



**RURAL LORAIN COUNTY WATER AUTHORITY**

Lorain County, Ohio

Regular Audit

January 1, 2003 through December 31, 2004

Fiscal Years Audited Under GAGAS: 2003 and 2004

**BALESTRA, HARR & SCHERER, CPAS, INC.**

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**Auditor of State  
Betty Montgomery**

Board of Trustees  
Rural Lorain County Water Authority  
42401 Route 303  
LaGrange, Ohio 44050

We have reviewed the *Independent Auditor's Report* of the Rural Lorain County Water Authority, prepared by Balestra, Harr & Scherer CPAs, Inc., for the audit period January 1, 2003 through December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Rural Lorain County Water Authority is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

August 1, 2005

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Ohio Society of Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Rural Lorain County Water Authority  
LaGrange, Ohio

We have audited the accompanying financial statements of the business-type activities of the Rural Lorain County Water Authority (the Authority), Lorain County, as of and for the years ended December 31, 2004 and December 31, 2003, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 the 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 opinions.

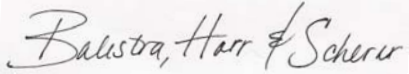
In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority and its cash flows, as of December 31, 2004 and December 31, 2003, and the respective changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2005, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the Board of Directors  
Rural Lorain County Water Authority  
LaGrange, Ohio  
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As described in Note 9 to the basic financial statements, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.



Balestra, Harr & Scherer, CPAs, Inc.

June 9, 2005

# RURAL LORAIN COUNTY WATER AUTHORITY

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December 31, 2004 and 2003

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# RURAL LORAIN COUNTY WATER AUTHORITY

## MANAGEMENTS DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2004

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

### **FINANCIAL HIGHLIGHTS**

The total assets of RLCWA exceeded liabilities by \$20.0 million.

The Authority's net assets increased by \$548 thousand (2.8%) in 2004.

The Authority's Operating Revenues increased by \$605 thousand (6.3%) with Operating Expenses increasing \$1.1 million (14.4%) in 2004.

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

The Authority is a single fund using proprietary fund accounting, similar to private sector business. The Authority is described in Note 1, Summary of Significant Accounting Policies, on page sixteen (16). The Basic Financial Statements are presented using the accrual basis of accounting as further described in the above-mentioned note.

The **Statements of Net Assets** include all of the Authority's Assets and Liabilities. These statements provide information about the nature and amounts of investments in resources (assets) owned by the Authority, and obligations owed by the Authority (liabilities) on December 31. The Authority's net assets (equity) are the difference between assets and liabilities.

The **Statements of Revenues, Expenses, and Changes in Net Assets** provide information on the Authority's operations over the past two years 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 **Statements of Cash Flows** provide information about the Authority's cash receipts and cash disbursements from operations, investing and financing activities. These statements summarize where the cash was provided, cash uses, and changes in the balances during the years.



# **RURAL LORAIN COUNTY WATER AUTHORITY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the Year Ended December 31, 2004

### **SIGNIFICANT EVENTS AND EXPENDITURES DURING THE YEAR**

Effective January 1, 2004, water rates were increased to bulk and residential customers of the Authority. This rate increase was the result of board action taken in October 2003 to offset the increase in the price of water purchased from Avon Lake (the water purchase provider) to RLCWA. Avon Lake passed this rate increase on to the Authority citing increased federal regulation (the Public Health Security and Bioterrorism Preparedness Response Act of 2002), enhanced security requirements, and rising maintenance costs.

RLCWA is continuing in its attempts to resolve disputes with various local municipalities over service areas. Provisions of the 1961 Consolidated Farm and Rural Development Act protect our service area from municipal encroachment. If municipalities are permitted to encroach on RLCWA Service Areas, the loss of customers will reduce the fee base available to repay revenue-based federal loans. It appears that this will be a continuing issue for some time to come.

The City of Elyria has entered into an agreement with the Authority to grant Elyria permission to provide water to the Chestnut Commons Subdivision. The Authority will be reimbursed a percentage of lost tap fees and monthly water usage fees for ten years, after which the rates will be reviewed and adjusted accordingly. The City also agrees that it will not contest the original 1973 Rural Lorain County Water Authority Service Area with regard to annexation issues.

In accordance with the water purchase agreement, the Authority turned over all electric service, pump control, and pump maintenance to the Village of West Salem effective October 11, 2004.

The Board approved a proposal from GRW Engineers which was one of several proposals submitted to install the geographical information system (GIS). The cost is expected to be approximately \$350,000 using funds that have been earmarked for this project in the capital improvements budget.

As of March 17, 2004, RLCWA was no longer the operator of the Medina-Lorain Water Consortium facilities. This change will allow the Eastern Water Transmission Facilities to operate in a more efficient manner.

# RURAL LORAIN COUNTY WATER AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2004

### NET ASSETS

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

<b>TABLE 1</b>				
Assets	2004	2003	Change Amount	%
Current and Other Assets	\$ 10,116,427	\$ 9,924,913	\$ 191,514	1.9 %
Capital Assets	\$ 36,995,718	\$ 37,896,984	\$ (901,266)	(2.4)%
<b>Total Assets</b>	<u>\$ 47,112,145</u>	<u>\$ 47,821,897</u>	<u>\$ (709,752)</u>	<u>(1.5)%</u>
Liabilities				
Long Term Liabilities	\$ 24,744,405	\$ 26,043,842	\$ (1,299,437)	(5.0)%
Other Liabilities	\$ 2,387,784	\$ 2,345,715	\$ 42,069	1.8 %
<b>Total Liabilities</b>	<u>\$ 27,132,189</u>	<u>\$ 28,389,557</u>	<u>\$ (1,257,368)</u>	<u>4.4 %</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	\$ 10,951,064	\$ 10,740,142	\$ 210,922	2.0 %
Restricted	\$ 3,941,301	\$ 3,788,538	\$ 152,763	4.0 %
Unrestricted	\$ 5,087,591	\$ 4,903,660	\$ 183,931	3.8 %
<b>Total Net Assets</b>	<u>\$ 19,979,956</u>	<u>\$ 19,432,340</u>	<u>\$ 547,616</u>	<u>2.8 %</u>

The Authority's Net Assets increased \$548 thousand (2.8%) in 2004. These increases are a result of excess revenues over expenses.

The Authority reduced long term liabilities \$1.3 million primarily from debt service payments.

# RURAL LORAIN COUNTY WATER AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2004

### 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.

<b>TABLE 2</b>				
	2004	2003	Change Amount	%
Operating Revenues	\$ 10,259,383	\$ 9,654,896	\$ 604,487	6.3 %
Non-Operating Revenues	\$ 412,807	\$ 748,499	\$ (335,692)	(44.8)%
Total Revenues	<u>\$ 10,672,190</u>	<u>\$ 10,403,395</u>	<u>\$ 268,795</u>	<u>2.6 %</u>
Operating Expenses	\$ 6,298,798	\$ 5,574,810	\$ 723,988	13.0 %
Maintenance Expenses	\$ 640,702	\$ 304,065	\$ 336,637	210.7 %
Depreciation Expenses	\$ 1,896,070	\$ 1,842,468	\$ 53,602	2.9 %
Total Expenses	<u>\$ 8,835,570</u>	<u>\$ 7,721,343</u>	<u>\$ 1,114,227</u>	<u>14.4 %</u>
Operating Income	<u>\$ 1,423,813</u>	<u>\$ 1,933,553</u>	<u>\$ (509,740)</u>	<u>(26.4)%</u>
Non-Operating Expenses	<u>\$ (1,289,004)</u>	<u>\$ (1,475,451)</u>	<u>\$ 186,447</u>	<u>(12.6)%</u>
Change in Net Assets	<u>\$ 547,616</u>	<u>\$ 1,206,601</u>	<u>\$ (658,985)</u>	<u>(54.6)%</u>
Beginning Net Assets	<u>\$ 19,432,340</u>	<u>\$ 18,400,361</u>	<u>\$ 1,031,979</u>	<u>5.6 %</u>
Ending Net Assets	<u><u>\$ 19,979,956</u></u>	<u><u>\$ 19,432,340</u></u>	<u><u>\$ 547,616</u></u>	<u><u>2.8 %</u></u>

Total Operating Revenues increased \$605 thousand (6.3%) in 2004. Investment income decreased by \$302 thousand (64.8%) resulting in the majority of the decrease of \$336 (44.8%) in non-operating revenues.

Operations and Maintenance Expenses, excluding depreciation, increased \$1.06 million (18.0%) in 2004. A retirement buyout, the painting of two tanks, and a rate increase by the city of Avon Lake for water purchased in 2004 accounted for the majority of the increase in operating and maintenance costs.

# RURAL LORAIN COUNTY WATER AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2004

### CAPITAL ASSETS

The Authority had \$59.53 million invested in Capital Assets (before depreciation) at the end of 2004, as shown in Table 3. This amount is an increase of \$786 thousand (1.3%) from the previous year.

<b>TABLE 3</b>				
	2004	2003	Change Amount	%
Land and Easements	\$ 531,911	\$ 530,883	\$ 1,028	.2 %
Buildings	\$ 2,184,959	\$ 2,179,895	\$ 5,064	.2 %
Tanks, Stations, and Lines	\$ 52,886,207	\$ 51,756,444	\$ 1,129,763	2.2 %
Meters and Replacements	\$ 1,343,003	\$ 1,287,879	\$ 55,124	4.3 %
Furniture and Fixtures	\$ 954,244	\$ 719,145	\$ 235,099	32.7 %
Machinery, Equipment, and Vehicles	\$ 1,616,517	\$ 1,413,132	\$ 203,385	14.4 %
Construction in Progress	\$ 15,806	\$ 859,304	\$ (843,498)	(98.2)%
<b>Totals before Depreciation</b>	<b>\$ 59,532,647</b>	<b>\$ 58,746,682</b>	<b>\$ 785,965</b>	
Accumulated Depreciation	<b>\$ (22,536,929)</b>	<b>\$ (20,849,698)</b>	<b>\$ (1,687,231)</b>	
<b>Total Capital Assets</b>	<b><u>\$ 36,995,718</u></b>	<b><u>\$ 37,896,984</u></b>	<b><u>\$ (901,266)</u></b>	

The majority of the increase in capital assets for 2004 was from the Kipton water tank, the geographical information system's (GIS) computer, printer, equipment, and software, and six trucks. The decrease in Construction in Progress was due primarily to the completion of the Kipton water tank. Additional information regarding capital assets can be found in note 1 to the basic financial statements.

# RURAL LORAIN COUNTY WATER AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2004

### DEBT

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

<b>TABLE 4</b>				
	2004	2003	Change Amount	%
<b>LONG-TERM DEBT</b>				
1999 Revenue Bonds	\$ 8,770,000	\$ 9,015,000	\$ (245,000)	(2.7)%
2003 Revenue Bonds	\$ 14,040,000	\$ 14,895,000	\$ (855,000)	(5.7)%
Long Term Note Payable	\$ 1,747,654	\$ 1,746,842	\$ 812	0.5 %
Rural Development Revenue Bonds	<u>\$ 1,487,000</u>	<u>\$ 1,500,000</u>	<u>\$ (13,000)</u>	<u>(8.7)%</u>
<b>Long-Term Debt</b>	<b>\$ 26,044,654</b>	<b>\$ 27,156,842</b>	<b>\$ 1,112,188</b>	<b>4.1 %</b>
<b>Less:</b>				
Current Maturities	\$ (1,300,249)	\$ (1,113,000)	\$ (187,249)	(6.8)%
<b>Net Total Long-Term Debt</b>	<u><u>\$ 24,744,405</u></u>	<u><u>\$ 26,043,842</u></u>	<u><u>\$ (1,299,437)</u></u>	<u><u>(5.0)%</u></u>

See Note 4 of the basic financial statements for additional information regarding debt.

The Bond Reserve Fund and Bond Fund were established for payment of bond service charges and cancellation or redemption of bonds. The Bond Reserve Fund had a balance of \$2,452,136 and the Bond Fund had a balance of \$1,489,165 at December 31, 2004. See Note 2 of the financial statements for more details on the bond funds.

# RURAL LORAIN COUNTY WATER AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2004

### DEBT COVERAGE

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

<b>TABLE 5</b>		
	2004	2003
Operating Revenues	\$ 10,259,383	\$ 9,654,896
Non-Operating Revenue - Interest	\$ 164,186	\$ 466,541
<b>Total Revenues</b>	<b>\$ 10,423,569</b>	<b>\$ 10,121,437</b>
Less Operations & Maintenance Expenses	\$ (6,939,500)	\$ (5,878,875)
<b>Total Revenues Available for Debt</b>	<b>\$ 3,484,069</b>	<b>\$ 4,242,562</b>
<b>Total Debt Service Requirements</b>	<b>\$ 2,437,517</b>	<b>\$ 2,320,344</b>
<b>Combined Coverage Ratio - All Debt</b>	<b>1.43</b>	<b>1.83</b>
<b>Required Coverage Ratio</b>		
Revenue Bonds - 1999 & 2003	1.20	1.20
Rural Development Revenue Bonds	1.00	1.00

The Authority's is required to meet a revenue-to-debt ratio of 1.20 for its 1999 and 2003 revenue bonds and a 1.00 ratio for rural development bonds.

### CONTACT INFORMATION

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

**RURAL LORAIN COUNTY WATER AUTHORITY**

**STATEMENTS OF NET ASSETS**

December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents:		
General	\$ 166,995	\$ 195,182
Working capital	896,275	1,121,284
Capital improvements (Note 2)	1,541,725	386,716
Receivables:		
Trade (net of allowance for doubtful accounts of \$3,000 in 2004 and \$3,000 in 2003)	679,741	692,744
Other	24,654	89,098
Interest	17,871	15,971
Inventory (Note 1)	279,631	224,531
Prepaid expenses (Note 1)	51,453	53,158
Deferred debt issue costs (Note 1)	<u>1,176,763</u>	<u>1,227,022</u>
Total current assets	4,835,108	4,005,706
NONCURRENT ASSETS:		
Restricted cash and investments (Note 2)	5,281,319	5,919,207
CAPITAL ASSETS, AT COST: (Note 1)	59,516,841	57,887,378
Less: Accumulated depreciation	<u>22,536,929</u>	<u>20,849,698</u>
	36,979,912	37,037,680
Current construction	<u>15,806</u>	<u>859,304</u>
	<u>36,995,718</u>	<u>37,896,984</u>
TOTAL ASSETS	<u>\$ 47,112,145</u>	<u>\$ 47,821,897</u>

**RURAL LORAIN COUNTY WATER AUTHORITY**

STATEMENTS OF NET ASSETS  
(CONTINUED)

December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of long-term debt	\$ 1,300,249	\$ 1,113,000
Accounts payable	362,057	369,321
Taxes payable	27,444	24,950
Compensated absences payable (Note 1)	256,501	278,012
Deposits	71,035	165,285
Accrued expenses:		
Wages	44,203	36,219
Interest	<u>326,295</u>	<u>358,928</u>
Total current liabilities	2,387,784	2,345,715
<b>LONG-TERM DEBT: (Note 4)</b>		
Bonds and long term notes payable:		
2003 Series Revenue Bonds	14,040,000	14,895,000
1999 Series Revenue Bonds	8,770,000	9,015,000
Long Term Note Payable	1,747,654	1,746,842
USDA Revenue Bonds	<u>1,487,000</u>	<u>1,500,000</u>
	26,044,654	27,156,842
Less: Current portion	<u>1,300,249</u>	<u>1,113,000</u>
Total long-term liabilities	<u>24,744,405</u>	<u>26,043,842</u>
Total liabilities	27,132,189	28,389,557
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	10,951,064	10,740,142
Restricted for debt service	3,941,301	3,788,538
Unrestricted	<u>5,087,591</u>	<u>4,903,660</u>
Total net assets	<u>\$ 19,979,956</u>	<u>\$ 19,432,340</u>

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



**RURAL LORAIN COUNTY WATER AUTHORITY**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<b>OPERATING REVENUE:</b>		
Water sales	\$ 9,421,009	\$ 8,944,834
Tap fees	<u>838,374</u>	<u>710,062</u>
Total Operating Revenue	10,259,383	9,654,896
<b>OPERATING EXPENSES:</b>		
Wages:		
Board	83,038	68,612
Other	1,309,625	1,187,974
O.P.E.R.S.	453,894	271,110
Payroll taxes	21,896	5,787
Insurance:		
Hospitalization	181,473	179,458
Life	3,581	4,260
General	70,602	66,416
Audit and professional fees	101,720	99,491
Legal fees	110,575	78,099
Engineering fees	34,282	3,102
Telephone	31,002	23,789
Depreciation expense	1,896,070	1,842,468
Utilities	32,113	36,732
Billing expense	20,692	20,522
Office equipment lease	14,963	14,725
Office supplies and expense	139,375	130,333
Clothing	15,981	16,827
Postage	71,899	68,644
Maintenance and repairs:		
Administration building and equipment	131,705	120,385
Vehicles	90,973	59,747
Water lines	44,072	59,885
Pump stations	72,569	32,725
Tanks	301,383	31,323
Travel and education expense	80,800	76,273
Gasoline	55,712	52,395
Water purchased	2,676,576	2,374,685
Distribution supplies	85,868	77,880
Electric pump stations and tanks	350,022	349,351
Tap installations	270,945	286,272
Communications equipment	5,494	5,277
Bond administration expense	7,696	4,543
Miscellaneous expense	<u>68,974</u>	<u>72,253</u>
Total Operating Expenses	8,835,570	7,721,343
<b>INCOME FROM OPERATIONS</b>	1,423,813	1,933,553

**RURAL LORAIN COUNTY WATER AUTHORITY**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
(CONTINUED)

For the Year Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<b>NON-OPERATING REVENUES:</b>		
Penalty income	121,080	117,186
Miscellaneous	144,373	76,313
Hydrant maintenance fees	18,016	9,525
Discounts earned	1,342	1,667
Investment income	164,186	466,541
Unrealized gain/(loss) on investments	(35,651)	76,327
Gain/(loss) on disposal of assets	(539)	940
Total Other Income	412,807	748,499
<b>NON-OPERATING EXPENSES:</b>		
Interest expense	1,207,344	1,416,782
Bad debts	3,867	2,090
Bond premium amortization	77,793	56,579
Total Other Expenses	1,289,004	1,475,451
<b>CHANGES IN NET ASSETS</b>	547,616	1,206,601
<b>BEGINNING NET ASSETS - As Restated</b>	19,432,340	18,225,739
<b>ENDING NET ASSETS</b>	\$ 19,979,956	\$ 19,432,340

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

**RURAL LORAIN COUNTY WATER AUTHORITY**

STATEMENTS OF CASH FLOWS

For the Year Ended December 31, 2004 and 2003

	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	10,334,930	9,600,625
Cash payments to suppliers for goods and services	(4,719,419)	(4,135,489)
Cash payments for employee and professional contractors for services and benefits	(2,416,063)	(2,081,199)
Net cash provided by operating activities	3,199,448	3,383,937
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of property and equipment and current construction	(994,804)	(2,307,330)
Proceeds from sale of equipment and land	-	1,500
Proceeds from issuance of 2003 Series Bonds	-	14,895,000
Repayment of 1993 Series Bonds	-	(15,300,000)
Repayment of 1999 Series Bonds	(245,000)	(235,000)
Repayment of 2003 Series Bonds	(855,000)	-
Proceeds from bonds payable	-	1,500,000
Repayment of notes payable	(13,000)	(1,500,000)
Proceeds from notes payables	812	656,662
Interest paid on bonds	(1,239,977)	(1,388,140)
Net cash used in capital and related financing activities	(3,346,969)	(3,677,308)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment income	126,635	543,294
Net cash provided by investing activities	126,635	543,294
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
Other non-operating activities	284,811	204,691
Net cash provided by non-capital activities	284,811	204,691
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	263,925	454,614
<b>CASH AND CASH EQUIVALENTS - Beginning of period - As Restated</b>	7,622,389	7,167,775
<b>CASH AND CASH EQUIVALENTS - End of period</b>	\$ 7,886,314	\$ 7,622,389

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

**RURAL LORAIN COUNTY WATER AUTHORITY**

STATEMENTS OF CASH FLOWS  
(CONTINUED)

For the Year Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Income from operations	\$ 1,423,813	\$ 1,933,553
Adjustment to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation expense	1,896,070	1,842,468
Bond premium amortization	(77,793)	(56,579)
Loss on disposal of assets	(539)	-
Bad debts	(3,867)	(2,090)
(Increase) decrease in:		
Receivables	77,447	(54,697)
Inventory	(55,100)	42,053
Prepaid expenses	1,705	(1,964)
Deferred debt issue costs	50,259	(430,788)
Increase (decrease) in:		
Accounts payable	(7,264)	(19,264)
Taxes payable	2,494	(62)
Compensated absences payable	(21,511)	39,183
Advanced deposits	(94,250)	84,903
Accrued expenses	<u>7,984</u>	<u>7,221</u>
Net cash provided by operating activities	<u>\$ 3,199,448</u>	<u>\$ 3,383,937</u>

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

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2004 and 2003

Note 1. Summary of Significant Accounting Policies:

The Rural Lorain County Water Authority, a regional water district, is a political subdivision of the State of Ohio created by order of the Lorain County Common Pleas Court. The Authority was incorporated in the State of Ohio on August 23, 1973, as a nonprofit corporation for the purpose of providing a water supply for domestic, industrial, and public use to users within and without the district. The Authority is exempt from federal income tax. The Authority operates under a Board of Trustees, which consists of as many members as equals the total number of villages and townships within this regional water district. The following is a summary of significant accounting policies:

A. Introduction:

The financial statements of the Authority are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The Authority 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 on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

B. Basis of Accounting:

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

C. Investments:

Investment procedures are restricted by the Provisions of the Ohio Revised Code. During 2004 and 2003, investments were limited to repurchase agreements, certificates of deposit, U.S. Government Income Funds, or U.S. Treasury Funds.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

D. Budgetary Process:

Budget - Thirty days before the end of each fiscal year a proposed budget of estimated revenues and expenditures for the succeeding fiscal year is submitted to the Board of Trustees by the General Manager. The Board may amend said budget as it deems proper. The Board of Trustees then approves the budget in its original or amended form.

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2004 and 2003

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

D. Budgetary Process (Continued):

Appropriations - After the budget is approved by the Board, the Board then makes appropriations of funds in accordance with said budget. Thereafter, the General Manager has the authority to authorize payment of any disbursement not to exceed the Ohio state limit, provided there are sufficient funds appropriated and remaining in the account of the fund from which payment will be made. The Board may, from time-to-time, amend or supplement said appropriation of funds and may also transfer any part of an unencumbered balance of an appropriation of any fund to any purpose or object for which the appropriation for the current fiscal year has proved insufficient. During the year, supplemental appropriations were authorized; however, none of these amendments are significant.

E. Inventory:

Inventory, which consists of raw materials, is stated at the lower of cost or market. In general, cost as applied to inventory valuation represents a moving average method whereby the cost per unit is recomputed after every addition to the inventory.

F. Capital Assets:

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:

Water Lines and Water Tanks	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.

The Authority, by action of its Board, has adopted the policy of capitalizing meter replacement costs over a ten-year period with one-half year of depreciation being taken in the year of replacement. In 1992 and prior years, the Authority expensed all replacement meters at the time of installation.

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

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2004 and 2003

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

F. Capital Assets (Continued):

Depreciation expense for the years ended December 31, 2004 and 2003, was \$1,896,070 and \$1,842,468, respectively.

A summary of changes in capital assets for the year ended December 31, 2004, is as follows:

	Balance December 31, 2003	Additions	Deletions	Balance December 31, 2004
Land and easements	\$ 530,883	\$ 1,028	\$ -0-	\$ 531,911
Buildings	2,179,895	5,064	-0-	2,184,959
Tanks, stations, and lines	51,756,444	1,326,499	196,736	52,886,207
Meters and replacements	1,287,879	55,124	-0-	1,343,003
Furniture and fixtures	719,145	247,742	12,643	954,244
Machinery, equipment, and vehicles	1,413,132	203,385	-0-	1,616,517
Subtotal	<u>57,887,378</u>	<u>1,838,842</u>	<u>209,379</u>	<u>59,516,841</u>
Current construction lines	859,304	-0-	843,498	15,806
	<u>\$ 58,746,682</u>	<u>\$ 1,838,842</u>	<u>\$ 1,052,877</u>	<u>\$ 59,532,647</u>

A summary of changes in capital assets for the year ended December 31, 2003, is as follows:

	Balance December 31, 2002	Additions	Deletions	Balance December 31, 2003
Land and easements	\$ 530,383	\$ 500	\$ -0-	\$ 530,883
Buildings	2,171,919	7,976	-0-	2,179,895
Tanks, stations, and lines	50,497,716	1,258,728	-0-	51,756,444
Meters and replacements	1,234,506	53,373	-0-	1,287,879
Furniture and fixtures	734,837	16,397	32,089	719,145
Machinery, equipment, and vehicles	1,224,837	205,477	17,182	1,413,132
Subtotal	<u>56,394,198</u>	<u>1,542,451</u>	<u>49,271</u>	<u>57,887,378</u>
Current construction lines	94,425	764,879	-0-	859,304
	<u>\$ 56,488,623</u>	<u>\$ 2,307,330</u>	<u>\$ 49,271</u>	<u>\$ 58,746,682</u>

G. Prepaid Expenses:

Prepaid expenses are amortized over their economic useful lives.

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2004 and 2003

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

H. Deferred Debt Issue Costs:

Bond issue costs are capitalized and amortized over the various terms of the 1993, 1999, and 2003 bonds using the straight-line method. Amortization expense for the years ended December 31, 2004 and 2003 was \$77,793 and \$56,579, respectively.

I. Tap Fees:

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

J. Compensated Absences Payable:

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

Sick leave accumulates to employees at a rate of 4.6 hours for every 80 hours of service. Upon retirement, employees are entitled to 100% of their accumulated sick leave balance at the rate of pay at time of retirement if an employee was hired before December 31, 2000. If an employee is hired on or after January 1, 2001, and retires, their accumulated sick leave is paid out at the rate of pay that it was accrued. In the event of the employee's death, 100% of their accumulated sick leave balance would be paid to the employee's life insurance beneficiary. The employees' accumulating rights to receive compensation for future absences are contingent upon the absences being caused by future illnesses, years of service at retirement, or death. A liability for unused sick leave is not recorded in the financial statements unless the employee has accumulated sick leave after becoming eligible for retirement, which would be payable in its entirety. The unrecorded estimated unused sick leave for the years ended December 31, 2004 and 2003 was \$491,614 and \$465,753, respectively; the recorded estimated unused sick leave and vacation for the years ended December 31, 2004 and 2003 reflected in the compensated absences payable amount on page 3 was \$256,501 and \$278,012, respectively.



# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2004 and 2003

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

K. Statements of Cash Flows:

For the purposes of the Statements of Cash Flows, all liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered cash equivalents. Because the Authority, at its option, can withdraw amounts within a three month time period on the 5-year Treasury Bills, the Treasury Bills are considered to be cash equivalents. Cash and cash equivalents as of December 31, 2004 and 2003, consist of:

	<u>2004</u>	<u>2003</u>
Cash:		
General	\$ 166,995	\$ 195,182
Working capital	896,275	1,121,284
Capital improvements	1,541,725	386,716
Restricted cash and investments	<u>5,281,319</u>	<u>5,919,207</u>
	<u>\$7,886,314</u>	<u>\$7,622,389</u>

L. Use of Estimates:

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

Note 2. Restricted Funds:

A. Revenue Fund:

This fund receives all revenues from operations, and it is maintained in the custody of the Authority, separate and distinct from all other funds of the Authority. With the exception of investment income on funds other than the Revenue Fund, all revenue shall be deposited in the Revenue Fund. Expenditures from this fund are limited to all reasonable and proper expenses of operating, repairing, and maintaining the system, excluding depreciation and capital replacements. Also, required payments are made into the remaining funds from this fund.

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2004 and 2003

Note 2. Restricted Funds (Continued):

B. Bond Reserve Fund:

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

C. Bond Fund:

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

D. Replacement and Improvement Fund:

This fund is maintained in the custody of the Trustee as a trust fund separate and distinct from all other funds of the Authority. The monies held in the Replacement and Improvement Fund are transferred to the Bond Fund, to the extent necessary from time-to-time, after applying to that purpose any monies then in the System Reserve Fund, to permit the payment of all obligations payable from the Bond Fund without drawing on the Bond Reserve Fund and, otherwise, shall be used solely to replace obsolete or worn-out equipment or to make improvements to the system, or, with funds in the Bond Fund and Bond Reserve Fund and other funds made available by the Authority, to retire by purchase or by call all or part of the Bonds from time-to-time outstanding. The Authority may borrow from this fund for any improvements unless it is in default of its bonds obligations.

E. Project Fund:

This fund is maintained in the custody of the Trustee as a separate account and monies in the fund will be used for expansion and capital additions to the water system.

The fund had a balance of \$195 and \$726,948 as of December 31, 2004 and 2003, respectively.

**RURAL LORAIN COUNTY WATER AUTHORITY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2004 and 2003

Note 2. Restricted Funds (Continued):

F. System Reserve Fund (Capital Improvements):

This fund is maintained in the custody of the Authority as a trust fund separate and distinct from all other funds of the Authority. The monies held in the System Reserve Fund shall be transferred to the Bond Fund, to the extent necessary from time-to-time, to permit the payment of all obligations payable from the Bond Fund without drawing upon the Replacement and Improvement Fund or Bond Reserve Fund, or may be transferred to the appropriate fund of the Authority to permit the payment of principal and interest on any general obligation bonds, or notes issued in anticipation thereof, issued by the Authority to pay costs of improvements to the system, and otherwise may be used for any other lawful system purpose, including without limitation, the retirement of outstanding bonds by call for redemption or by purchase for cancellation.

G. Employee Policy Fund:

This fund is maintained in the custody of the Authority as a separate account. Payments of \$10,000 are made each month. Monies in this fund will be used for employees entitled to 100% of their accumulated sick leave balance after becoming eligible for retirement.

H. Restricted Cash and Investments:

	<u>2004</u>	<u>2003</u>
Bond reserve fund	\$2,452,136	\$2,546,966
Bond fund	1,489,165	1,241,572
Replacement and improvement fund	756,199	763,122
Project fund	195	726,948
Employee policy fund	<u>583,624</u>	<u>640,599</u>
	<u>\$5,281,319</u>	<u>\$5,919,207</u>

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2004 and 2003

Note 3. Equity in Pooled Cash and Investment:

The Rural Lorain County Water Authority maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the balance sheet as cash.

A. Legal Requirements:

Statutes require the classification of monies held by the Rural Lorain County Water Authority into three categories as follows:

Category 1 consists of "active" monies, those monies required to be kept in a "cash" or "near-cash" status for immediate use by the Authority treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of "inactive" monies, those monies not required for use within the current two-year period of designation of depositories. Inactive monies may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

Category 3 consists of "interim" monies, those monies that are not needed for immediate use but which will be needed before the end of the current period of depositories.

B. Deposits:

At December 31, 2004 and 2003, the carrying amount of the Authority deposits was \$3,188,619 and \$2,343,781, respectively, and the bank balance was \$1,909,200 and \$2,386,830, respectively. Of the bank balance, \$400,000 and \$400,000 was covered by federal depository insurance for both 2004 and 2003, respectively.

The Authority maintains cash balances at four separate banks. Each bank was covered by the federal depository insurance for up to \$100,000 per account, and pooled collateral whose market value covers 105% of public deposits held by the banks.

C. Investments:

The Authority's investments are categorized to give an indication of the level of risk assumed by the Authority at year end. The categories are described as follows:

Category 1 - Insured or registered, with securities held by the Authority or its agent in the Authority's name.

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2004 and 2003

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

C. Investments (Continued):

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Authority's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, in its trust department, but not in the Authority's name.

Investments, categorized by level of risk, for the years ended December 31, 2004, are as follows:

	CATEGORY			FAIR MARKET VALUE
	1	2	3	
Federated Treasury Obligation Fund	\$ -0-	\$ -0-	\$2,349,108	\$ 2,349,108
U.S. Treasury Funds, Bonds, and Notes	-0-	-0-	2,348,587	2,348,587
Total Investments	\$ -0-	\$ -0-	\$4,697,695	\$ 4,697,695

Investments, categorized by level of risk, for the years ended December 31, 2003, are as follows:

	CATEGORY			FAIR MARKET VALUE
	1	2	3	
Federated Treasury Obligation Fund	\$ -0-	\$ -0-	\$2,923,429	\$ 2,923,429
U.S. Treasury Funds, Bonds, and Notes	-0-	-0-	2,355,179	2,355,179
Total Investments	\$ -0-	\$ -0-	\$5,278,608	\$ 5,278,608

D. Reconciliation of Cash and Investments:

Total Carrying Amount of Deposits at December 31, 2004	\$ 3,188,619
Less: Amount Reported as Restricted	(583,624)
Net Cash and Cash Equivalents at December 31, 2004	\$ 2,604,995

Restricted cash for the year ended December 31, 2004, is as follows:

	FAIR MARKET VALUE
Certificate of Deposit	\$ 583,624
Total Restricted Cash	583,624
Total Investments	4,697,695
Total Restricted Cash and Investments	\$ 5,281,319

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2004 and 2003

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

D. Reconciliation of Cash and Investments (Continued):

Total Carrying Amount of Deposits at December 31, 2003	\$ 2,343,781
Less: Amount Reported as Restricted	<u>(640,599)</u>
Net Cash and Cash Equivalents at December 31, 2003	<u>\$ 1,703,182</u>

Restricted cash for the year ended December 31, 2003, is as follows:

	<u>FAIR MARKET VALUE</u>
Certificate of Deposit	<u>\$ 640,599</u>
Total Restricted Cash	640,599
Total Investments	<u>5,278,608</u>
Total Restricted Cash and Investments	<u>\$ 5,919,207</u>

Note 4. Long-Term Debt:

A summary of long-term debt for the year ended December 31, 2004, is as follows:

Description	Balance December 31, 2003	Issued	Retired	Balance December 31, 2004
\$9,900,000 Water Resource Revenue Refunding Bonds, Series 1999 originally issued with interest rates ranging from 4.000% to 5.875% with final maturity dates ranging from 2000 to 2024.	\$ 9,015,000	\$ -0-	\$ 245,000	\$ 8,770,000
A note payable in the amount of \$1,747,654 is due to FirstMerit Bank, N.A. and Trust. The note requires monthly interest payments at 4.25% with a maturity date of September 2019. The note is guaranteed by the USDA.	1,746,842	812	-0-	1,747,654
A Water Resource Improvement Revenue Bond, Series 2003A in the amount of \$1,487,000 is due to the USDA. The bond requires annual principal and interest payments at an annual interest rate of 4.875% with a maturity date of February 2043.	1,500,000	-0-	13,000	1,487,000
\$14,895,000 Water Resource Improvement Revenue Bonds, Series 2003B originally issued with interest rates ranging from 1.5% to 4.4% with final maturity dates ranging from 2004 to 2018.	14,895,000	-0-	855,000	14,040,000
	<u>\$ 27,156,842</u>	<u>\$ 812</u>	<u>\$ 1,113,000</u>	<u>\$ 26,044,654</u>

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2004 and 2003

Note 4. Long-Term Debt (Continued):

A summary of long-term debt for the year ended December 31, 2003, is as follows:

Description	Balance December 31, 2002	Issued	Retired	Balance December 31, 2003
\$18,095,000 Water Resource Improvement and Refunding Revenue Bonds, Series 1993 originally issued with interest rates ranging from 2.55% to 5.25% with final maturity dates ranging from 1993 to 2018.	\$ 15,300,000	\$ -0-	\$ 15,300,000	\$ -0-
\$9,900,000 Water Resource Revenue Refunding Bonds, Series 1999 originally issued with interest rates ranging from 4.000% to 5.875% with final maturity dates ranging from 2000 to 2024.	9,250,000	-0-	235,000	9,015,000
A note payable in the amount of \$1,746,842 is due to FirstMerit Bank, N.A. and Trust. An additional \$3,158 is available to be borrowed. The note requires monthly interest payments at 4.25% with a maturity date of September 2019. The note is guaranteed by the USDA.	2,590,180	656,662	1,500,000	1,746,842
A Water Resource Improvement Revenue Bond, Series 2003A in the amount of \$1,500,000 is due to the USDA. The bond requires annual principal and interest payments at an annual interest rate of 4.875% with a maturity date of February 2043.	-0-	1,500,000	-0-	1,500,000
\$14,895,000 Water Resource Improvement Revenue Bonds, Series 2003B originally issued with interest rates ranging from 1.5% to 4.4% with final maturity dates ranging from 2004 to 2018.	-0-	14,895,000	-0-	14,895,000
	<u>\$ 27,140,180</u>	<u>\$ 17,051,662</u>	<u>\$ 17,035,000</u>	<u>\$ 27,156,842</u>

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of December 31, 2004, are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2005	\$ 2,437,517
2006	2,436,564
2007	2,439,821
2008	2,449,188
2009	2,432,917
2010 to 2043	<u>26,784,641</u>
Total Principal and Interest	38,980,648
Less: Interest	<u>12,935,994</u>
Liability as of December 31, 2004	<u>\$26,044,654</u>

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2004 and 2003

Note 4. Long-Term Debt (Continued):

The 1999 and 2003 Series bonds and USDA bonds are payable from the revenues of the Authority after the payment of operating and maintenance costs. The bonds are secured by a pledge of the monies and securities on deposit in the Reserve Fund, the Replacement and Improvement Fund, and the System Reserve Fund. The bond indenture requires, among other provisions, that the Authority maintain the system in good operating condition and charge rates such that the necessary debt service payments can be made after operating and maintenance charges have been paid. In addition, the indenture requires the establishment of certain funds as discussed in Note 2.

Note 5. Insurance:

The Authority maintains comprehensive insurance coverage with private carriers for real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are 90 percent coinsured.

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

Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction of coverage from the prior year.

Note 6. Retirement Commitments:

A. Defined Benefit Pension Plans:

Rural Lorain County Water Authority contributes to the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer defined benefit pension plan operated by the State of Ohio. OPERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. 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) 466-2085 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.



# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2004 and 2003

Note 6. 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 contribution for 2004 and 2003 was 8.5% and the employer contribution rate was 13.55% 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, 2004 and 2003 was \$453,894 and \$271,110, respectively.

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

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, 2003 Comprehensive Annual Financial Report.

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2004 and 2003

Note 6. 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 the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. 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 is 13.55% of covered payroll and 5.00% was the portion used to fund health care from January 1 through December 31, 2004.

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, 2003. The investment assumption rate for 2003 was 8.00%. 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 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate). All investments are carried to 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.

OPEBs are advanced-funded on an actuarially determined basis. The number of active contributing participants in the State of Ohio was 369,885 for 2004 and 364,881 for 2003. The employer contributions, made by Rural Lorain County Water Authority, used to fund postemployment benefits were \$115,581 for the year ended December 31, 2004. \$10.5 billion (\$10,500,000,000) represents the actuarial value of Retirement Systems' net assets available for OPEB at December 31, 2003. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used was \$26.9 billion and \$16.4 billion, respectively.

# RURAL LORAIN COUNTY WATER AUTHORITY

## NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2004 and 2003

Note 6. Retirement Commitments (Continued):

B. Post-Employment Benefits (Continued):

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 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.

C. Retirement Incentive Plan:

The Authority adopted the Retirement Incentive Plan, which is adopted under guidelines of the Ohio Public Employees Retirement System. Participation in the Plan shall be available to five percent (5%) of employees of the Authority, per year, who are employed at their offices and are members of Ohio Public Employees Retirement System. Pursuant to the terms of the Plan, service credit for each participating employee shall be purchased by the Authority in an amount equal to the lesser of the following:

1. Five (5) years of service credit or
2. An amount of service credit equal to 1/5 of the total service of record credited to the participating employee in the OPERS, exclusive of the service credit purchased under this plan.

An employee of the Authority eligible to participate in the Plan shall meet the following criteria:

1. The employee is or will be eligible to retire under the Ohio Public Employees Retirement System of the Ohio Revised Code on or before the date of termination of the Plan.
2. The employee agrees to retire within 90 days after receiving notice from OPERS that service credit has been purchased for the employee pursuant to the Plan.
3. Employees with less than eighteen (18) months of service with the Authority shall have the right to elect to participate in this Plan only after all other eligible employees have been given the opportunity to elect to participate.

Retirement Incentive Plan expense for the years ended December 31, 2004 and 2003, was \$159,874 and \$-0-, respectively.

**RURAL LORAIN COUNTY WATER AUTHORITY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2004 and 2003

Note 7. Leasing Arrangements:

The Authority leases two copiers under 39 and 48-month operating leases that began in October 2001 and April 2002, and expire in January 2005 and March 2006, respectively. These leases require rent in the amount of \$292 and \$527 per month plus charges for additional copies over 4,000 and 2,500, respectively.

The following is a schedule of future minimum rental payments required under the above operating leases as of December 31, 2004:

<u>Year Ending December 31,</u>	<u>Amount</u>
2005	\$ 6,616
2006	1,581
	<u>\$ 8,197</u>

Office equipment lease for the years ended December 31, 2004 and 2003 was \$14,963 and \$14,725, respectively.

Note 8. Commitments:

A. Water Purchase Agreements:

The Authority's original and primary source of water (approximately 87.7%) has been the City of Avon Lake's water treatment plant located in northern Lorain County. On April 30, 1975, the Authority signed a long-term water purchase agreement with the City of Avon Lake with maximum amounts of water to be supplied per month.

The Authority purchases water from the Village of New London (approximately 12.1%) as a supplement to the water purchased from the City of Avon Lake. In addition to the Avon Lake agreement, the Authority signed a long-term water purchase agreement in 1996 with New London with maximum amounts of water to be supplied per month.

B. Water Supply Agreements:

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

**RURAL LORAIN COUNTY WATER AUTHORITY**

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2004 and 2003

Note 9. Changes in Accounting Principles and Prior Period Adjustment:

The Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of January 1, 2004. The changes included the Management's Discussion and Analysis on pages 3 - 9 and changing the terminology from retained earnings to net assets. The implementation of these changes had no effect on net assets.

However, the Authority did make an adjustment to net assets as of January 1, 2003 to correct an error. This adjustment had the following effect on net assets:

Net Assets - January 1, 2003 - as Previously Stated	\$ 18,400,627
Correction of Error	<u>(174,888)</u>
Net Assets - January 1, 2003 - as Restated	<u>\$ 18,225,739</u>

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## **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

To the Board of Directors  
Rural Lorain County Water Authority  
LaGrange, Ohio

We have audited the financial statements of the Rural Lorain County Water Authority, Lorain County, Ohio (the Authority), as of and for the years ended December 31, 2004 and December 31, 2003 and have issued our report thereon dated June 9, 2005. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting 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 that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the Authority's management in a separate letter dated June 9, 2005.

Rural Lorain County Water Authority  
Lorain County  
Report on Internal Control Over Financial Reporting and  
on Compliance and Other Matters Based on an Audit  
of Financial Statements Performed in Accordance with  
*Government Auditing Standards*  
Page 2

This report is intended for the information and use of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored, slightly textured background.

Balestra, Harr & Scherer, CPAs, Inc.

June 9, 2005







**Auditor of State  
Betty Montgomery**

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**RURAL LORAIN COUNTY WATER AUTHORITY  
LORAIN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
AUGUST 11, 2005**