



Dave Yost • Auditor of State



**NORTHERN AREA WATER AUTHORITY  
MIAMI COUNTY  
DECEMBER 31, 2017**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Directors:

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

We have audited the accompanying financial statements of the Northern Area Water Authority, Miami County, Ohio (the Authority), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

**Opinion**

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

**Other Matters**

*Required Supplementary Information*

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2018, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

May 17, 2018

**Northern Area Water Authority**  
**Miami County, Ohio**  
Management's Discussion and Analysis  
For the year ended December 31, 2017  
(Unaudited)

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The discussion and analysis for the Northern Area Water Authority's (NAWA) financial performance provides an overall review of NAWA for the year ended December 31, 2017. The intent of this discussion and analysis is to look at NAWA's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of NAWA's financial performance.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for 2017 are as follows:

- In total, net position increased \$668,345 from 2016.
- Total assets increased \$20,483, which represents a .09% increase from 2016. This increase is due to an increase in equity in pooled cash and cash equivalents from the prior year.
- Total liabilities decreased by \$647,862, which represents a 3.06% decrease from 2016. This decrease is primarily due to a decrease in long term debt due for principal payments made during the year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of management's discussion and analysis, basic financial statements and notes to the basic financial statements.

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

**Statement of Net Position**

The Statement of Net Position answers the question, "How did we do financially during 2017?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term, deferred outflows of resources, and deferred inflows of resources, using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

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

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**Miami County, Ohio**  
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Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

**FINANACIAL ANALYSIS**

A comparative analysis of 2017 and 2016 is presented below:

	<u>2017</u>	<u>2016</u>	<i>Increase (Decrease)</i>
<i>Current and other assets</i>	\$ 3,192,130	\$ 2,556,804	\$ 635,326
<i>Capital assets, net</i>	<u>19,601,481</u>	<u>20,216,324</u>	<u>(614,843)</u>
<i>Total assets</i>	<u>22,793,611</u>	<u>22,773,128</u>	<u>20,483</u>
<i>Current liabilities</i>	1,256,267	1,150,083	106,184
<i>Long-term loans outstanding</i>	<u>19,238,754</u>	<u>19,992,800</u>	<u>(754,046)</u>
<i>Total liabilities</i>	<u>20,495,021</u>	<u>21,142,883</u>	<u>(647,862)</u>
<i>Net position:</i>			
<i>Net investment in capital assets</i>	(391,319)	(425,056)	33,737
<i>Unrestricted</i>	<u>2,689,909</u>	<u>2,055,301</u>	<u>634,608</u>
<i>Total net position</i>	<u>\$ 2,298,590</u>	<u>\$ 1,630,245</u>	<u>\$ 668,345</u>

NAWA experienced an increase of \$668,345 in net position during 2017.

At December 31, 2017, NAWA experienced an increase of \$33,737 in the net investment in capital assets due to current year principal payments reducing the long term debt.

**Changes in Net Position**

The following table shows the changes in net position for the fiscal years 2017 and 2016:



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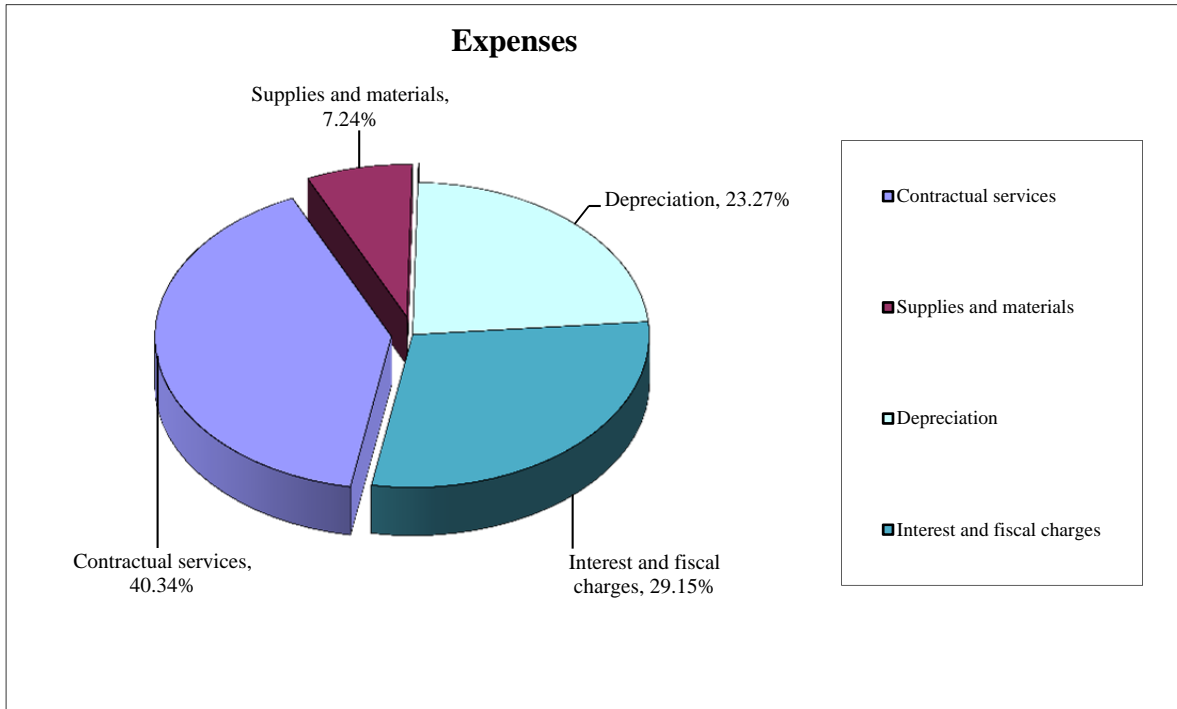
	<u>2017</u>	<u>2016</u>	<i>Increase (Decrease)</i>
<i>Revenues:</i>			
<i>Operating revenues</i>			
<i>Charges for services</i>	\$ 3,342,302	\$ 3,334,756	\$ 7,546
<i>Other</i>	5,431	-	5,431
<i>Nonoperating revenues</i>			
<i>Investment income</i>	<u>4,262</u>	<u>810</u>	<u>3,452</u>
<i>Total revenues</i>	<u>3,351,995</u>	<u>3,335,566</u>	<u>16,429</u>
 <i>Expenses:</i>			
<i>Operating expenses</i>			
<i>Contractual services</i>	1,082,634	1,063,945	18,689
<i>Supplies and materials</i>	194,318	190,746	3,572
<i>Depreciation</i>	624,393	625,590	(1,197)
<i>Nonoperating expenses</i>			
<i>Interest and fiscal charges</i>	782,305	831,494	(49,189)
<i>Loss on disposal of capital assets</i>	<u>-</u>	<u>20</u>	<u>(20)</u>
<i>Total expenses</i>	<u>2,683,650</u>	<u>2,711,795</u>	<u>(28,145)</u>
 <i>Change in net position</i>	 668,345	 623,771	 44,574
 <i>Beginning net position</i>	 <u>1,630,245</u>	 <u>1,006,474</u>	 <u>623,771</u>
<i>Ending net position</i>	<u>\$ 2,298,590</u>	<u>\$ 1,630,245</u>	<u>\$ 668,345</u>

Total revenues increased \$16,429 mainly due to an increase in current year charges for services. Total expenses decreased \$28,145 from 2016 to 2017. The primary reason for this decrease was due a decrease in interest and fiscal charges.

NAWA's only activity is business-type activity, which is the operation of the water treatment plant. The water treatment plant provides water treatment services to both the City of Vandalia and the City of Tipp City. NAWA charges each member city for water treatment services provided to the cities' residents in accordance with the joint venture agreement. Such charges are allocated based upon each city's monthly usage and are adjusted each month accordingly. During 2017, the plant generated revenues from charges for services in excess of \$3.3 million and had total expenses of approximately \$2.6 million. The interest and fiscal charges expense of \$782,305 for 2017 resulted from outstanding loans with the Ohio Water Development Authority (OWDA) and interest on the reimbursement agreement for bonded debt with the City of Tipp City.

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Contractual services make up 40.34% of NAWA's expenses. NAWA's facilities are operated and maintained for NAWA by the City of Tipp City. These expenses are recorded as contractual services.



**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2017, NAWA had \$19,601,481 invested in capital assets. The following table shows 2017 and 2016 balances:

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

	<u>2017</u>	<u>2016</u>
<i>Construction in progress</i>	\$ 156,523	\$ 156,523
<i>Infrastructure</i>	4,367,343	4,505,105
<i>Buildings and improvements</i>	14,483,622	14,896,559
<i>Machinery and equipment</i>	574,896	634,873
<i>Vehicles</i>	19,097	23,264
<i>Total capital assets</i>	<u>\$ 19,601,481</u>	<u>\$ 20,216,324</u>

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

**Northern Area Water Authority**  
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**Debt**

At December 31, 2017, NAWA had \$19,992,800 in Ohio Water Development Authority (OWDA) loans outstanding and a reimbursement agreement for bonded debt with Tipp City. The OWDA outstanding loans are for the construction of the water treatment plant facilities and a degasifier project while the reimbursement for bonded debt agreement is to reimburse Tipp City for the actual costs incurred in acquiring and installing the on-site back-up generator on behalf of NAWA. The following table summarizes NAWA's debt outstanding at December 31, 2017 and December 31, 2016:

	<u>2017</u>	<u>2016</u>	<u>(Decrease)</u>
<i>OWDA loans payable</i>	\$ 19,392,800	\$ 20,016,380	\$ (623,580)
<i>Reimbursement agreement for bonded debt</i>	<u>600,000</u>	<u>625,000</u>	<u>(25,000)</u>
<i>Total</i>	<u>\$ 19,992,800</u>	<u>\$ 20,641,380</u>	<u>\$ (648,580)</u>

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

**REQUEST FOR INFORMATION**

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

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***Northern Area Water Authority***  
**Miami County, Ohio**  
**Statement of Net Position**  
**December 31, 2017**

Assets:

Current assets:

Equity in pooled cash and cash equivalents	\$ 2,885,481
Receivables:	
Amounts due from related parties	259,095
Materials and supplies inventory	47,414
Prepaid items	140
Total current assets	<u>3,192,130</u>

Noncurrent assets:

Capital assets:

Construction in progress	156,523
Depreciable capital assets, net	19,444,958
Total noncurrent assets	<u>19,601,481</u>
Total assets	<u>22,793,611</u>

Liabilities:

Current liabilities:

Accounts payable	18,147
Amounts due to related parties	98,852
Accrued interest payable	385,222
Reimbursement agreement for bonded debt	100,000
OWDA loans payable	654,046
Total current liabilities	<u>1,256,267</u>

Long-term liabilities:

Reimbursement agreement for bonded debt, net of current portion	500,000
OWDA loans payable, net of current portion	18,738,754
Total long-term liabilities	<u>19,238,754</u>
Total liabilities	<u>20,495,021</u>

Net position:

Net investment in capital assets	(391,319)
Unrestricted	2,689,909
Total net position	<u>\$ 2,298,590</u>

See accompanying notes to the basic financial statements.

***Northern Area Water Authority***  
**Miami County, Ohio**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**For the Year Ended December 31, 2017**

<u>Operating revenues:</u>	
Charges for services	\$ 3,342,302
Other	5,431
Total operating revenue	<u>3,347,733</u>
<u>Operating expenses:</u>	
Contractual services	1,082,634
Supplies and materials	194,318
Depreciation	624,393
Total operating expenses	<u>1,901,345</u>
Operating income	<u>1,446,388</u>
<u>Nonoperating revenues (expenses):</u>	
Interest	4,262
Interest and fiscal charges	(782,305)
Total nonoperating revenues (expenses)	<u>(778,043)</u>
Change in net position	668,345
Net position at beginning of year	<u>1,630,245</u>
Net position at end of year	<u>\$ 2,298,590</u>

See accompanying notes to the basic financial statements.

***Northern Area Water Authority***  
**Miami County, Ohio**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2017**

Cash flows from operating activities:	
Cash received from customers	\$ 3,350,036
Cash payments to suppliers for goods and services	<u>(1,260,901)</u>
Net cash provided by operating activities	<u>2,089,135</u>
Cash flows from capital and related financing activities:	
Interest paid on debt	(794,781)
Principal payment on loans	(648,580)
Acquisition of capital assets	<u>(9,550)</u>
Net cash used for capital and related financing activities	<u>(1,452,911)</u>
Cash flows from investing activities:	
Investment income	<u>4,262</u>
Net cash provided by investing activities	<u>4,262</u>
Net increase in cash and cash equivalents	640,486
Cash and cash equivalents at beginning of year	<u>2,244,995</u>
Cash and cash equivalents at end of year	<u>\$ 2,885,481</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,446,388
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	624,393
Change in assets and liabilities:	
(Increase) decrease in assets:	
Amounts due from related parties	2,303
Materials and supplies inventory	2,860
Prepaid items	(3)
Increase (decrease) in liabilities:	
Accounts payable	(5,717)
Amounts due to related parties	20,679
Contracts payable	<u>(1,768)</u>
Net cash provided by operating activities	<u>\$ 2,089,135</u>

See accompanying notes to the financial statements.

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*Northern Area Water Authority*  
*Miami County, Ohio*  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017

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

A. Description of the Reporting Entity

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

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

	<u>2017</u>
<i>Vandalia</i>	42.76%
<i>Tipp City</i>	<u>57.24%</u>
	<u>100.00%</u>

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

B. Reporting Entity

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

**Northern Area Water Authority**  
**Miami County, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017

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

C. Basis of Presentation

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

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

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

D. Measurement Focus

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

E. Basis of Accounting

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

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

*Northern Area Water Authority*  
*Miami County, Ohio*  
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For the Year Ended December 31, 2017

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F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits.

G. Inventory

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

Inventory consists of expendable supplies held for consumption.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2017, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded.

I. Capital Assets

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

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

<u>Description</u>	<u>Estimated Lives</u>
<i>Infrastructure</i>	<i>7 - 65 years</i>
<i>Buildings and improvements</i>	<i>10 - 50 years</i>
<i>Machinery and equipment</i>	<i>5 - 35 years</i>
<i>Vehicles</i>	<i>6 - 25 years</i>

NAWA's policy is to capitalize net interest on construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project and the interest earned from temporary investments of the debt proceeds over the same period. Capitalized interest is amortized on a straight-line basis over the estimated useful life of the asset. NAWA did not have any capitalized interest costs during 2017.

**Northern Area Water Authority**  
**Miami County, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017

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J. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by NAWA or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. NAWA applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net positions are available. NAWA did not have any restricted net positions for 2017.

K. Operating and Nonoperating Revenues and Expenses

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

L. Contributions of Capital

Contributions of capital arise from outside contributions of capital assets or outside contributions of resources restricted to capital acquisition and construction. NAWA did not have any capital contributions during 2017.

M. Estimates

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

N. Budgetary Process

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

**NOTE 2 – DEPOSITS**

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

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

***Northern Area Water Authority***  
***Miami County, Ohio***  
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Inactive funds are those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

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

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

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**Miami County, Ohio**  
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For the Year Ended December 31, 2017

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***Deposits***

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

A year-end, the carrying amount of the NAWA's deposits was \$2,885,481. Based on the criteria described in GASB Statement No. 40 "Deposits and Investment Risk Disclosures", as of December 31, 2017, all of NAWA's bank balance of \$2,885,481 was not exposed to custodial risk as discussed above.

**NOTE 3 – ACCOUNTS RECEIVABLE**

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

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2017, was as follows:

**Northern Area Water Authority**  
**Miami County, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2017

<u><b>Business-type activities</b></u>	<u>Balance</u> <u>12/31/2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2017</u>
<i>Capital assets, not being depreciated:</i>				
Construction in progress	\$ 156,523	\$ -	\$ -	\$ 156,523
<i>Capital assets, being depreciated:</i>				
Infrastructure	5,830,064	-	-	5,830,064
Buildings and improvements	18,886,505	7,424	-	18,893,929
Machinery and equipment	1,229,671	2,126	-	1,231,797
Vehicles	42,566	-	-	42,566
<i>Total capital assets, being depreciated</i>	<u>25,988,806</u>	<u>9,550</u>	<u>-</u>	<u>25,998,356</u>
<i>Less accumulated depreciation:</i>				
Infrastructure	(1,324,959)	(137,762)	-	(1,462,721)
Buildings and improvements	(3,989,946)	(420,361)	-	(4,410,307)
Machinery and equipment	(594,798)	(62,103)	-	(656,901)
Vehicles	(19,302)	(4,167)	-	(23,469)
<i>Total accumulated depreciation</i>	<u>(5,929,005)</u>	<u>(624,393)</u>	<u>-</u>	<u>(6,553,398)</u>
<i>Total capital assets being depreciated, net</i>	<u>20,059,801</u>	<u>(614,843)</u>	<u>-</u>	<u>19,444,958</u>
<i>Business-type activities capital assets, net</i>	<u>\$ 20,216,324</u>	<u>\$ (614,843)</u>	<u>\$ -</u>	<u>\$ 19,601,481</u>

**NOTE 5 – LONG-TERM OBLIGATIONS**

Changes in long-term obligations payable during 2017 were as follows:

	<u>Balance</u> <u>12/31/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2017</u>	<u>Amount Due</u> <u>in One Year</u>
<u>Loans:</u>					
2005 OWDA Loan - 3.99%	\$ 19,488,376	\$ -	\$ (607,606)	\$ 18,880,770	\$ 632,091
2014 OWDA Loan - 3.34%	528,004	-	(15,974)	512,030	21,955
	<u>20,016,380</u>	<u>-</u>	<u>(623,580)</u>	<u>19,392,800</u>	<u>654,046</u>
<u>Other obligations:</u>					
Reimbursement agreement for bonded debt	625,000	-	(25,000)	600,000	100,000
<i>Total long-term obligations</i>	<u>\$ 20,641,380</u>	<u>\$ -</u>	<u>\$ (648,580)</u>	<u>\$ 19,992,800</u>	<u>\$ 754,046</u>

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

**Northern Area Water Authority**  
**Miami County, Ohio**  
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For the Year Ended December 31, 2017

The 2014 loan carrying a 3.34% interest rate was issued for the degasifier project. This loan was finalized in 2017. Current operations are expected to provide cash flows for the repayment of this loan.

The reimbursement agreement for bonded debt is an agreement between NAWA and the City of Tipp City. NAWA is to reimburse Tipp City for related debt principal and interest payments for the new generator financed by the City. The agreement has not yet been finalized so principal and interest requirements have not yet been established. For 2017, the City again rolled over the bond anticipation note and due to low interest rates the City will continue to reissue these notes annually.

The annual debt service requirements for payment of principal and interest at December 31, 2017, are as follows:

	<u>OWDA loans</u>	
<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 654,046	\$ 764,020
2019	680,257	737,809
2020	707,521	710,545
2021	735,877	682,189
2022	765,370	652,696
2023-2027	4,312,374	2,777,957
2028-2032	5,248,880	1,841,450
2033-2037	<u>6,288,475</u>	<u>703,670</u>
<i>Total</i>	<u>\$ 19,392,800</u>	<u>\$ 8,870,336</u>

**NOTE 6 – RELATED PARTY TRANSACTIONS**

NAWA was party to several transactions during 2017 involving the two member cities, which are summarized as follows:

A. Accounts Receivable

Accounts receivable as of December 31, 2017, includes the balance due from the member cities for water treatment services provided to the cities' residents. The amounts included in accounts receivable from member cities is as follows:

	<u>2017</u>
<i>Vandalia</i>	\$ 112,403
<i>Tipp City</i>	<u>146,692</u>
<i>Total</i>	<u>\$ 259,095</u>



**Northern Area Water Authority**  
**Miami County, Ohio**  
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For the Year Ended December 31, 2017

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**B. Charges for Services**

Charges for services for 2017 include the amounts charged to the member cities for water treatment services provided to the cities' residents. The amount included in charges for services from member cities is as follows:

	<u>2017</u>
<i>Vandalia</i>	\$ 1,429,063
<i>Tipp City</i>	<u>1,913,239</u>
<i>Total</i>	<u>\$ 3,342,302</u>

**C. Contractual Services**

Contractual services for services for 2017 include the amounts charged by the member cities for water treatment services provided to the cities' residents. The amount included in contractual services from member cities is as follows:

	<u>2017</u>
<i>Vandalia</i>	\$ 41,800
<i>Tipp City</i>	<u>954,267</u>
<i>Total</i>	<u>\$ 996,067</u>

**D. Operating lease**

During 2006, NAWA entered into an operating lease with the City of Tipp City for the use the City's wellfield. The lease will be in effect for a period coterminous with the joint venture agreement. Future payments are based on the gallons used during the year. During 2017, NAWA paid \$23,361 for the use of the wellfield and is being reported as part of contractual services.

**NOTE 7 – RISK MANAGEMENT**

NAWA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. As of December 31, 2017, NAWA has acquired general liability insurance coverage, including directors and officers liability, in the amount of \$12,000,000 per occurrence, and property coverage in the amount of \$1,000,000,000 per occurrence with a deductible of \$2,500. NAWA's membership in the Miami Valley Risk Management Association is contingent on the continued membership of the joint venture participants the City of Tipp City and the City of Vandalia.

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

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# 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 Area Water Authority  
Miami County  
333 James E. Bohanan Memorial Drive  
Vandalia, Ohio 45377

To the Board of Directors:

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 Northern Area Water Authority, Miami County, (the Authority) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated May 17, 2018.

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

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

### ***Compliance and Other Matters***

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

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***Purpose of this Report***

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

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

May 17, 2018



# Dave Yost • Auditor of State

**NORTHERN AREA WATER AUTHORITY**

**MIAMI COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 5, 2018**