

Northern Area Water Authority

Tipp City, Ohio

For the Year Ended December 31, 2014



Dave Yost • Auditor of State

Board of Trustees
Northern Area Water Authority
333 James E. Bohanan Memorial Drive
Vandalia, Ohio 45377

We have reviewed the *Independent Auditor's Report* of the Northern Area Water Authority, Miami County, prepared by Plattenburg & Associates, Inc., for the audit period January 1, 2014 through December 31, 2014. 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 Area Water Authority is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

May 27, 2015

Northern Area Water Authority
Tipp City, Ohio

Year ended December 31, 2014

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INDEPENDENT AUDITOR'S REPORT

Northern Area Water Authority
333 James E. Bohanan Memorial Drive
Vandalia, Ohio 45377

Report on the Financial Statements

We have audited the accompanying financial statements of the Northern Area Water Authority (the Authority) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of December 31, 2014, and the respective changes in financial position and cash flows for the year then ended in accordance with 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 that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2015, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Platterburg & Associates, Inc.

Dayton, Ohio
April 15, 2015

Northern Area Water Authority
Tipp City, Ohio
Management's Discussion and Analysis
For the year ended December 31, 2014
(Unaudited)

The discussion and analysis for the Northern Area Water Authority's (NAWA) financial performance provides an overall review of NAWA for the year ended December 31, 2014. The intent of this discussion and analysis is to look at NAWA's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of NAWA's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2014 are as follows:

- In total, net position increased \$229,929 from 2013.
- Total assets increased \$315,586, which represents a 1.4% increase from 2013. This increase is due to an increase in equity in pooled cash and cash equivalents from the prior year.
- Total liabilities increased by \$85,657, which represents a .39% increase from 2013. This increase is primarily from accrued interest on the OWDA loan agreement.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – management's discussion and analysis and the basic financial statements.

The basic financial statements include a statement of net position, statement of revenues, expenses and changes in fund net position, and a statement of cash flows. Since NAWA only uses one fund for its operations, the entity wide and the fund presentation information is the same.

Statement of Net Position

The Statement of Net Position answers the question, "How did we do financially during 2014?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term, deferred outflows of resources, and deferred inflows of resources, using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

This statement reports NAWA's net position, however, in evaluating the overall position of NAWA, non-financial information such as changes in the condition of NAWA's capital assets will also need to be evaluated.

Northern Area Water Authority
Tipp City, Ohio
Management's Discussion and Analysis
For the year ended December 31, 2014
(Unaudited)

FINANCIAL ANALYSIS

A comparative analysis of 2014 and 2013 is presented below:

| | <u>2014</u> | <u>2013</u> | <i>Increase (Decrease)</i> |
|---|-------------------|-------------------|--------------------------------|
| <i>Current and other assets</i> | \$ 1,684,712 | \$ 922,689 | \$ 762,023 |
| <i>Capital assets, net</i> | <u>20,721,939</u> | <u>21,168,376</u> | <u>(446,437)</u> |
| <i>Total assets</i> | <u>22,406,651</u> | <u>22,091,065</u> | <u>315,586</u> |
| | | | |
| <i>Current liabilities</i> | 1,087,650 | 670,663 | 416,987 |
| <i>Long-term loans outstanding</i> | <u>20,724,610</u> | <u>21,055,940</u> | <u>(331,330)</u> |
| <i>Total liabilities</i> | <u>21,812,260</u> | <u>21,726,603</u> | <u>85,657</u> |
| | | | |
| <i>Net position:</i> | | | |
| <i>Net investment in capital assets</i> | (614,115) | (488,026) | (126,089) |
| <i>Unrestricted</i> | <u>1,208,506</u> | <u>852,488</u> | <u>356,018</u> |
| <i>Total net position</i> | <u>\$ 594,391</u> | <u>\$ 364,462</u> | <u>\$ 229,929</u> |

NAWA experienced an increase of \$229,929 in net position during 2014.

At December 31, 2014, NAWA experienced a decrease of \$126,089 in the net investment in capital assets due to current year depreciation expense exceeding current year additions. Additionally, the OWDA long-term loan outstanding was only reduced by one debt service payment made during the year which is also a cause of the decrease in the net investment in capital assets and the increase in equity in pooled cash and cash equivalents as compared to the prior year.

Changes in Net Position

The following table shows the changes in net position for the fiscal years 2014 and 2013:

Northern Area Water Authority
Tipp City, Ohio
Management's Discussion and Analysis
For the year ended December 31, 2014
(Unaudited)

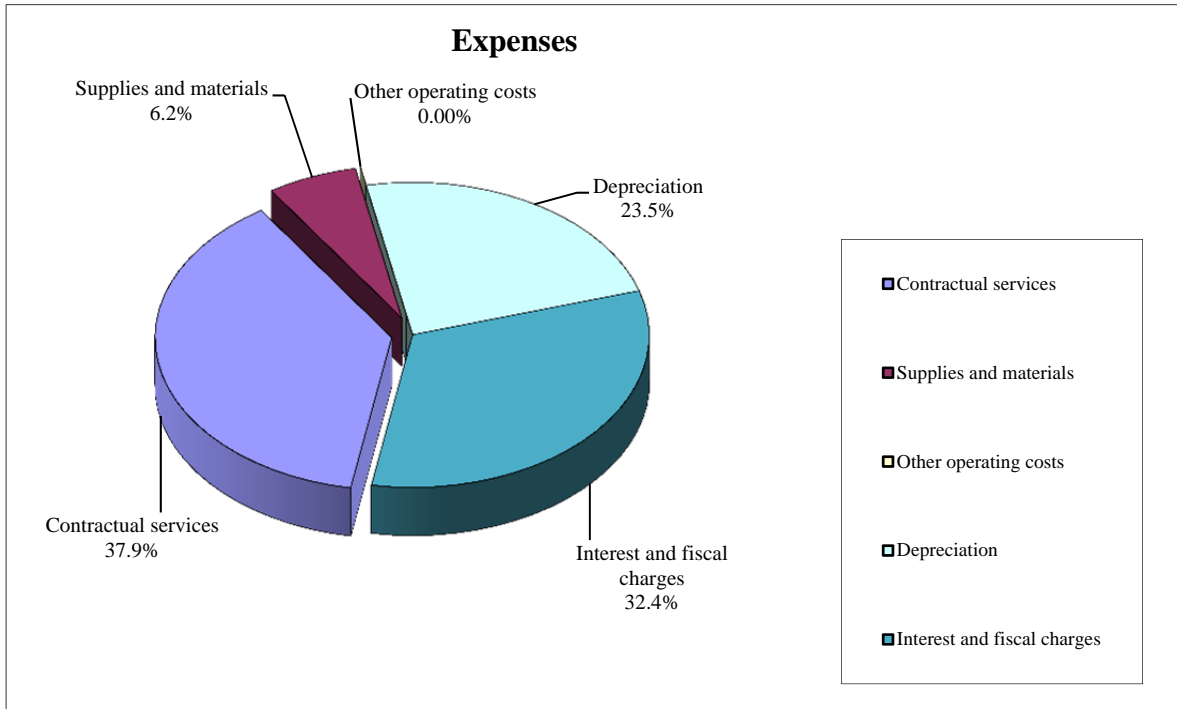
| | <u>2014</u> | <u>2013</u> | <u>Increase (Decrease)</u> |
|-----------------------------------|--------------------|--------------------|--------------------------------|
| <i>Revenues:</i> | | | |
| <i>Operating revenues</i> | | | |
| Charges for services | \$ 2,788,733 | \$ 2,535,697 | \$ 253,036 |
| Other | 14,494 | 5,181 | 9,313 |
| <i>Nonoperating revenues</i> | | | |
| Investment income | 534 | 515 | 19 |
| <i>Total revenues</i> | <u>2,803,761</u> | <u>2,541,393</u> | <u>262,368</u> |
| <i>Expenses:</i> | | | |
| <i>Operating expenses</i> | | | |
| Contractual services | 976,312 | 793,303 | 183,009 |
| Material and supplies | 158,008 | 167,145 | (9,137) |
| Depreciation | 604,515 | 604,946 | (431) |
| Other | 15 | 455 | (440) |
| <i>Nonoperating expenses</i> | | | |
| Interest and fiscal charges | 834,982 | 857,410 | (22,428) |
| <i>Total expenses</i> | <u>2,573,832</u> | <u>2,423,259</u> | <u>150,573</u> |
| <i>Change in net position</i> | 229,929 | 118,134 | 111,795 |
| <i>Beginning net position</i> | <u>364,462</u> | <u>246,328</u> | <u>118,134</u> |
| <i>Ending net position</i> | <u>\$ 594,391</u> | <u>\$ 364,462</u> | <u>\$ 229,929</u> |

Total revenues increased \$262,368 due to an increase in current year charges for services. Total expenses increased \$150,573 from 2013 to 2014. The primary reason for this increase was due an increase in contractual services.

NAWA's only activity is business-type activity, which is the operation of the water treatment plant. The water treatment plant provides water treatment services to both the City of Vandalia and the City of Tipp City. NAWA charges each member city for water treatment services provided to the cities' residents in accordance with the joint venture agreement. Such charges are allocated based upon each city's monthly usage and are adjusted each month accordingly. During 2014, the plant generated revenues from charges for services in excess of \$2.7 million and had total expenses of approximately \$2.5 million. The interest expense of \$834,982 for 2014 resulted from outstanding loans with the Ohio Water Development Authority (OWDA) and interest on the reimbursement agreement for bonded debt with the City of Tipp City.

Northern Area Water Authority
Tipp City, Ohio
Management's Discussion and Analysis
For the year ended December 31, 2014
(Unaudited)

Contractual services make up 37.9% of NAWA's expenses. NAWA's facilities are operated and maintained for NAWA by the City of Tipp City. These expenses are recorded as contractual services.



CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2014, NAWA had \$20,721,939 invested in capital assets. The following table shows 2014 and 2013 balances:

*Capital Assets, at Year End
(Net of Depreciation)*

| | <u>2014</u> | <u>2013</u> |
|-----------------------------------|----------------------|----------------------|
| <i>Construction in progress</i> | \$ 267,877 | \$ 186,835 |
| <i>Infrastructure</i> | 4,780,629 | 4,918,391 |
| <i>Buildings and improvements</i> | 14,918,568 | 15,242,090 |
| <i>Machinery and equipment</i> | 754,865 | 821,060 |
| <i>Total capital assets</i> | <u>\$ 20,721,939</u> | <u>\$ 21,168,376</u> |

Additional information on NAWA's capital assets can be found in Note 4.

Northern Area Water Authority
Tipp City, Ohio
Management's Discussion and Analysis
For the year ended December 31, 2014
(Unaudited)

Debt

At December 31, 2014, NAWA had \$21,336,054 in Ohio Water Development Authority (OWDA) loans outstanding for the construction of the water treatment plant facilities and a degasifier project. The following table summarizes NAWA's debt outstanding at December 31, 2014 and December 31, 2013:

| | <u>2014</u> | <u>2013</u> | <u>(Decrease)</u> |
|--|----------------------|----------------------|---------------------|
| <i>OWDA loans payable</i> | \$ 20,636,054 | \$ 20,906,402 | \$ (270,348) |
| <i>Reimbursement agreement for bonded debt</i> | <u>700,000</u> | <u>750,000</u> | <u>(50,000)</u> |
| <i>Total</i> | <u>\$ 21,336,054</u> | <u>\$ 21,656,402</u> | <u>\$ (320,348)</u> |

Additional information on NAWA's long-term debt can be found in Note 5.

REQUEST FOR INFORMATION

This financial report is designed to provide the citizens, taxpayers, and consumers of the cities of Tipp City and Vandalia, creditors and investors with a general overview of NAWA's finances and to show NAWA's accountability for the monies it receives. If you have questions about this report or need additional information contact the Finance Department by calling (937) 898-5891 or writing to City of Vandalia Finance Department, 333 James E. Bohanan Memorial Drive, Vandalia, OH 45377.

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Northern Area Water Authority
Tipp City, Ohio
Statement of Net Position
December 31, 2014

Assets:

Current assets:

| | |
|--|------------------|
| Equity in pooled cash and cash equivalents | \$ 1,423,988 |
| Cash and cash equivalents: | |
| With escrow agent | 129 |
| Receivables: | |
| Amounts due from related parties | 210,290 |
| Materials and supplies inventory | 49,636 |
| Prepaid items | 669 |
| Total current assets | <u>1,684,712</u> |

Noncurrent assets:

Capital assets:

| | |
|---------------------------------|-------------------|
| Construction in progress | 267,877 |
| Depreciable capital assets, net | <u>20,454,062</u> |
| Total noncurrent assets | <u>20,721,939</u> |
| Total assets | <u>22,406,651</u> |

Liabilities:

Current liabilities:

| | |
|---|------------------|
| Accounts payable | 8,146 |
| Contracts payable | 1,419 |
| Amounts due to related parties | 54,995 |
| Accrued interest payable | 411,646 |
| Reimbursement agreement for bonded debt | 50,000 |
| OWDA loans payable | <u>561,444</u> |
| Total current liabilities | <u>1,087,650</u> |

Long-term liabilities:

| | |
|---|-------------------|
| Reimbursement agreement for bonded debt, net of current portion | 650,000 |
| OWDA loans payable, net of current portion | <u>20,074,610</u> |
| Total long-term liabilities | <u>20,724,610</u> |
| Total liabilities | <u>21,812,260</u> |

Net position:

| | |
|----------------------------------|-------------------|
| Net investment in capital assets | (614,115) |
| Unrestricted | <u>1,208,506</u> |
| Total net position | <u>\$ 594,391</u> |

See accompanying notes to the basic financial statements.

Northern Area Water Authority
Tipp City, Ohio
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended December 31, 2014

| | |
|--|--------------------------|
| <u>Operating revenues:</u> | |
| Charges for services | \$ 2,788,733 |
| Other | 14,494 |
| Total operating revenue | <u>2,803,227</u> |
| <u>Operating expenses:</u> | |
| Contractual services | 976,312 |
| Supplies and materials | 158,008 |
| Other operating costs | 15 |
| Depreciation | 604,515 |
| Total operating expenses | <u>1,738,850</u> |
| Operating income | <u>1,064,377</u> |
| <u>Nonoperating revenues (expenses):</u> | |
| Interest | 534 |
| Interest and fiscal charges | (834,982) |
| Total nonoperating revenues (expenses) | <u>(834,448)</u> |
| Change in net position | 229,929 |
| Net position at beginning of year | <u>364,462</u> |
| Net position at end of year | <u><u>\$ 594,391</u></u> |

See accompanying notes to the basic financial statements.

Northern Area Water Authority
Tipp City, Ohio
Statement of Cash Flows
For the Year Ended December 31, 2014

| | |
|---|---------------------|
| Cash flows from operating activities: | |
| Cash received from customers | \$ 2,771,478 |
| Cash payments to suppliers for goods and services | <u>(1,136,693)</u> |
| Net cash provided by operating activities | <u>1,634,785</u> |
| Cash flows from capital and related financing activities: | |
| Interest paid on debt | (421,171) |
| Principal payment on loans | (322,513) |
| Acquisition of capital assets | <u>(158,078)</u> |
| Net cash used for capital and related financing activities | <u>(901,762)</u> |
| Cash flows from investing activities: | |
| Investment income | <u>534</u> |
| Net cash provided by investing activities | <u>534</u> |
| Net increase in cash and cash equivalents | 733,557 |
| Cash and cash equivalents at beginning of year | <u>690,560</u> |
| Cash and cash equivalents at end of year | <u>\$ 1,424,117</u> |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating income | \$ 1,064,377 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 604,515 |
| Change in assets and liabilities: | |
| (Increase) decrease in assets: | |
| Accounts due from related parties | (31,749) |
| Materials and supplies inventory | 3,304 |
| Prepaid items | (21) |
| Increase (decrease) in liabilities: | |
| Accounts payable | (1,741) |
| Amounts due to related parties | 8,500 |
| Contracts payable | <u>(12,400)</u> |
| Net cash provided by operating activities | <u>\$ 1,634,785</u> |

See accompanying notes to the financial statements.

Northern Area Water Authority
Tipp City, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF THE REPORTING ENTITY

A. Description of the Reporting Entity

The Northern Area Water Authority (NAWA) is joint venture between the Cities of Tipp City and Vandalia, Ohio. NAWA oversees the design, construction and operation of the water treatment plant that is located in Tipp City and provides water treatment services to both communities. NAWA is governed by a five-member management board, which has complete authority over all aspects of the plant's operation. The City of Vandalia serves as the fiscal agent and NAWA is reported as an agency fund of the City of Vandalia. The accompanying financial statements present only NAWA and are not intended to present the financial position of either City participating in the joint venture.

NAWA charges each member city for water treatment services provided to the cities' residents in accordance with the joint venture agreement dated March 1, 2002. Each participating City has an equal 50% equity allocation in NAWA but charges are allocated based upon each city's usage. The following is a schedule of the participating cities' contribution for services rendered at December.

| | |
|------------------|----------------|
| | <u>2014</u> |
| <i>Vandalia</i> | 52.86% |
| <i>Tipp City</i> | <u>47.14%</u> |
| | <u>100.00%</u> |

As explained further in this note, the financial statements of the NAWA have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to proprietary funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the NAWA accounting policies are described below.

B. Reporting Entity

The reporting entity is comprised of the stand-alone government, component units and other organizations that are included to ensure that the financial statements of NAWA are not misleading. The stand-alone government consists of all departments, boards and agencies that are not legally separate from NAWA.

Northern Area Water Authority

Tipp City, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

Component units are legally separate organizations for which NAWA is financially accountable. NAWA is financially accountable for an organization if NAWA appoints a voting majority of the organization's governing board and (1) is able to significantly influence the programs or services performed or provided by the organization; or (2) is legally entitled to or can otherwise access the organization's resources; is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on NAWA in that NAWA approves their budget, the issuance of their debt or the levying of their taxes. Based upon the application of these criteria, NAWA has no component units.

C. Basis of Presentation

NAWA's basic financial statements consist of a statement of net position, a statement of revenue, expenses and changes in fund net position, and a statement of cash flows.

NAWA 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.

D. Measurement Focus

The enterprise fund is accounted for on a flow of economic resources measurement focus. All assets, all liabilities, deferred outflows of resources and deferred inflows of resources associated with the operation of NAWA are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in the total net position. The statement of cash flows provides information about how NAWA finances and meets the cash flow needs of its enterprise activity.

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. NAWA financial statements are prepared using the accrual basis of accounting.

Revenue is recorded on the accrual basis when the exchange takes place. Expenses are recognized at the time they are incurred.

Northern Area Water Authority
Tipp City, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits. NAWA also maintains an escrow account, which is presented as “Cash and cash equivalents with escrow agent”.

G. Inventory

Inventories are stated at the lower of cost or market. Inventories are expensed when used.

Inventory consists of expendable supplies held for consumption.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2014, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded.

I. Capital Assets

Capital assets utilized by NAWA are reported on the statement of net position. All capital assets are capitalized at cost and updated for additions and retirements during the year. Contributed capital assets are recorded at their fair market values as of the date received. NAWA maintains a capitalization policy of recording assets with an initial, individual threshold cost of more than \$1,000 and an estimated useful life of three or more years. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not.

All reported capital assets except for land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation will be computed using the straight-line method over the following useful lives:

| <u>Description</u> | <u>Estimated Lives</u> |
|-----------------------------------|------------------------|
| <i>Infrastructure</i> | <i>7 - 65 years</i> |
| <i>Buildings and improvements</i> | <i>10 - 50 years</i> |
| <i>Machinery and equipment</i> | <i>3 - 35 years</i> |
| <i>Vehicles</i> | <i>6 - 25 years</i> |

NAWA’s policy is to capitalize net interest on construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project and the interest earned from temporary investments of the debt proceeds over the same period. Capitalized interest is amortized on a straight-line basis over the estimated useful life of the asset. NAWA did not have any capitalized interest costs during 2014.

Northern Area Water Authority
Tipp City, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

J. 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, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by NAWA or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. NAWA applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net positions are available. NAWA did not have any restricted net positions for 2014.

K. Operating and Nonoperating Revenues and Expenses

NAWA distinguishes operating revenues and expenses from nonoperating items. Operating revenues are those revenues that are directly from the primary activity of NAWA. For NAWA, these revenues are charges for services for water treatment and distribution. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of NAWA. All revenues and expenses not meeting this definition are reported as non-operating.

L. Contributions of Capital

Contributions of capital arise from outside contributions of capital assets or outside contributions of resources restricted to capital acquisition and construction. NAWA did not have any capital contributions during 2014.

M. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N. Budgetary Process

An operating budget for NAWA is prepared and approved annually by the Board of Directors. Budgetary modifications may only be made by resolution of the Board.

NOTE 2 – DEPOSITS

Ohio Law requires the classification of funds held by NAWA into three categories:

Active funds are those funds required to be kept in “cash” or “near cash” status for immediate use by NAWA. Such funds must be maintained either as cash in the NAWA Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Northern Area Water Authority

Tipp City, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

Inactive funds are those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

Interim funds are those funds not needed for immediate use but needed before the end of the current period of designation of depositories. Interim funds may be invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Interim deposits in eligible institutions apply for interim funds;
5. Bonds and other obligations of the State of Ohio;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
7. The State Treasurer's investment pool (STAR Ohio).

Northern Area Water Authority
Tipp City, Ohio
Notes to the Basic Financial Statements
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Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of NAWA's cash and deposits is provided by the Federal Deposit Insurance Corporation as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third parties of the financial institution.

A year-end, the carrying amount of the NAWA's deposits was \$1,424,117. Based on the criteria described in GASB Statement No. 40 "Deposits and Investment Risk Disclosures", as of December 31, 2014, all of NAWA's bank balance of \$1,426,787 was not exposed to custodial risk as discussed above.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable from related parties are monies due from the City of Vandalia and the City of Tipp City for their portion of water treatment services. (See Note 6 for more information). No allowance for doubtful accounts has been recorded as all amounts are considered collectible. All receivables are expected to be collected within one year.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014, was as follows:

Northern Area Water Authority
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For the Year Ended December 31, 2014

| <u>Business-type activities</u> | <i>Balance</i> <u>12/31/2013</u> | <i>Increases</i> | <i>Decreases</i> | <i>Balance</i> <u>12/31/2014</u> |
|---|-------------------------------------|---------------------|--------------------|-------------------------------------|
| <i>Capital assets, not being depreciated:</i> | | | | |
| Construction in progress | \$ 186,835 | \$ 95,112 | \$ (14,070) | \$ 267,877 |
| <i>Capital assets, being depreciated:</i> | | | | |
| Infrastructure | 5,830,064 | - | - | 5,830,064 |
| Buildings and improvements | 17,997,844 | 77,036 | - | 18,074,880 |
| Machinery and equipment | 1,234,247 | - | - | 1,234,247 |
| Vehicles | 17,566 | - | - | 17,566 |
| <i>Total capital assets, being depreciated</i> | <u>25,079,721</u> | <u>77,036</u> | <u>-</u> | <u>25,156,757</u> |
| <i>Less accumulated depreciation:</i> | | | | |
| Infrastructure | (911,673) | (137,762) | - | (1,049,435) |
| Buildings and improvements | (2,755,754) | (400,558) | - | (3,156,312) |
| Machinery and equipment | (413,187) | (66,195) | - | (479,382) |
| Vehicles | (17,566) | - | - | (17,566) |
| <i>Total accumulated depreciation</i> | <u>(4,098,180)</u> | <u>(604,515)</u> | <u>-</u> | <u>(4,702,695)</u> |
| <i>Total capital assets being depreciated, net</i> | <u>20,981,541</u> | <u>(527,479)</u> | <u>-</u> | <u>20,454,062</u> |
| <i>Business-type activities capital assets, net</i> | <u>\$ 21,168,376</u> | <u>\$ (432,367)</u> | <u>\$ (14,070)</u> | <u>\$ 20,721,939</u> |

NOTE 5 – LONG-TERM OBLIGATIONS

Changes in long-term obligations payable during 2014 were as follows:

| | <i>Balance</i> <u>12/31/2013</u> | <i>Additions</i> | <i>Deletions</i> | <i>Balance</i> <u>12/31/2014</u> | <i>Amount Due</i> <u>in One Year</u> |
|------------------------------------|-------------------------------------|------------------|---------------------|-------------------------------------|---|
| <u><i>Loans:</i></u> | | | | | |
| 2005 OWDA Loan - 3.99% | \$ 20,906,402 | \$ - | \$ (272,513) | \$ 20,633,889 | \$ 561,444 |
| 2014 OWDA Loan - 3.34% | - | 2,165 | - | 2,165 | - |
| | <u>20,906,402</u> | <u>2,165</u> | <u>(272,513)</u> | <u>20,636,054</u> | <u>561,444</u> |
| <u><i>Other obligations:</i></u> | | | | | |
| Reimbursement agreement | | | | | |
| for bonded debt | 750,000 | - | (50,000) | 700,000 | 50,000 |
| <i>Total long-term obligations</i> | <u>\$ 21,656,402</u> | <u>\$ 2,165</u> | <u>\$ (322,513)</u> | <u>\$ 21,336,054</u> | <u>\$ 611,444</u> |

The original loan amount approved for the water treatment plant was \$24,162,446. Principal and interest payments on the water treatment plant loan began January 1, 2008. The water treatment plant loan is a 30 year loan.

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The 2014 loan carrying a 3.34% interest rate was issued for the degasifier project. This loan is in the planning stage and has not yet been finalized. Current operations are expected to provide cash flows for the repayment of this loan.

The reimbursement agreement for bonded debt is an agreement between NAWA and the City of Tipp City. NAWA is to reimburse Tipp City for related debt principal and interest payments for the new generator financed by the City. The agreement has not yet been finalized so principal and interest requirements have not yet been established. For 2014, the City again rolled over the bond anticipation note and due to low interest rates the City will continue to reissue these notes annually.

The annual debt service requirements for payment of principal and interest at December 31, 2014, are as follows:

| <u>Year</u> | <u>OWDA loans</u> | |
|--------------|----------------------|----------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2015 | \$ 561,444 | \$ 817,747 |
| 2016 | 584,069 | 795,122 |
| 2017 | 607,606 | 771,585 |
| 2018 | 632,091 | 747,100 |
| 2019 | 657,563 | 721,628 |
| 2020-2024 | 3,707,307 | 3,188,649 |
| 2025-2029 | 4,516,971 | 2,378,985 |
| 2030-2034 | 5,503,464 | 1,392,492 |
| 2035-2037 | 3,865,539 | 273,199 |
| <i>Total</i> | <u>\$ 20,636,054</u> | <u>\$ 11,086,507</u> |

NOTE 6 – RELATED PARTY TRANSACTIONS

NAWA was party to several transactions during 2014 involving the two member cities, which are summarized as follows:

A. Accounts Receivable

Accounts receivable as of December 31, 2014, includes the balance due from the member cities for water treatment services provided to the cities' residents. The amounts included in accounts receivable from member cities is as follows:

| | <u>2014</u> |
|--------------|-------------------|
| Vandalia | \$ 112,392 |
| Tipp City | 97,898 |
| <i>Total</i> | <u>\$ 210,290</u> |

Northern Area Water Authority

Tipp City, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

B. Charges for Services

Charges for services for 2014 include the amounts charged to the member cities for water treatment services provided to the cities' residents. The amount included in charges for services from member cities is as follows:

| | |
|-----------|---------------------|
| | <u>2014</u> |
| Vandalia | \$ 1,472,698 |
| Tipp City | <u>1,313,398</u> |
| Total | <u>\$ 2,786,096</u> |

C. Contractual Services

Contractual services for services for 2014 include the amounts charged by the member cities for water treatment services provided to the cities' residents. The amount included in contractual services from member cities is as follows:

| | |
|-----------|-------------------|
| | <u>2014</u> |
| Vandalia | \$ 38,736 |
| Tipp City | <u>873,766</u> |
| Total | <u>\$ 912,502</u> |

D. Operating lease

During 2006, NAWA entered into an operating lease with the City of Tipp City for the use the City's wellfield. The lease will be in effect for a period coterminous with the joint venture agreement. Future payments are based on the gallons used during the year. During 2014, NAWA paid \$21,905 for the use of the wellfield and is being reported as part of contractual services.

NOTE 7 – RISK MANAGEMENT

NAWA 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. As of December 31, 2014, NAWA has acquired general liability insurance coverage, including directors and officers liability, in the amount of \$10,000,000 per occurrence, and property coverage in the amount of \$1,000,000,000 per occurrence with a deductible of \$2,500. NAWA's membership in the Miami Valley Risk Management Association is contingent on the continued membership of the joint venture participants the City of Tipp City and the City of Vandalia.

There were no significant reductions in coverage from prior year. Settled claims have not exceeded this commercial coverage in any of the past three years.

Northern Area Water Authority
Tipp City, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

NOTE 8 – CONTRACTUAL COMMITMENTS/ENCUMBRANCES

As of December 31, 2014, NAWA had significant contractual commitments/encumbrances for the following:

| | <i>Purchase Order</i> | <i>Paid as of</i> | <i>Remaining</i> |
|---|-----------------------|--------------------------|-------------------|
| | <u>Amount</u> | <u>December 31, 2014</u> | <u>Commitment</u> |
| <i>Operational Services - Tipp City</i> | \$ 300,000 | \$ 233,568 | \$ 66,432 |
| <i>Degasifier project</i> | <u>614,000</u> | <u>-</u> | <u>614,000</u> |
| <i>Total</i> | <u>\$ 914,000</u> | <u>\$ 233,568</u> | <u>\$ 680,432</u> |

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NORTHERN AREA WATER AUTHORITY



Yellow Book Report

December 31, 2014

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**INDEPENDENT AUDITOR'S 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***

Northern Area Water Authority
333 James E. Bohanan Memorial Drive
Vandalia, Ohio 45377

We have audited, in accordance with the 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, the financial statements of the Northern Area Water Authority (the Authority), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 15, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control 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 and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *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 deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plattenburg & Associates, Inc.

Dayton, Ohio
April 15, 2015



Dave Yost • Auditor of State

NORTHERN AREA WATER AUTHORITY

MIAMI 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
JUNE 9, 2015**