

**NORTHERN OHIO RURAL
WATER DISTRICT**

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED DECEMBER 31, 2003



Mary Taylor, CPA
Auditor of State

Board of Trustees
Northern Ohio Rural Water District
2205 US Highway 20E
Norwalk, Ohio 44857

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, 2003 through December 31, 2003. 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

January 8, 2008

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**NORTHERN OHIO RURAL WATER DISTRICT
FOR THE YEAR ENDED DECEMBER 31, 2003**

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INDEPENDENT AUDITOR'S REPORT

Northern Ohio Rural Water
Huron County

We have audited the accompanying financial statements of the Northern Ohio Rural Water (the District), as of and for the year ended December 31, 2003, which collectively comprise the District's financial statements as listed in the table of contents. 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 the District as of December 31, 2003, and the results of its operation, and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Statement of Operating Expenses on page 19 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. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2007, 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

INDEPENDENT AUDITOR'S REPORT (continued)

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.

Varney, Fink & Associates

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

November 21, 2007

NORTHERN OHIO RURAL WATER

BALANCE SHEET

December 31, 2003

ASSETS

CURRENT ASSETS: (Note 1)

Cash and cash equivalents	\$ 881,419
Receivables:	
Trade (net of allowance for doubtful accounts of \$4,341)	191,070
Inventory	419,995
Prepaid expenses	6,390
Total current assets	<u>1,498,874</u>

PROPERTY, PLANT, AND EQUIPMENT, AT COST: (Note 1)

Land and easements	663,823
Buildings	346,332
Tanks, stations, and lines	30,517,619
Furniture and fixtures	145,103
Vehicles and distribution equipment	<u>1,567,986</u>
	33,240,863
Less: Accumulated depreciation	<u>8,108,775</u>
	25,132,088
Current construction	<u>706,800</u>
	<u>25,838,888</u>

OTHER ASSET:

Organization costs	1,000
	<u>\$ 27,338,762</u>

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

NORTHERN OHIO RURAL WATER

BALANCE SHEET

December 31, 2003

CURRENT LIABILITIES:

CURRENT LIABILITIES:

Current portion of long-term debt	\$	733,914
Note payable - Line of credit (Note 8)		533,204
Accounts payable		213,133
Projects and retainage payable		153,158
Tenant deposits		54,750
Accrued expenses:		
Wages		7,840
Compensated absences (Note 1)		30,917
Payroll taxes		39,206
Interest		680,272
Total current liabilities		<u>2,446,394</u>

LONG-TERM DEBT: (Note 3)

Notes payable		21,479,134
Bonds payable		<u>3,224,028</u>
		24,703,162
Less: Current portion		<u>733,914</u>
		<u>23,969,248</u>

RETAINED EARNINGS

	923,120
	<u>\$ 27,338,762</u>

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

NORTHERN OHIO RURAL WATER

INCOME STATEMENT

Year Ended December 31, 2003

REVENUE:

Water sales	\$ 3,874,307
Tap fees	297,422
	<u>4,171,729</u>

OPERATING EXPENSES

3,603,004

INCOME FROM OPERATIONS

568,725

OTHER INCOME:

Discounts earned	468
EPA income	8,480
Hydrant maintenance fees	1,125
Interest income	152
Miscellaneous	8,117
Reconnection fees	22,285
Tower income	11,749
	<u>52,376</u>
	621,101

OTHER EXPENSES:

Bank charges	1,585
Credit card fees	200
EPA expense	9,662
Interest expense	1,440,809
	<u>1,452,256</u>

NET LOSS

\$ (831,155)

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

NORTHERN OHIO RURAL WATER

STATEMENT OF RETAINED EARNINGS

Year Ended December 31, 2003

BALANCE - Beginning of period	\$ 1,754,275
DEDUCTION - Net loss	<u>831,155</u>
BALANCE - End of period	<u>\$ 923,120</u>

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

NORTHERN OHIO RURAL WATER

STATEMENT OF CASH FLOWS

Year Ended December 31, 2003

CASH FLOWS FROM OPERATING ACTIVITIES:

Income from operations	\$ 568,725
Adjustment to reconcile net loss to net cash provided by (used in) operating activities:	
Depreciation expense	1,242,238
(Increase) decrease in:	
Receivables	5,351
Inventory	80,524
Prepaid expenses	(6,097)
Increase (decrease) in:	
Accounts Payable	(262,734)
Tenant deposits	7,000
Accrued expenses	(56,796)
Retainage payable	133,991
Net cash provided by operating activities	<u>1,712,202</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Purchase of equipment and new construction	(3,508,191)
Proceeds from long-term debt	3,825,092
Repayment of long-term debt	(669,130)
Proceeds from short-term debt	4,028,112
Repayment of short-term debt	(3,824,028)
Interest paid on debt	(1,440,809)
Net cash used in capital and related financing activities	<u>(1,588,954)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest earned	152
Net cash provided by investing activities	<u>152</u>

CASH FLOWS FROM NON-CAPITAL ACTIVITIES

Other non-operating revenue	40,778
Net cash provided by non-capital activities	<u>40,778</u>

INCREASE IN CASH AND CASH EQUIVALENTS

164,178

CASH AND CASH EQUIVALENTS - Beginning of period

717,241

CASH AND CASH EQUIVALENTS - End of period

\$ 881,419

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

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

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. 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 \$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.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

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. 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 year ended December 31, 2003 was \$1,242,238.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

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

E. Property and Equipment (Continued):

A summary of changes in property, plant, and equipment for the year ended December 31, 2003, is as follows:

	Balance December 31, 2002	Additions	Deletions	Balance December 31, 2003
Land and easements	\$ 406,247	\$ 257,576	\$ -0-	\$ 663,823
Buildings	328,191	18,141	-0-	346,332
Tanks, stations, and lines	27,907,653	2,609,966	-0-	30,517,619
Furniture and fixtures	133,225	11,878	-0-	145,103
Vehicles and distribution equipment	1,123,684	469,951	25,649	1,567,986
Subtotal	29,899,000	3,367,512	25,649	33,240,863
Current Construction	566,121	140,679	-0-	706,800
	<u>\$ 30,465,121</u>	<u>\$3,508,191</u>	<u>\$ 25,649</u>	<u>\$ 33,947,663</u>

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.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

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

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 year ended December 31, 2003 is \$30,917. The unrecorded estimated unused sick leave for the year ended December 31, 2003 was \$121,998.

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.

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.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

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 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, 2003, the carrying amount of the district deposits was \$881,419 and the bank balance was \$1,285,237.

Northern Ohio Rural Water maintains cash balances at two separate banks. Each bank was covered by federal depository insurance for up to \$100,000 per account, and pooled collateral whose market value covers 105% of public deposits held by the banks.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

Note 3. Long-Term Debt:

A summary of long-term debt for the year ended December 31, 2003, is as follows:

Description	Balance December 31, 2002	Borrowed	Repaid	Balance December 31, 2003
Northern Ohio Rural Water borrowed a total of \$25,360,319 from the Ohio Water Development Authority from January 1, 1992 through December 31, 2003 for the Fitchville, Crystal Rock, Green Creek, and Baumhart Road line expansions and a new treatment plant. These notes are being paid in semi-annual installments of \$1,050,088 due on January 1 st and July 1 st , including interest at rates from 5.28% to 7.66%. The maturity dates range from July 1, 2016 through January 1, 2027.	\$ 21,472,570	\$ 601,064	\$ 642,099	\$ 21,431,535
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%. The mortgage matures in September 2007, and is secured by the building.	59,481	-0-	11,882	47,599
Water Resource Improvement Revenue Bonds, Series 2003 were issued through the United States Department of Agriculture (USDA) for the purpose of constructing various water resource projects. The total amount loaned is \$3,224,028, with an additional 875,972 available to be borrowed. The loan requires annual principal and interest payments at a rate of 5.00%, with a maturity date of December 2043.	-0-	3,224,028	-0-	3,224,028
Northern Ohio Rural Water borrowed \$39,230 from Columbus Equipment Company on September 6, 2001 to purchase a Komatsu backhoe loader. The equipment lease-purchase agreement is being paid in equal monthly installments of \$1,717 including interest at a rate of 4.75%. The equipment lease-purchase agreement was fully paid in September, 2003.	15,149	-0-	15,149	-0-
	<u>\$ 21,547,200</u>	<u>\$ 3,825,092</u>	<u>\$ 669,130</u>	<u>\$ 24,703,162</u>

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

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, 2003, are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2004	\$ 2,250,922
2005	2,253,948
2006	2,256,082
2007	2,254,980
2008	2,250,098
2009 to 2043	<u>29,585,530</u>
Total Principal and Interest	40,851,560
Less: Interest	<u>16,148,398</u>
Liability as of December 31, 2003	<u>\$ 24,703,162</u>

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.

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 provides retirement, disability, survivor and post-retirement health care benefits to qualifying members. 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) 466-2085 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.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

Note 5. Retirement Commitments (Continued):

A. Defined Benefit Pension Plans (Continued):

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 2003 is 8.50% and the employer contribution rate is 13.55% of covered payroll. The rates are the actuarially determined contribution requirements for OPERS. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The difference between the total employer rate and the portion used to fund pension obligations is the amount used to fund the health care programs. Pension expense for the year ended December 31, 2003 is \$129,343.

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, 2003 Comprehensive Annual Financial Report.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

Note 5. Retirement Commitments (Continued):

B. Post-Employment Benefits:

The Ohio Public Employees Retirement System provides 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. The health care coverage provided by the retirement system is considered 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 13.55% of covered payroll and 5.00% was the portion used to fund health care from January 1 through December 31, 2003.

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, 2002. The investment assumption rate for 2002 was 8.00%. 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 4.00% annually. 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.

OPEBs are advanced-funded on an actuarially determined basis. The number of active contributing participants in the State of Ohio was 364,881. The employer contributions made by Northern Ohio Rural Water used to fund postemployment benefits were \$47,728 for 2003. Ten billion dollars (\$10,000,000,000) represents the actuarial value of Retirement Systems' net assets available for OPEB at December 31, 2002. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method, was \$18.7 billion and \$8.7 billion, respectively.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

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 \$503 per month.

The following is a schedule of future minimum rental payments required under the above operating lease as of December 31, 2003:

<u>Year Ending December 31,</u>	<u>Amount</u>
2004	\$ 6,033
2005	4,022
	<u>\$ 10,055</u>

Office equipment lease expense for the year ended December 31, 2003 was \$6,033.

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 on a month-to-month basis. The first agreement is with Radio Link Communications for \$135 per month, the second agreement is with Bender Communications for \$135 per month and the third agreement is with Page Mart (formerly Web Link) for \$698 per month.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

Note 8. Note Payable - Line of Credit:

At December 31, 2003, the district has a line of credit with Buckeye Community Bank of \$1,000,000, with \$660,835 unused. The line of credit requires monthly interest payments at the prime rate. The line of credit matures in June, 2004.

\$339,165

A note payable in the amount of \$194,039 is due to Buckeye Community Bank. The note requires monthly interest payments at 5% with a maturity date of June, 2004. The note is guaranteed by the USDA.

194,039
\$533,204

Note 9. Subsequent Event:

On June 20, 2006 the former General Manager of the Northern Ohio Rural Water District was sentenced to eight years in prison and ordered to pay restitution amounting to \$88,000 to the Northern Ohio Rural Water 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 Northern Ohio Rural Water 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

Year Ended December 31, 2003

OPERATING EXPENSES:

Advertising	\$ 28
Audit fees	27,685
Communication equipment	14,445
Depreciation	1,242,238
Distribution supplies	172,726
Dues and subscriptions	5,302
Electric pump station and tanks	146,313
Engineering fees	3,030
Gasoline	32,614
Insurance:	
General	33,335
Hospitalization	124,337
Legal and professional fees	149,389
Licenses and permits	6,147
Maintenance and repairs:	
Administrative building and equipment	11,409
Pump stations	936
Vehicles	50,846
Water lines	6,298
Office equipment lease	6,538
Office supplies and expense	34,028
Payroll taxes	24,197
O.P.E.R.S.	129,343
Postage	23,500
Tap installations	65,166
Telephone	15,991
Travel and education expense	54,065
Utilities	14,704
Wages	582,253
Water purchased	626,141
	<u>\$ 3,603,004</u>

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 Members
Northern Ohio Rural Water

We have audited the financial statements of the Northern Ohio Rural Water (the District), as of and for the year ended December 31, 2003, and have issued our report thereon dated November 21, 2007. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 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 components does not reduce to a relatively low level the risk that misstatements caused by error or fraud 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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*.

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)

We noted certain matters that we reported to management of the District in a separate letter dated November 21, 2007.

This report is intended for the information and use of management and the Board Members 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

November 21, 2007



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
JANUARY 22, 2008**