NORTHERN OHIO RURAL WATER DISTRICT

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED DECEMBER 31, 2008

Varney, Fink & Associates, Inc.
Certified Public Accountants

Mary Taylor, CPA
Auditor of State

Board of Trustees
Northern Ohio Rural Water
P. O. Box 96
Collins, Ohio 44826

We have reviewed the *Independent Auditor's Report* of the Northern Ohio Rural Water District, Huron County, prepared by Varney, Fink & Associates, Inc., for the audit period January 1, 2008 through December 31, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 16, 2009

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NORTHERN OHIO RURAL WATER DISTRICT
FOR THE YEAR ENDED DECEMBER 31, 2008

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VARNEY, FINK & ASSOCIATES, INC.

CERTIFIED PUBLIC ACCOUNTANTS
121 College Street
Wadsworth, Ohio 44281
330/336-1706 Fax 330/334-5118

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Northern Ohio Rural Water
Collins, Ohio 44826

To the Board of Trustees:

We have audited the accompanying financial statements of Northern Ohio Rural Water, Huron County (the District), as of and for the year ended December 31, 2008. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of December 31, 2008, and the respective changes in financial position, and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2009, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT (continued)

The Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by ***U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations***, and is also not a required part of the financial statements of the District. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The Statement of Operating Expenses on page 26 has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Varney, Fink & Associates

VARNEY, FNK & ASSOCIATES, INC.
Certified Public Accountants

September 29, 2009

NORTHERN OHIO RURAL WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2008

Unaudited

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

Overview of Basic Financial Statements

NORW is described in Note 1, Summary of Significant Accounting Policies, on page ten (11). The Basic Financial Statements are presented using the accrual basis of accounting as further described in the above-mentioned note. The **Statement of Net Assets** includes all of NORW's Assets and Liabilities. This statement provides information about the nature and amounts of investments in resources (assets) owned by NORW, and obligations owed by NORW (liabilities) on December 31. NORW's net assets (equity) are the difference between assets and liabilities. The **Statement of Revenues, Expenses and Changes in Net Assets** provides information on NORW's operations over the period 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 NORW's cash receipts and cash disbursements. It summarizes the net changes in cash resulting from operating, investing, and financing activities.

Table I summarizes the Net Assets of the District.

TABLE I

			2008 vs 2007	
Table I	2008	2007	Dollar Change	Percent Change
Current and other assets	$2,645,387	$3,285,362	($639,975)	-19.5%
Capital Assets	41,575,764	33,165,745	8,410,019	25.3%
Total assets	$44,221,151	$36,451,107	$7,770,044	11.4%
Current liabilities	$5,131,193	$3,592,298	$1,538,895	42.8%
Other liabilities	257,763	426,662	(168,899)	40.0%
Long-term liabilities	34,556,545	29,190,069	5,366,476	18.4%
Total liabilities	$39,945,501	$33,209,029	$6,736,472	20.3%
Invested in capital assets,				
net of related debt	$4,303,391	$1,845,295	$2,458,096	133.2%
Restricted	187,978	130,660	57,318	43.9%
Unrestricted	(215,719)	1,266,123	(1,481,842)	-117.0%
Total Net Assets	$4,275,650	$3,242,078	$1,033,572	31.9%

- The total assets of NORW exceeded liabilities on December 31, 2008 by $4,275,650.

- The District's net assets increased $1,033,572 in 2008.

NORTHERN OHIO RURAL WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2008

Unaudited

Table II summarizes the changes in Revenue and Expenses and the resulting change in Net Assets.

TABLE II

	2008	2007	2008 vs 2007 Dollar Change	2008 vs 2007 Percent Change
Operating revenue	$6,878,389	$6,193,979	$684,410	11.0%
Operating expenses	4,850,646	4,366,997	483,649	11.1%
Income from operations	2,027,743	1,826,982	200,761	11.0%
Nonoperating revenue	864,468	339,399	525,069	154.7%
Nonoperating expenses	(1,858,639)	(1,686,142)	(172,497)	10.2%
Nonoperating loss	(994,171)	(1,346,743)	352,572	-26.2%
Change in net assets	1,033,572	480,239	553,333	115.2%
Beginning net assets	3,242,078	2,761,839	480,239	17.4%
Ending net assets	$4,275,650	$3,242,078	$1,033,572	31.9%

- The District's Operating Revenues increased in 2008 by $684,410 (11%), while Operating Expenses increased $483,649 (11%).

Significant Events and Expenditures During the Year:

NORW has applied for funding from USDA, Rural Development for line extensions into Adams Township, Thompson Township, Pleasant Township, and Reed Township which are located in Seneca County.

NORW has applied for funding from the OWDA for line extensions in Lyme Township, Ridgefield Township, Peru Township, Bronson Township, and Norwalk Township, all of which are located in Huron County.

NORTHERN OHIO RURAL WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2008

Unaudited

Capital Assets:

Table III summarizes the changes in capital assets for the year ended December 31, 2008.

TABLE III

	2008	2007	2008 vs 2007 Dollar Change	2008 vs 2007 Percent Change
Capital assets, nondepreciable:				
Land	$ 370,810	$ 619,545	$ (248,735)	-40.1%
Easements	277,150	264,594	12,556	4.7%
Current construction	48,812	2,794,135	(2,745,323)	-98.3%
Assets held for future use	745,823	0	745,823	100.0%
Capital assets, depreciable:				
Buildings	590,868	584,868	6,000	1.0%
Tanks, stations, and lines	51,566,820	39,535,896	12,030,924	30.4%
Furniture and fixtures	269,987	228,862	41,125	18.0%
Vehicles & distribution equip.	1,967,823	1,885,745	82,078	4.4%
Total before depreciation	55,838,093	45,913,645	9,924,448	21.6%
Accumulated depreciation	(14,262,329)	(12,747,900)	(1,514,429)	
Total capital assets, net	$ 41,575,764	$ 33,165,745	$ 8,410,019	

NORW has $55,838,093 invested in its system (before depreciation) at December 31, 2008. This amount includes additions of $9,924,448 during the year ended December 31, 2008.

The addition of $745,823 for assets held for future use represents the cost of land and test project expenditures in Ottawa County.

The increase in water lines in the amount of $10,607,290 is the result of projects in Erie, Huron, Lorain, and Sandusky Counties.

NORW purchased and upgraded billing software in the office in the amount of $41,125. The network system will increase the efficiency of the operating system and allow for document and information sharing between office personnel.

NORW also purchased one van and one truck in the amount of $48,025 for maintenance of the water lines and various tank locations.

See Note 1, Summary of Significant Accounting Policies, Paragraph E, Capital Assets, for further details of the various additions to capital assets.

NORTHERN OHIO RURAL WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2008

Unaudited

Long-Term Debt

Table IV summarizes long-term debt for the District.

TABLE IV

Table IV	2008	2007	2008 vs 2007 Dollar Change	2008 vs 2007 Percent Change
Long-term debt:				
OWDA Notes	$ 22,917,873	$ 23,618,535	$ (700,662)	-3.0%
Bond Anticipation Notes	6,879,500	0	6,879,500	100.0%
Rural development bonds & notes	7,475,000	7,701,915	(226,915)	-2.9%
Total long-term debt	37,272,373	31,320,450	5,951,923	19.0%
Less: current maturities	(2,715,828)	(2,130,381)	(585,447)	27.5%
Net total long-term debt	$ 34,556,545	$ 29,190,069	$5,366,476	18.4%

See Note 3 of the financial statements for details of issuance and retirement of debt in for the year ended December 31, 2008.

Contact Information

Questions regarding this report and requests for additional information should be forwarded to Northern Ohio Rural Water, P.O. Box 96, Collins, Ohio 44826.

NORTHERN OHIO RURAL WATER

STATEMENT OF NET ASSETS

December 31, 2008

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	$ 1,756,994
Restricted cash (Note 8)	41,078
Receivables:	
Trade (net of allowance for doubtful accounts of $7,468)	350,351
Inventory	342,038
Prepaid expenses	7,026
Total current assets	2,497,487
NONCURRENT ASSETS:	
Restricted cash (Note 8)	146,900
Captial assets, nondepreciable:	
Land	370,810
Easements	277,150
Current Construction	48,812
Assets held for future use	745,823
Captial assets, depreciable:	
Buildings	590,868
Tanks, stations, lines	51,566,820
Furniture and fixtures	269,987
Vehicles and distribution equipment	1,967,823
	55,838,093
Less: Accumulated depreciation	14,262,329
	41,575,764
Total noncurrent assets	41,722,664
OTHER ASSET:	
Organization costs	1,000
Total Assets	$ 44,221,151

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

NORTHERN OHIO RURAL WATER

STATEMENT OF NET ASSETS

December 31, 2008

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable	$ 633,239
Projects and retainage payable	908,294
Tenant deposits	76,000
Accrued expenses:	
Wages	28,683
Compensated absences	51,510
Payroll taxes	51,389
Interest	666,250
Current portion of long-term debt	2,715,828
Total current liabilities	5,131,193
Deferred tap installations	257,763
NONCURRENT LIABILTIES:	
Notes payable	29,797,373
Bonds payable	7,475,000
	37,272,373
Less: Current portion	2,715,828
Total Noncurrent Liabilities	34,556,545
Total Liabilities	39,945,501
NET ASSETS:	
Invested in capital assets, net of related debt	4,303,391
Restricted for bonds payable	187,978
Unrestricted	(215,719)
Total Net Assets	$ 4,275,650

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

NORTHERN OHIO RURAL WATER

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year Ended December 31, 2008

OPERATING REVENUE:	
Water sales	$ 5,840,261
Tap fees	1,038,128
	6,878,389
OPERATING EXPENSES	4,850,646
INCOME FROM OPERATIONS	2,027,743
NON-OPERATING REVENUE:	
Credit card fees	1,994
Discounts earned	3,450
EPA income	14,917
Hydrant maintenance fees	1,375
Interest income	83,161
Line maintenance reimbursements	24,428
Miscellaneous	16,389
Reconnection fees	21,765
Tower income	3,375
Insurance recoveries	31,373
USDA Grant income	662,241
Total Non-Operating Revenue	864,468
NON-OPERATING EXPENSES	
Uncollectible accounts expense	126
EPA expense	13,841
Interest expense	1,844,672
Total Non-Operating Expenses	1,858,639
CHANGE IN NET ASSETS	1,033,572
NET ASSETS, Beginning of Year	3,242,078
NET ASSETS, End of Year	$ 4,275,650

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

NORTHERN OHIO RURAL WATER

STATEMENT OF CASH FLOWS

Year Ended December 31, 2008

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	$ 6,901,453
Cash payments to suppliers for goods and services	(1,309,991)
Cash payments for employees and professional contractors for services	(1,285,447)
Net cash provided by operating activities	4,306,015
CASH FLOWS FROM NON-CAPITAL ACTIVITIES:	
Proceeds from hydrant maintenance, and reconnection fees	23,140
Proceeds from discounts earned, EPA and tower income	7,901
Proceeds from line maintenance reimbursements	24,428
Proceeds from USDA grant	662,241
Other non-operating revenue	49,630
Net cash provided by non-capital activities	767,340
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase of equipment and new construction	(9,924,449)
Proceeds from long-term debt	8,286,715
Repayment of long-term debt	(2,334,792)
Interest paid on debt	(1,876,179)
Net cash used in capital and related financing activities	(5,848,705)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earned	83,161
Net cash provided by investing activities	83,161
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(692,189)
CASH AND CASH EQUIVALENTS - Beginning of period	2,637,161
CASH AND CASH EQUIVALENTS - End of period	$ 1,944,972
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Income from operations	$ 2,027,743
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	1,514,429
Changes in assets and liabilities:	
(Increase) decrease in:	
Receivables	23,064
Inventory	(73,941)
Prepaid expenses	(1,337)
Increase (decrease) in:	
Accounts payable	306,375
Tenant deposits	5,900
Accrued expenses	23,282
Retainage payable	649,399
Deferred tap installations	(168,899)
Net cash provided by operating activities	$ 4,306,015

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

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

Note 1. Summary of Significant Accounting Policies:

Northern Ohio Rural Water, formerly known as Erie Huron County Rural Water Authority, a regional water District, is a political subdivision of the State of Ohio. The District was incorporated for the purpose of providing a water supply for domestic, industrial, and public use to users within and outside 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 water district. The following is a summary of significant accounting policies:

A. Introduction:

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. Under the guidelines of GASB Statement No. 20, the Authority has elected not to apply Financial Accounting Standards Board Statements (FASB) and Interpretations issued after Novermber 30, 1989 to its proprietary activities. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principals Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

B. Basis of Accounting:

Northern Ohio Rural Water 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.

Proprietary funds distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for water and taps. Operating expenses include the cost of the water and taps, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. 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 of Trustees then approves the budget in its original or amended form.

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

C. Budgetary Process (Continued):

Appropriations - After the budget is approved by the Board, the Board then makes appropriations of funds in accordance with said budget. Thereafter, the General Manager has the authority to authorize payment of any disbursement not to exceed $25,000, provided there are sufficient funds appropriated and remaining in the account of the fund from which payment will be made. The Board may, from time-to-time, amend or supplement said appropriation of funds and may also transfer any part of an unencumbered balance of an appropriation of any fund to any purpose or object for which the appropriation for the current fiscal year has proved insufficient.

D. Inventory:

Inventory, which consists of raw materials, is stated at the lower of cost or market using the first-in, first-out (FIFO) method of accounting.

E. Capital Assets:

All capital expenditures are capitalized and depreciated regardless of cost through November 2007, and from December 2007 forward the minimum capitalization threshold is any individual item with a total cost of greater than $1,000 and a useful life of more than one year. Capital assets, including major renewals or betterments, are reported 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	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 property and equipment, and the related allowance for depreciation is included as part of the total accumulated allowance for depreciation.

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

Depreciation expense for the year ended December 31, 2008 was $1,514,429.

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

E. Capital Assets (Continued):

Current construction at December 31, 2008 included capitalized construction period interest of $41,555 that was incurred. Total interest cost incurred was $1,844,672 at December 31, 2008.

Assets held for future use, segregated in 2008, represent the costs of land and engineering fees for a feasibility study for a water treatment plant in Ottawa County. The District continues to evaluate the viability of this project.

A summary of changes in capital assets for the year ended December 31, 2008, is as follows:

	Balance December 31, 2007	Additions	Deletions	Balance December 31, 2008
Capital assets, nondepreciable:				
Land	$ 619,545	$ 3,999	$ (252,734)	$ 370,810
Easements	264,594	12,556	-0-	277,150
Current Construction	2,794,135	-0-	(2,745,323)	48,812
Assets held for future use	-0-	745,823	-0-	745,823
Capital assets, depreciable:				
Buildings	584,868	6,000	-0-	590,868
Tanks, stations, and lines	39,535,896	12,030,924	-0-	51,566,820
Furniture and fixtures	228,862	41,125	-0-	269,987
Vehicles and distribution equipment	1,885,745	82,078	-0-	1,967,823
Totals	45,913,645	12,922,505	(2,998,057)	55,838,093
Less accumulated depreciation				
Buildings	(114,748)	(14,703)	-0-	(129,451)
Tanks, stations, and lines	(11,034,068)	(1,332,476)	-0-	(12,366,544)
Furniture and fixtures	(165,063)	(21,808)	-0-	(186,871)
Vehicles and distribution equipment	(1,434,021)	(145,442)	-0-	(1,579,463)
Total accumulated depreciation	(12,747,900)	(1,514,429)	-0-	(14,262,329)
Net capital assets	$ 33,165,745	$11,408,076	$(2,998,057)	$ 41,575,764

F. Prepaid Expenses:

Prepaid expenses, which include insurance and postage, are amortized over their economic useful lives.

G. Tap Fees:

To receive service, customers are required to pay a tap fee which 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.

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

H. Compensated Absences Payable:

Employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the District. 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 completed up to specified maximums. Upon an employee reaching 20 years of uninterrrupted employment with the District, the employee shall be allowed to accumulate an unlimited total of sick leave days. Upon retirement, employees are entitled to 25% of their accumulated sick leave balance after ten years of uninterrupted service, or 100% of their accumulated sick leave balance after 20 years of uninterrupted service. 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. Since the employees' accumulating rights to receive compensation for future absences are contingent upon the absences being caused by future illnesses or death, a liability for unused sick leave is not recorded in the financial statements, unless the employee has accumulated sick leave after 20 years of uninterrupted service, which would be paid in its entirety. The recorded accrued unused vacation for the year ended December 31, 2008 was $51,510. The unrecorded estimated unused sick leave for the year ended December 31, 2008 was $212,109.

I. Statement of Cash Flows:

For purposes of the Statement of Cash Flows, all liquid investments with a maturity of three months or less when purchased are considered cash equivalents.

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. Receivables - Trade:

The District considers accounts receivable to be collectible with an allowance for doubtful accounts of 1.5% on new billings for the final month of the quarter based on past experience.

Note 2. Equity in Pooled Cash and Investments:

State statutes classify monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District 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 District has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which 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.

Protection of District'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 General Manager 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 prohibted. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibted. An investment must mature wtihin five years from the date of purchase unless matched to a specific obligation or debt of the District, 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 General Manager or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At December 31, 2008, the carrying amount of all District deposits was $1,944,972. Based on the criteria described in GASB statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2008, $1,520,947, of the District's bank balance of $2,079,033, was exposed to custodial risk as discussed below, while $558,086, was covered by the FDIC.

Note 2. Equity in Pooled Cash and Investments (Continued):

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the Federal Reserve System, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

Note 3. Long-Term Debt:

A summary of long-term debt for the year ended December 31, 2008, is as follows:

Description	Balance December 31, 2007	Borrowed	Repaid	Balance December 31, 2008	Due Within One Year
Northern Ohio Rural Water borrowed a total of $30,948,477 from the Ohio Water Development Authority from January 1, 1992 through June 20, 2008 for water line extensions, water system expansions and various other activities directly related to providing water service to surrounding communities. These notes are being paid in semi-annual installments due on January 1st and July 1st, including interest at rates from 3.62% to 7.66%. The maturity dates range from July 1, 2010 through July 1, 2039.	$ 23,618,535	$ 1,407,215	$2,107,877	$ 22,917,873	$1,084,828
Water Resource Improvement Revenue Bonds, Series 2003 were issued through the United States Department of Agriculture (USDA) for the purposes of constructing various water resource projects. The total amount loaned is $4,100,000. The loan requires annual principal and interest payments at 5.00% with a maturity date of December 2043.	3,954,000	-0-	42,000	3,912,000	43,000
A note payable in the amount of $147,915 is due to Buckeye Community Bank. The note requires monthly principal and interest payments of $2,206 at 6.65% with a maturity date of February, 2015. The note is guaranteed by the United States Department of Agriculture (USDA).	147,915	-0-	147,915	-0-	-0-
Water Resource Improvement Revenue Bonds, Series 2007 were issued through the United States Department of Agriculture (USDA) for the purposes of constructing certain improvements to the water distribution system known as the Sandusky County water line project. The total amount loaned is $3,600,000. The loan requires annual principal and interest payments at 4.125% with a maturity date of December 2047.	3,600,000	-0-	37,000	3,563,000	38,000

Note 3. Long-Term Debt (Continued):

Description	Balance December 31, 2007	Borrowed	Repaid	Balance December 31, 2008	Due Within One Year
Water Resource Revenue Bond Anticipation Notes, Series 2008 were issued through National City Bank for the purposes of contructing certain improvements to the water distribution system known as the Seneca County water lines project. The total amount loaned is $5,329,500. The loan is to be paid with Water Resource Revenue Bonds to be issued though the United State Agriculture (USDA) in the amount not to exceed $4,764,000 and capacity fees in an amount of at least $565,500. The loan requires monthly interest payments at 4.09% with a maturity date of March 2010.	-0-	5,329,500	-0-	5,329,500	-0-
Water Resource Revenue Bond Anticipation Notes, Series 2008B were issued through National City Bank for the purposes of acquiring certain improvements known as the Holiday Lake Water System. The total amount loaned is $1,550,000. The loan is to be paid with Water Resource Revenue Bonds to be issued though the United State Agriculture (USDA). The loan requires monthly interest payments at 4.75% with a maturity date of January 2009.	-0-	1,550,000	-0-	1,550,000	1,550,000
	$31,320,450	$8,286,715	$2,334,792	$37,272,373	$2,715 ,828

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of December 31, 2008, are as follows:

Year Ending December 31,	Principal	Interest	Total
2009	$ 2,715,828	$ 1,630,100	$ 4,345,927
2010	6,719,784	1,581,508	8,301,292
2011	1,336,165	1,503,080	2,839,245
2012	1,425,430	1,419,293	2,844,723
2013	1,519,582	1,329,744	2,849,326
2014-2018	7,040,665	5,158,206	12,198,871
2019-2023	5,220,583	3,447,697	8,668,279
2024-2028	4,176,681	2,031,858	6,208,539
2029-2033	2,384,970	1,331,687	3,716,658
2034-2038	2,303,309	814,717	3,118,026
2039-2043	1,758,377	387,833	2,146,210
2044-2048	671,000	70,579	741,579
Total	$ 37,272,373	$ 20,706,302	$ 57,978,675

Note 4. Insurance:

The District 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.

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

Note 5. Retirement Commitments:

A. Defined Benefit Pension Plans:

Northern Ohio Rural Water contributes to the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer defined benefit pension plan operated by the State of Ohio. OPERS 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. OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries.

Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a publicly available stand-alone financial report. That report may be obtained by writing to the OPERS at 277 East Town Street, Columbus, Ohio 43215-4642 or calling (614) 222-5601 or 1-800-222-PERS (7377). The State of Ohio accounts for the activities of the Retirement System, and the amount of that fund is not reflected in the accompanying financial statements.

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

Employees are entitled to 2.5% of their final average salary for each year of service in excess of 30 years. Final average salary is the employee's average salary over the highest 3 years of earnings.

Note 5. Retirement Commitments (Continued):

A. Defined Benefit Pension Plans (Continued):

The Ohio Revised Code provides statutorily authority for employee and employer contributions. The rate set for employee contribution for 2008 is 10% and the employer contribution rate is 14% of covered payroll. The rates are the actuarially determined contribution requirements for OPERS. Required employer contributions are equal to 100% of employer charges and should be extracted from the employer’s records. The difference between the total employer rate and the portion used to fund pension obligations is the amount used to fund the health care progams. Pension expense for the years ended December 31, 2008 is $200,828.

The "Pension Benefit Obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the OPERS System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among OPERS and employers.

Historical trend information showing the OPERS System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's December 31, 2007 Comprehensive Annual Financial Report.

B. Post-Employment Benefits:

The Ohio Public Employees Retirement System provides post-retirement health care coverage to age-and-service retirees under Traditional Pension and Combined Plans with ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Postemploment Benefit (OPEB) as described in GASB Statement No. 45. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer’s contribution to OPERS is set aside for the funding of post retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. The employer contribution rates is 14% of covered payroll from January 1 through December 31, 2008. The Ohio Revised Code currently limits the employer contribution rate not to exceed 14% of covered payroll. Active members do not make contributions to the OPEB Plan.

Note 5. Retirement Commitments (Continued):

B. Post-Employment Benefits (Continued):

OPERS's Post Employment Health Care Plan was established under, and is administered in accordance with Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. For 2008, the employer contribution allocated to the health care plan was 7% of covered payroll. The OPERS Retirement Board is also authorized to establish rules for the payment by the retiree or their surviving beneficiares of a portion of the health care benefits provided. Payment amounts vary depending on the number of cover dependents and the coverage selected.

An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accured liability. The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2007. The investment assumption rate for 2007 was 6.5%. An annual increase of 4% compounded annually on active employee total payroll is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4% base increase, were assumed to range from .5% to 6.3%. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 0.5% to 4% for the next seven years.

In subsequent years (eight and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate). All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor.

OPEBs are advanced-funded on an actuarially determined basis. The Traditional Pension and Combined Plans had 363,503 active contributing participants as of December 31, 2008. The number of active contributing participants for both plans used in the December 31, 2007, actuarial valuation was 364,076. The employer contributions made by Northern Ohio Rural Water used to fund post-employment benefits were $100,414 for 2008. Twelve billion eight hundred million dollars ($12,800,000,000) represents the actuarial value of Retirement Systems' net assets available for OPEB at December 31, 2007. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method, was $29.8 billion and $17.0 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will be effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which will allow additional funds to be allocated to the health care plan.

Note 5. Retirement Commitments (Continued):

B. Post-Employment Benefits (Continued):

Under HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

Note 6. Leasing Arrangements:

The District leases a copier and postage meter under two 60-month operating leases which began in November 2004 and October 2005 and expire in October 2009 and September 2010, respectively. These leases require rent in the amount of $476 and $39 per month, respectively.

The following is a schedule of future minimum rental payments required under the above operating lease as of December 31, 2008:

Year Ending December 31,	Amount
2009	$ 5,223
2010	351
	$ 5,574

Office equipment lease expense for the year ended December 31, 2008 was $6,062.

Note 7. Commitments:

A. Water Purchase Agreements:

The District's original and primary source of water has been the City of Elyria's water treatment plant located in northern Lorain County. On March 15, 1990, the District signed a 40-year water purchase agreement with the City of Elyria. The District has a minimum daily purchase requirement of 90% of the previous year’s water purchased.

On June 19, 2006, the District entered into a 40-year agreement with Erie County. The agreed upon rate is $2.59 per hundred cubic feet (CCF) with a minimum daily purchase of 150,000 gallons, and $1.75 per CCF for all water purchased in excess of 150,000 gallons. The District has a minimum daily purchase requirement of 150,000 gallons through December 31, 2009 and 200,000 gallons per day from January 1, 2010 forward.

Note 7. Commitments (Continued):

A. Water Purchase Agreements (Continued):

In April 2006, the District signed a 99-year water purchase agreement with the City of Lorain with automatic renewal periods of 25 years subject to termination upon written notification of one year prior to the commencement of each renewal period. The agreed upon rate is $1.02 per 1,000 gallons for the first five years of the contract and 50% of the City of Lorain's in-City rate thereafter. The City of Lorain shall have available to the District 250,000 gallons per day with no minimum required purchase.

On March 21, 2002, the District signed a 40-year water purchase agreement with Rural Lorain County Water Authority. The agreed upon rate is $1.75 per 1,000 gallons with a minimum daily purchase of 10,000 gallons.

On April 24, 2006, the District signed a 40-year water purchase agreement with the Village of New London. The agreed upon rat is $1.55 per thousand gallons with a maximum daily purchase not to exceed 100,000 gallons per day.

B. Water Supply Agreements:

On January 18, 1996, the District entered into a 25-year agreement with the Village of Wakeman to provide water at a monthly bulk rate. The agreem upon rate is $2.60 per thousand gallons with a minimum daily purchase of 50,000 gallons and a maximum daily purchase of 250,000 gallons.

C. Tower Income:

The District has entered into two separate agreements for renting its antenna space to local companies. The agreements are with Radio Link Communications, Inc. and Bender Communications on month-to-month rental agreements for $135 per month each.

Note 8. Restricted Funds:

A. Bond Payment Fund:

This fund was created and will be maintained in the custody of the Issuer as a cash fund and shall be used for the payment of principal and interest on the USDA bonds when due. The District is required by bond agreements, to make monthly payments to the fund of at least one-twelfth (1/12) of the amount due and payable with respect to the bonds on the next succeeding December 1.

Note 8. Restricted Funds (Continued):

B. Water System Debt Service Reserve Fund:

This fund was created in January 2004 and will be maintained in the custody of the Issuer as a cash fund and shall be used for the purpose of paying the cost of repairing or replacing any damage to the system which may be caused by an unforeseen catastrophe, and when necessary for the purpose of making payments of principal and interest on the bonds when due if the amount in the Bond Payment Fund is not sufficient to meet such payments. The District is required by bond agreement, to make monthly deposits equal to $3,548 until there is $425,790 accumulated in the fund, after which no further payments need to be made to the fund except to replace withdrawals there from.

C. Restricted Cash:

	2008
Bond Payment Fund	$41,078
Water System Debt Service Reserve Fund	146,900
	$187,978

Supplemental Information

NORTHERN OHIO RURAL WATER

STATEMENT OF OPERATING EXPENSES

Year Ended December 31, 2008

OPERATING EXPENSES:	
Advertising	$ 10,746
Audit fees	23,471
Communication equipment	13,582
Depreciation	1,514,429
Distribution supplies	176,468
Dues and subscriptions	4,975
Electric pump station and tanks	140,122
Engineering fees	9,436
Gasoline	107,284
Insurance:	
General	27,620
Hospitalization	209,138
Legal and professional fees	116,918
Licenses and permits	10,015
Maintenance and repairs:	
Administrative building and equipment	4,723
Pump stations	593
Vehicles	75,329
Office equipment lease	8,621
Office supplies and expenses	35,685
Payroll taxes	60,745
O.P.E.R.S.	200,828
Postage	47,330
Tap installations	208,858
Telephone	12,649
Travel and education expense	56,571
Utilities	19,677
Wages	898,864
Water purchased	855,969
	$ 4,850,646

VARNEY, FINK & ASSOCIATES, INC.

CERTIFIED PUBLIC ACCOUNTANTS
121 College Street
Wadsworth, Ohio 44281
330/336-1706 Fax 330/334-5118

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Northern Ohio Rural Water
Collins, Ohio 44826

To the Board of Trustees:

We have audited the financial statements of Northern Ohio Rural Water, Huron County (the District), as of and for the year ended December 31, 2008, and have issued our report thereon dated September 29, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency described in the accompanying schedule of findings as item 2008-01 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above as item 2008-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain matters that we reported to management of the District, in a separate letter dated September 29, 2009.

This report is intended solely for the information and use of management, the Board of Trustees, and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than those specified parties.

Varney, Fink & Associates

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

September 29, 2009

VARNEY, FINK & ASSOCIATES, INC.

CERTIFIED PUBLIC ACCOUNTANTS
121 College Street
Wadsworth, Ohio 44281
330.336.1706 Fax 330.334.5118

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133*

Board of Trustees
Northern Ohio Rural Water
Collins, Ohio 44826

To the Board of Trustees:

Compliance

We have audited the compliance of Northern Ohio Rural Water, Huron County (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Trustees, and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Varney, Fink & Associates

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

September 29, 2009

Northern Ohio Rural Water
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2008

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture			
Water and Waste Disposal Systems For Rural Communities - Project Grants	10.760	-	$662,241
Water and Waste Disposal Systems For Rural Communities - Guaranteed/Insured Loans	10.760	-	$6,314,000
Total U.S. Department of Agriculture			$6,976,241

The notes to this Schedule are an integral part of this Schedule.

NORTHERN OHIO RURAL WATER
HURON COUNTY

NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is a summary of the activity of the District's federal award program. The Schedule has been prepared on the accural basis of accounting. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations.*

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505

FOR THE YEAR ENDED DECEMBER 31, 2008

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of auditor's report issued on the basic financial statements	Unqualified Opinion
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the basic financial statement level?	Yes
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the basic financial statement level?	No
(d)(1)(iii)	Was there any material noncompliance reported at the basic financial statement level?	No
(d)(1)(iv)	Were there any material weaknesses in internal control over major programs reported?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control over major programs reported?	No
(d)(1)(v)	Type of auditor's report issued on compliance for major programs	Unqualified Opinion
(d)(1)(vi)	Were there any reportable audit findings under §510?	No

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505

FOR THE YEAR ENDED DECEMBER 31, 2008
(CONTINUED)

(d)(1)(vii)	Major Program:	Water and Waste Disposal Systems for Rural Communities, CFDA #10.760
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > $300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding 2008-01 Significant Deficiency/Material Weakness

Financial Statements Adjustments

Sound financial reporting is essential to ensure the information provided to the readers of the financial statements is complete and accurate. The District made the following audit adjustments to the December 31, 2008 financial statements:

- Contracts payable and retainage payable were included in the calculation of invested in capital assets, net of related debt thereby understating the account and understating unrestricted net assets by $651,518.
- Interest expense on debt for a water line project was not properly capitalized resulting in the capital assets being understated and interest expense being overstated by $213,661.
- Accrued interest payable was not recorded resulting in interest expense and accrued interest payable being understated by $76,517.
- Payables relating to work on capital projects were not picked up at December 31, resulting in capital assets water lines, and contracts and retainage payable being understated by $289,528.
- Payments of retainage payable were improperly recorded as a reduction of capital assets resulting in capital assets and retainage payable being understated by $32,751.
- Tap fee collections were not properly recorded as deferred revenue resulting in tap fee revenue being overstated and deferred revenue being understated by $69,913.

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505**

**FOR THE YEAR ENDED DECEMBER 31, 2008
(CONTINUED)**

The fiscal officer should review the adjustments and reclassification discussed above to ensure that similar errors are not reported on financial statements in subsequent years.

Officials Response:

These recommended adjustments will be monitored and recorded appropriately in the future. All year end closing entries and accrual adjustments will be double checked.

3. **FINDINGS FOR FEDERAL AWARDS**

None

NORTHERN OHIO RURAL WATER DISTRICT

HURON 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
NOVEMBER 5, 2009