



**LORAIN COUNTY RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2008-2007



Mary Taylor, CPA
Auditor of State

**LORAIN COUNTY RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Lorain County Rural Wastewater District, Lorain County, Ohio, (the District), as of and for the years ended December 31, 2008 and December 31, 2007, 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lorain County Rural Wastewater District, as of December 31, 2008 and December 31, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 10 to the financial statements, the District has incurred net losses of \$401,781 and \$361,129 and has accumulated deficits of \$3,131,862 and \$2,730,081, as of and for the years ended December 31, 2008 and December 31, 2007, respectively. The District has relied on debt borrowings to pay certain obligations as they come due. The remaining unpaid obligations are being deferred. Management's strategy in regard to these matters is described in Note 10 to the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2010, 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 accounting principles generally accepted in the United States of America 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 "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

April 6, 2010

LORAIN COUNTY RURAL WASTEWATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2008 and 2007

This discussion and analysis, along with the accompanying financial reports of Lorain County 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 \$3,131,862 at year end 2008.

The District's net assets decreased by \$401,781 (14.7%) in 2008.

The District had a decrease in Operating Revenues of \$23,758 (-60.9%). Operating Expenses decreased \$30,586 (-9.5%) in 2008.

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 2008 The U.S. Army Corps of Engineers continued to review the District's stream delineation submission for wetlands. During the latter part of 2008 the Ohio EPA began their review of the District's stream delineation for water quality. It is anticipated that the Federal 401 Water Quality permit will be issued the second quarter of 2009. These agency reviews are valid for both the District's collection system and the Avon Lake Municipal Utilities force main.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2008 and 2007

SIGNIFICANT EVENTS AND EXPENDITURES DURING THE YEAR (Continued)

In 2008 approximately eighty percent of the permanent right-of-way easements were obtained through mailings and meetings with various property owners throughout the District's collection system. Ten percent of the easement value was provided at time of signing and the balance will be paid when the pipeline contracts are awarded and the bank closes on the permanent funding loan to the District.

The District signed an updated agreement with the Avon Lake Municipal Utilities for treatment of flow, which will remain in force for forty-years. Also an agreement between the District and Avon Lake Municipal Utilities was signed regarding construction oversight and system maintenance. This agreement will remain in force until such time as the District has in place its own operating personnel.

NET ASSETS

Table 1 summarizes the Net Assets of the District.

TABLE 1

	2008	2007	2006	2008 vs 2007		2007 vs 2006	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Current and other assets	\$ 77,298	\$ 62,837	\$ 31,256	\$ 14,461	23.0%	31,581	101.0%
Capital assets	28,646	17,172	1,926	11,474	66.8%	15,246	791.6%
Total assets	105,944	80,009	33,182	25,935	32.4%	46,827	141.1%
Long-term liabilities	79,500	79,500	79,500	0	0.0%	0	0.0%
Other liabilities	3,158,306	2,730,590	2,322,634	427,716	15.7%	407,956	17.6%
Total liabilities	3,237,806	2,810,090	2,402,134	427,716	15.2%	407,956	17.0%
Invested in capital assets	28,646	17,172	1,926	11,474	66.8%	15,246	791.6%
Restricted	0	0	0	0	0.0%	0	0.0%
Unrestricted	(3,160,508)	(2,747,253)	(2,370,878)	(413,255)	-15.0%	(376,375)	-15.9%
Total Net Assets	\$ (3,131,862)	\$ (2,730,081)	\$ (2,368,952)	\$ (401,781)	-14.7%	\$ (361,129)	-15.2%

The District's Net Assets decreased \$401,781 (14.7%) and \$361,129 (15.2%) in 2008 and 2007, respectively. These decreases are a result of excess expenses over revenues.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2008 and 2007

STATEMENT OF REVENUES AND EXPENSES (CHANGES IN NET ASSETS)

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

TABLE 2

				2008 vs 2007		2007 vs 2006	
	2008	2007	2006	Dollar Change	Percent Change	Dollar Change	Percent Change
Operating revenue	\$ 15,268	\$ 39,026	\$ -	\$ (23,758)	-60.9%	\$ 39,026	100.0%
Operating expenses	288,728	319,711	800,505	(30,983)	-9.7%	(480,794)	-60.1%
Depreciation expenses	1,051	654	472	397	60.7%	182	38.6%
Total expenses	289,779	320,365	800,977	(30,586)	-9.5%	(480,612)	-60.0%
Operating loss	(274,511)	(281,339)	(800,977)	6,828	2.4%	519,638	64.9%
Nonoperating revenue	85	19,626	11,137	(19,541)	-99.6%	8,489	76.2%
Nonoperating expenses	127,355	99,416	79,833	27,939	28.1%	19,583	24.5%
Nonoperating loss	(127,270)	(79,790)	(68,696)	(47,480)	59.5%	(11,094)	16.1%
Change in net assets	(401,781)	(361,129)	(869,673)	(40,652)	-11.3%	508,544	58.5%
Beginning net assets	(2,730,081)	(2,368,952)	(1,499,279)	(361,129)	-15.2%	(869,673)	-58.0%
Ending net assets	<u>\$ (3,131,862)</u>	<u>\$ (2,730,081)</u>	<u>\$ (2,368,952)</u>	<u>\$ (401,781)</u>	<u>-14.7%</u>	<u>\$ (361,129)</u>	<u>-15.2%</u>

Total Operating Expenses decreased \$30,586 (-9.5%) and \$480,612 (-60.0%) in 2008 and 2007, respectively, with the majority of the decrease due to legal and professional fees and engineering.

CAPITAL ASSETS

The District had an increase of \$12,525 (62.8%) and \$15,900 (394.6%) in Capital Assets (before depreciation) at the end of 2008 and 2007, respectively, as shown in Table 3.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2008 and 2007

TABLE 3

	2008	2007	2006	2008 vs 2007		2007 vs 2006	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Land and easements	\$ 4,600	\$ -	\$ -	\$ 4,600	100.0%	\$ -	0.0%
Tanks, stations, and lines	23,825	15,900	-	7,925	49.8%	15,900	100.0%
Furniture and fixtures	4,029	4,029	4,029	0	0.0%	0	0.0%
Total before depreciation	32,454	19,929	4,029	12,525	62.8%	15,900	394.6%
Accumulated depreciation	(3,808)	(2,757)	(2,103)	(1,051)	38.1%	(654)	31.1%
Total capital assets, net	<u>\$ 28,646</u>	<u>\$ 17,172</u>	<u>\$ 1,926</u>	<u>\$ 11,474</u>		<u>\$ 15,246</u>	791.6%

DEBT

Table 4 summarizes the District's non-current liabilities. The District issued notes payable to finance much of its start-up/organization of the District.

TABLE 4

	2008	2007	2006	2008 vs 2007		2007 vs 2006	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Notes payable	\$ 79,500	\$ 79,500	\$ 79,500	\$ -	0.0%	\$ -	0.0%
Total long-term debt	79,500	79,500	79,500	-	0.0%	-	0.0%
Non-current liabilities	<u>\$ 79,500</u>	<u>\$ 79,500</u>	<u>\$ 79,500</u>	<u>\$ -</u>	0.0%	<u>\$ -</u>	0.0%

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

DEBT COVERAGE

In 2008, the District did not have operating cash flow sufficient to repay the principal and interest due on its line of credit, but has received a waiver from the lender for the current year unpaid amount. The District is currently in negotiation with several lenders to secure financing for the construction of a public sewer system in Lorain County. The financing is expected to be secured in 2009, and after an 18-month estimated construction period the District would generate sufficient operating revenue to cover the amortized repayment of the outstanding debt.

CONTACT INFORMATION

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

LORAIN COUNTY RURAL WASTEWATER DISTRICT

STATEMENTS OF NET ASSETS - PROPRIETARY FUND

December 31, 2008 and 2007

	2008	2007
ASSETS		
Current Assets: (Note 2)		
Cash and cash equivalents	\$ 58,298	\$ 42,837
Non-Current Assets:		
Accounts receivable - Tap assessment	19,000	20,000
Capital assets: (Note 2)		
Non-Depreciable capital assets, net	4,600	-
Depreciable capital assets, net	24,046	17,172
Total Assets	\$ 105,944	\$ 80,009
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 1,157,876	\$ 984,147
Accrued payroll	2,027	5,250
Compensated absences payable	123	6,337
Accrued interest	57,130	57,545
Note payable - Line of credit (Note 4)	1,916,150	1,652,311
Total current liabilities	3,133,306	2,705,590
Non-Current Liabilities: (Note 5)		
Notes payable	79,500	79,500
Total non-current liabilities	79,500	79,500
Other Liabilities:		
Deposits	25,000	25,000
Total Liabilities	3,237,806	2,810,090
NET ASSETS		
Investment in Capital Assets	28,646	17,172
Unrestricted deficit	(3,160,508)	(2,747,253)
Total net assets	(3,131,862)	(2,730,081)
Total Liabilities and Net Assets	\$ 105,944	\$ 80,009

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

LORAIN COUNTY RURAL WASTEWATER DISTRICT

STATEMENTS OF REVENUES AND EXPENSES - PROPRIETARY FUND

For The Years Ended December 31, 2008 and 2007

	2008	2007
OPERATING REVENUE		
Usage fee income	\$ 15,268	\$ 4,026
Tap fee income	-	35,000
Total operating revenue	15,268	39,026
OPERATING EXPENSES		
Administration expense	85,268	82,207
Bank fees	563	274
Computer expense	821	-
Depreciation expense	1,051	654
Dues and subscriptions	213	225
Engineering expense	43,380	32,923
Insurance	9,815	3,336
Legal and professional fees	90,248	116,118
License and permits	-	3,378
Mileage expense	2,288	1,542
Office supplies and expense	5,420	9,194
O.P.E.R.S.	7,395	10,931
Payroll taxes	2,367	4,068
Penalties	-	8
Postage expense	1,795	823
Building rent	3,000	3,000
Telephone	638	639
Travel and education	180	157
Wages - Office	31,125	50,134
Wastewater treatment	4,212	754
Total operating expenses	289,779	320,365
Operating loss	(274,511)	(281,339)
NON-OPERATING REVENUES		
Interest income	47	470
Miscellaneous income	38	19,156
Total non-operating revenues	85	19,626
NON-OPERATING EXPENSES		
Interest expense	127,355	99,416
Total non-operating expenses	127,355	99,416
NET ASSETS		
Decrease in Net Assets	(401,781)	(361,129)

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

LORAIN COUNTY RURAL WASTEWATER DISTRICT

STATEMENTS OF CHANGES IN NET ASSETS - PROPRIETARY FUND

For The Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
TOTAL NET ASSETS AT THE BEGINNING OF YEAR		
As previously reported	\$ (2,730,081)	\$ (2,249,735)
Adjustment for over/understatement of accounts payable (Note 11)	<u>-</u>	<u>(119,217)</u>
Balance at beginning of year, restated	(2,730,081)	(2,368,952)
Decrease in Net Assets	<u>(401,781)</u>	<u>(361,129)</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$ (3,131,862)</u>	<u>\$ (2,730,081)</u>

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

LORAIN COUNTY RURAL WASTEWATER DISTRICT

STATEMENTS OF CASH FLOWS - PROPRIETARY FUND

For The Years Ended December 31, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from usage fees	\$ 15,268	\$ 4,026
Cash received from tap fees	0	35,000
Cash paid to employees, professional contractors and suppliers for services and benefits	(123,436)	(151,754)
Net cash used for operating activities	(108,168)	(112,728)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Cash received for feasibility study	-	5,600
Cash received for payroll tax refunds	23	336
Cash received for inspection fees	-	9,616
Cash received for environmental study	-	3,500
Cash received for contractor fee	15	100
Cash received for late fee	-	4
Net cash provided by non-capital financing activities	38	19,156
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property and equipment	(12,525)	(15,900)
Borrowings on line of credit	263,839	193,586
Interest paid on debt	(127,770)	(73,003)
Net cash provided by capital and related to financing activities	123,544	104,683
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest earned	47	470
Net cash provided by investing activities	47	470
Net increase in cash and cash equivalents	15,461	11,581
CASH AND CASH EQUIVALENTS - Beginning of year	42,837	31,256
CASH AND CASH EQUIVALENTS - End of year	\$ 58,298	\$ 42,837

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

LORAIN COUNTY RURAL WASTEWATER DISTRICT

STATEMENTS OF CASH FLOWS - PROPRIETARY FUND

For The Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (274,511)	\$ (281,339)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:		
Depreciation	1,051	654
Change in assets:		
Accounts receivable	1,000	(20,000)
Change in liabilities:		
Accounts payable	173,729	181,880
Deposits	-	-
Accrued expenses	<u>(9,437)</u>	<u>6,077</u>
Net cash used for operating activities:	<u>\$ (108,168)</u>	<u>\$ (112,728)</u>

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

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LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

Note 1. Reporting Entity:

Lorain County Rural Wastewater District, a regional sanitary sewer district, is a political subdivision of the State of Ohio. The District was organized in the State of Ohio on February 4, 1997, under Ohio Revised Code Section 6119.02 for the purpose of providing for the collection, treatment, and disposal of waste water within and without the district. The District is exempt from federal income tax. The District operates under a Board of Trustees which consists of as many members as equals the total number of villages and townships within this regional water district. Lorain County Rural Wastewater District is currently in the process of planning and developing a system for servicing future customers.

The reporting entity for the District is comprised of all departments, boards and agencies that are not legally separate from the District, any component units of the District and any other organizations that would need to be included to ensure that the financial statements of the District are not misleading.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or the District is obligated for the debt of the organization. Based on the application of these criteria, the District has no component units.

Note 2. Summary of Significant Accounting Policies:

The financial statements of the District are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds 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.

A. Basis of Accounting:

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

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

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

B. Basis of Presentation:

The District uses a single enterprise fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

C. Measurement Focus:

The enterprise fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its enterprise activity.

D. Net Assets:

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted by the District through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District's policy is to apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. At year-end the District reported a deficit of \$3,160,508 in unrestricted net assets.

E. Operating Revenues and Expenses:

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

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

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

F. Budgetary Process:

Budget - Thirty days before the end of each fiscal year, a proposed budget of estimated revenues and expenditures for the succeeding fiscal year is submitted to the Board of Trustees by the Executive Director. The Board of Trustees then approves the budget in its original or amended form.

Appropriations - After the budget is approved by the Board, the Board then makes appropriations in accordance with said budget. Thereafter, the Executive Director has the authority to authorize payment of any disbursement not to exceed \$3,000, provided there are sufficient funds appropriated and remaining in the account from which payment will be made. The Board may, from time-to-time, amend or supplement said appropriations and may also transfer any part of an unencumbered balance of an appropriation to any purpose or object for which the appropriation for the current fiscal year has proved insufficient.

G. Capital Assets:

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

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

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

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

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

Depreciation expense for the years ended December 31, 2008 and 2007 was \$1,051 and \$654, respectively.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

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

G. Capital Assets (Continued):

A summary of changes in capital assets for the year ended December 31, 2008 is as follows:

	January 1, 2008	Additions	Deletions	December 31, 2008
Land and easements	\$ -	\$ 4,600	\$ -	\$ 4,600
Tanks, stations, and lines	15,900	7,925	-	23,825
Furniture and fixtures	4,029	-	-	4,029
	<u>19,929</u>	<u>12,525</u>	<u>-</u>	<u>32,454</u>
Less accumulated depreciaton				
Tanks, stations, and lines	(182)	(579)		(761)
Furniture and fixtures	<u>(2,575)</u>	<u>(472)</u>	-	<u>(3,047)</u>
Total accumulated depreciation	<u>(2,757)</u>	<u>(1,051)</u>	<u>-</u>	<u>(3,808)</u>
Net capital assets	<u>\$ 17,172</u>	<u>\$ 11,474</u>	<u>\$ -</u>	<u>\$ 28,646</u>

A summary of changes in capital assets for the year ended December 31, 2007 is as follows:

	Balance January 1, 2007	Additions	Deletions	Balance December 31, 2007
Land and easements	\$ -	\$ -	\$ -	\$ -
Tanks, stations, and lines	-	15,900	-	15,900
Furniture and fixtures	4,029	-	-	4,029
	<u>4,029</u>	<u>15,900</u>	<u>-</u>	<u>19,929</u>
Less accumulated depreciaton				
Tanks, stations, and lines	-	(182)		(182)
Furniture and fixtures	<u>(2,103)</u>	<u>(472)</u>	-	<u>(2,575)</u>
Total accumulated depreciation	<u>(2,103)</u>	<u>(654)</u>	<u>-</u>	<u>(2,757)</u>
Net capital assets	<u>\$ 1,926</u>	<u>\$ 15,246</u>	<u>\$ -</u>	<u>\$ 17,172</u>

H. Compensated Absences Payable:

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

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

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

H. Compensated Absences Payable (Continued):

Sick leave accumulates to employees at a rate of 4.6 hours for every 80 hours of service. In the event an employee has accrued unused sick leave, such employee shall, upon retirement or termination from employment, be entitled to receive an amount equal to one half of such accrued unused sick leave to a maximum of 100 hours. 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. The unrecorded estimated unused sick leave for the years ended December 31, 2008 and 2007 was \$698 and \$2,273, respectively.

I. Cash and Cash Equivalents:

For purposes of the Statements of Cash Flows, all liquid investments with a maturity of three months or less when purchased are considered cash equivalents. During 2008 and 2007, investments were limited to interest-bearing deposit accounts.

J. Use of Estimates:

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

K. Tap Fees:

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

Note 3. Deposits:

The following information is provided to give an indication of the steps the District takes to protect its cash deposits and the level of risk assumed for certain investments.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

Note 3. Deposits (Continued):

Ohio Revised Code authorizes the District to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; obligations of the United States government, its agencies and instrumentalities; bonds and other obligations of the State of Ohio; certain money market mutual funds and secured repurchase agreements and the State Treasurer's investment pool. Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited.

Cash on Hand: At December 31, 2008, the District had \$200 in undeposited cash on hand, which is included in the Statement of Net Assets of the District as part of Cash and Cash equivalents.

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. The District does not have a policy for custodial credit risk. At year-end, the carrying amount of the District's deposits was \$58,098 and \$42,837 and the bank balance was \$59,277 and \$46,215, respectively. The bank balance was covered by federal depository insurance provided by the Federal Deposit Insurance Corporation (FDIC) or collateralized by the financial institution's public entity deposit pool. Although securities were held by the pledging financial institutions trust department or agent in the District's name and all Ohio Revised Code requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

The District had no investments at December 31, 2008 and 2007, respectively.

Note 4. Short-Term Liabilities:

Description	Balance January 1, 2007	Borrowed	Repaid	Balance December 31, 2008
A line-of-credit in the amount of \$2,000,000, with \$83,850 unused in 2008 and \$347,689 unused in 2007, is payable to FirstMerit Bank, N.A. The interest rate is equal to the sum of the One-Year U.S. Treasury Security Index plus 260 basis points (2.60%) per annum, as determined on the date of obligation, payable at maturity. The interest rate at December 31, 2008 and 2007 was 6.7% and 6.7%, respectively. The line-of-credit requires one principal payment and all accrued interest due on January 12, 2009 and June 12, 2008, respectively. The District accrued interest of \$28,055 and \$34,625 to be paid in fiscal years 2008 and 2007, respectively.	\$ 1,458,726	\$ 457,424	\$ -0-	\$ 1,916,150

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

Note 5. Non-Current Liabilities:

A summary of non-current liabilities debt for the period January 1, 2007 through December 31, 2008, is as follows:

Description	Balance January 1, 2007	Borrowed	Repaid	Balance December 31, 2008
Lorain County Rural Wastewater District borrowed \$5,000 from Carlisle Township in March 1997 for the start-up/organization of this entity. Repayment is required when the construction loan is finalized.	\$ 5,000			\$ 5,000
Lorain County 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. Repayment is required when the construction loan is finalized.	15,500			15,500
Lorain County Rural Wastewater District borrowed \$5,000 from LaGrange Township in March 1997 for the start-up/organization of this entity. Repayment is required when the construction loan is finalized.	5,000			5,000
Lorain County Rural Wastewater District borrowed \$5,000 from New Russia Township in March 1997 and \$5,000 in October 2000 for the start-up/organization of this entity. Repayment is required when the construction loan is finalized.	10,000			10,000
Lorain County Rural Wastewater District borrowed \$5,000 from Elyria Township in March 1997 for the start-up/organization of this entity. Repayment is required when the construction loan is finalized.	5,000			5,000
Lorain County Rural Wastewater District borrowed \$5,000 from Lorain County General Health District in March 1997 for the start-up/organization of this entity. Repayment is required when the construction loan is finalized.	5,000			5,000
Lorain County Rural Wastewater District borrowed \$10,000 from Lorain-Medina Rural Electric Cooperative, Inc. in June 1999 and \$5,000 in September 2000 for the start-up/organization of this entity. Repayment with interest is required when the construction loan is finalized.	15,000			15,000

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

Note 5. Non-Current Liabilities (Continued):

Description	Balance January 1, 2007	Borrowed	Repaid	Balance December 31, 2008
Lorain County Rural Wastewater District borrowed \$2,500 from Camden Township in April 2001 for the start-up/organization of this entity. Repayment is required when the construction loan is finalized.	\$ 2,500			\$ 2,500
Lorain County Rural Wastewater District borrowed \$5,500 from Grafton Township in April 2001 for the start-up/organization of this entity. Repayment is required when the construction loan is finalized.	5,500			5,500
Lorain County Rural Wastewater District borrowed \$2,500 from Henrietta Township in December 2001 for the start-up/organization of this entity. Repayment is required when the construction loan is finalized.	2,500			2,500
Lorain County Rural Wastewater District borrowed \$2,500 from Pittsfield Township in February 2001 for the start-up/organization of this entity. Repayment is required when the construction loan is finalized.	2,500			2,500
Lorain County Rural Wastewater District borrowed \$500 from Rochester Townership in June 2001 for the start-up/organization of this entity. Repayment is required when the construction loan is finalized.	500			500
Lorain County Rural Wastewater District borrowed \$2,500 from South Amherst Village in October 2001 for the start-up/organization of this entity. Repayment is required when the construction loan is finalized.	2,500			2,500
Lorain County Rural Wastewater District borrowed \$500 from Kipton Village in March 2001 for the Start-up/organization of this entity. Repayment is Required when the construction loan is finalized.	500			500
Lorain County Rural Wastewater District borrowed \$2,500 from Huntington Township in January 2002 for the start-up/organization of this entity. Repayment is required when the construction loan is finalized.	2,500			2,500
	<u>2,500</u>			<u>2,500</u>
	<u>\$ 79,500</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 79,500</u>

As of December 31, 2008 and 2007, the District owed \$6,951 and \$6,057, respectively, in accrued interest to the Lorain Medina Rural Electric Cooperative, Inc.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

Note 6. Insurance:

The District maintains comprehensive insurance coverage which includes Comprehensive General Liability, Wrongful Act Liability, and Automobile Liability.

Note 7. Retirement Commitments:

A. Defined Benefit Pension Plans:

Lorain County Rural Wastewater District contributes to the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer defined benefit pension plan operated by the State of Ohio. OPERS administers three separate pension plans: the Traditional Pension Plan—a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan in which the member invests both member and employer contributions. Under the member-directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings; and the Combined Plan—a cost-sharing, multiple-employer defined benefit pension plan. Under the combined plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the traditional pension plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the member-directed plan. OPERS provides retirement, disability, survivor, death benefits, annual cost-of-living adjustments and post-retirement health care coverage to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage. Health care benefits are not statutorily guaranteed. The plan includes a medical plan, a prescription drug program and medicare part B premium reimbursement. Chapter 145 of the Ohio Revised Code assigns the authority to establish and amend benefit provisions to the OPERS. OPERS issues a publicly available stand-alone financial report. Interested parties may obtain a copy by writing to the OPERS at 277 East Town Street, Columbus, Ohio 43215-4642 or calling (614) 222-5601 or 1-800-222-PERS (7377). The State of Ohio accounts for the activities of the Retirement System, and the amount of that fund is not reflected in the accompanying financial statements.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

Note 7. Retirement Commitments (Continued):

A. Defined Benefit Pension Plans (Continued):

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

The Ohio Revised Code provides statutory authority for employee and employer contributions. The rate set for employee contributions for 2008 and 2007 was 10.0% and 9.5%, respectively, and the employer contribution rate was 14.00% and 13.85%, respectively, of covered payroll. The rates are the actuarially determined contribution requirements for OPERS. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The difference between the total employer rate and the portion used to fund pension obligations is the amount used to fund the health care programs. Pension expense for the years ended December 31, 2008 and 2007, was \$7,395 and \$10,931, respectively. Contributions to the member directed plan for 2008 was \$7,395.

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

Historical trend information showing the OPERS System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's December 31, 2007 Comprehensive Annual Financial Report.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

Note 7. Retirement Commitments (Continued):

B. Post-Employment Benefits:

The Ohio Public Employees Retirement System provides post-retirement health care coverage to age-and-service retirees with ten or more years of qualifying Ohio service credits. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by OPERS meets the definition of an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. The employer contribution rate was 14.00% and 13.85%, respectively, of covered payroll and 7.00% for 2008 and 5.00% from January 1 through June 30, 2007 and 6.00% from July 1 through December 31, 2007, were the portions used to fund health care.

An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2007. The investment assumption rate for 2007 was 6.50%. An annual increase of 4.00% compounded annually on active employee total payroll is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from .50% to 6.30%. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .50% to 4.00% for the next seven years. In subsequent years (8 and beyond), health care costs were assumed to increase at 4.00% (the projected wage inflation rate). All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets, not to exceed a 12% corridor.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

Note 7. Retirement Commitments (Continued):

B. Post-Employment Benefits (Continued):

OPEBs are advanced-funded on an actuarially determined basis. The Traditional Pension and Combined Plans had 363,503 active contributing participants as of December 31, 2008. The number of active contributing participants for both plans used in the December 31, 2007, actuarial valuation was 364,076. The employer contributions, made by Lorain County Rural Wastewater District, used to fund postemployment benefits were \$3,697 and \$3,946, for the years ended December 31, 2008 and 2007, respectively. Twelve billion eight hundred million dollars (\$12,800,000,000) represents the actuarial value of Retirement Systems' net assets available for OPEB at December 31, 2007. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used was \$29.8 billion and \$17.0 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

Note 8. Leasing Arrangements:

The District leases office space from Lorain-Medina Rural Electric Cooperative, Inc. This lease is for a one-year period ending December 31, 2008 and may be renewed for additional one year terms upon agreement of both parties. The lease requires rent in the amount of \$250 per month. Rent expense for the years ended December 31, 2008 and 2007 was \$3,000 and \$3,000, respectively. Deferred rental payments bear interest at 5.96%. As of December 31, 2008 and December 31, 2007, the District owed \$25,600 and \$22,600 in accrued rent and \$1,306 and \$1,127 in accrued interest, respectively.

LORAIN COUNTY RURAL WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

Note 9. 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 three-fourths 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 interest at 5.96%. As of December 31, 2008 and 2007, the District owed \$381,865 and \$296,597, respectively, in accrued administrative costs and \$20,818 and \$15,736, respectively, in accrued interest.

Note 10. Accountability and Financial Outlook:

For the fiscal years ended December 31, 2008 and 2007, Lorain County Rural Wastewater District had a net loss of \$401,781 and \$361,129, respectively, and an accumulated deficit of \$3,131,862 and \$2,730,081, respectively. The net loss and accumulated deficit are the result of start up costs and operating expenses incurred by the District. The District's strategy is to develop and construct a sewer system and to repay the indebtedness from revenues derived from consumers utilizing the District's wastewater services. As of November 4, 2009 a notice to proceed was issued and construction was started the same day.

Note 11. Prior Period Restatement:

A prior period adjustment of (\$119,217) was recorded for 2007. The adjustments to legal, engineering, and administration expense were the result of an understatement of accounts payable discovered by management in 2007.

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Mary Taylor, CPA

Auditor of State

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

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

To the Board of Trustees:

We have audited the financial statements of the business-type activities of the Lorain County Rural Wastewater District, Lorain County, Ohio, (the District) as of and for the years ended December 31, 2008 and December 31, 2007, which comprise the District's basic financial statements and have issued our report thereon dated April 6, 2010, wherein we noted the District incurred significant net losses and accumulated deficits as of and for the years ended December 31, 2008 and December 31, 2007, and has relied on debt borrowings to pay its obligations as they come due. 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 as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

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 or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2008-001.

We intend this report solely for the information and use of the audit committee, management, and the Board of Trustees. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

April 6, 2010

**LORAIN COUNTY RURAL WASTEWATER DISTRICT
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND 2007**

FINDING 2008-001

Material Noncompliance – Incompatibility of Offices

1984 Op. Atty. Gen. No. 84-059 states, “. . . because the township trustees select the members of the board of trustees of the regional water and sewer district, the township trustees may not themselves serve as members of such board. . . . The position of township trustee and trustee of a water and sewer district established pursuant to R.C. Chapter 6119 are incompatible.”

Two positions are considered incompatible if one is subordinate to or a check upon the other, or if an individual serving in both positions would be subject to a conflict of interest. Because a sewer district may regulate the actions of a township with respect to the use of the district’s projects and the use and distribution of the water supply, the district trustees act as a check upon the township trustees.

Further, a person who serves as a district trustee and township trustee could be called upon to represent the interests of both the township and sewer district during a particular transaction and thus be subject to a conflict of interest.

We recommend the member townships appoint a representative to the Board of Trustees who is a resident of the Township but not a Township Trustee in accordance with 1984 Op. Atty. Gen. No. 84-059.

Official’s Response:

I [Robert Berner, Executive Director] have researched the issue concerning the appointment of township trustees to serve as trustee members on the Lorain County Rural Wastewater District (LORCO) Board. We are well aware of the opinion issued by the Ohio Attorney General in 1984. Our board does not believe there is a conflict unless a specific contract is to be entered into between a township and LORCO. Currently LORCO there are no contractual agreements between any LORCO communities and LORCO.

Further, in the event it becomes necessary to enter into a contractual agreement with a member community and LORCO, our legal council will advise the LORCO Trustee serving a dual role to abstain from any and all voting and deliberation regarding the contractual agreement.

Auditor of State’s Conclusion:

The Attorney General Opinion provided, in opinion 84-059, that where the township trustees select the members of the board of trustees of the regional water and sewer district, the township trustees may not appoint themselves to serve as members of such board. In the current instance, the township trustees that serve as members of board do so at their own appointment. Additionally, the LORCO Board minutes indicate that a vote was taken on April 23, 2009 to approve the construction contracts for “Phase 1”. “Phase 1” included the installation of new sewer lines in two participating townships. The minutes indicate that a Board member from one of the involved townships (township trustee) was present at the meeting and participated in the voting.



Mary Taylor, CPA
Auditor of State

**LORAIN COUNTY RURAL WASTEWATER DISTRICT
(LORCO)**

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
JUNE 29, 2010**