



Dave Yost • Auditor of State

**RURAL LORAIN COUNTY WATER AUTHORITY
LORAIN COUNTY
DECEMBER 31, 2015 AND 2014**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Trustees:

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, 2015, and 2014 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 the risks of material financial statement 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 such 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, 2015 and 2014, 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.

Emphasis of Matter

As discussed in Note 13 to the financial statements, during the year ended December 31, 2015, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter. Also as discussed in Note 13 to the financial statements, the Authority restated the financial statements for the year ended December 31, 2014 for the implementation of these statements. Other than the employer contributions subsequent to the measurement date, the Authority made no restatement for deferred inflows or outflows of resources for the year ended December 31, 2014, as the information needed to generate these restatement was not available. We also did not modify our opinion regarding this matter.

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* and schedules of net pension liabilities and pension contributions 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 and Other Information

Our audit was conducted to opine on the Authority's basic 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 are management's responsibility, and derive 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 statements directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, these statements are 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 October 6, 2017, 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

October 6, 2017

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RURAL LORAIN COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2015 and 2014

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 and Deferred Outflows of RLCWA exceeded Liabilities and Deferred Inflows by \$40.2 million and \$37.5 million in 2015 and 2014, respectively.

The Authority's Net Position increased by \$2.7 million (7.2%) and \$1.7 million (4.6%) in 2015 and 2014, respectively.

The Authority's Operating Revenues increased by \$509 thousand (3.6%) and increased by \$480 thousand (3.5%) with Operating Expenses increasing \$425 thousand (5.7%) and decreasing \$88 thousand (-1.2%) in 2015 and 2014, 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 **Statements of Net Position** includes all of the Authority's assets and deferred outflows of resources and liabilities and deferred inflows of resources. 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 deferred outflows and liabilities and deferred inflows.

The **Statements 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. Revenue is reported when earned and expenses are reported when incurred.

The **Statements 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 the Basic 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, 2015 and 2014

NET POSITION

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

	2015	2014	2013	2015 vs 2014		2014 vs 2013	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Current and other assets	\$ 24,835,634	\$ 22,357,638	\$ 20,520,673	\$ 2,477,996	11.1%	\$ 1,836,965	9.0%
Capital assets	42,954,522	42,012,238	42,994,183	942,284	2.2%	(981,945)	-2.3%
Total assets	<u>67,790,156</u>	<u>64,369,876</u>	<u>63,514,856</u>	<u>3,420,280</u>	5.3%	<u>855,020</u>	1.3%
Deferred outflows of resources - pension	\$ 343,066	\$ 233,011	\$ -	\$ 110,055	47.2%	\$ -	-
Long-term liabilities	23,973,447	23,431,086	23,567,568	542,361	2.3%	(136,482)	-0.6%
Other liabilities	3,905,536	3,660,717	4,102,225	244,819	6.7%	(441,508)	-10.8%
Total liabilities	<u>27,878,983</u>	<u>27,091,803</u>	<u>27,669,793</u>	<u>787,180</u>	2.9%	<u>(577,990)</u>	-2.1%
Deferred inflows of resources - pension	\$ 33,527	\$ -	\$ -	\$ 33,527	100.0%	\$ -	-
Net investment in capital assets	19,088,220	18,649,215	17,695,261	439,005	2.4%	953,954	5.4%
Restricted	5,646,849	5,426,113	5,154,879	220,736	4.1%	271,234	5.3%
Unrestricted	15,485,643	13,435,756	12,994,923	2,049,887	15.3%	440,833	3.4%
Total net position	<u>\$ 40,220,712</u>	<u>\$ 37,511,084</u>	<u>\$ 35,845,063</u>	<u>\$ 2,709,628</u>	7.2%	<u>\$ 1,666,021</u>	4.6%

The Authority's Net Position increased \$2.7 million (7.2%) and \$1.7 million (4.6%) in 2015 and 2014, respectively. These increases are a result of excess revenue over expenses.

The Authority increased long-term liabilities by \$542 thousand and decreased \$136 thousand in 2015 and 2014, respectively, primarily from the issuance of the 2015 bonds and recording a net pension liability based on the requirements of GASB 68 and 71 in 2015, and the payment of long-term notes in 2014.

RURAL LORAIN COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2015 and 2014

NET POSITION (Continued)

During 2015, the Authority adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Authority's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the Authority's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
- 2 Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Authority is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the Authority's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

RURAL LORAIN COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2015 and 2014

As a result of implementing GASB 68, the Authority is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2014, from \$39,143,399 to \$37,511,084.

STATEMENTS OF REVENUES AND EXPENSES (CHANGES IN NET POSITION)

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

TABLE 2

				2015 vs 2014		2014 vs 2013	
	2015	2014	2013	Dollar Change	Percent Change	Dollar Change	Percent Change
Operating revenue	\$ 14,851,637	\$ 14,342,459	\$ 13,862,638	\$ 509,178	3.6%	\$ 479,821	3.5%
Operating expenses	7,888,870	7,463,795	7,551,876	425,075	5.7%	(88,081)	-1.2%
Maintenance expenses	1,189,582	714,014	882,265	475,568	66.6%	(168,251)	-19.1%
Depreciation expenses	2,514,214	2,435,615	2,378,371	78,599	3.2%	57,244	2.4%
Total expenses	11,592,666	10,613,424	10,812,512	979,242	9.2%	(199,088)	-1.8%
Operating income	3,258,971	3,729,035	3,050,126	(470,064)	-12.6%	678,909	22.3%
Nonoperating revenue	842,682	765,655	424,031	77,027	10.1%	341,624	80.6%
Nonoperating expenses	(1,392,025)	(1,196,354)	(1,890,958)	(195,671)	16.4%	694,604	-36.7%
Nonoperating loss	(549,343)	(430,699)	(1,466,927)	(118,644)	27.5%	1,036,228	-70.6%
Change in net position	2,709,628	3,298,336	1,583,199	(588,708)	-17.8%	1,715,137	108.3%
Beginning net position	37,511,084	35,845,063	34,261,864	1,666,021	4.6%	1,583,199	4.6%
Restatement of net position - GASB 68 and 71	0	(1,632,315)	0	1,632,315	100.0%	(1,632,315)	-100.0%
Restated net position 2014	37,511,084	34,212,748	34,261,864	3,298,336	9.6%	(49,116)	-0.1%
Ending net position	\$ 40,220,712	\$ 37,511,084	\$ 35,845,063	\$ 2,709,628	7.2%	\$ 1,666,021	4.6%

RURAL LORAIN COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2015 and 2014

STATEMENTS OF REVENUES AND EXPENSES (CHANGES IN NET POSITION) - Continued

Total operating revenue increased \$509 thousand (3.6%) and increased \$480 thousand (3.5%) in 2015 and 2014, respectively. Water line reimbursements increased by \$372 thousand (100.0%) resulting in the majority of the increase of \$77 thousand (10.1%) in nonoperating revenue for 2015.

Operations and maintenance expenses increased \$901 thousand (11.0%) and decreased \$256 thousand (-3.0%) in 2015 and 2014, respectively. An increase in maintenance and repairs expense – tanks accounted for the majority of the increase in operating and maintenance costs in 2015.

A restatement of 2014 net position in the amounts of (\$1,632,315) was recorded based on RLCWA's proportionate share of OPERS' Schedule of Collective Pension Amounts per the requirements of GASB 68 and 71 based on a measurement date of December 31, 2014.

CAPITAL ASSETS

The Authority had \$83.85 million and \$80.52 million invested in capital assets (before depreciation) at December 31, 2015 and 2014, respectively, as shown in Table 3. This amount is an increase of \$3.34 million (4.1%) and \$1.28 million (1.6%) from the previous year.

TABLE 3

	2015	2014	2013	2015 vs 2014		2014 vs 2013	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Land and easements	\$ 695,825	\$ 693,311	\$ 662,847	\$ 2,514	0.4%	\$ 30,464	4.6%
Buildings	2,372,662	2,357,467	2,357,467	15,195	0.6%	0	0.0%
Tanks, stations, and lines	67,444,563	64,298,833	61,893,055	3,145,730	4.9%	2,405,778	3.9%
Meters and replacements	9,241,836	9,217,535	9,192,474	24,301	0.3%	25,061	0.3%
Furniture and fixtures	1,647,553	1,613,704	1,622,564	33,849	2.1%	(8,860)	-0.5%
Machinery, equipment, and vehicles	2,408,282	2,066,029	1,962,965	342,253	16.6%	103,064	5.3%
Construction in progress	43,396	268,528	1,542,533	(225,132)	-83.8%	(1,274,005)	-82.6%
Total before depreciation	83,854,117	80,515,407	79,233,905	3,338,710	4.1%	1,281,502	1.6%
Accumulated depreciation	(40,899,595)	(38,503,169)	(36,239,722)	(2,396,426)		(2,263,447)	
Total capital assets, net	\$ 42,954,522	\$ 42,012,238	\$ 42,994,183	\$ 942,284		\$ (981,945)	

RURAL LORAIN COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2015 and 2014

CAPITAL ASSETS (Continued)

The increase in capital assets for 2014 to 2015 was for line extensions, relocation of lines, a pump station, a tank vault, three trucks, and VHF and telemetry upgrades.

The increase in capital assets for 2013 to 2014 was for line extensions, a water main, relocation of lines, a pump station, meter replacements, a projection system, a server, two pickup trucks, an excavator, a van, and a trailer.

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

	2015	2014	2013	2015 vs 2014		2014 vs 2013	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Long-term debt:							
2003 Revenue bonds	\$ -	\$ 4,255,000	\$ 5,210,000	\$ (4,255,000)	-100.0%	\$ (955,000)	-18.3%
2006 Revenue bonds	-	7,140,000	7,555,000	(7,140,000)	-100.0%	(415,000)	-5.5%
2015 Revenue bonds	12,406,667	-	-	12,406,667	100.0%	0	0.0%
Notes payable - bank	559,256	691,670	821,199	(132,414)	-19.1%	(129,529)	-15.8%
OWDA loans	8,664,879	9,084,853	9,489,723	(419,974)	-4.6%	(404,870)	-4.3%
USDA loans	2,159,500	2,191,500	2,223,000	(32,000)	-1.5%	(31,500)	-1.4%
Futuronics lease payable	76,000	0	0	76,000	100.0%	0	0.0%
Total long-term debt	23,866,302	23,363,023	25,298,922	503,279	2.2%	(1,935,899)	-7.7%
Less: Current maturities	(2,034,846)	(1,797,263)	(1,731,354)	(237,583)	13.2%	(65,909)	3.8%
Net total long-term debt	\$ 21,831,456	\$ 21,565,760	\$ 23,567,568	\$ 265,696	1.2%	\$ (2,001,808)	-8.5%
Net pension liability	\$ 2,141,991	\$ -	\$ -	\$ 2,141,991	100.0%	\$ -	0.0%

See Note 4 of the financial statements for details of issuance and retirement of debt in 2015.

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 \$2,256,902 and \$2,137,004 and the Bond Fund had a balance of \$3,389,947 and \$3,289,109 at December 31, 2015 and 2014, respectively. See Note 2 of the financial statements for more details on the bond reserve funds.

A net pension liability in the amount of \$2,141,991 was recorded based on RLCWA's proportionate share of OPERS' Schedule of Collective Pension Amounts per the requirements of GASB 68 and 71 based on a measurement date of December 31, 2014.

RURAL LORAIN COUNTY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2015 and 2014

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>2015</u>	<u>2014</u>	<u>2013</u>
Operating revenue	\$ 14,851,637	\$ 14,342,459	\$ 13,862,638
Nonoperating revenue - Interest	66,736	105,575	119,373
Total revenue	<u>14,918,373</u>	<u>14,448,034</u>	<u>13,982,011</u>
Less: Operations and maintenance expenses	<u>(9,078,452)</u>	<u>(8,177,809)</u>	<u>(8,434,141)</u>
Total revenue available for debt	<u>\$ 5,839,921</u>	<u>\$ 6,270,225</u>	<u>\$ 5,547,870</u>
Revenue bond debt service - 2003, 2006 and 2015	\$ 2,034,448	\$ 1,956,187	\$ 1,960,137
Revenue bond debt service - Rural development	284,372	282,380	283,462
OWDA Loans	376,036	376,036	376,036
Futronics lease	40,000	0	0
Total debt service requirements	<u>\$ 2,734,856</u>	<u>\$ 2,614,603</u>	<u>\$ 2,619,635</u>
Combined coverage ratio - All debt	2.14	2.40	2.12

The Authority is required to meet a revenue-to-debt ratio of 1.20 for its 2003, 2006, and 2015 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, 2015 and 2014

<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
CURRENT ASSETS:		
Cash and cash equivalents:		
General	\$ 296,819	\$ 128,323
Working capital	3,762,819	3,844,325
Capital improvements	3,671,181	3,803,675
Receivables: (Note 1)		
Trade (net allowance for doubtful accounts of \$75,609 in 2015 and \$72,183 in 2014)	773,673	773,370
Amherst Mobile Home Park	20,379	0
Cinnamon Lake tap fees	77,761	76,029
Medina County ETL1	18,024	17,827
Other	57,212	11,259
Interest	2,838	193
Inventory (Note 1)	499,343	437,680
Prepaid expenses (Note 1)	67,139	66,746
Total current assets	9,247,188	9,159,427
NONCURRENT ASSETS:		
Amherst Mobile Home Park receivable (Note 14)	284,452	0
Cinnamon Lake tap fees receivable (Note 10)	1,468,769	1,555,819
Medina County ETL1 receivable (Note 12)	93,154	111,178
Restricted cash and investments (Note 2)	9,653,077	7,286,959
Investment in joint venture (Note 9)	4,088,994	4,244,255
Total noncurrent assets	15,588,446	13,198,211
CAPITAL ASSETS, AT COST: (Note 1)		
Capital assets not being depreciated:		
Land	317,539	317,539
Easements	378,286	375,772
Current construction	43,396	268,528
Total capital assets not being depreciated	739,221	961,839
Capital assets (net of accumulated depreciation of \$40,899,595 in 2015 and \$38,503,291 in 2014)	42,215,301	41,050,399
Total capital assets	42,954,522	42,012,238
TOTAL ASSETS	\$ 67,790,156	\$ 64,369,876
DEFERRED OUTFLOW OF RESOURCES:		
Pension (Note 6)	\$ 343,066	\$ 233,011

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

RURAL LORAIN COUNTY WATER AUTHORITY

STATEMENTS OF NET POSITION

December 31, 2015 and 2014

LIABILITIES

	2015	2014
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 2,034,846	\$ 1,797,263
Accounts payable	495,821	435,002
Tank painting (Note 11)	429,000	429,000
Taxes payable	17,963	26,682
Compensated absences payable (Note 1)	566,192	603,451
Tenant deposits	109,950	106,350
Unearned tap fees	12,500	12,500
Accrued expenses:		
Wages	52,559	41,701
Interest	186,705	208,768
Total current liabilities	3,905,536	3,660,717
LONG-TERM DEBT: (Note 4)		
Bonds and notes payable:		
2006 Series	0	7,140,000
2003 Series	0	4,255,000
2015 Series	12,406,667	0
Notes payable - bank	559,256	691,670
OWDA	8,664,879	9,084,853
USDA	2,159,500	2,191,500
Futronics lease payable	76,000	0
Total long-term debt	23,866,302	23,363,023
Less: Current portion	2,034,846	1,797,263
Long-term debt, net of current portion	21,831,456	21,565,760
Net pension liability (Note 6)	2,141,991	1,865,326
TOTAL LIABILITIES	27,878,983	27,091,803
DEFERRED INFLOW OF RESOURCES:		
Pension (Note 6)	33,527	0
NET POSITION:		
Net investment in capital assets	19,088,220	18,649,215
Restricted for bonds payable	5,646,849	5,426,113
Unrestricted	15,485,643	13,435,756
TOTAL NET POSITION	\$ 40,220,712	\$ 37,511,084

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, 2015 and 2014

	2015	2014
OPERATING REVENUE:		
Water sales	\$ 14,243,940	\$ 13,850,347
Tap fees	607,697	492,112
Total operating revenue	14,851,637	14,342,459
OPERATING EXPENSES	11,592,666	10,613,424
INCOME FROM OPERATIONS	3,258,971	3,729,035
NONOPERATING REVENUE:		
Penalty income	190,303	188,683
Miscellaneous	163,335	200,855
Miscellaneous subdivision income	21,396	29,635
Water line reimbursements	372,142	0
Discounts earned	323	188
Investment income	66,736	105,575
Unrealized gain (loss) on investments	(872)	193,423
Gain (loss) on disposal of assets	29,319	47,296
Total nonoperating revenue	842,682	765,655
Income from operating and nonoperating revenue	4,101,653	4,494,690
NONOPERATING EXPENSES:		
Interest expense	1,021,483	1,043,112
Change in value of investment in joint venture	155,261	155,261
Bad debts	17,141	(2,019)
Bond issuance costs (Note 1)	198,140	0
Total nonoperating expenses	1,392,025	1,196,354
CHANGE IN NET POSITION	2,709,628	3,298,336
BEGINNING NET POSITION	37,511,084	35,845,063
Restatement of net position (Note 13)	0	(1,632,315)
Net position - beginning of period - restated	37,511,084	34,212,748
ENDING NET POSITION	\$ 40,220,712	\$ 37,511,084

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

RURAL LORAIN COUNTY WATER AUTHORITY

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 14,601,050	\$ 14,497,419
Cash payments to suppliers for goods and services	(6,073,249)	(5,960,001)
Cash payments to employees and professional contractors for services and benefits	(2,854,964)	(2,644,240)
Net cash provided by operating activities	<u>5,672,837</u>	<u>5,893,178</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property and equipment and current construction	(3,380,498)	(1,453,670)
Proceeds from sale of equipment	32,034	47,296
Proceeds from issuance of 2015 Series Bonds	12,406,667	0
2015 Series Bonds issue costs	(198,140)	0
Repayment of 2003 Series Bonds	(4,255,000)	(955,000)
Repayment of 2006 Series Bonds	(7,140,000)	(415,000)
Repayment of notes payable	(584,388)	(565,899)
Interest paid on debt	(1,043,546)	(1,059,769)
Net cash used in capital and related financing activities	<u>(4,162,871)</u>	<u>(4,402,042)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	65,864	298,998
Net cash provided by investing activities	<u>65,864</u>	<u>298,998</u>
CASH FLOWS FROM NON-CAPITAL ACTIVITIES:		
Other nonoperating activities	744,784	421,379
Net cash provided by non-capital activities	<u>744,784</u>	<u>421,379</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, 2015 and 2014

	2015	2014
INCREASE IN CASH AND CASH EQUIVALENTS	2,320,614	2,211,513
CASH AND CASH EQUIVALENTS - Beginning of period	15,063,282	12,851,769
CASH AND CASH EQUIVALENTS - End of period	\$ 17,383,896	\$ 15,063,282
PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	\$ 3,258,971	\$ 3,729,035
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	2,514,214	2,435,615
Increase in OPERS expense per GASB 68 and 71	200,137	0
Bad debts	(17,141)	0
Changes in assets and liabilities:		
Increase (decrease) in:		
Receivables	(250,587)	154,960
Inventory	(61,663)	74,098
Prepaid expenses	(393)	(9,770)
Increase (decrease) in:		
Accounts payable	60,819	(380,158)
Taxes payable	(8,719)	1,836
Compensated absences payable	(37,259)	(118,009)
Deposits	3,600	3,150
Accrued expenses	10,858	2,421
Net cash provided by operating activities	\$ 5,672,837	\$ 5,893,178

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

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

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 outside 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.

Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2015 and 2014

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

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.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2015 and 2014

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

F. Capital Assets (Continued):

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, 2015 and 2014 was \$2,514,214 and \$2,435,615, respectively.

A summary of changes in capital assets for the year ended December 31, 2015, is as follows:

	Balance December 31, 2014	Additions	Deletions	Balance December 31, 2015
Land	\$ 317,539	\$ -	\$ -	\$ 317,539
Easements	375,772	2,514	-	378,286
Buildings	2,357,467	15,195	-	2,372,662
Tanks, stations, and lines	64,298,833	3,145,730	-	67,444,563
Meters and replacements	9,217,535	24,301	-	9,241,836
Furniture and fixtures	1,613,704	33,849	-	1,647,553
Machinery, equipment, and vehicles	2,066,029	460,041	(117,788)	2,408,282
Current construction	268,528	(225,132)	-	43,396
	80,515,407	3,456,498	(117,788)	83,854,117
Less accumulated depreciation				
Buildings	(1,843,825)	(98,823)	-	(1,942,648)
Tanks, stations, and lines	(32,100,547)	(1,689,998)	-	(33,790,545)
Meters and replacements	(1,537,607)	(463,779)	-	(2,001,386)
Furniture and fixtures	(1,375,046)	(78,675)	-	(1,453,721)
Machinery, equipment, and vehicles	(1,646,144)	(182,939)	117,788	(1,711,295)
Total accumulated depreciation	(38,503,169)	(2,514,214)	117,788	(40,899,595)
Net capital assets	\$ 42,012,238	\$ 942,284	\$ -	\$ 42,954,522

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2015 and 2014

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, 2014, is as follows:

	Balance December 31, 2013	Additions	Deletions	Balance December 31, 2014
Land	\$ 287,075	\$ 30,464	\$ -	\$ 317,539
Easements	375,772	-	-	375,772
Buildings	2,357,467	-	-	2,357,467
Tanks, stations, and lines	61,893,055	2,405,778	-	64,298,833
Meters and replacements	9,192,474	25,061	-	9,217,535
Furniture and fixtures	1,622,564	48,891	(57,751)	1,613,704
Machinery, equipment, and vehicles	1,962,965	217,481	(114,417)	2,066,029
Current construction	1,542,533	-	(1,274,005)	268,528
	<u>79,233,905</u>	<u>2,727,675</u>	<u>(1,446,173)</u>	<u>80,515,407</u>
Less accumulated depreciation				
Buildings	(1,742,091)	(101,734)	-	(1,843,825)
Tanks, stations, and lines	(30,473,448)	(1,627,099)	-	(32,100,547)
Meters and replacements	(1,075,072)	(462,535)	-	(1,537,607)
Furniture and fixtures	(1,355,395)	(77,402)	57,751	(1,375,046)
Machinery, equipment, and vehicles	(1,593,716)	(166,845)	114,417	(1,646,144)
Total accumulated depreciation	<u>(36,239,722)</u>	<u>(2,435,615)</u>	<u>172,168</u>	<u>(38,503,169)</u>
Net capital assets	<u>\$ 42,994,183</u>	<u>\$ 292,060</u>	<u>\$ (1,274,005)</u>	<u>\$ 42,012,238</u>

G. Prepaid Expenses:

Prepaid expenses are expensed over their economic useful lives.

H. Debt Issue Costs:

Per the guidelines of GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities," debt issue costs that were previously recorded as a deferred charge over the life of the bonds' payback period will be expensed as incurred for financial statement periods beginning after December 31, 2012. Debt issue costs for the years ended December 31, 2015 and 2014 were \$198,140 and \$-0-, 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 THE BASIC FINANCIAL STATEMENTS

December 31, 2015 and 2014

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, 2015 and 2014 was \$342,994 and \$250,078, respectively; the recorded estimated unused sick leave and vacation for the years ended December 31, 2015 and 2014 reflected in the compensated absences payable amount on page 13 was \$566,192 and \$603,451, 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, 2015 and 2014, consist of:

	<u>2015</u>	<u>2014</u>
Cash:		
General	\$ 296,819	\$ 128,323
Working capital	3,762,819	3,844,325
Capital improvements	3,671,181	3,803,675
Restricted cash and investments	<u>9,653,077</u>	<u>7,286,959</u>
	<u>\$17,383,896</u>	<u>\$15,063,282</u>

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2015 and 2014

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 the Authority's collection receivable policy.

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 \$5,646,849 was restricted by enabling legislation.

O. Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Authority, deferred outflows of resources are reported on the statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 6.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the Authority, deferred inflows of resources include pension. Deferred inflows of resources related to pension are reported on the statement of net position (see Note 6).

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2015 and 2014

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

P. Pensions

For purposes of measuring the net pension liability, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

Q. Operating and Nonoperating Revenue and Expenses:

Operating revenues and expenses generally result from providing a water supply for the Authority's users. The principal operating revenues of the Authority consists of charges to customers for sales of water and taps. Operating expenses include the cost of water and tap sales, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2015 and 2014

Note 2. Description of Funds (Continued):

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 \$2,016,127 and \$-0- as of December 31, 2015 and 2014, 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.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2015 and 2014

Note 2. Description of Funds (Continued):

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:

	<u>2015</u>	<u>2014</u>
Bond reserve fund	\$2,256,902	\$2,137,004
Bond fund	3,389,947	3,289,109
OWDA fund	393,992	385,618
Replacement and improvement fund	751,475	751,627
Project/Administration fund	2,016,127	-0-
Employee policy fund	844,634	723,601
	<u>\$9,653,077</u>	<u>\$7,286,959</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 THE BASIC FINANCIAL STATEMENTS

December 31, 2015 and 2014

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-load 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 Authority 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 THE BASIC FINANCIAL STATEMENTS

December 31, 2015 and 2014

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 Authority'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 Authority'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, 2015 and 2014, \$500,000 and \$500,000 of the Authority's bank balances of \$8,393,599 and \$8,367,038, 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 THE BASIC FINANCIAL STATEMENTS

December 31, 2015 and 2014

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, 2015 the Authority had the following investments:

Investment Type	Fair Value	% of Total	Maturities (in Years)	
			Less than 1	1 - 5
Federal Farm Credit Banks	\$ 25,028	0.3%	\$ 25,028	\$ 0
Federal Home Loan Bank Bonds	115,073	1.3%	115,073	0
FNMA ("Deb") Bonds	124,968	1.4%	95,178	29,790
FNMA	15,005	0.2%	0	15,005
Federal Home Loan Mortgage Corp. Bonds	0	0.0%	0	0
F H L M C ("Deb") Bonds	25,019	0.3%	25,019	0
F H L M C	95,248	1.1%	50,130	45,118
Federal Home Loan Mortgage Corp. Medium	60,092	0.7%	0	60,092
Terms Notes F H L M C M T N	0	0.0%	0	0
First American Treasury Obligation	327,793	3.7%	327,793	0
Federated Treasury Obligation Fund	7,622,981	84.9%	7,622,981	0
U.S. Treasury Funds, Bonds, and Notes	554,461	6.2%	304,781	249,680
	<u>\$ 8,965,668</u>			

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2015 and 2014

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

C. Investments (Continued):

As of December 31, 2014 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	\$ 40,026	0.6%	\$ 40,026	\$ 0
Federal Home Loan Bank Bonds	235,266	3.5%	190,287	44,979
Federal National Mortgage Association Bonds	150,149	2.2%	25,085	125,064
Federal National Mortgage Association Discount Notes	29,996	0.4%	29,996	0
Federal Home Loan Mortgage Corp. Bonds	5,017	0.1%	5,017	0
Federal Home Loan Mortgage Corp.	95,494	1.4%	0	95,494
First American Treasury Obligation	10,914	0.2%	10,914	0
Federated Treasury Obligation Fund	4,133,652	61.0%	4,133,652	0
U.S. Treasury Funds, Bonds, and Notes	2,067,912	30.6%	1,682,966	384,946
	<u>\$ 6,768,426</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, 2015, the Authority’s investment in U.S. instrumentalities (Federal Home Loan Bank Bonds, Federal Farm Credit Bank Bonds, Federal National Mortgage Association Bonds, Federal Home Loan Mortgage Corporation Bonds, Federal Home Loan Mortgage Corporation Medium Term Notes) were all rated AAA by Standard and Poor’s and Aaa by Moody’s Investors Service. As of December 31, 2014, the Authority’s investment in U.S. instrumentalities (Federal National Mortgage Association Discount Notes, Federal Home Loan Bank Bonds, Federal Farm Credit Bank Bonds, Federal National Mortgage Association Bonds, Federal Home Loan Mortgage Corporation Bonds) were all rated AAA by Standard and Poor’s and Aaa by Moody’s Investors Service.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2015 and 2014

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 \$788,226 has maturities of \$638,221 in less than one year for the year ended December 31, 2015. The Authority’s investment in U.S. agencies with fair values totaling \$566,862 has maturities of \$301,325 in less than one year for the year ended December 31, 2014. 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 \$5,646,849 and \$5,426,113, for 2015 and 2014, 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 United States Treasury Bills, Federated Treasury Obligation Fund, and U.S. Treasury Funds.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2015 and 2014

Note 4. Long-Term Debt:

A summary of long-term debt for the year ended December 31, 2015 is as follows:

Description	Balance December 31, 2014	Borrowed	Repaid	Balance December 31, 2015	Due Within One Year
A note payable in the amount of \$559,256 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 2015 senior lien revenue bonds.	\$ 691,670	\$ -0-	\$ 132,414	\$ 559,256	\$ 134,519
A Water Resource Improvement Revenue Bond, Series 2003A in the amount of \$1,298,000 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.	1,319,000	-0-	21,000	1,298,000	23,000
A Water Resource Improvement Revenue Bond, Series 2003B. was refunded in 2015.	4,255,000	-0-	4,255,000	-0-	-0-
A Water Resource Improvement Revenue Bonds, Series 2006 was refunded in 2015.	7,140,000	-0-	7,140,000	-0-	-0-
A Water Resource Improvement Revenue Bonds, Series 2009 is due in the amount of \$861,500. The Bond requires annual principal and interest payments at an annual interest rate of 4.375% with a maturity date of July 2049.	872,500	-0-	11,000	861,500	11,500
A Water Resource Improvement Revenue Bond, Series 2015 is due in the amount of \$11,460,000 plus a premium of \$946,667. The bond requires annual principal and interest payments at an annual interest rate from 2.00% to 5.00% with a maturity date of October 2035.	-0-	12,416,846	10,179	12,406,667	1,610,000
A total of \$8,664,879 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% to 3.86%. The maturity dates range from January 1, 2031 through January 1, 2032.	9,084,853	-0-	419,974	8,664,879	215,827
A lease agreement in the amount of \$76,000 is due to Futronics. The lease requires annual payments of \$36,000 with the last payment due in May 2017.	-0-	108,000	32,000	76,000	40,000
	<u>\$ 23,363,023</u>	<u>\$ 12,524,846</u>	<u>\$ 12,021,567</u>	<u>\$ 23,866,302</u>	<u>\$ 2,034,846</u>

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2015 and 2014

Note 4. Long-Term Debt (Continued):

A summary of long-term debt for the year ended December 31, 2015 is as follows:

Description	Balance December 31, 2014	Borrowed	Deductions	Balance December 31, 2015	Due Within One Year
A net pension liability in the amount of \$2,141,991 was recorded based on RLCWA's proportionate share of OPERS Schedule of Collective Pension Amounts per the requirements of GASB 68 based on a measurement date of December 31, 2014.					
	\$ 1,865,326	\$ 310,192	\$ 33,527	\$ 2,141,991	-0-
	<u>\$ 1,865,326</u>	<u>\$ 310,192</u>	<u>\$ 33,527</u>	<u>\$ 2,141,991</u>	<u>\$ -0-</u>

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2015 and 2014

Note 4. Long-Term Debt (Continued):

A summary of long-term debt for the year ended December 31, 2014 is as follows:

Description	Balance December 31, 2013	Borrowed	Repaid	Balance December 31, 2014	Due Within One Year
A note payable in the amount of \$691,670 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.	\$ 821,199	\$ -0-	\$ 129,529	\$ 691,670	\$ 132,199
A Water Resource Improvement Revenue Bond, Series 2003A in the amount of \$1,319,000 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.	1,340,000	-0-	21,000	1,319,000	21,000
A Water Resource Improvement Revenue Bond, Series 2003B is due in the amount of \$4,255,000. 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.	5,210,000	-0-	955,000	4,255,000	995,000
A Water Resource Improvement Revenue Bonds, Series 2006 is due in the amount of \$7,140,000. 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.	7,555,000	-0-	415,000	7,140,000	430,000
A Water Resource Improvement Revenue Bonds, Series 2009 is due in the amount of \$872,500. The Bond requires annual principal and interest payments at an annual interest rate of 4.375% with a maturity date of July 2049.	883,000	-0-	10,500	872,500	11,000
A total of \$9,084,853 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% to 3.86%. The maturity dates range from January 1, 2031 through January 1, 2032.	9,489,723	-0-	404,870	9,084,853	208,064
	<u>\$ 25,298,922</u>	<u>\$ -0-</u>	<u>\$1,935,899</u>	<u>\$ 23,363,023</u>	<u>\$ 1,797,263</u>

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2015 and 2014

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, 2015, are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 2,034,846	\$ 700,010	\$ 2,734,856
2017	2,313,611	794,556	3,108,167
2018	2,369,319	706,358	3,075,677
2019	1,266,641	614,571	1,881,212
2020	1,160,901	579,069	1,739,970
2021-2025	5,945,089	2,267,098	8,212,187
2026-2030	5,054,202	1,230,829	6,285,031
2031-2035	1,710,426	423,635	2,134,061
2036-2040	470,300	227,752	698,052
2041-2045	417,400	86,573	503,973
2046-2050	176,900	19,758	196,658
Total	<u>\$ 22,919,635</u>	<u>\$ 7,650,209</u>	<u>\$ 30,569,844</u>

The 2003, 2009, and 2015 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. The table above does not include the premium on the 2005 Series bonds. 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 THE BASIC FINANCIAL STATEMENTS

December 31, 2015 and 2014

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 two cost-sharing, multiple-employer defined benefit post-employment health care trusts, which fund multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement, and Medicare Part B premium reimbursement, to qualifying benefit recipients of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage. The Ohio Revised Code permits, but does not require, OPERS to provide the health care to its eligible benefit recipients. Authority to establish and amend the health care coverage is provided in Chapter 145 of the Ohio Revised Code.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2015 and 2014

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#CAFR>, 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 2014, 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 officers participate in only the Traditional Pension Plan.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2015 and 2014, the employer contribution rate was 14.00% of earnable salary. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members do not fund health care. Total required employer contributions for all plans are equal to 100% of employer charges and should be extracted from the employer's records. Employer contributions for the years ended December 31, 2015, 2014, and 2013 was \$241,238, \$233,011 and \$255,715, respectively.

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

In June 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, Accounting and Financial Reporting for Pensions. This accounting standard replaces GASB Statement No. 27, and it is effective for employer fiscal years beginning after June 15, 2014.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2015 and 2014

Note 6. Retirement Commitments (Continued):

B. Post-Employment Benefits:

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 20 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. Please see the Plan Statement in the OPERS 2014 CAFR for details. 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 to fund OPERS health care plans.

OPERS maintains three health care trusts. The two cost-sharing, multiple-employer trusts, the 401(h) Health Care Trust and the 115 Health Care Trust, work together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) that provides funding for a Retiree Medical Account for Member-Directed Plan members. Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0% during calendar year 2015. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2.0% for both plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the VEBA for participants in the Member-Directed Plan for 2015 was 4.5%.

The portion of employer contributions, made by Rural Lorain County Water Authority, that were used to fund health care were \$53,056 and \$53,464 for the years ended December 31, 2015 and 2014, respectively.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2015 and 2014

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.

C. Net Pension Liability:

For 2015, Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68” were effective. These GASB pronouncements resulted in a restatement of net position at December 31, 2014 in the amount of (\$1,632,315) as shown in Note 13.

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions – between an employer and its employees – of salaries and benefits for employee services. Pensions are provided to an employee – on a deferred-payment basis – as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net position liability represents the Authority’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of services, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2015 and 2014

Note 6. Retirement Commitments (Continued):

C. Net Pension Liability (Continued):

Ohio Revised Code limits the Authority's obligation for this liability to annually required payments. The Authority cannot control benefit terms or the manner in which pensions are financed; however, the Authority does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes the employee's portion). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description – the Authority's employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. Authority employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (800) 222-7377.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2015 and 2014

Note 6. Retirement Commitments (Continued):

C. Net Pension Liability (Continued):

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS' CAFR referenced above for additional information):

Group A Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	Group B 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Group C Members not in other groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2015 and 2014

Note 6. Retirement Commitments (Continued):

C. Net Pension Liability (Continued):

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	<u>State and Local</u>
2015 Statutory Maximum Contribution Rates	
Employer	14.0%
Employee	10.0%
 2015 Actual Contribution Rates	
Employer:	
Pension	12.0%
Post-employment Health Care Benefits	<u>2.0%</u>
 Total Employer	 <u>14.0%</u>
 Employee	 <u>10.0%</u>

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Authority’s contractually required contribution was \$241,238 for year 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability at December 31, 2015 was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority’s proportion of the net pension liability was based on the Authority’s share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>OPERS</u>
Proportionate Share of the Net Pension Liability	\$2,141,991
Proportion of the Net Pension Liability	0.015823%
Pension Expense	\$ 571,680

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2015 and 2014

Note 6. Retirement Commitments (Continued):

C. Net Pension Liability (Continued):

At December 31, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>
Deferred Outflows of Resources	
Net difference between projected and actual earnings on pension plan investments	\$101,828
Authority contributions subsequent to the measurement date	<u>241,238</u>
Total deferred outflows of resources	<u>\$343,066</u>
	<u>OPERS</u>
Deferred Inflows of Resources	
Net differences between expected and actual experience	<u>\$ 33,527</u>
Total deferred inflows of resources	<u>\$ 33,527</u>

Two hundred forty-one thousand two hundred thirty-eight (\$241,238) reported as deferred outflows of resources related to pension resulting from Authority contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>OPERS</u>
Fiscal Year Ending December 31:	
2016	\$ 17,076
2017	17,075
2018	17,075
2019	<u>17,075</u>
Total	<u>\$ 68,301</u>

The net pension liability at December 31, 2015 for OPERS was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on the Authority's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share:

	<u>2015</u>	<u>2014</u>
Proportionate Share of the Net Pension:		
Liability	\$2,141,991	\$1,865,326
Proportion of the Net Pension:		
Liability	0.015823%	0.015823%

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2015 and 2014

Note 6. Retirement Commitments (Continued):

C. Net Pension Liability (Continued):

Actuarial Assumptions – OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.75 percent
Future Salary Increases, including inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA	3 percent, simple
Investment Rate of Return	8 percent
Actuarial Cost Method	Individual Entry Age

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males, 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2015 and 2014

Note 6. Retirement Commitments (Continued):

C. Net Pension Liability (Continued):

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 6.95 percent for 2014.

Actuarial Assumptions – OPERS (Continued)

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2014 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	23.00%	2.31%
Domestic Equities	19.90	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	19.10	7.40
Other Investments	<u>18.00</u>	<u>4.59</u>
Total	<u>100.00%</u>	<u>5.28%</u>

Discount Rate The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2015 and 2014

Note 6. Retirement Commitments (Continued):

C. Net Pension Liability (Continued):

Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the Authority's proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

	1% Decrease <u>(7.00%)</u>	Current Discount Rate <u>(8.00%)</u>	1% Increase <u>(9.00%)</u>
Authority's proportionate share of the net pension: Liability	\$3,510,965	\$2,141,991	\$558,710

Note 7. Leasing Arrangements:

The Authority leases two copiers under a 60-month operating lease, two copiers under 36-month operating leases, and one copier under a 48-month operating lease that began in January, December, and June 2013, and February 2015, and expire in December 2017, November 2018, April 2016, May 2016, and January 2019, respectively. These leases require rent in the amount of \$140, \$327, \$264, \$360, and \$290 per month plus charges for additional copies over 1,000, over 150 for black and white copies and over 350 for color copies, over 2,000, over 3,500 and over 4,500, respectively.

The following is a schedule of future minimum rental payments required under the above operating leases as of December 31, 2015:

<u>Year Ending December 31,</u>	<u>Amount</u>
2016	\$11,650
2017	9,084
2018	7,077
2019	<u>290</u>
	<u>\$28,101</u>

Office equipment lease for the years ended December 31, 2015 and 2014 was \$18,528 and \$22,067, respectively.

RURAL LORAIN COUNTY WATER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2015 and 2014

Note 8. Commitments:

A. Water Purchase Agreements:

The Authority's original and primary source of water (approximately 82.5%) 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 11.3%) 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, 2015 and 2014, the Authority's equity interest in the Consortium was \$4,088,994 and \$4,244,255, respectively. Financial information can be obtained from the 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 \$1,546,530 and \$1,631,848 is due at December 31, 2015 and 2014, 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. 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 THE BASIC FINANCIAL STATEMENTS

December 31, 2015 and 2014

Note 12. Medina County ETL1 Receivable:

A receivable in the amount of \$111,178 and \$129,005 is due at December 31, 2015 and 2014, respectively, for Medina County's portion of relocation costs for the ETL1. Medina County is being billed biannually through July 2021 including interest at 2.202%.

Note 13. Change in Accounting Principle and Restatement of Net Position:

For 2015, the Authority implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68." GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported December 31, 2014:

Net position December 31, 2014	\$39,143,399
Adjustments:	
Pension deferred outflow – payments made in 2014	233,011
Net Pension Liability	<u>(1,865,326)</u>
Restated Net Position December 31, 2014	<u>\$37,511,084</u>

Other than employer contributions subsequent to the measurement date, the Authority made no restatement for deferred inflows/outflows of resources for the year ended December 31, 2014, as the information needed to generate these restatements was not available.

Note 14. Amherst Mobile Home Park Tap Fees Receivable:

A receivable in the amount of \$304,831 is due at December 31, 2015 for a new water system from the residents of the Amherst Mobile Home Park. The fees are being collected by the Lorain County Auditor biannually over 20 years through July 2034 including interest at 3.00%.

Note 15. Subsequent Events:

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through October 4, 2017, the date the financial statements were issued.

RURAL LORAIN COUNTY WATER AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the Authority's Proportionate Share of the Net Pension Liability
Ohio Public Employees Retirement System - Traditional Plan

Last Two Years (*)

	<u>2014</u>	<u>2013</u>
Authority's Proportion of the Net Pension Liability	0.015823%	0.015823%
Authority's Proportionate Share of the Net Pension Liability	\$ 2,141,991	\$ 1,865,326
Authority's Covered-Employee Payroll	\$ 1,941,758	\$ 1,967,038
Authority's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	110.31%	94.83%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.45%	86.36%

* Information prior to 2013 is not available.

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

RURAL LORAIN COUNTY WATER AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Authority Contributions Ohio Public Employees Retirement System - Traditional Plan

Last Three Years (*)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$ 241,238	\$ 233,011	\$ 255,715
Contributions in Relation to the Contractually Required Contribution	<u>(241,238)</u>	<u>(233,011)</u>	<u>(255,715)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Authority Covered-Employee Payroll	\$ 2,010,317	\$ 1,941,758	\$ 1,967,038
Contributions as a Percentage of Covered-Employee Payroll	12.00%	12.00%	13.00%

* Information prior to 2013 is not available.

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

RURAL LORAIN COUNTY WATER AUTHORITY

STATEMENTS OF OPERATING EXPENSES

Years Ended December 31, 2015 and 2014

	2015	2014
OPERATING EXPENSES:		
Wages:		
Board	\$ 68,420	\$ 71,544
Employees	1,357,986	1,396,758
Vacation and sick leave	218,869	215,241
O.P.E.R.S. (Note 6)	571,680	374,394
Payroll taxes	23,254	14,454
Insurance:		
Hospitalization	469,344	407,328
Life	4,434	5,054
General	82,768	78,138
Audit and professional fees	134,407	73,475
Legal fees	46,847	50,966
Engineering fees	33,099	28,801
Telephone	49,327	34,402
Depreciation	2,514,214	2,435,615
Utilities	31,479	22,675
Billing expense	51,395	48,151
Office equipment lease	18,528	22,067
Office supplies and expense	133,717	139,007
Clothing	17,447	15,541
Postage	108,853	117,732
Maintenance and repairs:		
Administrative building and equipment	115,153	164,449
Vehicles	72,389	59,355
Water lines	145,046	184,236
Pump stations	56,370	49,104
Tanks	800,624	256,870
Travel, mileage, and education expense	59,578	42,194
Gasoline	35,665	51,987
Water purchased	3,629,521	3,496,648
Distribution supplies	131,920	103,854
Electric pump station and tanks	339,525	356,746
Tap installations	160,711	183,968
Communication equipment	1,645	1,100
Miscellaneous expense	108,451	111,570
	\$ 11,592,666	\$ 10,613,424

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 Trustees:

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 years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 6, 2017, wherein we noted the Authority adopted Government Auditing Standard No. 68, *Accounting and Financial Reporting for Pensions - an amendment to GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

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, flowing style.

Dave Yost
Auditor of State
Columbus, Ohio

October 6, 2017



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
OCTOBER 24, 2017**