



Dave Yost • Auditor of State

**NORTHERN OHIO RURAL WATER
HURON COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report.....	1
Management's Discussion and Analysis	5
Basic Financial Statements:	
Statements of Net Position	9
Statements of Revenues, Expenses, and Changes in Net Position	11
Statements of Cash Flows.....	12
Statements of Assets and Liabilities – Agency Fund Type	14
Notes to the Basic Financial Statements.....	15
Statements of Operating Expenses.....	32
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	33

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of Northern Ohio Rural Water, Huron County, Ohio (the District), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northern Ohio Rural Water, Huron County, Ohio, as of December 31, 2012, and the

changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 11 to the financial statements, during 2012 the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

Other Matters

Prior Period Financial Statements Audited by a Predecessor Auditor

The financial statements of Northern Ohio Rural Water, Huron County, Ohio (the District), as of and for the year ended December 31, 2011, were audited by predecessor auditor whose report dated September 19, 2012, expressed an unmodified opinion on those statements.

Required Supplementary Information

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

Supplementary and Other Information

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

The Statement of Operating Expenses is not a required part of the basic financial statements.

The statement is management's responsibility, and derives from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this statement to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the statement 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 statement 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 November 21, 2013, 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.

Dave Yost
Auditor of State

Columbus, Ohio

November 21, 2013

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NORTHERN OHIO RURAL WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2012 and 2011

(Unaudited)

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

Overview of Basic Financial Statements:

NORW is described in Note 1, Summary of Significant Accounting Policies. The Basic Financial Statements are presented using the accrual basis of accounting as further described in the above-mentioned note. The **Statement of Net Position** includes all of NORW's Assets and Liabilities. This statement provides information about the nature and amounts of investments in resources (assets) owned by NORW, and obligations owed by NORW (liabilities) on December 31. NORW's net assets (equity) are 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.

Table I summarizes the Net Position of the District.

TABLE I

	2012	2011	2010	2012 vs 2011		2011 vs 2010	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Current and other assets	\$ 3,190,171	\$ 2,743,300	\$ 2,193,134	\$ 446,871	16.3%	\$ 550,166	25.1%
Capital assets	49,213,265	49,324,835	46,218,341	(111,570)	-0.2%	3,106,494	6.7%
Total assets	<u>52,403,436</u>	<u>52,068,135</u>	<u>48,411,475</u>	<u>335,301</u>	0.6%	<u>3,656,660</u>	7.6%
Current liabilities	3,287,721	3,564,634	3,590,649	(276,913)	-7.8%	(26,015)	-0.7%
Other liabilities	167,625	363,962	522,102	(196,337)	-53.9%	(158,140)	-30.3%
Long-term liabilities	37,204,680	37,911,185	37,340,162	(706,505)	-1.9%	571,023	1.5%
Total liabilities	<u>40,660,026</u>	<u>41,839,781</u>	<u>41,452,913</u>	<u>(1,179,755)</u>	-2.8%	<u>386,868</u>	0.9%
Net investment in capital assets	10,148,344	9,683,553	7,395,111	464,791	4.8%	2,288,442	30.9%
Restricted	691,308	581,968	414,658	109,340	18.8%	167,310	40.3%
Unrestricted	903,758	(37,167)	(851,207)	940,925	2531.6%	814,040	95.6%
Total net position	<u>\$ 11,743,410</u>	<u>\$ 10,228,354</u>	<u>\$ 6,958,562</u>	<u>\$ 1,515,056</u>	14.8%	<u>\$ 3,269,792</u>	47.0%

- The total assets of NORW exceeded liabilities on December 31, 2012 and 2011 by \$11,743,410 and \$10,228,354, respectively.
- The District's net position increased \$1,515,056 and \$3,269,792 in 2012 and 2011, respectively. The 2012 increase in net position is due to operations plus \$772,687 of grant income.

NORTHERN OHIO RURAL WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2012 and 2011

(Unaudited)

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

TABLE II

	2012	2011	2010	2012 vs 2011		2011 vs 2010	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Operating revenue	\$ 7,890,824	\$ 7,680,494	\$ 6,936,482	\$ 210,330	2.7%	\$ 744,012	10.7%
Operating expenses	<u>(5,379,305)</u>	<u>(5,269,851)</u>	<u>(5,038,790)</u>	<u>(109,454)</u>	2.1%	<u>(231,061)</u>	4.6%
Income from operations	2,511,519	2,410,643	1,897,692	100,876	4.2%	512,951	27.0%
Nonoperating revenue	903,521	2,849,114	101,221	(1,945,593)	-68.3%	2,747,893	2714.7%
Nonoperating expenses	<u>(1,899,984)</u>	<u>(1,989,965)</u>	<u>(1,928,209)</u>	89,981	-4.5%	<u>(61,756)</u>	3.2%
Nonoperating gain (loss)	<u>(996,463)</u>	859,149	<u>(1,826,988)</u>	<u>(1,855,612)</u>	-216.0%	<u>2,686,137</u>	147.0%
Change in net position	1,515,056	3,269,792	70,704	(1,754,736)	-53.7%	3,199,088	4524.6%
Beginning net position	<u>10,228,354</u>	<u>6,958,562</u>	<u>6,887,858</u>	<u>3,269,792</u>	47.0%	<u>70,704</u>	1.0%
Ending net position	<u>\$ 11,743,410</u>	<u>\$ 10,228,354</u>	<u>\$ 6,958,562</u>	<u>\$ 1,515,056</u>	14.8%	<u>\$ 3,269,792</u>	47.0%

- The District's operating revenues increased in 2012 and increased in 2011 by \$210,330 (3%) and \$744,012 (11%), respectively, while operating expenses increased \$109,454 (2%) and \$231,061 (5%), respectively. The 2012 increase in net position is due to operations plus \$772,687 of grant income. The decrease in nonoperating revenue in 2012 is due primarily to a decrease of \$1,953,626 in grant income.

NORTHERN OHIO RURAL WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2012 and 2011

(Unaudited)

Capital Assets:

Table III summarizes the changes in capital assets for the year ended December 31, 2012.

TABLE III

	2012	2011	2010	2012 vs 2011		2011 vs 2010	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Capital assets, nondepreciable:							
Land	\$ 385,034	\$ 385,034	\$ 378,389	\$ -	0.0%	\$ 6,645	1.8%
Easements	313,035	303,638	294,049	9,397	3.1%	9,589	3.3%
Current construction	18,487	251,093	3,050,561	(232,606)	-92.6%	(2,799,468)	-91.8%
Assets held for future use	745,823	745,823	745,823	0	0.0%	0	0.0%
Capital assets, depreciable:							
Buildings	625,875	603,255	599,570	22,620	3.7%	3,685	0.6%
Tanks, stations, and lines	66,538,179	64,663,728	57,014,283	1,874,451	2.9%	7,649,445	13.4%
Furniture and fixtures	333,389	327,032	290,098	6,357	1.9%	36,934	12.7%
Vehicles & distribution equip.	2,110,146	2,081,816	2,084,367	28,330	1.4%	(2,551)	-0.1%
Total before depreciation	71,069,968	69,361,419	64,457,140	1,708,549	2.5%	4,904,279	7.6%
Accumulated depreciation	(21,856,703)	(20,036,584)	(18,238,799)	(1,820,119)		(1,797,785)	
Total capital assets, net	<u>\$ 49,213,265</u>	<u>\$ 49,324,835</u>	<u>\$ 46,218,341</u>	<u>\$ (111,570)</u>		<u>\$ 3,106,494</u>	

NORW has \$71,069,968 invested in its system (before depreciation) at December 31, 2012. This amount includes additions of \$1,958,857 during the year ended December 31, 2012.

The increase in water lines in the amount of \$1,497,984 is the result of projects in Crawford, Erie, Huron, Lorain, Sandusky, and Seneca Counties.

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

NORTHERN OHIO RURAL WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2012 and 2011

(Unaudited)

Long-Term Debt:

Table IV summarizes long-term debt for the District.

TABLE IV

	2012	2011	2010	2012 vs 2011		2011 vs 2010	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Long-term debt:							
OWDA Notes	\$ 20,809,502	\$ 21,141,967	\$ 22,220,844	\$ (332,465)	-1.6%	\$ (1,078,877)	-4.9%
Rural dev. bonds & notes	17,814,000	17,974,000	16,186,764	(160,000)	-0.9%	1,787,236	11.0%
Buckeye Community Bank notes	314,919	365,815	415,622	(50,896)	-13.9%		
Notes Payable	<u>126,500</u>	<u>159,500</u>		<u>(33,000)</u>	-20.7%	<u>159,500</u>	100.0%
Total long-term debt	39,064,921	39,641,282	38,823,230	(576,361)	-1.5%	818,052	2.1%
Less: Current maturities	<u>(1,766,741)</u>	<u>(1,603,597)</u>	<u>(1,483,068)</u>	<u>(163,144)</u>	10.2%	<u>(120,529)</u>	8.1%
Net total long-term debt	<u>\$ 37,298,180</u>	<u>\$ 38,037,685</u>	<u>\$ 37,340,162</u>	<u>\$ (739,505)</u>	-1.9%	<u>\$ 697,523</u>	1.9%

See Note 5 of the financial statements for details of issuance and retirement of debt for the years ended December 31, 2012 and 2011.

Significant Events and Expenditures During the Year:

NORW has applied for and received funding from the EPA for reimbursement for the cost of tap fees, installation of water meters, and water lines for residents of the Village of Tiro.

NORW has received funding from the USDA, Rural Development for line extensions into Cranberry and Auburn Townships which are located in Crawford County, Sherman Township, Ripley Township, Richmond Township, Norwich Township, Greenwich Township, Peru Township, and Greenfield Township which are located in Huron County, and Reed Township which is located in Seneca County.

NORW has received funding from the Ohio Water Development Authority for the improvement of a pressure zone in Berlin Township which is located in Erie County and for line extensions into Chatfield Township in Crawford County. Additional information in regards to funding received is included in the notes to the financial statements.

NORW will be securing a bank note in 2013 for construction of a new administrative office building and a shop and storage building.

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, 2012 and 2011

<u>ASSETS</u>	<u>2012</u>	<u>2011</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,696,382	\$ 1,431,428
Restricted cash	217,318	208,067
Receivables:		
Trade (net allowance for doubtful accounts of \$8,297 in 2012 and \$8,114 in 2011)	466,931	386,219
Other	3,160	9,548
Inventory	325,585	326,815
Prepaid expenses	5,805	6,322
Total current assets	<u>2,715,181</u>	<u>2,368,399</u>
NONCURRENT ASSETS:		
Restricted cash	473,990	373,901
Capital assets, non-depreciable:		
Land	385,034	385,034
Easements	313,035	303,638
Current construction	18,487	251,093
Assets held for future use	745,823	745,823
Capital assets, depreciable:		
Buildings	625,875	603,255
Tanks, stations, lines, meters, and taps	66,538,179	64,663,728
Furniture and fixtures	333,389	327,032
Vehicles and distribution equipment	2,110,146	2,081,816
	<u>71,069,968</u>	<u>69,361,419</u>
Less: Accumulated depreciation	<u>21,856,703</u>	<u>20,036,584</u>
Total noncurrent assets	<u>49,213,265</u>	<u>49,324,835</u>
	<u>49,687,255</u>	<u>49,698,736</u>
OTHER ASSETS:		
Organization costs	1,000	1,000
Total assets	<u>52,403,436</u>	<u>52,068,135</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, 2012 and 2011

LIABILITIES AND NET POSITION

	<u>2012</u>	<u>2011</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 476,538	\$ 461,145
Projects and retainage payable	89,356	505,692
Tenant deposits	95,150	90,050
Accrued expenses:		
Wages	38,682	36,657
Compensated absences	65,119	58,477
Payroll taxes	49,969	58,755
Interest	706,166	750,261
Current portion of long-term debt	<u>1,766,741</u>	<u>1,603,597</u>
Total current liabilities	<u>3,287,721</u>	<u>3,564,634</u>
NONCURRENT LIABILITIES:		
Future tap installations	74,125	237,462
Notes payable	21,250,921	21,667,282
Bonds payable	<u>17,814,000</u>	<u>17,974,000</u>
	39,139,046	39,878,744
Less: Current portion	<u>1,766,741</u>	<u>1,603,597</u>
	<u>37,372,305</u>	<u>38,275,147</u>
Total liabilities	<u>40,660,026</u>	<u>41,839,781</u>
NET POSITION:		
Net investment in capital assets	10,148,344	9,683,553
Restricted for bonds payable	691,308	581,968
Unrestricted	<u>903,758</u>	<u>(37,167)</u>
Total net position	<u>\$ 11,743,410</u>	<u>\$ 10,228,354</u>

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

NORTHERN OHIO RURAL WATER

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION

PROPRIETARY FUND TYPE

For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUE:		
Water sales	\$ 7,229,931	\$ 6,857,454
Tap fees	<u>660,893</u>	<u>823,040</u>
Total operating revenue	7,890,824	7,680,494
OPERATING EXPENSES	<u>5,379,305</u>	<u>5,269,851</u>
INCOME FROM OPERATIONS	2,511,519	2,410,643
NONOPERATING REVENUE:		
Credit card fees	8,577	4,039
Discounts earned	1,063	858
EPA income	13,994	16,961
Interest income	11,091	11,195
Line maintenance reimbursements	25,815	14,703
Miscellaneous	25,004	18,771
Reconnection fees	30,386	28,127
Tower income	3,705	1,760
Insurance recoveries	0	1,712
Sewer billing service fees	11,199	9,548
Gain on disposal of assets	0	15,127
Grant income - Tiro	485,000	0
Grant income - USDA	<u>287,687</u>	<u>2,726,313</u>
Total nonoperating revenue	903,521	2,849,114
Income from operations and nonoperating revenue	<u>3,415,040</u>	<u>5,259,757</u>
NONOPERATING EXPENSES:		
Uncollectible accounts expense	182	501
EPA expense	17,695	17,014
Interest expense	<u>1,882,107</u>	<u>1,972,450</u>
Total nonoperating expenses	<u>1,899,984</u>	<u>1,989,965</u>
CHANGE IN NET POSITION	1,515,056	3,269,792
NET POSITION - Beginning of period	<u>10,228,354</u>	<u>6,958,562</u>
NET POSITION - End of period	<u>\$ 11,743,410</u>	<u>\$ 10,228,354</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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 7,816,500	\$ 7,706,773
Cash payments to suppliers for goods and services	(2,345,880)	(2,080,832)
Cash payments for employees and professional contractors for services	(1,224,186)	(1,220,209)
Net cash provided by operating activities	<u>4,246,434</u>	<u>4,405,732</u>
CASH FLOWS FROM NON-CAPITAL ACTIVITIES:		
Proceeds from developer, hydrant maintenance, and reconnection fees	30,386	28,127
Proceeds from discounts earned, EPA and tower income	1,067	2,565
Proceeds from insurance claims	0	1,712
Proceeds from line maintenance reimbursements	25,815	14,703
Proceeds from sales of assets	0	15,127
Other nonoperating revenue	44,598	31,857
Net cash provided by non-capital activities	<u>101,866</u>	<u>94,091</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of equipment and new construction	(2,288,222)	(5,428,027)
Proceeds from EPA and USDA grants	772,687	2,726,313
Proceeds from long-term debt	1,027,047	2,137,217
Repayment of principal on long-term debt	(1,570,408)	(1,478,665)
Interest paid on debt	(1,926,201)	(1,968,724)
Net cash used in capital and related financing activities	<u>(3,985,097)</u>	<u>(4,011,886)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest earned	<u>11,091</u>	<u>11,195</u>
INCREASE IN CASH AND CASH EQUIVALENTS	374,294	499,132
CASH AND CASH EQUIVALENTS - Beginning of period	<u>2,013,396</u>	<u>1,514,264</u>
CASH AND CASH EQUIVALENTS - End of period	<u>\$ 2,387,690</u>	<u>\$ 2,013,396</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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	\$ 2,511,519	\$ 2,410,643
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	1,820,118	1,842,535
Changes in assets and liabilities:		
Increase (decrease) in:		
Receivables	(74,324)	26,279
Inventory	1,230	(75,513)
Prepaid expenses	517	(1,800)
Increase (decrease) in:		
Accounts payable	(17,607)	176,460
Tenant deposits	5,100	7,550
Accrued expenses	(119)	19,578
Net cash provided by operating activities	<u>\$ 4,246,434</u>	<u>\$ 4,405,732</u>

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

NORTHERN OHIO RURAL WATER
STATEMENTS OF ASSETS AND LIABILITIES

AGENCY FUND TYPE

December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 20,133	\$ 24,805
Receivables	<u>15,953</u>	<u>8,033</u>
Total assets	<u>\$ 36,086</u>	<u>\$ 32,838</u>
<u>LIABILITIES</u>		
Undistributed monies	<u>\$ 36,086</u>	<u>\$ 32,838</u>

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

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2012 and 2011

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, 2012 and 2011

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

A. Basis of Presentation and Accounting (Continued):

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

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

B. Budgetary Process:

Budget - Thirty days before the end of each fiscal year, a proposed budget of estimated revenues and expenditures for the succeeding fiscal year is submitted to the Board of Trustees by the General Manager. The Board of Trustees then approves the budget in its original or amended form.

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

C. Inventory:

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

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2012 and 2011

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

D. Capital Assets:

The minimum capitalization threshold is any individual item with a total cost of greater than \$1,000 and a useful life of more than one year. Capital assets, including major renewals or betterments, are reported at historical cost. Depreciation is provided on the straight-line method based on the estimated useful lives of the various classes of assets.

The ranges of estimated useful lives used in computing depreciation are as follows:

Water Lines and Water Tanks	40 Years
Tap Installations	40 Years
Pump Stations	20 Years
Buildings	4-20 Years
Meter Retro-fits	15 Years
Water Meters	15 Years
Machinery, Equipment, and Office Furniture	3-10 Years

Fully depreciated assets still in active use are included in the gross amount of property and equipment, and the related allowance for depreciation is included as part of the total accumulated allowance for depreciation.

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

E. Prepaid Expenses:

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

F. Tap Fees:

To receive service, customers are required to pay a tap fee which varies depending on when the deposit was made and the size of the meter. Fees are refundable in the event expansion does not occur in an area.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2012 and 2011

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

G. Compensated Absences Payable:

Employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the District. After one year of service, employees are entitled to all accrued vacation leave upon termination.

Sick leave accumulates to employees at a rate of 4.6 hours for every 80 hours of service completed up to specified maximums. An employee shall be allowed to accumulate 120 days of sick leave. Upon retirement, employees are entitled to 25% of their accumulated sick leave balance not to exceed 30 days. In the event of the employee's death, 100% of their accumulated sick leave balance would be paid to the employee's life insurance beneficiary. Since the employees' accumulating rights to receive compensation for future absences are contingent upon the absences being caused by future illnesses or death, a liability for unused sick leave is not recorded in the financial statements. The recorded accrued unused vacation for the year ended December 31, 2012 and 2011 is \$65,119 and \$58,477, respectively. The unrecorded estimated unused sick leave for the year ended December 31, 2012 and 2011 was \$281,029 and \$265,584, respectively.

H. Statement of Cash Flows:

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

I. Use of Estimates:

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2012 and 2011

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

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.

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.

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.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2012 and 2011

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

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the General Manager by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the General Manager, or if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At December 31, 2012 and 2011, the carrying amount of all District deposits was \$2,407,824 and \$2,038,201, respectively. Based on the criteria described in GASB statement No. 40, "Deposits and Investment Risk Disclosures," as of December 31, 2012 and 2011, \$2,088,896 and \$1,723,716, respectively, of the District's bank balance of \$2,670,856 and \$2,286,095, respectively, was exposed to custodial risk as discussed below, while \$581,960 and \$562,379, respectively, was covered by the FDIC.

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

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2012 and 2011

Note 4. Capital Assets:

A summary of changes in capital assets for the year ended December 31, 2012, is as follows:

	<u>Balance December 31, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2012</u>
Capital assets, nondepreciable:				
Land	\$ 385,034	\$ -	\$ -	\$ 385,034
Easements	303,638	9,397	-	313,035
Current construction	251,093	17,702	(250,308)	18,487
Assets held for future use	745,823	-	-	745,823
Capital assets, depreciable:				
Buildings	603,255	22,620	-	625,875
Tanks, stations, lines, meters, and taps	64,663,728	1,874,451	-	66,538,179
Furniture and fixtures	327,032	6,357	-	333,389
Vehicles and distribution equipment	<u>2,081,816</u>	<u>28,330</u>	-	<u>2,110,146</u>
Total	69,361,419	1,958,857	(250,308)	71,069,968
Less accumulated depreciation				
Buildings	(174,340)	(15,595)	-	(189,935)
Tanks, stations, lines, meters, and taps	(17,792,181)	(1,686,346)	-	(19,478,527)
Furniture and fixtures	(261,556)	(27,571)	-	(289,127)
Vehicles and distribution equipment	<u>(1,808,507)</u>	<u>(90,606)</u>	-	<u>(1,899,113)</u>
Total accumulated depreciation	<u>(20,036,584)</u>	<u>(1,820,118)</u>	-	<u>(21,856,702)</u>
Net capital assets	<u>\$ 49,324,835</u>	<u>\$ 138,739</u>	<u>\$ (250,308)</u>	<u>\$ 49,213,266</u>

Depreciation expense for the years ended December 31, 2012 and 2011 was \$1,820,118 and \$1,842,535, respectively.

Current construction at December 31, 2012 and 2011 included capitalized construction period interest of \$23,634 and \$119 that was incurred in each respective year. Total interest cost incurred was \$1,882,107 and \$1,972,450 at December 31, 2012 and 2011, respectively.

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

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2012 and 2011

Note 4. Capital Assets (Continued):

A summary of changes in capital assets for the year ended December 31, 2011, is as follows:

	<u>Balance December 31, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2011</u>
Capital assets, nondepreciable:				
Land	\$ 378,389	\$ 6,645	\$ -	\$ 385,034
Easements	294,049	9,589	-	303,638
Current construction	3,050,561	201,020	(3,000,488)	251,093
Assets held for future use	745,823	-	-	745,823
Capital assets, depreciable:				
Buildings	599,570	3,685	-	603,255
Tanks, stations, lines, meters, and taps	57,014,283	7,649,445	-	64,663,728
Furniture and fixtures	290,098	36,934	-	327,032
Vehicles and distribution equipment	2,084,367	42,199	(44,750)	2,081,816
Total	<u>64,457,140</u>	<u>7,949,517</u>	<u>(3,045,238)</u>	<u>69,361,419</u>
Less accumulated depreciation				
Buildings	(159,263)	(15,077)	-	(174,340)
Tanks, stations, lines, meters, and taps	(16,098,737)	(1,693,444)	-	(17,792,181)
Furniture and fixtures	(232,200)	(29,356)	-	(261,556)
Vehicles and distribution equipment	(1,748,599)	(104,658)	44,750	(1,808,507)
Total accumulated depreciation	<u>(18,238,799)</u>	<u>(1,842,535)</u>	<u>44,750</u>	<u>(20,036,584)</u>
Net capital assets	<u>\$ 46,218,341</u>	<u>\$ 6,106,982</u>	<u>\$ (3,000,488)</u>	<u>\$ 49,324,835</u>

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2012 and 2011

Note 5. Long-Term Debt:

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 debt for the year ended December 31, 2012, is as follows:

Description	Balance December 31, 2011	Borrowed	Repaid	Balance December 31, 2012	Due Within One Year
Northern Ohio Rural Water borrowed a total of \$34,942,588 from the Ohio Water Development Authority from January 1, 1992 through December 31, 2012 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 of \$1,262,162 due on January 1 st and July 1 st , including interest at rates from 2.99% to 7.66%. The maturity dates range from July 1, 2016 through January 1, 2043.	\$ 21,141,967	\$ 1,027,047	\$ 1,359,512	\$ 20,809,502	\$ 1,450,895
Water Resource Improvement Revenue Bonds, Series 2003 were issued through the United States Department of Agriculture (USDA) for the purpose of constructing various water resource projects. The total amount loaned is \$4,100,000. The loan requires annual principal and interest payments at 5.00% with a maturity date of December 2043.	3,776,000	-0-	50,000	3,726,000	53,000
Water Resource Improvement Revenue Bonds, Series 2007 were issued through the United States Department of Agriculture (USDA) for the purpose of constructing various water resource projects. The total amount loaned is \$3,600,000. The loan requires annual principal and interest payments at 4.125% with a maturity date of December 2047.	3,444,000	-0-	44,000	3,400,000	45,000
Water Resource Improvement Revenue Bonds, Series 2009 were issued through the United States Department of Agriculture (USDA) for the purpose of constructing various water resource projects. The total amount loaned is \$1,550,000. The loan requires annual principal and interest payments at 4.50% with a maturity date of January 2049.	1,520,000	-0-	15,000	1,505,000	17,000
Water Resource Improvement Revenue Bonds, Series 2009B were issued through the United States Department of Agriculture (USDA) for the purpose of constructing various water resource projects. The total amount loaned is \$4,764,000. The loan requires annual principal and interest payments at 4.25% with a maturity date of December 2049.	4,667,000	-0-	51,000	4,616,000	53,000
A note payable in the amount of \$197,380 is due to Buckeye Community Bank. The loan requires monthly principal and interest payments at the index rate with a maturity date of October 2016.	136,286	-0-	28,197	108,089	28,197
Water Resource Improvement Revenue Bonds, Series 2010 were issued through the United States Department of Agriculture (USDA) for the purpose of constructing various water resource projects. The total amount loaned is \$4,567,000. The loan requires annual interest payments through 2012 at 3.25% with a maturity date of September 2050.	4,567,000	-0-	-0-	4,567,000	62,600
A note payable in the amount of \$265,000 is due to Buckeye Community Bank. The loan requires monthly principal and interest payments at a rate of 5% with a maturity date of April 2015.	229,529	-0-	22,699	206,830	24,049
A note payable in the amount of \$126,500 is due to the City of Elyria. The loan requires monthly principal payments in the amount of \$2,750 with a maturity date of October 2016.	159,500	-0-	33,000	126,500	33,000
	<u>\$ 39,641,282</u>	<u>\$ 1,027,047</u>	<u>\$ 1,603,408</u>	<u>\$ 39,064,921</u>	<u>\$ 1,766,741</u>

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2012 and 2011

Note 5. Long-Term Debt (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 debt for the year ended December 31, 2011, is as follows:

Description	Balance December 31, 2010	Borrowed	Repaid	Balance December 31, 2011	Due Within One Year
Northern Ohio Rural Water borrowed a total of \$32,677,453 from the Ohio Water Development Authority from January 1, 1992 through December 31, 2011 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 of \$1,262,162 due on January 1 st and July 1 st , including interest at rates from 2.99% to 7.66%. The maturity dates range from July 1, 2016 through January 1, 2043.	\$ 22,220,844	\$ 194,981	\$ 1,273,858	\$ 21,141,967	\$ 1,359,512
Water Resource Improvement Revenue Bonds, Series 2003 were issued through the United States Department of Agriculture (USDA) for the purpose of constructing various water resource projects. The total amount loaned is \$4,100,000. The loan requires annual principal and interest payments at 5.00% with a maturity date of December 2043.	3,824,000	0-	48,000	3,776,000	50,000
Water Resource Improvement Revenue Bonds, Series 2007 were issued through the United States Department of Agriculture (USDA) for the purpose of constructing various water resource projects. The total amount loaned is \$3,600,000. The loan requires annual principal and interest payments at 4.125% with a maturity date of December 2047.	3,485,000	0-	41,000	3,444,000	44,000
Water Resource Improvement Revenue Bonds, Series 2009 were issued through the United States Department of Agriculture (USDA) for the purpose of constructing various water resource projects. The total amount loaned is \$1,550,000. The loan requires annual principal and interest payments at 4.50% with a maturity date of January 2049.	1,536,000	0-	16,000	1,520,000	15,000
Water Resource Improvement Revenue Bonds, Series 2009B were issued through the United States Department of Agriculture (USDA) for the purpose of constructing various water resource projects. The total amount loaned is \$4,764,000. The loan requires annual principal and interest payments at 4.25% with a maturity date of December 2049.	4,717,000	0-	50,000	4,667,000	51,000
A note payable in the amount of \$197,380 is due to Buckeye Community Bank. The loan requires monthly principal and interest payments at the index rate with a maturity date of October 2016.	164,483	0-	28,197	136,286	28,197
Water Resource Improvement Revenue Bonds, Series 2010 were issued through the United States Department of Agriculture (USDA) for the purpose of constructing various water resource projects. The total amount loaned is \$4,567,000. The loan requires annual interest payments through 2012 at 3.25% with a maturity date of September 2050.	2,624,764	1,942,236	0-	4,567,000	0-
A note payable in the amount of \$265,000 is due to Buckeye Community Bank. The loan requires monthly principal and interest payments at a rate of 5% with a maturity date of April 2015.	251,139	0-	21,610	229,529	22,168
A note payable in the amount of \$126,500 is due to the City of Elyria. The loan requires monthly principal payments in the amount of \$2,750 with a maturity date of October 2016.	192,500	0-	33,000	159,500	33,000
	<u>\$ 39,015,730</u>	<u>\$ 2,137,217</u>	<u>\$ 1,511,665</u>	<u>\$ 39,641,282</u>	<u>\$ 1,603,597</u>

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2012 and 2011

Note 5. Long-Term Debt (Continued):

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of December 31, 2012, are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,766,741	\$ 1,830,246	\$ 3,596,987
2014	1,874,714	1,726,093	3,600,807
2015	2,120,593	1,610,393	3,730,986
2016	2,077,124	1,490,695	3,567,819
2017	1,104,314	1,366,597	2,470,911
2018-2022	6,151,954	5,916,542	12,068,496
2023-2027	6,079,344	4,240,217	10,319,561
2028-2032	3,893,613	3,113,685	7,007,298
2033-2037	4,635,809	2,264,197	6,900,006
2038-2042	3,791,232	1,364,504	5,155,736
2043-2047	3,275,800	614,567	3,890,367
2048-2052	1,221,000	79,910	1,300,910
	<u>\$ 37,992,238</u>	<u>\$ 25,617,646</u>	<u>\$ 63,609,884</u>

OWDA loan 5977 for the Chatfield Waterline Project has not been completed and no amortization schedule is available at this time. Accordingly, the schedule above does not reflect future debt service payments for this loan. As of December 31, 2012 the District had borrowed \$1,072,683.

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, 2012 and 2011

Note 7. Retirement Commitments:

A. Defined Benefit Pension Plans:

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

OPERS maintains a cost-sharing multiple-employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

The Ohio Revised Code permits, but does not mandate, OPERS to provide the OPEB plan to its eligible members and beneficiaries. Authority to establish and amend the OPEB plan is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to the OPERS at 277 East Town Street, Columbus, Ohio 43215-4642 or calling (614) 222-5601 or 1-800-222-7377. The State of Ohio accounts for the activities of the Retirement System, and the amount of that fund is not reflected in the accompanying financial statements.

Benefits fully vest upon reaching 5 years of service and are established by state statute. Employees may retire at any age with 30 years of service, at age 60 with a minimum of 5 years of credited service, and at age 55 with a minimum of 25 years of service. Those individuals retiring with less than 30 years of service or less than age 65 receive reduced retirement benefits. Eligible employees are entitled to a retirement benefit, payable monthly for life, equal to 2.2% of their final average salary for each year of credited service up to 30 years. Employees are entitled to 2.5% of their final average salary for each year of service in excess of 30 years. Final average salary is the employee's average salary over the highest 3 years of earnings.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2012, member and employer contribution rates were consistent across all three plans. The rate set for member contributions for 2012 and 2011 is 10.00%, and the employer contribution rate is 14.00% of covered payroll. Total required employer contributions are equal to 100% of employer charges and should be extracted from the employer's records. The difference between the total employer rate and the portion used to fund pension obligations is the amount used to fund the health care programs. Pension expense for the year ended December 31, 2012, 2011 and 2010 is \$205,653, \$194,582, and \$199,828 respectively.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2012 and 2011

Note 7. Retirement Commitments (Continued):

For 2012, 82 percent has been contributed with the balance being reported as part of the total for the accrued expense of payroll taxes. The full amount has been contributed for 2011 and 2010. Contributions to the member-directed plan for 2012 were \$37,276 made by the plan members.

B. Post-Employment Benefits:

In order to qualify for post-employment health care coverage, age-and-service retirees under Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. The employer contribution rate is 14.00% of covered payroll from January 1 through December 31, 2012 and 2011, respectively. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care Plan was established under, and is administered in accordance with Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 4.0% during calendar year 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during the calendar year 2012. Effective January 1, 2013, the portion of employer contributions allocated to healthcare was lowered to 1 percent for both plans, as recommended by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The rates stated in the preceding paragraph are the contractually required contribution rates for OPERS. The employer contributions made by Northern Ohio Rural Water used to fund post-employment benefits were \$58,755, \$55,592, and \$72,864 for 2012, 2011, and 2010 respectively. For 2012, 82 percent has been contributed with the balance being reported as part of the total for the accrued expense of payroll taxes. The full amount has been contributed for 2011 and 2010.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2012 and 2011

Note 7. Retirement Commitments (Continued):

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

Note 8. Leasing Arrangements:

The District leases one copier under a 60-month operating lease which began in January 2010, and expires in December 2014. This lease requires rent in the amount of \$512 per month.

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

The following is a schedule of future minimum rental payments required under the above operating lease as of December 31, 2012:

<u>Year Ending December 31,</u>	<u>Amount</u>
2013	\$ 6,612
2014	<u>6,612</u>
	<u>\$ 13,224</u>

Office equipment lease expense for the year ended December 31, 2012 and 2011 was \$8,911 and \$7,778, respectively.

Note 9. Commitments:

A. Water Purchase Agreements:

The District's original and primary source of water has been the City of Elyria's water treatment plant located in northern Lorain County. On March 15, 1990, the District signed a 40-year water purchase agreement with the City of Elyria with amendments extending the agreement through December 31, 2051. The District has a minimum monthly purchase requirement of 20,000,000 gallons.

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

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2012 and 2011

Note 9. Commitments (Continued):

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

On March 21, 2002, the District signed a 40-year water purchase agreement with Rural Lorain County Water Authority. The agreed upon rate is \$1.75 per 1,000 gallons with a minimum daily purchase of 10,000 gallons and a maximum daily purchase of 100,000 gallons.

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

B. Water Supply Agreements:

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

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

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

C. Tower Income:

The District has entered into an agreement for renting its antenna space with Bender Communications on a month-to-month basis for \$135 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.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2012 and 2011

Note 10. Restricted Funds:

A. Bond Payment Fund:

This fund was created and will be maintained in the custody of the Issuer as a cash fund and shall be used for the payment of principal and interest on the USDA bonds when due. The District is required by 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.

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 \$8,104 until there is \$972,477 accumulated in the fund, after which no further payments need to be made to the fund except to replace withdrawals therefrom.

C. Restricted Cash:

	<u>2012</u>	<u>2011</u>
Bond Payment Fund	\$217,318	\$208,067
Water System Debt Service Reserve Fund	<u>473,990</u>	<u>373,901</u>
	<u>\$681,308</u>	<u>\$581,968</u>

Note 11. Change in Accounting Principles

For 2012, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements", Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position".

GASB Statement No. 62 incorporates into GASB's authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change to the District's financial statements.

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statement of financial position and related note disclosures. These changes were incorporated in the District's 2012 financial statements; however, there was no effect on beginning net position and/or fund balance.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2012 and 2011

Note 12. **Contingent Liabilities:**

For the period January 1, 2012, to December 31, 2012, the District received federal grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the District believes such disallowances, if any, would be immaterial.

NORTHERN OHIO RURAL WATER
STATEMENTS OF OPERATING EXPENSES

PROPRIETARY FUND TYPE

For the Years Ended December 31, 2012 and 2011

	2012	2011
OPERATING EXPENSES:		
Advertising	\$ 38,411	\$ 33,125
Audit fees	11,847	14,464
Communication equipment	19,085	8,958
Depreciation	1,820,118	1,842,535
Distribution supplies	129,048	106,926
Dues and subscriptions	7,168	6,615
Electric pump station and tanks	167,051	151,804
Engineering fees	8,214	9,808
Gasoline	93,359	104,022
Insurance:		
General	28,848	27,113
Hospitalization	203,706	208,563
Legal and professional fees	97,065	97,303
Licenses and permits	12,695	20,046
Maintenance and repairs:		
Administrative building and equipment	3,705	7,240
Pump stations	259	1,430
Tanks	1,039	2,986
Vehicles	54,385	48,107
Water lines	15,456	0
Office equipment lease	8,911	7,778
Office supplies and expense	42,111	32,713
Payroll taxes	23,521	43,387
O.P.E.R.S.	205,653	194,582
Postage	55,716	59,293
Tap fee refunds	142,186	20,190
Telephone	13,760	14,926
Travel, mileage, and education expense	76,563	77,758
Utilities	18,580	18,902
Wages	874,506	862,957
Water purchased	1,206,339	1,246,320
	\$ 5,379,305	\$ 5,269,851

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



Dave Yost • Auditor of State

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

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

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Northern Ohio Rural Water, Huron County, Ohio (the District) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 21, 2013, wherein we noted the District adopted Governmental Accounting Standards Board Statement No. 63 in 2012, and wherein we noted the financial statements of the District as of and for the year ended December 31, 2011 were audited by predecessor auditor.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion 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 determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our

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Phone: 419-245-2811 or 800-443-9276 Fax: 419-245-2484
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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 communication is not suitable for any other purpose.

Dave Yost
Auditor of State

Columbus, Ohio

November 21, 2013