



OHIO AUDITOR OF STATE
KEITH FABER



**RURAL LORAIN COUNTY WATER AUTHORITY
LORAIN COUNTY
DECEMBER 31, 2020, 2019 AND 2018**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Prepared by Management:	
Management's Discussion and Analysis – For the Years Ended December 31, 2020 and 2019.....	5
Basic Financial Statements:	
Statements of Net Position – December 31, 2020 and 2019	13
Statements of Revenue, Expenses and Changes in Net Position – Years Ended December 31, 2020 and 2019	15
Statement of Cash Flows – Years Ended December 31, 2020 and 2019	16
Notes to the Basic Financial Statements – December 31, 2020 and 2019.....	18
Required Supplementary Information:	
Schedule of the Authority's Proportionate Share of the Net Pension Liability – Ohio Public Employees Retirement System – Traditional Plan – Last Seven Years.....	60
Schedule of Authority Pension Contributions – Ohio Public Employees Retirement System – Traditional Plan – Last Seven Years.....	61
Schedule of the Authority's Proportionate Share of the Net OPEB Liability – Ohio Public Employees Retirement System – Last Three Years.....	62
Schedule of Authority OPEB Contributions – Ohio Public Employees Retirement System – Last Four Years.....	63
Notes to Required Supplementary Information	64
Other Information:	
Statements of Operating Expenses – Years Ended December 31, 2020 and 2019	65
Management's Discussion and Analysis – For the Years Ended December 31, 2019 and 2018.....	67
Basic Financial Statements:	
Statements of Net Position – December 31, 2019 and 2018.....	76
Statements of Revenues, Expenses and Changes in Net Position – Years Ended December 31, 2019 and 2018.....	78
Statements of Cash Flows – Years Ended December 31, 2019 and 2018	79

**RURAL LORAIN COUNTY WATER AUTHORITY
LORAIN COUNTY
DECEMBER 31, 2020, 2019 AND 2018**

TABLE OF CONTENTS

TITLE	PAGE
Notes to the Basic Financial Statements – December 31, 2019 and 2018	81
Required Supplementary Information:	
Schedule of the Authority's Proportionate Share of the Net Pension Liability – Ohio Public Employees Retirement System – Last Six Years	124
Schedule of Authority Pension Contributions – Ohio Public Employees Retirement System – Traditional Plan – Last Six Years	125
Schedule of the Authority's Proportionate Share of the Net OPEB Liability – Ohio Public Employees Retirement System – Last Two Years	126
Schedule of Authority OPEB Contributions – Ohio Public Employees Retirement System – Last Three Years	127
Other Information:	
Statements of Operating Expenses – Years Ended December 31, 2019 and 2018.....	128
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	129
Summary Schedule of Prior Audit Findings	131

OHIO AUDITOR OF STATE KEITH FABER



Lausche Building, 12th Floor
615 Superior Avenue, NW
Cleveland, Ohio 44113-1801
(216) 787-3665 or (800) 626-2297
NortheastRegion@ohioauditor.gov

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, 2020, 2019 and 2018, 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 such 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 the overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of December 31, 2020, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 14 to the financial statements for the years ended December 31, 2020 and 2019, the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the Authority. We did not modify our opinion regarding this matter.

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*, and schedules of net pension and other post-employment benefit liabilities and pension and other post-employment benefit contributions 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

Our audit was conducted to opine on the Authority's basic 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 are management's responsibility, and derive from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this information 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 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 September 17, 2021, 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.



Keith Faber
Auditor of State
Columbus, Ohio

September 17, 2021

This page intentionally left blank.

RURAL LORAIN COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(UNAUDITED)

For the Years Ended December 31, 2020 and 2019

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.

During 2018, the Authority adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Authority's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* and *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension and OPEB plans and state law governing those systems require additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the Authority's proportionate share of each plan's collective:

1. Present value of estimated future pension and OPEB benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Authority is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio revised Code permits, but does not require, the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

RURAL LORAIN COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(UNAUDITED)

For the Years Ended December 31, 2020 and 2019

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there are no legal means to enforce the unfunded liability of the pension and OPEB plans *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e., sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability and the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the Authority's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the Authority is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position on December 31, 2017, from \$46,276,565 to \$44,287,297.

FINANCIAL HIGHLIGHTS

The total assets and deferred outflows of RLCWA exceeded liabilities and deferred inflows by \$57.0 million and \$51.8 million in 2020 and 2019, respectively.

The Authority's Net Position increased by \$5.17 million (10.0%) and \$3.88 million (8.1%) in 2020 and 2019, respectively.

The Authority's Operating Revenue increased by \$1.53 million (9.4%) and \$641 thousand (4.1%) with Operating Expenses increasing \$148 thousand (1.6%) and \$685 thousand (7.8%) in 2020 and 2019, respectively.

RURAL LORAIN COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(UNAUDITED)

For the Years Ended December 31, 2020 and 2019

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 eighteen. The Basic Financial Statements are presented using the accrual basis of accounting as further described in the above-mentioned note.

The **Statements of Net Position** includes all the Authority's assets and deferred outflows of resources and liabilities and deferred inflows of resources. 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 is the difference between assets and liabilities.

The **Statements of Revenue, Expenses, and Changes in Net Position** provide 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 **Statements of Cash Flows** provide 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 used, and changes in the balances during the year.

The **Notes to the Basic 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

(UNAUDITED)

For the Years Ended December 31, 2020 and 2019

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

	2020	2019	2018	2020 vs 2019		2019 vs 2018	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Current and other assets	\$ 38,399,916	\$ 34,060,923	\$ 29,384,138	\$ 4,338,993	12.7%	\$ 4,676,785	15.9%
Capital assets	41,033,649	41,043,496	41,630,812	(9,847)	0.0%	(587,316)	-1.4%
Total assets	<u>79,433,565</u>	<u>75,104,419</u>	<u>71,014,950</u>	<u>4,329,146</u>	5.8%	<u>4,089,469</u>	5.8%
Deferred outflow s of resources - Pension & OPEB	\$ 852,907	\$ 1,549,556	\$ 710,198	\$ (696,649)	-45.0%	\$ 839,358	118.2%
Long-term liabilities	\$ 18,499,296	\$ 21,224,666	\$ 20,209,386	\$ (2,725,370)	-12.8%	\$ 1,015,280	5.0%
Current liabilities	3,809,722	3,521,454	2,934,442	288,268	8.2%	587,012	20.0%
Total liabilities	<u>22,309,018</u>	<u>24,746,120</u>	<u>23,143,828</u>	<u>(2,437,102)</u>	-9.8%	<u>1,602,292</u>	6.9%
Deferred inflow s of resources - Pension & OPEB	\$ 965,037	\$ 66,380	\$ 622,290	\$ 898,657	1353.8%	\$ (555,910)	-89.3%
Net investments in capital assets	\$ 26,803,968	\$ 25,595,810	\$ 24,859,086	\$ 1,208,158	4.7%	\$ 736,724	3.0%
Restricted	6,437,990	6,248,039	5,922,349	189,951	3.0%	325,690	5.5%
Unrestricted	<u>23,770,459</u>	<u>19,997,626</u>	<u>17,177,595</u>	<u>3,772,833</u>	18.9%	<u>2,820,031</u>	16.4%
Total net position	<u>\$ 57,012,417</u>	<u>\$ 51,841,475</u>	<u>\$ 47,959,030</u>	<u>\$ 5,170,942</u>	10.0%	<u>\$ 3,882,445</u>	8.1%

The Authority's Net Position increased \$5.17 million (10.0%) and \$3.88 million (8.1%) in 2020 and 2019, respectively. These increases are a result of excess revenue over expense.

The Authority decreased and increased long-term liabilities by \$2.73 million and \$1.02 million in 2020 and 2019, respectively, primarily from the decrease in the net pension liability and the decrease in bonds and notes payable in 2020 and the increase in the net pension liability in 2019.

RURAL LORAIN COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(UNAUDITED)

For the Years Ended December 31, 2020 and 2019

NET POSITION (Continued)

Deferred outflows and inflows of resources – pension was recorded based on RLCWA’s proportionate share of OPERS’ Deferred Inflows/Outflows Amortization Tracking Worksheet per the requirements of GASB 68 and 71, and GASB 75 based on a measurement date of December 31, 2019.

A restatement of 2017 net position in the amount of \$1,989,268 was recorded based on RLCWA’s proportionate share of OPERS’ Schedule of Collective OPEB Amounts per the requirements of GASB 68 and 75 based on a measurement date of December 31, 2017.

STATEMENTS 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

	2020	2019	2018	2020 vs 2019		2019 vs 2018	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Operating revenue	\$ 17,842,457	\$ 16,313,931	\$ 15,673,328	\$ 1,528,526	9.4%	\$ 640,603	4.1%
Operating expenses	9,639,205	9,490,789	8,805,585	148,416	1.6%	685,204	7.8%
Maintenance expenses	474,220	683,376	833,941	(209,156)	-30.6%	(150,565)	-18.1%
Depreciation expenses	2,473,167	2,467,751	2,431,375	5,416	0.2%	36,376	1.5%
Total expenses	12,586,592	12,641,916	12,070,901	(55,324)	-0.4%	571,015	4.7%
Operating income	5,255,865	3,672,015	3,602,427	1,583,850	43.1%	69,588	1.9%
Nonoperating revenue	588,329	925,663	858,554	(337,334)	-36.4%	67,109	7.8%
Nonoperating expenses	(673,252)	(715,233)	(789,248)	41,981	-5.9%	74,015	-9.4%
Nonoperating gain (loss)	(84,923)	210,430	69,306	(295,353)	-140.4%	141,124	203.6%
Change in net position	5,170,942	3,882,445	3,671,733	1,288,497	33.2%	210,712	5.7%
Beginning net position	51,841,475	47,959,030	46,276,565	3,882,445	8.1%	1,682,465	3.6%
Restatement of net position							
- GASB 68 and 75	0	0	(1,989,268)	0	0.0%	1,989,268	100.0%
Restated net position 2017	51,841,475	47,959,030	44,287,297	3,882,445	8.1%	3,671,733	8.3%
Ending net position	\$ 57,012,417	\$ 51,841,475	\$ 47,959,030	\$ 5,170,942	10.0%	\$ 3,882,445	8.1%

RURAL LORAIN COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(UNAUDITED)

For the Years Ended December 31, 2020 and 2019

STATEMENTS OF REVENUE AND EXPENSES (CHANGES IN NET POSITION) – (Continued)

Total operating revenue increased \$1.53 million (9.4%) and \$641 thousand (4.1%) in 2020 and 2019, respectively. Investment income decreased by \$324 thousand (70.6%) resulting in the majority of the decrease of \$337 thousand (36.4%) in nonoperating revenue for 2020.

Operations and maintenance expenses decreased \$61 thousand (1.2%) and increased \$535 thousand (5.6%) in 2020 and 2019, respectively. A decrease in tanks maintenance expense accounted for the majority of the decrease in operating and maintenance costs in 2020.

A restatement of 2017 net position in the amount of \$1,989,268 was recorded based on RLCWA's proportionate share of OPERS' Schedule of Collective pension and OPEB Amounts per the requirements of GASB 68 and 75 based on a measurement date of December 31, 2017.

CAPITAL ASSETS

The Authority had \$93.05 million and \$91.04 million invested in capital assets (before depreciation) at December 31, 2020 and 2019, respectively, as shown in Table 3. This amount is an increase of \$2.01 million (2.2%) and \$1.50 million (1.7%) from the previous year.

TABLE 3

	2020	2019	2018	2020 vs 2019		2019 vs 2018	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Land and easements	\$ 704,232	\$ 696,325	\$ 696,325	\$ 7,907	1.1%	\$ 0	0.0%
Buildings	2,579,585	2,389,840	2,378,390	189,745	7.9%	11,450	0.5%
Tanks, stations, and lines	75,285,638	73,300,719	72,236,869	1,984,919	2.7%	1,063,850	1.5%
Meters and replacements	10,137,702	10,137,702	9,665,616	0	0.0%	472,086	4.9%
Furniture and fixtures	1,558,058	1,695,034	1,682,547	(136,976)	-8.1%	12,487	0.7%
Machinery, equipment, and vehicles	2,731,260	2,753,480	2,874,331	(22,220)	-0.8%	(120,851)	-4.2%
Construction in progress	49,773	66,795	9,914	(17,022)	-25.5%	56,881	573.7%
Total before depreciation	93,046,248	91,039,895	89,543,992	2,006,353	2.2%	1,495,903	1.7%
Accumulated depreciation	(52,012,599)	(44,996,399)	(47,913,180)	(7,016,200)		2,916,781	
Total capital assets, net	\$ 41,033,649	\$ 46,043,496	\$ 41,630,812	\$ (5,009,847)		\$ 4,412,684	

RURAL LORAIN COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(UNAUDITED)

For the Years Ended December 31, 2020 and 2019

CAPITAL ASSETS (Continued)

The increase in capital assets (before accumulated depreciation) from 2020 to 2019 was primarily for line extensions, relocation of lines, loop enclosures, pump station pressure relieving valve replacement, new parking lot, and three trucks.

The increase in capital assets (before accumulated depreciation) from 2019 to 2018 was primarily for line extensions, relocation of lines, the West Ridge emergency interconnect, meter replacements, and two trucks.

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

	2020	2019	2018	2020 vs 2019		2019 vs 2018	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Long-term debt:							
2015 Revenue bonds	\$ 5,939,916	\$ 6,612,848	\$ 7,265,781	\$ (672,932)	-10.2%	\$ (652,933)	-13.4%
Notes payable - bank	0	0	145,808	0	0.0%	(145,808)	-100.0%
OWDA loans	6,317,765	6,822,238	7,308,537	(504,473)	-7.4%	(486,299)	-6.7%
USDA loans	1,972,000	2,012,600	2,051,600	(40,600)	-2.0%	(39,000)	-1.9%
Total long-term debt	14,229,681	15,447,686	16,771,726	(1,218,005)	-7.9%	(1,324,040)	-7.9%
Less: Current maturities	(942,465)	(915,522)	(1,030,728)	(26,943)	2.9%	115,206	-11.2%
Net total long-term debt	\$ 13,287,216	\$ 14,532,164	\$ 15,740,998	\$ (1,244,948)	-8.6%	\$ (1,208,834)	-7.7%
Net pension liability	\$ 3,045,298	\$ 4,502,309	\$ 2,654,891	\$ (1,457,011)	-32.4%	\$ 1,847,418	69.6%
Net OPEB liability	\$ 2,166,782	\$ 2,190,193	\$ 1,813,497	\$ (23,411)	-1.1%	\$ 376,696	20.8%

See Note 4 of the financial statements for details of issuance and retirement of debt in 2020.

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 \$2,255,598 and \$2,271,317 and the Bond Fund had a balance of \$4,182,392 and \$3,976,722 at December 31, 2020 and 2019, respectively. See Note 2 of the financial statements for more details on the bond reserve fund and the bond fund.

RURAL LORAIN COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(UNAUDITED)

For the Years Ended December 31, 2020 and 2019

DEBT (Continued)

Net pension liability in the amounts of \$3,045,298 and \$4,502,309 were recorded based on the Authority's proportionate share of OPERS' Schedule of Collective Pension Amounts per the requirements of GASB 68 and 71 based on a measurement date of December 31, 2019 and 2018, respectively, with the change between 2019 and 2020 due to changes in deferred inflows and deferred outflows of resources, and recording the GASB 68 pension expense. Net OPEB liability in the amounts of \$2,166,782 and \$2,190,193 were recorded based on the Authority's proportionate share of OPERS' Schedule of Collective OPEB Amounts per the requirements of GASB 75 and recording the GASB 75 OPEB expense based on a measurement date of December 31, 2019 and 2018, respectively, with the change between 2019 and 2020 due to changes in deferred inflows and deferred outflows of resources, and recording the GASB 75 pension expense.

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>2020</u>	<u>2019</u>	<u>2018</u>
Operating revenue	\$ 17,842,457	\$ 16,313,931	\$ 15,673,328
Nonoperating revenue - Interest	134,977	458,825	337,131
Total revenue	<u>17,977,434</u>	<u>16,772,756</u>	<u>16,010,459</u>
Less: Operations and maintenance expenses	(10,113,425)	(10,174,165)	(9,639,526)
Total revenue available for debt	<u>\$ 7,864,009</u>	<u>\$ 6,598,591</u>	<u>\$ 6,370,933</u>
Revenue bond debt service - 2003, 2006 and 2015	\$ 855,750	\$ 853,250	\$ 845,350
Revenue bond debt service - Rural development	135,340	134,651	285,683
OWDA Loans	376,036	376,035	376,036
Total debt service requirements	<u>\$ 1,367,126</u>	<u>\$ 1,363,936</u>	<u>\$ 1,507,069</u>
Combined coverage ratio - All debt	5.75	4.84	4.23

The Authority is required to meet a revenue-to-debt ratio of 1.20 for its 2003, 2009, and 2015 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, 2020 and 2019

<u>ASSETS</u>	<u>2020</u>	<u>2019</u>
CURRENT ASSETS:		
Cash and cash equivalents:		
General	\$ 1,602,268	\$ 1,591,192
Working capital	4,850,232	4,002,640
Capital improvements	16,149,768	12,997,360
Receivables: (Note 1)		
Trade (net allowance for doubtful accounts of \$72,113 in 2020 and \$72,905 in 2019)	1,086,811	881,618
Other	209,176	181,312
Inventory (Note 1)	567,756	547,624
Prepaid expenses (Note 1)	86,481	157,236
Total current assets	<u>24,552,492</u>	<u>20,358,982</u>
NONCURRENT ASSETS:		
AMHP, Cinnamon Lake, Medina County ETL receivable (Note 13)	1,273,796	1,394,853
Tap installments receivable (Note 13)	159,185	64,355
Restricted and Board designated cash and investments, at fair value (Note 2)	9,076,121	8,762,780
Investment in joint venture, At cost (Note 10)	3,312,690	3,467,950
Total noncurrent assets	<u>13,821,792</u>	<u>13,689,938</u>
CAPITAL ASSETS, AT COST: (Note 1)		
Capital assets not being depreciated:		
Land	325,446	317,539
Easements	378,786	378,786
Current construction	49,773	66,795
Total capital assets not being depreciated	<u>754,005</u>	<u>763,120</u>
Capital assets (net of accumulated depreciation of \$52,012,599 in 2020 and \$49,996,399 in 2019)	40,279,644	40,280,376
Total capital assets	<u>41,033,649</u>	<u>41,043,496</u>
OTHER ASSETS:		
Net pension asset (Note 6)	25,632	12,003
TOTAL ASSETS	<u>79,433,565</u>	<u>75,104,419</u>
DEFERRED OUTFLOW OF RESOURCES:		
Pension (Note 6)	503,029	1,377,793
OPEB (Note 7)	349,878	171,763
Total deferred outflow of resources	<u>852,907</u>	<u>1,549,556</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 80,286,472</u>	<u>\$ 76,653,975</u>

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

RURAL LORAIN COUNTY WATER AUTHORITY

STATEMENTS OF NET POSITION

December 31, 2020 and 2019

<u>LIABILITIES</u>	<u>2020</u>	<u>2019</u>
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 942,465	\$ 915,522
Accounts payable	1,675,483	1,343,053
Tank painting (Note 11)	429,000	429,000
Taxes payable	480	39,003
Compensated absences payable (Note 1)	496,795	482,933
Tenant deposits	88,850	99,300
Subdivision rebates	32,000	76,940
Accrued expenses:		
Wages	26,639	13,165
Interest	118,010	122,538
Total current liabilities	<u>3,809,722</u>	<u>3,521,454</u>
 LONG-TERM DEBT: (Note 4)		
Bonds and notes payable:		
2015 Series	5,939,916	6,612,848
OWDA	6,317,765	6,822,238
USDA	<u>1,972,000</u>	<u>2,012,600</u>
Total long-term debt	14,229,681	15,447,686
Less: Current portion	<u>942,465</u>	<u>915,522</u>
Long-term debt, Net of current portion	13,287,216	14,532,164
Net pension liability (Note 6)	3,045,298	4,502,309
Net OPEB liability (Note 7)	<u>2,166,782</u>	<u>2,190,193</u>
TOTAL LIABILITIES	<u>22,309,018</u>	<u>24,746,120</u>
 DEFERRED INFLOW OF RESOURCES:		
Pension (Note 6)	656,543	60,322
OPEB (Note 7)	<u>308,494</u>	<u>6,058</u>
Total deferred inflow of resources	965,037	66,380
 NET POSITION:		
Net investment in capital assets	26,803,968	25,595,810
Restricted for bonds payable	6,437,990	6,248,039
Unrestricted	<u>23,770,459</u>	<u>19,997,626</u>
TOTAL NET POSITION	<u>57,012,417</u>	<u>51,841,475</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
	<u>\$ 80,286,472</u>	<u>\$ 76,653,975</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
OPERATING REVENUE:		
Water sales	\$ 16,440,296	\$ 15,221,587
Tap fees	1,367,869	1,079,335
Subdivision fees	<u>34,292</u>	<u>13,009</u>
Total operating revenue	17,842,457	16,313,931
OPERATING EXPENSES	<u>12,586,592</u>	<u>12,641,916</u>
INCOME FROM OPERATIONS	5,255,865	3,672,015
NONOPERATING REVENUE:		
Penalty income	127,678	190,124
Miscellaneous	262,943	207,631
1926(b) Revenue	9,686	29,958
Water line reimbursements	1,397	8,458
Discounts earned	208	214
Investment income	134,977	458,825
Unrealized gain (loss) on investments	0	25
Gain (loss) on disposal of assets	<u>51,440</u>	<u>30,428</u>
Total nonoperating revenue	<u>588,329</u>	<u>925,663</u>
Income from operating and nonoperating revenue	5,844,194	4,597,678
NONOPERATING EXPENSES:		
Interest expense	517,439	553,339
Change in value of investment in joint venture	155,261	155,261
Bad debts	<u>552</u>	<u>6,633</u>
Total nonoperating expenses	<u>673,252</u>	<u>715,233</u>
CHANGE IN NET POSITION	5,170,942	3,882,445
BEGINNING NET POSITION	<u>51,841,475</u>	<u>47,959,030</u>
ENDING NET POSITION	<u>\$ 57,012,417</u>	<u>\$ 51,841,475</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 17,635,627	\$ 16,411,962
Cash payments to suppliers for goods and services	(6,574,800)	(4,976,540)
Cash payments to employees and professional contractors for services and benefits	(3,172,886)	(3,855,424)
Net cash provided by operating activities	<u>7,887,941</u>	<u>7,579,998</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property and equipment and current construction	(2,411,880)	(1,850,007)
Repayment of 2015 Series Bonds	(625,000)	(605,001)
Repayment of notes payable	(545,073)	(671,107)
Interest paid on debt	(569,900)	(607,002)
Net cash used in capital and related financing activities	<u>(4,151,853)</u>	<u>(3,733,117)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	<u>134,977</u>	<u>458,850</u>
Net cash provided by investing activities	134,977	458,850
 CASH FLOWS FROM NON-CAPITAL ACTIVITIES:		
Other nonoperating activities	<u>453,352</u>	<u>466,813</u>
Net cash provided by non-capital activities	<u>453,352</u>	<u>466,813</u>
INCREASE IN CASH AND CASH EQUIVALENTS	4,324,417	4,772,544
CASH AND CASH EQUIVALENTS - Beginning of period	<u>27,353,972</u>	<u>22,581,428</u>
CASH AND CASH EQUIVALENTS - End of period	<u>\$ 31,678,389</u>	<u>\$ 27,353,972</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	\$ 5,255,865	\$ 3,672,015
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	2,473,167	2,467,751
(Gain) Loss on disposal of assets	(51,440)	(30,428)
Increase in OPERS expense per GASB 68 and 71	345	611,012
Decrease in OPERS expense per GASB 75	100,910	210,991
Bad debts	(552)	(6,633)
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	(206,830)	98,031
Inventory	(20,132)	(65,941)
Prepaid expenses	70,755	(84,750)
Increase (decrease) in:		
Accounts payable	332,430	835,365
Taxes payable	(38,523)	1,750
Compensated absences payable	13,862	(11,401)
Deposits	(55,390)	(55,160)
Accrued expenses	13,474	(62,604)
Net cash provided by operating activities	<u>\$ 7,887,941</u>	<u>\$ 7,579,998</u>

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

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

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 outside 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 THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

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. Expenditures for major renewals, betterments, adaptations, or restorations that extend the useful lives of property and equipment are capitalized.

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 THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

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.

Expenditures for maintenance and repairs are charged to expense as incurred.

Depreciation expense for the years ended December 31, 2020 and 2019 was \$2,473,167 and \$2,467,751, respectively.

A summary of changes in capital assets for the year ended December 31, 2020, is as follows:

	Balance December 31, 2019	Additions	Deletions	Balance December 31, 2020
Land	\$ 317,539	\$ 7,907	\$ -	\$ 325,446
Easements	378,786	-	-	378,786
Buildings	2,389,840	291,811	(102,066)	2,579,585
Tanks, stations, and lines	73,300,719	1,984,919	-	75,285,638
Meters and replacements	10,137,702	-	-	10,137,702
Furniture and fixtures	1,695,034	30,284	(167,260)	1,558,058
Machinery, equipment, and vehicles	2,753,480	165,421	(187,641)	2,731,260
Current construction	66,795	(17,022)	-	49,773
	91,039,895	2,463,320	(456,967)	93,046,248
Less accumulated depreciation				
Buildings	(2,307,440)	(60,771)	102,066	(2,266,145)
Tanks, stations, and lines	(39,957,543)	(1,683,933)	-	(41,641,476)
Meters and replacements	(3,897,457)	(509,228)	-	(4,406,685)
Furniture and fixtures	(1,619,305)	(32,675)	167,260	(1,484,720)
Machinery, equipment, and vehicles	(2,214,654)	(186,560)	187,641	(2,213,573)
Total accumulated depreciation	(49,996,399)	(2,473,167)	456,967	(52,012,599)
Net capital assets	\$ 41,043,496	\$ (9,847)	\$ -	\$ 41,033,649

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

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, 2019, is as follows:

	Balance December 31, 2018	Additions	Deletions	Balance December 31, 2019
Land	\$ 317,539	\$ -	\$ -	\$ 317,539
Easements	378,786	-	-	378,786
Buildings	2,378,390	11,450	-	2,389,840
Tanks, stations, and lines	72,236,869	1,254,609	(190,759)	73,300,719
Meters and replacements	9,665,616	472,086	-	10,137,702
Furniture and fixtures	1,682,547	22,980	(10,493)	1,695,034
Machinery, equipment, and vehicles	2,874,331	82,514	(203,365)	2,753,480
Current construction	9,914	56,881	-	66,795
	89,543,992	1,900,520	(404,617)	91,039,895
Less accumulated depreciation				
Buildings	(2,226,341)	(81,099)	-	(2,307,440)
Tanks, stations, and lines	(38,464,229)	(1,670,408)	177,094	(39,957,543)
Meters and replacements	(3,405,677)	(491,780)	-	(3,897,457)
Furniture and fixtures	(1,583,417)	(45,075)	9,187	(1,619,305)
Machinery, equipment, and vehicles	(2,233,516)	(182,023)	200,885	(2,214,654)
Total accumulated depreciation	(47,913,180)	(2,470,385)	387,166	(49,996,399)
Net capital assets	\$ 41,630,812	\$ (569,865)	\$ (17,451)	\$ 41,043,496

G. Prepaid Expenses:

Prepaid expenses are expensed over their economic useful lives.

H. Debt Issue Costs:

Per the guidelines of GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities," 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. Debt issue costs for the years ended December 31, 2020 and 2019 were \$-0- and \$-0-, respectively.

I. Tap Fees:

To receive service, customers are required to pay a tap fee that varies depending on when the deposit was made and the size of the meter. Fees are refundable in the event expansion does not occur in an area.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

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

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 the time of retirement if an employee was hired before December 31, 2000. If an employee was 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, 2020 and 2019 was \$360,260 and \$315,570, respectively; the recorded estimated unused sick leave and vacation for the years ended December 31, 2020 and 2019 reflected in the compensated absences payable amount on page 14 was \$496,795 and \$482,933, 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. Cash and cash equivalents as of December 31, 2020 and 2019, consist of:

	<u>2020</u>	<u>2019</u>
Cash:		
General	\$ 1,602,268	\$ 1,591,192
Working capital	4,850,232	4,002,640
Capital improvements	16,149,768	12,997,360
Restricted cash and investments	<u>9,076,121</u>	<u>8,762,780</u>
	<u>\$31,678,389</u>	<u>\$27,353,972</u>

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

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 \$6,437,990 and \$6,248,039, for 2020 and 2019, respectively, was restricted by enabling legislation.

O. Deferred Outflows/Inflows of Resources:

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Authority, deferred outflows of resources are reported on the statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 6.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the Authority, deferred inflows of resources include pension. Deferred inflows of resources related to pension are reported on the statement of net position (see Note 6).

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

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

P. Pensions:

For purposes of measuring the net pension/OPEB liability, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

Q. Operating and Nonoperating Revenue and Expenses:

Operating revenue and expenses generally result from providing a water supply for the Authority's users. The principal operating revenue of the Authority consists of charges to customers for sales of water and taps. Operating expenses include the cost of water and tap sales, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

C. Bond Fund:

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

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 2. Description of Funds (Continued):

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, 2020 and 2019, 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.

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.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 2. Description of Funds (Continued):

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 and Board Designated Cash and Investments:

	<u>2020</u>	<u>2019</u>
Bond reserve fund	\$2,255,598	\$2,271,317
Bond fund	4,182,392	3,976,722
OWDA fund	428,319	422,482
Replacement and improvement fund	750,841	755,590
Project/Administration fund	-0-	-0-
Employee policy fund	<u>1,458,971</u>	<u>1,336,669</u>
	<u>\$9,076,121</u>	<u>\$8,762,780</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 THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

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-load 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 note are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the Authority lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2) of this footnote, or cash, or both securities and cash, equal value for equal value;

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

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 Authority'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 Authority'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 through the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial 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, 2020 and 2019, \$500,000 and \$500,000 of the Authority's bank balances of \$24,659,807 and \$20,348,101, 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 THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

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. Effective July 1, 2017, the Ohio Pooled Collateral System (OPCS) was implemented by the Ohio Treasurer of State. The OPCS is a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102% of the deposits being secured or a rate set by the Ohio Treasurer of State. Financial institutions have the option of participating in OPCS or collateralizing utilizing the specific pledge method.

C. Investments:

As of December 31, 2020, 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>
First American Treasury Obligation	\$ 750,833	10.4%	\$ 755,590	0
Federated Treasury Obligation Fund	6,437,998	89.6%	6,437,998	0
	<u>\$ 7,188,831</u>			

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

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

C. Investments (Continued):

As of December 31, 2019, the Authority had the following investments:

Investment Type	Fair Value	% of Total	Maturities (in Years)	
			Less than 1	1 - 5
First American Treasury Obligation	\$ 755,590	10.8%	\$ 755,590	0
Federated Treasury Obligation Fund	6,248,040	89.2%	6,248,040	0
	<u>\$ 7,003,630</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, 2020, the Authority’s investment in U.S. instrumentalities were all rated AAA by Standard and Poor’s and Aaa by Moody’s Investors Service. As of December 31, 2019, the Authority’s investment in U.S. instrumentalities were all rated AAA by Standard and Poor’s and Aaa by Moody’s Investors Service.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

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 securities associated with the principal and interest payment of bond proceeds in the amount of \$6,437,990 and \$6,248,039, for 2020 and 2019, respectively, are held in the account of U.S. 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.

D. Fair Value Hierarchy:

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs-other than quoted prices included within level 1—that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

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

D. Fair Value Hierarchy (Continued):

The following is a summary of the fair value hierarchy of the fair value of investments as of December 31, 2020:

	Level 1	Level 2	Total
Money markets and certificates of deposit	\$1,887,290	\$ -0-	\$1,887,290
Treasury obligations	<u>-0-</u>	<u>7,188,831</u>	<u>7,188,831</u>
Total investments at fair value	<u>\$1,887,290</u>	<u>\$7,188,831</u>	<u>\$9,076,121</u>

The following is a summary of the fair value hierarchy of the fair value of investments as of December 31, 2019:

	Level 1	Level 2	Total
Money markets and certificates of deposit	\$1,759,150	\$ -0-	\$1,759,150
Treasury obligations	<u>-0-</u>	<u>7,003,630</u>	<u>7,003,630</u>
Total investments at fair value	<u>\$1,759,150</u>	<u>\$7,003,630</u>	<u>\$8,762,780</u>

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 4. Long-Term Debt:

A summary of long-term debt for the year ended December 31, 2020 is as follows:

Description	Balance December 31, 2019	Additions	Deductions	Balance December 31, 2020	Due Within One Year
A Water Resource Improvement Revenue Bond, Series 2003A in the amount of \$1,173,000 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.	\$ 1,200,000	\$ -0-	\$ 27,000	\$ 1,173,000	\$ 29,000
A Water Resource Improvement Revenue Bond, Series 2009 is due in the amount of \$799,000. The Bond requires annual principal and interest payments at an annual interest rate of 4.375% with a maturity date of July 2049.	812,600	-0-	13,600	799,000	14,200
A Water Resource Improvement Revenue Bond, Series 2015 is due in the amount of \$5,230,000 plus a premium of \$709,916. The bond requires annual principal and interest payments at an annual interest rate from 2.00% to 5.00% with a maturity date of October 2035.	6,612,848	-0-	672,932	5,939,916	640,000
A total of \$6,317,765 has been borrowed from the Ohio Water Development Authority. These notes will require semi-annual principal and interest payments due on January 1 st and July 1 st , including interest at rates from 2.87% to 3.86%. The maturity dates range from January 1, 2031 through January 1, 2032.	6,822,238	-0-	504,473	6,317,765	259,265
	<u>\$ 15,447,686</u>	<u>\$ -0-</u>	<u>\$ 1,218,005</u>	<u>\$ 14,229,681</u>	<u>\$ 942,465</u>

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 4. Long-Term Debt (Continued):

A summary of long-term debt for the year ended December 31, 2020 is as follows (Continued):

<u>Description</u>	<u>Balance December 31, 2019</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2020</u>	<u>Due Within One Year</u>
A net pension liability in the amount of \$3,045,298 was recorded based on the Authority's proportionate share of OPERS Schedule of Collective Pension Amounts per the requirements of GASB 68 based on a measurement date of December 31, 2019.	\$ 4,502,309	\$ -0-	\$ 1,457,011	\$ 3,045,298	\$ -0-
<u>Description</u>	<u>Balance December 31, 2019</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2020</u>	<u>Due Within One Year</u>
A net OPEB liability in the amount of \$2,166,782 was recorded based on the Authority's proportionate share of OPERS Schedule of Collective OPEB Amounts per the requirements of GASB 75 based on a measurement date of December 31, 2019.	\$ 2,190,193	\$ -0-	\$ 23,411	\$ 2,166,782	\$ -0-

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 4. Long-Term Debt (Continued):

A summary of long-term debt for the year ended December 31, 2019 is as follows:

Description	Balance December 31, 2018	Additions	Deductions	Balance December 31, 2019	Due Within One Year
A note payable that was due to Huntington National Bank was paid off in September 2019.	\$ 145,808	\$ -0-	\$ 145,808	\$ -0-	\$ -0-
A Water Resource Improvement Revenue Bond, Series 2003A in the amount of \$1,200,000 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.	1,226,000	-0-	26,000	1,200,000	27,000
A Water Resource Improvement Revenue Bond, Series 2009 is due in the amount of \$812,600. The Bond requires annual principal and interest payments at an annual interest rate of 4.375% with a maturity date of July 2049.	825,600	-0-	13,000	812,600	13,600
A Water Resource Improvement Revenue Bond, Series 2015 is due in the amount of \$5,855,000 plus a premium of \$757,848. The bond requires annual principal and interest payments at an annual interest rate from 2.00% to 5.00% with a maturity date of October 2035.	7,265,781	-0-	652,933	6,612,848	625,000
A total of \$6,822,238 has been borrowed from the Ohio Water Development Authority. These notes will require semi-annual principal and interest payments due on January 1 st and July 1 st , including interest at rates from 2.87% to 3.86%. The maturity dates range from January 1, 2031 through January 1, 2032.	7,308,537	-0-	486,299	6,822,238	249,922
	<u>\$ 16,771,726</u>	<u>\$ -0-</u>	<u>\$ 1,324,040</u>	<u>\$ 15,447,686</u>	<u>\$ 915,522</u>

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 4. Long-Term Debt (Continued):

A summary of long-term debt for the year ended December 31, 2019 is as follows (Continued):

<u>Description</u>	<u>Balance December 31, 2018</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2019</u>	<u>Due Within One Year</u>
A net pension liability in the amount of \$4,502,309 was recorded based on the Authority's proportionate share of OPERS Schedule of Collective Pension Amounts per the requirements of GASB 68 based on a measurement date of December 31, 2018.	\$ 2,654,891	\$ 1,847,418	\$ -0-	\$ 4,502,309	\$ -0-
<u>Description</u>	<u>Balance December 31, 2018</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2019</u>	<u>Due Within One Year</u>
A net OPEB liability in the amount of \$2,190,193 was recorded based on the Authority's proportionate share of OPERS Schedule of Collective OPEB Amounts per the requirements of GASB 75 based on a measurement date of December 31, 2018.	\$ 1,813,497	\$ 376,696	\$ -0-	\$ 2,190,193	\$ -0-

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

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, 2020, are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 942,465	\$ 424,661	\$ 1,367,126
2022	1,232,927	503,699	1,736,626
2023	1,285,365	455,446	1,740,811
2024	1,332,854	405,124	1,737,978
2025	896,926	356,684	1,253,610
2026-2030	5,054,202	1,230,829	6,285,031
2031-2035	1,710,426	483,135	2,193,561
2036-2040	470,300	204,459	674,759
2041-2045	417,400	86,573	503,973
2046-2050	176,900	19,758	196,658
Total	<u>\$ 13,519,765</u>	<u>\$ 4,170,368</u>	<u>\$ 17,690,133</u>

The 2003, 2009, and 2015 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. The table above does not include the premium of \$709,916 on the 2015 Series bonds. In addition, the indenture requires the establishment of certain funds as discussed in Note 2.

The 2003B and 2006 Series revenue bonds were refunded with the issuance of the 2015 Series revenue bonds. Interest cost savings on the issuance of the 2015 Series and refunding of the 2003B and 2006 Series revenue bonds was 2.27% in interest cost for a total savings in dollars of \$1,193,245. The interest savings averages approximately \$75,000 per year with total savings in today's dollars of approximately \$1,000,000.

The Huntington National Bank 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.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

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 risks of loss related to torts, theft, damage to or destruction of assets, errors and omissions, employee injuries, and natural disasters.

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:

Net Pension Liability:

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions – between an employer and its employees – of salaries and benefits for employee services. Pensions are provided to an employee – on a deferred-payment basis – as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net position liability represents the Authority's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of services, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the Authority's obligation for this liability to annually required payments. The Authority cannot control benefit terms or the manner in which pensions are financed; however, the Authority does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes the employee's portion). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 6. Retirement Commitments (Continued):

Net Pension Liability (Continued):

The proportionate share of each plan's unfunded benefits is presented as a long-term *net OPEB liability* on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in the *intergovernmental payable* on both the accrual basis and modified accrual basis of accounting.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description – The Authority's employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan and the Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. While members (e.g., Authority employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report Comprehensive Annual Financial Report that includes financial statements, required supplementary information, and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (800) 222-7377.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 6. Retirement Commitments (Continued):

Net Pension Liability (Continued):

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS' Comprehensive Annual Financial Report referenced above for additional information):

Group A Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	Group B 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Group C Members not in other groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with five years of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with five years of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with five years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 years	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 years	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35 years

Final average salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 6. Retirement Commitments (Continued):

Net Pension Liability (Continued):

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	<u>2019 & 2020 State and Local</u>
Statutory Maximum Contribution Rates	
Employer	14.0%
Employee	10.0%
Actual Contribution Rates	
Employer:	
Pension	14.0%
Post-employment Health Care Benefits	<u>0.0%</u>
Total Employer	<u>14.0%</u>
Employee	<u>10.0%</u>

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Authority's contractually required contribution was \$337,731 and \$331,801 for year 2020 and 2019, respectively. Of these amounts, \$0 is reported as an intergovernmental payable.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on the Authority's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>OPERS</u>
Proportionate Share of the Net Pension Liability	\$3,045,298
Proportion of the Net Pension Liability	0.015407%
Pension Expense	\$492,458

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 6. Retirement Commitments (Continued):

Net Pension Liability (Continued):

The net pension liability was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on the Authority's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>OPERS</u>
Proportionate Share of the Net Pension Liability	\$4,502,309
Proportion of the Net Pension Liability	0.016439%
Pension Expense	\$1,067,181

At December 31, 2020 and 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2020 OPERS</u>	<u>2019 OPERS</u>
Deferred Outflows of Resources		
Differences between expected and actual experience	\$ -0-	\$ 2,454
Changes in assumptions	165,298	394,974
Net difference between projected and actual earnings on pension plan investments	-0-	618,233
Changes in proportion and differences between Authority contributions and proportionate share of contributions	-0-	30,331
Authority contributions subsequent to the measurement date	<u>337,731</u>	<u>331,801</u>
Total deferred outflows of resources	<u>\$ 503,029</u>	<u>\$1,377,793</u>
	<u>2020 OPERS</u>	<u>2019 OPERS</u>
Deferred Inflows of Resources		
Net differences between expected and actual experience	\$ 44,521	\$ 60,322
Net difference between projected and actual earnings on pension plan investments	610,794	-0-
Changes in proportion and differences between Authority contributions and proportionate share of contributions	<u>1,228</u>	<u>-0-</u>
Total deferred inflows of resources	<u>\$ 656,543</u>	<u>\$ 60,322</u>

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 6. Retirement Commitments (Continued):

Net Pension Liability (Continued):

\$337,731 and \$331,801 reported as deferred outflows of resources for 2020 and 2019, respectively, related to pension resulting from Authority contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the years ending December 31, 2020 and 2021, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending December 31:	2020 <u>OPERS</u>	2019 <u>OPERS</u>
2019		\$ 246,418
2020	\$(122,812)	246,418
2021	(122,811)	246,417
2022	(122,811)	246,417
2023	<u>(122,811)</u>	<u>-0-</u>
Total	<u>\$(491,245)</u>	<u>\$ 985,670</u>

Actuarial Assumptions – OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 6. Retirement Commitments (Continued):

Net Pension Liability (Continued):

Actuarial Assumptions – OPERS (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Wage Inflation	3.25 percent	3.25 percent
Future Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation	3.25 to 10.75 percent including wage inflation
COLA or Ad Hoc COLA:		
Pre-January 7, 2013	3 percent simple	3 percent simple
Post-January 7, 2013	1.40 percent simple through 2020, then 2.15 percent simple	3 percent simple through 2018, then 2.15 percent simple
Investment Rate of Return	7.2 percent	7.2 percent
Actuarial Cost Method	individual entry age	individual entry age

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 6. Retirement Commitments (Continued):

Net Pension Liability (Continued):

Actuarial Assumptions – OPERS (Continued)

For 2018, mortality rates were based on the RP-2014 Healthy Annuitant Table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above-described table.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation. Best estimates of arithmetic real rates of return were provided by the Board's investment consultant.

OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets for the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annualized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses, and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio was 17.2% for 2019.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 6. Retirement Commitments (Continued):

Net Pension Liability (Continued):

Actuarial Assumptions – OPERS (Continued)

For each major class that is included in the Defined Benefit portfolio's target asset allocation as of December 31, 2019, these best estimates are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	25.00%	1.83%
Domestic Equities	19.00	5.75%
Real Estate	10.00	5.20%
Private Equity	12.00	10.70%
International Equities	21.00	7.66%
Other Investments	<u>13.00</u>	4.98%
Total	<u>100.00%</u>	5.61%

The discount rate used to measure the total pension liability was 7.2 percent for the Traditional Pension Plan, Combined Plan, and Member-Directed Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Traditional Pension Plan, Combined Plan, and Member-Directed Plan was applied to all periods of projected benefit payments to determine the total pension liability.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 6. Retirement Commitments (Continued):

Net Pension Liability (Continued):

Actuarial Assumptions – OPERS (Continued)

Sensitivity of the Authority’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the Authority’s proportionate share of the net pension liability or asset calculated using the current period discount rate assumption of 7.2 percent, as well as what the Authority’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.2 percent) or one-percentage-point higher (8.2 percent) than the current rate:

	1% Decrease (6.2%)	Current Discount Rate (7.2%)	1% Increase (8.2%)
Authority’s proportionate share of the net pension:			
Asset	\$15,488	\$25,632	\$32,943
Liability	\$5,022,682	\$3,045,298	\$1,267,688

Note 7. Defined Benefit Other Post-Employment Benefits (OPEB) Plans:

Net OPEB Liability

The net OPEB liability reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB liability represents the Authority’s proportionate share of each OPEB plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan’s fiduciary net position. The net OPEB liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting these estimates annually.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 7. Defined Benefit Other Post-Employment Benefits (OPEB) Plans (Continued):

Net OPEB Liability (Continued)

Ohio Revised Code limits the Authority's obligation for this liability to annually required payments. The Authority cannot control benefit terms or the manner in which OPEB are financed; however, the Authority does receive the benefit of employees' services in exchange for compensation including OPEB.

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net OPEB liability* on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

Plan Description – Ohio Public Employees Retirement System (OPERS)

The Authority contributes to the Ohio Public Employees Retirement System (OPERS), a cost-sharing, multiple-employer defined benefit pension plan operated by the State of Ohio.

Plan Description – The Ohio Public Employees Retirement System (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; and the Combined Plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 7. Defined Benefit Other Post-Employment Benefits (OPEB) Plans (Continued):

Plan Description – Ohio Public Employees Retirement System (OPERS) (Continued)

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage, and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined Plans. This trust is also used to fund health care for Member-Directed Plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, Member-Directed Plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for postemployment health care coverage, age-and-service retirees under Traditional Pension and Combined Plans must have 20 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 Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 75. See OPERS' Comprehensive Annual Financial Report referenced below for additional information.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS Comprehensive Annual Financial Report financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by the OPERS Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. The employer contribution rate is 14.0% of earnable salary from January 1 through December 31, 2020 and 2019, respectively. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 7. Defined Benefit Other Post-Employment Benefits (OPEB) Plans (Continued):

Plan Description – Ohio Public Employees Retirement System (OPERS) (Continued)

Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 0.0% during calendar years 2019 and 2020. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0% for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for Member-Directed Plan participants for 2020 was 4.0%.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Authority's contractually required contribution was \$337,731 for 2020. Of this amount, \$-0- is reported as an intergovernmental payable.

The total employer contribution rates stated in the preceding paragraphs are the statutorily required contribution rates for OPERS. The employer contributions made by Rural Lorain County Water Authority used to fund health care were \$-0- and \$-0- for 2020 and 2019, respectively.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2018, rolled forward to the measurement date of December 31, 2019, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. The Authority's proportion of the net OPEB liability was based on the Authority's share of contributions to the retirement plan relative to the contributions of all participating entities.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 7. Defined Benefit Other Post-Employment Benefits (OPEB) Plans (Continued):

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

Following is information related to the proportionate share and OPEB expense:

Proportion of the Net OPEB Liability:	
Current Measurement Date	0.015687%
Prior Measurement Date	0.016799%
Change in Proportionate Share	0.001112%
Proportionate Share of the Net OPEB Liability	\$2,166,782
OPEB Expense	\$100,910

At December 31, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Deferred Outflows of Resources	
Differences between expected and actual experience	\$ 58
Changes of assumptions	342,979
Changes in proportion and differences between Authority contributions and proportionate share of contributions	6,841
Authority contributions subsequent to the measurement date	<u>-0-</u>
Total Deferred Outflows of Resources	<u>\$ 349,878</u>
Deferred Inflows of Resources	
Differences between expected and actual experience	\$ 198,162
Net difference between projected and actual earnings on OPEB plan investments	110,332
Changes in proportion and differences between Authority contributions and proportionate share of contributions	<u>-0-</u>
Total Deferred Inflows of Resources	<u>\$ 308,494</u>

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 7. Defined Benefit Other Post-Employment Benefits (OPEB) Plans (Continued):

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

\$-0- reported as deferred outflows of resources related to OPEB resulting from Authority contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending December 31:

2021	\$ 8,277
2022	8,277
2023	8,277
2024	8,277
2025	<u>8,276</u>
Total	<u>\$ 41,384</u>

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of health care costs for financial reporting purposes are based on the substantive plan (the plan as understood by employers and plan members) and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2018, rolled forward to the measurement date of December 31, 2019.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 7. Defined Benefit Other Post-Employment Benefits (OPEB) Plans (Continued):

Actuarial Assumptions – OPERS (Continued)

The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Wage Inflation	3.25 percent	3.25 percent
Projected Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation	3.25 to 10.75 percent including wage inflation
Single Discount Rate:		
Current measurement date	3.16 percent	3.96 percent
Prior Measurement date	3.96 percent	3.85 percent
Investment Rate of Return	6.00 percent	6.00 percent
Municipal Bond Rate	2.75 percent	3.71 percent
Health Care Cost Trend Rate	10.5 percent, initial	10.0 percent, initial
Actuarial Cost Method	3.50 percent, ultimate in 2030 Individual Entry Age	3.25 percent, ultimate in 2029 Individual Entry Age

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The most recent experience study was completed for the five-year period ended December 31, 2015.

The long-term expected rate of return on health care investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation. Best estimates of arithmetic real rates of return were provided by the Board's investment consultant.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 7. Defined Benefit Other Post-Employment Benefits (OPEB) Plans (Continued):

Actuarial Assumptions – OPERS (Continued)

During 2019, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio.

The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, any contributions made into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made. Health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio was 19.7% for 2019.

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. For each major asset class that is included in the Health Care portfolio's target asset allocation policy as of December 31, 2019, these best estimates are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	36.00 %	1.53 %
Domestic Equities	21.00	5.75 %
Real Estate	0.00	0.00 %
Real Estate Investment Trusts	6.00	5.69 %
International Equities	23.00	7.66 %
Other Investments	14.00	4.90 %
Total	<u>100.00 %</u>	4.55 %

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 7. Defined Benefit Other Post-Employment Benefits (OPEB) Plans (Continued):

Actuarial Assumptions – OPERS (Continued)

Discount Rate A single discount rate of 3.16 percent was used to measure the OPEB liability on the measurement date of December 31, 2019. A single discount rate of 3.96 percent was used to measure the OPEB liability on the measurement date of December 31, 2018. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.00 percent and a municipal bond rate of 2.75 percent.

The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034.

As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the Authority's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate The following table presents the Authority's proportionate share of the net OPEB liability calculated using the single discount rate of 3.16 percent, as well as what the Authority's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.16 percent) or one-percentage-point higher (4.16 percent) than the current rate:

	1% Decrease <u>(2.16%)</u>	Current Discount Rate <u>(3.16%)</u>	1% Increase <u>(4.16%)</u>
Authority's proportionate share of the net OPEB liability	\$2,835,583	\$2,166,782	\$1,631,292

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 7. Defined Benefit Other Post-Employment Benefits (OPEB) Plans (Continued):

Actuarial Assumptions – OPERS (Continued)

Sensitivity of the Authority's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent higher than the current rate.

Retiree health care valuations use a health care cost-trend assumption with changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2020 is 10.50 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.50 percent in the most recent valuation.

	<u>1% Decrease</u>	<u>Current Health Care Cost Trend Rate Assumption</u>	<u>1% Increase</u>
Authority's proportionate share of the net OPEB liability	\$2,102,843	\$2,166,782	\$2,229,907

Note 8. Leasing Arrangements:

The Authority leases one copier under a 36-month operating lease, one copier under a 48-month operating lease, and two copiers under a 60-month operating lease. The operating leases expire in February 2021, March 2024, and two in August 2025, respectively. These leases require rent in the amount of \$289, \$572, \$129, and \$240 per month plus charges for additional copies over predetermined amounts.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 8. Leasing Arrangements (Continued):

The following is a schedule of future minimum rental payments required under the above operating leases as of December 31, 2020:

<u>Year Ending December 31,</u>	<u>Amount</u>
2021	\$ 13,891
2022	11,292
2023	11,292
2024	8,165
2025	4,974
	<u>\$49,614</u>

Office equipment lease for the years ended December 31, 2020 and 2019 was \$21,232 and \$20,207, respectively.

Note 9. Commitments:

A. Water Purchase Agreements:

The Authority's original and primary source of water (approximately 84.8%) 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 9.8%) as a supplement to the water purchased from the City of Avon Lake. In addition to the Avon Lake agreement, the Authority signed a long-term water purchase agreement in 1996 with New London with maximum amounts of water to be supplied per month.

B. Water Supply Agreements:

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

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 10. 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, 2020 and 2019, the Authority's equity interest, at net book value, in the Consortium was \$3,312,690 and \$3,467,950, respectively. Financial information can be obtained from the City of Avon Lake, Finance Director, 150 Avon Belden Road, Avon Lake, Ohio 44012.

Note 11. 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. As of December 31, 2020, the certification has not been received, therefore, the payment has not been made.

Note 12. Change in Accounting Principle:

GASB 84, Fiduciary Activities, was be effective for the Authority for the year ended December 31, 2020. The objective of GASB 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria is on whether a government is controlling the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 13. Amherst Mobile Home Park and Cinnamon Lake Tap Fees Receivable, Medina County ETL1 Receivable, and Tap Installments Receivable:

A receivable in the amount of \$244,712 and \$257,462 is due at December 31, 2020 and 2019, respectively, for a new water system for the residents of the Amherst Mobile Home Park. The fees are being collected by the Lorain County Auditor biannually over 20 years through July 2034, including interest at 3.00%.

A receivable in the amount of \$1,131,593 and \$1,217,954 is due at December 31, 2020 and 2019, 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%.

A receivable in the amount of \$19,043 and \$37,878 is due at December 31, 2020 and 2019, respectively, for Medina County's portion of relocation costs for the ETL (Eastern Transmission Line) 1. Medina County is being billed biannually through July 2021, including interest at 2.202%.

A receivable in the amount of \$164,323 is due at December 31, 2020 for new taps purchased by customers under an installment purchase plan. A down payment can be made for any amount equal to or over and above the minimum required down payment of \$800. Payments are being made over 36 months including a monthly fee of \$10.

Note 14. Subsequent Events:

The United States and the State of Ohio declared a state of emergency in March of 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the continuing emergency measures will impact subsequent periods of the Authority. The impact on the Authority's future operating costs, revenues, and additional recovery from emergency funding, either federal or state, cannot be estimated.

RURAL LORAIN COUNTY WATER AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the Authority's Proportionate Share of the Net Pension Liability
Ohio Public Employees Retirement System - Traditional Plan

Last Seven Years (*)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Authority's Proportion of the Net Pension Liability	0.015407%	0.016439%	0.016923%	0.016762%	0.016152%	0.015823%	0.015823%
Authority's Proportionate Share of the Net Pension Liability	\$ 3,045,298	\$ 4,502,309	\$ 2,654,891	\$ 3,793,682	\$ 2,863,553	\$ 2,141,991	\$ 1,865,326
Authority's Covered-Employee Payroll	\$ 2,370,007	\$ 2,436,700	\$ 2,364,846	\$ 2,189,742	\$ 2,010,317	\$ 1,941,758	\$ 2,265,383
Authority's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	128.49%	184.77%	112.26%	173.25%	142.44%	110.31%	82.34%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	82.17%	74.70%	84.66%	77.25%	81.08%	86.54%	86.36%

*Information prior to 2014 is not readily available.

See accompanying notes to the Required Supplementary Information.

RURAL LORAIN COUNTY WATER AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Authority Pension Contributions
Ohio Public Employees Retirement System - Traditional Plan

Last Seven Years (*)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 337,731	\$ 331,801	\$ 341,138	\$ 307,430	\$ 262,769	\$ 241,238	\$ 233,011
Contributions in Relation to the Contractually Required Contribution	<u>(337,731)</u>	<u>(331,801)</u>	<u>(341,138)</u>	<u>(307,430)</u>	<u>(262,769)</u>	<u>(241,238)</u>	<u>(233,011)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Authority Covered-Employee Payroll	\$ 2,412,364	\$ 2,370,007	\$ 2,436,700	\$ 2,364,846	\$ 2,189,742	\$ 2,010,317	\$ 1,941,758
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	14.00%	13.00%	12.00%	12.00%	12.00%

*Information prior to 2014 is not readily available.

See accompanying notes to the Required Supplementary Information.

RURAL LORAIN COUNTY WATER AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the Authority's Proportionate Share of the Net OPEB Liability Ohio Public Employees Retirement System

Last Three Years (*)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Authority's Proportion of the Net OPEB Liability	0.015687%	0.016799%	0.01670%
Authority's Proportionate Share of the Net OPEB Liability	\$ 2,166,782	\$ 2,190,193	\$ 1,813,497
Authority's Covered-Employee Payroll	\$ 2,412,364	\$ 2,370,007	\$ 2,436,700
Authority's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	89.82%	92.41%	74.42%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	47.80%	46.33%	54.14%

* Information prior to 2018 is not available.

Amounts presented as of the Authority's measurement date which is the prior fiscal year end.

RURAL LORAIN COUNTY WATER AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Authority OPEB Contributions
Ohio Public Employees Retirement System

Last Four Years (*)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually Required Contribution	\$ 0	\$ 0	\$ 0	\$ 23,648
Contributions in Relation to the Contractually Required Contribution	<u>0</u>	<u>0</u>	<u>0</u>	<u>(23,648)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Authority Covered-Employee Payroll	\$ 2,412,364	\$ 2,370,007	\$ 2,436,700	\$ 2,364,800
Contributions as a Percentage of Covered-Employee Payroll	0.00%	0.00%	0.00%	1.00%

* Information prior to 2017 is not available.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For the Years Ended December 31, 2020 and 2019

Changes in Assumptions – OPERS Pension

Amounts reported beginning in 2020 incorporate changes in assumptions used by OPERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in 2017 and in 2016 and prior are presented below.

	<u>2020</u>	<u>2017</u>	<u>2016 and Prior</u>
Wage Inflation	3.25 percent	3.25 percent	3.75 percent
Future Salary Increases, including inflation COLA or Ad Hoc COLA	3.25 to 10.75 percent including wage inflation	3.25 to 10.75 percent including wage inflation	4.25 to 10.05 percent including wage inflation
Pre-January 7, 2013	3 percent simple	3 percent simple	3 percent simple
Post-January 7, 2013	1.4 percent simple through 2020, then 2.15 percent simple	3 percent simple through 2018, then 2.15 percent simple	3 percent simple through 2018, then 2.8 percent simple
Investment Rate of Return	7.2 percent	7.5 percent	8 percent
Actuarial Cost Method	individual entry age	individual entry age	individual entry age

Amounts reported beginning in 2017 use mortality rates based on the RP-2014 Healthy Annuitant Mortality Table. For males, healthy annuitant mortality tables were used adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2015. For females, healthy annuitant mortality tables were used adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled Mortality Table adjusted for mortality improvements back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvements scale to the above described tables.

Amounts reported for 2016 and prior use mortality rates based on the RP-2000 Mortality Table projected twenty years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 Mortality Table with no projections. For males, 120 percent of the disabled female mortality rates were used, set forward two years. For females, 100 percent of the disabled female mortality rates were used.

Changes in Assumptions – OPERS OPEB

For 2020, the single discount rate changed from 3.96 percent to 3.16 percent and the municipal bond rate changed from 3.71 percent to 2.75 percent. For 2020, the health care cost trend rate was 10.5 percent initial, 3.50 percent ultimate in 2030. For 2019, the health care cost trend rate was 10 percent initial, 3.25 percent ultimate in 2029.

RURAL LORAIN COUNTY WATER AUTHORITY

STATEMENTS OF OPERATING EXPENSES

Years Ended December 31, 2020 and 2019

	2020	2019
OPERATING EXPENSES:		
Wages:		
Board	\$ 46,345	\$ 60,045
Employees	1,927,696	1,616,386
Vacation and sick leave	271,607	254,237
O.P.E.R.S. - Pension (Note 6)	492,458	1,067,181
O.P.E.R.S. - OPEB (Note 7)	100,910	210,991
Payroll taxes	26,743	28,749
Insurance:		
Hospitalization	551,217	518,093
Life	5,187	4,599
General	82,934	78,688
Audit and professional fees	73,338	97,752
Legal fees	30,020	42,758
Engineering fees	28,531	5,401
Telephone	39,093	35,988
Depreciation	2,473,167	2,467,751
Utilities	29,884	34,453
Billing expense	59,311	55,874
Office equipment lease	21,232	20,207
Office supplies and expense	143,254	171,375
Clothing	19,440	18,766
Postage	106,750	108,501
Maintenance and repairs:		
Administrative building and equipment	149,367	204,662
Vehicles	79,039	75,240
Water lines	139,476	150,055
Pump stations	56,040	93,625
Tanks	50,298	159,794
Travel, mileage, and education expense	12,281	79,525
Gasoline	33,123	38,893
Water purchased	4,616,015	4,086,642
Distribution supplies	85,310	55,110
Electric pump station and tanks	370,420	366,028
Tap installations	324,269	293,309
Communication equipment	640	10,202
Miscellaneous expense	141,197	131,036
	\$ 12,586,592	\$ 12,641,916

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

This page intentionally left blank.

RURAL LORAIN COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(UNAUDITED)

For the Years Ended December 31, 2019 and 2018

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.

During 2018, the Authority adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Authority's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* and *net OPEB liability*. GASB 68 and GASB 75 takes an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension and OPEB plans, and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the Authority's proportionate share of each plan's collective:

1. Present value of estimated future pension and OPEB benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Authority is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

RURAL LORAIN COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(UNAUDITED)

For the Years Ended December 31, 2019 and 2018

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there are no legal means to enforce the unfunded liability of the pension and OPEB plans *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e., sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability and the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the Authority's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the Authority is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2017, from \$46,276,565 to \$44,287,297.

FINANCIAL HIGHLIGHTS

The total assets and deferred outflows of RLCWA exceeded liabilities and deferred inflows by \$51.8 million and \$48.0 million in 2019 and 2018, respectively.

The Authority's Net Position increased by \$3.88 million (8.1%) and \$3.67 million (7.9%) in 2019 and 2018, respectively.

The Authority's Operating Revenue increased by \$641 thousand (4.1%) and \$102 thousand (0.7%) with Operating Expenses increasing and decreasing \$571 thousand (4.7%) and \$258 thousand (-2.1%) in 2019 and 2018, respectively.

RURAL LORAIN COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(UNAUDITED)

For the Years Ended December 31, 2019 and 2018

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 80. The Basic Financial Statements are presented using the accrual basis of accounting as further described in the above-mentioned note.

The **Statements of Net Position** includes all of the Authority's assets and deferred outflows of resources and liabilities and deferred inflows of resources. 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 is the difference between assets and liabilities.

The **Statements of Revenue, Expenses, and Changes in Net Position** provide 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 **Statements of Cash Flows** provide 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 used, and changes in the balances during the year.

The **Notes to the Basic 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

(UNAUDITED)

For the Years Ended December 31, 2019 and 2018

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

				2019 vs 2018		2018 vs 2017	
				Dollar	Percent	Dollar	Percent
	2019	2018	2017	Change	Change	Change	Change
Current and other assets	\$ 34,060,923	\$ 29,384,138	\$ 27,156,352	\$ 4,676,785	15.9%	\$ 2,227,786	8.2%
Capital assets	41,043,496	41,630,812	42,747,195	(587,316)	-1.4%	(1,116,383)	-2.6%
Total assets	<u>75,104,419</u>	<u>71,014,950</u>	<u>69,903,547</u>	<u>4,089,469</u>	<u>5.8%</u>	<u>1,111,403</u>	<u>1.6%</u>
Deferred outflows of resources - Pension & OPEB	\$ 1,549,556	\$ 710,198	\$ 1,549,645	\$ 839,358	118.2%	\$ (839,447)	-54.2%
Long-term liabilities	\$ 21,224,666	\$ 20,209,386	\$ 20,849,882	\$ 1,015,280	5.0%	\$ (640,496)	-3.1%
Current liabilities	3,521,454	2,934,442	4,237,628	587,012	20.0%	(1,303,186)	-30.8%
Total liabilities	<u>24,746,120</u>	<u>23,143,828</u>	<u>25,087,510</u>	<u>1,602,292</u>	<u>6.9%</u>	<u>(1,943,682)</u>	<u>-7.7%</u>
Deferred inflows of resources - Pension & OPEB	\$ 66,380	\$ 622,290	\$ 89,177	\$ (555,910)	-89.3%	\$ 533,113	597.8%
Net investments in capital assets	25,595,810	24,859,086	23,550,264	736,724	3.0%	1,308,822	5.6%
Restricted	6,248,039	5,922,349	6,026,023	325,690	5.5%	(103,674)	-1.7%
Unrestricted	19,997,626	17,177,595	16,700,278	2,820,031	16.4%	477,317	2.9%
Total net position	<u>\$ 51,841,475</u>	<u>\$ 47,959,030</u>	<u>\$ 46,276,565</u>	<u>\$ 3,882,445</u>	<u>8.1%</u>	<u>\$ 1,682,465</u>	<u>3.6%</u>

The Authority's Net Position increased \$3.88 million (8.1%) and \$1.68 million (3.6%) in 2019 and 2018, respectively. These increase are a result of excess revenue over expense.

The Authority increased and decreased long-term liabilities by \$1.02 million and \$640 thousand in 2019 and 2018, respectively, primarily from the increase in the net pension liability in 2019 and the payment of long-term debt in 2018.

RURAL LORAIN COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(UNAUDITED)

For the Years Ended December 31, 2019 and 2018

NET POSITION (Continued)

Deferred outflows and inflows of resources – pension were recorded based on RLCWA’s proportionate share of OPERS’ Deferred Inflows/Outflows Amortization Tracking Worksheet per the requirements of GASB 68 and 71, and GASB 75 based on a measurement date of December 31, 2018.

A restatement of 2017 net position in the amount of \$1,989,268 was recorded based on RLCWA’s proportionate share of OPERS’ Schedule of Collective OPEB Amounts per the requirements of GASB 68 & 75 based on a measurement date of December 31, 2017.

STATEMENTS 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

	2019	2018	2017	2019 vs 2018		2018 vs 2017	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Operating revenue	\$ 16,313,931	\$ 15,673,328	\$ 15,571,146	\$ 640,603	4.1%	\$ 102,182	0.7%
Operating expenses	9,490,789	8,805,585	9,144,468	685,204	7.8%	(338,883)	-3.7%
Maintenance expenses	683,376	833,941	665,600	(150,565)	-18.1%	168,341	25.3%
Depreciation expenses	2,467,751	2,431,375	2,518,905	36,376	1.5%	(87,530)	-3.5%
Total expenses	12,641,916	12,070,901	12,328,973	571,015	4.7%	(258,072)	-2.1%
Operating income	3,672,015	3,602,427	3,242,173	69,588	1.9%	360,254	11.1%
Nonoperating revenue	925,663	858,554	592,774	67,109	7.8%	265,780	44.8%
Nonoperating expenses	(715,233)	(789,248)	(880,805)	74,015	-9.4%	91,557	-10.4%
Nonoperating gain (loss)	210,430	69,306	(288,031)	141,124	203.6%	357,337	-124.1%
Change in net position	3,882,445	3,671,733	2,954,142	210,712	5.7%	717,591	24.3%
Beginning net position	47,959,030	46,276,565	43,322,423	1,682,465	3.6%	2,954,142	6.8%
Restatement of net position							
- GASB 68 & 75	0	(1,989,268)	0	1,989,268	100.0%	(1,989,268)	-100.0%
Restated net position 2017	47,959,030	44,287,297	43,322,423	3,671,733	8.3%	964,874	2.2%
Ending net position	\$ 51,841,475	\$ 47,959,030	\$ 46,276,565	\$ 3,882,445	8.1%	\$ 1,682,465	3.6%

RURAL LORAIN COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(UNAUDITED)

For the Years Ended December 31, 2019 and 2018

STATEMENTS OF REVENUE AND EXPENSES (CHANGES IN NET POSITION) – (Continued)

Total operating revenue increased \$641 thousand (4.1%) and \$102 thousand (0.7%) in 2019 and 2018, respectively. Investment income increased by \$122 thousand (36.1%) resulting in the majority of the increase of \$67 thousand (7.8%) in nonoperating revenue for 2019.

Operations and maintenance expenses increased \$535 thousand (5.6%) and decreased \$171 thousand (-1.7%) in 2019 and 2018, respectively. An increase in OPERS expense accounted for the majority of the decrease in operating and maintenance costs in 2019.

A restatement of 2017 net position in the amounts of \$1,989,268 was recorded based on RLCWA's proportionate share of OPERS' Schedule of Collective pension and OPEB Amounts per the requirements of GASB 68 & 75 based on a measurement date of December 31, 2017.

CAPITAL ASSETS

The Authority had \$91.04 million and \$89.54 million invested in capital assets (before depreciation) at December 31, 2019 and 2018, respectively, as shown in Table 3. This amount is an increase of \$1.50 million (1.7%) and \$1.27 million (1.4%) from the previous year.

TABLE 3

	2019	2018	2017	2019 vs 2018		2018 vs 2017	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Land and easements	\$ 696,325	\$ 696,325	\$ 696,325	\$ -	0.0%	\$ -	0.0%
Buildings	2,389,840	2,378,390	2,378,390	11,450	0.5%	-	0.0%
Tanks, stations, and lines	73,300,719	72,236,869	71,426,380	1,063,850	1.5%	810,489	1.1%
Meters and replacements	10,137,702	9,665,616	9,319,069	472,086	4.9%	346,547	3.7%
Furniture and fixtures	1,695,034	1,682,547	1,651,867	12,487	0.7%	30,680	1.9%
Machinery, equipment, and vehicles	2,753,480	2,874,331	2,746,958	(120,851)	-4.2%	127,373	4.6%
Construction in progress	66,795	9,914	56,418	56,881	573.7%	(46,504)	-82.4%
Total before depreciation	91,039,895	89,543,992	88,275,407	1,495,903	1.7%	1,268,585	1.4%
Accumulated depreciation	(49,996,399)	(47,913,180)	(45,528,212)	(2,083,219)		(2,384,968)	
Total capital assets, net	\$ 41,043,496	\$ 41,630,812	\$ 42,747,195	\$ (587,316)		\$ (1,116,383)	

RURAL LORAIN COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(UNAUDITED)

For the Years Ended December 31, 2019 and 2018

CAPITAL ASSETS (Continued)

The increase in capital assets (before accumulated depreciation) from 2019 to 2018 was primarily for line extensions, relocation of lines, the West Ridge emergency interconnect, meter replacements, and two trucks.

The increase in capital assets (before accumulated depreciation) from 2018 to 2017 was primarily for line extensions and one truck.

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

	2019	2018	2017	2019 vs 2018		2018 vs 2017	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Long-term debt:							
2015 Revenue bonds	\$ 6,612,848	\$ 7,265,781	\$ 9,043,713	\$ (652,933)	-9.0%	\$ (1,777,932)	-13.4%
Notes payable - bank	0	145,808	286,795	(145,808)	-100.0%	(140,987)	-49.2%
OWDA loans	6,822,238	7,308,537	7,777,323	(486,299)	-6.7%	(468,786)	-6.0%
USDA loans	2,012,600	2,051,600	2,089,100	(39,000)	-1.9%	(37,500)	-1.8%
Futronics lease payable	-	-	-	-	0.0%	-	0.0%
Total long-term debt	15,447,686	16,771,726	19,196,931	(1,324,040)	-7.9%	(2,425,205)	-12.6%
Less: Current maturities	(915,522)	(1,030,728)	(2,140,731)	115,206	-11.2%	1,110,003	-51.9%
Net total long-term debt	\$ 14,532,164	\$ 15,740,998	\$ 17,056,200	\$ (1,208,834)	-7.7%	\$ (1,315,202)	-7.7%
Net pension liability	\$ 4,502,309	\$ 2,654,891	\$ 3,793,682	\$ 1,847,418	69.6%	\$ (1,138,791)	-30.0%
Net OPEB liability	\$ 2,190,193	\$ 1,813,497	\$ -	\$ 376,696	20.8%	\$ 1,813,497	100.0%

See Note 4 of the financial statements for details of issuance and retirement of debt in 2019.

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 \$2,271,317 and \$2,271,104 and the Bond Fund had a balance of \$3,976,722 and \$3,651,245 at December 31, 2019 and 2018, 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

(UNAUDITED)

For the Years Ended December 31, 2019 and 2018

DEBT (Continued)

A net pension liability in the amounts of \$4,502,309 and \$2,654,891 were recorded based on the Authority's proportionate share of OPERS' Schedule of Collective Pension Amounts per the requirements of GASB 68 and 71 based on a measurement date of December 31, 2018 and 2017, respectively, with the change between 2018 and 2019 due to changes in deferred inflows and deferred outflows of resources, and recording the GASB 68 pension expense. A net OPEB liability in the amounts of \$2,190,193 and \$1,813,497 were recorded based on the Authority's proportionate share of OPERS' Schedule of Collective OPEB Amounts per the requirements of GASB 75 and recording the GASB 75 OPEB expense based on a measurement date of December 31, 2018 and 2017, respectively, with the change between 2018 and 2019 due to changes in deferred inflows and deferred outflows of resources, and recording the GASB 75 pension expense.

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>2019</u>	<u>2018</u>	<u>2017</u>
Operating revenue	\$ 16,313,931	\$ 15,673,328	\$ 15,571,146
Nonoperating revenue - Interest	458,825	337,131	158,673
Total revenue	<u>16,772,756</u>	<u>16,010,459</u>	<u>15,729,819</u>
Less: Operations and maintenance expenses	<u>(10,174,165)</u>	<u>(9,639,526)</u>	<u>(9,810,068)</u>
Total revenue available for debt	<u>\$ 6,598,591</u>	<u>\$ 6,370,933</u>	<u>\$ 5,919,751</u>
Revenue bond debt service - 2003, 2006 and 2015	\$ 853,250	\$ 845,350	\$ 2,039,550
Revenue bond debt service - Rural development	134,651	285,683	285,948
OWDA Loans	376,035	376,036	376,036
Futronics lease	0	0	0
Total debt service requirements	<u>\$ 1,363,936</u>	<u>\$ 1,507,069</u>	<u>\$ 2,701,534</u>
Combined coverage ratio - All debt	4.84	4.23	2.19

The Authority is required to meet a revenue-to-debt ratio of 1.20 for its 2003, 2009, and 2015 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, 2019 and 2018

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
CURRENT ASSETS:		
Cash and cash equivalents:		
General	\$ 1,591,192	\$ 1,264,936
Working capital	4,002,640	2,672,953
Capital improvements	12,997,360	10,327,047
Receivables: (Note 1)		
Trade (net allowance for doubtful accounts of \$72,905 in 2019 and \$73,799 in 2018)	881,618	924,835
Amherst Mobile Home Park	12,750	12,376
Cinnamon Lake tap fees	86,856	84,397
Medina County ETL1	18,835	18,629
Tap installments	1,719	0
Other	52,480	57,131
Interest	8,672	11,788
Inventory (Note 1)	547,624	481,683
Prepaid expenses (Note 1)	157,236	72,486
Total current assets	<u>20,358,982</u>	<u>15,928,261</u>
NONCURRENT ASSETS:		
Amherst Mobile Home Park receivable (Note 15)	244,712	257,463
Cinnamon Lake tap fees receivable (Note 11)	1,131,098	1,215,672
Medina County ETL1 receivable (Note 13)	19,043	37,878
Tap installments receivable (Note 16)	64,355	0
Restricted cash and investments, At fair value (Note 2)	8,762,780	8,316,492
Investment in joint venture, At cost (Note 10)	3,467,950	3,623,211
Total noncurrent assets	<u>13,689,938</u>	<u>13,450,716</u>
CAPITAL ASSETS, AT COST: (Note 1)		
Capital assets not being depreciated:		
Land	317,539	317,539
Easements	378,786	378,786
Current construction	66,795	9,914
Total capital assets not being depreciated	<u>763,120</u>	<u>706,239</u>
Capital assets (net of accumulated depreciation of \$49,996,399 in 2019 and \$47,913,180 in 2018)	40,280,376	40,924,573
Total capital assets	<u>41,043,496</u>	<u>41,630,812</u>
OTHER ASSETS:		
Net pension asset (Note 6)	12,003	5,161
TOTAL ASSETS	<u>75,104,419</u>	<u>71,014,950</u>
DEFERRED OUTFLOW OF RESOURCES:		
Pension (Note 6)	1,377,793	710,198
OPEB (Note 7)	171,763	0
Total deferred outflow of resources	<u>1,549,556</u>	<u>710,198</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 76,653,975</u>	<u>\$ 71,725,148</u>

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

RURAL LORAIN COUNTY WATER AUTHORITY

STATEMENTS OF NET POSITION

December 31, 2019 and 2018

<u>LIABILITIES</u>	<u>2019</u>	<u>2018</u>
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 915,522	\$ 1,030,728
Accounts payable	1,343,053	507,688
Tank painting (Note 12)	429,000	429,000
Taxes payable	39,003	37,253
Compensated absences payable (Note 1)	482,933	494,334
Tenant deposits	99,300	106,400
Subdivision rebates	76,940	125,000
Accrued expenses:		
Wages	13,165	75,769
Interest	122,538	128,270
Total current liabilities	<u>3,521,454</u>	<u>2,934,442</u>
 LONG-TERM DEBT: (Note 4)		
Bonds and notes payable:		
2015 Series	6,612,848	7,265,781
Notes payable - Bank	0	145,808
OWDA	6,822,238	7,308,537
USDA	<u>2,012,600</u>	<u>2,051,600</u>
Total long-term debt	15,447,686	16,771,726
Less: Current portion	<u>915,522</u>	<u>1,030,728</u>
Long-term debt, Net of current portion	14,532,164	15,740,998
Net pension liability (Note 6)	4,502,309	2,654,891
Net OPEB liability (Note 7)	<u>2,190,193</u>	<u>1,813,497</u>
TOTAL LIABILITIES	<u>24,746,120</u>	<u>23,143,828</u>
 DEFERRED INFLOW OF RESOURCES:		
Pension (Note 6)	60,322	622,290
OPEB (Note 7)	<u>6,058</u>	<u>0</u>
Total deferred inflow of resources	66,380	622,290
 NET POSITION:		
Net investment in capital assets	25,595,810	24,859,086
Restricted for bonds payable	6,248,039	5,922,349
Unrestricted	<u>19,997,626</u>	<u>17,177,595</u>
TOTAL NET POSITION	<u>51,841,475</u>	<u>47,959,030</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
	<u>\$ 76,653,975</u>	<u>\$ 71,725,148</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, 2019 and 2018

	2019	2018
OPERATING REVENUE:		
Water sales	\$ 15,221,587	\$ 14,869,564
Tap fees	1,079,335	756,856
Subdivision fees	13,009	46,908
Total operating revenue	16,313,931	15,673,328
OPERATING EXPENSES	12,641,916	12,070,901
INCOME FROM OPERATIONS	3,672,015	3,602,427
NONOPERATING REVENUE:		
Penalty income	190,124	192,113
Miscellaneous	207,631	192,632
1926(b) Revenue	29,958	86,023
Water line reimbursements	8,458	47,886
Discounts earned	214	419
Investment income	458,825	337,131
Unrealized gain (loss) on investments	25	(461)
Gain (loss) on disposal of assets	30,428	2,811
Total nonoperating revenue	925,663	858,554
Income from operating and nonoperating revenue	4,597,678	4,460,981
NONOPERATING EXPENSES:		
Interest expense	553,339	632,433
Change in value of investment in joint venture	155,261	155,261
Bad debts	6,633	1,554
Total nonoperating expenses	715,233	789,248
CHANGE IN NET POSITION	3,882,445	3,671,733
BEGINNING NET POSITION	47,959,030	46,276,565
Restatement of net position (Note 14)	0	(1,989,268)
Net position - Beginning of period - Restated	47,959,030	44,287,297
ENDING NET POSITION	\$ 51,841,475	\$ 47,959,030

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

RURAL LORAIN COUNTY WATER AUTHORITY

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 16,411,962	\$ 15,708,605
Cash payments to suppliers for goods and services	(4,976,540)	(6,531,061)
Cash payments to employees and professional contractors for services and benefits	<u>(3,855,424)</u>	<u>(3,198,922)</u>
Net cash provided by operating activities	7,579,998	5,978,622
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property and equipment and current construction	(1,850,007)	(1,312,181)
Repayment of 2015 Series Bonds	(605,001)	(1,730,000)
Repayment of notes payable	(671,107)	(647,273)
Interest paid on debt	<u>(607,002)</u>	<u>(700,296)</u>
Net cash used in capital and related financing activities	(3,733,117)	(4,389,750)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	<u>458,850</u>	<u>336,670</u>
Net cash provided by investing activities	458,850	336,670
CASH FLOWS FROM NON-CAPITAL ACTIVITIES:		
Other nonoperating activities	<u>466,813</u>	<u>521,884</u>
Net cash provided by non-capital activities	466,813	521,884

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

RURAL LORAIN COUNTY WATER AUTHORITY

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2019 and 2018

	2019	2018
INCREASE IN CASH AND CASH EQUIVALENTS	4,772,544	2,447,426
CASH AND CASH EQUIVALENTS - Beginning of period	22,581,428	20,134,002
CASH AND CASH EQUIVALENTS - End of period	\$ 27,353,972	\$ 22,581,428
PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	\$ 3,672,015	\$ 3,602,427
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	2,467,751	2,431,375
(Gain) Loss on disposal of assets	(30,428)	(2,811)
Increase in OPERS expense per GASB 68 and 71	611,012	232,721
Decrease in OPERS expense per GASB 75	210,991	(179,824)
Bad debts	(6,633)	(1,554)
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	98,031	35,277
Inventory	(65,941)	40,115
Prepaid expenses	(84,750)	(5,852)
Increase (decrease) in:		
Accounts payable	835,365	(228,623)
Taxes payable	1,750	18,144
Compensated absences payable	(11,401)	(92,367)
Deposits	(55,160)	121,100
Accrued expenses	(62,604)	8,494
Net cash provided by operating activities	\$ 7,579,998	\$ 5,978,622

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

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

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 outside 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 THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

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. Expenditures for major renewals, betterments, adaptations, or restorations that extend the useful lives of property and equipment are capitalized.

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 THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

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.

Expenditures for maintenance and repairs are charged to expense as incurred.

Depreciation expense for the years ended December 31, 2019 and 2018 was \$2,467,751 and \$2,431,375, respectively.

A summary of changes in capital assets for the year ended December 31, 2019, is as follows:

	Balance December 31, 2018	Additions	Deletions	Balance December 31, 2019
Land	\$ 317,539	\$ -	\$ -	\$ 317,539
Easements	378,786	-	-	378,786
Buildings	2,378,390	11,450	-	2,389,840
Tanks, stations, and lines	72,236,869	1,254,609	(190,759)	73,300,719
Meters and replacements	9,665,616	472,086	-	10,137,702
Furniture and fixtures	1,682,547	22,980	(10,493)	1,695,034
Machinery, equipment, and vehicles	2,874,331	82,514	(203,365)	2,753,480
Current construction	9,914	56,881	-	66,795
	89,543,992	1,900,520	(404,617)	91,039,895
Less accumulated depreciation				
Buildings	(2,226,341)	(81,099)	-	(2,307,440)
Tanks, stations, and lines	(38,464,229)	(1,670,408)	177,094	(39,957,543)
Meters and replacements	(3,405,677)	(491,780)	-	(3,897,457)
Furniture and fixtures	(1,583,417)	(45,075)	9,187	(1,619,305)
Machinery, equipment, and vehicles	(2,233,516)	(182,023)	200,885	(2,214,654)
Total accumulated depreciation	(47,913,180)	(2,470,385)	387,166	(49,996,399)
Net capital assets	\$ 41,630,812	\$ (569,865)	\$ (17,451)	\$ 41,043,496

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

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, 2018, is as follows:

	Balance December 31, 2017	Additions	Deletions	Balance December 31, 2018
Land	\$ 317,539	\$ -	\$ -	\$ 317,539
Easements	378,786	-	-	378,786
Buildings	2,378,390	-	-	2,378,390
Tanks, stations, and lines	71,426,380	810,489	-	72,236,869
Meters and replacements	9,319,069	346,547	-	9,665,616
Furniture and fixtures	1,651,867	51,610	(20,930)	1,682,547
Machinery, equipment, and vehicles	2,746,958	158,117	(30,744)	2,874,331
Current construction	56,418	(46,504)	-	9,914
	88,275,407	1,320,259	(51,674)	89,543,992
Less accumulated depreciation				
Buildings	(2,138,770)	(87,571)	-	(2,226,341)
Tanks, stations, and lines	(36,830,206)	(1,634,023)	-	(38,464,229)
Meters and replacements	(2,932,794)	(472,883)	-	(3,405,677)
Furniture and fixtures	(1,555,418)	(48,929)	20,930	(1,583,417)
Machinery, equipment, and vehicles	(2,071,024)	(193,236)	30,744	(2,233,516)
Total accumulated depreciation	(45,528,212)	(2,436,642)	51,674	(47,913,180)
Net capital assets	\$ 42,747,195	\$ (1,116,383)	\$ -	\$ 41,630,812

G. Prepaid Expenses:

Prepaid expenses are expensed over their economic useful lives.

H. Debt Issue Costs:

Per the guidelines of GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities," 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. Debt issue costs for the years ended December 31, 2019 and 2018 were \$-0- and \$-0-, respectively.

I. Tap Fees:

To receive service, customers are required to pay a tap fee that varies depending on when the deposit was made and the size of the meter. Fees are refundable in the event expansion does not occur in an area.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

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

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 the time of retirement if an employee was hired before December 31, 2000. If an employee was 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, 2019 and 2018 was \$315,570 and \$327,989, respectively; the recorded estimated unused sick leave and vacation for the years ended December 31, 2019 and 2018 reflected in the compensated absences payable amount on page 76 was \$482,933 and \$494,334, 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. Cash and cash equivalents as of December 31, 2019 and 2018, consist of:

	<u>2019</u>	<u>2018</u>
Cash:		
General	\$ 1,591,192	\$ 1,264,936
Working capital	4,002,640	2,672,953
Capital improvements	12,997,360	10,327,047
Restricted cash and investments	<u>8,762,780</u>	<u>8,316,492</u>
	<u>\$27,353,972</u>	<u>\$22,581,428</u>

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

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 \$6,248,039 and \$5,922,349, for 2019 and 2018, respectively, was restricted by enabling legislation.

O. Deferred Outflows/Inflows of Resources:

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Authority, deferred outflows of resources are reported on the statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 6.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the Authority, deferred inflows of resources include pension. Deferred inflows of resources related to pension are reported on the statement of net position (see Note 6).

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

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

P. Pensions:

For purposes of measuring the net pension/OPEB liability, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

Q. Operating and Nonoperating Revenue and Expenses:

Operating revenue and expenses generally result from providing a water supply for the Authority's users. The principal operating revenue of the Authority consists of charges to customers for sales of water and taps. Operating expenses include the cost of water and tap sales, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

C. Bond Fund:

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

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 2. Description of Funds (Continued):

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, 2019 and 2018, 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.

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.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 2. Description of Funds (Continued):

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>2019</u>	<u>2018</u>
Bond reserve fund	\$2,271,317	\$2,271,104
Bond fund	3,976,722	3,651,245
OWDA fund	422,482	418,629
Replacement and improvement fund	755,590	762,037
Project/Administration fund	-0-	-0-
Employee policy fund	<u>1,336,669</u>	<u>1,213,477</u>
	<u>\$8,762,780</u>	<u>\$8,316,492</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 THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

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-load 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 note are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the Authority lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2) of this footnote, or cash, or both securities and cash, equal value for equal value;

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

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 Authority'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 Authority'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, 2019 and 2018, \$500,000 and \$500,000 of the Authority's bank balances of \$20,348,101 and \$15,898,627, 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 THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

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. Effective July 1, 2017, the Ohio Pooled Collateral System (OPCS) was implemented by the Ohio Treasurer of State. The OPCS is a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102% of the deposits being secured or a rate set by the Ohio Treasurer of State. Financial institutions have the option of participating in OPCS or collateralizing utilizing the specific pledge method.

C. Investments:

As of December 31, 2019 the Authority had the following investments:

Investment Type	Fair Value	% of Total	Maturities (in Years)	
			Less than 1	1 - 5
First American Treasury Obligation	\$ 755,590	10.8%	\$755,590	0
Federated Treasury Obligation Fund	6,248,040	89.2%	6,248,040	0
	\$ 7,003,630			

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

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

C. Investments (Continued):

As of December 31, 2018 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>
First American Treasury Obligation	\$ 762,037	11.4%	\$762,037	0
Federated Treasury Obligation Fund	5,922,350	88.6%	5,922,350	0
	<u>\$ 6,684,387</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, 2019, the Authority’s investment in U.S. instrumentalities were all rated AAA by Standard and Poor’s and Aaa by Moody’s Investors Service. As of December 31, 2018, the Authority’s investment in U.S. instrumentalities were all rated AAA by Standard and Poor’s and Aaa by Moody’s Investors Service.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

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 securities associated with the principal and interest payment of bond proceeds in the amount of \$6,248,040 and \$5,922,350, for 2019 and 2018, respectively, are held in the account of U.S. 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.

D. Fair Value Hierarchy:

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs-other than quoted prices included within level 1—that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

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

D. Fair Value Hierarchy (Continued):

The following is a summary of the fair value hierarchy of the fair value of investments as of December 31, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Money markets and certificates of deposit	\$1,759,150	\$ -0-	\$1,759,150
Treasury obligations	<u>-0-</u>	<u>7,003,630</u>	<u>7,003,630</u>
Total investments at fair value	<u>\$1,759,150</u>	<u>\$7,003,630</u>	<u>\$8,762,780</u>

The following is a summary of the fair value hierarchy of the fair value of investments as of December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Money markets and certificates of deposit	\$1,632,105	\$ -0-	\$1,632,105
Treasury obligations	<u>-0-</u>	<u>6,684,387</u>	<u>6,684,387</u>
Total investments at fair value	<u>\$1,632,105</u>	<u>\$6,684,387</u>	<u>\$8,316,492</u>

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 4. Long-Term Debt:

A summary of long-term debt for the year ended December 31, 2019 is as follows:

Description	Balance December 31, 2018	Additions	Deductions	Balance December 31, 2019	Due Within One Year
A note payable that was due to Huntington National Bank was paid off in September 2019.	\$ 145,808	\$ -0-	\$ 145,808	\$ -0-	\$ -0-
A Water Resource Improvement Revenue Bond, Series 2003A in the amount of \$1,200,000 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.	1,226,000	-0-	26,000	1,200,000	27,000
A Water Resource Improvement Revenue Bond, Series 2009 is due in the amount of \$812,600. The Bond requires annual principal and interest payments at an annual interest rate of 4.375% with a maturity date of July 2049.	825,600	-0-	13,000	812,600	13,600
A Water Resource Improvement Revenue Bond, Series 2015 is due in the amount of \$5,855,000 plus a premium of \$757,848. The bond requires annual principal and interest payments at an annual interest rate from 2.00% to 5.00% with a maturity date of October 2035.	7,265,781	-0-	652,933	6,612,848	625,000
A total of \$6,822,238 has been borrowed from the Ohio Water Development Authority. These notes will require semi-annual principal and interest payments due on January 1 st and July 1 st , including interest at rates from 2.87% to 3.86%. The maturity dates range from January 1, 2031 through January 1, 2032.	7,308,537	-0-	486,299	6,822,238	249,922
	<u>\$ 16,771,726</u>	<u>\$ -0-</u>	<u>\$ 1,324,040</u>	<u>\$ 15,447,686</u>	<u>\$ 915,522</u>

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 4. Long-Term Debt (Continued):

A summary of long-term debt for the year ended December 31, 2019 is as follows:

Description	Balance December 31, 2018	Additions	Deductions	Balance December 31, 2019	Due Within One Year
A net pension liability in the amount of \$4,502,309 was recorded based on the Authority's proportionate share of OPERS Schedule of Collective Pension Amounts per the requirements of GASB 68 based on a measurement date of December 31, 2018.	\$ 2,654,891	\$ 1,847,418	\$ -0-	\$ 4,502,309	\$ -0-
Description	Balance December 31, 2018	Additions	Deductions	Balance December 31, 2019	Due Within One Year
A net OPEB liability in the amount of \$2,190,193 was recorded based on the Authority's proportionate share of OPERS Schedule of Collective OPEB Amounts per the requirements of GASB 75 based on a measurement date of December 31, 2018.	\$ 1,813,497	\$ 376,696	\$ -0-	\$ 2,190,193	\$ -0-

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 4. Long-Term Debt (Continued):

A summary of long-term debt for the year ended December 31, 2018 is as follows:

Description	Balance December 31, 2017	Additions	Deductions	Balance December 31, 2018	Due Within One Year
A note payable in the amount of \$145,808 is due to Huntington National Bank. 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 2015 senior lien revenue bonds.	\$ 286,795	\$ -0-	\$ 140,987	\$ 145,808	\$ 145,808
A Water Resource Improvement Revenue Bond, Series 2003A in the amount of \$1,226,000 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.	1,251,000	-0-	25,000	1,226,000	26,000
A Water Resource Improvement Revenue Bond, Series 2009 is due in the amount of \$825,600. The Bond requires annual principal and interest payments at an annual interest rate of 4.375% with a maturity date of July 2049.	838,100	-0-	12,500	825,600	13,000
A Water Resource Improvement Revenue Bond, Series 2015 is due in the amount of \$6,460,000 plus a premium of \$805,781. The bond requires annual principal and interest payments at an annual interest rate from 2.00% to 5.00% with a maturity date of October 2035.	9,043,713	-0-	1,777,932	7,265,781	605,000
A total of \$7,308,537 has been borrowed from the Ohio Water Development Authority. These notes will require semi-annual principal and interest payments due on January 1 st and July 1 st , including interest at rates from 2.87% to 3.86%. The maturity dates range from January 1, 2031 through January 1, 2032.	7,777,323	-0-	468,786	7,308,537	240,920
	<u>\$ 19,196,931</u>	<u>\$ -0-</u>	<u>\$ 2,425,205</u>	<u>\$ 16,771,726</u>	<u>\$ 1,030,728</u>

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 4. Long-Term Debt (Continued):

A summary of long-term debt for the year ended December 31, 2018 is as follows:

<u>Description</u>	<u>Balance December 31, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2018</u>	<u>Due Within One Year</u>
A net pension liability in the amount of \$2,654,891 was recorded based on the Authority's proportionate share of OPERS Schedule of Collective Pension Amounts per the requirements of GASB 68 based on a measurement date of December 31, 2017.	\$ 3,793,682	\$ 644,208	\$ 1,782,999	\$ 2,654,891	\$ -0-
<u>Description</u>	<u>Balance December 31, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2018</u>	<u>Due Within One Year</u>
A net OPEB liability in the amount of \$1,813,497 was recorded based on the Authority's proportionate share of OPERS Schedule of Collective OPEB Amounts per the requirements of GASB 75 based on a measurement date of December 31, 2017.	\$ -0-	\$ 1,813,497	\$ -0-	\$ 1,813,497	\$ -0-

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

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, 2019, are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 915,522	\$ 448,414	\$ 1,363,936
2021	1,197,015	546,146	1,743,161
2022	1,232,928	503,699	1,736,627
2023	1,285,365	455,446	1,740,811
2024	1,332,854	405,124	1,737,978
2025-2029	4,855,940	1,421,921	6,277,861
2030-2034	2,578,814	588,252	3,167,066
2035-2039	594,100	232,897	826,997
2040-2044	480,800	109,137	589,937
2045-2049	216,500	29,230	245,730
Total	<u>\$ 14,689,838</u>	<u>\$ 4,740,266</u>	<u>\$ 19,430,104</u>

The 2003, 2009, and 2015 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. The table above does not include the premium of \$757,848 on the 2015 Series bonds. In addition, the indenture requires the establishment of certain funds as discussed in Note 2.

The 2003B and 2006 Series revenue bonds were refunded with the issuance of the 2015 Series revenue bonds. Interest cost savings on the issuance of the 2015 Series and refunding of the 2003B and 2006 Series revenue bonds was 2.27% in interest cost for a total savings in dollars of \$1,193,245. The interest savings averages approximately \$75,000 per year with total savings in today's dollars of approximately \$1,000,000.

The Huntington National Bank 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.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

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 risks of loss related to torts, theft, damage to or destruction of assets, errors and omissions, employee injuries, and natural disasters.

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:

Net Pension Liability:

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions – between an employer and its employees – of salaries and benefits for employee services. Pensions are provided to an employee – on a deferred-payment basis – as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net position liability represents the Authority's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of services, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the Authority's obligation for this liability to annually required payments. The Authority cannot control benefit terms or the manner in which pensions are financed; however, the Authority does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes the employee's portion). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 6. Retirement Commitments (Continued):

Net Pension Liability (Continued):

The proportionate share of each plan's unfunded benefits is presented as a long-term *net OPEB liability* on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in the *intergovernmental payable* on both the accrual basis and modified accrual basis of accounting.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description – The Authority's employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan and the Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. While members (e.g. Authority employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (800) 222-7377.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 6. Retirement Commitments (Continued):

Net Pension Liability (Continued):

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS' Comprehensive Annual Financial Report referenced above for additional information):

Group A Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	Group B 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Group C Members not in other groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with five years of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with five years of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with five years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 years	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 years	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35 years

Final average salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 6. Retirement Commitments (Continued):

Net Pension Liability (Continued):

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	<u>2018 & 2019</u> <u>State</u> <u>and Local</u>
Statutory Maximum Contribution Rates	
Employer	14.0%
Employee	10.0%
 Actual Contribution Rates	
Employer:	
Pension	14.0%
Post-employment Health Care Benefits	<u>0.0%</u>
 Total Employer	 <u>14.0%</u>
 Employee	 <u>10.0%</u>

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Authority's contractually required contribution was \$331,801 and \$341,138 for year 2019 and 2018, respectively. Of these amounts, \$0 is reported as an intergovernmental payable.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on the Authority's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>OPERS</u>
Proportionate Share of the Net Pension Liability	\$4,502,309
Proportion of the Net Pension Liability	0.016439%
Pension Expense	\$1,067,181

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 6. Retirement Commitments (Continued):

Net Pension Liability (Continued):

The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on the Authority's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>OPERS</u>
Proportionate Share of the Net Pension Liability	\$2,654,891
Proportion of the Net Pension Liability	0.016923%
Pension Expense	\$682,620

At December 31, 2019 and 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2019 OPERS</u>	<u>2018 OPERS</u>
Deferred Outflows of Resources		
Differences between expected and actual experience	\$ 2,454	\$ -0-
Changes in assumptions	394,974	-0-
Net difference between projected and actual earnings on pension plan investments	618,233	369,060
Changes in proportion and differences between Authority contributions and proportionate share of contributions	30,331	-0-
Authority contributions subsequent to the measurement date	<u>331,801</u>	<u>341,138</u>
Total deferred outflows of resources	<u>\$ 1,377,793</u>	<u>\$ 710,198</u>
	<u>2019 OPERS</u>	<u>2018 OPERS</u>
Deferred Inflows of Resources		
Net differences between expected and actual experience	<u>\$ 60,322</u>	<u>\$ 622,290</u>
Total deferred inflows of resources	<u>\$ 60,322</u>	<u>\$ 622,290</u>

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 6. Retirement Commitments (Continued):

Net Pension Liability (Continued):

\$331,801 and \$341,138 reported as deferred outflows of resources for 2019 and 2018, respectively, related to pension resulting from Authority contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the years ending December 31, 2019 and 2020, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>2019</u>	<u>2018</u>
	<u>OPERS</u>	<u>OPERS</u>
Fiscal Year Ending December 31:		
2018		\$ (63,308)
2019	\$ 246,418	\$ (63,308)
2020	246,418	(63,308)
2021	246,417	(63,307)
2022	<u>246,417</u>	<u>-0-</u>
Total	<u>\$ 985,670</u>	<u>\$(253,230)</u>

Actuarial Assumptions – OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 6. Retirement Commitments (Continued):

Net Pension Liability (Continued):

Actuarial Assumptions – OPERS (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Wage Inflation	3.25 percent	3.25 percent
Future Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation	3.25 to 10.75 percent including wage inflation
COLA or Ad Hoc COLA:		
Pre-January 7, 2013	3 percent simple	3 percent simple
Post-January 7, 2013	3 percent simple through 2018, then 2.15 percent simple	3 percent simple through 2018, then 2.15 percent simple
Investment Rate of Return	7.2 percent	7.5 percent
Actuarial Cost Method	individual entry age	individual entry age

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 6. Retirement Commitments (Continued):

Net Pension Liability (Continued):

Actuarial Assumptions – OPERS (Continued)

For 2018, mortality rates were based on the RP-2014 Healthy Annuitant Table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above-described table.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets for the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annualized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses, and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio was a loss of 2.94% for 2018.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 6. Retirement Commitments (Continued):

Net Pension Liability (Continued):

Actuarial Assumptions – OPERS (Continued)

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2018 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	23.00%	2.79%
Domestic Equities	19.00	6.21
Real Estate	10.00	4.90
Private Equity	10.00	10.81
International Equities	20.00	7.83
Other Investments	<u>18.00</u>	<u>5.50</u>
Total	<u>100.00%</u>	<u>5.95%</u>

Discount Rate The discount rate used to measure the total pension liability was 7.2 percent for the Traditional Pension Plan, Combined Plan, and Member-Directed Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Traditional Pension Plan, Combined Plan, and Member-Directed Plan was applied to all periods of projected benefit payments to determine the total pension liability.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 6. Retirement Commitments (Continued):

Net Pension Liability (Continued):

Actuarial Assumptions – OPERS (Continued)

Sensitivity of the Authority’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the Authority’s proportionate share of the net pension liability or asset calculated using the current period discount rate assumption of 7.2 percent, as well as what the Authority’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.2 percent) or one-percentage-point higher (8.2 percent) than the current rate:

	1% Decrease (6.20%)	Current Discount Rate (7.20%)	1% Increase (8.20%)
Authority’s proportionate share of the net pension:			
Asset	\$3,972	\$12,003	\$17,818
Liability	\$6,651,219	\$4,502,309	\$2,716,545

Note 7. Defined Benefit Other Post-Employment Benefits (OPEB) Plans:

Net OPEB Liability

The net OPEB liability reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB liability represents the Authority’s proportionate share of each OPEB plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan’s fiduciary net position. The net OPEB liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting these estimates annually.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 7. Defined Benefit Other Post-Employment Benefits (OPEB) Plans (Continued):

Net OPEB Liability (Continued)

Ohio Revised Code limits the Authority's obligation for this liability to annually required payments. The Authority cannot control benefit terms or the manner in which OPEB are financed; however, the Authority does receive the benefit of employees' services in exchange for compensation including OPEB.

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net OPEB liability* on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

Plan Description – Ohio Public Employees Retirement System (OPERS)

The Authority contributes to the Ohio Public Employees Retirement System (OPERS), a cost-sharing, multiple-employer defined benefit pension plan operated by the State of Ohio.

Plan Description – The Ohio Public Employees Retirement System (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; and the Combined Plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 7. Defined Benefit Other Post-Employment Benefits (OPEB) Plans (Continued):

Plan Description – Ohio Public Employees Retirement System (OPERS) (Continued)

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage, and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined Plans. This trust is also used to fund health care for Member-Directed Plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, Member-Directed Plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for postemployment health care coverage, age-and-service retirees under Traditional Pension and Combined Plans must have 20 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 Post-Employment Benefit (OPEB) as described in GASB Statement No. 75. See OPERS' Comprehensive Annual Financial Report referenced below for additional information.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by the OPERS Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. The employer contribution rate is 14.0% of earnable salary from January 1 through December 31, 2019 and 2018, respectively. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 7. Defined Benefit Other Post-Employment Benefits (OPEB) Plans (Continued):

Plan Description – Ohio Public Employees Retirement System (OPERS) (Continued)

Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 0.0% during calendar year 2018 and 2019. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0% for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for Member-Directed Plan participants for 2019 was 4.0%

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Authority's contractually required contribution was \$331,801 for 2019. Of this amount, \$-0- is reported as an intergovernmental payable.

The total employer contribution rates stated in the preceding paragraphs are the statutorily required contribution rates for OPERS. The employer contributions made by Rural Lorain County Water Authority used to fund health care were \$-0- and \$-0- for 2019 and 2018, respectively.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2017, rolled forward to the measurement date of December 31, 2018, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. The Authority's proportion of the net OPEB liability was based on the Authority's share of contributions to the retirement plan relative to the contributions of all participating entities.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 7. Defined Benefit Other Post-Employment Benefits (OPEB) Plans (Continued):

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

Following is information related to the proportionate share and OPEB expense:

Proportion of the Net OPEB Liability:	
Current Measurement Date	0.016799%
Prior Measurement Date	0.016700%
Change in Proportionate Share	0.000099%
Proportionate Share of the Net OPEB Liability	\$2,190,193
OPEB Expense	\$210,991

At December 31, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Deferred Outflows of Resources	
Differences between expected and actual experience	\$ 742
Changes of assumptions	70,614
Changes in proportion and differences between Authority contributions and proportionate share of contributions	100,407
Authority contributions subsequent to the measurement date	<u>-0-</u>
Total Deferred Outflows of Resources	<u>\$ 171,763</u>
Deferred Inflows of Resources	
Differences between expected and actual experience	\$ 5,943
Net difference between projected and actual earnings on OPEB plan investments	-0-
Changes in proportion and differences between Authority contributions and proportionate share of contributions	<u>115</u>
Total Deferred Inflows of Resources	<u>\$ 6,058</u>

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 7. Defined Benefit Other Post-Employment Benefits (OPEB) Plans (Continued):

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

\$-0- reported as deferred outflows of resources related to OPEB resulting from Authority contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending December 31:

2020	\$ 33,141
2021	33,141
2022	33,141
2023	33,141
2024	<u>33,141</u>
Total	<u>\$ 165,705</u>

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2017, rolled forward to the measurement date of December 31, 2018.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 7. Defined Benefit Other Post-Employment Benefits (OPEB) Plans (Continued):

Actuarial Assumptions – OPERS (Continued)

The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Wage Inflation	3.25 percent	3.25 percent
Projected Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation	3.25 to 10.75 percent including wage inflation
Single Discount Rate:		
Current measurement date	3.96 percent	3.85 percent
Prior Measurement date	3.85 percent	4.23 percent
Investment Rate of Return	6.00 percent	6.50 percent
Municipal Bond Rate	3.71 percent	3.31 percent
Health Care Cost Trend Rate	10.0 percent, initial	7.5 percent, initial
Actuarial Cost Method	3.25 percent, ultimate in 2029 Individual Entry Age	3.25 percent, ultimate in 2028 Individual Entry Age

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The most recent experience study was completed for the five year period ended December 31, 2015.

The long-term expected rate of return on health care investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 7. Defined Benefit Other Post-Employment Benefits (OPEB) Plans (Continued):

Actuarial Assumptions – OPERS (Continued)

During 2018, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio.

The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio was a loss of 5.6 percent for 2018.

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2018 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	34.00 %	2.42 %
Domestic Equities	21.00	6.21
Real Estate Investment Trusts	6.00	5.98
International Equities	22.00	7.83
Other investments	17.00	5.57
Total	<u>100.00 %</u>	<u>5.16 %</u>

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 7. Defined Benefit Other Post-Employment Benefits (OPEB) Plans (Continued):

Actuarial Assumptions – OPERS (Continued)

Discount Rate A single discount rate of 3.96 percent was used to measure the OPEB liability on the measurement date of December 31, 2018. A single discount rate of 3.85 percent was used to measure the OPEB liability on the measurement date of December 31, 2017. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.00 percent and a municipal bond rate of 3.71 percent.

The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2031.

As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2031, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the Authority's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate The following table presents the Authority's proportionate share of the net OPEB liability calculated using the single discount rate of 3.96 percent, as well as what the Authority's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.96 percent) or one-percentage-point higher (4.96 percent) than the current rate:

	1% Decrease <u>(2.96%)</u>	Current Discount Rate <u>(3.96%)</u>	1% Increase <u>(4.96%)</u>
Authority's proportionate share of the net OPEB liability	\$2,802,073	\$2,190,193	\$1,703,587

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 7. Defined Benefit Other Post-Employment Benefits (OPEB) Plans (Continued):

Actuarial Assumptions – OPERS (Continued)

Sensitivity of the Authority’s Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent higher than the current rate.

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2019 is 10.00 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25 percent in the most recent valuation.

	<u>1% Decrease</u>	Current Health Care Cost Trend Rate <u>Assumption</u>	<u>1% Increase</u>
Authority’s proportionate share of the net OPEB liability	\$2,105,251	\$2,190,193	\$2,288,024

Note 8. Leasing Arrangements:

The Authority leases two copiers under a 48-month operating lease and two copiers under a 36-month operating lease with two that began in April 2016, two in October 2017, one in March 2018, and two that expire in March 2020, two in September 2020, and one in February 2022, respectively. These leases require rent in the amount of \$419, \$166, \$83, \$180, and \$289 per month plus charges for additional copies over predetermined amounts.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 8. Leasing Arrangements (Continued):

The following is a schedule of future minimum rental payments required under the above operating leases as of December 31, 2019:

<u>Year Ending December 31,</u>	<u>Amount</u>
2020	\$ 7,590
2021	3,468
2022	<u>578</u>
	<u>\$11,636</u>

Office equipment lease for the years ended December 31, 2019 and 2018 was \$20,207 and \$18,565, respectively.

Note 9. Commitments:

A. Water Purchase Agreements:

The Authority's original and primary source of water (approximately 84.1%) has been the City of Avon Lake's water treatment plant located in northern Lorain County. On April 30, 1975, the Authority signed a long-term water purchase agreement with the City of Avon Lake with maximum amounts of water to be supplied per month.

The Authority purchases water from the Village of New London (approximately 10.8%) as a supplement to the water purchased from the City of Avon Lake. In addition to the Avon Lake agreement, the Authority signed a long-term water purchase agreement in 1996 with New London with maximum amounts of water to be supplied per month.

B. Water Supply Agreements:

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

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 10. 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, 2019 and 2018, the Authority's equity interest, at net book value, in the Consortium was \$3,467,950 and \$3,623,212, respectively. Financial information can be obtained from the City of Avon Lake, Finance Director, 150 Avon Belden Road, Avon Lake, Ohio 44012.

Note 11. Cinnamon Lake Tap Fees Receivable:

A receivable in the amount of \$1,217,954 and \$1,300,069 is due at December 31, 2019 and 2018, 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 12. 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. As of December 31, 2019, the certification has not been received, therefore, the payment has not been made.

Note 13. Medina County ETL1 Receivable:

A receivable in the amount of \$37,878 and \$56,507 is due at December 31, 2019 and 2018, respectively, for Medina County's portion of relocation costs for the ETL (Eastern Transmission Line) 1. Medina County is being billed biannually through July 2021, including interest at 2.202%.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 14. Change in Accounting Principle and Restatement of Net Position:

For 2018, the Authority implemented the Governmental Accounting Standards Board (GASB) Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, Statement No. 85, *Omnibus 2017, Accounting and Financial Reporting for Postemployment Benefits Other than Pension*, and related guidance from (GASB) Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (and Certain Issues Related to OPEB Plan Reporting)*.

GASB 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurements and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). These changes were incorporated in the Authority's 2018 financial statements: however, there was no effect on the beginning net position.

GASB 74 established standards to improve the usefulness of information about postemployment benefits other than pensions (other post-employment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability and replaces the requirements of GASB 25, 43, 50, and 57.

GASB 75 established standards for measuring and recognizing postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported December 31, 2017:

Net position December 31, 2017	\$46,276,565
Adjustments:	
Net OPEB liability	(1,813,497)
Other pension pension/OPEB liabilities adjustment	<u>(175,771)</u>
Restated Net Position December 31, 2017	<u>\$44,287,297</u>

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 14. Change in Accounting Principle and Restatement of Net Position (Continued):

The Authority made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

The District adopted Topic 606 Revenue from Contracts with Customers with a date of the initial application of January 1, 2018.

Note 15. Amherst Mobile Home Park Tap Fees Receivable:

A receivable in the amount of \$257,462 and \$269,839 is due at December 31, 2019 and 2018, respectively, for a new water system for the residents of the Amherst Mobile Home Park. The fees are being collected by the Lorain County Auditor biannually over 20 years through July 2034, including interest at 3.00%.

Note 16. Tap Installments Receivable:

A receivable in the amount of \$66,074 is due at December 31, 2019 for new taps purchased by customers under an installment purchase plan. A down payment can be made for any amount equal to or over and above the minimum required down payment of \$800. Payments are being made over 36 months including a monthly fee of \$10.

RURAL LORAIN COUNTY WATER AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the Authority's Proportionate Share of the Net Pension Liability
Ohio Public Employees Retirement System - Traditional Plan

Last Six Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Authority's Proportion of the Net Pension Liability	0.016439%	0.016923%	0.016762%	0.016152%	0.015823%	0.015823%
Authority's Proportionate Share of the Net Pension Liability	\$ 4,502,309	\$ 2,654,891	\$ 3,793,682	\$ 2,863,553	\$ 2,141,991	\$ 1,865,326
Authority's Covered-Employee Payroll	\$ 2,436,700	\$ 2,364,846	\$ 2,189,742	\$ 2,010,317	\$ 1,941,758	\$ 2,265,383
Authority's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	184.77%	112.26%	173.25%	142.44%	110.31%	82.34%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.70%	84.66%	77.25%	81.08%	86.54%	86.36%

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

RURAL LORAIN COUNTY WATER AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Authority Pension Contributions
Ohio Public Employees Retirement System - Traditional Plan

Last Six Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 331,801	\$ 341,138	\$ 307,430	\$ 262,769	\$ 241,238	\$ 233,011
Contributions in Relation to the Contractually Required Contribution	<u>(331,801)</u>	<u>(341,138)</u>	<u>(307,430)</u>	<u>(262,769)</u>	<u>(241,238)</u>	<u>(233,011)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Authority Covered-Employee Payroll	\$ 2,370,007	\$ 2,436,700	\$ 2,364,846	\$ 2,189,742	\$ 2,010,317	\$ 1,941,758
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.00%	12.00%	12.00%	12.00%

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

RURAL LORAIN COUNTY WATER AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the Authority's Proportionate Share of the Net OPEB Liability Ohio Public Employees Retirement System

Last Two Years (*)

	<u>2019</u>	<u>2018</u>
Authority's Proportion of the Net OPEB Liability	0.016799%	0.01670%
Authority's Proportionate Share of the Net OPEB Liability	\$ 2,190,193	\$ 1,813,497
Authority's Covered-Employee Payroll	\$ 2,370,007	\$ 2,436,700
Authority's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	92.41%	74.42%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	46.33%	54.14%

* Information prior to 2018 is not available.

Amounts presented as of the Authority's measurement date which is the prior fiscal year end.

RURAL LORAIN COUNTY WATER AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Authority OPEB Contributions
Ohio Public Employees Retirement System

Last Three Years (*)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually Required Contribution	\$ 0	\$ 0	\$ 23,648
Contributions in Relation to the Contractually Required Contribution	<u>0</u>	<u>0</u>	<u>(23,648)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Authority Covered-Employee Payroll	\$ 2,370,007	\$ 2,436,700	\$ 2,364,800
Contributions as a Percentage of Covered-Employee Payroll	0.00%	0.00%	1.00%

* Information prior to 2017 is not available.

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

RURAL LORAIN COUNTY WATER AUTHORITY

STATEMENTS OF OPERATING EXPENSES

Years Ended December 31, 2019 and 2018

	2019	2018
OPERATING EXPENSES:		
Wages:		
Board	\$ 60,045	\$ 55,171
Employees	1,616,386	1,718,992
Vacation and sick leave	254,237	251,305
O.P.E.R.S. - Pension (Note 6)	1,067,181	682,620
O.P.E.R.S. - OPEB (Note 7)	210,991	(179,824)
Payroll taxes	28,749	16,397
Insurance:		
Hospitalization	518,093	539,076
Life	4,599	4,807
General	78,688	78,648
Audit and professional fees	97,752	76,050
Legal fees	42,758	33,303
Engineering fees	5,401	9,947
Telephone	35,988	35,988
Depreciation	2,467,751	2,431,375
Utilities	34,453	38,682
Billing expense	55,874	52,827
Office equipment lease	20,207	18,565
Office supplies and expense	171,375	183,224
Clothing	18,766	18,754
Postage	108,501	106,187
Maintenance and repairs:		
Administrative building and equipment	204,662	131,801
Vehicles	75,240	75,411
Water lines	150,055	319,094
Pump stations	93,625	36,895
Tanks	159,794	270,740
Travel, mileage, and education expense	79,525	96,259
Gasoline	38,893	43,198
Water purchased	4,086,642	4,014,367
Distribution supplies	55,110	125,041
Electric pump station and tanks	366,028	378,345
Tap installations	293,309	251,112
Communication equipment	10,202	4,176
Miscellaneous expense	131,036	152,368
	\$ 12,641,916	\$ 12,070,901

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

OHIO AUDITOR OF STATE KEITH FABER



Lausche Building, 12th Floor
615 Superior Avenue, NW
Cleveland, Ohio 44113-1801
(216) 787-3665 or (800) 626-2297
NortheastRegion@ohioauditor.gov

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 Rural Lorain County Water Authority, Lorain County, (the Authority) as of and for the years ended December 31, 2020, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated September 17, 2021, wherein we noted the financial impact of COVID-19 and the continuing emergency measures which may impact subsequent periods of the Authority.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures appropriate in the circumstances to the extent necessary to support our opinions 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 financial statements. 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 report is not suitable for any other purpose.



Keith Faber
Auditor of State
Columbus, Ohio

September 17, 2021



Rural Lorain County Water Authority

42401 State Route 303, P.O. Box 567
Lagrange, Ohio 44050
800/842-1339 440/355-5121 Fax 440/355-6628
www.rlcwa.com



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

DECEMBER 31, 2020, 2019 AND 2018

Finding Number	Finding Summary	Status	Additional Information
2018-001	Credit card purchases made that did not serve a public purpose.	Fully Corrected	None
2018-002	The Authority did not perform adequate monitoring over credit card activities which resulted in numerous items charged that were not for proper public purpose.	Fully Corrected	None

OHIO AUDITOR OF STATE KEITH FABER



RURAL LORAIN COUNTY WATER AUTHORITY

LORAIN COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 10/12/2021

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov