



Dave Yost • Auditor of State



**RURAL LORAIN COUNTY WATER AUTHORITY  
LORAIN COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Rural Lorain County Water Authority  
Lorain County  
42401 State Route 303  
LaGrange, Ohio 44050

To the Board of Trustees:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the Rural Lorain County Water Authority, Lorain County, Ohio (the Authority), as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority'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 Authority'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 Authority'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 Rural Lorain County Water Authority, Lorain County as of December 31, 2014 and 2013, 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 Information*

Our audit was conducted to opine on the Authority's financial statements taken as a whole. The Statements of Operating Expenses present additional analysis and are not a required part of the basic financial statements.

The Statements of Operating Expenses are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected these statements to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2015, on our consideration of the Authority'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 Authority's internal control over financial reporting and compliance.

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

July 29, 2015

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# RURAL LORAIN COUNTY WATER AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2014 and 2013

This discussion and analysis, along with the accompanying financial reports of the Rural Lorain County Water Authority (RLCWA), are designed to provide our customers, bondholders, creditors and other interested parties with a general overview of the Authority and its financial activities.

### **FINANCIAL HIGHLIGHTS**

The Total Assets of RLCWA exceeded liabilities by \$39.1 million and \$35.8 million in 2014 and 2013, respectively.

The Authority's Net Position increased by \$3.3 million (9.2%) and \$1.6 million (4.6%) in 2014 and 2013, respectively.

The Authority's Operating Revenues increased by \$480 thousand (3.5%) and increased by \$191 thousand (1.4%) with Operating Expenses decreasing \$199 thousand (-1.8%) and \$81 thousand (-0.8%) in 2014 and 2013, respectively.

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

The Authority is a single fund using proprietary fund accounting, similar to private sector business. The Authority is described in Note 1, Summary of Significant Accounting Policies, on page sixteen (16). 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 Authority's Assets and Liabilities. This statement provides information about the nature and amounts of investments in resources (assets) owned by the Authority, and obligations owed by the Authority (liabilities) on December 31. The Authority's net position (equity) is the difference between assets and liabilities.

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

The **Statement of Cash Flows** provides information about the Authority's cash receipts and cash disbursements from operations, investing and financing activities. The statement summarizes where the cash was provided, cash uses, and changes in the balances during the year.

The **Notes to Financial Statements** provide additional information that is essential for a full understanding of the financial statements.

# RURAL LORAIN COUNTY WATER AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2014 and 2013

### NET POSITION

Table 1 summarizes the Net Position of the Authority. Capital Assets are reported less accumulated depreciation. Net Investment in Capital Assets are capital assets less outstanding debt used to acquire those assets.

**TABLE 1**

	2014	2013	2012	2014 vs 2013		2013 vs 2012	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Current and other assets	\$ 22,357,638	\$ 20,520,673	\$ 20,388,592	\$ 1,836,965	9.0%	\$ 132,081	0.6%
Capital assets	42,012,238	42,994,183	43,037,951	(981,945)	-2.3%	(43,768)	-0.1%
Total assets	<u>64,369,876</u>	<u>63,514,856</u>	<u>63,426,543</u>	<u>855,020</u>	1.3%	<u>88,313</u>	0.1%
Long-term liabilities	21,565,760	23,567,568	25,496,168	(2,001,808)	-8.5%	(1,928,600)	-7.6%
Other liabilities	3,660,717	4,102,225	3,668,511	(441,508)	-10.8%	433,714	11.8%
Total liabilities	<u>25,226,477</u>	<u>27,669,793</u>	<u>29,164,679</u>	<u>(2,443,316)</u>	-8.8%	<u>(1,494,886)</u>	-5.1%
Net investment in capital assets	18,649,215	17,695,261	15,877,099	953,954	5.4%	1,818,162	11.5%
Restricted	5,426,113	5,154,879	5,191,174	271,234	5.3%	(36,295)	-0.7%
Unrestricted	15,068,071	12,994,923	13,193,591	2,073,148	16.0%	(198,668)	-1.5%
Total net position	<u>\$ 39,143,399</u>	<u>\$ 35,845,063</u>	<u>\$ 34,261,864</u>	<u>\$ 3,298,336</u>	9.2%	<u>\$ 1,583,199</u>	4.6%

The Authority's Net Position increased \$3.3 million (9.2%) and \$1.6 million (4.6%) in 2014 and 2013, respectively. These increases are a result of excess revenue over expenses.

The Authority decreased long-term liabilities by \$2.00 million and \$1.93 million from the payment of long-term notes in 2014 and 2013, respectively.

# RURAL LORAIN COUNTY WATER AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2014 and 2013

### STATEMENT OF REVENUE AND EXPENSES (CHANGES IN NET POSITION)

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

**TABLE 2**

	2014	2013	2012	2014 vs 2013		2013 vs 2012	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Operating revenue	\$ 14,342,459	\$ 13,862,638	\$ 13,672,022	\$ 479,821	3.5%	\$ 190,616	1.4%
Operating expenses	7,463,795	7,551,876	7,816,143	(88,081)	-1.2%	(264,267)	-3.4%
Maintenance expenses	714,014	882,265	764,854	(168,251)	-19.1%	117,411	15.4%
Depreciation expenses	2,435,615	2,378,371	2,313,356	57,244	2.4%	65,015	2.8%
Total operating expenses	10,613,424	10,812,512	10,894,353	(199,088)	-1.8%	(81,841)	-0.8%
Operating income	3,729,035	3,050,126	2,777,669	678,909	22.3%	272,457	9.8%
Nonoperating revenue	765,655	424,031	458,389	341,624	80.6%	(34,358)	-7.5%
Nonoperating expenses	(1,196,354)	(1,890,958)	(1,425,715)	694,604	-36.7%	(465,243)	32.6%
Nonoperating loss	(430,699)	(1,466,927)	(967,326)	1,036,228	-70.6%	(499,601)	51.6%
Change in net position	3,298,336	1,583,199	1,810,343	1,715,137	108.3%	(227,144)	-12.5%
Beginning net position	35,845,063	34,261,864	32,451,521	1,583,199	4.6%	1,810,343	5.6%
Ending net position	\$ 39,143,399	\$ 35,845,063	\$ 34,261,864	\$ 3,298,336	9.2%	\$ 1,583,199	4.6%

Total operating revenue increased \$480 thousand (3.5%) and increased \$191 thousand (1.4%) in 2014 and 2013, respectively. Unrealized gain (loss) on investments increased by \$293 thousand (294.5%) resulting in the majority of the increase of \$342 thousand (80.6%) in nonoperating revenue for 2014.

Operations and maintenance expenses decreased \$256 thousand (-3.0%) and decreased \$147 thousand (-1.7%) in 2014 and 2013, respectively. A decrease in O.P.E.R.S. expense accounted for the majority of the decrease in operating and maintenance costs in 2014.

# RURAL LORAIN COUNTY WATER AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2014 and 2013

### CAPITAL ASSETS

The Authority had \$80.52 million and \$79.23 million invested in capital assets (before depreciation) at December 31, 2014 and 2013, respectively, as shown in Table 3. This amount is an increase of \$1.28 million (1.6%) and \$2.19 million (2.8%) from the previous year.

**TABLE 3**

	2014	2013	2012	2014 vs 2013		2013 vs 2012	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Land and easements	\$ 693,311	\$ 662,847	\$ 661,803	\$ 30,464	4.6%	\$ 1,044	0.2%
Buildings	2,357,467	2,357,467	2,357,467	0	0.0%	0	0.0%
Tanks, stations, and lines	64,298,833	61,893,055	61,318,752	2,405,778	3.9%	574,303	0.9%
Meters and replacements	9,217,535	9,192,474	9,164,332	25,061	0.3%	28,142	0.3%
Furniture and fixtures	1,613,704	1,622,564	1,586,184	(8,860)	-0.5%	36,380	2.3%
Machinery, equipment, and vehicles	2,066,029	1,962,965	1,905,161	103,064	5.3%	57,804	3.0%
Construction in progress	268,528	1,542,533	48,343	(1,274,005)	-82.6%	1,494,190	3090.8%
Total before depreciation	80,515,407	79,233,905	77,042,042	1,281,502	1.6%	2,191,863	2.8%
Accumulated depreciation	(38,503,169)	(36,239,722)	(34,004,091)	(2,263,447)	6.2%	(2,235,631)	6.6%
Total capital assets, net	\$ 42,012,238	\$ 42,994,183	\$ 43,037,951	\$ (981,945)	-2.3%	\$ (43,768)	-0.1%

The increase in capital assets for 2013 to 2014 was for line extensions, a water main, relocation of lines, a pump station, meter replacements, a projection system, a server, two pickup trucks, an excavator, a van, and a trailer.

The increase in capital assets from 2012 to 2013 was for line extensions, line replacement, and relocation of lines, meter replacements, one off-road vehicle, and four trucks.

# RURAL LORAIN COUNTY WATER AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2014 and 2013

### DEBT

Table 4 summarizes the Authority's long-term debt. The Authority issues long-term revenue bonds to finance much of its construction.

**TABLE 4**

	2014	2013	2012	2014 vs 2013		2013 vs 2012	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Long-term debt:							
2003 Revenue bonds	\$ 4,255,000	\$ 5,210,000	\$ 6,130,000	\$ (955,000)	-18.3%	\$ (920,000)	-15.0%
2006 Revenue bonds	7,140,000	7,555,000	7,950,000	(415,000)	-5.5%	(395,000)	-5.0%
OWDA loans	9,084,853	9,489,723	9,880,038	(404,870)	-4.3%	(390,315)	-4.0%
Rural development bonds	2,883,170	3,044,199	3,200,814	(161,029)	-5.3%	(156,615)	-4.9%
Total long-term debt	23,363,023	25,298,922	27,160,852	(1,935,899)	-7.7%	(1,861,930)	-6.9%
Less: Current maturities	(1,797,263)	(1,731,354)	(1,664,684)	(65,909)	3.8%	(66,670)	4.0%
Net total long-term debt	\$ 21,565,760	\$ 23,567,568	\$ 25,496,168	\$ (2,001,808)	-8.5%	\$ (1,928,600)	-7.6%

See Note 4 of the financial statements for details of issuance and retirement of debt in 2014.

The Bond Reserve Fund and Bond Fund were established for payment of bond service charges and cancellation or redemption of bonds. The Bond Reserve Fund had a balance of \$2,137,004 and \$1,976,080 and the Bond Fund had a balance of \$3,289,109 and \$3,178,799 at December 31, 2014 and 2013, respectively. See Note 2 of the financial statements for more details on the bond reserve funds.

# RURAL LORAIN COUNTY WATER AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2014 and 2013

### DEBT COVERAGE

Table 5 reflects the ability of the Authority to pay both interest and the current principal installments on its outstanding debt.

**TABLE 5**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenue	\$ 14,342,459	\$ 13,862,638	\$ 13,672,022
Nonoperating revenue - Interest	105,575	119,373	123,134
Total revenue	<u>14,448,034</u>	<u>13,982,011</u>	<u>13,795,156</u>
Less: Operations and maintenance expenses	<u>(8,177,809)</u>	<u>(8,434,141)</u>	<u>(8,580,997)</u>
Total revenue available for debt	<u>\$ 6,270,225</u>	<u>\$ 5,547,870</u>	<u>\$ 5,214,159</u>
Revenue bond debt service - 2003 and 2006	\$ 1,956,187	\$ 1,960,137	\$ 1,956,357
Revenue bond debt service - Rural development	282,380	283,462	283,785
OWDA Loans	<u>376,036</u>	<u>376,036</u>	<u>376,036</u>
Total debt service requirements	<u>\$ 2,614,603</u>	<u>\$ 2,619,635</u>	<u>\$ 2,616,178</u>
Combined coverage ratio - All debt	2.40	2.12	1.99

The Authority is required to meet a revenue-to-debt ratio of 1.20 for its 2003 and 2006 revenue bonds and a 1.00 ratio for rural development bonds.

### CONTACT INFORMATION

Questions regarding this report and requests for additional information should be forwarded to the General Manager of the Rural Lorain County Water Authority, 42401 Route 303, P.O. Box 567, LaGrange, Ohio 44050.

# RURAL LORAIN COUNTY WATER AUTHORITY

## STATEMENTS OF NET POSITION

December 31, 2014 and 2013

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents:		
General	\$ 128,323	\$ 149,624
Working capital	3,844,325	3,828,037
Capital improvements	3,803,675	1,990,963
Receivables: (Note 1)		
Trade (net allowance for doubtful accounts of \$72,183 in 2014 and \$75,515 in 2013)	773,370	786,246
Cinnamon Lake tap fees	76,029	74,029
Medina County ETL1	17,827	17,632
Other	11,259	21,112
Interest	193	33,001
Inventory (Note 1)	437,680	511,778
Prepaid expenses (Note 1)	66,746	56,975
Total current assets	<u>9,159,427</u>	<u>7,469,397</u>
<b>NONCURRENT ASSETS:</b>		
Cinnamon Lake tap fees receivable (Note 10)	1,555,819	1,639,610
Medina County ETL1 receivable (Note 12)	111,178	129,005
Restricted cash and investments (Note 2)	7,286,959	6,883,145
Investment in joint venture (Note 9)	4,244,255	4,399,516
Total noncurrent assets	<u>13,198,211</u>	<u>13,051,276</u>
<b>CAPITAL ASSETS, AT COST: (Note 1)</b>		
Capital assets not being depreciated:		
Land	317,539	287,075
Easements	375,772	375,772
Current construction	268,528	1,542,533
Total capital assets not being depreciated	961,839	2,205,380
Capital assets (net of accumulated depreciation of \$38,503,291 in 2014 and \$36,239,722 in 2013)	41,050,399	40,788,803
Total capital assets	<u>42,012,238</u>	<u>42,994,183</u>
TOTAL ASSETS	<u>\$ 64,369,876</u>	<u>\$ 63,514,856</u>

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

# RURAL LORAIN COUNTY WATER AUTHORITY

## STATEMENTS OF NET POSITION

December 31, 2014 and 2013

### LIABILITIES

	<u>2014</u>	<u>2013</u>
<b>CURRENT LIABILITIES:</b>		
Current portion of long-term debt	\$ 1,797,263	\$ 1,731,354
Accounts payable	435,002	815,160
Taxes payable	26,682	24,846
Compensated absences payable (Note 1)	603,451	721,460
Tenant deposits	106,350	103,200
Unearned tap fees	12,500	12,500
Accrued expenses:		
Wages	41,701	39,280
Tank painting (Note 11)	429,000	429,000
Interest	<u>208,768</u>	<u>225,425</u>
Total current liabilities	3,660,717	4,102,225
<b>LONG-TERM DEBT: (Note 4)</b>		
Bonds and notes payable:		
2006 Series	7,140,000	7,555,000
2003 Series	4,255,000	5,210,000
Notes payable - bank	691,670	821,199
OWDA	9,084,853	9,489,723
USDA	<u>2,191,500</u>	<u>2,223,000</u>
	23,363,023	25,298,922
Less: Current portion	<u>1,797,263</u>	<u>1,731,354</u>
	<u>21,565,760</u>	<u>23,567,568</u>
<b>TOTAL LIABILITIES</b>	<u>25,226,477</u>	<u>27,669,793</u>
<b>NET POSITION:</b>		
Net investment in capital assets	18,649,215	17,695,261
Restricted for bonds payable	5,426,113	5,154,879
Unrestricted	<u>15,068,071</u>	<u>12,994,923</u>
	<u>\$ 39,143,399</u>	<u>\$ 35,845,063</u>

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



## RURAL LORAIN COUNTY WATER AUTHORITY

### STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION

Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUE:		
Water sales	\$ 13,850,347	\$ 13,440,148
Tap fees	<u>492,112</u>	<u>422,490</u>
	14,342,459	13,862,638
 OPERATING EXPENSES	 <u>10,613,424</u>	 <u>10,812,512</u>
 INCOME FROM OPERATIONS	 3,729,035	 3,050,126
NONOPERATING REVENUE:		
Penalty income	188,683	191,452
Miscellaneous	200,855	158,805
Miscellaneous subdivision income	29,635	6,401
Water line reimbursements	0	10,973
Discounts earned	188	366
Investment income	105,575	119,373
Unrealized gain (loss) on investments	193,423	(99,467)
Gain (loss) on disposal of assets	<u>47,296</u>	<u>36,128</u>
	765,655	424,031
 NONOPERATING EXPENSES:		
Interest expense	1,043,112	1,115,514
Change in value of investment in joint venture	155,261	155,261
Bad debts	(2,019)	11,849
Bond issuance cost amortization (Note 1)	<u>0</u>	<u>608,334</u>
	1,196,354	1,890,958
 CHANGE IN NET POSITION	 3,298,336	 1,583,199
 BEGINNING NET POSITION	 <u>35,845,063</u>	 <u>34,261,864</u>
 ENDING NET POSITION	 <u>\$ 39,143,399</u>	 <u>\$ 35,845,063</u>

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

# RURAL LORAIN COUNTY WATER AUTHORITY

## STATEMENTS OF CASH FLOWS

Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 14,497,419	\$ 13,958,910
Cash payments to suppliers for goods and services	(5,960,001)	(5,221,141)
Cash payments to employees and professional contractors for services and benefits	(2,644,240)	(2,878,324)
Net cash provided by operating activities	<u>5,893,178</u>	<u>5,859,445</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of property and equipment and current construction	(1,453,670)	(2,334,602)
Proceeds from sale of equipment	47,296	36,128
Repayment of 2003 Series Bonds	(955,000)	(920,000)
Repayment of 2006 Series Bonds	(415,000)	(395,000)
Repayment of notes payable	(565,899)	(546,929)
Interest paid on debt	(1,059,769)	(1,130,285)
Net cash used in capital and related financing activities	<u>(4,402,042)</u>	<u>(5,290,688)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment income	298,998	19,906
Net cash provided by investing activities	<u>298,998</u>	<u>19,906</u>
<b>CASH FLOWS FROM NON-CAPITAL ACTIVITIES:</b>		
Other nonoperating activities	421,379	367,997
Net cash provided by non-capital activities	<u>421,379</u>	<u>367,997</u>

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

**RURAL LORAIN COUNTY WATER AUTHORITY**

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2014 and 2013

	2014	2013
INCREASE IN CASH AND CASH EQUIVALENTS	2,211,513	956,660
CASH AND CASH EQUIVALENTS - Beginning of period	12,851,769	11,895,109
CASH AND CASH EQUIVALENTS - End of period	\$ 15,063,282	\$ 12,851,769
PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	\$ 3,729,035	\$ 3,050,126
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	2,435,615	2,378,371
Bad debts	0	(11,849)
Changes in assets and liabilities:		
Increase (decrease) in:		
Receivables	154,960	96,272
Inventory	74,098	(47,742)
Prepaid expenses	(9,770)	12,454
Increase (decrease) in:		
Accounts payable	(380,158)	415,238
Taxes payable	1,836	(2,924)
Compensated absences payable	(118,009)	(38,015)
Deposits	3,150	2,400
Accrued expenses	2,421	5,114
Net cash provided by operating activities	\$ 5,893,178	\$ 5,859,445

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

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

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 created by the court on August 23, 1973, to be a duly organized regional water district, a political subdivision of the State of Ohio organized pursuant to Chapter 6119 of the Ohio Revised Code. The Authority was organized 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 significant accounting policies followed in the preparation of these financial statements conform to generally accepted accounting principles for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The Authority applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

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. Short-term investments consist of certificates of deposit, U.S. Government Income Funds, or U.S. Treasury Funds. Long-term investments consist of U.S. Treasury Bonds and Notes. 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.

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

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

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.

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 \$50,000, 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. Capital Assets:

The minimum capitalization threshold is any individual item with a total cost of greater than \$750 and a useful life of more than one year. Capital assets including major renewals or betterments are capitalized and stated at historical 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 and Building Improvements	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.

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

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

F. Capital Assets (Continued):

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.

Depreciation expense for the years ended December 31, 2014 and 2013 was \$2,435,615 and \$2,378,370, respectively.

A summary of changes in capital assets for the year ended December 31, 2014, is as follows:

	Balance December 31, 2013	Additions	Deletions	Balance December 31, 2014
Capital assets not being depreciated:				
Land	\$ 287,075	\$ 34,150	\$ -	\$ 321,225
Easements	375,772	-	-	375,772
Current construction	1,542,533	-	(1,274,005)	268,528
Buildings	2,357,467	-	-	2,357,467
Tanks, stations, and lines	61,893,055	2,405,778	-	64,298,833
Meters and replacements	9,192,474	25,061	-	9,217,535
Furniture and fixtures	1,622,564	48,891	(57,751)	1,613,704
Machinery, equipment, and vehicles	1,962,965	217,481	(114,417)	2,066,029
	78,571,058	2,697,211	(1,446,173)	79,822,096
Less accumulated depreciation				
Buildings	(1,742,091)	(101,734)	-	(1,843,825)
Tanks, stations, and lines	(30,473,448)	(1,627,099)	-	(32,100,547)
Meters and replacements	(1,075,072)	(462,535)	-	(1,537,607)
Furniture and fixtures	(1,355,395)	(77,402)	57,751	(1,375,046)
Machinery, equipment, and vehicles	(1,593,716)	(166,845)	114,417	(1,646,144)
Total accumulated depreciation	(36,239,722)	(2,435,615)	172,168	(38,503,169)
Net capital assets	\$ 42,331,336	\$ 261,596	\$ (1,274,005)	\$ 41,318,927

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

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

F. Capital Assets (Continued):

A summary of changes in capital assets for the year ended December 31, 2013, is as follows:

	Balance December 31, 2012	Additions	Deletions	Balance December 31, 2013
Capital assets not being depreciated:				
Land	\$ 287,075	\$ -	\$ -	\$ 287,075
Easements	374,728	1,044	-	375,772
Current construction	48,343	1,494,190	-	1,542,533
Buildings	2,357,467	-	-	2,357,467
Tanks, stations, and lines	61,318,752	574,303	-	61,893,055
Meters and replacements	9,164,332	28,142	-	9,192,474
Furniture and fixtures	1,586,184	36,380	-	1,622,564
Machinery, equipment, and vehicles	1,905,161	200,543	(142,739)	1,962,965
	<u>76,380,239</u>	<u>2,333,558</u>	<u>(142,739)</u>	<u>78,571,058</u>
Less accumulated depreciation				
Buildings	(1,639,325)	(102,766)	-	(1,742,091)
Tanks, stations, and lines	(28,894,393)	(1,579,055)	-	(30,473,448)
Meters and replacements	(613,906)	(461,166)	-	(1,075,072)
Furniture and fixtures	(1,276,835)	(78,560)	-	(1,355,395)
Machinery, equipment, and vehicles	(1,579,632)	(156,823)	142,739	(1,593,716)
Total accumulated depreciation	<u>(34,004,091)</u>	<u>(2,378,370)</u>	<u>142,739</u>	<u>(36,239,722)</u>
Net capital assets	<u>\$ 42,376,148</u>	<u>\$ (44,812)</u>	<u>\$ -</u>	<u>\$ 42,331,336</u>

G. Prepaid Expenses:

Prepaid expenses are expensed over their economic useful lives.

H. Deferred Debt Issue Costs:

Bond issue costs are capitalized and amortized over the various terms of the 2003 and 2006 bonds using the straight-line method. Per the guidelines of GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities," deferred debt issue costs that were previously recorded as a deferred charge over the life of the bonds' payback period will be expensed as incurred for financial statement periods beginning after December 31, 2012. The December 31, 2012 balance of \$608,334 of deferred debt issue costs was expensed in 2013. Amortization expense for the years ended December 31, 2014 and 2013 was \$-0- and \$608,334, respectively.

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

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

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, 2014 and 2013 was \$250,078 and \$224,578, respectively; the recorded estimated unused sick leave and vacation for the years ended December 31, 2014 and 2013 reflected in the compensated absences payable amount on page 12 was \$603,451 and \$721,460, respectively.

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, 2014 and 2013, consist of:

	<u>2014</u>	<u>2013</u>
Cash:		
General	\$ 128,323	\$ 149,624
Working capital	3,844,325	3,828,037
Capital improvements	3,803,675	1,990,963
Restricted cash and investments	<u>7,286,959</u>	<u>6,883,145</u>
	<u>\$15,063,282</u>	<u>\$12,851,769</u>



# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

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

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.

M. Receivables:

The Authority considers receivables to be collectible with an allowance for doubtful accounts that is based on the Authority's collection receivable policy.

N. Net Position:

The Authority has restricted net position to be used to fund future debt service requirements. None of the Authority's restricted net position of \$5,426,113 in 2014 and \$5,154,879 in 2013 was restricted by enabling legislation.

Note 2. Description of 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.

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.

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

Note 2. Description of Funds (Continued):

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 bond obligations.

E. Project/Administration 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 \$-0- and \$-0- as of December 31, 2014 and 2013, respectively.

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.

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

Note 2. Description of Funds (Continued):

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. OWDA Fund:

This fund is maintained in the custody of the Authority as a separate account. Payments of \$53,000 are made each month plus Cinnamon Lake assessments that are collected by the Ashland County Auditor and deposited on a semi-annual basis. Monies in this fund will be used to pay the semi-annual Ohio Water Development Authority loan payments.

I. Restricted Cash and Investments:

	<u>2014</u>	<u>2013</u>
Bond reserve fund	\$2,137,004	\$1,976,080
Bond fund	3,289,109	3,178,799
OWDA fund	385,618	374,946
Replacement and improvement fund	751,627	750,889
Project/Administration fund	-0-	-0-
Employee policy fund	<u>723,601</u>	<u>602,431</u>
	<u>\$7,286,959</u>	<u>\$6,883,145</u>

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:

Active deposits are public deposits necessary to meet current demands on the Treasury. Such monies must be maintained either as cash in the Authority Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Trustees has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

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

A. Legal Requirements (Continued):

Interim deposits represent interim monies that are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts. Interim monies can be deposited or invested in the following securities:

1. Notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-loan money market mutual funds consisting exclusively of obligations described in items (1) and (2) of this footnote and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

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

A. Legal Requirements (Continued):

9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio; and
10. Banker's acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's average portfolio.

Protection of the Authority's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Authority by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or a debt of the Authority, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Authority or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

B. Deposits:

Custodial credit risk for deposits is the risk that in the event of bank failure, the Authority will not be able to recover deposits or collateral securities that are in the possession of an outside party.

Based on the criteria described in GASB Statement No. 40, "*Deposits and Investment Risk Disclosures*," as of December 31, 2014 and 2013, \$500,000 and \$500,000 of the Authority's bank balances of \$8,367,038 and \$6,507,942, respectively, were covered by federal depository insurance. The remaining balances were covered by specific securities held by the pledging financial institution's trust department in the Authority's name. Although all State statutory requirements for the deposit of money have been followed, noncompliance with federal requirements could potentially subject the Authority to a successful claim by the FDIC.

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

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

B. Deposits (Continued):

The Authority has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Authority or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

C. Investments:

As of December 31, 2014 the Authority had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>% of Total</u>	<u>Maturities (in Years)</u>	
			<u>Less than 1</u>	<u>1 - 5</u>
Federal Farm Credit Banks	\$ 40,026	0.6%	\$ 40,026	\$ 0
Federal Home Loan Bank Bonds	235,266	3.5%	190,287	44,979
Federal National Mortgage Association Bonds	150,149	2.2%	25,085	125,064
Federal National Mortgage Association Discount Notes	29,996	0.4%	29,996	0
Federal Home Loan Mortgage Corp. Bonds	5,017	0.1%	5,017	0
Federal Home Loan Mortgage Corp.	95,494	1.4%	0	95,494
First American Treasury Obligation	10,914	0.2%	10,914	0
Federated Treasury Obligation Fund	4,133,652	61.0%	4,133,652	0
U.S. Treasury Funds, Bonds, and Notes	2,067,912	30.6%	1,682,966	384,946
	<u>\$ 6,768,426</u>			

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

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

C. Investments (Continued):

As of December 31, 2013 the Authority had the following investments:

Investment Type	Fair Value	% of Total	Maturities (in Years)	
			Less than 1	1 - 5
Federal Farm Credit Banks	\$ 60,993	0.9%	\$ 60,993	\$ 0
Federal Home Loan Bank Bonds	85,165	1.3%	0	85,165
Federal National Mortgage Association Bonds	186,793	2.9%	12,072	174,721
Federal National Mortgage Association				
Treasury Notes	95,518	1.5%	35,359	60,159
Federal Home Loan Mortgage Treasury Notes	117,355	1.8%	117,355	0
Federal National Mortgage Association				
Discount Notes	124,956	1.9%	124,956	0
Federal Home Loan Mortgage Corp. Bonds	15,032	0.2%	0	15,032
Federal Home Loan Mortgage Corp.	50,266	1.6%	0	50,266
Federal Home Loan Mortgage Corp. Discount Notes	364,873	5.6%	364,873	0
First American Treasury Obligation	44,859	0.8%	44,859	0
Federated Treasury Obligation Fund	3,216,897	49.5%	3,216,897	0
U.S. Treasury Funds, Bonds, and Notes	2,132,749	32.8%	1,937,982	194,767
	<u>\$ 6,495,456</u>			

**Interest Rate Risk** – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. It is the Authority’s policy to hold instruments to maturity, limiting any investment to a maximum of five years. The targeted weighted average days to maturity for the overall Authority portfolio is not more than two years. In addition, Ohio law prescribes that all Authority investments mature within five years of purchase, unless the investment is matched to a specific obligation or debt of the Authority.

**Credit Risk** – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of December 31, 2014, the Authority’s investment in U.S. instrumentalities (Federal National Mortgage Association Discount Notes, Federal Home Loan Bank Bonds, Federal Farm Credit Bank Bonds, Federal National Mortgage Association Bonds, Federal Home Loan Mortgage Corporation Bonds) were all rated AAA by Standard and Poor’s and Aaa by Moody’s Investors Service. As of December 31, 2013, the Authority’s investment in U.S. instrumentalities (Federal National Mortgage Association Discount Notes, Federal National Mortgage Association Treasury Notes, Federal Home Loan Bank Bonds, Federal Home Loan Mortgage Treasury Notes, Federal Farm Credit Bank Bonds, Federal National Mortgage Association Bonds, Federal Home Loan Mortgage Corporation Bonds, Federal Home Loan Mortgage Corporation Discount Notes) were all rated AAA by Standard and Poor’s and Aaa by Moody’s Investors Service.

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

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

C. Investments (Continued):

**Custodial Credit Risk** – Custodial credit risk is the risk that, in the event of the failure of a counterparty to a transaction, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Consistent with the requirements of State Law, it is the policy of the Authority to require full collateralization of all investments other than obligations of the U.S. Government, its agencies and instrumentalities. The Authority’s investment in U.S. agencies with fair values totaling \$566,862 has maturities of \$301,325 in less than one year for the year ended December 31, 2014. The Authority’s investment in U.S. agencies with fair values totaling \$1,145,810 has maturities of \$760,467 in less than one year for the year ended December 31, 2013. U.S. agencies are held in the account of U.S. Bank (“Trustee”), at the Federal Reserve Bank of Boston, Massachusetts. The Authority’s securities associated with the principal and interest payment of bond proceeds in the amount of \$5,426,112 and \$5,154,879, for 2014 and 2013, respectively, are held in the account of FirstMerit Bank. Assets held by the Trustee as a custodial agent are considered legally separate from the other assets of the Trustee.

**Concentration of Credit Risk** – Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The Authority’s investment policy provides that investments be diversified to reduce the risk of loss from over concentration in a single issuer, but does not identify specific limits on the amounts that may be so invested. More than five percent of the Authority’s investments are in United States Treasury Bills, Federated Treasury Obligation Fund, and U.S. Treasury Funds.



# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

Note 4. Long-Term Debt:

A summary of long-term debt for the year ended December 31, 2014 is as follows:

Description	Balance December 31, 2013	Borrowed	Repaid	Balance December 31, 2014	Due Within One Year
A note payable in the amount of \$691,670 is due to FirstMerit Bank, N.A. and Trust. The note requires annual principal and interest payments at the One-Year U.S. Treasury Security Index plus 2.12% with a maturity date of September 2019. The note is guaranteed by the United States Department of Agriculture (USDA). This note is subordinated to the Series 1999, 2003A and B, and 2006 senior lien revenue bonds.	\$ 821,199	\$ -0-	\$ 129,529	\$ 691,670	\$ 132,199
A Water Resource Improvement Revenue Bond, Series 2003A in the amount of \$1,319,000 is due to the USDA. The bond requires annual principal and interest payments at an annual interest rate of 4.875% with a maturity date of February 2043.	1,340,000	-0-	21,000	1,319,000	21,000
A Water Resource Improvement Revenue Bond, Series 2003B is due in the amount of \$4,255,000. The Bond requires annual principal and interest payments with interest rates ranging from 1.5% to 4.4% with a final maturity date of October 2018.	5,210,000	-0-	955,000	4,255,000	995,000
A Water Resource Improvement Revenue Bonds, Series 2006 is due in the amount of \$7,140,000. The Bond requires annual principal and interest payments with interest rates ranging from 3.75% to 5.00% with a final maturity date of October 2031.	7,555,000	-0-	415,000	7,140,000	430,000
A Water Resource Improvement Revenue Bonds, Series 2009 is due in the amount of \$872,500. The Bond requires annual principal and interest payments at an annual interest rate of 4.375% with a maturity date of July 2049.	883,000	-0-	10,500	872,500	11,000
A total of \$9,084,853 has been borrowed from the Ohio Water Development Authority. These notes will require semi-annual principal and interest payments due on January 1 <sup>st</sup> and July 1 <sup>st</sup> , including interest at rates from 2.87% to 3.86%. The maturity dates range from January 1, 2031 through January 1, 2032.	9,489,723	-0-	404,870	9,084,853	208,064
	<u>\$ 25,298,922</u>	<u>\$ -0-</u>	<u>\$1,935,899</u>	<u>\$ 23,363,023</u>	<u>\$ 1,797,263</u>

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

Note 4. Long-Term Debt (Continued):

A summary of long-term debt for the year ended December 31, 2013 is as follows:

Description	Balance December 31, 2012	Borrowed	Repaid	Balance December 31, 2013	Due Within One Year
A note payable in the amount of \$821,199 is due to FirstMerit Bank, N.A. and Trust. The note requires annual principal and interest payments at the One-Year U.S. Treasury Security Index plus 2.12% with a maturity date of September 2019. The note is guaranteed by the United States Department of Agriculture (USDA). This note is subordinated to the Series 1999, 2003A and B, and 2006 senior lien revenue bonds.	\$ 947,714	\$ -0-	\$ 126,515	\$ 821,199	\$ 129,272
A Water Resource Improvement Revenue Bond, Series 2003A in the amount of \$1,340,000 is due to the USDA. The bond requires annual principal and interest payments at an annual interest rate of 4.875% with a maturity date of February 2043.	1,360,000	-0-	20,000	1,340,000	21,000
A Water Resource Improvement Revenue Bond, Series 2003B is due in the amount of \$5,210,000. The Bond requires annual principal and interest payments with interest rates ranging from 1.5% to 4.4% with a final maturity date of October 2018.	6,130,000	-0-	920,000	5,210,000	955,000
A Water Resource Improvement Revenue Bonds, Series 2006 is due in the amount of \$7,555,000. The Bond requires annual principal and interest payments with interest rates ranging from 3.75% to 5.00% with a final maturity date of October 2031.	7,950,000	-0-	395,000	7,555,000	415,000
A Water Resource Improvement Revenue Bonds, Series 2009 is due in the amount of \$883,000. The Bond requires annual principal and interest payments at an annual interest rate of 4.375% with a maturity date of July 2049.	893,100	-0-	10,100	883,000	10,500
A total of \$9,489,723 has been borrowed from the Ohio Water Development Authority. These notes will require semi-annual principal and interest payments due on January 1 <sup>st</sup> and July 1 <sup>st</sup> , including interest at rates from 2.87% to 3.86%. The maturity dates range from January 1, 2031 through January 1, 2032.	9,880,038	-0-	390,315	9,489,723	200,582
	<u>\$ 27,160,852</u>	<u>\$ -0-</u>	<u>\$1,861,930</u>	<u>\$ 25,298,922</u>	<u>\$ 1,731,354</u>

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

Note 4. Long-Term Debt (Continued):

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of December 31, 2014, are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,797,263	\$ 817,339	\$ 2,614,602
2016	2,092,404	903,949	2,996,353
2017	2,177,874	814,744	2,992,618
2018	2,274,181	721,856	2,996,037
2019	1,181,084	626,452	1,807,536
2020-2024	5,929,063	2,385,728	8,314,791
2025-2029	4,665,940	1,223,096	5,889,036
2030-2034	2,098,814	402,064	2,500,878
2035-2039	449,100	225,648	674,748
2040-2044	480,800	101,415	582,215
2045-2049	216,500	29,230	245,730
Total	<u>\$ 23,363,023</u>	<u>\$ 8,251,521</u>	<u>\$ 31,614,544</u>

The 2003, 2006, and 2009 Series bonds, OWDA loans, 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 indentures require, 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.

The FirstMerit Bank N.A. note is payable from the revenues of the Authority after the payment of operating and maintenance costs. The note is guaranteed by the United States Department of Agriculture.

Note 5. Insurance:

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.

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.

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

Note 5. Insurance (Continued):

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:

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described below:

1. The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan.
2. 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 member and (vested) employer contributions plus any investment earnings.
3. The Combined Plan – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. Under the Combined Plan, employer contributions are invested by OPERS 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 and death benefits, and annual cost-of-living adjustments to members of the Traditional Pension and the Combined Plans. OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying benefit recipients 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. The Ohio Revised Code permits, but does not require, OPERS to provide the OPEB Plan to its eligible benefit recipients. Authority to establish and amend the OPEB Plan is provided in Chapter 145 of the Ohio Revised Code.

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

Note 6. Retirement Commitments (Continued):

A. Defined Benefit Pension Plans (Continued):

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

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2014 and 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 officers participate in only the Traditional Pension Plan.

Benefits fully vest upon reaching five 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 three years of earnings.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. The rate set for member contributions for 2014 and 2013 was 10.00%, and the employer contribution rate was 14.00% of earnable salary. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members do not fund the OPEB Plan. Total required employer contributions for all plans are equal to 100% of employer charges and should be extracted from the employer's records. Pension expense for the years ended December 31, 2014, 2013, and 2012 was \$374,394, \$560,080 and \$583,043, respectively.

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

In June 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This accounting standard replaces GASB Statement 27, and it is effective for employer fiscal years beginning after June 15, 2014.

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

Note 6. Retirement Commitments (Continued):

B. Post-Employment Benefits:

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45. OPERS' eligibility requirements for post-employment health care coverage changed for those retiring on and after January 1, 2015. Please see the Plan Statement in the OPERS 2013 CAFR for details. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care coverage. The employer contribution rate is 14.00% of earnable salary from January 1 through December 31, 2014 and 2013.

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. The portion of employer contributions allocated to health care for members in the Traditional Plan was 2.0% and 1.0% during calendar years 2014 and 2013, respectively. The portion of employer contributions allocated to health care for members in the Combined Plan was 2.0% and 1.0% during calendar years 2014 and 2013, respectively. Effective January 1, 2015, the portion of employer contributions allocated to healthcare remained at 2% for both plans, as recommended by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care provided for the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The portion of employer contributions, made by Rural Lorain County Water Authority, that were used to fund post-employment health benefits were \$53,464, \$39,990, and \$166,575 for the years ended December 31, 2014, 2013, and 2012, respectively.

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

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, incorporates 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” eligibility 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.

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 4.0% of the employer contributions toward the health care fund after the end of the transition period.

C. Retirement Incentive Plan:

The Authority adopted the Retirement Incentive Plan, which is adopted under guidelines of the Ohio Public Employees Retirement System through December 31, 2013. Participation in the Plan shall be available to five percent (5%) 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.

**RURAL LORAIN COUNTY WATER AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

Note 6. Retirement Commitments (Continued):

C. Retirement Incentive Plan (Continued):

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, 2014 and 2013, was \$-0- and \$183,167, respectively.

Note 7. Leasing Arrangements:

The Authority leases two copiers under a 60-month operating lease and two copiers under 36-month operating leases that began in January, October, April and May 2013, and expire in December 2017, September 2018, March 2016, and April 2015, respectively. These leases require rent in the amount of \$140, \$321, \$264, and \$360 per month plus charges for additional copies over 1,000, over 150 for black and white copies and over 350 for color copies, over 2,000, and over 3,500, respectively.

The following is a schedule of future minimum rental payments required under the above operating leases as of December 31, 2014:

<u>Year Ending</u> <u>December 31.</u>	<u>Amount</u>
2015	\$10,140
2016	6,324
2017	5,532
2018	<u>2,889</u>
	<u>\$24,885</u>

Office equipment lease for the years ended December 31, 2014 and 2013 was \$22,067 and \$18,987, respectively.



# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

Note 8. Commitments:

A. Water Purchase Agreements:

The Authority's original and primary source of water (approximately 81.9%) 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 11.7%) 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.

Note 9. Investment in Joint Venture:

The Authority is a member of the Medina-Lorain Water Consortium (the Consortium), which is a joint venture between the City of Avon Lake, the City of Medina, Medina County, and the Rural Lorain County Water Authority. The Consortium was created in 1999 for the purpose of construction, operation and maintenance of a water transmission line to serve members of the Consortium, and for the purpose of bulk water delivery from the City of Avon Lake. There is an ongoing financial responsibility for all parties for the maintenance and repair of the project. The Consortium is governed by representatives of the member parties. The City of Avon Lake serves as the fiscal agent for the Consortium. As of December 31, 2014 and 2013, the Authority's equity interest in the Consortium was \$4,244,255 and \$4,399,516, respectively. Financial information can be obtained from City of Avon Lake, Finance Director, 150 Avon Belden Road, Avon Lake, Ohio 44012.

Note 10. Cinnamon Lake Tap Fees Receivable:

A receivable in the amount of \$1,631,848 and \$1,713,639 is due at December 31, 2014 and 2013, respectively, for tap fees from the residents of Cinnamon Lake. The fees are being collected by the Ashland County Auditor biannually over 20 years through July 2030 including interest at 2.87%.

Note 11. Accrued Tank Painting:

A payable in the amount of \$429,000 is due for the painting of the LaGrange tanks in 2010. The payment is pending certification by the vendor, with payroll records, of the payment of prevailing wages as required by the Bureau of Wage and Hour Administration of the Ohio Department of Commerce.

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

Note 12. Medina County ETL1 Receivable:

A receivable in the amount of \$129,005 and \$146,657 is due at December 31, 2014 and 2013, respectively, for Medina County's portion of relocation costs for the ETL1. Medina County is being billed biannually through July 2021 including interest at 2.202%.

Note 13. Subsequent Events:

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through May 18, 2015, the date the financial statements were issued.

**SUPPLEMENTARY INFORMATION**

# RURAL LORAIN COUNTY WATER AUTHORITY

## STATEMENTS OF OPERATING EXPENSES

Years Ended December 31, 2014 and 2013

	2014	2013
OPERATING EXPENSES:		
Wages:		
Board	\$ 71,544	\$ 80,987
Employees	1,396,758	1,417,561
Vacation and sick leave	215,241	216,524
O.P.E.R.S.	374,394	560,080
Payroll taxes	14,454	5,140
Insurance:		
Hospitalization	407,328	417,551
Life	5,054	4,610
General	78,138	76,650
Audit and professional fees	73,475	91,506
Legal fees	50,966	143,530
Engineering fees	28,801	5,355
Telephone	34,402	31,033
Depreciation	2,435,615	2,378,371
Utilities	22,675	29,774
Billing expense	48,151	46,343
Office equipment lease	22,067	18,987
Office supplies and expense	139,007	135,525
Clothing	15,541	14,786
Postage	117,732	100,704
Maintenance and repairs:		
Administrative building and equipment	164,449	147,251
Vehicles	59,355	77,104
Water lines	184,236	195,763
Pump stations	49,104	77,881
Tanks	256,870	384,266
Travel, mileage, and education expense	42,194	47,593
Gasoline	51,987	54,149
Water purchased	3,496,648	3,369,173
Distribution supplies	103,854	127,114
Electric pump station and tanks	356,746	311,627
Tap installations	183,968	139,445
Communication equipment	1,100	7,337
Miscellaneous expense	111,570	98,792
	\$ 10,613,424	\$ 10,812,512

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



# 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

Rural Lorain County Water Authority  
Lorain County  
42401 State Route 303  
LaGrange, Ohio 44050

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 Water Authority, Lorain County, Ohio (the Authority) as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements and have issued our report thereon dated July 29, 2015.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Authority'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 Authority's internal control. Accordingly, we have not opined on it.

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 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 Authority's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

### ***Compliance and Other Matters***

As part of reasonably assuring whether the Authority'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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***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 Authority's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

July 29, 2015



# Dave Yost • Auditor of State

**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  
AUGUST 13, 2015**