



OHIO AUDITOR OF STATE  
**KEITH FABER**





**NORTHERN OHIO RURAL WATER  
HURON COUNTY  
DECEMBER 31, 2020 AND 2019**

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## 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 Northern Ohio Rural Water, Huron County, Ohio (the District), as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of December 31, 2020 and 2019, and the respective changes in financial position and its cash flows for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

### ***Emphasis of Matters***

As discussed in Note 13 to the financial statements, during 2020, the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. We did not modify our opinion regarding this matter.

As discussed in Note 16 to the financial statements, the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the District. 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 and other post-employment benefit liabilities and pension and other post-employment benefit 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 this information to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information 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, this information is 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 11, 2021, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Keith Faber  
Auditor of State  
Columbus, Ohio

June 11, 2021

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# NORTHERN OHIO RURAL WATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2020 and 2019

(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 2018, the District adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to Other Postemployment Benefits (OPEB). 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 OPEB, the net pension liability and the net OPEB liability to the reported net position, and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* and *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension and OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability equal the District's proportionate share of each plan's collective:

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

GASB notes that pension and OPEB 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 and other postemployment benefits. 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 these liabilities. 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 Ohio Revised Code permits, but does not require, the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

# NORTHERN OHIO RURAL WATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2020 and 2019

(Unaudited)

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 retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension and OPEB plans *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 retirement system is responsible for the administration of the pension and OPEB plans.

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 and the net OPEB liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of these liabilities 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 and the net OPEB liability are satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the District's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the District is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2017, from \$18,034,116 to \$17,260,936.

### 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 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, 2020 and 2019

(Unaudited)

Table I summarizes the Net Position of the District.

**TABLE I**

	2020	Restated 2019	2018	2020 vs 2019		2019 vs 2018	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Current and other assets	\$ 9,051,056	\$ 7,517,483	\$ 6,665,379	\$ 1,533,573	20.4%	\$ 852,104	12.8%
Capital assets	45,934,012	46,452,801	46,514,772	(518,789)	-1.1%	(61,971)	-0.1%
Total assets	<u>54,985,068</u>	<u>53,970,284</u>	<u>53,180,151</u>	<u>1,014,784</u>	1.9%	<u>790,133</u>	1.5%
Deferred outflows of resources:							
Pension	253,257	576,742	561,738	(323,485)	-56.1%	15,004	2.7%
OPEB	<u>149,279</u>	<u>110,776</u>	<u>57,377</u>	<u>38,503</u>	34.8%	<u>53,399</u>	93.1%
Total deferred outflow of resources	<u>402,536</u>	<u>687,518</u>	<u>619,115</u>	<u>(284,982)</u>	-41.5%	<u>68,403</u>	11.0%
Current liabilities	2,521,163	2,552,099	2,405,853	(30,936)	-1.2%	146,246	6.1%
Other liabilities	205,243	171,070	162,603	34,173	20.0%	8,467	5.2%
Long-term liabilities	28,792,180	30,789,822	31,742,797	(1,997,642)	-6.5%	(952,975)	-3.0%
Total liabilities	<u>31,518,586</u>	<u>33,512,991</u>	<u>34,311,253</u>	<u>(1,994,405)</u>	-6.0%	<u>(798,262)</u>	-2.3%
Deferred inflows of resources:							
Pension	275,898	4,910	29,998	270,988	5,519.1%	(25,088)	-83.6%
OPEB	<u>51,916</u>	<u>64,058</u>	<u>58,948</u>	<u>(12,142)</u>	-19.0%	<u>5,110</u>	8.7%
Total deferred inflow of resources	<u>327,814</u>	<u>68,968</u>	<u>88,946</u>	<u>258,846</u>	375.3%	<u>(19,978)</u>	-22.5%
Net investment in capital assets	17,861,279	16,728,218	15,172,531	1,133,061	6.8%	1,555,687	10.3%
Restricted	1,439,126	1,395,407	1,350,008	43,719	3.1%	45,399	3.4%
Unrestricted	<u>4,240,799</u>	<u>2,952,218</u>	<u>2,876,528</u>	<u>1,288,581</u>	43.6%	<u>75,690</u>	2.6%
Total net position	<u>\$ 23,541,204</u>	<u>\$ 21,075,843</u>	<u>\$ 19,399,067</u>	<u>\$ 2,465,361</u>	11.7%	<u>\$ 1,676,776</u>	8.6%

- The total assets plus deferred outflows of resources of NORW exceeded liabilities plus deferred inflows of resources on December 31, 2020 and 2019 by \$23,541,204 and \$21,075,843, respectively.
- The District's net position increased \$2,465,361 and \$1,676,776 in 2020 and 2019, respectively, due primarily to income from operations.

### Significant Events and Expenditures During the Year:

Current assets increased \$1,455,562 due primarily to an increase in cash from operations. Net investment in capital assets increased \$1,133,061 due primarily to the payment of notes and bonds payable.

# NORTHERN OHIO RURAL WATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2020 and 2019

(Unaudited)

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

**TABLE II**

	2020	2019	2018	2020 vs 2019		2019 vs 2018	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Operating revenue	\$ 9,640,709	\$ 8,941,708	\$ 8,985,643	\$ 699,001	7.8%	\$ (43,935)	-0.5%
Operating expenses	<u>(6,438,959)</u>	<u>(6,409,607)</u>	<u>(5,989,317)</u>	<u>(29,352)</u>	0.5%	<u>(420,290)</u>	7.0%
Income from operations	3,201,750	2,532,101	2,996,326	669,649	26.4%	(464,225)	-15.5%
Nonoperating revenue	393,274	338,406	400,267	54,868	16.2%	(61,861)	-15.5%
Nonoperating expenses	<u>(1,129,663)</u>	<u>(1,193,731)</u>	<u>(1,258,462)</u>	<u>64,068</u>	-5.4%	<u>64,731</u>	-5.1%
Nonoperating gain (loss)	<u>(736,389)</u>	<u>(855,325)</u>	<u>(858,195)</u>	<u>118,936</u>	-13.9%	<u>2,870</u>	-0.3%
Change in net position	2,465,361	1,676,776	2,138,131	788,585	47.0%	(461,355)	-21.6%
Beginning net position	21,075,843	19,399,067	18,034,116	1,676,776	8.6%	1,364,951	7.6%
Restatement of net position- GASB 75	-	-	(773,180)	-		773,180	
	<u>21,075,843</u>	<u>19,399,067</u>	<u>17,260,936</u>	<u>1,676,776</u>		<u>2,138,131</u>	
Ending net position	<u>\$ 23,541,204</u>	<u>\$ 21,075,843</u>	<u>\$ 19,399,067</u>	<u>\$ 2,465,361</u>	11.7%	<u>\$ 1,676,776</u>	8.6%

- The District's operating revenues increased in 2020 and decreased in 2019 by \$699,001 (7.8%) and \$43,945 (-0.5%), respectively, while operating expenses increased in 2020 and 2019 by \$29,352 (0.5%) and \$420,290 (7.0%), respectively.

### Significant Events and Expenditures During the Year:

The 2020 increase in net position is due to results of operations. The decrease in nonoperating expenses is due primarily to a \$64,811 decrease in interest expense. The 2019 increase in net position is due to results of operations. The decrease in nonoperating expenses is due primarily to a \$64,904 decrease in interest expense. A restatement of 2017 net position in the amount of (\$773,180) was recorded based on Northern Ohio Rural Water's proportionate share of OPERS' Schedule of Collective OPEB Amounts per the requirement of GASB 75 based on a measurement date of December 31, 2017.

# NORTHERN OHIO RURAL WATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2020 and 2019

(Unaudited)

Capital Assets:

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

**TABLE III**

	2020	2019	2018	2020 vs 2019		2019 vs 2018	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Capital assets, non-depreciable:							
Land	\$ 533,342	\$ 533,342	\$ 533,342	\$ -	0.0%	\$ -	0.0%
Easements	410,551	366,355	358,254	44,196	12.1%	8,101	2.3%
Current construction	439,081	355,540	246,184	83,541	23.5%	109,356	44.4%
Capital assets, depreciable:							
Buildings	2,340,650	2,340,650	2,322,150	-	0.0%	18,500	0.8%
Tanks, stations, and lines	75,957,060	75,055,642	73,542,945	901,418	1.2%	1,512,697	2.1%
Furniture and fixtures	547,807	492,207	471,281	55,600	11.3%	20,926	4.4%
Vehicles & distribution equip.	2,490,688	2,022,698	2,018,464	467,990	23.1%	4,234	0.2%
Total before depreciation	<u>82,719,179</u>	<u>81,166,434</u>	<u>79,492,620</u>	<u>1,552,745</u>	<u>1.9%</u>	<u>1,673,814</u>	<u>2.1%</u>
Accumulated depreciation	<u>(36,785,167)</u>	<u>(34,713,633)</u>	<u>(32,977,848)</u>	<u>(2,071,534)</u>		<u>(1,735,785)</u>	
Total capital assets, net	<u>\$ 45,934,012</u>	<u>\$ 46,452,801</u>	<u>\$ 46,514,772</u>	<u>\$ (518,789)</u>		<u>\$ (61,971)</u>	

NORW has \$82,719,179 invested in its system (before depreciation) at December 31, 2020. This amount includes net additions of \$1,552,745 during the year ended December 31, 2020.

The increase in tanks, stations, and lines in the amount of \$901,418 is due primarily to line extensions, water tanks additions, and tap installations. The increase in vehicles and distribution equipment in the amount of \$467,990 is due primarily to the addition of four vehicles and a trencher.

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, 2020 and 2019

(Unaudited)

### Long-Term Debt:

Table IV summarizes long-term debt for the District.

**TABLE IV**

	2020	2019	2018	2020 vs 2019		2019 vs 2018	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Long-term debt:							
OWDA notes	\$ 10,714,602	\$ 11,662,596	\$ 12,580,792	\$ (947,994)	-8.1%	\$ (918,196)	-7.3%
CoBank notes	13,352,631	13,967,013	14,558,314	(614,382)	-4.4%	(591,301)	-4.1%
Rural Development Bonds	4,005,500	4,083,800	4,159,600	(78,300)	-1.9%	(75,800)	-1.8%
Buckeye Community Bank notes	0	11,174	43,535	(11,174)	-100.0%	(32,361)	-74.3%
Total long-term debt	28,072,733	29,724,583	31,342,241	(1,651,850)	-5.6%	(1,617,658)	-5.2%
Less: Current maturities	(1,702,027)	(1,651,849)	(1,617,680)	(50,178)	3.0%	(34,169)	2.1%
Net total long-term debt	<u>\$ 26,370,706</u>	<u>\$ 28,072,734</u>	<u>\$ 29,724,561</u>	<u>\$ (1,702,028)</u>	-6.1%	<u>\$ (1,651,827)</u>	-5.6%
Net pension liability	\$ 1,312,046	\$ 1,695,589	\$ 1,238,541	\$ (383,543)	-22.6%	\$ 457,048	36.9%
Net OPEB liability	\$ 1,109,428	\$ 1,021,499	\$ 779,695	\$ 87,929	8.6%	\$ 241,804	31.0%

See Note 5 of the financial statements for details of issuance and retirement of debt for the years ended December 31, 2020 and 2019.

See Notes 7 and 8 of the financial statements for details of net pension and net OPEB liabilities for the years ended December 31, 2020 and 2019.

### Significant Events and Expenditures During the Year:

A net pension liability and a net OPEB liability in the amount of \$1,312,046 and \$1,109,428, respectively, were recorded based on NORW's proportionate share of OPERS' Schedule of Collective Pension and OPEB amounts per the requirements of GASB 68 and GASB 75 based on a measurement date of December 31, 2019.

### 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, 2020 and 2019

<u>ASSETS</u>	<u>2020</u>	<u>Restated 2019</u>
CURRENT ASSETS: (Note 2)		
Cash and cash equivalents	\$ 6,261,708	\$ 4,911,722
Restricted cash (Note 11)	227,141	199,521
Cash and cash equivalents - Custodial funds	27,078	38,101
Receivables:		
Trade (net allowance for doubtful accounts of \$10,405 in 2020 and \$9,756 in 2019)	589,100	574,736
Tap installments	76,750	0
Other	126,515	91,408
Custodial funds	35,517	28,243
Inventory	231,838	282,594
Prepaid expenses	18,575	12,335
Total current assets	<u>7,594,222</u>	<u>6,138,660</u>
NONCURRENT ASSETS:		
Restricted cash (Note 11)	1,211,985	1,195,886
Capital assets, non-depreciable: (Note 2 & 4)		
Land	533,342	533,342
Easements	410,551	366,355
Current construction	439,081	355,540
Capital assets, depreciable: (Note 2 & 4)		
Buildings	2,340,650	2,340,650
Tanks, stations, lines, meters, and taps	75,957,060	75,055,642
Furniture and fixtures	547,807	492,207
Vehicles and distribution equipment	2,490,688	2,022,698
	<u>82,719,179</u>	<u>81,166,434</u>
Less: Accumulated depreciation	<u>36,785,167</u>	<u>34,713,633</u>
Total noncurrent assets	<u>47,145,997</u>	<u>47,648,687</u>
OTHER ASSETS:		
CoBank investment (Note 12)	203,641	159,903
Organization costs	1,000	1,000
Net pension asset (Note 7)	40,208	22,034
Total other assets	<u>244,849</u>	<u>182,937</u>
Total assets	<u>54,985,068</u>	<u>53,970,284</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Pension (Note 7)	253,257	576,742
OPEB (Note 8)	149,279	110,776
Total deferred outflows of resources	<u>402,536</u>	<u>687,518</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 55,387,604</u>	<u>\$ 54,657,802</u>

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

# NORTHERN OHIO RURAL WATER

## STATEMENTS OF NET POSITION

### PROPRIETARY FUND TYPE

December 31, 2020 and 2019

<u>LIABILITIES AND NET POSITION</u>	<u>2020</u>	<u>Restated 2019</u>
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 211,020	\$ 280,893
Projects and retainage payable	840	837
Tenant deposits	92,250	97,050
Accrued expenses:		
Wages	43,599	32,148
Compensated absences	119,127	114,293
Payroll taxes	24,042	21,951
Interest	265,663	286,734
Undistributed monies - Custodial funds	62,595	66,344
Current portion of long-term debt	<u>1,702,027</u>	<u>1,651,849</u>
Total current liabilities	2,521,163	2,552,099
<b>NONCURRENT LIABILITIES:</b>		
Future tap installations	205,243	171,070
Net pension liability (Notes 5 & 7)	1,312,046	1,695,589
Net OPEB liability (Notes 5 & 8)	1,109,428	1,021,499
Notes payable (Note 5)	24,067,233	25,640,783
Bonds payable (Note 5)	<u>4,005,500</u>	<u>4,083,800</u>
	30,699,450	32,612,741
Less: Current portion	<u>1,702,027</u>	<u>1,651,849</u>
Total noncurrent liabilities	<u>28,997,423</u>	<u>30,960,892</u>
Total liabilities	31,518,586	33,512,991
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
Pension (Note 7)	275,898	4,910
OPEB (Note 8)	<u>51,916</u>	<u>64,058</u>
Total deferred inflows of resources	327,814	68,968
<b>NET POSITION:</b>		
Net investment in capital assets	17,861,279	16,728,218
Restricted	1,439,126	1,395,407
Unrestricted	<u>4,240,799</u>	<u>2,952,218</u>
Total net position	<u>23,541,204</u>	<u>21,075,843</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<u>\$ 55,387,604</u>	<u>\$ 54,657,802</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, 2020 and 2019

	2020	2019
OPERATING REVENUE:		
Water sales	\$ 8,929,499	\$ 8,405,814
Tap fees	711,210	535,894
Total operating revenue	9,640,709	8,941,708
OPERATING EXPENSES	6,438,959	6,409,607
INCOME FROM OPERATIONS	3,201,750	2,532,101
NONOPERATING REVENUE:		
Credit card fees	(3,670)	(1,889)
Discounts earned	3,425	4,284
EPA income	18,030	18,643
Interest income	26,943	28,156
Line maintenance reimbursements	58,700	3,000
Miscellaneous	195,273	165,119
Reconnection fees	27,650	42,836
Tower income	0	1,680
Insurance recoveries	5,769	25,521
Insurance billing service fees	26,943	26,879
Sewer billing service fees	11,016	11,016
Gain on disposal of assets	23,195	13,161
Total nonoperating revenue	393,274	338,406
Income from operations and nonoperating revenue	3,595,024	2,870,507
NONOPERATING EXPENSES:		
Uncollectible accounts expense	649	38
EPA expense	19,067	18,935
Interest expense	1,109,947	1,174,758
Total nonoperating expenses	1,129,663	1,193,731
CHANGE IN NET POSITION	2,465,361	1,676,776
NET POSITION - Beginning of period	21,075,843	19,399,067
NET POSITION - End of period	\$ 23,541,204	\$ 21,075,843

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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 9,514,488	\$ 8,898,531
Cash received from custodial accounts	432,345	440,074
Cash payments for custodial accounts	(443,368)	(401,973)
Cash payments to suppliers for goods and services	(2,396,254)	(2,376,542)
Cash payments to employees and professional contractors for services	(1,677,274)	(1,472,164)
Net cash provided by operating activities	<u>5,429,937</u>	<u>5,087,926</u>
<b>CASH FLOWS FROM NON-CAPITAL ACTIVITIES:</b>		
Proceeds from developer, hydrant maintenance, and reconnection fees	27,650	42,836
Proceeds from discounts earned, EPA and tower income	21,455	24,607
Proceeds from line maintenance reimbursements	58,700	3,000
Proceeds from insurance claims	5,769	25,521
Proceeds from sales of assets	27,500	13,161
Other nonoperating revenue	209,846	182,152
Net cash provided by non-capital activities	<u>350,920</u>	<u>291,277</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of equipment and new construction	(1,598,512)	(1,806,754)
Purchase of investment	(43,738)	(45,665)
Repayment of principal on long-term debt	(1,651,850)	(1,617,658)
Interest paid on debt	(1,131,018)	(1,194,272)
Net cash used in capital and related financing activities	<u>(4,425,118)</u>	<u>(4,664,349)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES - Interest earned</b>	<u>26,943</u>	<u>28,156</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,382,682	743,010
<b>CASH AND CASH EQUIVALENTS - Beginning of period</b>	<u>6,345,230</u>	<u>5,602,220</u>
<b>CASH AND CASH EQUIVALENTS - End of period</b>	<u>\$ 7,727,912</u>	<u>\$ 6,345,230</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, 2020 and 2019

	2020	2019
PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	\$ 3,201,750	\$ 2,532,101
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	2,147,172	1,877,197
Custodial activities	(11,023)	38,101
Changes in assets, deferred outflow of resources, and liabilities:		
(Increase) decrease in:		
Receivables	(126,221)	(43,177)
Inventory	50,756	5,328
Prepaid expenses	(6,240)	(404)
Deferred outflows of resources - pension	323,485	(15,004)
Deferred outflows of resources - OPEB	(38,503)	(53,399)
Net pension asset	(18,174)	3,067
Increase (decrease) in:		
Accounts payable	(69,873)	67,354
Tenant deposits	(4,800)	(7,100)
Accrued expenses	18,376	4,988
Deferred inflows of resources - pension	270,988	(25,088)
Deferred inflows of resources - OPEB	(12,142)	5,110
Net pension liability	(383,543)	457,048
Net OPEB liability	87,929	241,804
Net cash provided by operating activities	\$ 5,429,937	\$ 5,087,926

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, 2020 and 2019

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, 2020 and 2019

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 accounts were reclassified to the proprietary fund under GASB 84 (See Note 13). The 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 fiduciary fund accounts are custodial in nature (assets equal liabilities) and do 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, 2020 and 2019

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. Expenditures for major renewals, betterments, adaptations, or restorations that extend the useful lives of property and equipment are capitalized.

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.

Expenditures for maintenance and repairs are charged to expense as 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, 2020 and 2019

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 unlimited days of sick leave. Upon retirement, employees are entitled to a maximum of 500 hours of their accumulated sick leave balance. 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, 2020 and 2019 is \$119,127 and \$114,293, respectively. The unrecorded estimated unused sick leave for the year ended December 31, 2020 and 2019 was \$343,191 and \$337,235, 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. The Statement of Cash Flows includes additions and deductions to the custodial fund accounts in 2020 and 2019.

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, 2020 and 2019

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 and OPEB. The deferred outflows of resources related to pension and OPEB are explained in Notes 7 and 8.

In addition to liabilities, the statement of financial position reports 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 as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include pension and OPEB. These amounts have been recorded as a deferred inflow on the statement of net position. Deferred inflows of resources related to pension and OPEB plans are reported on the statement of net position (see Notes 7 and 8).



# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2020 and 2019

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

M. Pensions/Other Postemployment Benefits (OPEB):

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

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 through the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2020 and 2019

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

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.

At December 31, 2020 and 2019, the carrying amount of all District deposits was \$7,727,912 and \$6,345,230, respectively. Based on the criteria described in GASB statement No. 40, "Deposits and Investment Risk Disclosures," as of December 31, 2020 and 2019, none of the District's bank balance of \$7,851,121 and \$6,542,149, 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.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2020 and 2019

Note 4. Capital Assets:

A summary of changes in capital assets for the year ended December 31, 2020, is as follows:

	Balance December 31, 2019	Additions	Deletions	Balance December 31, 2020
Capital assets, nondepreciable:				
Land	\$ 533,342	\$ -	\$ -	\$ 533,342
Easements	366,355	44,196	-	410,551
Current construction	355,540	196,437	(112,896)	439,081
Capital assets, depreciable:				
Buildings	2,340,650	-	-	2,340,650
Tanks, stations, lines, meters, and taps	75,055,642	901,418	-	75,957,060
Furniture and fixtures	492,207	55,600	-	547,807
Vehicles and distribution equipment	2,022,698	547,933	(79,943)	2,490,688
Total	81,166,434	1,745,584	(192,839)	82,719,179
Less accumulated depreciation				
Buildings	(379,718)	(58,516)	-	(438,234)
Tanks, stations, lines, meters, and taps	(32,263,036)	(1,897,385)	-	(34,160,421)
Furniture and fixtures	(442,288)	(25,404)	-	(467,692)
Vehicles and distribution equipment	(1,628,591)	(165,867)	75,638	(1,718,820)
Total accumulated depreciation	(34,713,633)	(2,147,172)	75,638	(36,785,167)
Net capital assets	\$ 46,452,801	\$ (401,588)	\$ (117,201)	\$ 45,934,012

Depreciation expense for the year ended December 31, 2020 and 2019 was \$2,147,172 and \$1,877,197. Current construction at December 31, 2020 and 2019 included capitalized construction period interest of \$-0- and \$-0- that was incurred in each respective year. Total interest cost incurred was \$1,109,947 and \$1,174,758 at December 31, 2020 and 2019, respectively.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2020 and 2019

Note 4. Capital Assets (Continued):

A summary of changes in capital assets for the year ended December 31, 2019, is as follows:

	Balance December 31, 2018	Additions	Deletions	Balance December 31, 2019
Capital assets, nondepreciable:				
Land	\$ 533,342	\$ -	\$ -	\$ 533,342
Easements	358,254	8,101	-	366,355
Current construction	246,184	279,856	(170,500)	355,540
Capital assets, depreciable:				
Buildings	2,322,150	18,500	-	2,340,650
Tanks, stations, lines, meters, and taps	73,542,945	1,512,697	-	75,055,642
Furniture and fixtures	471,281	20,926	-	492,207
Vehicles and distribution equipment	2,018,464	145,646	(141,412)	2,022,698
Total	79,492,620	1,985,726	(311,912)	81,166,434
Less accumulated depreciation				
Buildings	(321,331)	(58,387)	-	(379,718)
Tanks, stations, lines, meters, and taps	(30,516,730)	(1,746,306)	-	(32,263,036)
Furniture and fixtures	(438,153)	(4,135)	-	(442,288)
Vehicles and distribution equipment	(1,701,634)	(68,369)	141,412	(1,628,591)
Total accumulated depreciation	(32,977,848)	(1,877,197)	141,412	(34,713,633)
Net capital assets	\$ 46,514,772	\$ 108,529	\$ (170,500)	\$ 46,452,801

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2020 and 2019

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, 2020, is as follows:

Description	Balance December 31, 2019	Borrowed	Repaid	Balance December 31, 2020	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.	\$ 11,662,596	\$ -0-	\$ 947,994	\$ 10,714,602	\$ 979,497
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-only payments through 2012 at 3.25% with a maturity date of September 2050.	4,083,800	-0-	78,300	4,005,500	80,900
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 2020.	11,174	-0-	11,174	-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.	1,746,839	-0-	88,087	1,658,752	93,084
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 3.85% with a maturity date of September 2036.	12,220,174	-0-	526,295	11,693,879	548,546
	<u>\$ 29,724,583</u>	<u>\$ -0-</u>	<u>\$ 1,651,850</u>	<u>\$ 28,072,733</u>	<u>\$ 1,702,027</u>
Description	Balance December 31, 2019	Additions	Reductions	Balance December 31, 2020	Due Within One Year
A net pension liability in the amount of \$1,312,046 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, 2019.	\$ 1,695,589	\$ -0-	\$ 383,543	\$ 1,312,046	\$ -0-
Description	Balance December 31, 2019	Additions	Reductions	Balance December 31, 2020	Due Within One Year
A net OPEB liability in the amount of \$1,109,428 was recorded based on NORW's proportionate share of OPERS Schedule of Collective OPEB Amounts per the requirements of GASB 75 based on a measurement date of December 31, 2019.	\$ 1,021,499	\$ 87,929	\$ -0-	\$ 1,109,428	\$ -0-

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2020 and 2019

**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, 2019, is as follows:

Description	Balance December 31, 2018	Borrowed	Repaid	Balance December 31, 2019	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.	\$ 12,580,792	\$ -0-	\$ 918,196	\$ 11,662,596	\$ 947,994
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-only payments through 2012 at 3.25% with a maturity date of September 2050.	4,159,600	-0-	75,800	4,083,800	78,300
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 2020.	43,535	-0-	32,361	11,174	11,174
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.	1,830,677	-0-	83,838	1,746,839	88,087
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 3.85% with a maturity date of September 2036.	12,727,637	-0-	507,463	12,220,174	526,294
	<u>\$ 31,342,241</u>	<u>\$ -0-</u>	<u>\$ 1,617,658</u>	<u>\$ 29,724,583</u>	<u>\$ 1,651,849</u>
Description	Balance December 31, 2018	Additions	Reductions	Balance December 31, 2019	Due Within One Year
A net pension liability in the amount of \$1,695,589 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, 2018.	\$ 1,238,541	\$ 612,168	\$ 155,120	\$ 1,695,589	\$ -0-
Description	Balance December 31, 2018	Additions	Reductions	Balance December 31, 2019	Due Within One Year
A net OPEB liability in the amount of \$1,021,499 was recorded based on NORW's proportionate share of OPERS Schedule of Collective OPEB Amounts per the requirements of GASB 75 based on a measurement date of December 31, 2018.	\$ 779,695	\$ 241,804	\$ -0-	\$ 1,021,499	\$ -0-

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2020 and 2019

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, 2020, are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 1,702,027	1,063,652	\$ 2,765,679
2022	1,786,061	995,437	2,781,498
2023	1,769,317	924,756	2,694,073
2024	1,751,337	854,168	2,605,505
2025	1,837,558	782,567	2,620,125
2026-2030	7,291,357	2,768,894	10,060,251
2031-2035	7,307,776	1,516,469	8,824,245
2036-2040	2,719,418	698,665	3,418,083
2041-2045	948,382	243,268	1,191,650
2046-2050	959,500	95,547	1,055,047
	<u>\$ 28,072,733</u>	<u>\$ 9,943,423</u>	<u>\$ 38,016,156</u>

See Note 7 and 8 for details on the Net Pension Liability and the Net OPEB Liability, respectively.

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, 2020 and 2019

Note 7. Defined Benefit Pension Plan:

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, 2020 and 2019

Note 7. Defined Benefit Pension Plan (Continued):

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 OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or (800) 222-7377.

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

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, 2020 and 2019

Note 7. Defined Benefit Pension Plan (Continued):

Net Pension Liability (Continued):

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

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>2019 and 2020 Statutory Maximum Contribution Rates</b>	
Employer	14.0%
Employee	10.0%
<b>2019 and 2020 Actual Contribution Rates</b>	
Employer:	
Pension	14.0%
Post-employment Health Care Benefits	<u>0.0%</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 \$177,037 and \$170,124 for 2020 and 2019, respectively. Of this amount, \$-0- and \$-0- is reported as a payable for 2020 and 2019, respectively.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2020 and 2019

Note 7. Defined Benefit Pension Plan (Continued):

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, 2019, 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	\$1,312,046
Proportion of the Net Pension Liability – prior measurement date	0.006441%
Liability – current measurement date	<u>0.006638%</u>
Change in proportion of net pension liability	<u>0.000197%</u>
Pension Expense	\$449,414

The net pension liability was measured as of December 31, 2018, 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	\$1,695,589
Proportion of the Net Pension Liability	0.006441%
Pension Expense	\$646,532

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2020 and 2019

Note 7. Defined Benefit Pension Plan (Continued):

Net Pension Liability (Continued):

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

At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>
<b>Deferred Outflows of Resources</b>	
Difference between expected and actual experience	\$ 1,061
Change in assumptions	74,299
Changes in proportion and difference between District contributions and proportionate share of contributions	860
District contributions subsequent to the measurement date	<u>177,037</u>
Total deferred outflows of resources	<u>\$ 253,257</u>
	<u>OPERS</u>
<b>Deferred Inflows of Resources</b>	
Difference between expected and actual experience	\$ 25,736
Net difference between projected and actual earnings on pension plan investments	267,170
Changes in proportion and difference between District contributions and proportionate share of contributions	<u>(17,008)</u>
Total deferred inflows of resources	<u>\$ 275,898</u>

One hundred seventy seven thousand thirty-seven (\$177,037) 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, 2021. 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:	
2021	\$(49,920)
2022	(49,920)
2023	(49,919)
2024	<u>(49,919)</u>
Total	<u>\$ (199,678)</u>

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2020 and 2019

Note 7. Defined Benefit Pension Plan (Continued):

Net Pension Liability (Continued):

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

At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>
<b>Deferred Outflows of Resources</b>	
Difference between expected and actual experience	\$ 2,838
Change in assumptions	158,550
Net difference between projected and actual earnings on pension plan investments	244,264
Changes in proportion and difference between District contributions and proportionate share of contributions	966
District contributions subsequent to the measurement date	<u>170,124</u>
Total deferred outflows of resources	<u>\$ 576,742</u>

	<u>OPERS</u>
<b>Deferred Inflows of Resources</b>	
Difference between expected and actual experience	\$ 31,780
Changes in proportion and difference between District contributions and proportionate share of contributions	<u>(26,870)</u>
Total deferred inflows of resources	<u>\$ 4,910</u>

One hundred seventy thousand one hundred twenty-four (\$170,124) 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, 2020. 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:	
2020	\$100,427
2021	100,427
2022	100,427
2023	<u>100,427</u>
Total	<u>\$401,708</u>

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2020 and 2019

Note 7. Defined Benefit Pension Plan (Continued):

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, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Wage Inflation	3.25 percent	3.25 percent
Future Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation	3.25 to 10.75 percent including wage inflation
COLA or Ad Hoc COLA:		
Pre-January 7, 2013	3 percent simple	3 percent simple
Post-January 7, 2013	3 percent simple through 2020, then 1.40 percent simple	3 percent simple through 2018, then 2.15 percent simple
Investment Rate of Return	7.2 percent	7.2 percent
Actuarial Cost Method	individual entry age	individual entry age

In October 2019, the OPERS Board adopted a change in COLA for post-January 7, 2013, retirees changing it from 3 percent simple through 2018 then 2.15 simple to 1.4 percent simple through 2020 then 2.15 percent simple. In October 2018, the OPERS Board adopted a change in the investment rate of return assumption reducing it from 7.5 percent to 7.2 percent. This change was effective beginning with the 2018 valuation. Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

## NORTHERN OHIO RURAL WATER

### NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2020 and 2019

Note 7. Defined Benefit Pension Plan (Continued):

Net Pension Liability (Continued):

*Actuarial Assumptions – OPERS (Continued)*

For 2019, mortality rates were based on the RP-2014 Healthy Annuitant Table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above-described table.

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. Best estimates of arithmetic real rates of return were provided by the Board's investment consultant.

OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets for the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annualized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses, and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio was 17.2% for 2019.

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.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2020 and 2019

Note 7. Defined Benefit Pension Plan (Continued):

Net Pension Liability/Asset (Continued):

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

For each major class that is included in the Defined Benefit portfolio’s target asset allocation as of December 31, 2019, these best estimates are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	25.00%	1.83%
Domestic Equities	19.00	5.75%
Real Estate	10.00	5.20%
Private Equity	12.00	10.70%
International Equities	21.00	7.66%
Other Investments	<u>13.00</u>	4.98%
Total	<u>100.00%</u>	5.61%

***Discount Rate*** The discount rate used to measure the total pension liability was 7.2 percent for the Traditional Pension Plan, Combined Plan, and Member-Directed Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Traditional Pension Plan, Combined Plan, and Member-Directed Plan was applied to all periods of projected benefit payments to determine the total pension liability.

***Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** The following table presents the District’s proportionate share of the net pension liability or asset calculated using the current period discount rate assumption of 7.2 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.2 percent) or one-percentage-point higher (8.2 percent) than the current rate:

	1% Decrease <u>(6.2%)</u>	Current Discount Rate <u>(7.2%)</u>	1% Increase <u>(8.2%)</u>
District’s proportionate share of the net pension: Liability	\$2,163,988	\$1,312,046	\$ 546,175



# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2020 and 2019

Note 8. Defined Benefit Other Post-Employment Benefits (OPEB):

***Net OPEB Liability***

The net OPEB liability reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB 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 OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB liability represents the District's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB 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 these estimates 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 OPEB are financed; however, the District does receive the benefit of employees' services in exchange for compensation including OPEB.

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2020 and 2019

Note 8. Defined Benefit Other Post-Employment Benefits (OPEB) - Continued:

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

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

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. This trust is also used to fund health care for Member-Directed Plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, Member-Directed Plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for postemployment 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 Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 75. See OPERS' CAFR referenced below for additional information.

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

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by the OPERS Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2020 and 2019

Note 8. Defined Benefit Other Post-Employment Benefits (OPEB) - Continued:

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

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, 2020 and 2019, respectively. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

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 0.0% during calendar years 2019 and 2020. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0% 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 Member-Directed Plan participants for 2020 was 4.0%

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The District's contractually required contribution was \$-0- for 2020.

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 \$-0-, \$-0-, \$-0-, \$10,171, \$23,731, for 2020, 2019, 2018, 2017, and 2016, respectively. The 2020 payable to fund health care was \$-0-.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2020 and 2019

Note 8. Defined Benefit Other Post-Employment Benefits (OPEB) - Continued:

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

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2018, rolled forward to the measurement date of December 31, 2019, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. The District's proportion of the net OPEB liability was based on the District's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

Proportion of the Net OPEB Liability:	
Current Measurement Date	0.008032%
Prior Measurement Date	0.007835%
Change in Proportionate Share	0.000197%
Proportionate Share of the Net OPEB Liability	\$1,109,428
OPEB Expense	\$37,284

At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

<b>Deferred Outflows of Resources</b>	
Difference between expected and actual experience	\$ 355
Change of assumptions	33,762
Net difference between projected and actual earnings on OPEB plan investments	48,007
Changes in proportion and differences between District contributions and proportionate share of contributions	<u>67,155</u>
Total Deferred Outflows of Resources	<u>\$149,279</u>
 <b>Deferred Inflows of Resources</b>	
Difference between expected and actual experience	\$ 2,841
Net difference between projected and actual earnings on OPEB plan investments	48,731
Changes in proportion and differences between District contributions and proportionate share of contributions	<u>344</u>
Total Deferred Inflows of Resources	<u>\$ 51,916</u>

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2020 and 2019

Note 8. Defined Benefit Other Post-Employment Benefits (OPEB) - Continued:

***OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)***

\$-0- reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending December 31:		
2021		\$ 32,455
2022		32,454
2023		<u>32,454</u>
Total		<u>\$ 97,363</u>

***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 health care costs for financial reporting purposes are based on the substantive plan (the plan understood by the employers and plan members) and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2018, rolled forward to the measurement date of December 31, 2019. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Wage Inflation	3.25 percent	3.25 percent
Projected Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation	3.25 to 10.75 percent including wage inflation
Single Discount Rate:		
Current measurement date	3.16 percent	3.96 percent
Prior Measurement date	3.96 percent	3.85 percent
Investment Rate of Return	6.00 percent	6.00 percent
Municipal Bond Rate		
Current measurement date	2.75 percent	3.71 percent
Prior measurement date	3.71 percent	3.31 percent
Health Care Cost Trend Rate		
Current measurement date	10.5 percent initial 3.50 percent ultimate in 2030	10.0 percent initial 3.25 percent ultimate in 2029
Prior measurement date	10.0 percent initial 3.25 percent ultimate in 2029	7.50 percent initial 3.25 percent ultimate in 2028
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2020 and 2019

Note 8. Defined Benefit Other Post-Employment Benefits (OPEB) - Continued:

*Actuarial Assumptions – OPERS (Continued)*

In October 2018, the OPERS Board adopted a change in the investment rate of return assumption reducing it from 6.5 percent to 6.0 percent. This change was effective beginning with the 2018 valuation. Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The most recent experience study was completed for the five-year period ended December 31, 2015.

The long-term expected rate of return on health care 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. Best estimates of arithmetic real rates of return were provided by the Board's investment consultant.

During 2019, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made. Health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested for the Health Care portfolio was 19.7% for 2019.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2020 and 2019

Note 8. Defined Benefit Other Post-Employment Benefits (OPEB) - Continued:

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

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS’ primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. For each major asset class that is included in the Health Care portfolio’s target asset allocation policy as of December 31, 2019, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	36.00 %	1.53 %
Domestic Equities	21.00	5.75 %
Real Estate Investment Trusts	6.00	5.69 %
International Equities	23.00	7.66 %
Other investments	14.00	4.90 %
Total	100.00 %	4.55 %

***Discount Rate*** A single discount rate of 3.16 percent was used to measure the OPEB liability on the measurement date of December 31, 2019. A single discount rate of 3.96 percent was used to measure the OPEB liability on the measurement date of December 31, 2018. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.00 percent and a municipal bond rate of 2.75 percent. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2020 and 2019

Note 8. Defined Benefit Other Post-Employment Benefits (OPEB) - Continued:

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

***Sensitivity of the District’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate*** The following table presents the District’s proportionate share of the net OPEB liability calculated using the single discount rate of 3.16 percent, as well as what the District’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.16 percent) or one-percentage-point higher (4.16 percent) than the current rate:

	1% Decrease <u>(2.16%)</u>	Current Discount Rate <u>(3.16%)</u>	1% Increase <u>(4.16%)</u>
District’s proportionate share of the net OPEB liability	\$1,503,923	\$1,109,428	\$835,248

***Sensitivity of the District’s Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate*** Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent higher than the current rate.

Retiree health care valuations use a health care cost-trend assumption with changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2020 is 10.50%. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.50% in the most recent valuation.

	1% Decrease	Current Health Care Cost Trend Rate <u>Assumption</u>	1% Increase
District’s proportionate share of the net OPEB liability	\$1,076,690	\$1,109,428	\$1,141,749



# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2020 and 2019

Note 9. Leasing Arrangements:

The District leases one copier under a 63-month operating lease which began in November 2017 and expires in January 2023. This lease requires rent in the amount of \$860 per month.

The District leases a postage meter on a month-to-month basis for \$135 per month.

The following is a schedule of future minimum rental payments required under the above operating leases as of December 31, 2020:

<u>Year Ending December 31,</u>	<u>Amount</u>
2021	\$10,320
2022	10,320
2023	860
	<u>\$21,500</u>

Office equipment lease expense for the years ended December 31, 2020 and 2019 was \$11,906 and \$10,949, respectively.

Note 10. 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 May 1, 2017, the District signed a 40-year water purchase agreement with the City of Elyria. The agreed upon rate is \$1.125 per hundred cubic feet (HCF) for the first 26,700 HCF and \$1.045 per HCF over 26,700 in a calendar month. Starting in January of 2020, the rates will increase 3% annually. The District has a minimum monthly purchase requirement of 42,780 HCF per month on an annual average.

In November 2016, the District signed a 40-year water purchase agreement with Erie County that went into effect in March 2017. The agreed upon rate is \$1.55 per hundred cubic feet (CCF) with a minimum monthly purchase of 22,059 CCF on an annual average. The \$1.55/CCF rate will remain in effect until January 2020 when the rate will increase \$.03/CCF for 2020 and increase the same amount for 2021. Starting in 2022, the rate cannot increase any more than the increase for other bulk users supplied by the county.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2020 and 2019

Note 10. Commitments (Continued):

A. Water Purchase Agreements (Continued):

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

On March 21, 2002, the District signed a 40-year water purchase agreement with Rural Lorain County Water Authority. The agreed upon 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.

In April 2018, the District signed a 30-year water purchase agreement with the Village of New London. The agreed upon rate is \$2.20 per thousand gallons for first 100,000 gallons, \$2.15 per thousand gallons for next 50,000 gallons, and \$2.05 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.

In June 2006, the District entered into a 40-year agreement with Erie County to provide water at a monthly bulk rate. The agreed upon rate per hundred cubic feet is \$1.53 and will increase proportionately to the increases in Erie County's water purchase rates.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2020 and 2019

Note 10. Commitments (Continued):

B. Water Supply Agreements (Continued):

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.

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:

The District has a month-to-month lease agreement to lease land to Linkster Management, Ltd. for \$100 per month.

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.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2020 and 2019

Note 11. 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 loans 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.

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 \$850,000.

C. Restricted Cash:

	<u>2020</u>	<u>2019</u>
Bond Payment Fund	\$ 227,141	\$ 199,521
Water System Debt Service Reserve Fund	<u>1,211,985</u>	<u>1,195,886</u>
	<u>\$1,439,126</u>	<u>\$1,395,407</u>

Note 12. 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, 2020 and 2019

Note 13. Change in Accounting Principle:

GASB Statement No. 84 became effective for the year ended December 31, 2020. GASB Statement No. 84 establishes specific criteria for identifying activities that should be reported as fiduciary activities and clarifies whether and how business-type activities should report their fiduciary activities. Due to the implementation of GASB Statement No. 84, the District will no longer be reporting agency funds. The District reviewed its fiduciary funds to determine the appropriate classification under GASB Statement No. 84. The implementation of GASB Statement No. 84 resulted in the restatement of the District's financial statements.

Due to the implementation of GASB Statement No. 84, the Proprietary Fund is reporting cash and cash equivalents – custodial funds (\$38,101), receivables – custodial funds (\$28,243), and undistributed monies – custodial funds (\$66,344) at December 31, 2019. Also related to the implementation of GASB Statement No. 84, the District will no longer be reporting agency funds. At December 31, 2019, agency funds reported assets and liabilities of \$66,344.

Note 14. Note Payable – Line of Credit:

At December 31, 2020 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, 2021.

Note 15. Subsequent Events:

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through the date of this report.

Note 16. COVID-19:

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the District. The District's investments of the pension and other employee benefit plans are subject to increased market volatility, which could result in a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact on the District's future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

**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 Seven Years (\*)**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's Proportion of the Net Pension Liability	0.006638%	0.006441%	0.005740%	0.005729%	0.005907%	0.005767%	0.005767%
District's Proportionate Share of the Net Pension Liability	\$ 1,312,046	\$ 1,695,589	\$ 1,238,541	\$ 1,187,465	\$ 1,213,519	\$ 783,814	\$ 679,854
District's Covered-Employee Payroll	\$ 1,264,550	\$ 1,215,171	\$ 1,136,486	\$ 1,017,115	\$ 1,605,708	\$ 1,472,808	\$ 1,538,808
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	103.76%	139.53%	108.98%	116.75%	75.58%	53.22%	44.18%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	82.17%	74.70%	84.66%	77.25%	81.19%	86.54%	86.36%

\* Information prior to 2014 is not available.

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

See accompanying notes to the Required Supplementary Information.

**NORTHERN OHIO RURAL WATER**

REQUIRED SUPPLEMENTARY INFORMATION

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

Last Eight Years (\*)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$ 177,037	\$ 170,124	\$ 159,108	\$ 132,225	\$ 192,685	\$ 176,737	\$ 184,657	\$ 191,671
Contributions in Relation to the Contractually Required Contribution	<u>(177,037)</u>	<u>(170,124)</u>	<u>(159,108)</u>	<u>(132,225)</u>	<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>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
District Covered-Employee Payroll	\$ 1,264,550	\$ 1,215,171	\$ 1,136,486	\$ 1,017,115	\$ 1,605,708	\$ 1,472,808	\$ 1,538,808	\$ 1,474,392
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	14.00%	13.00%	12.00%	12.00%	12.00%	13.00%

\* Information prior to 2013 is not available.

See accompanying notes to the Required Supplementary Information.

**NORTHERN OHIO RURAL WATER**

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the District's Proportionate Share of the Net OPEB Liability  
Ohio Public Employees Retirement System

Last Four Years (\*)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
District's Proportion of the Net OPEB Liability	0.008032%	0.007835%	0.007180%	0.007189%
District's Proportionate Share of the Net OPEB Liability	\$ 1,109,428	\$ 1,021,499	\$ 779,695	\$ 773,180
District's Covered-Employee Payroll	\$ 1,264,550	\$ 1,215,171	\$ 1,136,486	\$ 1,017,115
District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered-Employee Payroll	87.73%	84.06%	68.61%	76.02%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.80%	46.33%	54.14%	54.04%

\* Information prior to 2017 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 OPEB Contributions  
Ohio Public Employees Retirement System

Last Five Years (\*)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually Required Contribution	\$ 0	\$ 0	\$ 0	\$ 10,171	\$ 23,731
Contributions in Relation to the Contractually Required Contribution	<u>0</u>	<u>0</u>	<u>0</u>	<u>(10,171)</u>	<u>(23,731)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
District Covered-Employee Payroll	\$ 1,264,550	\$ 1,215,171	\$ 1,136,486	\$ 1,017,100	\$ 2,373,100
Contributions as a Percentage of Covered-Employee Payroll	0.00%	0.00%	0.00%	1.00%	1.00%

\* Beginning in 2016, OPERS used one trust fund as the funding vehicle for all health care plans: therefore, information prior to is not presented.

## NORTHERN OHIO RURAL WATER

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For the Years Ended December 31, 2020 and 2019

#### Changes in Assumptions – OPERS Pension

Amounts reported beginning in 2019 incorporate changes in assumptions used by OPERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in prior years are presented below.

	<u>2019</u>	<u>2018 and 2017</u>	<u>2016 and Prior</u>
Wage Inflation	3.25 percent	3.25 percent	3.75 percent
Future Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation	3.25 to 10.75 percent including wage inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA			
Pre-January 7, 2013	3 percent simple	3 percent simple	3 percent simple
Post-January 7, 2013	See below	See below	See below
Investment Rate of Return	7.2 percent	7.5 percent	8 percent
Actuarial Cost Method	individual entry age	individual entry age	individual entry age

The assumptions related to COLA and Ad Hoc COLA for post-January 7, 2013, retirees are as follows:

2020	1.4 percent simple through 2020, then 2.15 percent simple
2017 through 2019	3 percent simple through 2019, then 2.15 percent simple
2016 and prior	3 percent simple through 2018, then 2.8 percent simple

Amounts reported beginning in 2017 use mortality rates based on the RP-2014 Healthy Annuitant Mortality Table. For males, healthy annuitant mortality tables were used adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2015. For females, healthy annuitant mortality tables were used adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled Mortality Table adjusted for mortality improvements back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables were determined by applying the MP-2015 Mortality Improvements Scale to the above described tables.

Amounts reported for 2016 and prior use mortality rates based on the RP-2000 Mortality Table projected twenty 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.

## NORTHERN OHIO RURAL WATER

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For the Years Ended December 31, 2020 and 2019

#### **Changes in Assumptions – OPERS Pension (Continued)**

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.

#### **Changes in Assumptions – OPERS OPEB**

Investment Return Assumptions	
Beginning in 2019	6 percent
2018	6.5 percent
Municipal Bond Rate	
2020	2.75 percent
2019	3.71 percent
2018	3.31 percent
Single Discount Rate	
2020	3.16 percent
2019	3.96 percent
2018	3.85 percent
Health Care Cost Trend Rate	
2020	10 percent initial 3.5 percent ultimate in 2030
2019	10 percent initial 3.25 percent ultimate in 2029
2018	7.5 percent initial 3.25 percent ultimate in 2028

# NORTHERN OHIO RURAL WATER

## SCHEDULES OF OPERATING EXPENSES

### PROPRIETARY FUND TYPE

For the Years Ended December 31, 2020 and 2019

	2020	2019
OPERATING EXPENSES:		
Advertising	\$ 4,323	\$ 5,576
Audit fees	15,662	15,314
Communication equipment	32,891	47,412
Depreciation	2,147,172	1,877,197
Distribution supplies	152,859	187,526
Dues and subscriptions	9,079	9,156
Electric pump station and tanks	186,424	179,753
Engineering fees	652	2,393
Gasoline	53,335	71,857
Insurance:		
General	36,876	33,321
Hospitalization	285,303	278,032
Legal and professional fees	160,570	137,744
Licenses and permits	12,208	25,415
Maintenance and repairs:		
Administrative building and equipment	6,028	2,484
Pump stations	10,465	9,126
Tanks	2,933	3,459
Vehicles	40,803	48,382
Water lines	10,417	0
Office equipment lease	11,906	10,949
Office supplies and expense	76,452	75,782
Payroll taxes	25,584	18,620
O.P.E.R.S. - Pension (Note 7)	449,414	646,532
O.P.E.R.S. - OPEB (Note 8)	37,284	193,516
Postage	59,930	58,291
Tap fee refunds	5,650	27,425
Telephone	14,958	14,377
Travel, mileage, and education expense	12,315	79,415
Utilities	26,971	31,950
Wages	1,178,211	1,005,360
Water purchased	1,372,284	1,313,243
Total operating expenses	\$ 6,438,959	\$ 6,409,607



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NorthwestRegion@ohioauditor.gov

**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 Northern Ohio Rural Water, Huron County, Ohio (the District) as of and for the years ended December 31, 2020 and 2019, 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 11, 2021, wherein we noted the District implemented Government Accounting Standards Board Statement No. 84, *Fiduciary Activities*. We also noted the financial impact of COVID-19 and the continuing emergency measures which may impact subsequent periods of the District.

***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) as a basis for designing 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. 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 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 financial statements. 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*.

***Purpose of this Report***

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



Keith Faber  
Auditor of State  
Columbus, Ohio

June 11, 2021

# OHIO AUDITOR OF STATE KEITH FABER



**NORTHERN OHIO RURAL WATER**

**HURON COUNTY**

**AUDITOR OF STATE OF OHIO CERTIFICATION**

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



**Certified for Release 6/22/2021**

88 East Broad Street, Columbus, Ohio 43215  
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at  
[www.ohioauditor.gov](http://www.ohioauditor.gov)