



OHIO AUDITOR OF STATE  
**KEITH FABER**





**LORAIN COUNTY RURAL WASTEWATER DISTRICT  
LORAIN COUNTY**

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## INDEPENDENT AUDITOR'S REPORT

Lorain County Rural Wastewater District  
Lorain County  
22898 West Road  
Wellington, Ohio 44090

To the Board of Trustees:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the Lorain County Rural Wastewater District, Lorain County, Ohio (the District), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District'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 District'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 District'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 the overall financial statement presentation.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lorain County Rural Wastewater District, Lorain County, Ohio, as of December 31, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis* and schedules of net pension 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.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2019, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 District's internal control over financial reporting and compliance.



Keith Faber  
Auditor of State

Columbus, Ohio

February 7, 2019

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2017

(Unaudited)

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

During 2015, the District 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 District'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 District'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 District 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.

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2017

(Unaudited)

In accordance with GASB 68, the District'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.

### **FINANCIAL HIGHLIGHTS**

The total assets and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources by \$118,715 at year end 2017.

The District's net position increased by \$1,024,875 (113.1%) in 2017.

The District had an increase in Operating Revenues of \$101,695 (49.7%) in 2017. Operating Expenses increased \$56,566 (23.2%) in 2017.

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

The District is a single fund using proprietary fund accounting, similar to a private sector business. The District is described in Note 2, Summary of Significant Accounting Policies. The Basic Financial Statements are presented using the accrual basis of accounting as further described in the above-mentioned note.

The **Statement of Net Position** includes all of the District'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 District, and obligations owed by the District (liabilities) on December 31. The District's net position (equity) is the difference between Assets and Deferred Outflows of Resources and Liabilities and Deferred Inflows of Resources.

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

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

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



# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2017

(Unaudited)

### SIGNIFICANT EVENTS AND EXPENDITURES DURING THE YEAR

Development continued in the Barrington Park subdivision north of the Village of Grafton. There were approximately 89 District sewer accounts at the end of 2017, which represents an increase of approximately 20 accounts throughout 2017. Phase 7 and Phase 8 of the subdivision were approved by the Lorain County Planning Commission in 2017. When completed, it is anticipated that this subdivision will contain approximately 150 lots.

The State of Ohio Local Government Innovation Fund (LGIF) feasibility study for providing sanitary sewer service to the townships of Amherst and New Russia, and the villages of Kipton and South Amherst was completed in late 2016. Final disbursement and consultant payment was made in March 2017.

Eugene M. Toy, Executive Director, agreed to continue employment with the latest addendum to the original employment contract dated November 2017.

The District petitioned the Lorain County Court of Common Pleas to expand the District's Section 6119 area to include Cinnamon Lake and proposed route of sanitary sewer force main from Cinnamon Lake to the Village of West Salem. The petition was granted by the court in June 2017. The District closed on the Cinnamon Lake Asset Transfer Agreement in October 2017, and assumed operation, maintenance, and treatment responsibilities at that time. The District also continued to work on project design and bid specification preparation. It is anticipated that force main construction will commence in 2018.

### NET POSITION

Table 1 summarizes the Net Position of the District.

**TABLE 1**

|  | 2017              | 2016                | 2017 vs 2016        |                |
|--|-------------------|---------------------|---------------------|----------------|
|  |                   |                     | Dollar Change       | Percent Change |
| Current and other assets                 | \$ 816,720        | \$ 777,989          | \$ 38,731           | 5.0%           |
| Capital assets                           | 1,274,614         | 259,191             | 1,015,423           | 391.8%         |
| Total assets                             | <u>2,091,334</u>  | <u>1,037,180</u>    | <u>1,054,154</u>    | <u>101.6%</u>  |
| Deferred outflows of resources - Pension | 48,972            | 35,970              | 13,002              | 36.1%          |
| Current and other liabilities            | 1,629,105         | 1,602,969           | 26,136              | 1.6%           |
| Long-term liabilities - Debt             | 389,597           | 372,846             | 16,751              | 4.5%           |
| Total liabilities                        | <u>2,018,702</u>  | <u>1,975,815</u>    | <u>42,887</u>       | <u>2.2%</u>    |
| Deferred inflows of resources - Pension  | 2,889             | 3,495               | (606)               | -17.3%         |
| Net Invested in capital assets           | 1,040,012         | 15,657              | 1,024,355           | 6542.5%        |
| Unrestricted                             | (921,297)         | (921,817)           | 520                 | 0.06%          |
| Total net position                       | <u>\$ 118,715</u> | <u>\$ (906,160)</u> | <u>\$ 1,024,875</u> | <u>113.1%</u>  |

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2017

(Unaudited)

### NET POSITION (Continued)

The District's Net Position increased \$1,024,875 (113.1%). The increase is a result of capital contributed from the transfer of Cinnamon Lake.

Deferred outflows and inflows of resources – pension were recorded based on the District's proportionate share of OPERS' Deferred Inflows/Outflows Amortization Tracking Worksheet per the requirements of GASB 68 and 71 based on a measurement date of December 31, 2016.

### STATEMENT OF REVENUES AND EXPENSES (CHANGES IN NET POSITION)

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

**TABLE 2**

|                                     | 2017       | 2016         | 2017 vs 2016  |                |
|-------------------------------------|------------|--------------|---------------|----------------|
|                                     |            |              | Dollar Change | Percent Change |
| Operating revenue                   | \$ 306,392 | \$ 204,697   | \$ 101,695    | 49.7%          |
| Operating expenses                  | 300,848    | 244,282      | 56,566        | 23.2%          |
| Depreciation/amortization expenses  | 9,456      | 9,433        | 23            | 0.2%           |
| Total expenses                      | 310,304    | 253,715      | 56,589        | 22.3%          |
| Operating (loss)/income             | (3,912)    | (49,018)     | 45,106        | 92.0%          |
| Nonoperating revenue                | 69,375     | 3,017        | 66,358        | 2199.5%        |
| Nonoperating expenses               | 65,467     | 62,392       | 3,075         | 4.9%           |
| Nonoperating (loss)/income          | 3,908      | (59,375)     | 63,283        | 106.6%         |
| Capital contributed - Cinnamon Lake | 1,024,879  | -            | 1,024,879     | 100.0%         |
| Change in net position              | 1,024,875  | (108,393)    | 1,133,268     | 1045.5%        |
| Beginning net position              | (906,160)  | (797,767)    | (108,393)     | 13.6%          |
| Ending net position                 | \$ 118,715 | \$ (906,160) | \$ 1,024,875  | 113.1%         |

Total Operating Expenses increased \$56,566 (23.2%) in 2017 with the majority of the increase due to office supplies and expense and wages.

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2017  
(Unaudited)

### STATEMENT OF REVENUES AND EXPENSES (CHANGES IN NET POSITION) (Continued)

Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2017 statements report pension expense of \$24,141.

### CAPITAL ASSETS

The District had an increase in Capital Assets (before depreciation) of \$1,024,879 (367.7%) in 2017 as shown in Table 3.

**TABLE 3**

|                                | 2017                | 2016              | 2017 vs 2016        |                |
|--------------------------------|---------------------|-------------------|---------------------|----------------|
|                                |                     |                   | Dollar Change       | Percent Change |
| Land and easements             | \$ 10,012           | \$ 10,012         | \$ -                | 0.0%           |
| Tanks, stations, and lines     | 262,816             | 262,816           | -                   | 0.0%           |
| Furniture and fixtures         | 2,359               | 4,979             | (2,620)             | -52.6%         |
| Machinery and equipment        | 235,156             | -                 | 235,156             | 100.0%         |
| Plant and buildings            | 792,343             | -                 | 792,343             | 100.0%         |
| Loan fees                      | 917                 | 917               | -                   | 0.0%           |
| Total before depreciation      | 1,303,603           | 278,724           | 1,024,879           | 367.7%         |
| Accumulated depreciation/amort | (28,989)            | (19,533)          | (9,456)             | 48.4%          |
| Total capital assets, net      | <u>\$ 1,274,614</u> | <u>\$ 259,191</u> | <u>\$ 1,015,423</u> | 391.8%         |

See Note 2 of the financial statements for additional information on Capital Assets.

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2017

(Unaudited)

### DEBT

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

**TABLE 4**

|                            | 2017              | 2016              | 2017 vs 2016     |                |
|----------------------------|-------------------|-------------------|------------------|----------------|
|                            |                   |                   | Dollar Change    | Percent Change |
| Notes payable              | \$ 278,602        | \$ 287,534        | \$ (8,932)       | -3.1%          |
| Net pension liability      | 120,354           | 94,401            | 25,953           | 27.5%          |
| Total longterm obligations | <u>\$ 398,956</u> | <u>\$ 381,935</u> | <u>\$ 17,021</u> | 4.5%           |

In 2015, the District was approved for a loan in the amount of \$262,829 with total disbursements of \$239,908 through December 31, 2017 and a balance remaining of \$234,602 at December 31, 2017 from the Ohio Water Development Authority (OWDA) for the Carrington Pointe Sewer project. See Note 5 of the financial statements for a summary of the longterm obligations.

A net pension liability in the amount of \$120,354 was recorded based on the District's proportionate share of OPERS' Schedule of Collective Pension Amounts per the requirements of GASB 68 based on a measurement date of December 31, 2016.

### DEBT FINANCING

In 2010, the District obtained a \$147,000 line-of-credit from Lorain-Medina Rural Electric Cooperative, Inc. See Note 4 of the financial statements for additional information on this liability.

### CONTACT INFORMATION

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

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## STATEMENT OF NET POSITION - PROPRIETARY FUND

For the Year Ended December 31, 2017

|   | <u>2017</u>         |
|---|---------------------|
| <u>ASSETS</u>                                   |                     |
| CURRENT ASSETS: (Note 2)                        |                     |
| Cash and cash equivalents                       | \$ 150,200          |
| Prepaid expenses                                | <u>53</u>           |
| Total current assets                            | 150,253             |
| NONCURRENT ASSETS:                              |                     |
| Accounts receivable - Tap assessment            | 10,000              |
| Capitalized tap fee expense (Note 6)            | <u>656,467</u>      |
| Total noncurrent assets                         | 666,467             |
| CAPITAL ASSETS: (Note 2)                        |                     |
| Non-depreciable capital assets, net             | 10,012              |
| Depreciable capital assets, net                 | <u>1,264,602</u>    |
|   | <u>1,274,614</u>    |
| Total assets                                    | <u>\$ 2,091,334</u> |
| DEFERRED OUTFLOW OF RESOURCES:                  |                     |
| Pension (Note 8)                                | <u>48,972</u>       |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | <u>\$ 2,140,306</u> |

(continued)

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## STATEMENT OF NET POSITION - PROPRIETARY FUND (continued)

For the Year Ended December 31, 2017

|  | <u>2017</u>                |
|--|----------------------------|
| <b><u>LIABILITIES AND NET POSITION</u></b>                       |                            |
| <b>CURRENT LIABILITIES:</b>                                      |                            |
| Accounts payable   | \$ 396,230                 |
| Accrued payroll  | 7,367                      |
| Compensated absences payable                                     | 3,270                      |
| Accrued interest   | 290,879                    |
| Note payable - Line-of-credit (Note 4)                           | 147,000                    |
| OWDA loan payable  | 9,359                      |
| Total current liabilities  | <u>854,105</u>             |
| <b>LONGTERM LIABILITIES:</b>                                     |                            |
| Notes payable (Note 5)   | 44,000                     |
| OWDA loan payable (Note 5)                                       | 225,243                    |
| Net pension liability (Note 8)                                   | 120,354                    |
| Total longterm liabilities                                       | <u>389,597</u>             |
| <b>OTHER LIABILITIES:</b>  |                            |
| Deferred tap fee (Note 6)  | <u>775,000</u>             |
| Total liabilities  | <u><u>\$ 2,018,702</u></u> |
| <b>DEFERRED INFLOW OF RESOURCES:</b>                             |                            |
| Pension (Note 8)   | <u><u>\$ 2,889</u></u>     |
| <b>NET POSITION:</b>   |                            |
| Net investment in capital assets                                 | \$ 1,040,012               |
| Unrestricted deficit   | (921,297)                  |
| Total net position   | <u>118,715</u>             |
| <b>TOTAL LIABILITIES, INFLOWS OF RESOURCES, AND NET POSITION</b> | <u><u>\$ 2,140,306</u></u> |

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

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUND

For the Year Ended December 31, 2017

|                                     | 2017       |
|-------------------------------------|------------|
| OPERATING REVENUE:                  |            |
| Usage fee income                    | \$ 120,592 |
| Co-op income                        | 162,000    |
| Other operating income              | 23,800     |
| Total operating revenue             | 306,392    |
| OPERATING EXPENSES:                 |            |
| Amortization expense                | 46         |
| Bank fees                           | 860        |
| Computer expense                    | 1,151      |
| Depreciation expense                | 9,410      |
| Dues and subscriptions              | 250        |
| Engineering expense                 | 22,265     |
| Insurance                           | 4,896      |
| Legal and professional fees         | 46,374     |
| License and permit                  | 500        |
| Mileage expense                     | 3,078      |
| Miscellaneous expense               | 811        |
| Office supplies and expense         | 17,586     |
| Outside services                    | 2,466      |
| O.P.E.R.S. (Note 8)                 | 24,141     |
| Payroll taxes                       | 2,865      |
| Postage expense                     | 73         |
| Building rent                       | 3,765      |
| Repairs and maintenance             | 3,680      |
| Tap fee expense                     | 19,375     |
| Telephone                           | 1,174      |
| Travel and entertainment            | 14         |
| Utilities                           | 8,928      |
| Vehicle expense                     | 399        |
| Wages - Office                      | 121,913    |
| Wastewater treatment                | 14,284     |
| Total operating expenses            | 310,304    |
| INCOME/(LOSS) FROM OPERATIONS       | (3,912)    |
| NONOPERATING REVENUES:              |            |
| Miscellaneous income                | 10,680     |
| Other income - feasibility study    | 42,488     |
| Intergovernmental revenue           | 16,207     |
| Total nonoperating revenues         | 69,375     |
| NONOPERATING EXPENSES:              |            |
| Interest expense                    | 65,458     |
| Penalties                           | 9          |
| Total nonoperating expenses         | 65,467     |
| CONTRIBUTED CAPITAL - Cinnamon Lake | 1,024,879  |

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

**LORAIN COUNTY RURAL WASTEWATER DISTRICT**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -  
PROPRIETARY FUND (continued)**

For the Year Ended December 31, 2017

|                                    | <u>2017</u>       |
|------------------------------------|-------------------|
| CHANGE IN NET POSITION             | \$ 1,024,875      |
| NET POSITION - Beginning of period | <u>(906,160)</u>  |
| NET POSITION - End of period       | <u>\$ 118,715</u> |

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



**LORAIN COUNTY RURAL WASTEWATER DISTRICT**

STATEMENT OF CASH FLOWS - PROPRIETARY FUND

For the Year Ended December 31, 2017

|  | 2017                         |
|--|------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                              |
| Cash received from usage fees  | \$ 120,592                   |
| Cash received from co-op   | 162,000                      |
| Cash received from other operating income  | 23,800                       |
| Cash received from tap fee assessment  | 1,000                        |
| Cash paid to employees, professional contractors, and suppliers<br>for services and benefits | (301,600)                    |
| Net cash provided by (used in) operating activities  | 5,792                        |
| <br><b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>                                 |                              |
| Cash received - Miscellaneous  | 10,680                       |
| Cash received - Feasibility study  | 42,488                       |
| Cash received from other governments   | 16,207                       |
| Cash paid for interest   | (7,117)                      |
| Cash paid for penalties, net   | (9)                          |
| Net cash provided by (used in) non-capital financing activities                              | 62,249                       |
| <br><b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>                         |                              |
| Repayment of principal on OWDA loan issued   | (8,932)                      |
| Net cash provided by (used in) capital and related financing activities                      | (8,932)                      |
| <br><b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                              | <br>59,109                   |
| <br><b>CASH AND CASH EQUIVALENTS - Beginning of year</b>                                     | <br><u>91,091</u>            |
| <br><b>CASH AND CASH EQUIVALENTS - End of year</b>   | <br><u><u>\$ 150,200</u></u> |

(continued)

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

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## STATEMENT OF CASH FLOWS - PROPRIETARY FUND

For the Year Ended December 31, 2017

|   | <u>2017</u>     |
|---|-----------------|
| RECONCILIATION OF OPERATING INCOME<br>(LOSS) TO NET CASH PROVIDED BY (USED IN)<br>OPERATING ACTIVITIES      |                 |
| Operating loss  | \$ (3,912)      |
| Adjustments to reconcile operating income (loss)<br>to net cash provided by (used in) operating activities: |                 |
| Amortization  | 46              |
| Depreciation  | 9,410           |
| Change in assets, deferred outflow of resources, liabilities:   |                 |
| Accounts receivable   | 1,000           |
| Prepaid expenses  | 3               |
| Deferred expenses   | 19,375          |
| Deferred outflows - Pension   | (13,002)        |
| Deferred inflows - Pension  | (606)           |
| Net pension liability   | 25,953          |
| Change in liabilities:  |                 |
| Deferred grant payable  | (2,488)         |
| Accounts payable  | (38,249)        |
| Accrued expenses  | 8,262           |
| Net cash provided by (used in) operating activities   | <u>\$ 5,792</u> |

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

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2017

Note 1. Reporting Entity:

Lorain County Rural Wastewater District, a regional sanitary sewer district, is a political subdivision of the State of Ohio. The District was organized in the State of Ohio on February 4, 1997, under Ohio Revised Code Section 6119.02 for the purpose of providing for the collection, treatment, and disposal of waste water within the District. The District is exempt from federal income tax. The District operates under a Board of Trustees which consists of as many members as equals the total number of villages and townships within this regional sanitary sewer district. Lorain County Rural Wastewater District is currently in the process of planning and developing a system for servicing future customers.

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or the District is obligated for the debt of the organization. Based on the application of these criteria, the District has no component units.

In October 2017 the District assumed operation, maintenance, and treatment responsibilities of Cinnamon Lake. The District was permitted by the Lorain County Court of Common Pleas to expand the District's Section 6119.02 to include Cinnamon Lake.

Note 2. Summary of Significant Accounting Policies:

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

A. Basis of Accounting:

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

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2017

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

B. Basis of Presentation:

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

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

C. Measurement Focus:

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

D. Net Position:

Net position represents the difference between Assets and Deferred Outflows of Resources and Liabilities and Deferred Inflows of Resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation and related debt. Net position is reported as restricted when there are limitations imposed on its use either through constitutional provisions or enabling legislation adopted by the District through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District's policy is to apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. At December 31, 2017, the District reported a deficit of \$921,297 in unrestricted net position.

E. Operating Revenues and Expenses:

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

**LORAIN COUNTY RURAL WASTEWATER DISTRICT**

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

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

F. Budgetary Process:

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

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

G. Capital Assets:

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

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

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

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

Maintenance, repairs, and minor renewals are expensed when incurred.

Depreciation and amortization expense for the year ended December 31, 2017 was \$9,410 and \$46, respectively.

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2017

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

G. Capital Assets (Continued):

A summary of changes in capital assets for the year ended December 31, 2017 is as follows:

|                                      | January 1,<br>2017 | Additions          | Deletions   | December 31,<br>2017 |
|--------------------------------------|--------------------|--------------------|-------------|----------------------|
| Land and easements                   | \$ 10,012          | \$ -               | \$ -        | \$ 10,012            |
| Tanks, stations, and lines           | 262,816            | -                  | -           | 262,816              |
| Furniture and fixtures               | 2,359              | -                  | -           | 2,359                |
| Machinery and equipment              | 2,620              | 232,536            | -           | 235,156              |
| Plant and buildings                  | -                  | 792,343            | -           | 792,343              |
| Loan fees                            | 917                | -                  | -           | 917                  |
|                                      | <u>278,724</u>     | <u>1,024,879</u>   | <u>-</u>    | <u>1,303,603</u>     |
| Less accumulated depreciaton/amort   |                    |                    |             |                      |
| Tanks, stations, and lines           | (16,238)           | (8,886)            | -           | (25,124)             |
| Furniture and fixtures               | (2,359)            | -                  | -           | (2,359)              |
| Machinery and equipment              | (886)              | (524)              | -           | (1,410)              |
| Loan fees                            | (50)               | (46)               | -           | (96)                 |
| Total accumulated depreciation/amort | <u>(19,533)</u>    | <u>(9,456)</u>     | <u>-</u>    | <u>(28,989)</u>      |
| Net capital assets                   | <u>\$ 259,191</u>  | <u>\$1,015,423</u> | <u>\$ -</u> | <u>\$ 1,274,614</u>  |

\*Asset additions are a result of the assumed operation, maintenance, and treatment responsibilities of Cinnamon Lake.

H. Compensated Absences Payable:

The District's Executive Director is granted 200 hours of paid leave time per year. Upon termination of employment, the employee will receive not more than 20 days of accrued, unused leave at the current rate of pay computed on a daily basis.

I. Cash and Cash Equivalents:

For purposes of the Statements of Cash Flows, all liquid investments with a maturity of three months or less when purchased are considered cash equivalents. During 2017, investments were limited to interest-bearing deposit accounts.

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2017

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

J. Use of Estimates:

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

K. Tap Fees:

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

L. 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 District, 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 8.

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 District, deferred inflows of resources include pension. This amount has been recorded as a deferred inflow on the statement of net position. Deferred inflows of resources related to pension are reported on the statement of net position (see Note 8).

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2017

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

M. Pensions

For purposes of measuring the net pension liability, deferred outflows and deferred inflows of resources related to pension and pension expense, 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.

Note 3. Deposits:

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

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

Cash on Hand: At December 31, 2017, the District had \$100 in undeposited cash on hand, which is included in the Statement of Net Position of the District as part of Cash and Cash Equivalents.



# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2017

Note 3. Deposits (Continued):

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. The District does not have a policy for custodial credit risk. At year-end, the carrying amount of the District's deposits was \$150,100 and the bank balance was \$151,173. The bank balance was covered by federal depository insurance provided by the Federal Deposit Insurance Corporation (FDIC). Although securities were held by the pledging financial institution's trust department or agent in the District's name and all Ohio Revised Code requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

The District had no investments at December 31, 2017.

Note 4. Short-Term Liabilities:

| Description   | Balance<br>January 1,<br>2017 | Additions | Deletions | Balance<br>December 31,<br>2017 |
|---|-------------------------------|-----------|-----------|---------------------------------|
| A line-of-credit in the amount of \$147,000, with \$0 unused in 2017, is payable to Lorain-Medina Rural Electric Cooperative, Inc. The unpaid principal balance shall bear interest at the lesser of the line-of-credit interest rate which National Rural Utilities Cooperative Finance Corporation charges the Lender, or the line-of-credit interest rate which Co-Bank charges the Lender. The interest rate at December 31, 2017 was 3.0%. The loan agreement requires principal and accrued interest to be paid within twelve months of the advance of funds. Subject to this requirement, the note is past due. Lorain-Medina Rural Electric Cooperative, Inc. has no intention of calling the loan. However, the loan is due upon demand. The District accrued interest of \$4,616. | \$ 147,000                    | \$ -0-    | \$ -0-    | \$ 147,000                      |

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2017

Note 5. Longterm Obligations:

A summary of longterm obligations for the period January 1, 2017 through December 31, 2017, is as follows:

| Description   | Balance<br>January 1,<br>2017 | Additions | Deletions | Balance<br>December 31,<br>2017 | Amount<br>Due In<br>One Year |
|---|-------------------------------|-----------|-----------|---------------------------------|------------------------------|
| Lorain County Rural Wastewater District borrowed \$5,000 from Carlisle Township in March 1997 for the start-up/organization of this entity. Timing of repayment is contingent upon availability of funds.                               | \$ 5,000                      | \$ -0-    | \$ -0-    | \$ 5,000                        | \$ -0-                       |
| Lorain County Rural Wastewater District borrowed \$5,000 from LaGrange Township in March 1997 for the start-up/organization of this entity. Timing of repayment is contingent upon availability of funds.                               | 5,000                         | -0-       | -0-       | 5,000                           | -0-                          |
| Lorain County Rural Wastewater District borrowed \$5,000 from New Russia Township in March 1997 and \$5,000 in October 2000 for the start-up/organization of this entity. Timing of repayment is contingent upon availability of funds. | 10,000                        | -0-       | -0-       | 10,000                          | -0-                          |
| Lorain County Rural Wastewater District borrowed \$5,000 from Elyria Township in March 1997 for the start-up/organization of this entity. Timing of repayment is contingent upon availability of funds.                                 | 5,000                         | -0-       | -0-       | 5,000                           | -0-                          |
| Lorain County Rural Wastewater District borrowed \$2,500 from Camden Township in April 2001 for the start-up/organization of this entity. Timing of repayment is contingent upon availability of funds.                                 | 2,500                         | -0-       | -0-       | 2,500                           | -0-                          |
| Lorain County Rural Wastewater District borrowed \$5,500 from Grafton Township in April 2001 for the start-up/organization of this entity. Timing of repayment is contingent upon availability of funds.                                | 5,500                         | -0-       | -0-       | 5,500                           | -0-                          |
| Lorain County Rural Wastewater District borrowed \$2,500 from Henrietta Township in December 2001 for the start-up/organization of this entity. Timing of repayment is contingent upon availability of funds.                           | 2,500                         | -0-       | -0-       | 2,500                           | -0-                          |
| Lorain County Rural Wastewater District borrowed \$2,500 from Pittsfield Township in February 2001 for the start-up/organization of this entity. Timing of repayment is contingent upon availability of funds.                          | 2,500                         | -0-       | -0-       | 2,500                           | -0-                          |

(continued)

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2017

Note 5. Longterm Obligations (Continued):

| Description   | Balance<br>January 1,<br>2017 | Additions     | Deletions       | Balance<br>December 31,<br>2017 | Amount<br>Due In<br>One Year |
|---|-------------------------------|---------------|-----------------|---------------------------------|------------------------------|
| Lorain County Rural Wastewater District borrowed \$500 from Rochester Township in June 2001 for the start-up/organization of this entity. Timing of repayment is contingent upon availability of funds.   | 500                           | -0-           | -0-             | 500                             | -0-                          |
| Lorain County Rural Wastewater District borrowed \$2,500 from South Amherst Village in October 2001 for the start-up/organization of this entity. Timing of repayment is contingent upon availability of funds.   | 2,500                         | -0-           | -0-             | 2,500                           | -0-                          |
| Lorain County Rural Wastewater District borrowed \$500 from Kipton Village in March 2001 for the start-up/organization of this entity. Timing of repayment is contingent upon availability of funds.  | 500                           | -0-           | -0-             | 500                             | -0-                          |
| Lorain County Rural Wastewater District borrowed \$2,500 from Huntington Township in January 2002 for the start-up/organization of this entity. Timing of repayment is contingent upon availability of funds.   | 2,500                         | -0-           | -0-             | 2,500                           | -0-                          |
| Lorain County Rural Wastewater District entered into a cooperative Agreement with Ohio Water Development Authority (OWDA) on September 24, 2015. The OWDA will finance the eligible project costs for Carrington Pointe Sewer. The maximum loan amount is \$262,829 from Fresh Water Fund with \$243,534 used at December 31, 2016. The interest rate is 2.950% for 20 years starting on January 1, 2017  |                               |               |                 |                                 |                              |
| All revenues from all sewer facilities of Lorain County Rural Wastewater District are promised as repayment. Avon Lake Regional Water (ALRW) will be acting as agent on Lorain County Rural Wastewater District's behalf. The Lorain County Auditor's Office will transfer funds semi-annually to ALRW to deposit into Lorain County Rural Wastewater District funds account and then forward to OWDA to pay the semi-annual loan payment. The estimated semi-annual loan payment is \$8,745. | 243,534                       | -0-           | 8,932           | 234,602                         | 9,359                        |
|   | <u>\$ 287,534</u>             | <u>\$ -0-</u> | <u>\$ 8,932</u> | <u>\$ 278,602</u>               | <u>\$ 9,359</u>              |

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2017

Note 6. Deferred Tap Fee:

Per the cooperative agreement between Lorain County Rural Wastewater District (LORCO) and Avon Lake Regional Water (ALRW) dated December 7, 2009, LORCO shall pay a tap fee of \$775,000 to ALRW contingent upon the certification of the system. This agreement was amended on September 15, 2011, with a second amendment on November 17, 2015. The project certification date was November 18, 2011. Therefore, the repayment of the tap fees, per the second amendment, will be \$100,000 on each of the tenth, eleventh, twelfth, thirteenth, fourteenth, fifteenth and sixteenth anniversaries of the certification date and \$75,000 on the seventeenth anniversary.

The tap fee allows LORCO to tap into the ALRW system. The expense will be recognized over the 40 year life of the cooperative agreement. LORCO will pay the fee using revenue generated from system development.

LORCO shall pay ALRW \$72,048, which consists of \$31,754 from the first three year delay and an additional \$40,294 for the additional six year delay, on each of the tenth, eleventh, and twelfth anniversaries, and \$40,294 on each of the thirteenth, fourteenth, fifteenth, sixteenth and seventeenth anniversaries of the certification date in respect of the accumulated interest for deferring the tap fee by nine years based on the Weighted Average Cost of Funds.

ALRW shall pay LORCO a monthly payment of \$13,500 commencing one month after the certification date and each month thereafter during the term.

Note 7. Insurance:

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The District maintains comprehensive insurance coverage which includes Comprehensive General Liability, Wrongful Act Liability, and Automobile Liability. Settled claims have not exceeded insurance coverage in the past three years and there has been no significant reduction in coverage from prior years.

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2017

Note 8. Retirement Commitments:

A. Net Pension Liability:

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 District'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.

Ohio Revised Code limits the District's obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which pensions are financed; however, the District 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.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in the *net pension liability* on the accrual basis of accounting.

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2017

Note 8. Retirement Commitments (Continued):

A. Net Pension Liability (Continued)

***Plan Description – Ohio Public Employees Retirement System (OPERS)***

Plan Description – The District’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., District 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#CAFR>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614)-222-5601 or (800) 222-7377.

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):

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2017

Note 8. Retirement Commitments (Continued):

A. Net Pension Liability (Continued):

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

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2017

Note 8. Retirement Commitments (Continued):

A. Net Pension Liability (Continued):

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

|  | <u>State<br/>and Local</u> |
|--|----------------------------|
| <b>2017 Statutory Maximum Contribution Rates</b> |                            |
| Employer   | 14.0%                      |
| Employee   | 10.0%                      |
| <br><b>2017 Actual Contribution Rates</b>        |                            |
| Employer:  |                            |
| Pension  | 13.0%                      |
| Post-employment Health Care Benefits             | <u>1.0%</u>                |
| <br>Total Employer                               | <br><u>14.0%</u>           |
| <br>Employee                                     | <br><u>10.0%</u>           |

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The District's contractually required contribution was \$11,796 for the year 2017. Of this amount, \$-0- is reported as accrued payroll.

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

The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District'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 | \$120,354    |
| Proportion of the Net Pension Liability          | 0.000530%    |
| Pension Expense                                  | \$24,141     |



**LORAIN COUNTY RURAL WASTEWATER DISTRICT**

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

Note 8. Retirement Commitments (Continued):

A. Net Pension Liability (Continued):

At December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|  | <u>OPERS</u>    |
|--|-----------------|
| <b>Deferred Outflows of Resources</b>  |                 |
| Difference between expected and actual experience                            | \$ 163          |
| Changes in assumptions   | 19,090          |
| Net difference between projected and earnings<br>on pension plan investments | 17,923          |
| District contributions subsequent to the measurement date                    | <u>11,796</u>   |
| Total deferred outflows of resources   | <u>\$48,972</u> |
| <br>   |                 |
|  | <u>OPERS</u>    |
| <b>Deferred Inflows of Resources</b>   |                 |
| Difference between expected and actual experience                            | \$ 716          |
| Changes in proportion  | <u>2,173</u>    |
| Total deferred inflows of resources  | <u>\$ 2,889</u> |

Eleven thousand seven hundred ninety-six (\$11,796) reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. 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: |                 |
| 2018                            | \$13,657        |
| 2019                            | 14,835          |
| 2020                            | 6,320           |
| 2021                            | <u>(525)</u>    |
| Total                           | <u>\$34,287</u> |

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2017

Note 8. Retirement Commitments (Continued):

A. 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, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|  |  |
|--|--|
| Wage Inflation                               | 3.25 percent                                   |
| Future Salary Increases, including inflation | 3.25 to 10.75 percent including wage inflation |
| COLA or Ad Hoc COLA                          | 3 percent, simple                              |
| Investment Rate of Return                    | 7.5 percent                                    |
| Actuarial Cost Method                        | Individual Entry Age                           |

Mortality rates were based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above describe tables.

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.

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2017

Note 8. Retirement Commitments (Continued):

A. Net Pension Liability (Continued):

*Actuarial Assumptions – OPERS (Continued)*

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The 401(h) Health Care Trust portfolio was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. The Defined Benefit portfolio contains the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plant. The Defined Benefit portfolio historically included the assets of the member-Directed retiree medical accounts funded through the VEBA Trust. However, the VEBA Trust was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. 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 annual money weighted rate of return, expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 8.3 percent for 2016.

The allocation of investment assets within the Defined Benefit portfolio is approved by the Board 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 following table displays the Board-approved asset allocation policy for 2016 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%                   | 2.75%   |
| Domestic Equities      | 20.70                    | 6.34  |
| Real Estate            | 10.00                    | 4.75  |
| Private Equity         | 10.00                    | 8.97  |
| International Equities | 18.30                    | 7.95  |
| Other Investments      | <u>18.00</u>             | <u>4.92</u>   |
| Total                  | <u>100.00%</u>           | <u>5.66%</u>  |

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2017

Note 8. Retirement Commitments (Continued):

A. Net Pension Liability (Continued):

***Actuarial Assumptions – OPERS (Continued)***

***Discount Rate*** The discount rate used to measure the total pension liability was 7.5 percent, post-experience study results, for the Traditional Pension Plan, Combined Plan, and Member-Directed Plan. 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 contractually required rates, as actuarially determined. 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 for the Traditional Pension Plan, Combined Plan, and Member-Directed Plan was applied to all periods of projected benefit payments to determine the total pension liability.

***Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** The following table presents the District’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.5 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

|   | 1% Decrease<br><u>(6.50%)</u> | Current<br>Discount Rate<br><u>(7.50%)</u> | 1% Increase<br><u>(8.50%)</u> |
|---|-------------------------------|--|-------------------------------|
| District’s proportionate share of the net pension:<br>Liability | \$183,868                     | \$120,354                                  | \$67,427                      |

B. Postemployment Benefits:

***Ohio Public Employees Retirement System (OPERS)***

Plan Description– The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the Traditional Pension Plan, a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan, a defined contribution plan; and the Combined Plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2017

Note 8. Retirement Commitments (Continued):

B. Postemployment Benefits (Continued):

As of December 31, 2017, OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the traditional pension and the combined plans. The trust is also used to fund health care for Member-Directed Plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, Member-Directed Plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have twenty 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 Post Employment Benefit (OPEB) as described in GASB statement 45. Please see the Plan Statement in the OPERS 2016 CAFR for details.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the OPERS Board of Trustees (OPERS Board) in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml#CAFR> by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides the statutory authority requiring public employers to fund health care through their contributions to OPERS. A portion of each employer's contribution to OPERS may be set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2017, State and Local employers contributed at a rate of 14.0 percent of earnable salary. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2017

Note 8. Retirement Commitments (Continued):

B. Postemployment Benefits (Continued):

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 the Combined Plan was 1.0 percent during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0.0 percent for both plans. The OPERS 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 for Member-Directed Plan participants for 2017 was 4.0 percent.

Substantially all of the District's contributions allocated to fund postemployment health care benefits relates to the cost-sharing, multiple employer trusts. The corresponding contribution for the years ended December 31, 2017, 2016, and 2015 was \$907, \$1,370 and \$1,357, respectively. The full amount has been contributed for 2016 and 2015.

Note 9. Leasing Arrangements:

The District leases office space from Lorain-Medina Rural Electric Cooperative, Inc. This lease is for a one-year period ending December 31, 2017 and may be renewed for additional one year terms upon agreement of both parties. The lease requires rent in the amount of \$250 per month, for a total of \$3,000. The District also leases two units from Cinnamon Lake Utilities Association, Inc. which began in October 2017 with the asset transfer to the District. This lease will end June 30, 2018. The lease requires rent in the amount of \$255 per month, for a total of \$765. Rent expense for the year ended December 31, 2017 was \$3,765. As of December 31, 2017, the District owed \$34,600 in accrued rent to Lorain-Medina Rural Electric Cooperative, Inc.

Note 10. Administrative Arrangements:

The District had retained the services of the Director of Economic and Community Development of Lorain-Medina Rural Electric Cooperative, Inc. (LMRE) as an independent contractor to be the Executive Director of the District. The wage agreement with LMRE terminated June 30, 2009. As of December 31, 2017, the District owed \$190,860, in accrued administrative costs.

# LORAIN COUNTY RURAL WASTEWATER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2017

Note 11. Accountability and Financial Outlook:

For the fiscal year ended December 31, 2017, Lorain County Rural Wastewater District had net income of \$1,024,875, and accumulated net position of \$118,715. The increase in net position is a result of the capital contributed per the asset transfer agreement with Cinnamon Lake.

Note 12. Subsequent Events:

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through May 30, 2018, the date the financial statements were issued.

**LORAIN COUNTY RURAL WASTEWATER DISTRICT**

REQUIRED SUPPLEMENTARY INFORMATION

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

Last Four Years (\*)

|   | 2017       | 2016      | 2015      | 2014      |
|---|------------|-----------|-----------|-----------|
| District's Proportion of the Net Pension Liability  | 0.000530%  | 0.000545% | 0.000566% | 0.000566% |
| District's Proportionate Share of the Net Pension Liability   | \$ 120,354 | \$ 94,401 | \$ 68,266 | \$ 66,724 |
| District's Covered-Employee Payroll   | \$ 68,517  | \$ 67,850 | \$ 69,442 | \$ 77,646 |
| District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 175.65%    | 139.13%   | 98.31%    | 85.93%    |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability                                  | 77.25%     | 81.08%    | 86.45%    | 86.36%    |

\* Amounts presented as of the District's measurement date which is the prior fiscal year end.



**LORAIN COUNTY RURAL WASTEWATER DISTRICT**

REQUIRED SUPPLEMENTARY INFORMATION

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

Last Five Years

|   | 2017      | 2016      | 2015      | 2014      | 2013      |
|---|-----------|-----------|-----------|-----------|-----------|
| Contractually Required Contribution                                     | \$ 11,796 | \$ 8,222  | \$ 8,142  | \$ 8,333  | \$ 10,094 |
| Contributions in Relation to the<br>Contractually Required Contribution | (11,796)  | (8,222)   | (8,142)   | (8,333)   | (10,094)  |
| Contribution Deficiency (Excess)  | \$ 0      | \$ 0      | \$ 0      | \$ 0      | \$ 0      |
| District Covered-Employee Payroll                                       | \$ 90,736 | \$ 68,517 | \$ 67,850 | \$ 69,442 | \$ 77,646 |
| Contributions as a Percentage of<br>Covered-Employee Payroll            | 13.00%    | 12.00%    | 12.00%    | 12.00%    | 13.00%    |

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# OHIO AUDITOR OF STATE KEITH FABER



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

Lorain County Rural Wastewater District  
Lorain County  
22898 West Road  
Wellington, Ohio 44090

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 Lorain County Rural Wastewater District, Lorain County, Ohio (the District) as of and for the year ended December 31, 2017, and the related notes to the financial statements and have issued our report thereon dated February 7, 2019.

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

As part of our financial statement audit, we considered the District'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 District'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 District'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. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2017-001 to be a material weakness.

**Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, 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*.

**District's Response to Finding**

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not subject the District's response to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**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 District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Keith Faber  
Auditor of State

Columbus, Ohio

February 7, 2019

**LORAIN COUNTY RURAL WASTEWATER DISTRICT  
LORAIN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2017**

|  |
|--|
| <b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS<br/>REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b> |
|--|

**FINDING NUMBER 2017-001**

**Material Weakness - Financial Statement Adjustments**

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16.

The following financial statement errors were identified and adjusted to the financial statements by management:

- Miscellaneous income was overstated by \$44,106 and accounts payable was understated by an equal amount due to improper write-off of accounts payable.
- User fees were overstated by \$40,007 and intergovernmental revenue and other operating income were each understated by \$16,207 and \$23,800, respectively due to classification errors.
- Net Investment in capital assets was overstated by \$234,602 and unrestricted net position was understated by an equal amount due to the improper exclusion of debt related to capital assets.
- Notes payable was overstated by \$234,602 and the current and noncurrent portion of the OWDA loan payable were understated by \$9,359 and \$225,243, respectively, due to a classification error.
- Deferred outflow of resources for pension was overstated by \$2,102, deferred inflow of resources for pension was overstated by \$ 2,083, and pension expense was understated by \$19 due to an error in the calculation.

The District should exercise due care when posting transactions to help ensure transactions are correct and posted to the proper funds and accounts. Management should also review the financial statements to help ensure they are supported by sufficient documentation, free of obvious errors and omissions, and consistent with their financial expectations. These procedures should help avoid financial statement errors, and help ensure more accurate financial reporting.

**Officials' Response:** LORCO will make a concerted effort to work closely with our accounting professionals to make sure that transactions are correct and posted to the proper funds and accounts.

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# OHIO AUDITOR OF STATE KEITH FABER



**LORAIN COUNTY RURAL WASTEWATER DISTRICT**

**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  
MARCH 5, 2019**