



Dave Yost • Auditor of State



**NORTHERN OHIO RURAL WATER  
HURON COUNTY  
DECEMBER 31, 2016 AND 2015**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Northern Ohio Rural Water  
Huron County  
P.O. Box 96  
Collins, Ohio 44826-0096

To the Board of Trustees:

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

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of Northern Ohio Rural Water, Huron County, Ohio (the District), as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities and the aggregate remaining fund information of Northern Ohio Rural Water, Huron County, Ohio, as of December 31, 2016 and 2015 and the changes in its financial position and, where applicable, cash flows thereof for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 12 to the financial statements, during the year ended December 31, 2015, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

As also discussed in Note 12 to the financial statements, management's discussion and analysis includes comparative information related to the year ended December 31, 2014. Financial information for the comparative year was not restated to reflect the implementation of GASB Statement No. 68. We did not modify our opinion regarding this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Supplementary and Other Information***

Our audit was conducted to opine on the District's basic financial statements taken as a whole.

The Schedules of Operating Expenses present additional analysis and are not a required part of the basic financial statements.

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

**Dave Yost**  
Auditor of State

Columbus, Ohio

June 15, 2017

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# NORTHERN OHIO RURAL WATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2016 and 2015

(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.

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

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

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

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

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

# NORTHERN OHIO RURAL WATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2016 and 2015

(Unaudited)

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

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

As a result of implementing GASB 68, the District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2014, from \$13,177,107 to \$12,499,277.

### Overview of Basic Financial Statements:

NORW is described in Note 1, and Summary of Significant Accounting Policies is described in Note 2. The Basic Financial Statements are presented using the accrual basis of accounting as further described in Note 2. The **Statement of Net Position** 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 position (equity) is the difference between assets and liabilities. The **Statement of Revenues, Expenses and Changes in Net Position** 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. The **Notes to the Financial Statements** provide additional information that is essential for a full understanding of the financial statements.

# NORTHERN OHIO RURAL WATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2016 and 2015

(Unaudited)

Table I summarizes the Net Position of the District.

**TABLE I**

	2016	2015	2014	2016 vs 2015		2015 vs 2014	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Current and other assets	\$ 3,876,574	\$ 2,744,654	\$ 2,937,597	\$ 1,131,920	41.2%	\$ (192,943)	-6.6%
Capital assets	48,081,186	48,838,967	49,269,749	(757,781)	-1.6%	(430,782)	-0.9%
Total assets	<u>51,957,760</u>	<u>51,583,621</u>	<u>52,207,346</u>	<u>374,139</u>	0.7%	<u>(623,725)</u>	-1.2%
Deferred outflows of resources-pension	\$ 711,965	\$ 214,304	\$ -	\$ 497,661	232.2%	\$ 214,304	100.0%
Current liabilities	2,381,950	3,352,119	3,498,720	(970,169)	-28.9%	(146,601)	-4.2%
Other liabilities	164,825	186,875	89,125	(22,050)	-11.8%	97,750	109.7%
Long-term liabilities	34,101,775	34,020,431	35,442,394	81,344	0.2%	(1,421,963)	-4.0%
Total liabilities	<u>36,648,550</u>	<u>37,559,425</u>	<u>39,030,239</u>	<u>(910,875)</u>	-2.4%	<u>(1,470,814)</u>	-3.8%
Deferred inflows of resources-pension	\$ 47,306	\$ 14,488	\$ -	\$ 32,818	226.5%	\$ 14,488	100.0%
Net investment in capital assets	13,689,339	13,401,652	11,756,251	287,687	2.1%	1,645,401	14.0%
Restricted	1,180,022	996,013	920,612	184,009	18.5%	75,401	8.2%
Unrestricted	1,104,508	(173,653)	500,244	1,278,161	736.0%	(673,897)	-134.7%
Total net position	<u>\$ 15,973,869</u>	<u>\$ 14,224,012</u>	<u>\$ 13,177,107</u>	<u>\$ 1,749,857</u>	12.3%	<u>\$ 1,046,905</u>	7.9%

- The total assets plus deferred outflows of resources of NORW exceeded liabilities plus deferred inflows of resources on December 31, 2016 and 2015 by \$15,973,869 and \$14,224,012, respectively.
- The District's net position increased \$1,749,857 and \$1,046,905 in 2016 and 2015, respectively, due primarily to income from operations.

### Significant Events and Expenditures During the Year:

Deferred outflows and inflows of resources – pension were recorded based on Northern Ohio Rural Water's proportionate share of OPERS' Deferred Inflows/Outflows Amortization Tracking Worksheet per the requirements of GASB 68 and 71 based on a measurement date of December 31, 2015 and 2014.

# NORTHERN OHIO RURAL WATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2016 and 2015

(Unaudited)

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

**TABLE II**

	2016	2015	2014	2016 vs 2015		2015 vs 2014	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Operating revenue	\$ 8,675,293	\$ 8,289,798	\$ 7,901,037	\$ 385,495	4.7%	\$ 388,761	4.9%
Operating expenses	(5,825,415)	(5,270,582)	(5,461,423)	(554,833)	10.5%	190,841	-3.5%
Income from operations	2,849,878	3,019,216	2,439,614	(169,338)	-5.6%	579,602	23.8%
Nonoperating revenue	264,857	315,861	170,322	(51,004)	-16.1%	145,539	85.4%
Nonoperating expenses	(1,364,878)	(1,610,342)	(1,960,229)	245,464	-15.2%	349,887	-17.8%
Nonoperating gain (loss)	(1,100,021)	(1,294,481)	(1,789,907)	194,460	-15.0%	495,426	27.7%
Change in net position	1,749,857	1,724,735	649,707	25,122	1.5%	1,075,028	165.5%
Beginning net position	14,224,012	13,177,107	12,527,400	1,046,905	7.9%	649,707	5.2%
Restatement of net position-							
GASB 68	-	(677,829)	-	677,829		(677,829)	
Rounding adjustment	-	(1)	-	1		(1)	
	14,224,012	12,499,277	12,527,400	1,724,735		(28,123)	
Ending net position	<u>\$ 15,973,869</u>	<u>\$14,224,012</u>	<u>\$13,177,107</u>	<u>\$ 1,749,857</u>	12.3%	<u>\$ 1,046,905</u>	7.9%

- The District's operating revenues increased in 2016 and 2015 by \$385,495 (5%) and \$388,761 (5%), respectively, while operating expenses increased in 2016 and decreased in 2015 by \$554,833 (10.5%) and \$190,841 (-3.5%), respectively.

### Significant Events and Expenditures During The Year:

The 2016 increase in net position is due to results of operations. The decrease in nonoperating expenses is due primarily to a \$245,258 decrease in interest expense. The 2015 increase in net position is due to results of operations. The decrease in nonoperating expenses is due primarily to a \$233,471 decrease in interest expense and a \$116,997 impairment loss on demolition of buildings in 2014. A restatement of 2014 net position in the amount of \$677,829 was recorded based on Northern Ohio Rural Water's proportionate share of OPERS' Schedule of Collective Pension Amounts per the requirement of GASB 68 based on a measurement date of December 31, 2014.

**NORTHERN OHIO RURAL WATER**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the Years Ended December 31, 2016 and 2015

(Unaudited)

Capital Assets:

Table III summarizes the changes in capital assets for the District.

**TABLE III**

	2016	2015	2014	2016 vs 2015		2015 vs 2014	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Capital assets, non-depreciable:							
Land	\$ 533,342	\$ 533,342	\$ 497,833	\$ -	0.0%	\$ 35,509	7.1%
Easements	342,356	334,395	326,822	7,961	2.4%	7,573	2.3%
Current construction	47,676	109,439	28,752	(61,763)	-56.4%	80,687	280.6%
Capital assets, depreciable:							
Buildings	2,306,087	2,306,087	2,303,837	-	0.0%	2,250	0.1%
Tanks, stations, and lines	71,464,927	70,097,677	68,848,918	1,367,250	2.0%	1,248,759	1.8%
Furniture and fixtures	447,263	433,468	431,610	13,795	3.2%	1,858	0.4%
Vehicles & distribution equip.	2,018,342	1,945,500	2,063,702	72,842	3.7%	(118,202)	-5.7%
Total before depreciation	77,159,993	75,759,908	74,501,474	1,400,085	1.8%	1,258,434	1.7%
Accumulated depreciation	(29,078,807)	(26,920,941)	(25,231,725)	(2,157,866)		(1,689,216)	
Total capital assets, net	<u>\$ 48,081,186</u>	<u>\$ 48,838,967</u>	<u>\$ 49,269,749</u>	<u>\$ (757,781)</u>		<u>\$ (430,782)</u>	

NORW has \$77,159,993 invested in its system (before depreciation) at December 31, 2016. This amount includes net additions of \$1,400,085 during the year ended December 31, 2016.

The increase in tanks, stations, and lines in the amount of \$1,367,250 is due primarily to a tank painting, line extensions, one pump station, and tanks rehabilitations.

See Note 2, Summary of Significant Accounting Policies, Paragraph D, Capital Assets, for further details of the various capital assets.

# NORTHERN OHIO RURAL WATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2016 and 2015

(Unaudited)

### Long-Term Debt:

Table IV summarizes long-term debt for the District.

**TABLE IV**

	2016	2015	2014	2016 vs 2015		2015 vs 2014	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Long-term debt:							
Note payable - City of Elyria	\$ -	\$ 27,500	\$ 60,500	\$ (27,500)	-100.0%	\$ (33,000)	-54.5%
OWDA notes	14,313,247	16,102,792	17,774,640	(1,789,545)	-11.1%	(1,671,848)	-9.4%
CoBank notes	15,670,851	2,057,088	2,125,091	13,613,763	661.8%	(68,003)	-3.2%
Rural dev. bonds and notes	4,304,200	17,095,100	17,343,800	(12,790,900)	-74.8%	(248,700)	-1.4%
Buckeye Community Bank notes	103,549	154,835	209,467	(51,286)	-33.1%	(54,632)	-26.1%
Total long-term debt	34,391,847	35,437,315	37,513,498	(1,045,468)	-3.0%	(2,076,183)	-5.5%
Less: Current maturities	(1,503,591)	(2,200,698)	(2,071,104)	697,107	-31.7%	(129,594)	6.3%
Net total long-term debt	<u>\$ 32,888,256</u>	<u>\$ 33,236,617</u>	<u>\$ 35,442,394</u>	<u>\$ (348,361)</u>	-1.0%	<u>\$ (2,205,777)</u>	-6.2%
Net pension liability	<u>\$ 1,213,519</u>	<u>\$ 783,814</u>	<u>\$ -</u>	<u>\$ 429,705</u>	54.8%	<u>\$ 783,814</u>	100.0%

See Note 5 of the financial statements for details of issuance and retirement of debt for the years ended December 31, 2016 and 2015.

### Significant Events and Expenditures During The Year:

A net pension liability in the amount of \$1,213,519 was recorded based on NORW's proportionate share of OPERS' Schedule of Collective Pension Amounts per the requirements of GASB 68 based on a measurement date of December 31, 2015.

### 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

## STATEMENTS OF NET POSITION

### PROPRIETARY FUND TYPE

December 31, 2016 and 2015

#### ASSETS

	2016	2015
<b>CURRENT ASSETS: (Note 2)</b>		
Cash and cash equivalents	\$ 1,699,595	\$ 932,336
Restricted cash (Note 10)	185,989	141,611
Receivables:		
Trade (net allowance for doubtful accounts of \$9,234 in 2016 and \$9,430 in 2015)	597,891	556,205
Other	69,035	21,903
Inventory	278,406	217,020
Prepaid expenses	12,065	5,052
Total current assets	2,842,981	1,874,127
<b>NONCURRENT ASSETS:</b>		
Restricted cash (Note 10)	994,033	854,402
Capital assets, non-depreciable: (Note 2)		
Land	533,342	533,342
Easements	342,356	334,395
Current construction	47,676	109,439
Capital assets, depreciable: (Note 2)		
Buildings	2,306,087	2,306,087
Tanks, stations, lines, meters, and taps	71,464,927	70,097,677
Furniture and fixtures	447,263	433,468
Vehicles and distribution equipment	2,018,342	1,945,500
	77,159,993	75,759,908
Less: Accumulated depreciation	29,078,807	26,920,941
	48,081,186	48,838,967
Total noncurrent assets	49,075,219	49,693,369
<b>OTHER ASSETS:</b>		
CoBank investment (Note 11)	28,210	13,100
Organization costs	1,000	1,000
Net pension asset (Note 7)	10,350	2,025
Total other assets	39,560	16,125
Total assets	\$ 51,957,760	\$ 51,583,621
<b>DEFERRED OUTFLOW OF RESOURCES:</b>		
Pension (Note 7)	\$ 711,965	\$ 214,304

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

# NORTHERN OHIO RURAL WATER

## STATEMENTS OF NET POSITION

### PROPRIETARY FUND TYPE

December 31, 2016 and 2015

#### LIABILITIES AND NET POSITION

	<u>2016</u>	<u>2015</u>
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 282,985	\$ 331,171
Projects and retainage payable	773	106,498
Tenant deposits	115,450	116,950
Accrued expenses:		
Wages	20,381	16,249
Compensated absences	90,869	74,827
Payroll taxes	44,321	38,632
Interest	323,580	466,824
Other	0	270
Current portion of long-term debt	<u>1,503,591</u>	<u>2,200,698</u>
Total current liabilities	2,381,950	3,352,119
<b>NONCURRENT LIABILITIES:</b>		
Future tap installations	164,825	186,875
Net pension liability (Notes 5 & 7)	1,213,519	783,814
Notes payable (Note 5)	30,087,647	18,342,215
Bonds payable (Note 5)	<u>4,304,200</u>	<u>17,095,100</u>
	35,770,191	36,408,004
Less: Current portion	<u>1,503,591</u>	<u>2,200,698</u>
Total noncurrent liabilities	<u>34,266,600</u>	<u>34,207,306</u>
Total liabilities	<u>36,648,550</u>	<u>37,559,425</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
Pension (Note 7)	<u>\$ 47,306</u>	<u>\$ 14,488</u>
<b>NET POSITION:</b>		
Net investment in capital assets	13,689,339	13,401,652
Restricted	1,180,022	996,013
Unrestricted	<u>1,104,508</u>	<u>(173,653)</u>
Total net position	<u>\$ 15,973,869</u>	<u>\$ 14,224,012</u>

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



# NORTHERN OHIO RURAL WATER

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

### PROPRIETARY FUND TYPE

For the Years Ended December 31, 2016 and 2015

	2016	2015
OPERATING REVENUE:		
Water sales	\$ 8,062,390	\$ 7,815,081
Tap fees	612,903	474,717
Total operating revenue	8,675,293	8,289,798
OPERATING EXPENSES	5,825,415	5,270,582
INCOME FROM OPERATIONS	2,849,878	3,019,216
NONOPERATING REVENUE:		
Credit card fees	17,133	12,258
Discounts earned	4,231	3,414
EPA income	18,369	25,315
Interest income	8,001	7,127
Line maintenance reimbursements	7,369	67,745
Miscellaneous	117,090	51,025
Reconnection fees	35,123	35,287
Tower income	1,680	1,680
Insurance billing service fees	31,591	2,942
Sewer billing service fees	8,495	11,364
Gain (Loss) on disposal of assets	15,775	97,704
Income from operations and nonoperating revenue	264,857	315,861
	3,114,735	3,335,077
NONOPERATING EXPENSES:		
Uncollectible accounts expense	0	553
EPA expense	18,962	18,615
Interest expense	1,345,916	1,591,174
Total nonoperating expenses	1,364,878	1,610,342
CHANGE IN NET POSITION	1,749,857	1,724,735
NET POSITION - Beginning of period	14,224,012	13,177,107
Restatement of net position (Note 12)	0	(677,830)
Net position - beginning of period - restated	14,224,012	12,499,277
NET POSITION - End of period	\$ 15,973,869	\$ 14,224,012

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

# NORTHERN OHIO RURAL WATER

## STATEMENTS OF CASH FLOWS

### PROPRIETARY FUND TYPE

For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 8,607,330	\$ 8,252,579
Cash payments to suppliers for goods and services	(1,943,671)	(1,449,279)
Cash payments for employees and professional contractors for services	<u>(1,313,138)</u>	<u>(1,255,693)</u>
Net cash provided by operating activities	5,350,521	5,547,607
<b>CASH FLOWS FROM NON-CAPITAL ACTIVITIES:</b>		
Proceeds from developer, hydrant maintenance, and reconnection fees	35,123	35,287
Proceeds from discounts earned, EPA and tower income	24,280	30,409
Proceeds from line maintenance reimbursements	7,369	67,745
Proceeds from sales of assets	15,775	99,204
Other nonoperating revenue	134,492	58,420
Increase in net pension liability	<u>(429,705)</u>	<u>(783,814)</u>
Net cash used in non-capital activities	(212,666)	(492,749)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of equipment and new construction	(1,644,851)	(1,391,299)
Purchase of investment	(15,110)	(5,229)
Repayment of principal on long-term debt	(1,045,468)	(2,076,183)
Interest paid on debt	<u>(1,489,159)</u>	<u>(1,749,420)</u>
Net cash used in capital and related financing activities	(4,194,588)	(5,222,131)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest earned	<u>8,001</u>	<u>7,127</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	951,268	(160,146)
<b>CASH AND CASH EQUIVALENTS - Beginning of period</b>	<u>1,928,349</u>	<u>2,088,495</u>
<b>CASH AND CASH EQUIVALENTS - End of period</b>	<u><u>\$ 2,879,617</u></u>	<u><u>\$ 1,928,349</u></u>

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

# NORTHERN OHIO RURAL WATER

## STATEMENTS OF CASH FLOWS

### PROPRIETARY FUND TYPE

For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	\$ 2,849,878	\$ 3,019,216
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	2,274,856	1,958,146
Pension expense	149,222	80,881
Changes in assets, deferred outflow of resources, and liabilities:		
(Increase) decrease in:		
Receivables	(67,963)	(37,219)
Inventory	(61,386)	77,293
Prepaid expenses	(7,013)	(23)
Deferred outflows - pension	(192,685)	(176,737)
Increase (decrease) in:		
Accounts payable	381,519	617,459
Tenant deposits	(1,500)	5,900
Accrued expenses	25,593	2,691
Net cash provided by operating activities	<u>\$ 5,350,521</u>	<u>\$ 5,547,607</u>

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

**NORTHERN OHIO RURAL WATER**

**STATEMENTS OF ASSETS AND LIABILITIES**

**AGENCY FUND TYPE**

**December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b><u>ASSETS</u></b>		
Cash and cash equivalents:		
New Washington	\$ 24,217	\$ 31,726
Sunbelt Insurance	20,597	10,897
Total cash and cash equivalents	<u>44,814</u>	<u>42,623</u>
Receivables:		
New Washington	16,170	9,051
Sunbelt Insurance	<u>18,548</u>	<u>7,341</u>
Total receivables	<u>34,718</u>	<u>16,392</u>
Total assets	<u>\$ 79,532</u>	<u>\$ 59,015</u>
 <b><u>LIABILITIES</u></b>		
Undistributed monies:		
New Washington	\$ 40,387	\$ 40,776
Sunbelt Insurance	<u>39,145</u>	<u>18,239</u>
Total liabilities	<u>\$ 79,532</u>	<u>\$ 59,015</u>

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

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

Note 1. Description of Entity:

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 without 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.

Note 2. Summary of Significant Accounting Policies:

A. Basis of Presentation and Accounting:

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.

Northern Ohio Rural Water prepares its financial statements on a full accrual basis, economic resource measurement focus. By virtue of its by-laws, the District is required to make appropriations in accordance with budgetary policies.

The District uses funds to maintain its financial records during the year.

Proprietary funds distinguish 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.

Proprietary fund reporting focuses on changes in net position, financial position and cash flows. The District's proprietary fund is classified as an enterprise fund. This fund accounts for all operations that are financed and operated in a manner similar to private business enterprises where the intent is those costs of providing goods or services to the general public on a continuing basis to be financed or recovered primarily through user charges.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

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

A. Basis of Presentation and Accounting (Continued):

Fiduciary fund reporting focuses on net position and changes in net position. The District's fiduciary fund is classified as an agency fund. This fund accounts for sewer service fees collected on behalf of the Village of New Washington and water loss and line repairs and replacement insurance fees collected on behalf of Sunbelt Insurance Group. The District's agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

Under the full accrual basis of accounting, a receivable and revenue are recorded when the exchange takes place to the extent the amounts are collectible and measurable.

B. 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.

Appropriations - After the budget is approved by the Board, the Board then makes appropriations of funds in accordance with said budget. Thereafter, the General Manager has the authority to authorize payment of any disbursement not to exceed \$50,000, provided there are sufficient funds appropriated and remaining in the account of the fund from which payment will be made. The Board may, from time-to-time, amend or supplement said appropriation of funds and may also transfer any part of a balance of an appropriation of any fund to any purpose or object for which the appropriation for the current fiscal year has proved insufficient.

C. Inventory:

Inventory, which consists of raw materials, is stated using the dollar cost average method of accounting. The costs of inventories are recorded as expenditures when used rather than purchased.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

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

D. Capital Assets:

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
Tap Installations	40 Years
Pump Stations	20 Years
Buildings	40 Years
Meter Retro-fits	15 Years
Water Meters	15 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.

E. Prepaid Expenses:

Prepaid expenses, which include insurance and postage, reflect costs applicable to future accounting periods.

F. 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.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

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

G. 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. An employee shall be allowed to accumulate 120 days of sick leave. Upon retirement, employees are entitled to 25% of their accumulated sick leave balance not to exceed 30 days. 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. The recorded accrued unused vacation for the year ended December 31, 2016 and 2015 is \$90,869 and \$74,827, respectively. The unrecorded estimated unused sick leave for the year ended December 31, 2016 and 2015 was \$266,635 and \$301,508, respectively.

H. 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.

I. 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.

J. 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.



# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

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

K. Net Position

Net position represents the difference between all other elements in the statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through constitutional provisions or enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

L. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the District, deferred outflows of resources are reported on the statement of net position for pensions. The deferred outflows of resources related to pension are explained in Note 7.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the District, deferred inflows of resources include pension. This amount has been recorded as a deferred inflow on the statement of net position. Deferred inflows of resources related to pension are reported on the statement of net position (see Note 7).

M. Pensions

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

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

Note 3. 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 the 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 prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or 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.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

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

At December 31, 2016 and 2015, the carrying amount of all District deposits was \$2,924,431 and \$1,970,972, respectively. Based on the criteria described in GASB statement No. 40, "Deposits and Investment Risk Disclosures," as of December 31, 2016 and 2015, none of the District's bank balance of \$3,139,675 and \$2,306,932, respectively, was exposed to custodial risk as discussed below.

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. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

Note 4. Capital Assets:

A summary of changes in capital assets for the year ended December 31, 2016, is as follows:

	Balance December 31, 2015	Additions	Deletions	Balance December 31, 2016
Capital assets, nondepreciable:				
Land	\$ 533,342	\$ -	\$ -	\$ 533,342
Easements	334,395	7,961	-	342,356
Current construction	109,439	28,361	(90,124)	47,676
Capital assets, depreciable:				
Buildings	2,306,087	-	-	2,306,087
Tanks, stations, lines, meters, and taps	70,097,677	1,367,250	-	71,464,927
Furniture and fixtures	433,468	13,795	-	447,263
Vehicles and distribution equipment	1,945,500	189,833	(116,991)	2,018,342
Total	<u>75,759,908</u>	<u>1,607,200</u>	<u>(207,115)</u>	<u>77,159,993</u>
Less accumulated depreciation				
Buildings	(148,290)	(57,652)	-	(205,942)
Tanks, stations, lines, meters, and taps	(24,744,055)	(2,000,779)	-	(26,744,834)
Furniture and fixtures	(350,609)	(31,357)	-	(381,966)
Vehicles and distribution equipment	(1,677,987)	(185,069)	116,991	(1,746,065)
Total accumulated depreciation	<u>(26,920,941)</u>	<u>(2,274,857)</u>	<u>116,991</u>	<u>(29,078,807)</u>
Net capital assets	<u>\$ 48,838,967</u>	<u>\$ (667,657)</u>	<u>\$ (90,124)</u>	<u>\$ 48,081,186</u>

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

Note 4. Capital Assets (Continued):

Depreciation expense for the year ended December 31, 2016 and 2015 was \$2,274,857 and Current construction at December 31, 2016 and 2015 included capitalized construction period interest of \$-0- and \$-0- that was incurred in each respective year. Total interest cost incurred was \$1,345,916 and \$1,591,174 at December 31, 2016 and 2015, respectively.

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

	Balance December 31, 2014	Additions	Deletions	Balance December 31, 2015
Capital assets, nondepreciable:				
Land	\$ 497,833	\$ 35,509	\$ -	\$ 533,342
Easements	326,822	7,573	-	334,395
Current construction	28,752	94,946	(14,259)	109,439
Capital assets, depreciable:				
Buildings	2,303,837	2,250	-	2,306,087
Tanks, stations, lines, meters, and taps	68,848,918	1,250,259	(1,500)	70,097,677
Furniture and fixtures	431,610	1,858	-	433,468
Vehicles and distribution equipment	2,063,702	150,728	(268,930)	1,945,500
Total	74,501,474	1,543,123	(284,689)	75,759,908
Less accumulated depreciation				
Buildings	(90,640)	(57,650)	-	(148,290)
Tanks, stations, lines, meters, and taps	(22,958,453)	(1,785,602)	-	(24,744,055)
Furniture and fixtures	(322,837)	(27,772)	-	(350,609)
Vehicles and distribution equipment	(1,859,795)	(87,122)	268,930	(1,677,987)
Total accumulated depreciation	(25,231,725)	(1,958,146)	268,930	(26,920,941)
Net capital assets	\$ 49,269,749	\$ (415,023)	\$ (15,759)	\$ 48,838,967

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

Note 5. Long-Term Obligations:

The full faith credit and resources of the District have been irrevocably pledged to collateralize all of the revenue bonds and notes payable. A summary of long-term obligations for the year ended December 31, 2016, is as follows:

Description	Balance December 31, 2015	Borrowed	Repaid	Balance December 31, 2016	Due Within One Year
Northern Ohio Rural Water borrowed a total of \$34,946,338 from the Ohio Water Development Authority from January 1, 1992 through December 31, 2014 for the Fitchville, Crystal Rock, Green Creek, Baumhart Road, Lime and Ridgefield Township line expansions, tank rehabilitation, garage construction, and membrane pilot study. These notes are being paid in semi-annual installments due on January 1 <sup>st</sup> and July 1 <sup>st</sup> , including interest at rates from 2.99% to 7.66%. The maturity dates range from July 1, 2016 through January 1, 2043.	\$ 16,102,792	\$ -0-	\$ 1,789,545	\$ 14,313,247	\$ 858,167
Water Resource Improvement Revenue Bonds, Series 2003 was refunded in 2016.	3,560,000	-0-	3,560,000	-0-	-0-
Water Resource Improvement Revenue Bonds, Series 2007 was refunded in 2016.	3,260,000	-0-	3,260,000	-0-	-0-
Water Resource Improvement Revenue Bonds, Series 2009 was refunded in 2016.	1,453,000	-0-	1,453,000	-0-	-0-
Water Resource Improvement Revenue Bonds, Series 2009B was refunded in 2016.	4,449,000	-0-	4,449,000	-0-	-0-
A note payable in the amount of \$197,380 is due to Buckeye Community Bank. The loan requires monthly principal and interest payments at the index rate with a maturity date of October 2016.	23,498	-0-	23,498	-0-	-0-
Water Resource Improvement Revenue Bonds, Series 2010 were issued through the United States Department of Agriculture (USDA) for the purpose of constructing various water resource projects. The total amount loaned is \$4,567,000. The loan requires annual interest payments through 2012 at 3.25% with a maturity date of September 2050.	4,373,100	-0-	68,900	4,304,200	71,200
A note payable with a total amount loaned of \$265,000 is due to Buckeye Community Bank. The loan requires monthly principal and interest payments at a rate of 5% with a maturity date of April 2015.	131,337	-0-	27,788	103,549	29,313
A note payable in the amount of \$93,500 is due to the City of Elyria. The loan requires monthly principal payments in the amount of \$2,750 with a maturity date of October 2016.	27,500	-0-	27,500	-0-	-0-
A promissory note with a total amount loaned of \$2,200,000 is due to CoBank. The note requires monthly principal and interest payments at a fixed interest rate per annum with a minimum fixed period of 180 days that is quoted by CoBank with a maturity date of October 2033.	2,057,088	-0-	71,355	1,985,733	75,498
A promissory note with a total amount loaned of \$13,800,000 is due to CoBank. The note requires monthly principal and interest payments at a 3.85% with a maturity date of September 2036.	-0-	13,800,000	114,882	13,685,118	469,413
	<u>\$ 35,437,315</u>	<u>\$ 13,800,000</u>	<u>\$ 14,845,468</u>	<u>\$ 34,391,847</u>	<u>\$ 1,503,591</u>
	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016	Due Within One Year
A net pension liability in the amount of \$1,213,519 was recorded based on NORW's proportionate share of OPERS Schedule of Collective Pension Amounts per the requirements of GASB 68 based on a measurement date of December 31, 2015.	\$ 783,814	\$ 454,198	\$ 24,493	\$ 1,213,519	\$ -0-
	<u>\$ 783,814</u>	<u>\$ 454,198</u>	<u>\$ 24,493</u>	<u>\$ 1,213,519</u>	<u>\$ -0-</u>

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

Note 5. Long-Term Obligations (Continued):

The full faith credit and resources of the District have been irrevocably pledged to collateralize all of the revenue bonds and notes payable. A summary of long-term obligations for the year ended December 31, 2015, is as follows:

Description	Balance December 31, 2014	Borrowed	Repaid	Balance December 31, 2015	Due Within One Year
Northern Ohio Rural Water borrowed a total of \$34,946,338 from the Ohio Water Development Authority from January 1, 1992 through December 31, 2014 for the Fitchville, Crystal Rock, Green Creek, Baumhart Road, Lime and Ridgefield Township line expansions, tank rehabilitation, garage construction, and membrane pilot study. These notes are being paid in semi-annual installments due on January 1 <sup>st</sup> and July 1 <sup>st</sup> , including interest at rates from 2.99% to 7.66%. The maturity dates range from July 1, 2016 through January 1, 2043.	\$ 17,774,640	\$ -0-	\$ 1,671,848	\$ 16,102,792	\$1,789,546
Water Resource Improvement Revenue Bonds, Series 2003 were issued through the United States Department of Agriculture (USDA) for the purpose 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.	3,618,000	-0-	58,000	3,560,000	61,000
Water Resource Improvement Revenue Bonds, Series 2007 were issued through the United States Department of Agriculture (USDA) for the purpose of constructing various water resource projects. 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.	3,308,000	-0-	48,000	3,260,000	51,000
Water Resource Improvement Revenue Bonds, Series 2009 were issued through the United States Department of Agriculture (USDA) for the purpose of constructing various water resource projects. The total amount loaned is \$1,550,000. The loan requires annual principal and interest payments at 4.50% with a maturity date of January 2049.	1,471,000	-0-	18,000	1,453,000	19,000
Water Resource Improvement Revenue Bonds, Series 2009B were issued through the United States Department of Agriculture (USDA) for the purpose of constructing various water resource projects. The total amount loaned is \$4,764,000. The loan requires annual principal and interest payments at 4.25% with a maturity date of December 2049.	4,507,000	-0-	58,000	4,449,000	61,000
A note payable in the amount of \$197,380 is due to Buckeye Community Bank. The loan requires monthly principal and interest payments at the index rate with a maturity date of October 2016.	51,695	-0-	28,197	23,498	23,498
Water Resource Improvement Revenue Bonds, Series 2010 were issued through the United States Department of Agriculture (USDA) for the purpose of constructing various water resource projects. The total amount loaned is \$4,567,000. The loan requires annual interest payments through 2012 at 3.25% with a maturity date of September 2050.	4,439,800	-0-	66,700	4,373,100	68,900
A note payable with a total amount loaned of \$265,000 is due to Buckeye Community Bank. The loan requires monthly principal and interest payments at a rate of 5% with a maturity date of April 2015.	157,772	-0-	26,435	131,337	27,899
A note payable in the amount of \$93,500 is due to the City of Elyria. The loan requires monthly principal payments in the amount of \$2,750 with a maturity date of October 2016.	60,500	-0-	33,000	27,500	27,500
A promissory note with a total amount loaned of \$2,200,000 is due to CoBank. The note requires monthly principal and interest payments at a fixed interest rate per annum with a minimum fixed period of 180 days that is quoted by CoBank with a maturity date of October 2033.	2,125,091	-0-	68,003	2,057,088	71,355
	<u>\$ 37,513,498</u>	<u>\$ -0-</u>	<u>\$ 2,076,183</u>	<u>\$ 35,437,315</u>	<u>\$ 2,200,698</u>

**NORTHERN OHIO RURAL WATER**

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

Note 5. Long-Term Obligations (Continued):

<u>Description</u>	<u>Balance December 31, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2015</u>	<u>Due Within One Year</u>
A net pension liability in the amount of \$679,854 was recorded based on NORW's proportionate share of OPERS Schedule of Collective Pension Amounts per the requirements of GASB 68 based on a measurement date of December 31, 2014.	\$ 679,854	\$ 118,448	\$ 14,488	\$ 783,814	\$ -0-
	<u>\$ 679,854</u>	<u>\$ 118,448</u>	<u>\$ 14,488</u>	<u>\$ 783,814</u>	<u>\$ -0-</u>

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# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

Note 5. Long-Term Obligations (Continued):

The annual debt service requirements to maturity, including principal and interest, for long-term obligations as of December 31, 2016, are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,503,591	\$ 1,316,898	\$ 2,820,489
2018	1,546,126	1,256,443	2,802,569
2019	1,617,686	1,194,239	2,811,925
2020	1,651,710	1,131,025	2,782,735
2021	1,702,027	1,063,652	2,765,679
2022-2026	9,071,408	4,265,706	13,337,114
2027-2031	6,787,709	2,664,180	9,451,889
2032-2036	7,165,562	1,267,883	8,433,445
2037-2041	1,642,519	404,474	2,046,993
2042-2046	923,809	213,164	1,136,973
2047-2051	779,700	64,363	844,063
	<u>\$ 34,391,847</u>	<u>\$ 14,842,027</u>	<u>\$ 49,233,874</u>

See Note 7 for details on the Net Pension Liability.

Note 6. Insurance:

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District maintains comprehensive insurance coverage 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.



# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

Note 7. Retirement Commitments:

A. Net Pension Liability:

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

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

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

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

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

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

Note 7. Retirement Commitments (Continued):

A. Net Pension Liability (Continued):

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

Plan Description - District employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan and the Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. While members (e.g. District employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

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

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

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

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

Note 7. Retirement Commitments (Continued):

A. Net Pension Liability (Continued):

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

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

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

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

	<u>State and Local</u>
<b>2015 and 2016 Statutory Maximum Contribution Rates</b>	
Employer	14.0%
Employee	10.0%
<b>2015 and 2016 Actual Contribution Rates</b>	
Employer:	
Pension	12.0%
Post-employment Health Care Benefits	<u>2.0%</u>
Total Employer	<u>14.0%</u>
Employee	<u>10.0%</u>

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The District's contractually required contribution was \$192,685 and \$176,737 for 2016 and 2015, respectively. Of these amounts, \$35,732 and \$16,516 are reported as a payable for 2016 and 2015, respectively.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

Note 7. Retirement Commitments (Continued):

A. Net Pension Liability (Continued):

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

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

	<u>OPERS</u>
Proportionate Share of the Net Pension Liability	\$1,213,519
Proportion of the Net Pension Liability – prior measurement date	0.005767%
Liability – current measurement date	<u>0.005907%</u>
Change in proportion of net pension asset	<u>0.000140%</u>
Pension Expense	149,221

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

	<u>OPERS</u>
Proportionate Share of the Net Pension Liability	\$783,814
Proportion of the Net Pension Liability	0.005767%
Pension Expense	80,881

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

Note 7. Retirement Commitments (Continued):

A. Net Pension Liability (Continued):

At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>
<b>Deferred Outflows of Resources</b>	
Net difference between projected and earnings on pension plan investments	\$519,280
District contributions subsequent to the measurement date	<u>192,685</u>
Total deferred outflows of resources	<u>\$711,965</u>
<b>Deferred Inflows of Resources</b>	
Difference between expected and actual experience	<u>\$ 47,306</u>
Total deferred inflows of resources	<u>\$ 47,306</u>

One hundred ninety-two thousand six hundred eighty-five (\$192,685) reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>OPERS</u>
Fiscal Year Ending December 31:	
2017	\$ 70,121
2018	70,121
2019	70,121
2020	<u>70,120</u>
Total	<u>\$280,483</u>

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

Note 7. Retirement Commitments (Continued):

A. Net Pension Liability (Continued):

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

	<u>OPERS</u>
<b>Deferred Outflows of Resources</b>	
Net difference between projected and earnings on pension plan investments	\$ 37,567
District contributions subsequent to the measurement date	<u>176,737</u>
Total deferred outflows of resources	<u>\$214,304</u>
<b>Deferred Inflows of Resources</b>	
Difference between expected and actual experience	\$ 14,488
Total deferred inflows of resources	<u>\$ 14,488</u>

One hundred seventy-six thousand seven hundred thirty-seven (\$176,737) reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>OPERS</u>
Fiscal Year Ending December 31:	
2016	\$ 5,770
2017	5,770
2018	5,770
2019	<u>5,769</u>
Total	<u>\$ 23,079</u>

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

Note 7. Retirement Commitments (Continued):

A. Net Pension Liability (Continued):

*Actuarial Assumptions – OPERS*

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

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

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

Note 7. Retirement Commitments (Continued):

A. Net Pension Liability (Continued):

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	23.00%	2.31%
Domestic Equities	20.70	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	18.30	7.40
Other Investments	<u>18.00</u>	<u>4.59</u>
Total	<u>100.00%</u>	<u>5.27%</u>

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



# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

Note 7. Retirement Commitments (Continued):

A. Net Pension Liability (Continued):

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

	1% Decrease <u>(7.00%)</u>	Current Discount Rate <u>(8.00%)</u>	1% Increase <u>(9.00%)</u>
District’s proportionate share of the net pension:			
Asset	\$ 213	\$ 10,350	\$ 18,505
Liability	\$1,630,155	\$1,023,167	\$511,192

***Changes Between Measurement Date and Report Date*** In October 2016, the OPERS Board adopted certain assumption changes which will impact the annual actuarial valuation prepared as of December 31, 2016. The most significant change is a reduction in the discount rate from 8 percent to 7.5 percent. Although the exact amount of these changes in not known, the impact to the District’s net pension liability is expected to be significant.

B. Defined Benefit Pension Plans:

The District 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 defined benefit and defined contribution plans.

OPERS maintains two cost-sharing, multiple-employer defined benefit post-employment health care trusts, which fund multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

Note 7. Retirement Commitments (Continued):

B. Defined Benefit Pension Plans (Continued):

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

C. Post-Employment Benefits:

In order to qualify for health care coverage, age-and-service retirees under Traditional Pension and Combined Plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45. Please see the Plan Statement in the OPERS 2015 CAFR for details.

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

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (800) 222-7377.

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

Employer contribution rates are expressed as a percentage of the earnable salary of active members. The employer contribution rate is 14.0% of earnable salary from January 1 through December 31, 2016 and 2015, respectively. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members' contributions do not fund health care.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

Note 7. Retirement Commitments (Continued):

C. Post-Employment Benefits (Continued):

In March 2016, OPERS received two favorable rulings from the Internal Revenue Service (IRS) allowing OPERS to consolidate all health care assets into the OPERS 115 Health Care Trust. Transition to the new health care trust structure was completed July 1, 2016. As of December 31, 2016, OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage, and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined Plans. Members of the Member-directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage. OPERS funds a Retiree Medical Account (RMA) for participants in the Member-Directed Plan. At retirement or refund, participants can be reimbursed for qualified medical expenses from their vested RMA balance.

Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0% during calendar year 2016. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2017 decreased to 1% for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2016 was 4.0%

The total employer contribution rate stated in the preceding paragraphs are the statutorily required contribution rates for OPERS. The employer contributions made by Northern Ohio Rural Water used to fund health care were \$23,731, \$25,238, \$26,369, \$13,685 and for 2016, 2015, 2014, and 2013 respectively. The 2016 payable to fund health care was \$4,400.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

Note 8. Leasing Arrangements:

The District leases one copier under a 63-month operating lease which began in June 2014, and expires in August 2019. This lease requires rent in the amount of \$689 per month.

The District leases a postage meter on a month-to-month basis for \$39 per month.

The following is a schedule of future minimum rental payments required under the above operating leases as of December 31, 2016:

<u>Year Ending December 31,</u>	<u>Amount</u>
2017	\$ 8,268
2018	8,268
2019	<u>5,512</u>
	<u>\$22,048</u>

Office equipment lease expense for the years ended December 31, 2016 and 2015 was \$10,302 and \$10,521, respectively.

Note 9. 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 with amendments extending the agreement through December 31, 2051. The District has a minimum monthly purchase requirement of 20,000,000 gallons.

On June 19, 2006, the District signed a 40-year water purchase agreement with Erie County. The agreed upon rate is \$2.59 per hundred cubic feet (CCF) with a minimum daily purchase of 200,000 gallons, and \$1.75 per CCF for all water purchased in excess of 200,000 gallons.

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.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

Note 9. Commitments (Continued):

A. Water Purchase Agreements (Continued):

On March 21, 2002, the District signed a 40-year water purchase agreement with Rural Lorain County Water Authority. The agreed upon base rate is \$2.16 per 1,000 gallons with a minimum daily purchase of 10,000 gallons and a maximum daily purchase of 100,000 gallons. Increases in costs of the water supply to Rural Lorain County Water Authority are passed on to the District.

On January 1, 2008, the District signed a 40-year water purchase agreement with the Village of New London. The agreed upon rate is \$2.04 per thousand gallons for first 100,000 gallons, \$1.98 per thousand gallons for next 50,000 gallons, and \$1.92 per thousand gallons for over 150,000 gallons per day with a maximum daily purchase not to exceed 200,000 gallons per day.

On April 23, 2015, the District signed a 10-year water purchase agreement with the City of Willard with an automatic renewal period of 3 years subject to termination upon written notification of 120 days prior to the expiration of the initial term of an intent to terminate. The agreed upon rate is \$2.06 per thousand gallons with a minimum daily purchase of 150,000 gallons and a maximum daily purchase of 1,000,000 gallons.

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 agreed 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.

On March 7, 2008, the District entered into an agreement with Erie County to provide water. The agreed upon rate per hundred cubic feet is 20% higher than the lowest rate the District purchases water from its water providers for the distribution area that includes the connection point for Erie County.

On April 8, 2009, the District entered into a 40-year agreement with the City of Norwalk to provide water. The agreed upon rate per thousand gallons is 20% higher than the lowest rate the District purchases water from its water providers for the distribution area that includes the connection point for the City of Norwalk, with a minimum daily purchase of 150,000 gallons and a maximum daily purchase of 500,000 gallons.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

Note 9. Commitments (Continued):

C. Tower Income:

The District has a month-to-month lease agreement for renting its antenna space with WaveLinc Communications for \$140 per month.

D. Sewer Billing Service Agreement:

On January 30, 2011, the District entered into an agreement with the Village of New Washington to provide billing services for sewer, storm sewer, and capital improvement charges by the Village.

E. Land License Agreement:

On July 18, 2013, the District entered into a five-year agreement to lease land to Linkster Management, Ltd. that expires in May 2018. The lease requires a monthly fee of \$100.

F. Water Line/Leak Insurance Agreement:

On December 1, 2015, the District entered into an agreement with Sunbelt Insurance to offer NORW's customers insurance for protection from excess charges resulting from water leaks and to cover costs of repairs and replacement of water lines.

G. Rapid Response Agreement:

On January 30, 2011, the District entered into an agreement with the GeoDecisions' Rapid Response System to provide mass notification of NORW's customers in the event of an emergency or other high priority situation.

Note 10. Restricted Funds:

A. Bond and Loan Payment Funds:

These funds were created and will be maintained in the custody of the Issuer as cash funds and shall be used for the payment of principal and interest on the USDA bonds and CoBank loan when due. The District is required by the bond agreement 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 1st. The District is not required by the loan agreements to make weekly payments to the fund that the District makes at its own discretion.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

Note 10. 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 the bond agreement to make monthly deposits equal to \$1,759 until there is \$211,096 accumulated in the fund, after which no further payments need to be made to the fund except to replace withdrawals therefrom, and required by loan agreements to maintain a fund in the amount of \$120,000 and another fund in the amount of \$700,000 that will increase to \$850,000 on or before December 31, 2017.

C. Restricted Cash:

	<u>2016</u>	<u>2015</u>
Bond Payment Fund	\$ 185,989	\$141,611
Water System Debt Service Reserve Fund	<u>994,033</u>	<u>854,402</u>
	<u>\$1,180,022</u>	<u>\$996,013</u>

Note 11. CoBank Investment:

The District has an equity patronage investment with CoBank based on the District's average outstanding loan balance with the bank during the year. The District's average outstanding CoBank loan balance during the year is multiplied by 1% with 75% of the 1% patronage paid to the District in cash and 25% kept in an equity account at the bank until the loan is paid off.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

Note 12. Change in Accounting Principle and Restatement of Net Position:

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

Net position December 31, 2014	\$13,177,107
Adjustments:	
Net Pension Asset	2,025
Net Pension Liability	(679,854)
Rounding adjustment	<u>(1)</u>
Restated Net Position December 31, 2014	<u>\$12,499,277</u>

The District presents comparative information. The comparative year (2014) information was not restated to reflect the implementation of GASB No. 68, as there is no requirement to do so.

For 2016, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 76, "Hierarchy of Generally Accepted Accounting Principles for State and Local Governments" and GASB Statement No. 82, "Pension Issues – an Amendment of GASB Statements No. 67, No. 69, No. 73, and No. 77".

GASB Statement No. 76 identifies, in the context of the current government financial reporting environment, the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles. The implementation of this statement did not result in any changes to the District's financial statements.

GASB Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The implementation of this statement did not result in any changes to the District's financial statements.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the District's 2016 financial statements; however, there was no effect on beginning net position/fund balance.



# **NORTHERN OHIO RURAL WATER**

## **NOTES TO FINANCIAL STATEMENTS**

**For the Years Ended December 31, 2016 and 2015**

Note 13. Note Payable – Line of Credit:

At December 31, 2016 the District has a revolving line of credit with CoBank with a balance of \$0 with \$1,000,000 unused. The note carries a variable rate of interest at LIBOR plus 2%. Interest is payable monthly with the outstanding principal due on August 31, 2017.

Note 14. Subsequent Events:

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through June 15, 2017, the date the financial statements were issued.

On January 19, 2017, the Board of Trustees unanimously passed a resolution authorizing the general manager to sign the necessary documents for the \$1,000,000 line of credit with CoBank.

# NORTHERN OHIO RURAL WATER

## REQUIRED SUPPLEMENTARY INFORMATION

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

#### Last Three Years (\*)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's Proportion of the Net Pension Liability	0.005907%	0.005767%	0.005767%
District's Proportionate Share of the Net Pension Liability	\$ 1,213,519	\$ 783,814	\$ 679,854
District's Covered-Employee Payroll	\$ 1,472,808	\$ 1,538,808	\$ 1,474,392
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	82.39%	50.94%	46.11%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.08%	86.45%	86.36%

\* Information prior to 2013 is not available.

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

# NORTHERN OHIO RURAL WATER

## REQUIRED SUPPLEMENTARY INFORMATION

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

#### Last Four Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$ 192,685	\$ 176,737	\$ 184,657	\$ 191,671
Contributions in Relation to the Contractually Required Contribution	<u>(192,685)</u>	<u>(176,737)</u>	<u>(184,657)</u>	<u>(191,671)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
District Covered-Employee Payroll	\$ 1,605,708	\$ 1,472,808	\$ 1,538,808	\$ 1,474,392
Contributions as a Percentage of Covered-Employee Payroll	12.00%	12.00%	12.00%	13.00%

\* Information prior to 2013 is not available.

# NORTHERN OHIO RURAL WATER

## SCHEDULES OF OPERATING EXPENSES

### PROPRIETARY FUND TYPE

For the Years Ended December 31, 2016 and 2015

	2016	2015
OPERATING EXPENSES:		
Advertising	\$ 39,164	\$ 52,349
Audit fees	14,801	14,637
Communication equipment	25,059	24,820
Depreciation	2,274,856	1,958,146
Distribution supplies	158,532	136,201
Dues and subscriptions	9,426	8,492
Electric pump station and tanks	187,429	178,107
Engineering fees	8,143	24,162
Gasoline	39,292	51,122
Insurance:		
General	30,742	29,796
Hospitalization	236,548	223,661
Legal and professional fees	132,331	135,984
Licenses and permits	17,800	13,560
Maintenance and repairs:		
Administrative building and equipment	14,457	11,578
Pump stations	2,731	914
Tanks	24	8,174
Vehicles	31,826	42,721
Water lines	0	4,495
Office equipment lease	10,302	10,521
Office supplies and expense	59,621	65,568
Payroll taxes	31,624	42,784
O.P.E.R.S. (Note 7)	149,222	80,881
Postage	61,522	64,457
Tap fee refunds	48,788	12,000
Telephone	12,890	12,345
Travel, mileage, and education expense	81,992	69,214
Utilities	28,493	28,195
Wages	890,573	827,453
Water purchased	1,227,227	1,138,245
	\$ 5,825,415	\$ 5,270,582



# Dave Yost • Auditor of State

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

Northern Ohio Rural Water  
Huron County  
P.O. Box 96  
Collins, Ohio 44826-0096

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the business-type activities, and the aggregate remaining fund information of Northern Ohio Rural Water, Huron County, Ohio (the District) as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 15, 2017, wherein we noted the District adopted Governmental Accounting Standard (GASB) No. 68 *Accounting and Financial Reporting for Pensions – an amendment to GASB Statement No. 27*. We also noted the District's management's discussion and analysis includes comparative information and the District did not restate the comparative year (2014) information to reflect the implementation of GASB Statement No. 68.

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

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a significant deficiency. We consider finding 2016-001 to be a significant deficiency.

***Compliance and Other Matters***

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

***Entity's Response to Findings***

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

***Purpose of this Report***

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



**Dave Yost**  
Auditor of State

Columbus, Ohio

June 15, 2017

**NORTHERN OHIO RURAL WATER  
HURON COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2016 AND 2015**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2016-001**

**Significant Deficiency – Financial Reporting**

Sound financial reporting is the responsibility of the District and the Board of Trustees and is essential to ensure the information provided to the readers of the basic financial statements is complete and accurate.

We identified the following error in the basic financial statements for the year ended December 31, 2016:

Agency Fund Type liabilities and Proprietary Fund Type assets were each understated in the amount of \$20,855.

Additional insignificant errors were also noted for the year ended December 31, 2016. These errors were not identified and corrected prior to the District preparing its basic financial statements due to deficiencies in the District's internal controls over financial statement monitoring. The accompanying basic financial statements and notes to the basic financial statements, and where applicable, the District's accounting records have been adjusted to reflect these changes.

To help ensure the District's basic financial statements are complete and accurate, the District should adopt policies and procedures, including a final review of the basic financial statements by District personnel and Board of Trustees, to identify and correct errors and omissions.

**Officials' Response:**

NORW bills a higher amount per customer for Sunbelt Insurance (which includes a service fee) and remits a lower amount per customer which is the amount collected from the customers less NORW's service fee. Based on NORW's customer billing amount being higher than the amount remitted to Sunbelt Insurance this caused the receivable from billings to Sunbelt Insurance customers to be higher than the payable to Sunbelt Insurance on the Statement of Assets & Liabilities- Agency Fund Type. This understatement of Agency Fund Type liabilities of \$20,855 when combined with the understatement of Proprietary Fund Type assets (overstatement of liabilities) of \$20,855 it nets to zero. When the statements of net position -proprietary fund type and statement of assets and liabilities - agency fund type are combined the assets equal the liabilities plus net position.

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# Dave Yost • Auditor of State

**NORTHERN OHIO RURAL WATER**

**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  
JUNE 29, 2017**