior certification is not only required by statute, but is a key control in the disbursement process to assure purchase commitments received prior approval. To improve control over disbursements and to help reduce the possibility of the District’s funds exceeding budgetary spending limitations, the Executive Director should certify the funds are or will be available prior to the obligation by the District. When prior certification is not possible, “then and now” certification should be used.

We recommend the District certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Executive Director should sign the certification at the time the District incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Executive Director should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Officials’ Response: The District acknowledges the comment and will work to correct the issue.

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**LORAIN COUNTY RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2013 AND 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-01	Material Weakness: Effects on Financial Statements: Several financials statement errors were identified and adjusted to the financial statements.	No	Not Corrected, comment repeated as Finding 2013-001.
2011-02	Noncompliance Finding: Ohio Rev. Code Section 5705.28 (B)(2): Nine out of twelve tested expenditures were not certified. Also, certain "then and now" certificates exceeding \$3,000 were not approved by the Board.	No	Not Corrected, comment repeated as Finding 2013-003
2011-03	Noncompliance Finding: Incompatibility of Offices -1984 Op. Atty. Gen. No. 84-059: Ten of 16 trustee members were also township trustees of the communities they represent.	Yes	Finding no longer valid.
2011-04	Noncompliance Finding: Conflict of Interest – Ohio Rev. Code § 2921.42 (A): A trustee voted on a matter pertaining to his home Township instead of abstaining. A trustee was previously employed by a contracted party and another trustee served on both the District's Board and a contracted vendor's board.	Yes	Finding no longer valid.

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Dave Yost • Auditor of State

LORAIN COUNTY RURAL WASTEWATER DISTRICT

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 21, 2014**