
NORTHERN OHIO RURAL WATER

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

OTHER INFORMATION

INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2000 AND 1999

RADACHI AND COMPANY

Certified Public Accountants and Business Consultants

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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Board of Trustees
Northern Ohio Rural Water
Collins, Ohio

We have reviewed the Independent Auditor's Report of Northern Ohio Rural Water, Huron County, prepared by Radachi & Company, for the audit period January 1, 1999 to December 31, 2000. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. Northern Ohio Rural Water is responsible for compliance with these laws and regulations.

JIM PETRO
Auditor of State

June 30, 2001

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NORTHERN OHIO RURAL WATER

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RADACHI AND COMPANY

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
of Northern Ohio Rural Water
Collins, Ohio

We have audited the accompanying financial statements of Northern Ohio Rural Water (a public subdivision) as of December 31, 2000 and 1999, and for the years then ended. These financial statements are the responsibility of Northern Ohio Rural Water's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northern Ohio Rural Water as of December 31, 2000 and 1999, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles in the United States of America.

The Statements of Operating Expenses on page 22 are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 30, 2001, on our consideration of Northern Ohio Rural Water's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, and a separate management letter dated June 18, 2001, on recommendations for record keeping. That report is an integral part of an audit in accordance with government auditing standards and should be read in conjunction with this report in considering the results of our audit.

Radachi and Company

May 30, 2001

NORTHERN OHIO RURAL WATER

BALANCE SHEETS

December 31, 2000 and 1999

	<u>2000</u>	<u>1999</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash	\$ 758,572	\$ 854,943
Receivables:		
Trade (net of allowance for doubtful accounts of \$3,850 in 2000 and \$3,501 in 1999)	198,538	175,942
Employees	-0-	-0-
Other	-0-	875
Inventory (Note 1)	320,229	220,486
Prepaid expenses (Note 1)	11,262	8,921
Total current assets	<u>1,288,601</u>	<u>1,261,167</u>
PROPERTY, PLANT, AND EQUIPMENT, AT COST: (Note 1)		
Land and easements	238,789	119,119
Buildings	316,346	292,784
Tanks, stations, and lines	21,645,323	17,484,882
Furniture and fixtures	115,386	116,620
Vehicles and distribution equipment	947,450	795,986
	<u>23,263,294</u>	<u>18,809,391</u>
Less: Accumulated depreciation	<u>5,242,331</u>	<u>4,533,301</u>
	18,020,963	14,276,090
Current construction	434,532	471,836
	<u>18,455,495</u>	<u>14,747,926</u>
OTHER ASSET:		
Organization costs	1,000	1,000
	<u>\$ 19,745,096</u>	<u>\$ 16,010,093</u>

The accompanying notes are an integral part of the financial statements.
See Independent Accountants' Report.

NORTHERN OHIO RURAL WATER

BALANCE SHEETS

December 31, 2000 and 1999

	<u>2000</u>	<u>1999</u>
<u>LIABILITIES AND RETAINED EARNINGS</u>		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 475,300	\$ 471,661
Accounts payable	954,027	122,913
Advance deposits	21,650	21,650
Accrued expenses:		
Wages	18,810	17,002
Compensated absences (Note 1)	15,701	13,822
Payroll taxes	19,274	21,549
Interest	471,979	486,003
Total current liabilities	<u>1,976,741</u>	<u>1,154,600</u>
LONG-TERM DEBT: (Note 3)		
Notes payable	16,302,299	13,414,386
Less: Current portion	<u>475,300</u>	<u>471,661</u>
	<u>15,826,999</u>	<u>12,942,725</u>
RETAINED EARNINGS	1,941,356	1,912,768
	<u>\$ 19,745,096</u>	<u>\$ 16,010,093</u>

The accompanying notes are an integral part of the financial statements.
See Independent Accountants' Report.

NORTHERN OHIO RURAL WATER

STATEMENTS OF INCOME

Years Ended December 31, 2000 and 1999

	<u>2000</u>	<u>1999</u>
REVENUE:		
Water sales	\$ 2,813,509	\$ 2,711,136
OPERATING EXPENSES	<u>2,157,098</u>	<u>2,047,780</u>
INCOME FROM OPERATIONS	656,411	663,356
OTHER INCOME:		
Discounts earned	34	1,254
EPA income	4,562	3,927
Hydrant maintenance fees	1,105	850
Gain on sale of equipment	10,110	-0-
Interest income	19,126	27,498
Miscellaneous	8,013	2,855
Reconnection fees	8,229	6,496
Tower income	11,614	11,571
Tap fees	274,402	343,189
	<u>337,195</u>	<u>397,640</u>
	993,606	1,060,996
OTHER EXPENSES:		
Bank charges	1,989	2,292
EPA expense	-0-	4,310
Interest expense	963,029	979,496
	<u>965,018</u>	<u>986,098</u>
NET INCOME	<u>\$ 28,588</u>	<u>\$ 74,898</u>

The accompanying notes are an integral part of the financial statements.
See Independent Accountants' Report.

NORTHERN OHIO RURAL WATER

STATEMENTS OF RETAINED EARNINGS

Years Ended December 31, 2000 and 1999

	<u>2000</u>	<u>1999</u>
BALANCE - Beginning of year	\$ 1,912,768	\$ 1,837,870
ADDITION - Net income	<u>28,588</u>	<u>74,898</u>
BALANCE - End of year	<u>\$ 1,941,356</u>	<u>\$ 1,912,768</u>

The accompanying notes are an integral part of the financial statements.
See Independent Accountants' Report.

NORTHERN OHIO RURAL WATER

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2000 and 1999

	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income from operations	\$ 656,411	\$ 663,356
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	719,139	660,713
(Increase) decrease in:		
Receivables	(21,719)	(39,089)
Inventory	(99,744)	(70,311)
Prepaid expenses	(2,341)	6,807
Increase (decrease) in:		
Accounts payable	831,113	(71,512)
Advance deposits	-0-	4,850
Accrued expenses	(12,610)	(17,474)
Net cash provided by operating activities	2,070,249	1,137,340
CASH FLOWS FROM NONCAPITAL ACTIVITIES:		
Other nonoperating revenues and expenses	305,969	363,540
Net cash provided by noncapital activities	305,969	363,540
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property and equipment	(4,473,230)	(1,076,540)
Insurance proceeds from casualty loss	10,110	-0-
Disposal of equipment	46,521	516
Proceeds from long-term debt	3,373,714	253,530
Repayment of long-term debt	(485,801)	(410,868)
Interest paid on debt	(963,029)	(979,496)
Net cash used in capital and related financing activities	(2,491,715)	(2,212,858)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest earned	19,126	27,498
Net cash provided by investing activities	19,126	27,498
DECREASE IN CASH	(96,371)	(684,480)
CASH AND CASH EQUIVALENTS - Beginning of year	854,943	1,539,423
CASH AND CASH EQUIVALENTS - End of year	\$ 758,572	\$ 854,943

The accompanying notes are an integral part of the financial statements.
See Independent Accountants' Report.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2000 and 1999

Note 1. Summary of Significant Accounting Policies:

Northern Ohio Rural Water (hereinafter referred to as "District"), 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 as a corporation 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. The following is a summary of significant accounting policies:

A. Introduction:

The financial statements of Northern Ohio Rural Water are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

B. Basis of Accounting:

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

C. 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 \$10,000, 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 an unencumbered balance of an appropriation of any fund to any purpose or object for which the appropriation for the current fiscal year has proved insufficient.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2000 and 1999

Note 1. Summary of Significant Accounting Policies (Continued):

D. Inventory:

Inventory, which consists of raw materials, is stated at the lower of cost or market using the first-in, first-out (FIFO) method of accounting.

E. Investments:

Investment procedures are restricted by the Provisions of the Ohio Revised Code. Short-term investments consist of repurchase agreements, certificates of deposit, U.S. Government Income Funds, or U.S. Treasury Funds. Long-term investments consist of U.S. Treasury Bonds and Notes.

F. Property and Equipment:

Property and equipment, including major renewals or betterments, are capitalized and stated at cost. Depreciation is provided on the straight-line method based on the estimated useful lives of the various classes of assets.

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

Water Lines and Water Tanks	40 Years
Pump Stations	20 Years
Buildings	4-20 Years
Machinery, Equipment, and Office Furniture	3-10 Years

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

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

Depreciation expense for the years ended December 31, 2000 and 1999 was \$719,139 and \$660,713, respectively.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2000 and 1999

Note 1. Summary of Significant Accounting Policies (Continued):

F. Property and Equipment (Continued):

A summary of changes in property, plant, and equipment for the years ended December 31, 2000 and 1999, is as follows:

	Balance December 31, 1999	Additions	Deletions	Balance December 31, 2000
Land and easements	\$ 119,119	\$ 119,670	\$ -0-	\$ 238,789
Buildings	292,784	23,562	-0-	316,346
Tanks, stations, and lines	17,484,882	4,170,364	9,923	21,645,323
Furniture and fixtures	116,620	8,170	9,404	115,386
Vehicles and distribution equipment	795,986	151,464	-0-	947,450
Subtotal	18,809,391	4,473,230	19,327	23,263,294
Current construction	471,836	-0-	37,304	434,532
	\$ 19,281,227	\$4,473,230	\$ 56,631	\$ 23,697,826

A summary of changes in property, plant, and equipment for the years ended December 31, 1999 and 1998, is as follows:

	Balance December 31, 1998	Additions	Deletions	Balance December 31, 1999
Land and easements	\$ 108,319	\$ 10,822	\$ 22	\$ 119,119
Buildings	220,058	72,726	-0-	292,784
Tanks, stations, and lines	17,194,187	291,189	494	17,484,882
Furniture and fixtures	84,249	32,371	-0-	116,620
Vehicles and distribution equipment	492,359	303,627	-0-	795,986
Subtotal	18,099,172	710,735	516	18,809,391
Current construction	106,031	365,805	-0-	471,836
	\$ 18,205,203	\$1,076,540	\$ 516	\$ 19,281,227

G. Prepaid Expenses:

Prepaid expenses, which include insurance and postage, are amortized over their economic useful lives.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2000 and 1999

H. 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.

I. 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. Upon an employee reaching 20 years of uninterrupted employment with the District, the employee shall be allowed to accumulate an unlimited total of sick leave days. Upon retirement, employees are entitled to 25% of their accumulated sick leave balance after ten years of uninterrupted service, or 100% of their accumulated sick leave balance after 20 years of uninterrupted service. 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, unless the employee has accumulated sick leave after 20 years of uninterrupted service, which would be paid in its entirety. The recorded accrued unused vacation for the years ended December 31, 2000 and 1999 was \$15,701 and \$13,822, respectively. The unrecorded estimated unused sick leave for the years ended December 31, 2000 and 1999 was \$72,191 and \$64,646, respectively.

J. Statements of Cash Flows:

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

K. Use of Estimates:

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

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2000 and 1999

Note 2. Equity in Pooled Cash and Investment:

Northern Ohio Rural Water maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the balance sheet as cash.

A. Legal Requirements:

Statutes require the classification of monies held by the Northern Ohio Rural Water into three categories as follows:

Category 1 consists of "active" monies, those monies required to be kept in a "cash" or "near-cash" status for immediate use by the district treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of "inactive" monies, those monies not required for use within the current two year period of designation of depositories. Inactive monies may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

Category 3 consists of "interim" monies, those monies which are not needed for immediate use but which will be needed before the end of the current period of depositories.

B. Deposits:

At December 31, 2000 and 1999, the fair market value of the District deposits were \$758,572 and \$854,932, and the bank balances were \$832,424 and \$897,286, respectively.

Northern Ohio Rural Water maintains cash balances at two separate banks. Each bank was covered by federal depository insurance or by collateral held by the District's agent in the District's name.

C. Investments:

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The categories are described as follows:

Category 1 - Insured or registered, with securities held by the District or its agent in the District's name.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2000 and 1999

Note 2. Equity in Pooled Cash and Investment (Continued):

C. Investments (Continued):

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, in its trust department, but not in the District's name.

Investments, categorized by level of risk, for the year ended December 31, 2000, are as follows:

	CATEGORY			FAIR MARKET VALUE
	1	2	3	
Federated Treasury Obligation Fund				
U.S. Treasury Funds, Bonds, and Notes				
Cash and Certificate of Deposits	\$ 758,572	\$ -0-	\$ -0-	\$ 758,572
Total Investments	\$ 758,572	\$ -0-	\$ -0-	\$ 758,572

Investments, categorized by level of risk, for the year ended December 31, 1999, are as follows:

	CATEGORY			FAIR MARKET VALUE
	1	2	3	
Federated Treasury Obligation Fund				
U.S. Treasury Funds, Bonds, and Notes				
Cash and Certificate of Deposits	\$854,943	\$ -0-	\$ -0-	\$854,943
Total Investments	\$854,943	\$ -0-	\$ -0-	\$854,943

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2000 and 1999

Note 3. Long-Term Debt:

A summary of long-term debt for the period ended December 31, 2000, is as follows:

Description	Balance December 31, 1999	Borrowed	Repaid	Balance December 31, 2000
Northern Ohio Rural Water borrowed a total of \$18,545,516 from the Ohio Water Development Authority from March 20, 1990 through December 31, 2000 for the Fitchville, Crystal Rock, and Green Creek line expansions. These notes are being paid in semi-annual installments of \$684,939 due on January 1 st and July 1 st , including interest at rates from 5.85% to 7.66%. The maturity dates range from January 1, 2001 through January 1, 2023.	\$ 13,231,063	\$3,327,356	\$ 400,375	\$ 16,158,044
Northern Ohio Rural Water borrowed \$119,000 from FirstMerit Bank on April 14, 1994 to purchase the administrative office building. The note is being paid in equal monthly installments of \$1,145, including interest at a rate of .75% below the prime rate. The note matures in April 2009, and is secured by the building.	86,105	-0-	6,623	79,482
Northern Ohio Rural Water borrowed \$129,624 from Komat'su Financial on August 1, 1999 to purchase a hydraulic excavator. The note is being paid in equal monthly installments of \$5,401 with no interest. The note matures in July, 2001.	97,218	-0-	64,812	32,406
Northern Ohio Rural Water borrowed \$46,358 from Southeastern Equipment Co., Inc., on August 1, 2000 to purchase a Case 4-Wheel Drive Forklift. The note is being paid in equal monthly installments of \$1,798 with no interest. The note matures in July, 2002.	-0-	46,358	13,991	32,367
	<u>\$ 13,414,386</u>	<u>\$3,373,714</u>	<u>\$ 485,801</u>	<u>\$ 16,302,299</u>

See Independent Accountants' Report.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2000 and 1999

Note 3. Long-Term Debt (Continued):

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of December 31, 2000, are as follows:

Year Ending December 31,	Amount
2001	\$ 1,423,325
2002	1,282,850
2003	1,270,261
2004	1,270,259
2005	1,270,262
2006 to 2023	19,136,728
Total Principal and Interest	25,653,685
Less: Interest	9,351,386
Liability as of December 31, 2000	\$ 16,302,299

A summary of long-term debt for the period ended December 31, 1999, is as follows:

Description	Balance December 31, 1998	Borrowed	Repaid	Balance December 31, 1999
Northern Ohio Rural Water borrowed a total of \$15,142,870 from the Ohio Water Development Authority from March 20, 1990 through December 31, 1999 for the Fitchville and Crystal Rock line expansions. These notes are being paid in semi-annual installments of \$684,939 due on January 1 st and July 1 st , including interest at rates from 5.85% to 7.66%. The maturity dates range from January 1, 2001 through January 1, 2023.	\$ 13,478,447	\$ 123,906	\$ 371,290	\$ 13,231,063
Northern Ohio Rural Water borrowed \$119,000 from FirstMerit Bank on April 14, 1994 to purchase the administrative office building. The note is being paid in equal monthly installments of \$1,145, including interest at a rate of .75% below the prime rate. The note matures in April 2009, and is secured by the building.	93,277	-0-	7,172	86,105
Northern Ohio Rural Water borrowed \$129,624 from Komat'su Financial on August 1, 1999 to purchase a hydraulic excavator. The note is being paid in equal monthly installments of \$5,401 with no interest. The note matures in June, 2001.	-0-	129,624	32,406	97,218
	\$ 13,571,724	\$ 253,530	\$ 410,868	\$ 13,414,386

See Independent Accountants' Report.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2000 and 1999

Note 4. Insurance:

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.

Note 5. Retirement Commitments:

A. Defined Benefit Pension Plans:

All Northern Ohio Rural Water employees participate in the Public Employees Retirement System of Ohio ("PERS" System), a cost sharing multiple employer public employee retirement system operated by the State of Ohio. The State of Ohio accounts for the activities of the Retirement System, and the amount of that fund is not reflected in the accompanying financial statements.

Benefits fully vest upon reaching 5 years of service and are established by state statute. Employees may retire at any age with 30 years of service, at age 60 with a minimum of 5 years of credited service, and at age 55 with a minimum of 25 years of service. Those individuals retiring with less than 30 years of service or less than age 65 receive reduced retirement benefits. Eligible employees are entitled to a retirement benefit, payable monthly for life, equal to 2.1% of their final average salary for each year of credited service up to 30 years. Employees are entitled to 2.5% of their final average salary for each year of service in excess of 30 years. Final average salary is the employee's average salary over the highest 3 years of earnings.

Contribution rates are statutorily authorized and actuarially determined. The rate set for employee contribution for 2000 was 8.50% and the employer contribution rate was 13.55% of covered payroll for January through June and a temporary rollback rate of 8.13% for July through December of 2000.

The rate set for employee contribution for 1999 was 8.50% and the employer contribution rate was 13.55% of covered payroll. The statutory rate is identical to the actuarially determined rate. The difference between the total employer rate and the portion used to fund pension obligations is the amount used to fund the health care programs. Pension expense for 2000 and 1999 was \$80,169 and \$93,198, respectively.

The "Pension Benefit Obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the PERS System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERS and employers.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2000 and 1999

Note 5. Retirement Commitments (Continued):

A. Defined Benefit Pension Plans (Continued):

Historical trend information showing the PERS System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's December 31, 2000 Comprehensive Annual Financial Report.

B. Post-Employment Benefits:

The Public Employees Retirement System of Ohio provided post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credits. Health care coverage for disability recipients and primary survivor recipients is available. A portion of each employer's contribution to PERS is set aside for the funding of post-retirement health care based on the authority granted by State statute. The employer contribution rate was 13.55% from January 1 through December 31, 1999 and January 1 through June 30, 2000. The employer temporary rollback contribution rate was 8.13% from July 1 through December 31, 2000.

Benefits are advanced-funded using the entry age normal cost method. Significant actuarial assumptions include a rate of return on investments of 7.75%, active employee payroll increases of 5.5% for inflation, and between zero and 4% increase based on additional annual pay increases. Health care premiums were assumed to increase 5.5% annually. Short-term securities consisting of commercial paper and U.S. treasury obligations are carried at cost. Equity securities and investments in real estate are carried at cost. Fixed income investments are carried at amortized cost, using the effective interest rate method of amortization. All investments are subject to adjustment for market declines judged to be other than temporary.

For actuarial valuation purposes, assets are adjusted 20% of unrealized market appreciation or depreciation on investment assets.

PERS issues a separate stand-alone report which can be obtained from PERS, 277 East Town Street, Columbus, Ohio 43215-4642.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2000 and 1999

Note 6. Leasing Arrangements:

The District leases a copier under a 60-month operating lease which began in September 2000 and expires in August 2005. This lease requires rent in the amount of \$428 per month.

The following is a schedule of future minimum rental payments required under the above operating lease as of December 31, 2000:

<u>Year Ending December 31,</u>	<u>Amount</u>
2001	\$ 5,136
2002	5,136
2003	5,136
2004	5,136
2005	3,424
	<u>\$ 23,968</u>

Office equipment lease expense for the years ended December 31, 2000 and 1999 was \$4,491 and \$3,083, respectively.

Note 7. Commitments:

A. Water Purchase Agreements:

The District's original and primary source of water has been the City of Elyria's water treatment plant located in northern Lorain County. On March 15, 1990, the District signed a 40-year water purchase agreement with the City of Elyria.

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.

C. Tower Income:

The District has entered into two separate agreements for renting its antenna space to local companies. One agreement is with Radio Link Communications, Inc. for \$135 per month, which expires in October 2002. The agreement has two additional renewal terms of four years each. The other agreement is on a month-to-month rental agreement with Page Mart at \$698 per month.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2000 and 1999

Note 8. Line of Credit:

At December 31, 1999, the District had \$1,000,000 of unused line of credit with National City Bank to be drawn upon as needed, with interest calculated at 5% per annum. This line of credit is secured by all accounts receivable, and expired September 30, 1999.

At December 31, 2000, the District had \$1,000,000 of unused line of credit with National City Bank to be drawn upon as needed, with interest calculated at 5% per annum. This line of credit is secured by all accounts receivable, and expires September 30, 2001.

Note 9. Deferred Tap Deposits:

Deferred tap deposits represent monies received for tap installation fees to be installed in the future. Tap fee income is recognized in subsequent periods as the taps are installed.

SUPPLEMENTARY INFORMATION

NORTHERN OHIO RURAL WATER

STATEMENTS OF OPERATING EXPENSES

Years Ended December 31, 2000 and 1999

	2000	1999
OPERATING EXPENSES:		
Advertising	\$ 1,369	\$ 247
Audit fees	-0-	18,096
Auto lease expense	13	-0-
Communication equipment	9,076	6,385
Depreciation	719,139	660,713
Distribution supplies	149,332	85,636
Dues and subscriptions	2,498	2,069
Electric pump station and tanks	49,896	50,559
Engineering fees	6,572	13,731
Gasoline	25,308	18,807
Insurance:		
General	16,397	20,763
Hospitalization	56,666	76,949
Legal and professional fees	53,770	38,798
Licenses and permits	4,873	4,693
Maintenance and repairs:		
Administrative building and equipment	15,362	10,962
Pump stations	1,413	658
Vehicles	18,837	18,696
Water lines	11,022	2,767
Miscellaneous distribution expense	346	-0-
Office equipment lease	4,491	3,083
Office supplies and expense	39,524	27,553
Payroll taxes	16,342	12,159
P.E.R.S.	80,169	93,198
Postage	21,281	14,398
Tap installations	81,642	98,189
Telephone	16,318	17,145
Travel and education expense	37,404	22,995
Utilities	12,411	10,072
Wages	401,780	412,403
Water purchased	303,847	306,056
	\$ 2,157,098	\$ 2,047,780

The accompanying notes are an integral part of the financial statements.
See Independent Accountants' Report.

OTHER INFORMATION

NORTHERN OHIO RURAL WATER

APPOINTED OFFICIALS

As of December 31, 2000

<u>Appointed Officials</u>	<u>Township or Village</u>	<u>Title</u>	<u>Term of Office</u>
Charles Cleavenger	Berlin Township	Trustee	12/12/99 – 12/12/03
Tom Reese	Bronson Township	Trustee	12/13/97 – 12/13/01
Ronald Mate	Brownhelm Township	Trustee	12/15/97 – 12/15/01
William Focht	Clarksfield Township	Trustee	12/18/97 – 12/18/01
Thomas Cawrse	Fitchville Township	President	12/13/98 – 12/13/02
Orville Sayler	Florence Township	Trustee	12/17/00 – 12/17/04
Karl Hurst	Hartland Township	Trustee	12/15/98 – 12/15/02
W. W. Dees	Huron Township	Vice-President	12/14/00 – 12/14/04
Keith Kreager	Margaretta Township	Trustee	11/01/97 – 11/01/01
John Landoll	Milan Township	Trustee	12/14/00 – 12/14/04
Robert Wilson	Norwalk Township	Trustee	12/14/98 – 12/14/02
Al Guaderrama	Townsend Township (Huron County)	Trustee	12/12/99 – 12/12/03
Richard Jones	Townsend Township (Sandusky County)	Trustee	12/07/98 – 08/27/01
Clarence Wolf	Vermilion Township	Secretary/ Treasurer	12/14/00 – 12/14/04
Leon Butler	Wakeman Township	Trustee	12/13/98 – 12/13/02

NORTHERN OHIO RURAL WATER

ADMINISTRATIVE PERSONNEL

As of December 31, 2000

<u>Name</u>	<u>Title</u>	<u>Contract Period</u>
Anthony Quebodeaux	General Manager	01/01/00 – 12/31/00
Jim Ruggles	Administrative Supervisor	N/A

RADACHI AND COMPANY

Certified Public Accountants and Business Consultants

900 East Broad Street, Suite A
Elyria, Ohio 44035
Telephone (440) 365-3115 • Fax (440) 365-4668

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees
of Northern Ohio Rural Water
Collins, Ohio

We have audited the financial statements of the Northern Ohio Rural Water as of December 31, 2000 and 1999, and for the years then ended, and have issued our report thereon dated May 30, 2001. We conducted our audits in accordance with generally accepted auditing standards in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance

Compliance with laws, regulations, contracts, and grants applicable to the district is the District management's responsibility. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the district's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of Northern Ohio Rural Water for the years ended December 31, 2000 and 1999, we considered its internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)**

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated June 18, 2001.

This report is intended solely for the information and use of the Board of Trustees, management, others within the District, and Ohio Auditor of State, and is not intended to be and should not be used by anyone other than these specified parties.

Radachi and Company

May 30, 2001

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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Facsimile 614-466-4490

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
JULY 24, 2001**