

RURAL LORAIN COUNTY WATER AUTHORITY

LORAIN COUNTY

AUDIT REPORT

For the Years Ended December 31, 2010 and 2009

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants



Dave Yost • Auditor of State

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

We have reviewed the *Report of Independent Accountants* of the Rural Lorain County Water Authority, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2009 through December 31, 2010. 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 black ink that reads "Dave Yost".

Dave Yost
Auditor of State

June 30, 2011

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RURAL LORAIN COUNTY WATER AUTHORITY
LORAIN COUNTY
AUDIT REPORT
For the Year Ending December 31, 2010 and 2009

TABLE OF CONTENTS

| TITLE | PAGE |
|---|------|
| Report of Independent Accountants..... | 1 |
| Management's Discussion and Analysis..... | 3 |
| Basic Financial Statements: | |
| Statement of Net Assets..... | 9 |
| Statement of Revenues, Expenditures, and Changes in Net Assets..... | 11 |
| Statement of Cash Flows..... | 12 |
| Notes to the Basic Financial Statements..... | 14 |
| Supplementary Information: | |
| Statement of Operating Expenses..... | 38 |
| Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> | 39 |
| Schedule of Prior Audit Findings..... | 41 |

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Directors:

We have audited the accompanying financial statements of the business-type activities of the Rural Lorain County Water Authority, Lorain County, Ohio, (the Authority), as of and for the years ended December 31, 2010 and 2009, 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 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 *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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 respective financial position of the business-type activities of the Rural Lorain County Water Authority, Lorain County, Ohio, as of December 31, 2010 and 2009, and the respective changes in financial position and its cash flows 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 May 27, 2011 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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.

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

Our audit was performed for the purpose of forming opinions on the financial statements of the Rural Lorain County Water Authority taken as a whole. The accompanying information listed as the supplemental schedule in the table of contents is presented on page 38. Such information has been subjected to auditing procedures applied to the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.



Charles E. Harris & Associates, Inc.

May 27, 2011

RURAL LORAIN COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2010 and 2009
(Unaudited)

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 \$28.4 million and \$26.6 million in 2010 and 2009, respectively.

The Authority's net assets increased by \$1.8 million (6.7%) and \$1.5 million (6.1%) in 2010 and 2009, respectively.

The Authority's Operating Revenues increased by \$306 thousand (2.6%) and \$257 thousand (2.2%) with Operating Expenses decreasing \$119 thousand (-1.7%) and decreasing \$443 thousand (-6.0%) in 2010 and 2009, respectively.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

The Authority is a single fund using proprietary fund accounting, similar to private sector business. The Authority is described in Note 1, Summary of Significant Accounting Policies, on page thirteen (13). 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 Authority's Assets and Liabilities. This statement provides information about the nature and amounts of investments in resources (assets) owned by the Authority, and obligations owed by the Authority (liabilities) on December 31. The Authority's net assets (equity) are the difference between assets and liabilities.

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

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

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

RURAL LORAIN COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2010 and 2009

(Unaudited)

NET ASSETS

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

TABLE 1

| | 2010 | 2009 | 2008 | 2010 vs 2009 | | 2009 vs 2008 | |
|--|---------------|---------------|---------------|---------------|----------------|---------------|----------------|
| | | | | Dollar Change | Percent Change | Dollar Change | Percent Change |
| Current and other assets | \$ 17,228,990 | \$ 16,361,509 | \$ 16,240,607 | \$ 867,481 | 5.3% | \$ 120,902 | 0.7% |
| Capital assets | 37,608,652 | 33,025,971 | 32,814,979 | 4,582,681 | 13.9% | 210,992 | 0.6% |
| Total assets | 54,837,642 | 49,387,480 | 49,055,586 | 5,450,162 | 11.0% | 331,894 | 0.7% |
| Long-term liabilities | 23,136,638 | 19,842,983 | 20,922,677 | 3,293,655 | 16.6% | (1,079,694) | -5.2% |
| Other liabilities | 3,302,347 | 2,921,711 | 3,045,666 | 380,636 | 13.0% | (123,955) | -4.1% |
| Total liabilities | 26,438,985 | 22,764,694 | 23,968,343 | 3,674,291 | 16.1% | (1,203,649) | -5.0% |
| Invested in capital assets, net of related debt | 12,789,039 | 11,649,437 | 10,415,588 | 1,139,602 | 9.8% | 1,233,849 | 11.8% |
| Restricted | 5,234,526 | 5,112,302 | 5,688,378 | 122,224 | 2.4% | (576,076) | -10.1% |
| Unrestricted | 10,375,092 | 9,861,047 | 8,983,277 | 514,045 | 5.2% | 877,770 | 9.8% |
| Total net assets | \$ 28,398,657 | \$ 26,622,786 | \$ 25,087,243 | \$ 1,775,871 | 6.7% | \$ 1,535,543 | 6.1% |

The Authority's Net Assets increased \$1.8 million (6.7%) and \$1.5 million (6.1%) in 2010 and 2009, respectively. These increases are a result of excess revenues over expenses.

The Authority increased long-term liabilities in 2010 by \$3.29 million from the borrowings of long-term debt. The Authority decreased long-term liabilities in 2009 by \$1.08 million from the payment of long-term notes.

RURAL LORAIN COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2010 and 2009

(Unaudited)

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

| | 2010 | 2009 | 2008 | 2010 vs 2009 | | 2009 vs 2008 | |
|-----------------------|---------------|---------------|---------------|---------------|----------------|---------------|----------------|
| | | | | Dollar Change | Percent Change | Dollar Change | Percent Change |
| Operating revenue | \$ 12,067,861 | \$ 11,762,062 | \$ 11,505,191 | \$ 305,799 | 2.6% | \$ 256,871 | 2.2% |
| Operating expenses | 6,782,502 | 6,901,715 | 7,345,114 | (119,213) | -1.7% | (443,399) | -6.0% |
| Maintenance expenses | 961,034 | 422,825 | 626,716 | 538,209 | 127.3% | (203,891) | -32.5% |
| Depreciation expenses | 1,774,499 | 1,784,206 | 1,782,597 | (9,707) | -0.5% | 1,609 | 0.1% |
| Total expenses | 9,518,035 | 9,108,746 | 9,754,427 | 409,289 | 4.5% | (645,681) | -6.6% |
| Operating income | 2,549,826 | 2,653,316 | 1,750,764 | (103,490) | -3.9% | 902,552 | 51.6% |
| Nonoperating revenue | 398,929 | 290,075 | 497,643 | 108,854 | 37.5% | (207,568) | -41.7% |
| Nonoperating expenses | (1,172,884) | (1,407,848) | (1,336,312) | 234,964 | -16.7% | (71,536) | 5.4% |
| Nonoperating loss | (773,955) | (1,117,773) | (838,669) | 343,818 | -30.8% | (279,104) | 33.3% |
| Change in net assets | 1,775,871 | 1,535,543 | 912,095 | 240,328 | 15.7% | 623,448 | 68.4% |
| Beginning net assets | 26,622,786 | 25,087,243 | 24,175,148 | 1,535,543 | 6.1% | 912,095 | 3.8% |
| Ending net assets | \$ 28,398,657 | \$ 26,622,786 | \$ 25,087,243 | \$ 1,775,871 | 6.7% | \$ 1,535,543 | 6.1% |

Total operating revenues increased \$306 thousand (2.6%) and \$257 thousand (2.2%) in 2010 and 2009, respectively. Unrealized gain on investments increased by \$163 thousand (145.3%) resulting in the majority of the increase of \$109 thousand (37.5%) in non-operating revenues for 2010.

Operations and maintenance expenses increased \$419 thousand (5.8%) and decreased \$647 thousand (-8.1%) in 2010 and 2009, respectively. An increase in tanks maintenance and repairs accounted for the majority of the increase in operating and maintenance costs in 2010. The decrease in all components of wages, a decrease in tanks maintenance and repairs, a decrease in water purchased, and a decrease in tap installation costs accounted for the majority of the decrease in operating and maintenance costs in 2009.

RURAL LORAIN COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2010 and 2009
(Unaudited)

CAPITAL ASSETS

The Authority had \$68.99 and \$62.69 million invested in capital assets (before depreciation) at December 31, 2010 and 2009, respectively, as shown in Table 3. This amount is an increase of \$6.30 million (10.1%) and \$1.91 million (3.1%) from the previous year.

TABLE 3

| | 2010 | 2009 | 2008 | 2010 vs 2009 | | 2009 vs 2008 | |
|------------------------------------|---------------|---------------|---------------|---------------|----------------|---------------|----------------|
| | | | | Dollar Change | Percent Change | Dollar Change | Percent Change |
| Land and easements | \$ 631,303 | \$ 559,312 | \$ 538,069 | \$ 71,991 | 12.9% | \$ 21,243 | 3.9% |
| Buildings | 2,337,126 | 2,329,211 | 2,312,021 | 7,915 | 0.3% | 17,190 | 0.7% |
| Tanks, stations, and lines | 55,637,587 | 54,102,106 | 52,931,413 | 1,535,481 | 2.8% | 1,170,693 | 2.2% |
| Meters and replacements | 1,594,400 | 1,573,095 | 1,549,071 | 21,305 | 1.4% | 24,024 | 1.6% |
| Furniture and fixtures | 1,511,249 | 1,425,855 | 1,407,172 | 85,394 | 6.0% | 18,683 | 1.3% |
| Machinery, equipment, and vehicles | 1,872,923 | 1,808,558 | 1,788,343 | 64,365 | 3.6% | 20,215 | 1.1% |
| Construction in progress | 5,405,260 | 890,490 | 256,699 | 4,514,770 | 507.0% | 633,791 | 246.9% |
| Total before depreciation | 68,989,848 | 62,688,627 | 60,782,788 | 6,301,221 | 10.1% | 1,905,839 | 3.1% |
| Accumulated depreciation | (31,381,196) | (29,662,656) | (27,967,809) | (1,718,540) | | (1,694,847) | |
| Total capital assets, net | \$ 37,608,652 | \$ 33,025,971 | \$ 32,814,979 | \$ 4,582,681 | | \$ 210,992 | |

The increase in capital assets from 2009 to 2010 was for a water tank, land for a pump station, pump station building improvements, line extensions, line replacement and relocation of lines, meter replacements, four trucks, a line locator, pressure washer, tiller, a pump and motor, a pump station motor starter, fuel management and chlorine gas detection systems, scanners, printers, computers, and a digital filing program.

The increase in capital assets from 2008 to 2009 was from land for a pump station, line extensions, line replacement and relocation of lines, meter replacements, the geographical information system's (GIS) computers, equipment, and software, a computer upgrade, four trucks, a mini excavator, two generators, a line locator and locator transmitter, a pump and motor, and a pump station motor starter.

RURAL LORAIN COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2010 and 2009
(Unaudited)

DEBT

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

TABLE 4

| | 2010 | 2009 | 2008 | 2010 vs 2009 | | 2009 vs 2008 | |
|--------------------------|----------------------|----------------------|----------------------|---------------------|----------------|-----------------------|----------------|
| | | | | Dollar Change | Percent Change | Dollar Change | Percent Change |
| Long-term debt | | | | | | | |
| 1999 Revenue bonds | \$ - | \$ - | \$ 310,000 | \$ - | 0.0% | \$ (310,000) | -100.0% |
| 2003 Revenue bonds | 8,110,000 | 9,160,000 | 10,180,000 | (1,050,000) | -11.5% | (1,020,000) | -10.0% |
| 2006 Revenue bonds | 8,690,000 | 9,040,000 | 9,065,000 | (350,000) | -3.9% | (25,000) | -0.3% |
| OWDA Loans | 4,519,693 | 0 | 0 | 4,519,693 | 100.0% | 0 | 0.0% |
| Rural development bonds | 3,499,920 | 3,176,534 | 2,844,391 | 323,386 | 10.2% | 332,143 | 11.7% |
| Total long-term debt | 24,819,613 | 21,376,534 | 22,399,391 | 3,443,079 | 16.1% | (1,022,857) | -4.6% |
| Less: current maturities | (1,682,975) | (1,533,551) | (1,476,714) | (149,424) | 9.7% | (56,837) | 3.8% |
| Net total long-term debt | <u>\$ 23,136,638</u> | <u>\$ 19,842,983</u> | <u>\$ 20,922,677</u> | <u>\$ 3,293,655</u> | <u>16.6%</u> | <u>\$ (1,079,694)</u> | <u>-5.2%</u> |

See Note 4 of the financial statements for details of issuance and retirement of debt in 2010.

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 \$2,302,496 and \$2,319,925 and the Bond Fund had a balance of \$2,932,030 and \$2,792,377 at December 31, 2010 and 2009, respectively. See Note 2 of the financial statements for more details on the bond reserve funds.

RURAL LORAIN COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2010 and 2009
(Unaudited)

DEBT COVERAGE

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

TABLE 5

| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|--|---------------------|---------------------|---------------------|
| Operating revenues | \$ 12,067,861 | \$ 11,762,062 | \$ 11,505,191 |
| Non-operating revenue - Interest | 65,611 | 78,546 | 221,641 |
| Total revenues | <u>12,133,472</u> | <u>11,840,608</u> | <u>11,726,832</u> |
| Less: Operations and maintenance expenses | <u>(7,743,536)</u> | <u>(7,324,540)</u> | <u>(7,971,830)</u> |
| Total revenues available for debt | <u>\$ 4,389,936</u> | <u>\$ 4,516,068</u> | <u>\$ 3,755,002</u> |
| Revenue bond debt service - 1999, 2003, and 2006 | \$ 2,221,107 | \$ 2,216,232 | \$ 2,218,579 |
| Revenue bond debt service - Rural development | 283,945 | 235,878 | 242,053 |
| OWDA Loans | <u>162,901</u> | <u>0</u> | <u>0</u> |
| Total debt service requirements | <u>\$ 2,667,953</u> | <u>\$ 2,452,110</u> | <u>\$ 2,460,632</u> |
| Combined coverage ratio - All debt | 1.65 | 1.84 | 1.53 |

The Authority is required to meet a revenue-to-debt ratio of 1.20 for its 1999, 2003 and 2006 revenue bonds and a 1.00 ratio for rural development bonds.

CONTACT INFORMATION

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

RURAL LORAIN COUNTY WATER AUTHORITY

STATEMENTS OF NET ASSETS

December 31, 2010 and 2009

| | <u>2010</u> | <u>2009</u> |
|--|----------------------|----------------------|
| <u>ASSETS</u> | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents: | | |
| General | \$ 124,882 | \$ 173,376 |
| Working capital | 2,287,993 | 2,156,000 |
| Capital improvements | 749,007 | 151,000 |
| Receivables: (Note 1) | | |
| Trade (net of allowance for doubtful accounts of \$67,253 in 2010 and \$68,674 in 2009) | 791,211 | 847,670 |
| Other | 24,862 | 19,996 |
| Interest | 32,872 | 32,851 |
| Inventory (Note 1) | 489,969 | 467,513 |
| Prepaid expenses (Note 1) | <u>68,282</u> | <u>71,093</u> |
| Total current assets | 4,569,078 | 3,919,499 |
| NON-CURRENT ASSETS: | | |
| Restricted cash and investments (Note 2) | 7,027,344 | 6,575,080 |
| Investment in joint venture (Note 9) | 4,865,299 | 5,020,560 |
| Deferred debt issue costs, net (Note 1) | <u>767,269</u> | <u>846,370</u> |
| Total non-current assets | 12,659,912 | 12,442,010 |
| CAPITAL ASSETS, AT COST: (Note 1) | | |
| Capital assets not being depreciated: | | |
| Land | 287,075 | 215,084 |
| Easements | 344,228 | 344,228 |
| Current construction | <u>5,405,260</u> | <u>890,490</u> |
| Total capital assets not being depreciated | 6,036,563 | 1,449,802 |
| Capital assets, net of accumulated depreciation: | <u>31,572,089</u> | <u>31,576,169</u> |
| Total capital assets | <u>37,608,652</u> | <u>33,025,971</u> |
| TOTAL ASSETS | <u>\$ 54,837,642</u> | <u>\$ 49,387,480</u> |

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

RURAL LORAIN COUNTY WATER AUTHORITY

STATEMENTS OF NET ASSETS

December 31, 2010 and 2009

| | <u>2010</u> | <u>2009</u> |
|---|----------------------|----------------------|
| <u>LIABILITIES AND NET ASSETS</u> | | |
| CURRENT LIABILITIES: | | |
| Current portion of long-term debt | \$ 1,682,975 | \$ 1,533,551 |
| Accounts payable | 367,276 | 442,733 |
| Taxes payable | 49,948 | 45,741 |
| Compensated absences payable (Note 1) | 642,486 | 505,544 |
| Tenant deposits | 91,150 | 84,050 |
| Deferred tap fees | 166,500 | 13,750 |
| Accrued expenses: | | |
| Wages | 28,279 | 19,977 |
| Interest | <u>273,733</u> | <u>276,365</u> |
| Total current liabilities | 3,302,347 | 2,921,711 |
| LONG-TERM DEBT: (Note 4) | | |
| Bonds and notes payable: | | |
| 2006 Series | 8,690,000 | 9,040,000 |
| 2003 Series | 8,110,000 | 9,160,000 |
| Notes payable - bank | 1,191,920 | 1,308,928 |
| OWDA | 4,519,693 | -0- |
| USDA | <u>2,308,000</u> | <u>1,867,606</u> |
| | 24,819,613 | 21,376,534 |
| Less: Current portion | <u>1,682,975</u> | <u>1,533,551</u> |
| | <u>23,136,638</u> | <u>19,842,983</u> |
| Total liabilities | 26,438,985 | 22,764,694 |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 12,789,039 | 11,649,437 |
| Restricted for debt service | 5,234,526 | 5,112,302 |
| Unrestricted | <u>10,375,092</u> | <u>9,861,047</u> |
| TOTAL NET ASSETS | <u>\$ 28,398,657</u> | <u>\$ 26,622,786</u> |

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

RURAL LORAIN COUNTY WATER AUTHORITY

STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS

Years Ended December 31, 2010 and 2009

| | <u>2010</u> | <u>2009</u> |
|--|--------------------------|--------------------------|
| OPERATING REVENUE: | | |
| Water sales | \$ 11,838,893 | \$ 11,494,472 |
| Tap fees | <u>228,968</u> | <u>267,590</u> |
| | 12,067,861 | 11,762,062 |
| OPERATING EXPENSES | <u>9,518,035</u> | <u>9,108,746</u> |
| INCOME FROM OPERATIONS | 2,549,826 | 2,653,316 |
| NONOPERATING REVENUES: | | |
| Penalty income | 162,482 | 148,454 |
| Miscellaneous | 98,242 | 108,475 |
| Miscellaneous subdivision income | -0- | 1,230 |
| Water line reimbursements | 11,746 | 56,478 |
| Discounts earned | 446 | 413 |
| Investment income | 65,611 | 78,546 |
| Unrealized gain (loss) on investments | 50,824 | (112,180) |
| Gain (loss) on disposal of assets | <u>9,578</u> | <u>8,659</u> |
| | <u>398,929</u> | <u>290,075</u> |
| | 2,948,755 | 2,943,391 |
| NONOPERATING EXPENSES: | | |
| Interest expense | 936,643 | 968,801 |
| Change in value of investment in joint venture | 155,261 | 155,261 |
| Bad debts | 1,634 | 5,392 |
| Bond issuance cost amortization | <u>79,346</u> | <u>278,394</u> |
| | <u>1,172,884</u> | <u>1,407,848</u> |
| CHANGES IN NET ASSETS | 1,775,871 | 1,535,543 |
| BEGINNING NET ASSETS | <u>26,622,786</u> | <u>25,087,243</u> |
| ENDING NET ASSETS | <u>\$ 28,398,657</u> | <u>\$ 26,622,786</u> |

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

RURAL LORAIN COUNTY WATER AUTHORITY

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2010 and 2009

| | <u>2010</u> | <u>2009</u> |
|--|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from customers | \$ 12,119,433 | \$ 11,661,204 |
| Cash payments to suppliers for goods and services | (5,189,166) | (4,686,090) |
| Cash payments to employees and professional contractors for services and benefits | <u>(2,342,050)</u> | <u>(2,863,485)</u> |
| Net cash provided by operating activities | 4,588,217 | 4,111,629 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Purchase of property and equipment and current construction | (6,357,181) | (1,995,231) |
| Proceeds from sale of equipment | 10,864 | 10,284 |
| Repayment of 1999 Series Bonds | 0 | (310,000) |
| Repayment of 2003 Series Bonds | (1,050,000) | (1,020,000) |
| Repayment of 2006 Series Bonds | (350,000) | (25,000) |
| Repayment of notes payable | (134,008) | (122,463) |
| Proceeds from notes payable | 4,977,088 | 454,606 |
| Interest paid on bonds | <u>(939,275)</u> | <u>(987,170)</u> |
| Net cash used in capital and related financing activities | (3,842,512) | (3,994,974) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Investment income | <u>116,435</u> | <u>(33,634)</u> |
| Net cash provided by (used in) investing activities | 116,435 | (33,634) |
| CASH FLOWS FROM NON-CAPITAL ACTIVITIES: | | |
| Other non-operating activities | <u>271,630</u> | <u>313,174</u> |
| Net cash provided by non-capital activities | <u>271,630</u> | <u>313,174</u> |

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

RURAL LORAIN COUNTY WATER AUTHORITY

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2010 and 2009

| | 2010 | 2009 |
|---|---------------|--------------|
| INCREASE IN CASH AND CASH EQUIVALENTS | \$ 1,133,770 | \$ 396,195 |
| CASH AND CASH EQUIVALENTS - Beginning of year | 9,055,456 | 8,659,261 |
| CASH AND CASH EQUIVALENTS - End of year | \$ 10,189,226 | \$ 9,055,456 |
| | | |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Income from operations | \$ 2,549,826 | \$ 2,653,316 |
| Adjustment to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation expense | 1,774,499 | 1,784,206 |
| Bond premium amortization | (79,346) | (278,394) |
| Bad debts | (1,634) | (5,108) |
| Changes in assets and liabilities: | | |
| (Increase) decrease in: | | |
| Receivables | 51,572 | (100,858) |
| Inventory | (22,456) | (49,587) |
| Prepaid expenses | 2,811 | (7,917) |
| Deferred debt issue costs | 79,101 | 278,394 |
| Increase (decrease) in: | | |
| Accounts payable | (75,457) | 61,539 |
| Taxes payable | 4,207 | (857) |
| Compensated absences payable | 136,942 | (12,876) |
| Deposits | 7,100 | 150 |
| Deferred tap fees | 152,750 | 0 |
| Accrued expenses | 8,302 | (210,379) |
| Net cash provided by operating activities | \$ 4,588,217 | \$ 4,111,629 |

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

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

Note 1. Summary of Significant Accounting Policies:

The Rural Lorain County Water Authority, a regional water district, is a political subdivision of the State of Ohio created by order of the Lorain County Common Pleas Court. The Authority was created by the court on August 23, 1973, to be a duly organized regional water district, a political subdivision of the State of Ohio organized pursuant to Chapter 6119 of the Ohio Revised Code. The Authority was organized as a nonprofit corporation for the purpose of providing a water supply for domestic, industrial, and public use to users within and without the district. The Authority is exempt from federal income tax. The Authority operates under a Board of Trustees, which consists of as many members as equals the total number of villages and townships within this regional water district. The following is a summary of significant accounting policies:

A. Introduction:

The significant accounting policies followed in the preparation of these financial statements conform to generally accepted accounting principles for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The Authority applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Under the guidelines of GASB Statement No. 20, the Authority has elected not to apply Financial Accounting Standards Board Statements (FASB) and Interpretations issued after November 30, 1989 to its proprietary activities. Proprietary funds apply 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. Short-term investments consist of certificates of deposit, U.S. Government Income Funds, or U.S. Treasury Funds. Long-term investments consist of U.S. Treasury Bonds and Notes. Investments are reported at fair value which is based on quoted market prices.

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.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

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

D. Budgetary Process:

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

Appropriations - After the budget is approved by the Board, the Board then makes appropriations of funds in accordance with said budget. Thereafter, the General Manager has the authority to authorize payment of any disbursement not to exceed \$25,000, provided there are sufficient funds appropriated and remaining in the account of the fund from which payment will be made. The Board may, from time-to-time, amend or supplement said appropriation of funds and may also transfer any part of an unencumbered balance of an appropriation of any fund to any purpose or object for which the appropriation for the current fiscal year has proved insufficient. During the year, supplemental appropriations were authorized; however, none of these amendments are significant.

E. Inventory:

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

F. Capital Assets:

The minimum capitalization threshold is any individual item with a total cost of greater than \$750 and a useful life of more than one year. Capital assets including major renewals or betterments are capitalized and stated at historical cost. Depreciation is provided on the straight-line method based on the estimated useful lives of the various classes of assets.

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

| | |
|--|------------|
| Water Lines and Water Tanks | 40 Years |
| Pump Stations | 20 Years |
| Buildings and Building Improvements | 4-20 Years |
| Machinery, Equipment, and Office Furniture | 3-10 Years |

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

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

F. Capital Assets (Continued):

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.

Depreciation expense for the years ended December 31, 2010 and 2009, was \$1,774,500 and \$1,784,206, respectively.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

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

F. Capital Assets (Continued):

A summary of changes in capital assets for the year ended December 31, 2010, is as follows:

| | Balance December 31, 2009 | Additions | Deletions | Balance December 31, 2010 |
|---|---------------------------------|--------------|-----------|---------------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 215,084 | \$ 71,991 | \$ -0- | \$ 287,075 |
| Easements | 344,228 | -0- | -0- | 344,228 |
| Current construction | 890,490 | 4,514,770 | -0- | 5,405,260 |
| Total capital assets not being depreciated | 1,449,802 | 4,586,761 | -0- | 6,036,563 |
| Capital assets being depreciated: | | | | |
| Buildings | 2,329,211 | 7,915 | -0- | 2,337,126 |
| Tanks, stations, and lines | 54,102,106 | 1,538,397 | (2,916) | 55,637,587 |
| Meters and replacements | 1,573,095 | 21,305 | -0- | 1,594,400 |
| Furniture and fixtures | 1,425,855 | 90,417 | (5,023) | 1,511,249 |
| Machinery, equipment, and vehicles | 1,808,558 | 112,386 | (48,021) | 1,872,923 |
| Total capital assets being depreciated | 61,238,825 | 1,770,420 | (55,960) | 62,953,285 |
| Less accumulated depreciation: | | | | |
| Buildings | (1,318,156) | (107,703) | -0- | (1,425,859) |
| Tanks, stations, and lines | (24,496,449) | (1,399,085) | 2,916 | (25,892,618) |
| Meters and replacements | (1,324,709) | (50,805) | -0- | (1,375,514) |
| Furniture and fixtures | (1,020,820) | (90,248) | 5,023 | (1,106,045) |
| Machinery, equipment, and vehicles | (1,502,522) | (126,659) | 48,021 | (1,581,160) |
| Total accumulated depreciation | (29,662,656) | (1,774,500) | 55,960 | (31,381,196) |
| Total capital assets being depreciated, net | 31,576,169 | (4,080) | -0- | 31,572,089 |
| Net capital assets | \$ 33,025,971 | \$ 4,582,681 | \$ -0- | \$ 37,608,652 |

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

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

F. Capital Assets (Continued):

A summary of changes in capital assets for the year ended December 31, 2009, is as follows:

| | Balance December 31, 2008 | Additions | Deletions | Balance December 31, 2009 |
|---|---------------------------------|-------------|-----------|---------------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 193,841 | \$ 21,243 | \$ -0- | \$ 215,084 |
| Easements | 344,228 | -0- | -0- | 344,228 |
| Current construction | 256,699 | 633,791 | -0- | 890,490 |
| Total capital assets not being depreciated | 794,768 | 655,034 | -0- | 1,449,802 |
| Capital assets being depreciated: | | | | |
| Buildings | 2,312,021 | 17,313 | (123) | 2,329,457 |
| Tanks, stations, and lines | 52,931,413 | 1,170,693 | -0- | 54,102,106 |
| Meters and replacements | 1,549,071 | 24,024 | -0- | 1,573,095 |
| Furniture and fixtures | 1,407,172 | 22,422 | (3,739) | 1,425,855 |
| Machinery, equipment, and vehicles | 1,788,343 | 105,745 | (85,530) | 1,808,558 |
| Total capital assets being depreciated | 59,988,020 | 1,340,197 | (89,392) | 61,238,825 |
| Less accumulated depreciation: | | | | |
| Buildings | (1,209,305) | (108,974) | 123 | (1,318,156) |
| Tanks, stations, and lines | (23,126,913) | (1,369,536) | -0- | (24,496,449) |
| Meters and replacements | (1,271,083) | (53,626) | -0- | (1,324,709) |
| Furniture and fixtures | (914,678) | (109,848) | 3,706 | (1,020,820) |
| Machinery, equipment, and vehicles | (1,445,830) | (142,222) | 85,530 | (1,502,522) |
| Total accumulated depreciation | (27,967,809) | (1,784,206) | 89,359 | (29,662,656) |
| Total capital assets being depreciated, net | 32,020,211 | (444,009) | (33) | 31,576,169 |
| Net capital assets | \$ 32,814,979 | \$ 211,025 | \$ (33) | \$ 33,025,971 |

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

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

G. Prepaid Expenses:

Prepaid expenses are expensed over their economic useful lives.

H. Deferred Debt Issue Costs:

Bond issue costs are capitalized and amortized over the various terms of the 1999, 2003, 2006, and 2009 bonds using the straight-line method. Amortization expense for the years ended December 31, 2010 and 2009 was \$79,346 and \$278,394, 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, 2010 and 2009 was \$277,659 and \$361,813, respectively; the recorded estimated unused sick leave and vacation for the years ended December 31, 2010 and 2009 reflected in the compensated absences payable amount on page 10 was \$642,486 and \$505,544, respectively.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

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, 2010 and 2009, consist of:

| | <u>2010</u> | <u>2009</u> |
|---------------------------------|---------------------|--------------------|
| Cash: | | |
| General | \$ 124,882 | \$ 173,376 |
| Working capital | 2,287,993 | 2,156,000 |
| Capital improvements | 749,007 | 151,000 |
| Restricted cash and investments | <u>7,027,344</u> | <u>6,575,080</u> |
| | <u>\$10,189,226</u> | <u>\$9,055,456</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.

M. Receivables:

The Authority considers receivables to be collectible with an allowance for doubtful accounts that is based on past amounts of uncollectible accounts.

N. Net Assets:

The Authority has restricted net assets to be used to fund future debt service requirements. None of the Authority's restricted net assets of \$5,234,526 and \$5,112,302 in 2010 and 2009, respectively, were restricted by enabling legislation.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

Note 2. Description of Funds:

A. Revenue Fund:

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

B. Bond Reserve Fund:

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

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.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

Note 2. Description of Funds (Continued):

E. Project/Administration Fund:

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

The fund had a balance of \$-0- and \$-0- as of December 31, 2010 and 2009, respectively.

F. System Reserve Fund (Capital Improvements):

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

G. Employee Policy Fund:

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

H. OWDA Fund:

This fund is maintained in the custody of the Authority as a separate account. Payments of \$53,000 are made each month. Monies in this fund will be used to pay the semi-annual Ohio Water Development Authority loan payments.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

Note 2. Description of Funds (Continued):

I. Restricted Cash and Investments:

| | <u>2010</u> | <u>2009</u> |
|----------------------------------|--------------------|--------------------|
| Bond reserve fund | \$2,302,496 | \$2,319,925 |
| Bond fund | 2,932,030 | 2,792,377 |
| OWDA fund | 212,358 | -0- |
| Replacement and improvement fund | 752,117 | 757,069 |
| Project/Administration fund | -0- | -0- |
| Employee policy fund | <u>828,343</u> | <u>705,709</u> |
| | <u>\$7,027,344</u> | <u>\$6,575,080</u> |

Note 3. Equity in Pooled Cash and Investment:

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

A. Legal Requirements:

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

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

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

1. Notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

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

A. Legal Requirements (Continued):

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-loan money market mutual funds consisting exclusively of obligations described in items (1) and (2) of this footnote and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio; and
10. Banker's acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's average portfolio.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

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

A. Legal Requirements (Continued):

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

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

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

B. Deposits:

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

Based on the criteria described in GASB Statement No. 40, "*Deposits and Investment Risk Disclosures*," as of December 31, 2010 and 2009, \$750,000 and \$750,000 of the Authority's bank balances of \$4,141,011 and \$2,723,868 were covered by federal depository insurance. The remaining balances were covered by specific securities held by the pledging financial institution's trust department in the Authority's name. Although all State statutory requirements for the deposit of money have been followed, non-compliance with federal requirements could potentially subject the Authority to a successful claim by the FDIC.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

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

B. Deposits (Continued):

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

C. Investments:

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

As of December 31, 2010 the Authority had the following investments:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>% of Total</u> | <u>Maturities (in Years)</u> | |
|---|---------------------|-----------------------|------------------------------|--------------|
| | | | <u>Less than 1</u> | <u>1 - 5</u> |
| Federal Home Loan Bank Bonds | \$ 100,364 | 1.5% | \$ 100,364 | \$ 0 |
| Federal National Mortgage Association Treasury Notes | 252,693 | 3.8% | 0 | 252,693 |
| Federal Home Loan Mortgage Discount Notes | 749,585 | 11.5% | 749,585 | 0 |
| Federal National Mortgage Association Discount Notes | 199,978 | 3.0% | 199,978 | 0 |
| First American Treasury Obligation | 37,295 | 0.6% | 37,295 | 0 |
| Federated Treasury Obligation Fund | 2,950,878 | 44.9% | 2,950,878 | 0 |
| U.S. Treasury Funds, Bonds, and Notes | 2,283,647 | 34.7% | 2,283,647 | 0 |
| | <u>\$ 6,574,440</u> | | | |

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

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

C. Investments (Continued):

As of December 31, 2009 the Authority had the following investments:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>% of Total</u> | <u>Maturities (in Years)</u> | |
|---|---------------------|-----------------------|------------------------------|--------------|
| | | | <u>Less than 1</u> | <u>1 - 5</u> |
| Federal Home Loan Mortgage Discount Notes | \$ 499,880 | 7.8% | \$ 449,795 | \$ 0 |
| Federal National Mortgage Association | | | | |
| Discount Notes | 299,710 | 4.6% | 349,940 | 0 |
| U.S. Treasury Bills | 399,371 | 6.2% | 424,708 | 0 |
| First American Treasury Obligation | 145,411 | 2.3% | 145,411 | 0 |
| Federated Treasury Obligation Fund | 2,830,478 | 43.8% | 2,830,478 | 0 |
| U.S. Treasury Funds, Bonds, and Notes | 2,281,824 | 35.3% | 2,281,824 | 0 |
| | <u>\$ 6,456,674</u> | | | |

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

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of December 31, 2010, the Authority’s investment in U.S. instrumentalities (Federal Home Loan Mortgage Corporation Discount Notes, Federal National Mortgage Association Discount Notes, Federal Home Loan Bank Bonds, Federal National Mortgage Association Treasury Notes, First American Treasury and Federated Treasury Obligations) were all rated AAA by Standard and Poor’s and Aaa by Moody’s Investors Service. As of December 31, 2009, the Authority’s investment in U.S. instrumentalities (Federal Home Loan Mortgage Corporation Discount Notes, Federal National Mortgage Association Discount Notes, United States Treasury Bills, First American Treasury and Federated Treasury Obligations) were all rated AAA by Standard and Poor’s and Aaa by Moody’s Investors Service.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

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

C. Investments (Continued):

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of the failure of a counterparty to a transaction, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Consistent with the requirements of State Law, it is the policy of the Authority to require full collateralization of all investments other than obligations of the U.S. Government, its agencies and instrumentalities. The Authority’s investment in U.S. agencies with fair values totaling \$1,339,915 has maturities of \$1,087,222 in less than one year for the year ended December 31, 2010. The Authority’s investment in U.S. agencies with fair values totaling \$1,344,372 has maturities of \$1,344,372 in less than one year for the year ended December 31, 2009. U.S. agencies are held in the account of U.S. Bank (“Trustee”), at the Federal Reserve Bank of Boston, Massachusetts. The Authority’s securities associated with the principal and interest payment of bond proceeds in the amount of \$5,234,526 and \$5,112,302, for 2010 and 2009, respectively, are held in the account of First Merit. Assets held by the Trustee as a custodial agent are considered legally separate from the other assets of the Trustee.

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

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

Note 4. Long-Term Debt:

A summary of long-term debt for the year ended December 31, 2010 is as follows:

| Description | Balance December 31, 2009 | Borrowed | Repaid | Balance December 31, 2010 | Due Within One Year |
|--|---------------------------------|---------------------|---------------------|---------------------------------|---------------------------|
| A note payable in the amount of \$1,191,920 is due to FirstMerit Bank, N.A. and Trust. The note requires annual principal and interest payments at the One-Year U.S. Treasury Security Index plus 2.12% with a maturity date of September 2019. The note is guaranteed by the United States Department of Agriculture (USDA). This note is subordinated to the Series 1999, 2003A and B, and 2006 senior lien revenue bonds. | \$ 1,308,928 | \$ -0- | \$ 117,008 | \$ 1,191,920 | \$ 120,322 |
| A Water Resource Improvement Revenue Bond, Series 2003A in the amount of \$1,396,000 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. | 1,413,000 | -0- | 17,000 | 1,396,000 | 18,000 |
| A Water Resource Improvement Revenue Bond, Series 2003B is due in the amount of \$8,110,000. The Bond requires annual principal and interest payments with interest rates ranging from 1.5% to 4.4% with a final maturity date of October 2018. | 9,160,000 | -0- | 1,050,000 | 8,110,000 | 1,095,000 |
| A Water Resource Improvement Revenue Bonds, Series 2006 is due in the amount of \$8,690,000. The Bond requires annual principal and interest payments with interest rates ranging from 3.75% to 5.00% with a final maturity date of October 2031. | 9,040,000 | -0- | 350,000 | 8,690,000 | 365,000 |
| A Water Resource Improvement Revenue Bonds, Series 2009 is due in the amount of \$912,000. The Bond requires annual principal and interest payments at an annual interest rate of 4.375% with a maturity date of July 2049. | 454,606 | 457,394 | -0- | 912,000 | 9,300 |
| A total of \$4,519,693 has been borrowed from the Ohio Water Development Authority. These notes will require semi-annual principal and interest payments due on January 1 st and July 1 st , including interest at rates from 2.87% and to 3.86%. The maturity dates range from January 1, 2031 through January 1, 2032. | -0- | 4,519,693 | -0- | 4,519,693 | 75,353 |
| | <u>\$ 21,376,534</u> | <u>\$ 4,977,087</u> | <u>\$ 1,534,008</u> | <u>\$ 24,819,613</u> | <u>\$ 1,682,975</u> |

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

Note 4. Long-Term Debt (Continued):

A summary of long-term debt for the year ended December 31, 2009 is as follows:

| Description | Balance December 31, 2008 | Borrowed | Repaid | Balance December 31, 2009 | Due Within One Year |
|--|---------------------------------|-------------------|---------------------|---------------------------------|---------------------------|
| \$310,000 Water Resource Revenue Refunding Bonds, Series 1999 originally issued with interest rates ranging from 4.000% to 5.875% with a final maturity date of October 2009. | \$ 310,000 | \$ -0- | \$ 310,000 | \$ -0- | \$ -0- |
| A note payable in the amount of \$1,308,928 is due to FirstMerit Bank, N.A. and Trust. The note requires annual principal and interest payments at the One-Year U.S. Treasury Security Index plus 2.12% with a maturity date of September 2019. The note is guaranteed by the United States Department of Agriculture (USDA). This note is subordinated to the Series 1999, 2003A and B, and 2006 senior lien revenue bonds. | 1,415,391 | -0- | 106,463 | 1,308,928 | 116,551 |
| A Water Resource Improvement Revenue Bond, Series 2003A in the amount of \$1,413,000 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. | 1,429,000 | -0- | 16,000 | 1,413,000 | 17,000 |
| A Water Resource Improvement Revenue Bond, Series 2003B is due in the amount of \$9,160,000. The Bond requires annual principal and interest payments with interest rates ranging from 1.5% to 4.4% with a final maturity date of October 2018. | 10,180,000 | -0- | 1,020,000 | 9,160,000 | 1,050,000 |
| A Water Resource Improvement Revenue Bonds, Series 2006 is due in the amount of \$9,040,000. The Bond requires annual principal and interest payments with interest rates ranging from 3.75% to 5.00% with a final maturity date of October 2031. | 9,065,000 | -0- | 25,000 | 9,040,000 | 350,000 |
| A Water Resource Improvement Revenue Bonds, Series 2009 is due in the amount of \$454,606. The Bond requires annual principal and interest payments at an annual interest rate of 4.375% with a maturity date of July 2049. | -0- | 454,606 | -0- | 454,606 | -0- |
| | <u>\$ 22,399,391</u> | <u>\$ 454,606</u> | <u>\$ 1,477,463</u> | <u>\$ 21,376,534</u> | <u>\$ 1,533,551</u> |

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

Note 4. Long-Term Debt (Continued):

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of December 31, 2010, are as follows:

| <u>Year Ending December 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------------------|----------------------|----------------------|----------------------|
| 2011 | \$ 1,682,975 | \$ 984,978 | \$ 2,667,953 |
| 2012 | 1,566,865 | 993,654 | 2,560,519 |
| 2013 | 1,633,379 | 932,942 | 2,566,321 |
| 2014 | 1,699,100 | 870,984 | 2,570,084 |
| 2015 | 1,764,240 | 800,911 | 2,565,151 |
| 2016-2020 | 7,491,535 | 2,836,182 | 10,327,717 |
| 2021-2025 | 4,126,633 | 1,570,655 | 5,697,288 |
| 2026-2030 | 2,967,840 | 793,719 | 3,761,559 |
| 2031-2035 | 822,446 | 316,726 | 1,139,172 |
| 2036-2040 | 470,300 | 204,459 | 674,759 |
| 2041-2045 | 417,400 | 86,573 | 503,973 |
| 2046-2050 | 176,900 | 19,758 | 196,658 |
| Total | <u>\$ 24,819,613</u> | <u>\$ 10,411,541</u> | <u>\$ 35,231,154</u> |

The 1999, 2003, 2006, and 2009 Series bonds, OWDA loans, and USDA bonds are payable from the revenues of the Authority after the payment of operating and maintenance costs. The bonds are secured by a pledge of the monies and securities on deposit in the Reserve Fund, the Replacement and Improvement Fund, and the System Reserve Fund. The bond indentures require, among other provisions, that the Authority maintain the system in good operating condition and charge rates such that the necessary debt service payments can be made after operating and maintenance charges have been paid. In addition, the indenture requires the establishment of certain funds as discussed in Note 2.

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

Note 5. Insurance:

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

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

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

Note 5. Insurance (Continued):

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

Note 6. Retirement Commitments:

A. Defined Benefit Pension Plans:

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

1. The Traditional Pension Plan – a cost-sharing multiple-employer defined benefit pension plan.
2. The Member-Directed Plan – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
3. The Combined Plan – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. Under the Combined Plan, employer contributions are invested by OPERS to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Pension and the Combined Plans. OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying 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. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

Note 6. Retirement Commitments (Continued):

A. Defined Benefit Pension Plans (Continued):

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

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2010 and 2009, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan.

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

Employer contribution rates are expressed as percentage of the covered payroll of active members. The rate set for member contribution for 2010 and 2009 was 10.0%, and the employer contribution rate was 14.00% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14% of covered payroll. Active members do not make contributions to the OPEB Plan. Total required employer contributions for all plans are equal to 100% of employer charges and should be extracted from the employer's records. 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, 2010, 2009 and 2008 was \$362,089, \$367,131 and \$540,780, respectively.

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

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

Note 6. Retirement Commitments (Continued):

B. Post-Employment Benefits:

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care benefits. 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 14.00% of covered payroll from January 1 through December 31, 2010 and 2009.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. For 2010, the portion of employer contributions allocated to health care for members in the traditional Plan was 5.5% from January 1 through February 28, 2010 and 5.0% from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73% from January 1 through February 28, 2010, and 4.23% from March 1 through December 31, 2010. For 2009, the employer contribution allocated to the health care plan was 7.0% from January 1 through March 31, 2009 and 5.5% from April 1 through December 31, 2009, of covered payroll. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The employer contributions, made by Rural Lorain County Water Authority, used to fund postemployment benefits were \$131,237, \$73,846 and \$174,071 for the years ended December 31, 2010, 2009 and 2008, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of Health Care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

Note 6. Retirement Commitments (Continued):

B. Post-Employment Benefits (Continued):

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board of Trustees on September 9, 2004, was effective January 1, 2007. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2008, 2007, and 2006, which will allow additional funds to be allocated to the health care plan.

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.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

Note 6. Retirement Commitments (Continued):

C. Retirement Incentive Plan (Continued):

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

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

Retirement Incentive Plan expense for the years ended December 31, 2010 and 2009, was \$-0- and \$-0-, respectively.

Note 7. Leasing Arrangements:

The Authority leases one copier under a 36-month operating lease and one copier under a 36-month operating lease that began in February 2009 and March 2010, and expire in January 2012 and February 2013, respectively. These leases require rent in the amount of \$330 and \$423 per month plus charges for additional copies over 2,500, and over 5,000 for black and white copies and over 1,500 for color copies, respectively.

The following is a schedule of future minimum rental payments required under the above operating leases as of December 31, 2010:

| <u>Year Ending</u> <u>December 31,</u> | <u>Amount</u> |
|---|-----------------|
| 2011 | \$ 9,036 |
| 2012 | 5,406 |
| 2013 | 846 |
| | <u>\$15,288</u> |

Office equipment lease for the years ended December 31, 2010 and 2009 was \$14,120 and \$13,055, respectively.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

Note 8. Commitments:

A. Water Purchase Agreements:

The Authority's original and primary source of water (approximately 79.6%) 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 13.9%) as a supplement to the water purchased from the City of Avon Lake. In addition to the Avon Lake agreement, the Authority signed a long-term water purchase agreement in 1996 with New London with maximum amounts of water to be supplied per month.

B. Water Supply Agreements:

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

Note 9. Investment in Joint Venture:

The Authority is a member of the Medina-Lorain Water Consortium (the Consortium), which is a joint venture between the City of Avon Lake, the City of Medina, Medina County, and the Rural Lorain County Water Authority. The Consortium was created in 1999 for the purpose of construction, operation and maintenance of a water transmission line to serve members of the Consortium, and for the purpose of bulk water delivery from the City of Avon Lake. There is an ongoing financial responsibility for all parties for the maintenance and repair of the project. The Consortium is governed by representatives of the member parties. The City of Avon Lake serves as the fiscal agent for the Consortium. As of December 31, 2010 and 2009, the Authority's equity interest in the Consortium was \$4,865,299 and \$5,020,560, respectively. Financial information can be obtained from Joe Newlin, City of Avon Lake Finance Director, 150 Avon-Belden Road, Avon Lake, Ohio 44012.

Note 10. Subsequent Events:

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through May 27, 2011.

SUPPLEMENTARY INFORMATION

RURAL LORAIN COUNTY WATER AUTHORITY

STATEMENTS OF OPERATING EXPENSES

Years Ended December 31, 2010 and 2009

| | <u>2010</u> | <u>2009</u> |
|---------------------------------------|---------------------|---------------------|
| OPERATING EXPENSES: | | |
| Wages: | | |
| Board | \$ 105,860 | \$ 96,853 |
| Employees | 1,452,013 | 1,385,113 |
| Vacation and sick leave | 206,420 | 143,231 |
| O.P.E.R.S. | 362,089 | 367,131 |
| Payroll taxes | 36,947 | 34,516 |
| Insurance: | | |
| Hospitalization | 308,446 | 317,418 |
| Life | 4,785 | 4,818 |
| General | 73,137 | 75,203 |
| Audit and professional fees | 67,314 | 82,666 |
| Legal fees | 30,535 | 27,433 |
| Engineering fees | 1,622 | 60,144 |
| Telephone | 24,902 | 23,732 |
| Depreciation expense | 1,774,499 | 1,784,206 |
| Utilities | 25,708 | 37,414 |
| Billing expense | 35,053 | 32,346 |
| Office equipment lease | 14,120 | 13,055 |
| Office supplies and expense | 172,979 | 180,308 |
| Clothing | 16,827 | 20,732 |
| Postage | 91,459 | 89,142 |
| Maintenance and repairs: | | |
| Administration building and equipment | 165,312 | 158,186 |
| Vehicles | 123,706 | 71,155 |
| Water lines | 119,379 | 64,336 |
| Pump stations | 42,134 | 75,797 |
| Tanks | 510,503 | 53,351 |
| Travel and education expense | 81,493 | 80,220 |
| Gasoline | 45,086 | 33,978 |
| Water purchased | 2,955,096 | 3,167,955 |
| Distribution supplies | 83,997 | 71,585 |
| Electric pump stations and tanks | 385,795 | 387,532 |
| Tap installations | 94,359 | 89,616 |
| Communications equipment | 11,097 | 5,663 |
| Miscellaneous expense | 95,363 | 73,911 |
| | <u>\$ 9,518,035</u> | <u>\$ 9,108,746</u> |

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

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

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

To the Board of Directors:

We have audited the financial statements of the business-type activities of the Rural Lorain County Water Authority, Lorain County, Ohio, (the Authority) as of and for the years ended December 31, 2010 and 2009, and have issued our report thereon dated May 27, 2011. 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 Controls Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Authority's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 Authority's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, 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 or other matters we must report under *Government Auditing Standards*.

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

Charles Harris Associates

Charles E. Harris and Associates, Inc.

May 27, 2011

SCHEDULE OF PRIOR AUDIT FINDINGS

The prior audit report, for the years ending December 31, 2008 and 2007, reported no material citations or recommendations.



Dave Yost • Auditor of State

RURAL LORAIN COUNTY WATER AUTHORITY

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 14, 2011**