



Dave Yost • Auditor of State

**RURAL LORAIN COUNTY WATER AUTHORITY
LORAIN COUNTY**

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INDEPENDENT AUDITOR'S REPORT

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

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Rural Lorain County Water Authority, Lorain County, Ohio (the Authority), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing those risks of financial statement material misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Authority's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rural Lorain County Water Authority, Lorain County as of December 31, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary Information

Our audit was conducted to opine on the Authority's financial statements taken as a whole. The Statements of Operating Expenses present additional analysis and are not a required part of the basic financial statements.

The Statements of Operating Expenses are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected these statements to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2013 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

August 8, 2013

RURAL LORAIN COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2012 and 2011

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

FINANCIAL HIGHLIGHTS

The Total Assets of RLCWA exceeded liabilities by \$34.3 million and \$32.4 million in 2012 and 2011, respectively.

The Authority's Net Position increased by \$1.8 million (5.6%) and \$4.1 million (14.3%) in 2012 and 2011, respectively.

The Authority's Operating Revenues decreased by \$1.36 million (-9.0%) and increased by \$2.96 million (24.5%) with Operating Expenses increasing \$475 thousand (6.5%) and \$559 thousand (8.2%) in 2012 and 2011, 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 Position** 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 position (equity) is the difference between assets and liabilities.

The **Statement of Revenues, Expenses, and Changes in Net Position** 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 that 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, 2012 and 2011

NET ASSETS

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

TABLE 1

	2012	2011	2010	2012 vs 2011		2011 vs 2010	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Current and other assets	\$ 20,388,592	\$ 19,199,178	\$ 17,228,990	\$ 1,189,414	6.2%	\$ 1,970,188	11.4%
Capital assets	43,037,951	43,780,556	37,608,652	(742,605)	-1.7%	6,171,904	16.4%
Total assets	<u>63,426,543</u>	<u>62,979,734</u>	<u>54,837,642</u>	<u>446,809</u>	<u>0.7%</u>	<u>8,142,092</u>	<u>14.8%</u>
Long-term liabilities	25,496,168	27,349,867	23,136,638	(1,853,699)	-6.8%	4,213,229	18.2%
Other liabilities	3,668,511	3,178,346	3,302,347	490,165	15.4%	(124,001)	-3.8%
Total liabilities	<u>29,164,679</u>	<u>30,528,213</u>	<u>26,438,985</u>	<u>(1,363,534)</u>	<u>-4.5%</u>	<u>4,089,228</u>	<u>15.5%</u>
Net investment in capital assets	15,877,099	14,832,782	12,789,039	1,044,317	7.0%	2,043,743	16.0%
Restricted	5,191,174	5,207,728	5,234,526	(16,554)	-0.3%	(26,798)	-0.5%
Unrestricted	13,193,591	12,411,011	10,375,092	782,580	6.3%	2,035,919	19.6%
Total net position	<u>\$ 34,261,864</u>	<u>\$ 32,451,521</u>	<u>\$ 28,398,657</u>	<u>\$ 1,810,343</u>	<u>5.6%</u>	<u>\$ 4,052,864</u>	<u>14.3%</u>

The Authority's Net Position increased \$1.8 million (5.6%) and \$4.1 million (14.3%) in 2012 and 2011, respectively. These increases are a result of excess revenues over expenses.

The Authority decreased long-term liabilities in 2012 by \$1.85 million from the payment of long-term notes. The Authority increased long-term liabilities in 2011 by \$4.21 million from the borrowings of long-term debt.

RURAL LORAIN COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2012 and 2011

STATEMENT OF REVENUES AND EXPENSES (CHANGES IN NET POSITION)

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

TABLE 2

	2012	2011	2010	2012 vs 2011		2011 vs 2010	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Operating revenue	\$ 13,672,022	\$ 15,027,531	\$ 12,067,861	\$ (1,355,509)	-9.0%	\$ 2,959,670	24.5%
Operating expenses	7,816,143	7,341,309	6,782,502	474,834	6.5%	558,807	8.2%
Maintenance expenses	764,854	408,105	961,034	356,749	87.4%	(552,929)	-57.5%
Depreciation expenses	2,313,356	1,986,416	1,774,499	326,940	16.5%	211,917	11.9%
Total expenses	10,894,353	9,735,830	9,518,035	1,158,523	11.9%	217,795	2.3%
Operating income	2,777,669	5,291,701	2,549,826	(2,514,032)	-47.5%	2,741,875	107.5%
Nonoperating revenue	458,389	227,111	398,929	231,278	101.8%	(171,818)	-43.1%
Nonoperating expenses	(1,425,715)	(1,465,948)	(1,172,884)	40,233	-2.7%	(293,064)	25.0%
Nonoperating loss	(967,326)	(1,238,837)	(773,955)	271,511	-21.9%	(464,882)	60.1%
Change in net position	1,810,343	4,052,864	1,775,871	(2,242,521)	-55.3%	2,276,993	128.2%
Beginning net position	32,451,521	28,398,657	26,622,786	4,052,864	14.3%	1,775,871	6.7%
Ending net position	\$ 34,261,864	\$ 32,451,521	\$ 28,398,657	\$ 1,810,343	5.6%	\$ 4,052,864	14.3%

Total operating revenues decreased \$1.36 million (-9.0%) and increased \$2.96 million (24.5%) in 2012 and 2011, respectively. Loss on disposal of assets increased by \$206 thousand (121.5%) resulting in the majority of the increase of \$231 thousand (101.8%) in nonoperating revenues for 2012.

Operations and maintenance expenses increased \$832 thousand (10.7%) and increased \$6 thousand (0.1%) in 2012 and 2011, respectively. An increase in water purchased and tanks maintenance and repairs accounted for the majority of the increase in operating and maintenance costs in 2012.

RURAL LORAIN COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2012 and 2011

CAPITAL ASSETS

The Authority had \$77.04 and \$75.66 million invested in capital assets (before depreciation) at December 31, 2012 and 2011, respectively, as shown in Table 3. This amount is an increase of \$1.38 million (1.8%) and \$6.67 million (9.7%) from the previous year.

TABLE 3

	2012	2011	2010	2012 vs 2011		2011 vs 2010	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Land and easements	\$ 661,803	\$ 631,303	\$ 631,303	\$ 30,500	4.8%	\$ -	0.0%
Buildings	2,357,467	2,337,126	2,337,126	20,341	0.9%	0	0.0%
Tanks, stations, and lines	61,318,752	60,089,678	55,637,587	1,229,074	2.0%	4,452,091	8.0%
Meters and replacements	9,164,332	9,136,497	1,594,400	27,835	0.3%	7,542,097	473.0%
Furniture and fixtures	1,586,184	1,544,257	1,511,249	41,927	2.7%	33,008	2.2%
Machinery, equipment, and vehicles	1,905,161	1,894,018	1,872,923	11,143	0.6%	21,095	1.1%
Construction in progress	48,343	27,079	5,405,260	21,264	78.5%	(5,378,181)	-99.5%
Total before depreciation	77,042,042	75,659,958	68,989,848	1,382,084	1.8%	6,670,110	9.7%
Accumulated depreciation	(34,004,091)	(31,879,402)	(31,381,196)	(2,124,689)		(498,206)	
Total capital assets, net	\$ 43,037,951	\$ 43,780,556	\$ 37,608,652	\$ (742,605)		\$ 6,171,904	

The increase in capital assets from 2011 to 2012 was for line extensions, line replacement, and relocation of lines, a chlorinator, tank painting, meter replacements, the addition of an office, computers, four trucks, a trailer, and portable traffic signals.

The increase in capital assets from 2010 to 2011 was for a water tank, a pump station, line extensions, line replacement and relocation of lines, a water tank, meter replacements, three trucks, a line locator, GPS unit, computers, gas saw, cabinet, and a mobile workbench.

RURAL LORAIN COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2012 and 2011

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

	2012	2011	2010	2012 vs 2011		2011 vs 2010	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Long-term debt:							
2003 Revenue bonds	\$ 6,130,000	\$ 7,015,000	\$ 8,110,000	\$ (885,000)	-12.6%	\$ (1,095,000)	-13.5%
2006 Revenue bonds	7,950,000	8,325,000	8,690,000	(375,000)	-4.5%	(365,000)	-4.2%
OWDA Loans	9,880,038	10,255,476	4,519,693	(375,438)	-3.7%	5,735,783	126.9%
Rural development bonds	3,200,814	3,352,298	3,499,920	(151,484)	-4.5%	(147,622)	-4.2%
Total long-term debt	27,160,852	28,947,774	24,819,613	(1,786,922)	-6.2%	4,128,161	16.6%
Less: Current maturities	(1,664,684)	(1,597,907)	(1,682,975)	(66,777)	4.2%	85,068	-5.1%
Net total long-term debt	<u>\$ 25,496,168</u>	<u>\$ 27,349,867</u>	<u>\$ 23,136,638</u>	<u>\$ (1,853,699)</u>	<u>-6.8%</u>	<u>\$ 4,213,229</u>	<u>18.2%</u>

See Note 4 of the financial statements for details of issuance and retirement of debt in 2012.

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 \$2,124,377 and \$2,252,748 and the Bond Fund had a balance of \$3,066,797 and \$2,954,980 at December 31, 2012 and 2011, 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, 2012 and 2011

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>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenues	\$ 13,672,022	\$ 15,027,531	\$ 12,067,861
Nonoperating revenue - Interest	123,134	97,752	65,611
Total revenues	<u>13,795,156</u>	<u>15,125,283</u>	<u>12,133,472</u>
Less: Operations and maintenance expenses	<u>(8,580,997)</u>	<u>(7,749,414)</u>	<u>(7,743,536)</u>
Total revenues available for debt	<u>\$ 5,214,159</u>	<u>\$ 7,375,869</u>	<u>\$ 4,389,936</u>
Revenue bond debt service - 1999, 2003, and 2006	\$ 1,956,357	\$ 1,951,757	\$ 2,221,107
Revenue bond debt service - Rural development	283,785	281,945	283,945
OWDA Loans	376,036	376,036	162,901
Total debt service requirements	<u>\$ 2,616,178</u>	<u>\$ 2,609,738</u>	<u>\$ 2,667,953</u>
Combined coverage ratio - All debt	1.99	2.83	1.65

The Authority is required to meet a revenue-to-debt ratio of 1.20 for its 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 POSITION

December 31, 2012 and 2011

ASSETS

	2012	2011
CURRENT ASSETS:		
Cash and cash equivalents:		
General	\$ 670,639	\$ 514,236
Working capital	2,709,866	2,282,334
Capital improvements	1,542,134	568,666
Receivables: (Note 1)		
Trade (net allowance for doubtful accounts of \$83,934 in 2012 and \$77,275 in 2011)	782,596	820,768
Cinnamon Lake tap fees	72,230	70,186
Medina County ETL1	164,076	179,988
Other	27,645	24,359
Interest	32,832	32,833
Inventory (Note 1)	464,036	396,934
Prepaid expenses (Note 1)	\$ 69,429	\$ 62,225
Total current assets	6,535,483	4,952,529
NONCURRENT ASSETS:		
Cinnamon Lake tap fees receivable (Note 10)	1,717,528	1,791,146
Restricted cash and investments (Note 2)	6,972,470	7,057,735
Investment in joint venture (Note 9)	4,554,777	4,710,038
Deferred debt issue costs, net (Note 1)	608,334	687,730
Total noncurrent assets	13,853,109	14,246,649
CAPITAL ASSETS, AT COST: (Note 1)		
Capital assets not being depreciated:		
Land	287,075	287,075
Easements	374,728	344,228
Current construction	48,343	27,079
Total capital assets not being depreciated	710,146	658,382
Capital assets (net of accumulated depreciation of \$34,004,091 in 2012 and \$31,879,402 in 2011)	42,327,805	43,122,174
Total capital assets	43,037,951	43,780,556
TOTAL ASSETS	63,426,543	62,979,734

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

RURAL LORAIN COUNTY WATER AUTHORITY

STATEMENTS OF NET POSITION

December 31, 2012 and 2011

<u>LIABILITIES</u>	<u>2012</u>	<u>2011</u>
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 1,664,684	\$ 1,597,907
Accounts payable	399,922	420,201
Taxes payable	27,770	40,635
Compensated absences payable (Note 1)	759,475	733,957
Tenant deposits	100,800	93,350
Deferred tap fees	12,500	12,500
Accrued expenses:		
Wages	34,166	25,407
Tank painting (Note 11)	429,000	0
Interest	240,194	254,389
Total current liabilities	<u>3,668,511</u>	<u>3,178,346</u>
LONG-TERM DEBT: (Note 4)		
Bonds and notes payable:		
2006 Series	7,950,000	8,325,000
2003 Series	6,130,000	7,015,000
Notes payable - bank	947,714	1,071,598
OWDA	9,880,038	10,255,476
USDA	2,253,100	2,280,700
	<u>27,160,852</u>	<u>28,947,774</u>
Less: Current portion	<u>1,664,684</u>	<u>1,597,907</u>
	<u>25,496,168</u>	<u>27,349,867</u>
TOTAL LIABILITIES	<u>29,164,679</u>	<u>30,528,213</u>
NET POSITION:		
Net investment in capital assets	15,877,099	14,832,782
Restricted for bonds payable	5,191,174	5,207,728
Unrestricted	13,193,591	12,411,011
	<u>\$ 34,261,864</u>	<u>\$ 32,451,521</u>

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

RURAL LORAIN COUNTY WATER AUTHORITY

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION

Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUE:		
Water sales	\$ 13,386,548	\$ 12,587,252
Tap fees	<u>285,474</u>	<u>2,440,279</u>
	13,672,022	15,027,531
 OPERATING EXPENSES	 <u>10,894,353</u>	 <u>9,735,830</u>
 INCOME FROM OPERATIONS	 2,777,669	 5,291,701
 NONOPERATING REVENUE:		
Penalty income	194,167	178,731
Miscellaneous	174,376	121,581
Miscellaneous subdivision income	8,373	4,426
Water line reimbursements	0	15,711
Discounts earned	386	313
Investment income	123,134	97,752
Unrealized gain (loss) on investments	(78,561)	(21,567)
Gain (loss) on disposal of assets	<u>36,514</u>	<u>(169,836)</u>
	458,389	227,111
	3,236,058	5,518,812
 NONOPERATING EXPENSES:		
Interest expense	1,182,848	1,218,373
Change in value of investment in joint venture	155,261	155,261
Bad debts	8,261	12,969
Bond issuance cost amortization	<u>79,345</u>	<u>79,345</u>
	1,425,715	1,465,948
 CHANGE IN NET POSITION	 1,810,343	 4,052,864
 BEGINNING NET POSITION	 <u>32,451,521</u>	 <u>28,398,657</u>
 ENDING NET POSITION	 <u>\$ 34,261,864</u>	 <u>\$ 32,451,521</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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 13,794,395	\$ 12,957,196
Cash payments to suppliers for goods and services	(5,433,647)	(5,009,531)
Cash payments to employees and professional contractors for services and benefits	<u>(2,792,283)</u>	<u>(2,673,155)</u>
Net cash provided by operating activities	5,568,465	5,274,510
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property and equipment and current construction	(1,570,751)	(8,158,320)
Proceeds from sale of equipment	41,397	20,304
Repayment of 2003 Series Bonds	(885,000)	(1,095,000)
Repayment of 2006 Series Bonds	(375,000)	(365,000)
Repayment of notes payable	(526,923)	(449,659)
Proceeds from notes payable	0	6,037,821
Interest paid on debt	<u>(1,197,042)</u>	<u>(1,237,718)</u>
Net cash used in capital and related financing activities	(4,513,319)	(5,247,572)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	<u>44,573</u>	<u>76,185</u>
Net cash provided by investing activities	44,573	76,185
CASH FLOWS FROM NON-CAPITAL ACTIVITIES:		
Other nonoperating activities	<u>372,419</u>	<u>130,622</u>
Net cash provided by non-capital activities	<u>372,419</u>	<u>130,622</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, 2012 and 2011

	2012	2011
INCREASE IN CASH AND CASH EQUIVALENTS	1,472,138	233,745
CASH AND CASH EQUIVALENTS - Beginning of period	10,422,971	10,189,226
CASH AND CASH EQUIVALENTS - End of period	\$ 11,895,109	\$ 10,422,971
PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	\$ 2,777,669	\$ 5,291,701
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	2,313,356	1,986,416
Bond premium amortization	(79,345)	(79,345)
Bad debts	(8,261)	(12,969)
Changes in assets and liabilities:		
Increase (decrease) in:		
Receivables	122,373	(2,070,335)
Inventory	(67,102)	93,035
Prepaid expenses	(7,204)	6,057
Deferred debt issue costs	79,396	79,539
Increase (decrease) in:		
Accounts payable	(20,279)	52,925
Taxes payable	(12,865)	(9,313)
Compensated absences payable	25,518	91,471
Deposits	7,450	2,200
Deferred tap fees	0	(154,000)
Accrued expenses	437,759	(2,872)
Net cash provided by operating activities	\$ 5,568,465	\$ 5,274,510

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

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

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.

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, 2012 and 2011

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

D. Budgetary Process:

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

Appropriations - After the budget is approved by the Board, the Board then makes appropriations of funds in accordance with said budget. Thereafter, the General Manager has the authority to authorize payment of any disbursement not to exceed \$50,000, provided there are sufficient funds appropriated and remaining in the account of the fund from which payment will be made. The Board may, from time-to-time, amend or supplement said appropriation of funds and may also transfer any part of an unencumbered balance of an appropriation of any fund to any purpose or object for which the appropriation for the current fiscal year has proved insufficient. During the year, supplemental appropriations were authorized; however, none of these amendments are significant.

E. Inventory:

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

F. Capital Assets:

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

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, 2012 and 2011

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, 2012 and 2011, was \$2,313,356 and \$1,986,416, respectively.

A summary of changes in capital assets for the year ended December 31, 2012, is as follows:

	Balance December 31, 2011	Additions	Deletions	Balance December 31, 2012
Land and easements	\$ 631,303	\$ 30,500	\$ -	\$ 661,803
Buildings	2,337,126	20,341	-	2,357,467
Tanks, stations, and lines	60,089,678	1,335,577	(106,503)	61,318,752
Meters and replacements	9,136,497	27,835	-	9,164,332
Furniture and fixtures	1,544,257	41,927	-	1,586,184
Machinery, equipment, and vehicles	1,894,018	199,810	(188,667)	1,905,161
Current construction	27,079	-	21,264	48,343
	75,659,958	1,655,990	(273,906)	77,042,042
Less accumulated depreciaton				
Buildings	(1,534,221)	(105,104)	-	(1,639,325)
Tanks, stations, and lines	(27,352,241)	(1,542,152)	-	(28,894,393)
Meters and replacements	(154,135)	(459,771)	-	(613,906)
Furniture and fixtures	(1,189,894)	(86,941)	-	(1,276,835)
Machinery, equipment, and vehicles	(1,648,911)	(119,388)	188,667	(1,579,632)
Total accumulated depreciation	(31,879,402)	(2,313,356)	188,667	(34,004,091)
Net capital assets	\$ 43,780,556	\$ (657,366)	\$ (85,239)	\$ 43,037,951

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

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, 2011, is as follows:

	Balance December 31, 2010	Additions	Deletions	Balance December 31, 2011
Land and easements	\$ 631,303	\$ -	\$ -	\$ 631,303
Buildings	2,337,126	-	-	2,337,126
Tanks, stations, and lines	55,637,587	4,452,091	-	60,089,678
Meters and replacements	1,594,400	9,126,301	(1,584,204)	9,136,497
Furniture and fixtures	1,511,249	33,008	-	1,544,257
Machinery, equipment, and vehicles	1,872,923	86,585	(65,490)	1,894,018
Current construction	5,405,260	-	(5,378,181)	27,079
	<u>68,989,848</u>	<u>13,697,985</u>	<u>(7,027,875)</u>	<u>75,659,958</u>
Less accumulated depreciaton				
Buildings	(1,425,859)	(108,362)	-	(1,534,221)
Tanks, stations, and lines	(25,892,618)	(1,459,623)	-	(27,352,241)
Meters and replacements	(1,375,514)	(201,341)	1,422,720	(154,135)
Furniture and fixtures	(1,106,045)	(83,849)	-	(1,189,894)
Machinery, equipment, and vehicles	(1,581,160)	(133,241)	65,490	(1,648,911)
Total accumulated depreciation	<u>(31,381,196)</u>	<u>(1,986,416)</u>	<u>1,488,210</u>	<u>(31,879,402)</u>
Net capital assets	<u>\$ 37,608,652</u>	<u>\$ 11,711,569</u>	<u>\$ (5,539,665)</u>	<u>\$ 43,780,556</u>

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 2003 and 2006 bonds using the straight-line method. Amortization expense for the years ended December 31, 2012 and 2011 was \$79,345 and \$79,345, respectively.

I. Tap Fees:

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

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

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

J. Compensated Absences Payable:

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

Sick leave accumulates to employees at a rate of 4.6 hours for every 80 hours of service. Upon retirement, employees are entitled to 100% of their accumulated sick leave balance at the rate of pay at 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, 2012 and 2011 was \$198,336 and \$204,970, respectively; the recorded estimated unused sick leave and vacation for the years ended December 31, 2012 and 2011 reflected in the compensated absences payable amount on page 11 was \$759,475 and \$733,957, respectively.

K. Statements of Cash Flows:

For the purposes of the Statements of Cash Flows, all liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered cash equivalents. 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, 2012 and 2011, consist of:

	<u>2012</u>	<u>2011</u>
Cash:		
General	\$ 670,639	\$ 514,236
Working capital	2,709,866	2,282,334
Capital improvements	1,542,134	568,666
Restricted cash and investments	<u>6,972,470</u>	<u>7,057,735</u>
	<u>\$11,895,109</u>	<u>\$10,422,971</u>

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

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

L. Use of Estimates:

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

M. Receivables:

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

N. Net Position:

The Authority has restricted net position to be used to fund future debt service requirements. None of the Authority's restricted net position of \$5,191,174 were restricted by enabling legislation.

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.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

Note 2. Description of Funds (Continued):

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 bond obligations.

E. Project/Administration Fund:

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

The fund had a balance of \$-0- and \$-0- as of December 31, 2012 and 2011, 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.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

Note 2. Description of Funds (Continued):

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 plus Cinnamon Lake assessments that are collected by the Ashland County Auditor and deposited on a semi-annual basis. Monies in this fund will be used to pay the semi-annual Ohio Water Development Authority loan payments.

I. Restricted Cash and Investments:

	2012	2011
Bond reserve fund	\$2,124,377	\$2,252,748
Bond fund	3,066,797	2,954,980
OWDA fund	365,300	352,062
Replacement and improvement fund	750,822	750,679
Project/Administration fund	-0-	-0-
Employee policy fund	665,174	747,266
	<u>\$6,972,470</u>	<u>\$7,057,735</u>

Note 3. Equity in Pooled Cash and Investment:

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

A. Legal Requirements:

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

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

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

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

A. Legal Requirements (Continued):

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

1. Notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-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;

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

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

A. Legal Requirements (Continued):

9. High grade commercial paper in an amount not to exceed five percent of the 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.

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, 2012 and 2011, \$1,849,017 and \$2,303,193 of the Authority's bank balances of \$6,046,638 and \$5,164,680, respectively, were covered by federal depository insurance. The remaining balances were covered by specific securities held by the pledging financial institution's trust department in the Authority's name. Although all State statutory requirements for the deposit of money have been followed, noncompliance with federal requirements could potentially subject the Authority to a successful claim by the FDIC.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

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, 2012 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 Farm Credit Banks	\$ 70,695	1.1%	\$ 50,619	\$ 20,076
Federal Home Loan Bank Bonds	135,183	2.1%	50,106	85,077
Federal National Mortgage Association Bonds	100,596	1.5%	0	100,596
Federal National Mortgage Association Treasury Notes	351,568	5.4%	351,568	0
Federal Home Loan Mortgage Treasury Notes	100,264	1.5%	0	100,264
Federal National Mortgage Association Discount Notes	174,954	2.7%	174,954	0
Federal Home Loan Bank Discount Notes	99,995	1.5%	99,995	0
First American Treasury Obligation	61,659	1.0%	61,659	0
Federated Treasury Obligation Fund	3,104,893	47.5%	3,104,893	0
U.S. Treasury Funds, Bonds, and Notes	2,331,737	35.7%	2,331,737	0
	<u>\$ 6,531,544</u>			

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

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

C. Investments (Continued):

As of December 31, 2011 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	\$ 49,961	0.8%	\$ 0	\$ 49,961
Federal National Mortgage Association				
Treasury Notes	574,569	8.8%	373,342	201,227
Federal Home Loan Mortgage Treasury Notes	377,819	5.8%	377,819	0
Federal National Mortgage Association				
Discount Notes	249,994	3.8%	249,994	0
First American Treasury Obligation	87,443	1.3%	87,443	0
Federated Treasury Obligation Fund	2,993,078	45.7%	2,993,078	0
U.S. Treasury Funds, Bonds, and Notes	<u>2,214,651</u>	33.8%	2,214,651	0
	<u>\$ 6,547,515</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, 2012, the Authority’s investment in U.S. instrumentalities (Federal National Mortgage Association Discount Notes, Federal National Mortgage Association Treasury Notes, Federal Home Loan Bank Bonds, Federal Home Loan Mortgage Treasury Notes, Federal Farm Credit Bank Bonds, Federal National Mortgage Association Bonds, Federal Home Loan Bank Discount Notes) were all rated AAA by Standard and Poor’s and Aaa by Moody’s Investors Service. As of December 31, 2011, the Authority’s investment in U.S. instrumentalities (Federal Home Loan Mortgage Treasury Notes, Federal National Mortgage Association Discount Notes, Federal Home Loan Bank Bonds, Federal National Mortgage Association Treasury Notes) 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, 2012 and 2011

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 \$1,094,914 has maturities of \$788,901 in less than one year for the year ended December 31, 2012. The Authority’s investment in U.S. agencies with fair values totaling \$1,339,786 has maturities of \$1,088,598 in less than one year for the year ended December 31, 2011. 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 \$5,191,174 and \$5,207,728, for 2012 and 2011, respectively, are held in the account of FirstMerit Bank. Assets held by the Trustee as a custodial agent are considered legally separate from the other assets of the Trustee.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The Authority’s investment policy provides that investments be diversified to reduce the risk of loss from over concentration in a single issuer, but does not identify specific limits on the amounts that may be so invested. More than five percent of the Authority’s investments are in Federal National Mortgage Association Treasury Notes, Federal Home Loan Mortgage Treasury 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, 2012 and 2011

Note 4. Long-Term Debt:

A summary of long-term debt for the year ended December 31, 2012 is as follows:

Description	Balance December 31, 2011	Borrowed	Repaid	Balance December 31, 2012	Due Within One Year
A note payable in the amount of \$947,714 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.	\$ 1,071,598	\$ -0-	\$ 123,884	\$ 947,714	\$ 126,212
A Water Resource Improvement Revenue Bond, Series 2003A in the amount of \$1,360,000 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.	1,378,000	-0-	18,000	1,360,000	20,000
A Water Resource Improvement Revenue Bond, Series 2003B is due in the amount of \$6,130,000. 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.	7,015,000	-0-	885,000	6,130,000	920,000
A Water Resource Improvement Revenue Bonds, Series 2006 is due in the amount of \$7,950,000. 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.	8,325,000	-0-	375,000	7,950,000	395,000
A Water Resource Improvement Revenue Bonds, Series 2009 is due in the amount of \$893,100. The Bond requires annual principal and interest payments at an annual interest rate of 4.375% with a maturity date of July 2049.	902,700	-0-	9,600	893,100	10,100
A total of \$9,880,038 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.	10,255,476	-0-	375,438	9,880,038	193,372
	<u>\$ 28,947,774</u>	<u>\$ -0-</u>	<u>\$ 1,786,922</u>	<u>\$ 27,160,852</u>	<u>\$ 1,664,684</u>

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

Note 4. Long-Term Debt (Continued):

A summary of long-term debt for the year ended December 31, 2011 is as follows:

Description	Balance December 31, 2010	Borrowed	Repaid	Balance December 31, 2011	Due Within One Year
A note payable in the amount of \$1,071,598 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.	\$ 1,191,920	\$ -0-	\$ 120,322	\$ 1,071,598	\$ 123,884
A Water Resource Improvement Revenue Bond, Series 2003A in the amount of \$1,378,000 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.	1,396,000	-0-	18,000	1,378,000	18,000
A Water Resource Improvement Revenue Bond, Series 2003B is due in the amount of \$7,015,000. 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.	8,110,000	-0-	1,095,000	7,015,000	885,000
A Water Resource Improvement Revenue Bonds, Series 2006 is due in the amount of \$8,325,000. 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.	8,690,000	-0-	365,000	8,325,000	375,000
A Water Resource Improvement Revenue Bonds, Series 2009 is due in the amount of \$902,700. The Bond requires annual principal and interest payments at an annual interest rate of 4.375% with a maturity date of July 2049.	912,000	-0-	9,300	902,700	9,600
A total of \$10,255,476 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.	4,519,693	6,037,819	302,036	10,255,476	186,423
	<u>\$ 24,819,613</u>	<u>\$ 6,037,819</u>	<u>\$ 1,909,658</u>	<u>\$ 28,947,774</u>	<u>\$ 1,597,907</u>

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

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, 2012, are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,664,684	\$ 951,493	\$ 2,616,177
2014	1,928,180	1,067,796	2,995,976
2015	2,001,518	989,523	2,991,041
2016	2,092,452	904,308	2,996,760
2017	2,178,006	815,018	2,993,024
2018-2022	6,861,639	2,934,958	9,796,597
2023-2027	5,213,088	1,642,330	6,855,418
2028-2032	3,922,285	664,824	4,587,109
2033-2037	409,600	265,263	674,863
2038-2042	516,400	159,018	675,418
2043-2047	280,800	51,002	331,802
2048-2052	92,200	6,095	98,295
Total	<u>\$ 27,160,852</u>	<u>\$ 10,451,628</u>	<u>\$ 37,612,480</u>

The 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 tasks 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, 2012 and 2011

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 the OPEB Plan is provided in Chapter 145 of the Ohio Revised Code.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

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 visiting <https://www.opers.org/investments/cafr.shtml>, 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 2012 and 2011, 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 2012 and 2011 was 10.00%, and the employer contribution rate was 14.00% of covered payroll. These are the maximum employer contribution rates permitted by the Ohio Revised Code. 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, 2012, 2011, and 2010 was \$583,043, \$567,320 and \$362,089, 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, 2012 and 2011

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. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care coverage. The employer contribution rate is 14.00% of covered payroll from January 1 through December 31, 2012 and 2011.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0% during calendar years 2012 and 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar years 2012 and 2011. Effective January 1, 2013, the portion of employer contributions allocated to healthcare was lowered to 1 percent for both plans, as recommended by the OPERS Actuary. 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 \$166,575 and \$162,083 for the years ended December 31, 2012 and 2011, respectively.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

Note 6. Retirement Commitments (Continued):

B. Post-Employment Benefits (Continued):

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, incorporates 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.

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.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

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, 2012 and 2011

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, 2012 and 2011, was \$203,001 and \$204,022, respectively.

Note 7. Leasing Arrangements:

The Authority leases one copier under a 48-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, 2012:

<u>Year Ending</u> <u>December 31,</u>	<u>Amount</u>
2013	<u>\$ 846</u>

Office equipment lease for the years ended December 31, 2012 and 2011 was \$16,012 and \$14,803, respectively.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

Note 8. Commitments:

A. Water Purchase Agreements:

The Authority's original and primary source of water (approximately 81.5%) 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 11.6%) 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, 2012 and 2011, the Authority's equity interest in the Consortium was \$4,554,777 and \$4,710,038, respectively. Financial information can be obtained from Nancy L. Bryan, City of Avon Lake Finance Director, 150 Avon Belden Road, Avon Lake, Ohio 44012.

Note 10. Cinnamon Lake Tap Fees Receivable:

A receivable in the amount of \$1,717,528 and \$1,791,146 is due at December 31, 2012 and 2011, respectively, for tap fees from the residents of Cinnamon Lake. The fees are being collected by the Ashland County Auditor biannually over 20 years through July 2030 including interest at 2.87%.

Note 11. Accrued Tank Painting:

A payable in the amount of \$429,000 is due for the painting of the LaGrange tanks in 2010. The payment is pending certification by the vendor, with payroll records, of the payment of prevailing wages as required by the Bureau of Wage and Hour Administration of the Ohio Department of Commerce.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

Note 12. Subsequent Events:

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through April 29, 2013, the date the financial statements were issued.

RURAL LORAIN COUNTY WATER AUTHORITY

STATEMENTS OF OPERATING EXPENSES

Years Ended December 31, 2012 and 2011

	2012	2011
OPERATING EXPENSES:		
Wages:		
Board	\$ 92,629	\$ 95,669
Employees	1,467,307	1,450,046
Vacation and sick leave	213,093	212,683
O.P.E.R.S.	583,043	567,320
Payroll taxes	29,714	24,897
Insurance:		
Hospitalization	420,655	368,749
Life	4,406	4,334
General	75,890	73,659
Audit and professional fees	63,489	86,779
Legal fees	42,240	46,220
Engineering fees	4,844	20,283
Telephone	27,328	24,358
Depreciation	2,313,356	1,986,416
Utilities	28,020	26,813
Billing expense	42,327	36,140
Office equipment lease	16,012	14,803
Office supplies and expense	157,249	165,119
Clothing	16,460	16,020
Postage	98,249	94,050
Maintenance and repairs:		
Administrative building and equipment	163,656	139,575
Vehicles	107,255	77,875
Water lines	153,250	116,617
Pump stations	47,799	34,179
Tanks	292,894	39,859
Travel, mileage, and education expense	72,057	48,695
Gasoline	54,409	58,005
Water purchased	3,659,969	3,190,070
Distribution supplies	62,845	89,527
Electric pump station and tanks	384,107	383,906
Tap installations	93,332	101,238
Communication equipment	12,899	34,140
Miscellaneous expense	93,570	107,786
	\$ 10,894,353	\$ 9,735,830

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



Dave Yost • Auditor of State

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

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

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Rural Lorain County Water Authority, Lorain County, (the Authority) as of and for the year ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated August 8, 2013.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Authority's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Authority's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the Authority's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

August 8, 2013



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
AUGUST 22, 2013**