

**NORTHERN OHIO RURAL  
WATER DISTRICT**

**INDEPENDENT AUDITOR'S REPORT**

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

Varney, Fink & Associates, Inc.  
Certified Public Accountants





# Mary Taylor, CPA

Auditor of State

Board of Trustees  
Northern Ohio Rural Water District  
PO Box 96  
Collins, Ohio 44826

We have reviewed the *Independent Auditor's Report* of the Northern Ohio Rural Water District, Huron County, prepared by Varney, Fink & Associates, Inc., for the audit period January 1, 2005 through December 31, 2006. 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. The Northern Ohio Rural Water District is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

March 24, 2008

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**NORTHERN OHIO RURAL WATER DISTRICT  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

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**INDEPENDENT AUDITOR'S REPORT**

Board of Trustees  
Northern Ohio Rural Water

We have audited the accompanying financial statements of Northern Ohio Rural Water, Huron County (the District), as of and for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Northern Ohio Rural Water as of December 31, 2006 and 2005, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2008, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

## INDEPENDENT AUDITOR'S REPORT (continued)

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements of the District. The Schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The Statement of Operating Expenses on page 26 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information and express no opinion on it.

*Varney, Fink & Associates*

VARNEY, FNK & ASSOCIATES, INC.  
Certified Public Accountants

January 16, 2008



# NORTHERN OHIO RURAL WATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2006 and 2005

Unaudited

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

### OVERVIEW OF BASIC FINANCIAL STATEMENTS

NORW is described in Note 1, Summary of Significant Accounting Policies, on page 11. The Basic Financial Statements are presented using the accrual basis of accounting as further described in the above-mentioned note.

The **Statement of Net Assets** includes all of NORW's Assets and Liabilities. This statement provides information about the nature and amounts of investments in resources (assets) owned by NORW, and obligations owed by NORW (liabilities) on December 31. NORW's net assets (equity) are the difference between assets and liabilities.

The **Statement of Revenues, Expenses and Changes in Net Assets** 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.

### NET ASSETS

Table I summarizes the Net Assets of the District.

<b>Table I</b>	2006	2005	2004	2006 vs 2005		2005 vs 2004	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Current and other assets	\$5,261,607	\$2,371,610	\$2,010,932	\$2,889,997	121.9%	\$360,678	17.9%
Capital Assets	27,471,338	26,103,149	26,322,264	1,368,189	5.2%	(219,115)	-0.8%
<b>Total assets</b>	<b>\$32,732,945</b>	<b>\$28,474,759</b>	<b>\$28,333,196</b>	<b>\$4,258,186</b>	<b>15.0%</b>	<b>\$141,563</b>	<b>0.5%</b>
Current liabilities	\$2,688,074	\$2,814,289	\$3,299,842	(\$126,215)	-4.5%	(\$485,553)	-14.7%
Long-term liabilities	27,283,032	23,912,326	24,124,098	3,370,706	14.1%	(211,772)	-0.9%
<b>Total liabilities</b>	<b>\$29,971,106</b>	<b>\$26,726,615</b>	<b>27,423,940</b>	<b>\$3,244,491</b>	<b>12.1%</b>	<b>(\$697,325)</b>	<b>-2.5%</b>
Invested in capital assets, net of related debt	\$844,868	\$851,387	\$414,541	(\$6,519)	-0.8%	\$436,846	105.4%
Restricted	1,647,765	66,065	40,994	1,581,700	2394.2%	25,071	61.2%
Unrestricted	269,206	830,692	453,721	(561,486)	-68.4%	376,971	83.1%
<b>Total Net Assets</b>	<b>\$2,761,839</b>	<b>\$1,748,144</b>	<b>\$909,256</b>	<b>\$1,013,695</b>	<b>58.0%</b>	<b>\$838,888</b>	<b>92.3%</b>

# NORTHERN OHIO RURAL WATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2006 and 2005

Unaudited

### NET ASSETS (Continued):

- The total assets of NORW exceeded liabilities on December 31, 2006 and 2005 by \$2,761,839 and \$1,748,144, respectively.
- The District's net assets increased \$1,013,695 and \$838,888 in 2006 and 2005, respectively.

### STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

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

<b>Table II</b>	2006	2005	2004	2006 vs 2005		2005 vs 2004	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Operating revenue	\$ 6,123,083	\$ 5,829,375	\$ 4,738,594	\$ 293,708	5.0%	\$ 1,090,781	23.0%
Operating expenses	3,753,264	3,678,901	3,365,644	74,363	2.0%	313,257	9.3%
Income from operations	2,369,819	2,150,474	1,372,950	219,345	10.2%	777,524	56.6%
Nonoperating revenue	145,208	248,333	173,814	(103,125)	-41.5%	74,519	42.9%
Nonoperating expenses	1,501,332	1,559,919	1,560,628	(58,587)	-3.8%	(709)	-.1%
Nonoperating loss	1,356,124	1,311,586	1,386,814	(44,538)	3.4%	75,228	-5.4%
Change in net assets	1,013,695	838,888	(13,864)	174,807	20.8%	852,752	6150.8%
Beginning net assets	1,748,144	909,256	923,120	838,888	92.3%	(13,864)	-1.5%
Ending net assets	\$ 2,761,839	\$ 1,748,144	\$ 909,256	\$ 1,013,695	58.0%	\$ 838,888	92.3%

- The District's Operating Revenues increased by \$293,708 (5%) and \$1,090,781 (23%) in 2006 and 2005, respectively, while Operating Expenses increased \$74,363 (2%) and \$313,257 (9%), respectively.

### SIGNIFICANT EVENTS AND EXPENDITURES DURING THE YEAR

NORW has applied for funding from USDA, Rural Development Authority for line extensions into Green Creek Township, Riley Township, Sandusky Township, and York Township, all of which are located in Sandusky County.

NORW has applied for funding from the OWDA for line extensions in Peru Township, Bronson Township, and Norwalk Township, all of which are located in Huron County.

# NORTHERN OHIO RURAL WATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2006 and 2005

Unaudited

### CAPITAL ASSETS

Table III summarizes the changes in capital assets for the year ended December 31, 2006, is as follows:

<b>Table III</b>	2006	2005	2004	2006 vs 2005		2005 vs 2004	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Capital assets, nondepreciable:							
Land	\$ 606,157	\$ 598,657	\$ 480,339	\$ 7,500	1.3%	\$ 118,318	24.6%
Easements	235,058	201,427	197,175	33,631	16.7%	4,252	2.2%
Current construction	2,084,787	1,464,508	1,529,585	620,279	42.4%	(65,077)	-4.3%
Capital assets, depreciable:							
Buildings	569,427	563,951	561,690	5,476	1.0%	2,261	0.4%
Tanks, stations, and lines	33,528,097	31,840,474	31,041,268	1,687,623	5.3%	799,206	2.6%
Furniture and fixtures	169,049	166,330	166,330	2,719	1.6%	0	0.0%
Vehicles & distribution equip.	1,740,807	1,574,558	1,590,767	166,249	10.6%	(16,209)	-1.0%
Total before depreciation	38,933,382	36,409,905	35,567,154	2,523,477	6.9%	842,751	2.4%
Accumulated depreciation	(11,462,044)	(10,306,756)	(9,244,890)	(1,155,288)		(1,061,866)	
Total capital assets, net	<u>\$ 27,471,338</u>	<u>\$ 26,103,149</u>	<u>\$ 26,322,264</u>	<u>\$ 1,368,189</u>		<u>\$ (219,115)</u>	

NORW has \$38,933,382 invested in its system (before depreciation) at December 31, 2006. This amount includes additions of \$2,523,477 during the year ended December 31, 2006 which included current construction in progress in the amount of \$620,279.

The increase in water lines in the amount of \$1,580,518 is the result of the Green Creek Township, Riley Township, Sandusky Township, and York Township projects in Sandusky County.

NORW installed a meter vault in Lorain in the amount of \$90,725 to purchase water from the City of Lorain.

NORW also purchased one pickup truck in the amount of \$32,720 for maintenance of the water lines and various tank locations. A backhoe and meter truck was purchased in the amount of \$58,578 and \$36,715, respectively.

See Note 1, Summary of Significant Accounting Policies, Paragraph E, Capital Assets, for further details of the various additions to capital assets.

# NORTHERN OHIO RURAL WATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2006 and 2005

Unaudited

### LONG-TERM DEBT

Table IV summarizes long-term debt for the year ended December 31, 2006.

<b>Table IV</b>	2006	2005	2004	<u>2006 vs 2005</u>		<u>2005 vs 2004</u>	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Long-term debt:							
OWDA Notes	\$ 20,425,621	\$ 21,138,183	\$ 21,507,545	\$ (712,562)	-3.4%	\$ (369,362)	-1.7%
FirstMerit Bank note	0	0	33,354	0	0.0%	(33,354)	100.0%
National City Commercial Loan	3,600,000	0	0	3,600,000	100.0%	0	0.0%
Rural development bonds & notes	4,156,816	3,609,886	3,365,824	546,930	15.2%	244,062	7.3%
Total long-term debt	<u>28,182,437</u>	<u>24,748,069</u>	<u>24,906,723</u>	<u>3,434,368</u>	13.9%	<u>(158,654)</u>	-0.6%
Less: current maturities	(899,405)	(835,743)	(784,625)	(63,662)	7.6%	(51,118)	6.5%
Net total long-term debt	<u>\$ 27,283,032</u>	<u>\$ 23,912,326</u>	<u>\$ 24,122,098</u>	<u>\$ 3,370,706</u>	14.1%	<u>\$ (209,772)</u>	-0.9%

See Note 3 of the financial statements for details of issuance and retirement of debt in 2006 and 2005.

### 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

## STATEMENT OF NET ASSETS

December 31, 2006 and 2005

<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 2,966,532	\$ 1,665,525
Restricted cash (Note 9)	1,575,855	18,125
Receivables:		
Trade (net of allowance for doubtful accounts of \$6,722 in 2006 and \$6,631 in 2005)	358,065	345,579
Inventory	281,810	286,559
Prepaid expenses	6,435	6,882
Total current assets	5,188,697	2,322,670
 <b>NONCURRENT ASSETS:</b>		
Restricted cash (Note 9)	71,910	47,940
 Capital assets, nondepreciable:		
Land	606,157	598,657
Easements	235,058	201,427
Current construction	2,084,787	1,464,508
 Capital assets, depreciable:		
Buildings	569,427	563,951
Tanks, stations, and lines	33,528,097	31,840,474
Furniture and fixtures	169,049	166,330
Vehicles and distribution equipment	1,740,807	1,574,558
	38,933,382	36,409,905
Less: Accumulated depreciation	11,462,044	10,306,756
	27,471,338	26,103,149
Total noncurrent assets	27,543,248	26,151,089
 <b>OTHER ASSET:</b>		
Organization costs	1,000	1,000
	\$ 32,732,945	\$ 28,474,759

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

# NORTHERN OHIO RURAL WATER

## STATEMENT OF NET ASSETS

December 31, 2006 and 2005

	2006	2005
<u>CURRENT LIABILITIES:</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 319,545	\$ 665,561
Projects and retainage payable	647,990	967
Tenant deposits	61,850	59,250
Accrued expenses:		
Wages	15,216	14,479
Compensated absences	31,378	22,864
Payroll taxes	90,090	47,017
Interest	622,600	664,715
Short-term debt (Note 8)	0	503,693
Current portion of long-term debt	899,405	835,743
Total current liabilities	2,688,074	2,814,289
 NONCURRENT LIABILITIES: (Note 3)		
Notes payable	24,189,437	21,138,183
Bonds payable	3,993,000	3,609,886
	28,182,437	24,748,069
Less: Current portion	899,405	835,743
	27,283,032	23,912,326
Total liabilities	29,971,106	26,726,615
 NET ASSETS:		
Invested in capital assets, net of related debt	844,868	851,387
Restricted for capital projects	1,555,967	0
Restricted for bonds payable	91,798	66,065
Unrestricted	269,206	830,692
TOTAL NET ASSETS	\$ 2,761,839	\$ 1,748,144

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

## NORTHERN OHIO RURAL WATER

### STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years Ended December 31, 2006 and 2005

	2006	2005
OPERATING REVENUE:		
Water sales	\$ 5,130,026	\$ 5,178,626
Tap fees	993,057	650,749
	6,123,083	5,829,375
 OPERATING EXPENSES	 3,753,264	 3,678,901
 INCOME FROM OPERATIONS	 2,369,819	 2,150,474
 NON-OPERATING REVENUE:		
Developer fees	1,253	73,934
Discounts earned	4,988	7,164
EPA income	10,895	9,556
Gain on sale of assets	0	9,075
Hydrant maintenance fees	1,250	1,175
Interest income	80,122	17,488
Line maintenance reimbursements	0	76,816
Miscellaneous	9,394	16,912
Reconnection fees	25,583	24,196
Tower income	11,723	12,017
	145,208	248,333
	2,515,027	2,398,807
 NON-OPERATING EXPENSES:		
Uncollectible accounts expense	145	1,268
Credit card fees	868	1,816
EPA expense	11,340	10,827
Penalties	1,121	0
Interest expense	1,487,858	1,546,008
	1,501,332	1,559,919
 CHANGES IN NET ASSETS	 1,013,695	 838,888
 NET ASSETS, BEGINNING OF YEAR	 1,748,144	 909,256
 NET ASSETS, END OF YEAR	 \$ 2,761,839	 \$ 1,748,144

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

# NORTHERN OHIO RURAL WATER

## STATEMENT OF CASH FLOWS

Years Ended December 31, 2006 and 2005

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 6,110,597	\$ 5,733,627
Cash payments to suppliers for goods and services	(1,150,795)	(1,524,562)
Cash payments for employees and professional contractors for services	(1,086,055)	(947,267)
Net cash provided by operating activities	3,873,747	3,261,798
<b>CASH FLOWS FROM NON-CAPITAL ACTIVITIES:</b>		
Proceeds from developer, hydrant maintenance, and reconnection fees	28,086	99,305
Proceeds from discounts earned, EPA and tower income	16,266	17,910
Proceeds from line maintenance reimbursements	0	76,816
Other non-operating revenue, net	7,260	13,828
Net cash provided by non-capital activities	51,612	207,859
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of equipment and new construction	(2,471,744)	(888,944)
Proceeds from sale of equipment	0	9,075
Proceeds from long-term debt	4,280,672	657,070
Repayment of long-term debt	(846,304)	(817,724)
Repayment of short-term debt	(503,693)	(495,307)
Interest paid on debt	(1,581,705)	(1,599,002)
Net cash used in capital and related financing activities	(1,122,774)	(3,134,832)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest earned	80,122	17,488
Net cash provided by investing activities	80,122	17,488
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	2,882,707	352,313
<b>CASH AND CASH EQUIVALENTS - Beginning of period</b>	1,731,590	1,379,277
<b>CASH AND CASH EQUIVALENTS - End of period</b>	\$ 4,614,297	\$ 1,731,590
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Income from operations	\$ 2,369,819	\$ 2,150,474
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	1,155,287	1,154,257
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	(12,486)	(95,748)
Inventory	4,749	87,614
Prepaid expenses	447	(231)
Increase (decrease) in:		
Accounts payable	(346,016)	63,524
Deferred tap deposits	2,600	4,050
Accrued expenses	52,324	6,168
Retainage payable	647,023	(108,310)
Net cash provided by operating activities	\$ 3,873,747	\$ 3,261,798

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



# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

Note 1. Summary of Significant Accounting Policies:

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. The following is a summary of significant accounting policies:

A. Introduction:

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. The District applies 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. The District has elected not to follow subsequent FASB pronouncements.

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.

Proprietary funds distinguishes 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.

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.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

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

C. Budgetary Process (Continued):

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 \$25,000, 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.

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. Capital Assets:

All capital expenditures are capitalized and depreciated regardless of cost. Capital assets, including major renewals or betterments, are reported at historical cost. Depreciation is computed 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 year ended December 31, 2006 and 2005 was \$1,155,287 and \$1,154,257, respectively.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

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

E. Capital Assets (Continued):

A summary of changes in capital assets for the year ended December 31, 2006, is as follows:

	Balance December 31, 2005	Additions	Deletions	Balance December 31, 2006
Capital assets, nondepreciable:				
Land	\$ 598,657	\$ 7,500	\$ -0-	\$ 606,157
Easements	201,427	33,631		235,058
Current Construction	1,464,508	620,279	-0-	2,084,787
Capital assets, depreciable:				
Buildings	563,951	5,476	-0-	569,427
Tanks, stations, and lines	31,840,474	1,687,623	-0-	33,528,097
Furniture and fixtures	166,330	2,719	-0-	169,049
Vehicles and distribution equipment	1,574,558	166,249	-0-	1,740,807
Totals	<u>36,409,905</u>	<u>2,523,477</u>	<u>-0-</u>	<u>38,933,382</u>
Less accumulated depreciation				
Buildings	(86,174)	(14,168)	-0-	(100,342)
Tanks, stations, and lines	(8,947,976)	(976,598)	-0-	(9,924,574)
Furniture and fixtures	(142,918)	(9,322)	-0-	(152,240)
Vehicles and distribution equipment	(1,129,688)	(155,200)	-0-	(1,284,888)
Total accumulated depreciation	<u>(10,306,756)</u>	<u>(1,155,288)</u>	<u>-0-</u>	<u>(11,462,044)</u>
Net capital assets	<u>\$ 26,103,149</u>	<u>\$1,368,189</u>	<u>\$ -0-</u>	<u>\$ 27,471,338</u>

A summary of changes in capital assets for the year ended December 31, 2005, is as follows:

	Balance December 31, 2004	Additions	Deletions	Balance December 31, 2005
Capital assets, nondepreciable:				
Land	\$ 480,339	\$ 118,318	\$ -0-	\$ 598,657
Easements	197,175	4,252		201,427
Current Construction	1,529,585	571,794	(636,871)	1,464,508
Capital assets, depreciable:				
Buildings	561,690	2,261	-0-	563,951
Tanks, stations, and lines	31,041,268	799,206	-0-	31,840,474
Furniture and fixtures	166,330	-0-	-0-	166,330
Vehicles and distribution equipment	1,590,767	76,179	(92,388)	1,574,558
Totals	<u>35,567,154</u>	<u>1,572,010</u>	<u>(729,259)</u>	<u>36,409,905</u>
Less accumulated depreciation				
Buildings	(72,120)	(14,054)	-0-	(86,174)
Tanks, stations, and lines	(7,987,910)	(960,066)	-0-	(8,947,976)
Furniture and fixtures	(130,560)	(12,358)	-0-	(142,918)
Vehicles and distribution equipment	(1,054,300)	(167,776)	92,388	(1,129,688)
Total accumulated depreciation	<u>(9,244,890)</u>	<u>(1,154,254)</u>	<u>92,388</u>	<u>(10,306,756)</u>
Net capital assets	<u>\$ 26,322,264</u>	<u>\$ 417,756</u>	<u>\$(636,871)</u>	<u>\$ 26,103,149</u>

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

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

F. Prepaid Expenses:

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

G. 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.

H. 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, 2006 and 2005 is \$31,378 and \$22,864, respectively. The unrecorded estimated unused sick leave for the years ended December 31, 2006 and 2005 was \$143,889 and \$126,463, respectively.

I. 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.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

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

J. 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.

K. 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.

Note 2. Equity in Pooled Cash and Investments:

State statutes classify monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the District has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

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

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

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

At December 31, 2006 and 2005, the carrying amount of all District deposits was \$4,614,297 and \$1,731,590, respectively. Based on the criteria described in GASB statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2006 and 2005, \$4,343,995 and \$1,556,184, respectively, of the District's bank balance of \$4,734,309 and \$1,789,835, respectively, was exposed to custodial risk as discussed below, while \$390,314 and \$233,651, respectively, was covered by the FDIC.

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

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

Note 3. Long-Term Debt:

A summary of long-term debt for the year ended December 31, 2006, is as follows:

<u>Description</u>	<u>Balance December 31, 2005</u>	<u>Borrowed</u>	<u>Repaid</u>	<u>Balance December 31, 2006</u>	<u>Due Within One Year</u>
Northern Ohio Rural Water borrowed a total of \$26,597,591 from the Ohio Water Development Authority from January 1, 1992 through December 31, 2006 for the Fitchville, Crystal Rock, Green Creek, Baumhart Road line expansions, a new treatment plant, tank rehabilitation, garage construction, and membrane pilot study. These notes are being paid in semi-annual installments of \$1,077,282 due on January 1 <sup>st</sup> and July 1 <sup>st</sup> , including interest at rates from 3.98% to 7.66%. The maturity dates range from July 1, 2016 through January 1, 2027.	\$ 21,138,183	\$ 96,742	\$809,304	\$ 20,425,621	\$ 844,295
Water Resource Improvement Revenue Bonds, Series 2003 were issued through the United States Department of Agriculture (USDA) for the purposes of constructing various water resource projects. The total amount loaned is \$4,100,000. The loan requires annual principal and interest payments at 5.00% with a maturity date of December 2043.	3,609,886	420,114	37,000	3,993,000	39,000
A note payable in the amount of \$163,816 is due to Buckeye Community Bank. The note requires monthly principal and interest payments of \$2,206 at 6.65% with a maturity date of February, 2015. The note is guaranteed by the United States Department of Agriculture (USDA).	-0-	163,816	-0-	163,816	16,110
A commercial loan in the amount of \$3,600,000 is due to National City Bank. The loan requires monthly interest payments at 4.52% with a maturity date of October, 2009.	-0-	3,600,000	-0-	3,600,000	-0-
	<u>\$ 24,748,069</u>	<u>\$4,280,672</u>	<u>\$846,304</u>	<u>\$ 28,182,437</u>	<u>\$ 899,405</u>

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

Note 3. Long-Term Debt (Continued):

A summary of long-term debt for the year ended December 31, 2005, is as follows:

<u>Description</u>	<u>Balance December 31, 2004</u>	<u>Borrowed</u>	<u>Repaid</u>	<u>Balance December 31, 2005</u>	<u>Due Within One Year</u>
Northern Ohio Rural Water borrowed a total of \$26,500,849 from the Ohio Water Development Authority from January 1, 1992 through December 31, 2005 for the Fitchville, Crystal Rock, Green Creek, Baumhart Road line expansions, a new treatment plant, tank rehabilitation, garage construction, and membrane pilot study. These notes are being paid in semi-annual installments of \$1,077,282 due on January 1 <sup>st</sup> and July 1 <sup>st</sup> , including interest at rates from 3.98% to 7.66%. The maturity dates range from July 1, 2016 through January 1, 2027.	\$21,507,545	\$377,008	\$746,370	\$21,138,183	\$798,743
Northern Ohio Rural Water borrowed \$119,000 from FirstMerit Bank on April 14, 1994 to purchase the administrative office building. The mortgage is being paid in equal monthly installments of \$1,145, including interest at a rate of 7.5%.	35,354	-0-	35,354	-0-	-0-
Water Resource Improvement Revenue Bonds, Series 2003 were issued through the United States Department of Agriculture (USDA) for the purposes of constructing various water resource projects. The total amount loaned is \$3,679,886 with an additional \$420,114 available to be borrowed. The loan requires annual principal and interest payments at 5.00% with a maturity date of December 2043.	3,365,824	280,062	36,000	3,609,886	37,000
	<u>\$24,908,723</u>	<u>\$657,070</u>	<u>\$817,724</u>	<u>\$24,748,069</u>	<u>\$835,743</u>



# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

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, 2006, are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 899,405	\$ 1,405,011	\$ 2,304,416
2008	963,381	1,344,436	2,307,817
2009	4,629,773	1,281,706	5,911,479
2010	1,101,856	1,213,564	2,315,420
2011	1,179,968	1,139,696	2,319,664
2012-2016	7,210,104	4,291,879	11,501,983
2017-2021	3,689,295	2,478,328	6,167,623
2022-2026	3,945,582	1,299,584	5,245,166
2027-2031	2,445,073	561,395	3,006,468
2032-2036	735,000	400,729	1,135,729
2037-2041	939,000	196,729	1,135,729
2042-2046	444,000	10,292	454,292
Total	\$ 28,182,437	\$ 15,623,349	\$ 43,805,786

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.

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

December 31, 2006 and 2005

Note 5. Retirement Commitments:

A. Defined Benefit Pension Plans:

Northern Ohio Rural Water contributes to the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer defined benefit pension plan operated by the State of Ohio. OPERS administers three separate pension plans: the Traditional Pension Plan—a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability, survivor and post-retirement health care coverage to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. Health care benefits are not statutorily guaranteed. Chapter 145 of the Ohio Revised Code assigns the authority to establish and amend benefit provisions to the OPERS. OPERS issues a publicly available stand-alone financial report. That report may be obtained by writing to the OPERS at 277 East Town Street, Columbus, Ohio 43215-4642 or calling (614) 222-5601 or 1-800-222-PERS (7377). The State of Ohio accounts for the activities of the Retirement System, and the amount of that fund is not reflected in the accompanying financial statements.

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

The Ohio Revised Code provides statutorily authority for employee and employer contributions. The rate set for employee contribution for 2006 and 2005 is 9.00% and 8.50%, respectively, and the employer contribution rate is 13.70% and 13.55%, respectively, of covered payroll. The rates are the actuarially determined contribution requirements for OPERS. Pension expense for the year ended December 31, 2006 and 2005 is \$163,838 and \$132,932, respectively.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

Note 5. Retirement Commitments (Continued):

A. Defined Benefit Pension Plans (Continued):

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 OPERS 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 OPERS and employers.

Historical trend information showing the OPERS System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's December 31, 2005 Comprehensive Annual Financial Report.

B. Post-Employment Benefits:

The Ohio Public Employees Retirement System provides post-retirement health care coverage to age-and-service retirees under Traditional Pension and Combined Plans with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by OPERS meets the definition of an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. The employer contribution rate is 13.70% and 13.55%, respectively, of covered payroll and 4.50% and 4.00%, respectively, were the portions used to fund health care from January 1 through December 31, 2006 and 2005.

An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2005. The investment assumption rate for 2005 was 6.50%. An annual increase of 4.00% compounded annually on active employee total payroll is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from .50% to 6.30%. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 0.50% to 6.00% for the next 9 years. In subsequent years (10 and beyond) health care costs were assumed to increase at 4.00% (the projected wage inflation rate). All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

Note 5. Retirement Commitments (Continued):

B. Post-Employment Benefits (Continued):

OPEBs are advanced-funded on an actuarially determined basis. The Traditional Pension and Combined Plans had 369,214 active contributing participants as of December 31, 2006. The number of active contributing participants for both plans used in the December 31, 2005, actuarial valuation was 358,804. The employer contributions made by Northern Ohio Rural Water used to fund post-employment benefits were \$53,821 and \$39,377 for 2006 and 2005, respectively. Eleven billion one hundred million dollars (\$11,100,000,000) represents the actuarial value of Retirement Systems' net assets available for OPEB at December 31, 2005. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method, was \$31.3 billion and \$20.2 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will be effective January 1, 2007. OPERS took additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

Under HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

Note 6. Leasing Arrangements:

The District leases a copier and postage meter under two 60-month operating leases which began in November 2004 and October 2005 and expire in October 2009 and September 2010, respectively. These leases require rent in the amount of \$452 and \$39 per month, respectively.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

Note 6. Leasing Arrangements (Continued):

The following is a schedule of future minimum rental payments required under the above operating lease as of December 31, 2006:

<u>Year Ending December 31,</u>	<u>Amount</u>
2007	\$ 5,894
2008	5,894
2009	4,990
2010	351
	<u>\$ 17,129</u>

Office equipment lease expense for the year ended December 31, 2006 and 2005 was \$5,817 and \$5,386, 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 three separate agreements for renting its antenna space to local companies. Two agreements are with Radio Link Communications, Inc. and Bender Communications on month-to-month rental agreements for \$135 per month each. The other agreement is a month-to-month rental agreement with Metrocall at \$726 per month.

**NORTHERN OHIO RURAL WATER**

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

Note 8. Short-Term Debt:

	Balance December 31, 2004	Borrowed	Repaid	Balance December 31, 2005	Borrowed	Repaid	Balance December 31, 2006
Line of Credit - the District has a line of credit with buckeye Community Bank of \$1,500,000. The line of credit requires monthly interest payments at the prime rate with a maturity date of June 2007.	\$ 800,000	\$ 0	\$ 475,000	\$ 325,000	\$ 0	\$325,000	\$ 0
Note Payable - The District had a note payable due to Buckeye Community Bank. The note required monthly interest payments at 6.65% and matured in December 2006.	199,000	0	20,307	178,693	0	178,693	0
	\$ 999,000	\$ 0	\$ 495,307	\$ 503,693	\$ 0	\$503,693	\$ 0

Note 9. Restricted Cash:

A. Bond Payment Fund:

This fund was created and will be maintained in the custody of the Issuer as a cash fund and shall be used for the payment of principal and interest on the USDA bonds when due. The District is required by the bond agreement to make monthly payments to the fund of at least one-twelfth (1/12) of the amount due and payable with respect to the bonds on the next succeeding December 1.

# NORTHERN OHIO RURAL WATER

## NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

Note 9. Restricted Cash (Continued):

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 \$1,997.50 until there is \$239,700 accumulated in the fund, after which no further payments need to be made to the fund except to replace withdrawals therefrom.

C. Capital Projects:

These funds represent unspent commercial loan proceeds restricted for capital projects.

Note 10. Subsequent Event:

On June 20, 2006 the former General Manager of the Northern Ohio Rural Water District (the District) was sentenced to eight years in prison and ordered to pay restitution amounting to \$88,000 to the District for fraudulent activity that occurred from May 1997 through March 2005.

The Board is currently pursuing the former General Manager's retirement account for recovery of these funds. The likelihood of recovery is deemed probable. The District incurred \$85,000 in expenses for a special audit in relation to the aforementioned fraudulent activity. The Board is currently pursuing payment from two insurance companies with whom the District had policies in effect during the period of fraudulent activity.

The current insurance company made a payment of \$45,600 to the District in July of 2007, while the previous insurance company has denied the claim. The District is currently seeking legal action against both insurance companies. The likelihood of recovery is deemed unlikely.

The District has not recorded a receivable for either amount.

# NORTHERN OHIO RURAL WATER

## STATEMENT OF OPERATING EXPENSES

Years Ended December 31, 2006 and 2005

	2006	2005
OPERATING EXPENSES:		
Advertising	\$ 1,478	\$ 253
Tap fees	85,000	0
Communication equipment	16,465	11,849
Depreciation	1,155,287	1,154,257
Distribution supplies	120,947	301,990
Dues and subscriptions	4,017	1,441
Electric pump station and tanks	134,198	136,272
Engineering fees	4,318	14,967
Gasoline	56,930	40,458
Insurance:		
General	38,558	36,902
Hospitalization	167,529	172,662
Legal and professional fees	109,101	138,778
License and permits	6,268	6,543
Maintenance and repairs:		
Administrative building and equipment	593	1,462
Pump stations	6,123	2,498
Tanks	0	3,328
Vehicles	27,334	28,285
Water lines	3,053	1,773
Office equipment lease	7,074	5,903
Office supplies and expense	31,001	38,363
Payroll taxes	33,687	27,242
O.P.E.R.S.	163,838	132,932
Postage	34,253	31,623
Tap installations	110,320	65,841
Telephone	11,470	13,266
Travel and education expense	23,951	18,388
Utilities	15,377	18,916
Wages	681,549	583,958
Water purchased	703,545	688,751
	\$ 3,753,264	\$ 3,678,901

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



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Board of Trustees  
Northern Ohio Rural Water, Huron County

We have audited the financial statements of Northern Ohio Rural Water, Huron County (the District), as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated January 16, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*** (continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District, in a separate letter dated January 16, 2008.

This report is intended solely for the information and use of management and the Board of Trustees and is not intended to be and should not be used by anyone other than those specified parties.

*Varney, Fink & Associates*

VARNEY, FINK & ASSOCIATES, INC.  
Certified Public Accountants

January 16, 2008

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH *OMB CIRCULAR A-133***

Board of Trustees  
Northern Ohio Rural Water, Huron County

Compliance

We have audited the compliance of Northern Ohio Rural Water, Huron County (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133* (continued)**

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Varney, Fink & Associates*

VARNEY, FINK & ASSOCIATES, INC.  
Certified Public Accountants

January 16, 2008

**Northern Ohio Rural Water  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2006**

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Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b><u>U.S. Department of Agriculture</u></b>			
Water and Waste Disposal Systems For Rural Communities	10.760	-	<u>\$2,044,033</u>
Total U.S. Department of Agriculture			<u><u>\$2,044,033</u></u>

The notes to this Schedule are an integral part of this Schedule.

**NORTHERN OHIO RURAL WATER  
HURON COUNTY**

**NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARD**

**FOR THE YEAR ENDED DECEMBER 31, 2006**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Expenditures of Federal Awards is a summary of the activity of the District's federal award program. The Schedule has been prepared on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

**NORTHERN OHIO RURAL WATER  
HURON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 §505**

**FOR THE YEAR ENDED DECEMBER 31, 2006**

**1. SUMMARY OF AUDITOR'S RESULTS**

(d)(1)(i)	Type of auditor's report issued on the basic financial statements	Unqualified
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the basic financial statement level?	No
(d)(1)(ii)	Were there any other reportable conditions in internal control reported at the basic financial statement level?	No
(d)(1)(iii)	Was there any material noncompliance reported at the basic financial statement level?	No
(d)(1)(iv)	Were there any material weaknesses in internal control over major programs reported?	No
(d)(1)(iv)	Were there any other reportable conditions in internal control over major programs reported?	No
(d)(1)(v)	Type of auditor's report issued on compliance for major programs	Unqualified
(d)(1)(vi)	Were there any reportable audit findings under §510?	No

**NORTHERN OHIO RURAL WATER  
HURON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 §505**

**FOR THE YEAR ENDED DECEMBER 31, 2006**

**(CONTINUED)**

(d)(1)(vii)	Major Program:	Community Facilities Loans and Grants, CFDA #10.760
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None

**3. FINDINGS FOR FEDERAL AWARDS**

None





**Mary Taylor, CPA**  
Auditor of State

**NORTHERN OHIO RURAL WATER DISTRICT**

**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  
APRIL 3, 2008**