



**LORCO RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2004 & 2003



**Auditor of State
Betty Montgomery**

**LORCO RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

We have audited the accompanying basic financial statements of the LORCO Rural Wastewater District, Lorain County, Ohio, (the District) as of and for the fiscal years ended December 31, 2004 and December 31, 2003, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the LORCO Rural Wastewater District, Lorain County, Ohio, as of December 31, 2004 and December 31, 2003, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 8 to the financial statements, the District has incurred net losses of \$136,780 and \$116,164 and has accumulated deficits of \$821,013 and \$688,939, for the years ended December 31, 2004 and December 31, 2003, respectively. The District has relied on debt borrowings to pay its obligations as they come due. Management's strategy in regard to these matters is described in Note 8 to the financial statements.

As disclosed in Note 10 to the basic financial statements, the District implemented Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, No. 37, *Basic Financial Statements and Management's Discussion and Analysis: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

November 23, 2005

**LORCO RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2004

This discussion and analysis, along with the accompanying financial reports of LORCO Rural Wastewater District (District), is designed to provide our customers, bondholders, creditors and other interested parties with a general overview of the District and its financial activities.

FINANCIAL HIGHLIGHTS

The total liabilities of the District exceeded assets by \$821,013.

The District's net assets decreased by \$132,074 (-19.2%) in 2004.

The District's Operating Revenues increased by \$1,500 (100%) with Operating Expenses increasing \$22,116 (19%) in 2004.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

The District is a single fund using proprietary fund accounting, similar to private sector business. The District is described in Note 1, Summary of Significant Accounting Policies. The Basic Financial Statements are presented using the accrual basis of accounting as further described in the above-mentioned note.

The **Statement of Net Assets** includes all of the District's Assets and Liabilities. This statement provides information about the nature and amounts of investments in resources (assets) owned by the District, and obligations owed by the District (liabilities) on December 31. The District's net assets (equity) are the difference between assets and liabilities.

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

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

SIGNIFICANT EVENTS AND EXPENDITURES DURING THE YEAR

In 2004 the Environmental Protection Agency (EPA) granted preliminary approval of the Phase I sewer system plans prepared by GRW Engineers. Also, a public notice was issued and no significant changes were requested by the benefited users.

The United States Department of Agriculture (USDA) Rural Development Authority (RDA) is putting together a financing package proposal that will include funding Phase I and the pay off of existing debt created by start-up costs by the district.

The district is also in the planning process for various feasibility studies requested by Amherst Township, South Amherst Village, New Russia Township and Kipton Village.

**LORCO RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2004

NET ASSETS

Table 1 summarizes the Net Assets of the District. Capital Assets are reported less accumulated depreciation. Invested in Capital, Net of Related Debt, are Capital Assets less outstanding debt that was used to acquire those assets.

TABLE 1				
	2004	2003	Change Amount	%
Current and Other Assets	\$ 9,514	\$ 28,697	\$ (19,183)	-66.8%
Capital Assets	\$ -0-	\$ 13	\$ (13)	-100.0%
Total Assets	<u>\$ 9,514</u>	<u>\$ 28,710</u>	<u>\$ (19,196)</u>	-66.9%
Liabilities				
Long Term Liabilities	\$ 79,500	\$ 79,500	\$ -0-	0.0%
Other Liabilities	\$ 751,027	\$ 638,149	\$ 112,878	17.7%
Total Liabilities	<u>\$ 830,527</u>	<u>\$ 717,649</u>	<u>\$ 112,878</u>	15.7%
Net Assets				
Unrestricted	\$ (821,013)	\$ (688,939)	\$ (132,074)	-19.2%
Total Net Assets	<u>\$ (821,013)</u>	<u>\$ (688,939)</u>	<u>\$ (132,074)</u>	-19.2%

The District's Net Assets decreased \$132,074 (-19.2%) in 2004. These decreases are a result of excess expenses over revenues.

STATEMENT OF REVENUES & EXPENSES (CHANGES IN NET ASSETS)

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

TABLE 2				
	2004	2003	Change Amount	%
Operating Expenses	\$ 140,267	\$ 115,965	\$ 24,302	20.9%
Depreciation Expenses	\$ 13	\$ 199	\$ (186)	-93.5%
Total Expenses	<u>\$ 140,280</u>	<u>\$ 116,164</u>	<u>\$ 24,116</u>	20.8%
Operating Loss	\$ (140,280)	\$ (116,164)	\$ (24,116)	-20.8%
Non-Operating Revenues	<u>\$ 3,500</u>	<u>\$ -0-</u>	<u>\$ 3,500</u>	100.0%
Change in Net Assets	<u>\$ (136,780)</u>	<u>\$ (116,164)</u>	<u>\$ (20,616)</u>	-17.7%

Total Operating Expenses increased \$24,116 (20.8%) in 2004 with the majority of the increase due to legal and professional fees.

**LORCO RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2004

CAPITAL ASSETS

The District had no increase or decrease in Capital Assets (before depreciation) at the end of 2004, as shown in Table 3.

TABLE 3			
	2004	2003	Change Amount
Furniture and Fixtures	\$ 1,396	\$ 1,396	\$ -0-
Totals before Depreciation	\$ 1,396	\$ 1,396	\$ -0-
Accumulated Depreciation	\$ (1,396)	\$ (1,383)	\$ (13)
Total Capital Assets	\$ -0-	\$ 13	\$ (13)

DEBT

Table 4 summarizes the District's long-term debt. The District issued notes payable to finance much of its start-up/organization of the District.

TABLE 4			
	2004	2003	Change Amount
LONG TERM DEBT			
Notes Payable	\$ 79,500	\$ 79,500	\$ -0-
Long Term Debt	\$ 79,500	\$ 79,500	\$ -0-

See Note 3 of the financial statements for a summary of the long-term debt.

DEBT COVERAGE

The District does not have operating revenue in 2004 to pay both interest and the current principal installments on its outstanding debt due to the start-up/organization phase of the District. The District will have operating revenue in the future to cover interest and current principal, but currently the District is securing financing from the USDA to cover these costs.

CONTACT INFORMATION

Questions regarding this report and requests for additional information should be forwarded to the Executive Director of the LORCO Rural Wastewater District, 22898 West Road, P.O. Box 158, Wellington, Ohio 44090.

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**LORCO RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

Statement of Net Assets - Proprietary Fund
December 31, 2004 and 2003

ASSETS	2004	2003
Current Assets:		
Cash and Cash Equivalents	\$ 9,514	\$ 28,697
Non-Current Assets:		
Capital assets:		
Depreciable capital assets, net	-	13
Total Assets	\$ 9,514	\$ 28,710
 LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 427,962	\$ 313,602
Accrued interest	23,065	19,842
Notes payable	300,000	300,000
Total current liabilities	751,027	633,444
Non-Current Liabilities:		
Notes payable	79,500	79,500
Total non-current liabilities	79,500	79,500
Total Liabilities	830,527	712,944
 NET ASSETS		
Capital Assets, Net of Related Debt	-	13
Unrestricted	(821,013)	(684,247)
Total net assets	(821,013)	(684,234)
Total Liabilities and Net Assets	\$ 9,514	\$ 28,710

See accompanying notes to the basic financial statements.

**LORCO RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
For The Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
OPERATING EXPENSES		
Administration expense	\$ 24,104	\$ 22,707
Bank fees	150	14
Computer expense	225	375
Depreciation expense	13	199
Dues and subscriptions	50	50
Engineering expense	31,539	25,455
Insurance	1,500	1,788
Interest expense	15,554	14,839
Legal and professional fees	61,294	44,638
Mileage expense	1,353	1,111
Office supplies and expense	1,027	892
Postage expense	500	625
Building rent	2,400	2,400
Telephone	570	726
Travel expense	-	345
Total operating expenses	<u>140,279</u>	<u>116,164</u>
Operating loss	<u>(140,279)</u>	<u>(116,164)</u>
NON-OPERATING REVENUES		
Miscellaneous income	<u>3,500</u>	-
Total non-operating revenues	<u>3,500</u>	-
NET ASSETS		
Decrease in Net Assets	(136,779)	(116,164)
Total Net Assets, beginning of year (Restated, see Note 9)	<u>(684,234)</u>	<u>(568,070)</u>
Total Net Assets, end of year	<u>\$ (821,013)</u>	<u>\$ (684,234)</u>

See accompanying notes to the basic financial statements.

**LORCO RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

Statement of Cash Flows - Proprietary Fund
For The Years Ended December 31, 2004 and 2003

	2004	2003
CASH FLOWS FROM		
OPERATING ACTIVITIES		
Cash paid to employees and professional contractors for services and benefits	\$ -	\$ (23,382)
Cash paid to suppliers for goods and services	(10,352)	(44,088)
Net cash used for operating activities	(10,352)	(67,470)
 CASH FLOWS FROM NON-CAPITAL		
FINANCING ACTIVITIES		
Cash received for Feasibility Study	1,500	-
Cash received for legal fees	2,000	-
Net cash received for non-capital financing activities	3,500	-
 CASH FLOWS FROM CAPITAL AND		
RELATED FINANCING ACTIVITIES		
Proceeds from note	-	300,000
Principal paid on note	-	(204,826)
Interest expense	(12,331)	-
Net cash provided by capital and related financing activities	(12,331)	95,174
 Net decrease in cash and cash equivalents	(19,183)	27,704
 Cash and cash equivalents - beginning of year	28,697	993
Cash and cash equivalents - end of year	\$ 9,514	\$ 28,697
 RECONCILIATION OF OPERATING INCOME		
(LOSS) TO NET CASH PROVIDED (USED) BY		
OPERATING ACTIVITIES		
Operating income (loss)	\$ (140,279)	\$ (116,164)
Adjustments to reconcile operating income to net cash used by operating activities:		
Depreciation	13	199
Change in liabilities:		
Accounts payable	114,361	88,140
Accrued interest	15,555	(39,645)
Net cash used for operating activities	\$ (10,350)	\$ (67,470)

See accompanying notes to the basic financial statements.

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**LORCO RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2004 and 2003

Note 1. Summary of Significant Accounting Policies:

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

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. This definition of reporting entity is found in GASB Statement No 14, "The Financial Reporting Entity".

The LORCO Rural Wastewater District primary government consists of one fund which is not legally separate from the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations which are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The reporting entity of the District does not include any component units.

A. Introduction:

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

B. Basis of Accounting:

LORCO Rural Wastewater District prepares its financial statements on an accrual basis. By virtue of its by-laws, the District is required to make appropriations in accordance with budgetary policies.

C. Budgetary Process:

The Ohio Revised Code requires that the District prepare an operating budget annually.

Appropriations - Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. Appropriation Authority includes current year appropriations plus encumbrances carried over from the prior year (if any). The Board must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end. The LORCO Board granted the Executive Director the authority to authorize payment of any disbursement not to exceed \$15,000 and \$10,000 in Fiscal Years 2004 and 2003, respectively, provided there are sufficient funds appropriated and remaining in the account of the fund from which payment will be made.

**LORCO RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2004 and 2003
(CONTINUED)

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

B. Budgetary Process (Continued):

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

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

Compliance - Contrary to Ohio Revised Code Section 5705.36, the District certified USDA loan proceeds of \$950,000 and \$300,000 that were to be received in Fiscal Year 2004 and 2003 respectively. These proceeds were not received by the District and a reduced amended certificate was not obtained.

Ohio Revised Code Section 5705.39 prohibits appropriations from exceeding estimated resources. Year end appropriations exceeded estimated resources by \$113,567 at December 31, 2003.

Contrary to Ohio Rev. Code Section 5705.41 (B), the District's expenditures exceeded appropriations at the legal level of budgetary control as of June 30, 2003 for the interest expense account by \$52,483 and at December 31, 2003 for audit fees expense by \$5,152.

D. Property and Equipment:

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

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

Machinery, Equipment, and Office Furniture 3-10 Years

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

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

Depreciation expense for the years ended December 31, 2004 and 2003 was \$13 and \$199, respectively.

A summary of changes in property, plant, and equipment for the year ended December 31, 2004, is as follows:

	Balance December 31, 2003	Additions	Deletions	Balance December 31, 2004
Furniture and fixtures	\$ 1,396	\$ -0-	\$ -0-	\$ 1,396
Less Accumulated Depreciation	(1,383)	(13)		(1,396)
Total:	\$ 13	\$ (13)	\$ -0-	\$ -0-

**LORCO RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2004 and 2003
(CONTINUED)

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

D. Property and Equipment (Continued):

A summary of changes in property, plant, and equipment for the year ended December 31, 2003, is as follows:

	Balance December 31, 2002	Additions	Deletions	Balance December 31, 2003
Furniture and fixtures	\$ 1,396	\$ -0-	\$ -0-	\$ 1,396
Less Accumulated Depreciation	(1,184)	(199)		(1,383)
Total:	\$ 212	\$ (199)	\$ -0-	\$ 13

E. Cash:

At December 31, 2004, the carrying amount of the District deposits was \$9,514 and the bank balance was \$9,514.

Deposits are insured by the Federal Depository Insurance Corporation. For purposes of the Statements of Cash Flows, all liquid investments with a maturity of three months or less when purchased are considered cash equivalents.

F. Use of Estimates:

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

Note 2. Short-Term Liabilities

A note in the amount of \$300,000 is due First Merit Bank, N.A. The interest rate is equal to the Lenders's Prime Rate (the "Index"). The note requires one principal payment and all accrued interest due on January 17, 2005. The District accrued interest of \$13,271 and \$12,331 to be paid in Fiscal Years 2004 and 2003, respectively.

Note 3. Debt:

A summary of changes in debt for the period January 1, 2003 through December 31, 2004, is as follows:

Description	Balance January 1, 2003	Borrowed	Repaid	Balance December 31, 2004
LORCO Rural Wastewater District borrowed \$5,000 from Carlisle Township in March 1997 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.	\$5,000			\$5,000

**LORCO RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2004 and 2003

(CONTINUED)

Note 3. Debt (Continued):

Description	Balance January 1, 2003	Borrowed	Repaid	Balance December 31, 2004
LORCO Rural Wastewater District borrowed \$10,000 from Eaton Township in March 1997 and \$5,500 in January 2001 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.	15,500			15,500
LORCO Rural Wastewater District borrowed \$5,000 from LaGrange Township in March 1997 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.	5,000			5,000
LORCO Rural Wastewater District borrowed \$5,000 from New Russia Township in March 1997 and \$5,000 in October 2000 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.	10,000			10,000
LORCO Rural Wastewater District borrowed \$5,000 from Elyria Township in March 1997 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.	5,000			5,000
LORCO Rural Wastewater District borrowed \$5,000 from Lorain County General Health District in March 1997 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.	5,000			5,000
LORCO Rural Wastewater District borrowed \$10,000 from Lorain-Medina Rural Electric Cooperative, Inc. in June 1999 at 7% per annum effective FY 2001 and \$5,000 in September 2000 for the start-up/organization of this entity. Repayment is required when the construction loan is finalized. Rate changed to 5.5% effective July 2003.	15,000			15,000

**LORCO RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2004 and 2003

(CONTINUED)

Note 3. Debt (Continued):

Description	Balance January 1, 2003	Borrowed	Repaid	Balance December 31, 2004
LORCO Rural Wastewater District borrowed \$2,500 from Camden Township in April 2001 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.	2,500			2,500
LORCO Rural Wastewater District borrowed \$5,500 from Grafton Township in April 2001 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.	5,500			5,500
LORCO Rural Wastewater District borrowed \$2,500 from Henrietta Township in December 2001 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.	2,500			2,500
LORCO Rural Wastewater District borrowed \$2,500 from Pittsfield Township in February 2001 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.	2,500			2,500
LORCO Rural Wastewater District borrowed \$500 from Rochester Township in June 2001 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.	500			500
LORCO Rural Wastewater District borrowed \$2,500 from South Amherst Village in October 2001 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.	2,500			2,500

**LORCO RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2004 and 2003

(CONTINUED)

Note 3. Debt (Continued):

Description	Balance January 1, 2003	Borrowed	Repaid	Balance December 31, 2004
LORCO Rural Wastewater District borrowed \$500 from Kipton Village in March 2001 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.	500			500
LORCO Rural Wastewater District borrowed \$2,500 from Huntington Township in January 2002 for the start-up/organization of this entity, at 0%. Repayment is required when the construction loan is finalized.	2,500			2,500
LORCO Rural Wastewater District has a line of credit with the Ohio Water Development Authority of \$791,856 with \$591,331 unused. Interest began accruing on January 1, 1998 at 6.11% per annum. This note is being paid in one balloon payment of principal plus interest due January 2003.	199,827		199,827	0
	<u>\$279,327</u>	<u>\$-0-</u>	<u>\$199,827</u>	<u>\$79,500</u>

As of December 31, 2004 and December 31, 2003, the District owed \$3,513 and 2,688, respectively, in accrued interest to the Lorain Medina Rural Electric Cooperative, Inc.

Note 4. Insurance:

The District maintains comprehensive insurance coverage which includes Comprehensive General Liability and Wrongful Act Liability. The District has not had any claims that exceeded coverage in any of the last three fiscal years.

Note 5. Leasing Arrangements:

The District leases office space from Lorain-Medina Rural Electric Cooperative, Inc. This lease is for a one-year period and may be renewed for an additional one year term upon agreement of both parties. The lease requires rent in the amount of \$200 per month. Rent expense for the years ended December 31, 2004 and December 31, 2003 was \$2,400 and \$2,400 respectively. Deferred rental payments bear no interest through December 31, 2000 and thereafter bear an interest rate of 7% per annum, simple interest, through June 2003, and 5.5% thereafter. As of December 31, 2004 and December 31, 2003, the District owed \$13,600 and \$11,200 in accrued rent and \$618 and \$486 in accrued interest, respectively.

**LORCO RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2004 and 2003
(CONTINUED)

Note 6. Administrative Arrangements:

The District has retained the services of the Director of Economic and Community Development of Lorain-Medina Rural Electric Cooperative, Inc. as an independent contractor to be the Executive Director of the District. This agreement shall be for six months beginning January 1, 1998 and may be extended upon mutual agreement of all parties. The District shall pay to Lorain-Medina Rural Electric Cooperative, Inc. an amount equal to one-half of the Lorain-Medina Rural Electric Cooperative, Inc. cost of wages, benefits and any other charges or expenses on a monthly basis. Deferred payments bear no interest through December 31, 2000 and thereafter bear an interest rate of 7% per annum, simple interest through June 2003, and 5.5% thereafter. As of December 31, 2004 and December 31, 2003, the District owed \$120,332 and \$96,228 in accrued administrative costs and \$5,663 and \$4,337 in accrued interest, respectively.

Note 7. Subsequent Events:

LORCO Rural Wastewater District borrowed \$300,000 from FirstMerit Bank, N.A. on January 17, 2003. This loan requires one principal payment of \$300,000 plus interest at 4.25% due on January 17, 2005. This loan was extended through July 1, 2005.

On June 6, 2005, the LORCO Rural Wastewater District borrowed \$1,600,000 from FirstMerit Bank, N.A. at Prime plus 2.6% interest, due on May 12, 2006. A portion of the proceeds from this loan were used to retire the previous loan.

Note 8. Accountability and Financial Outlook:

For fiscal years ended December 31, 2004 and 2003, LORCO Rural Wastewater District had net losses of \$136,779 and \$116,164 and accumulated deficits of \$821,013 and \$688,939, respectively. These net losses and accumulated deficits were the result of start up costs and operating expenses incurred by the District. From December 31, 2004 to November 23, 2005, the District continued to experience losses and deficits. The District's strategy is to develop and construct a sewer system and to repay the indebtedness from revenues derived from consumers utilizing the District's wastewater services. As of November 23, 2005 no construction has commenced and the District is restructuring or financing debt to meet debt demands.

Note 9. Net Prior Period Adjustments:

Prior period adjustments in fiscal year 2003 were due to 2001 and 2002 adjustments for various expenses that are timing differences which should be reversed, beginning balance of \$(575,633) less adjustments of \$7,563.

	Balance January 1, 2003
Net assets	\$ (575,633)
2002 Audit adjustment	4,679
2001 Accrued interest adjustment	2,858
2001 Invoice correction	(2)
2001 Expense adjustment	28
Restated net assets	\$ (568,070)

**LORCO RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2004 and 2003
(CONTINUED)

Note 10 Financial Reporting Model:

The District has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statement – and Management’s Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements for State and Local Governments and Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures* as of January 1, 2004. The changes included the Management’s Discussion and Analysis on pages 3 – 5.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

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

We have audited the basic financial statements of the LORCO Rural Wastewater District, Lorain County, Ohio, (the District) as of and for the years ended December 31, 2004 and December 31, 2003, and have issued our report thereon dated November 23, 2005, wherein we noted the District incurred significant net losses and accumulated deficits as of December 31, 2004 and December 31, 2003, and has relied on debt borrowings to pay its obligations as they come due. We also noted the District adopted Government Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated November 23, 2005, we reported an other matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001. In a separate letter to the District's management dated November 23, 2005, we reported other matters related to noncompliance we deemed immaterial.

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

We intend this report solely for the information and use of the Finance/Audit Committee, management and the Board of Trustees. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

November 23, 2005

**LORCO RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 and 2003**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2004-001
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CERTIFICATION OF PURCHASE ORDERS

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

- 1. "Then and Now" certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Board of Trustees can authorize the drawing of a warrant for the payment of the amount due. The District has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.

- 2. Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
- 3. Super Blanket Certificate** – The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

There were 10 out of 10 expenditures reviewed in which the expenditure commitment was entered into prior to receiving the fiscal officer's certification and none of the exceptions listed above applied. These weaknesses could allow expenditures to exceed the total available net assets, appropriations and/or the current year revenues. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**LORCO RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 and 2003
(CONTINUED)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2004-001
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CERTIFICATION OF PURCHASE ORDERS (Continued)

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of District funds exceeding budgetary spending limitations, we recommend the District certify the funds are or will be available prior to obligation by the District. Where prior certification is not feasible, we encourage the District to utilize "then and now" certificates.

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

**LORCO RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004 and 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2002-001	Ohio Rev. Code Section 5705.41(D) – Fiscal officer certification of purchase orders.	No	Noncompliance citation reissued as Finding 2004-001.
2002-002	Ohio Rev. Code Section 5705.36 – Amending the Certificate of Estimated Resources.	No	Noncompliance citation reissued in the management letter.
2002-003	Ohio Rev. Code Section 5705.41(B) – Expenditures exceeding appropriations	No	Noncompliance citation reissued in the management letter.



**Auditor of State
Betty Montgomery**

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LORCO RURAL WASTEWATER DISTRICT

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 28, 2006**