



OHIO AUDITOR OF STATE  
**KEITH FABER**





**NORTHERN OHIO RURAL WATER  
HURON COUNTY  
DECEMBER 31, 2018 AND 2017**

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# OHIO AUDITOR OF STATE KEITH FABER



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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 the business-type activities and the aggregate remaining fund information of Northern Ohio Rural Water, Huron County, Ohio (the District), as of and for the years ended December 31, 2018 and 2017, 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 respective financial position of the business-type activities and the aggregate remaining fund information of Northern Ohio Rural Water, Huron County, Ohio, as of December 31, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 13 to the financial statements, during 2018, the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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 14, 2019, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Keith Faber". The signature is written in a cursive, flowing style.

Keith Faber  
Auditor of State

Columbus, Ohio

June 14, 2019

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# NORTHERN OHIO RURAL WATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2018 and 2017

(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, 2018 and 2017

(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 of NORW's Assets and Liabilities. This statement provides information about the nature and amounts of investments in resources (assets) owned by NORW, and obligations owed by NORW (liabilities) on December 31. NORW's net position (equity) is the difference between assets and liabilities. The **Statement of Revenues, Expenses and Changes in Net Position** provides information on NORW's operations over the period and the revenue collected from user fees, charges and late fees, and other income. Revenues are reported when earned and expenses are reported when incurred. The **Statement of Cash Flows** provides information about NORW's cash receipts and cash disbursements. It summarizes the net changes in cash resulting from operating, investing, and financing activities. The **Notes to the Financial Statements** provide additional information that is essential for a full understanding of the financial statements.

# NORTHERN OHIO RURAL WATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2018 and 2017

(Unaudited)

Table I summarizes the Net Position of the District.

**TABLE I**

	2018	2017	2016	2018 vs 2017		2017 vs 2016	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Current and other assets	\$ 6,665,379	\$ 4,947,643	\$ 3,876,574	\$ 1,717,736	34.7%	\$ 1,071,069	27.6%
Capital assets	46,514,772	47,635,589	48,081,186	(1,120,817)	-2.4%	(445,597)	-0.9%
Total assets	<u>53,180,151</u>	<u>52,583,232</u>	<u>51,957,760</u>	<u>596,919</u>	1.1%	<u>625,472</u>	1.2%
Deferred outflows of resources:							
Pension	561,738	593,299	711,965	(31,561)	-5.3%	(118,666)	-16.7%
OPEB	57,377	-	-	57,377	100.0%	-	0.0%
Total deferred outflows of resources	<u>619,115</u>	<u>593,299</u>	<u>711,965</u>	<u>25,816</u>	4.4%	<u>(118,666)</u>	-16.7%
Current liabilities	2,405,853	2,365,535	2,381,950	40,318	1.7%	(16,415)	-0.7%
Other liabilities	162,603	162,500	164,825	103	0.1%	(2,325)	-1.4%
Long-term liabilities	31,742,797	32,529,662	34,101,775	(786,865)	-2.4%	(1,572,113)	-4.6%
Total liabilities	<u>34,311,253</u>	<u>35,057,697</u>	<u>36,648,550</u>	<u>(746,444)</u>	-2.1%	<u>(1,590,853)</u>	-4.3%
Deferred inflows of resources:							
Pension	29,998	84,718	47,306	(54,720)	-64.6%	37,412	79.1%
OPEB	58,948	-	-	58,948	100.0%	-	0.0%
Total deferred inflows of resources	<u>88,946</u>	<u>84,718</u>	<u>47,306</u>	<u>4,228</u>	5.0%	<u>37,412</u>	79.1%
Net investment in capital assets	15,172,531	14,747,269	13,689,339	425,262	2.9%	1,057,930	7.7%
Restricted	1,350,008	1,325,603	1,180,022	24,405	1.8%	145,581	12.3%
Unrestricted	2,876,528	1,961,244	1,104,508	915,284	46.7%	856,736	77.6%
Total net position	<u>\$ 19,399,067</u>	<u>\$ 18,034,116</u>	<u>\$ 15,973,869</u>	<u>\$ 1,364,951</u>	7.6%	<u>\$ 2,060,247</u>	12.9%

- The total assets plus deferred outflows of resources of NORW exceeded liabilities plus deferred inflows of resources on December 31, 2018 and 2017 by \$19,399,067 and \$18,034,116, respectively.
- The District's net position increased \$2,138,131 (not including the restatement) and \$2,060,247 in 2018 and 2017, respectively, due primarily to income from operations and a restatement of the 2017 net position of (\$773,180).

### Significant Events and Expenditures During the Year:

Deferred outflows and inflows of resources – pension were recorded based on NORW's proportionate share of OPERS' Deferred Inflows/Outflows Amortization Tracking Worksheet per the requirements of GASB 68 and 71 based on a measurement date of December 31, 2017, 2016, and 2015.

# NORTHERN OHIO RURAL WATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2018 and 2017

(Unaudited)

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

**TABLE II**

	2018	2017	2016	2018 vs 2017		2017 vs 2016	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Operating revenue	\$ 8,985,643	\$ 8,654,501	\$ 8,675,293	\$ 331,142	3.8%	\$ (20,792)	-0.2%
Operating expenses	<u>(5,989,317)</u>	<u>(5,697,403)</u>	<u>(5,825,415)</u>	<u>(291,914)</u>	5.1%	<u>128,012</u>	-2.2%
Income from operations	2,996,326	2,957,098	2,849,878	39,228	1.3%	107,220	3.8%
Nonoperating revenue	400,267	438,519	264,857	(38,252)	-8.7%	173,662	65.6%
Nonoperating expenses	<u>(1,258,462)</u>	<u>(1,335,370)</u>	<u>(1,364,878)</u>	<u>76,908</u>	-5.8%	<u>29,508</u>	-2.2%
Nonoperating gain (loss)	<u>(858,195)</u>	<u>(896,851)</u>	<u>(1,100,021)</u>	<u>38,656</u>	-4.3%	<u>203,170</u>	-18.5%
Change in net position	2,138,131	2,060,247	1,749,857	77,884	3.8%	310,390	17.7%
Beginning net position	18,034,116	15,973,869	14,224,012	2,060,247	12.9%	1,749,857	12.3%
Restatement of net position- GASB 75	<u>(773,180)</u>			<u>(773,180)</u>			
Beginning net position (restated)	<u>17,260,936</u>	<u>15,973,869</u>	<u>14,224,012</u>	<u>1,287,067</u>		<u>1,749,857</u>	
Ending net position	<u>\$ 19,399,067</u>	<u>\$ 18,034,116</u>	<u>\$ 15,973,869</u>	<u>\$ 1,364,951</u>	7.6%	<u>\$ 2,060,247</u>	12.9%

- The District's operating revenues increased in 2018 and decreased in 2017 by \$331,142 (3.8%) and \$20,792 (-0.2%), respectively, while operating expenses increased in 2018 and decreased in 2017 by \$291,914 (5.1%) and \$128,012 (-2.2%), respectively.

### Significant Events and Expenditures During the Year:

The 2018 increase in net position is due to results of operations. The decrease in nonoperating expenses is due primarily to a \$77,154 decrease in interest expense. The 2017 increase in net position is due to results of operations. The decrease in nonoperating expenses is due primarily to a \$29,100 decrease in interest expense. A restatement of 2017 net position in the amount of (\$773,180) was recorded based on NORW'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, 2018 and 2017

(Unaudited)

Capital Assets:

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

**TABLE III**

	2018	2017	2016	2018 vs 2017		2017 vs 2016	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Capital assets, non-depreciable:							
Land	\$ 533,342	\$ 533,342	\$ 533,342	\$ -	0.0%	\$ -	0.0%
Easements	358,254	350,099	342,356	8,155	2.3%	7,743	2.3%
Current construction	246,184	63,083	47,676	183,101	290.3%	15,407	32.3%
Capital assets, depreciable:							
Buildings	2,322,150	2,306,087	2,306,087	16,063	0.7%	0	0.0%
Tanks, stations, and lines	73,542,945	72,733,034	71,464,927	809,911	1.1%	1,268,107	1.8%
Furniture and fixtures	471,281	456,693	447,263	14,588	3.2%	9,430	2.1%
Vehicles & distribution equip.	2,018,464	1,969,497	2,018,342	48,967	2.5%	(48,845)	-2.4%
Total before depreciation	79,492,620	78,411,835	77,159,993	1,080,785	1.4%	1,251,842	1.6%
Accumulated depreciation	(32,977,848)	(30,776,246)	(29,078,807)	(2,201,602)		(1,697,439)	
Total capital assets, net	<u>\$ 46,514,772</u>	<u>\$ 47,635,589</u>	<u>\$ 48,081,186</u>	<u>\$ (1,120,817)</u>		<u>\$ (445,597)</u>	

NORW has \$79,492,620 invested in its system (before depreciation) at December 31, 2018. This amount includes net additions of \$1,080,785 during the year ended December 31, 2018.

The increase in tanks, stations, and lines in the amount of \$809,911 is due primarily to line extensions and tap installations.

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

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# NORTHERN OHIO RURAL WATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2018 and 2017

(Unaudited)

### Long-Term Debt:

Table IV summarizes long-term debt for the District.

**TABLE IV**

	2018	2017	2016	2018 vs 2017		2017 vs 2016	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Long-term debt:							
OWDA notes	\$ 12,580,792	\$ 13,455,079	\$ 14,313,247	\$ (874,287)	-6.5%	\$ (858,168)	-6.0%
CoBank notes	14,558,314	15,125,940	15,670,851	(567,626)	-3.8%	(544,911)	-3.5%
Rural dev. bonds and notes	4,159,600	4,233,000	4,304,200	(73,400)	-1.7%	(71,200)	-1.7%
Buckeye Community Bank notes	43,535	74,301	103,549	(30,766)	-41.4%	(29,248)	-28.2%
Total long-term debt	31,342,241	32,888,320	34,391,847	(1,546,079)	-4.7%	(1,503,527)	-4.4%
Less: Current maturities	(1,617,680)	(1,546,123)	(1,503,591)	(71,557)	4.6%	(42,532)	2.8%
Net total long-term debt	<u>\$ 29,724,561</u>	<u>\$ 31,342,197</u>	<u>\$ 32,888,256</u>	<u>\$ (1,617,636)</u>	-5.2%	<u>\$ (1,546,059)</u>	-4.7%
Net pension liability	1,238,541	1,187,465	1,213,519	51,076	4.3%	(26,054)	-2.1%
Net OPEB liability	779,695	-	-	779,695	100.0%	-	0.0%

See Note 5 of the financial statements for details of issuance and retirement of debt for the years ended December 31, 2018 and 2017.

See Notes 7 and 8 of the financial statements for details of net pension and net OPEB liabilities for the years ended December 31, 2018 and 2017.

### Significant Events and Expenditures During the Year:

A net pension liability and a net OPEB liability in the amount of \$1,238,541 and \$779,695, 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, 2017.

### 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, 2018 and 2017

<u>ASSETS</u>	<u>2018</u>	<u>2017</u>
CURRENT ASSETS: (Note 2)		
Cash and cash equivalents	\$ 4,252,212	\$ 2,553,561
Restricted cash (Note 11)	181,635	184,607
Receivables:		
Trade (net allowance for doubtful accounts of \$9,745 in 2018 and \$9,563 in 2017)	544,583	612,378
Other	78,384	115,536
Inventory	287,922	249,835
Prepaid expenses	11,931	11,830
Total current assets	<u>5,356,667</u>	<u>3,727,747</u>
NONCURRENT ASSETS:		
Restricted cash (Note 11)	1,168,373	1,140,996
Capital assets, non-depreciable: (Note 2)		
Land	533,342	533,342
Easements	358,254	350,099
Current construction	246,184	63,083
Capital assets, depreciable: (Note 2)		
Buildings	2,322,150	2,306,087
Tanks, stations, lines, meters, and taps	73,542,945	72,733,034
Furniture and fixtures	471,281	456,693
Vehicles and distribution equipment	2,018,464	1,969,497
	<u>79,492,620</u>	<u>78,411,835</u>
Less: Accumulated depreciation	<u>32,977,848</u>	<u>30,776,246</u>
Total noncurrent assets	<u>47,683,145</u>	<u>48,776,585</u>
OTHER ASSETS:		
CoBank investment (Note 12)	114,238	66,722
Organization costs	1,000	1,000
Net pension asset (Note 7)	25,101	11,178
Total other assets	<u>140,339</u>	<u>78,900</u>
Total assets	<u>53,180,151</u>	<u>52,583,232</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Pension (Note 7)	561,738	593,299
OPEB (Note 8)	57,377	0
Total deferred outflows of resources	<u>619,115</u>	<u>593,299</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 53,799,266</u>	<u>\$ 53,176,531</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, 2018 and 2017

#### LIABILITIES AND NET POSITION

	2018	2017
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 213,539	\$ 200,126
Projects and retainage payable	832	15,190
Tenant deposits	104,150	108,950
Accrued expenses:		
Wages	27,700	22,004
Compensated absences	113,418	98,671
Payroll taxes	22,286	51,396
Interest	306,248	323,075
Current portion of long-term debt	1,617,680	1,546,123
Total current liabilities	2,405,853	2,365,535
 <b>NONCURRENT LIABILITIES:</b>		
Future tap installations	162,603	162,500
Net pension liability (Notes 5 & 7)	1,238,541	1,187,465
Net OPEB liability (Notes 5 & 8)	779,695	0
Notes payable (Note 5)	27,182,641	28,655,320
Bonds payable (Note 5)	4,159,600	4,233,000
	33,523,080	34,238,285
Less: Current portion	1,617,680	1,546,123
Total noncurrent liabilities	31,905,400	32,692,162
Total liabilities	34,311,253	35,057,697
 <b>DEFERRED INFLOWS OF RESOURCES:</b>		
Pension (Note 7)	29,998	84,718
OPEB (Note 8)	58,948	0
Total deferred inflows of resources	88,946	84,718
 <b>NET POSITION:</b>		
Net investment in capital assets	15,172,531	14,747,269
Restricted	1,350,008	1,325,603
Unrestricted	2,876,528	1,961,244
Total net position	19,399,067	18,034,116
 <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b>\$ 53,799,266</b>	<b>\$ 53,176,531</b>

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, 2018 and 2017

	2018	2017
OPERATING REVENUE:		
Water sales	\$ 8,378,577	\$ 8,122,206
Tap fees	607,066	532,295
Total operating revenue	8,985,643	8,654,501
OPERATING EXPENSES	5,989,317	5,697,403
INCOME FROM OPERATIONS	2,996,326	2,957,098
NONOPERATING REVENUE:		
Credit card fees	(1,328)	4,556
Discounts earned	3,375	3,687
EPA income	18,053	17,696
Interest income	21,836	14,922
Line maintenance reimbursements	34,314	16,656
Miscellaneous	179,783	191,434
Reconnection fees	43,295	34,059
Tower income	1,680	1,680
Insurance recoveries	57,651	3,462
Insurance billing service fees	27,627	23,641
Sewer billing service fees	13,981	8,547
Gain (Loss) on disposal of assets	0	118,179
Total nonoperating revenue	400,267	438,519
Income from operations and nonoperating revenue	3,396,593	3,395,617
NONOPERATING EXPENSES:		
Uncollectible accounts expense	182	329
EPA expense	18,618	18,225
Interest expense	1,239,662	1,316,816
Total nonoperating expenses	1,258,462	1,335,370
CHANGE IN NET POSITION	2,138,131	2,060,247
NET POSITION - Beginning of period	18,034,116	15,973,869
Restatement of net position (Note 13)	(773,180)	0
Net position - beginning of period - restated	17,260,936	15,973,869
NET POSITION - End of period	\$ 19,399,067	\$ 18,034,116

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, 2018 and 2017

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 9,090,590	\$ 8,593,513
Cash payments to suppliers for goods and services	(2,413,071)	(2,290,058)
Cash payments to employees and professional contractors for services	(1,389,976)	(1,341,493)
Net cash provided by operating activities	5,287,543	4,961,962
<b>CASH FLOWS FROM NON-CAPITAL ACTIVITIES:</b>		
Proceeds from developer, hydrant maintenance, and reconnection fees	43,295	34,059
Proceeds from discounts earned, EPA and tower income	23,108	23,063
Proceeds from line maintenance reimbursements	34,314	16,656
Proceeds from insurance claims	57,651	3,462
Proceeds from sales of assets	0	118,179
Other nonoperating revenue	201,263	209,624
(Increase) decrease in net pension and OPEB liability	0	26,054
Net cash provided by (used in) non-capital activities	359,631	431,097
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of equipment and new construction	(1,095,870)	(1,549,075)
Purchase of investment	(47,516)	(38,512)
Repayment of principal on long-term debt	(1,546,079)	(1,503,527)
Interest paid on debt	(1,256,489)	(1,317,320)
Net cash used in capital and related financing activities	(3,945,954)	(4,408,434)
<b>CASH FLOWS FROM INVESTING ACTIVITIES - Interest earned</b>	<b>21,836</b>	<b>14,922</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,723,056</b>	<b>999,547</b>
<b>CASH AND CASH EQUIVALENTS - Beginning of period</b>	<b>3,879,164</b>	<b>2,879,617</b>
<b>CASH AND CASH EQUIVALENTS - End of period</b>	<b>\$ 5,602,220</b>	<b>\$ 3,879,164</b>

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, 2018 and 2017

	2018	2017
<b>PROVIDED BY OPERATING ACTIVITIES:</b>		
Income from operations	\$ 2,996,326	\$ 2,957,098
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	2,202,433	2,006,764
Pension Expense		261,420
Changes in assets, deferred outflow of resources, and liabilities:		
(Increase) decrease in:		
Receivables	104,947	(60,988)
Inventory	(38,087)	28,571
Prepaid expenses	(101)	235
Deferred outflows of resources - Pension	31,561	(132,225)
Deferred outflows of resources - OPEB	(57,377)	0
Net pension asset	(13,923)	0
Increase (decrease) in:		
Accounts payable	13,413	(82,859)
Tenant deposits	(4,800)	(6,500)
Accrued expenses	(8,667)	16,500
Deferred inflows of resources - Pension	(54,720)	0
Deferred inflows of resources- OPEB	58,948	0
Net pension liability	51,076	(26,054)
Net OPEB liability	6,514	0
Net cash provided by operating activities	\$ 5,287,543	\$ 4,961,962

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
Cash and cash equivalents:		
New Washington	\$ 26,190	\$ 21,716
Sunbelt Insurance	12,003	10,833
Total cash and cash equivalents	<u>38,193</u>	<u>32,549</u>
Receivables:		
New Washington	14,764	18,974
Sunbelt Insurance	11,946	14,022
Total receivables	<u>26,710</u>	<u>32,996</u>
Total assets	<u>\$ 64,903</u>	<u>\$ 65,545</u>
 <u>LIABILITIES</u>		
Undistributed monies:		
New Washington	\$ 40,954	\$ 40,689
Sunbelt Insurance	23,949	24,856
Total liabilities	<u>\$ 64,903</u>	<u>\$ 65,545</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, 2018 and 2017

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, 2018 and 2017

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

A. Basis of Presentation and Accounting (Continued):

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

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

B. Budgetary Process:

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

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

C. Inventory:

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

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

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, 2018 and 2017

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, 2018 and 2017 is \$113,418 and \$98,671, respectively. The unrecorded estimated unused sick leave for the year ended December 31, 2018 and 2017 was \$308,352 and \$290,652, respectively.

H. Statement of Cash Flows:

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

I. Use of Estimates:

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

J. Receivables - Trade:

The District considers accounts receivable to be collectible with an allowance for doubtful accounts of 1.5% on new billings for the final month of the quarter based on past experience.



# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

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, 2018 and 2017

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 by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

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, 2018 and 2017, the carrying amount of all District deposits was \$5,640,413 and \$3,911,713, respectively. Based on the criteria described in GASB statement No. 40, "Deposits and Investment Risk Disclosures," as of December 31, 2018 and 2017, none of the District's bank balance of \$5,833,814 and \$4,068,675, 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, 2018 and 2017

Note 4. Capital Assets:

A summary of changes in capital assets for the year ended December 31, 2018, is as follows:

	Balance December 31, 2017	Additions	Deletions	Balance December 31, 2018
Capital assets, nondepreciable:				
Land	\$ 533,342	\$ -	\$ -	\$ 533,342
Easements	350,099	8,155	-	358,254
Current construction	63,083	214,443	(31,342)	246,184
Capital assets, depreciable:				
Buildings	2,306,087	16,063	-	2,322,150
Tanks, stations, lines, meters, and taps	72,733,034	812,953	(3,042)	73,542,945
Furniture and fixtures	456,693	14,588	-	471,281
Vehicles and distribution equipment	1,969,497	48,967	-	2,018,464
Total	78,411,835	1,115,169	(34,384)	79,492,620
Less accumulated depreciation				
Buildings	(263,595)	(57,736)	-	(321,331)
Tanks, stations, lines, meters, and taps	(28,569,633)	(1,947,927)	830	(30,516,730)
Furniture and fixtures	(403,729)	(34,424)	-	(438,153)
Vehicles and distribution equipment	(1,539,289)	(162,345)	-	(1,701,634)
Total accumulated depreciation	(30,776,246)	(2,202,432)	830	(32,977,848)
Net capital assets	\$ 47,635,589	\$ (1,087,263)	\$ (33,554)	\$ 46,514,772

Depreciation expense for the year ended December 31, 2018 and 2017 was \$2,202,433 and \$2,006,764. Current construction at December 31, 2018 and 2017 included capitalized construction period interest of \$-0- and \$-0- that was incurred in each respective year. Total interest cost incurred was \$1,239,662 and \$1,316,816 at December 31, 2018 and 2017, respectively.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

Note 4. Capital Assets (Continued):

A summary of changes in capital assets for the year ended December 31, 2017, is as follows:

	Balance December 31, 2016	Additions	Deletions	Balance December 31, 2017
Capital assets, nondepreciable:				
Land	\$ 533,342	\$ -	\$ -	\$ 533,342
Easements	342,356	7,743	-	350,099
Current construction	47,676	39,342	(23,935)	63,083
Capital assets, depreciable:				
Buildings	2,306,087	-	-	2,306,087
Tanks, stations, lines, meters, and taps	71,464,927	1,268,107	-	72,733,034
Furniture and fixtures	447,263	9,430	-	456,693
Vehicles and distribution equipment	2,018,342	260,480	(309,325)	1,969,497
Total	<u>77,159,993</u>	<u>1,585,102</u>	<u>(333,260)</u>	<u>78,411,835</u>
Less accumulated depreciation				
Buildings	(205,942)	(57,653)	-	(263,595)
Tanks, stations, lines, meters, and taps	(26,744,834)	(1,824,799)	-	(28,569,633)
Furniture and fixtures	(381,966)	(21,763)	-	(403,729)
Vehicles and distribution equipment	(1,746,065)	(102,549)	309,325	(1,539,289)
Total accumulated depreciation	<u>(29,078,807)</u>	<u>(2,006,764)</u>	<u>309,325</u>	<u>(30,776,246)</u>
Net capital assets	<u>\$ 48,081,186</u>	<u>\$ (421,662)</u>	<u>\$ (23,935)</u>	<u>\$ 47,635,589</u>

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

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, 2018, is as follows:

Description	Balance December 31, 2017	Borrowed	Repaid	Balance December 31, 2018	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.	\$ 13,455,079	\$ -0-	\$ 874,287	\$ 12,580,792	\$ 918,196
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.	4,233,000	-0-	73,400	4,159,600	75,800
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.	74,301	-0-	30,766	43,535	32,383
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.	1,910,235	-0-	79,558	1,830,677	83,837
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.	13,215,705	-0-	488,068	12,727,637	507,464
	<u>\$ 32,888,320</u>	<u>\$ -0-</u>	<u>\$ 1,546,079</u>	<u>\$ 31,342,241</u>	<u>\$ 1,617,680</u>
Description	Balance December 31, 2017	Additions	Reductions	Balance December 31, 2018	Due Within One Year
A net pension liability in the amount of \$1,238,541 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, 2017.	\$ 1,187,465	\$ 241,746	\$ 190,670	\$ 1,238,541	\$ -0-
Description	Balance December 31, 2017	Additions	Reductions	Balance December 31, 2018	Due Within One Year
A net OPEB liability in the amount of \$779,695 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, 2017.	\$ 783,351	\$ -0-	\$ 3,656	\$ 779,695	\$ -0-

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

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, 2017, is as follows:

Description	Balance December 31, 2016	Borrowed	Repaid	Balance December 31, 2017	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.	\$ 14,313,247	\$ -0-	\$ 858,168	\$ 13,455,079	\$ 874,287
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.	4,304,200	-0-	71,200	4,233,000	73,400
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.	103,549	-0-	29,248	74,301	30,810
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.	1,985,733	-0-	75,498	1,910,235	79,559
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.	13,685,118	-0-	469,413	13,215,705	488,067
	<u>\$ 34,391,847</u>	<u>\$ -0-</u>	<u>\$ 1,503,527</u>	<u>\$ 32,888,320</u>	<u>\$ 1,546,123</u>
	Balance December 31, 2016	Additions	Reductions	Balance December 31, 2017	Due Within One Year
A net pension liability in the amount of \$1,891,635 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, 2016.	\$ 1,213,519	\$ 714,700	\$ 740,754	\$ 1,187,465	\$ -0-

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

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, 2018, are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,617,680	\$ 1,194,245	\$ 2,811,925
2020	1,651,827	1,131,028	2,782,855
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
2024-2028	8,134,403	3,570,495	11,704,898
2029-2033	7,160,710	2,116,106	9,276,816
2034-2038	5,090,398	789,036	5,879,434
2039-2043	1,127,418	309,221	1,436,639
2044-2048	900,100	155,002	1,055,102
2049-2050	402,300	19,717	422,017
	<u>\$ 31,342,241</u>	<u>\$ 12,268,695</u>	<u>\$ 43,610,936</u>

See Note 7 for details on the Net Pension Liability.

Note 6. Insurance:

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

The District maintains comprehensive insurance coverage with private carriers for real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage.

Settled claims have not exceeded commercial coverage in any of the past three years. There has not been a significant reduction of coverage from the prior year.



# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

Note 7. Defined Benefit Pension Plan:

Net Pension Liability/Asset:

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, 2018 and 2017

Note 7. Defined Benefit Pension Plan (Continued):

Net Pension Liability/Asset (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, 2018 and 2017

Note 7. Defined Benefit Pension Plan (Continued):

Net Pension Liability/Asset (Continued):

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

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

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

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

	<u>State and Local</u>	
<b>2017 and 2018 Statutory Maximum Contribution Rates</b>		
Employer	14.0%	
Employee	10.0%	
<b>2016 and 2017 Actual Contribution Rates</b>		
Employer:	<u>2017</u>	<u>2018</u>
Pension	13.0%	14.0%
Post-employment Health Care Benefits	<u>1.0%</u>	<u>0.0%</u>
Total Employer	<u>14.0%</u>	<u>14.0%</u>
 Employee	 <u>10.0%</u>	 <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 \$159,108 and \$132,225 for 2018 and 2017, respectively. Of this amount, \$-0- and \$20,088 is reported as a payable for 2018 and 2017, respectively.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

Note 7. Defined Benefit Pension Plan (Continued):

Net Pension Liability/Asset (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, 2017, 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	\$1,238,541
Proportion of the Net Pension Liability – prior measurement date	0.005729%
Liability – current measurement date	<u>0.005740%</u>
Change in proportion of net pension asset	<u>0.000011%</u>
Pension Expense	\$222,259

The net pension liability was measured as of December 31, 2016, 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	\$1,187,465
Proportion of the Net Pension Liability	0.005729%
Pension Expense	\$329,535

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

Note 7. Defined Benefit Pension Plan (Continued):

Net Pension Liability/Asset (Continued):

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

At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>
<b>Deferred Outflows of Resources</b>	
Net difference between projected and actual earnings on pension plan investments	\$ 402,630
District contributions subsequent to the measurement date	<u>159,108</u>
Total deferred outflows of resources	<u>\$ 561,738</u>
<u>OPERS</u>	
<b>Deferred Inflows of Resources</b>	
Difference between expected and actual experience	<u>\$ 29,998</u>
Total deferred inflows of resources	<u>\$ 29,998</u>

One hundred fifty-nine thousand one hundred eight (\$159,108) 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, 2019. 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:	
2019	\$ 93,158
2020	93,158
2021	93,158
2022	<u>93,158</u>
Total	<u>\$372,632</u>

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

Note 7. Defined Benefit Pension Plan (Continued):

Net Pension Liability/Asset (Continued):

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

At December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>
<b>Deferred Outflows of Resources</b>	
Net difference between projected and actual earnings on pension plan investments	\$461,074
District contributions subsequent to the measurement date	<u>132,225</u>
Total deferred outflows of resources	<u>\$593,299</u>
	<u>OPERS</u>
<b>Deferred Inflows of Resources</b>	
Difference between expected and actual experience	<u>\$ 84,718</u>
Total deferred inflows of resources	<u>\$ 84,718</u>

One hundred thirty-two thousand two hundred twenty-five (\$132,225) 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, 2018. 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:	
2018	\$ 94,089
2019	94,089
2020	94,089
2021	<u>94,089</u>
Total	<u>\$376,356</u>

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

Note 7. Defined Benefit Pension Plan (Continued):

Net Pension Liability/Asset (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, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>December 31, 2017</u>	<u>December 31, 2016</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 10.05 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 2018, then 2.15 percent simple	3 percent simple through 2018, then 2.15 percent simple
Investment Rate of Return	7.5 percent	7.5 percent
Actuarial Cost Method	individual entry age	individual entry age

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, 2018 and 2017

Note 7. Defined Benefit Pension Plan (Continued):

Net Pension Liability/Asset (Continued):

*Actuarial Assumptions – OPERS (Continued)*

For 2016, 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.

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 16.82% for 2017.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The following table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:



# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

Note 7. Defined Benefit Pension Plan (Continued):

Net Pension Liability/Asset (Continued):

*Actuarial Assumptions – OPERS (Continued)*

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	23.00%	2.20%
Domestic Equities	19.00	6.37
Real Estate	10.00	5.26
Private Equity	10.00	8.97
International Equities	20.00	7.88
Other Investments	<u>18.00</u>	<u>5.26</u>
Total	<u>100.00%</u>	<u>5.66%</u>

**Discount Rate** The discount rate used to measure the total pension liability was 7.5 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 7.5 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 (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease <u>(6.50%)</u>	Current Discount Rate <u>(7.50%)</u>	1% Increase <u>(8.50%)</u>
District’s proportionate share of the net pension:			
Asset	\$ 13,645	\$ 25,101	\$ 33,006
Liability	\$1,599,049	\$1,238,541	\$318,111

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

Note 8. Defined Benefit Other Postemployment 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, 2018 and 2017

Note 8. Defined Benefit OPEB Plans (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 an 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, 2018 and 2017

Note 8. Defined Benefit OPEB Plans (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, 2018 and 2017, 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 1.0% during calendar year 2017. 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 2018 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 2018.

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-, \$10,171, \$23,731, \$25,238, \$26,369 for 2018, 2017, 2016, 2015, and 2014 respectively. The 2018 payable to fund health care was \$-0-.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

Note 8. Defined Benefit OPEB Plans (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, 2016, rolled forward to the measurement date of December 31, 2017, 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	0.00718%
Prior Measurement Date	0.00719%
Change in Proportionate Share	(0.00001%)
Proportionate Share of the Net OPEB Liability	\$779,695
OPEB Expense	\$8,086

At December 31, 2018, 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>	
Differences between expected and actual experience	\$ 47,206
District contributions subsequent to the measurement date	<u>10,171</u>
Total Deferred Outflows of Resources	<u>\$ 57,377</u>
<b>Deferred Inflows of Resources</b>	
Differences between expected and actual experience	\$ 58,948
	<u>-0-</u>
Total Deferred Inflows of Resources	<u>\$ 58,948</u>

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

Note 8. Defined Benefit OPEB Plans (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 2019. 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:		
2019		\$ (393)
2020		(393)
2021		(393)
2022		(392)
2023		-0-
Thereafter		-0-
Total		<u>\$ (1,571)</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 benefits for financial reporting purposes are based on the substantive plan 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, 2016, rolled forward to the measurement date of December 31, 2017. 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:

Wage Inflation	3.25 percent
Projected Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation
Single Discount Rate:	
Current measurement date	3.85 percent
Prior Measurement date	4.23 percent
Investment Rate of Return	6.50 percent
Municipal Bond Rate	3.31 percent
Health Care Cost Trend Rate	7.5 percent, initial
	3.25 percent, ultimate in 2028
Actuarial Cost Method	Individual Entry Age

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

Note 8. Defined Benefit OPEB Plans (Continued):

*Actuarial Assumptions – OPERS (Continued)*

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.

During 2017, 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, and 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 is 15.2 percent for 2017.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

Note 8. Defined Benefit OPEB Plans (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. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	34.00 %	1.88 %
Domestic Equities	21.00	6.37
Real Estate Investment Trust	6.00	5.91
International Equities	22.00	7.88
Other investments	17.00	5.39
Total	100.00 %	4.98 %

***Discount Rate*** A single discount rate of 3.85 percent was used to measure the OPEB liability on the measurement date of December 31, 2017. A single discount rate of 4.23 percent was used to measure the OPEB liability on the measurement date of December 31, 2016. 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 6.50 percent and a municipal bond rate of 3.31 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, 2018 and 2017

Note 8. Defined Benefit OPEB Plans (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 3.85 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 (2.85 percent) or one-percentage-point higher (4.85 percent) than the current rate:

	<u>1% Decrease</u> <u>(2.85%)</u>	Current Discount Rate <u>(3.85%)</u>	<u>1% Increase</u> <u>(4.85%)</u>
District’s proportionate share of the net OPEB liability	\$1,035,859	\$779,695	\$572,461

***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 that 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 2018 is 7.50 percent. 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 that in the not-too-distant future, 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 3.25 percent in the most recent valuation.

	<u>1% Decrease</u>	Current Health Care Cost Trend Rate <u>Assumption</u>	<u>1% Increase</u>
District’s proportionate share of the net OPEB liability	\$746,002	\$779,695	\$814,499

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

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 \$725 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, 2018:

<u>Year Ending December 31,</u>	<u>Amount</u>
2019	\$ 8,700
2020	8,700
2021	8,700
2022	8,700
2023	725
	<u>\$35,525</u>

Office equipment lease expense for the years ended December 31, 2018 and 2017 was \$10,197 and \$11,621, 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, 2018 and 2017

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 November 2016, the District entered into an agreement with Erie County to provide water that went into effect in March 2017. 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, 2018 and 2017

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:

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

F. Water Line/Leak Insurance Agreement:

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

G. Rapid Response Agreement:

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

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

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>2018</u>	<u>2017</u>
Bond Payment Fund	\$ 181,635	\$ 184,606
Water System Debt Service Reserve Fund	<u>1,168,373</u>	<u>1,140,996</u>
	<u>\$1,350,008</u>	<u>\$1,325,602</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, 2018 and 2017

Note 13. Change in Accounting Principle and Restatement of Net Position:

For 2018, the District implemented the Governmental Accounting Standards Board (GASB) Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, Statement No. 85, *Omnibus 2017, Accounting and Financial Reporting for Postemployment Benefits Other than Pension*, and related guidance from (GASB) Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (and Certain Issues Related to OPEB Plan Reporting)*.

GASB 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurements and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). These changes were incorporated in the District's 2018 financial statements: however, there was no effect on the beginning net position.

GASB 75 established standards for measuring and recognizing postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditures and replaces the requirements of GASB 45. The implementation of this pronouncement had the following effect on net position as reported December 31, 2017:

Net position December 31, 2017	\$ 18,034,116
Adjustments:	
Net OPEB liability	(783,351)
Deferred outflow – payments subsequent to measurement date	<u>10,171</u>
Restated Net Position December 31, 2017	<u>\$ 17,260,936</u>

Other than employer contributions subsequent to the measurement date, the District made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

The District presents comparative information. The comparative year (2017) information was not restated to reflect the implementation of GASB No. 75, as there is no requirement to do so.

**NORTHERN OHIO RURAL WATER**

**NOTES TO FINANCIAL STATEMENTS**

**For the Years Ended December 31, 2018 and 2017**

Note 14. Note Payable – Line of Credit:

At December 31, 2018 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, 2019.

Note 15. Subsequent Events:

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through June 14, 2019, the date the financial statements were issued.

## 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 Five Years (\*)

	2018	2017	2016	2015	2014
District's Proportion of the Net Pension Liability	0.005740%	0.005729%	0.005907%	0.005767%	0.005767%
District's Proportionate Share of the Net Pension Liability	\$ 1,238,541	\$ 1,187,465	\$ 1,213,519	\$ 783,814	\$ 679,854
District's Covered-Employee Payroll	\$ 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	108.98%	116.75%	75.58%	53.22%	44.18%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	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 Six Years (\*)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$ 159,108	\$ 132,225	\$ 192,685	\$ 176,737	\$ 184,657	\$ 191,671
Contributions in Relation to the Contractually Required Contribution	<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>
District Covered-Employee Payroll	\$ 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%	13.00%	12.00%	12.00%	12.00%	13.00%

\* Information prior to 2013 is not available.

**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 Two Years (\*)**

	<u>2018</u>	<u>2017</u>
District's Proportion of the Net OPEB Liability	0.007180%	0.007189%
District's Proportionate Share of the Net OPEB Liability	\$ 779,695	\$ 773,180
District's Covered-Employee Payroll	\$1,136,486	\$1,017,115
District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered-Employee Payroll	68.61%	76.02%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	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.

See accompanying notes to the Required Supplementary Information.

# NORTHERN OHIO RURAL WATER

## REQUIRED SUPPLEMENTARY INFORMATION

### Schedule of District OPEB Contributions Ohio Public Employees Retirement System

#### Last Three Years (\*)

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually Required Contribution	\$ 0	\$ 10,171	\$ 23,731
Contributions in Relation to the Contractually Required Contribution	<u>0</u>	<u>(10,171)</u>	<u>(23,731)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
District Covered-Employee Payroll	\$ 1,136,486	\$ 1,017,100	\$ 2,373,100
Contributions as a Percentage of Covered-Employee Payroll	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 2016 is not presented.

See accompanying notes to the Required Supplementary Information.

## NORTHERN OHIO RURAL WATER

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For the Years Ended December 31, 2018 and 2017

#### Changes in Assumptions – OPERS Pension

Amounts reported for 2017 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 2016 and prior are presented below.

	December 31, 2017	December 31, 2016 and Prior
Wage Inflation	3.25 percent	3.75 percent
Future Salary Increases, including inflation	3.25 to 10.05 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
Post-January 7, 2013	3 percent simple through 2018, then 2.15 percent simple	3 percent simple through 2018, then 2.8 percent simple
Investment Rate of Return	7.5 percent	8 percent
Actuarial Cost Method	individual entry age	individual entry age

Amounts reported for 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 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. 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.

For 2018, the single discount rate changed from 4.23 percent to 3.85 percent.

# NORTHERN OHIO RURAL WATER

## SCHEDULES OF OPERATING EXPENSES

### PROPRIETARY FUND TYPE

For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
OPERATING EXPENSES:		
Advertising	\$ 6,465	\$ 6,301
Audit fees	15,170	14,781
Communication equipment	50,348	39,367
Depreciation	2,202,433	2,006,764
Distribution supplies	152,544	113,069
Dues and subscriptions	5,803	6,888
Electric pump station and tanks	174,684	188,735
Engineering fees	331	4,829
Gasoline	64,724	47,302
Insurance:		
General	32,427	30,679
Hospitalization	271,150	258,077
Legal and professional fees	136,111	143,308
Licenses and permits	8,662	17,166
Maintenance and repairs:		
Administrative building and equipment	2,813	2,760
Pump stations	12,970	0
Tanks	600	1,130
Vehicles	40,881	37,296
Office equipment lease	10,197	11,621
Office supplies and expense	74,035	75,833
Payroll taxes	18,614	27,533
O.P.E.R.S. - Pension (Note 7)	222,259	329,535
O.P.E.R.S. - OPEB (Note 8)	8,086	0
Postage	59,756	64,367
Tap fee refunds	85,125	10,607
Telephone	12,306	13,034
Travel, mileage, and education expense	63,076	69,943
Utilities	28,428	27,970
Wages	934,787	889,819
Water purchased	1,294,532	1,258,689
Total operating expenses	<u>\$ 5,989,317</u>	<u>\$ 5,697,403</u>

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# OHIO AUDITOR OF STATE KEITH FABER



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

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

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the business-type activities and the aggregate remaining fund information of Northern Ohio Rural Water, Huron County, Ohio (the District) as of and for the years ended December 31, 2018 and 2017, 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 14, 2019, wherein we noted the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No.75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* in 2018.

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

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. 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 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.

A handwritten signature in black ink that reads "Keith Faber". The signature is written in a cursive, flowing style.

Keith Faber  
Auditor of State

Columbus, Ohio

June 14, 2019



# OHIO AUDITOR OF STATE KEITH FABER



**NORTHERN OHIO RURAL WATER**

**HURON COUNTY**

### **CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 27, 2019**