



Dave Yost • Auditor of State

**NORTHERN OHIO RURAL WATER
HURON COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of Northern Ohio Rural Water, Huron County, Ohio (the District), as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northern Ohio Rural Water, Huron County, Ohio as of December 31, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

The Schedules of Operating Expenses are not a required part of the basic financial statements.

The schedules are management's responsibility, and derive from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected these schedules to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedules directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, these schedules are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2015, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

October 15, 2015

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NORTHERN OHIO RURAL WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2014 and 2013

(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, and Summary of Significant Accounting Policies is described in Note 2. The Basic Financial Statements are presented using the accrual basis of accounting as further described in Note 2. The **Statement of Net Position** includes all of NORW's Assets and Liabilities. This statement provides information about the nature and amounts of investments in resources (assets) owned by NORW, and obligations owed by NORW (liabilities) on December 31. NORW's net position (equity) is the difference between assets and liabilities. The **Statement of Revenues, Expenses and Changes in Net Position** provides information on NORW's operations over the period and the revenue collected from user fees, charges and late fees, and other income. Revenues are reported when earned and expenses are reported when incurred. The **Statement of Cash Flows** provides information about NORW's cash receipts and cash disbursements. It summarizes the net changes in cash resulting from operating, investing, and financing activities. The **Notes to the Financial Statements** provide additional information that is essential for a full understanding of the financial statements.

Table I summarizes the Net Position of the District.

TABLE I

	2014	2013	2012	2014 vs 2013		2013 vs 2012	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Current and other assets	\$ 2,937,597	\$ 4,333,112	\$ 3,190,171	\$ (1,395,515)	-32.2%	\$ 1,142,941	35.8%
Capital assets	49,269,749	49,354,206	49,213,265	(84,457)	-0.2%	140,941	0.3%
Total assets	<u>52,207,346</u>	<u>53,687,318</u>	<u>52,403,436</u>	<u>(1,479,972)</u>	-2.8%	<u>1,283,882</u>	2.4%
Current liabilities	3,498,720	3,545,297	3,287,721	(46,577)	-1.3%	257,576	7.8%
Other liabilities	89,125	88,025	74,125	1,100	1.2%	13,900	18.8%
Long-term liabilities	35,442,394	37,526,596	37,298,180	(2,084,202)	-5.6%	228,416	0.6%
Total liabilities	<u>39,030,239</u>	<u>41,159,918</u>	<u>40,660,026</u>	<u>(2,129,679)</u>	-5.2%	<u>499,892</u>	1.2%
Net investment in capital assets	11,756,251	9,875,345	10,148,344	1,880,906	19.0%	(272,999)	-2.7%
Restricted	920,612	785,260	691,308	135,352	17.2%	93,952	13.6%
Unrestricted	500,244	1,866,795	903,758	(1,366,551)	-73.2%	963,037	106.6%
Total net position	<u>\$ 13,177,107</u>	<u>\$ 12,527,400</u>	<u>\$ 11,743,410</u>	<u>\$ 649,707</u>	5.2%	<u>\$ 783,990</u>	6.7%

- The total assets of NORW exceeded liabilities on December 31, 2014 and 2013 by \$13,177,107 and \$12,527,400, respectively.
- The District's net position increased \$649,707 and \$783,990 in 2014 and 2013, respectively, due primarily to income from operations.

NORTHERN OHIO RURAL WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2014 and 2013

(Unaudited)

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

TABLE II

	2014	2013	2012	2014 vs 2013		2013 vs 2012	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Operating revenue	\$ 7,901,037	\$ 7,747,601	\$ 7,890,824	\$ 153,436	2.0%	\$ (143,223)	-1.8%
Operating expenses	(5,461,423)	(5,249,547)	(5,379,305)	(211,876)	4.0%	129,758	-2.4%
Income from operations	2,439,614	2,498,054	2,511,519	(58,440)	-2.3%	(13,465)	-0.5%
Nonoperating revenue	170,322	144,576	903,521	25,746	17.8%	(758,945)	-84.0%
Nonoperating expenses	(1,960,229)	(1,858,640)	(1,899,984)	(101,589)	5.5%	41,344	-2.2%
Nonoperating gain (loss)	(1,789,907)	(1,714,064)	(996,463)	(75,843)	4.4%	(717,601)	-72.0%
Change in net position	649,707	783,990	1,515,056	(134,283)	-17.1%	(731,066)	-48.3%
Beginning net position	12,527,400	11,743,410	10,228,354	783,990	6.7%	1,515,056	14.8%
Ending net position	\$ 13,177,107	\$ 12,527,400	\$ 11,743,410	\$ 649,707	5.2%	\$ 783,990	6.7%

- The District's operating revenues increased in 2014 and decreased in 2013 by \$153,436 (2%) and \$143,223 (-2%), respectively, while operating expenses increased in 2014 and decreased in 2013 by \$211,876 (4%) and \$129,758 (-2%), respectively.

Significant Events and Expenditures During The Year:

NORW has received funding from CoBank ACB for the construction of new administration and storage buildings for the District. Additional information in regards to funding received is included in the notes to the financial statements. The 2014 increase in net position is due to results of operations.

NORTHERN OHIO RURAL WATER
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2014 and 2013

(Unaudited)

Capital Assets:

Table III summarizes the changes in capital assets for the year ended December 31, 2014.

TABLE III

	2014	2013	2012	2014 vs 2013		2013 vs 2012	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Capital assets, non-depreciable:							
Land	\$ 497,833	\$ 440,595	\$ 385,034	\$ 57,238	13.0%	\$ 55,561	14.4%
Easements	326,822	320,421	313,035	6,401	2.0%	7,386	2.4%
Current construction	28,752	1,046,614	18,487	(1,017,862)	-97.3%	1,028,127	5561.4%
Assets held for future use	0	745,823	745,823	(745,823)	-100.0%	0	0.0%
Capital assets, depreciable:							
Buildings	2,303,837	555,395	625,875	1,748,442	314.8%	(70,480)	-11.3%
Tanks, stations, and lines	68,848,918	67,375,338	66,538,179	1,473,580	2.2%	837,159	1.3%
Furniture and fixtures	431,610	355,737	333,389	75,873	21.3%	22,348	6.7%
Vehicles & distribution equip.	2,063,702	2,156,469	2,110,146	(92,767)	-4.3%	46,323	2.2%
Total before depreciation	74,501,474	72,996,392	71,069,968	1,505,082	2.1%	1,926,424	2.7%
Accumulated depreciation	(25,231,725)	(23,642,186)	(21,856,703)	(1,589,539)		(1,785,483)	
Total capital assets, net	<u>\$ 49,269,749</u>	<u>\$ 49,354,206</u>	<u>\$ 49,213,265</u>	<u>\$ (84,457)</u>		<u>\$ 140,941</u>	

NORW has \$74,501,474 invested in its system (before depreciation) at December 31, 2014. This amount includes net additions of \$1,505,082 during the year ended December 31, 2014.

The decrease in current construction in the amount of \$1,017,862 and increase in buildings in the amount of \$1,748,442 is due primarily to the construction of the District's new administration and storage buildings.

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

NORTHERN OHIO RURAL WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended December 31, 2014 and 2013

(Unaudited)

Long-Term Debt:

Table IV summarizes long-term debt for the District.

TABLE IV

	2014	2013	2012	2014 vs 2013		2013 vs 2012	
				Dollar Change	Percent Change	Dollar Change	Percent Change
Long-term debt:							
Note payable - City of Elyria	\$ 60,500	\$ 93,500	\$ 126,500	\$ (33,000)	-35.3%	\$ (33,000)	-26.1%
OWDA Notes	17,774,640	19,349,523	20,809,502	(1,574,883)	-8.1%	(1,459,979)	-7.0%
CoBank Note	2,125,091	2,189,624	0	(64,533)	-2.9%	2,189,624	100.0%
Rural dev. bonds & notes	17,343,800	17,583,400	17,814,000	(239,600)	-1.4%	(230,600)	-1.3%
Buckeye Community Bank notes	209,467	262,814	314,919	(53,347)	-20.3%	(52,105)	-16.5%
Total long-term debt	37,513,498	39,478,861	39,064,921	(1,965,363)	-5.0%	413,940	1.1%
Less: Current maturities	(2,071,104)	(1,952,265)	(1,766,741)	(118,839)	6.1%	(185,524)	10.5%
Net total long-term debt	<u>\$ 35,442,394</u>	<u>\$ 37,526,596</u>	<u>\$ 37,298,180</u>	<u>\$ (2,051,202)</u>	<u>-5.5%</u>	<u>\$ (195,416)</u>	<u>0.5%</u>

See Note 5 of the financial statements for details of issuance and retirement of debt for the years ended December 31, 2014 and 2013.

Significant Events and Expenditures During The Year:

NORW completed construction of a new office building and storage building and demolished the buildings they replaced. An impairment loss for the buildings' demolition is reflected on the Statement of Changes in Net Position.

NORW sold a portion of the Assets Held for Future Use from the Capital Assets on the Statement of Net Position.

Contact Information:

Questions regarding this report and requests for additional information should be forwarded to Northern Ohio Rural Water, P.O. Box 96, Collins, Ohio 44826.

NORTHERN OHIO RURAL WATER

STATEMENTS OF NET POSITION

PROPRIETARY FUND TYPE

December 31, 2014 and 2013

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,167,883	\$ 2,746,818
Restricted cash	140,283	211,428
Receivables:		
Trade (net allowance for doubtful accounts of \$8,877 in 2014 and \$8,632 in 2013)	512,974	535,485
Other	27,915	7,225
Inventory	294,313	247,928
Prepaid expenses	5,029	6,921
Total current assets	<u>2,148,397</u>	<u>3,755,805</u>
NONCURRENT ASSETS:		
Restricted cash	780,329	573,832
Capital assets, non-depreciable:		
Land	497,833	440,595
Easements	326,822	320,421
Current construction	28,752	1,046,614
Assets held for future use	0	745,823
Capital assets, depreciable:		
Buildings	2,303,837	555,395
Tanks, stations, lines, meters, and taps	68,848,918	67,375,338
Furniture and fixtures	431,610	355,737
Vehicles and distribution equipment	2,063,702	2,156,469
	<u>74,501,474</u>	<u>72,996,392</u>
Less: Accumulated depreciation	<u>25,231,725</u>	<u>23,642,186</u>
Total noncurrent assets	<u>49,269,749</u>	<u>49,354,206</u>
	<u>50,050,078</u>	<u>49,928,038</u>
OTHER ASSETS:		
CoBank investment	7,871	2,475
Organization costs	1,000	1,000
Total other assets	<u>8,871</u>	<u>3,475</u>
Total assets	<u>\$ 52,207,346</u>	<u>\$ 53,687,318</u>

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

NORTHERN OHIO RURAL WATER

STATEMENTS OF NET POSITION

PROPRIETARY FUND TYPE

December 31, 2014 and 2013

LIABILITIES AND NET POSITION

	<u>2014</u>	<u>2013</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 497,526	\$ 464,619
Projects and retainage payable	66,683	229,454
Tenant deposits	111,050	101,750
Accrued expenses:		
Wages	12,236	14,342
Compensated absences	74,038	54,694
Payroll taxes	40,541	47,864
Interest	625,070	676,547
Other	472	3,762
Current portion of long-term debt	<u>2,071,104</u>	<u>1,952,265</u>
Total current liabilities	3,498,720	3,545,297
NONCURRENT LIABILITIES:		
Future tap installations	89,125	88,025
Notes payable	20,169,698	21,895,461
Bonds payable	<u>17,343,800</u>	<u>17,583,400</u>
	37,602,623	39,566,886
Less: Current portion	<u>2,071,104</u>	<u>1,952,265</u>
Total noncurrent liabilities	<u>35,531,519</u>	<u>37,614,621</u>
Total liabilities	<u>39,030,239</u>	<u>41,159,918</u>
NET POSITION:		
Net investment in capital assets	11,756,251	9,875,345
Restricted for bonds payable	920,612	785,260
Unrestricted	<u>500,244</u>	<u>1,866,795</u>
Total net position	<u>\$ 13,177,107</u>	<u>\$ 12,527,400</u>

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

NORTHERN OHIO RURAL WATER

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

PROPRIETARY FUND TYPE

For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUE:		
Water sales	\$ 7,489,615	\$ 7,267,942
Tap fees	<u>411,422</u>	<u>479,659</u>
Total operating revenue	7,901,037	7,747,601
 OPERATING EXPENSES	 <u>5,461,423</u>	 <u>5,249,547</u>
 INCOME FROM OPERATIONS	 2,439,614	 2,498,054
 NONOPERATING REVENUE:		
Credit card fees	14,035	11,507
Discounts earned	1,112	1,500
EPA income	19,722	17,872
Interest income	11,067	11,781
Line maintenance reimbursements	16,510	7,676
Miscellaneous	65,207	49,303
Reconnection fees	29,173	26,915
Tower income	1,680	1,680
Insurance recoveries	39,193	4,262
Sewer billing service fees	11,353	11,212
Gain/(Loss) on disposal of assets	<u>(38,730)</u>	<u>868</u>
Total nonoperating revenue	<u>170,322</u>	<u>144,576</u>
Income from operations and nonoperating revenue	2,609,936	2,642,630
 NONOPERATING EXPENSES:		
Uncollectible accounts expense	245	336
EPA expense	18,339	17,870
Impairment loss on building demolition	116,997	0
Interest expense	<u>1,824,648</u>	<u>1,840,434</u>
Total nonoperating expenses	<u>1,960,229</u>	<u>1,858,640</u>
 CHANGE IN NET POSITION	 649,707	 783,990
 NET POSITION - Beginning of period	 <u>12,527,400</u>	 <u>11,743,410</u>
 NET POSITION - End of period	 <u>\$ 13,177,107</u>	 <u>\$ 12,527,400</u>

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

NORTHERN OHIO RURAL WATER

STATEMENTS OF CASH FLOWS

PROPRIETARY FUND TYPE

For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 7,902,858	\$ 7,674,982
Cash payments to suppliers for goods and services	(2,316,170)	(2,225,174)
Cash payments for employees and professional contractors for services	<u>(1,238,608)</u>	<u>(1,181,486)</u>
Net cash provided by operating activities	4,348,080	4,268,322
CASH FLOWS FROM NON-CAPITAL ACTIVITIES:		
Proceeds from developer, hydrant maintenance, and reconnection fees	29,173	26,915
Proceeds from discounts earned, EPA and tower income	22,514	21,052
Proceeds from insurance claims	39,193	4,262
Proceeds from line maintenance reimbursements	16,510	7,676
Proceeds from sales of assets	215,723	6,946
Other nonoperating revenue	<u>72,011</u>	<u>53,816</u>
Net cash provided by non-capital activities	395,124	120,667
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of equipment and new construction	(2,350,969)	(1,830,794)
Purchase of investment	(5,396)	(2,475)
Proceeds from long-term debt	0	2,203,750
Repayment of principal on long-term debt	(1,965,363)	(1,756,810)
Interest paid on debt	<u>(1,876,126)</u>	<u>(1,870,053)</u>
Net cash used in capital and related financing activities	(6,197,854)	(3,256,382)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest earned	<u>11,067</u>	<u>11,781</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,443,583)	1,144,388
CASH AND CASH EQUIVALENTS - Beginning of period	<u>3,532,078</u>	<u>2,387,690</u>
CASH AND CASH EQUIVALENTS - End of period	<u>\$ 2,088,495</u>	<u>\$ 3,532,078</u>

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

NORTHERN OHIO RURAL WATER

STATEMENTS OF CASH FLOWS

PROPRIETARY FUND TYPE

For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	\$ 2,439,614	\$ 2,498,054
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	1,902,306	1,837,773
Changes in assets and liabilities:		
Increase (decrease) in:		
Receivables	1,821	(72,619)
Inventory	(46,385)	77,657
Prepaid expenses	1,892	(1,116)
Increase (decrease) in:		
Accounts payable	32,907	(44,919)
Tenant deposits	9,300	6,600
Accrued expenses	6,625	(33,108)
Net cash provided by operating activities	<u>\$ 4,348,080</u>	<u>\$ 4,268,322</u>

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

NORTHERN OHIO RURAL WATER

STATEMENTS OF ASSETS AND LIABILITIES

AGENCY FUND TYPE

December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 33,374	\$ 20,914
Receivables	<u>8,961</u>	<u>13,178</u>
Total assets	<u>\$ 42,335</u>	<u>\$ 34,092</u>
<u>LIABILITIES</u>		
Undistributed monies	<u>\$ 42,335</u>	<u>\$ 34,092</u>

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

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 and 2013

Note 1. Description of Entity:

Northern Ohio Rural Water, formerly known as Erie Huron County Rural Water Authority, a regional water District, is a political subdivision of the State of Ohio. The District was incorporated for the purpose of providing a water supply for domestic, industrial, and public use to users within and without the District. The District is exempt from federal income tax. The District operates under a Board of Trustees which consists of as many members as equals the total number of villages and townships within this regional water district.

Note 2. Summary of Significant Accounting Policies:

A. Basis of Presentation and Accounting:

The financial statements of the District are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

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

The District uses funds to maintain its financial records during the year.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for water and taps. Operating expenses include the cost of the water and taps, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Proprietary fund reporting focuses on changes in net position, financial position and cash flows. The District's proprietary fund is classified as an enterprise fund. This fund accounts for all operations that are financed and operated in a manner similar to private business enterprises where the intent is those costs of providing goods or services to the general public on a continuing basis to be financed or recovered primarily through user charges.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 and 2013

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

A. Basis of Presentation and Accounting (Continued):

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

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

B. Budgetary Process:

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

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

C. Inventory:

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

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 and 2013

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

D. Capital Assets:

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

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

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

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

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

E. Prepaid Expenses:

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

F. Tap Fees:

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

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 and 2013

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

G. Compensated Absences Payable:

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

Sick leave accumulates to employees at a rate of 4.6 hours for every 80 hours of service completed up to specified maximums. An employee shall be allowed to accumulate 120 days of sick leave. Upon retirement, employees are entitled to 25% of their accumulated sick leave balance not to exceed 30 days. In the event of the employee's death, 100% of their accumulated sick leave balance would be paid to the employee's life insurance beneficiary. Since the employees' accumulating rights to receive compensation for future absences are contingent upon the absences being caused by future illnesses or death, a liability for unused sick leave is not recorded in the financial statements. The recorded accrued unused vacation for the year ended December 31, 2014 and 2013 is \$74,038 and \$54,694, respectively. The unrecorded estimated unused sick leave for the year ended December 31, 2014 and 2013 was \$292,264 and \$269,096, respectively.

H. Statement of Cash Flows:

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

I. Use of Estimates:

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

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 and 2013

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

J. Receivables - Trade:

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

K. Net Position

Net position represents the difference between all other elements in the statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through constitutional provisions or enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Note 3. Equity in Pooled Cash and Investments:

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

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

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

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

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 and 2013

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

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

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

At December 31, 2014 and 2013, the carrying amount of all District deposits was \$2,121,870 and \$3,552,992, respectively. Based on the criteria described in GASB statement No. 40, "Deposits and Investment Risk Disclosures," as of December 31, 2014 and 2013, \$2,115,819 and \$3,601,719, respectively, of the District's bank balance of \$2,375,705 and \$3,858,222, respectively, was exposed to custodial risk as discussed below, while \$259,886 and \$256,503, respectively, was covered by the FDIC.

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

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 and 2013

Note 4. Capital Assets:

A summary of changes in capital assets for the year ended December 31, 2014, is as follows:

	Balance December 31, 2013	Additions	Deletions	Balance December 31, 2014
Capital assets, nondepreciable:				
Land	\$ 440,595	\$ 57,238	\$ -	\$ 497,833
Easements	320,421	6,401	-	326,822
Current construction	1,046,614	25,558	(1,043,420)	28,752
Assets held for future use	745,823	-	(745,823)	-
Capital assets, depreciable:				
Buildings	555,395	2,061,125	(312,683)	2,303,837
Tanks, stations, lines, meters, and taps	67,375,338	1,473,580	-	68,848,918
Furniture and fixtures	355,737	85,436	(9,563)	431,610
Vehicles and distribution equipment	2,156,469	71,988	(164,755)	2,063,702
Total	<u>72,996,392</u>	<u>3,781,326</u>	<u>(2,276,244)</u>	<u>74,501,474</u>
Less accumulated depreciation				
Buildings	(187,818)	(41,270)	138,448	(90,640)
Tanks, stations, lines, meters, and taps	(21,200,106)	(1,758,347)	-	(22,958,453)
Furniture and fixtures	(309,314)	(3,960)	9,563	(322,837)
Vehicles and distribution equipment	(1,944,948)	(79,602)	164,755	(1,859,795)
Total accumulated depreciation	<u>(23,642,186)</u>	<u>(1,883,179)</u>	<u>312,766</u>	<u>(25,231,725)</u>
Net capital assets	<u>\$ 49,354,206</u>	<u>\$ 1,898,147</u>	<u>\$ (1,963,478)</u>	<u>\$ 49,269,749</u>

Depreciation expense for the year ended December 31, 2014 and 2013 was \$1,902,306 and \$1,837,773, respectively.

Current construction at December 31, 2014 and 2013 included capitalized construction period interest of \$-0- and \$-0- that was incurred in each respective year. Total interest cost incurred was \$1,824,648 and \$1,840,434 at December 31, 2014 and 2013, respectively.

Assets held for future use, segregated in 2008, represent the costs of land and engineering fees for a feasibility study for a water treatment plant in Ottawa County. The District sold the land and reclassified engineering fees that are allocable to existing water lines in 2014.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 and 2013

Note 4. Capital Assets (Continued):

A summary of changes in capital assets for the year ended December 31, 2013, is as follows:

	Balance December 31, 2012	Additions	Deletions	Balance December 31, 2013
Capital assets, nondepreciable:				
Land	\$ 385,034	\$ 55,561	\$ -	\$ 440,595
Easements	313,035	7,386	-	320,421
Current construction	18,487	1,045,467	(17,340)	1,046,614
Assets held for future use	745,823	-	-	745,823
Capital assets, depreciable:				
Buildings	625,875	8,888	(79,368)	555,395
Tanks, stations, lines, meters, and taps	66,538,179	837,159	-	67,375,338
Furniture and fixtures	333,389	22,348	-	355,737
Vehicles and distribution equipment	2,110,146	80,884	(34,561)	2,156,469
Total	<u>71,069,968</u>	<u>2,057,693</u>	<u>(131,269)</u>	<u>72,996,392</u>
Less accumulated depreciation				
Buildings	(189,936)	(15,611)	17,729	(187,818)
Tanks, stations, lines, meters, and taps	(19,478,527)	(1,721,579)	-	(21,200,106)
Furniture and fixtures	(289,127)	(20,187)	-	(309,314)
Vehicles and distribution equipment	(1,899,113)	(80,396)	34,561	(1,944,948)
Total accumulated depreciation	<u>(21,856,703)</u>	<u>(1,837,773)</u>	<u>52,290</u>	<u>(23,642,186)</u>
Net capital assets	<u>\$ 49,213,265</u>	<u>\$ 219,920</u>	<u>\$ (78,979)</u>	<u>\$ 49,354,206</u>

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 and 2013

Note 5. Long-Term Debt:

The full faith credit and resources of the District have been irrevocably pledged to collateralize all of the revenue bonds and notes payable. A summary of long-term debt for the year ended December 31, 2014, is as follows:

Description	Balance December 31, 2013	Borrowed	Repaid	Balance December 31, 2014	Due Within One Year
Northern Ohio Rural Water borrowed a total of \$34,946,338 from the Ohio Water Development Authority from January 1, 1992 through December 31, 2014 for the Fitchville, Crystal Rock, Green Creek, Baumhart Road, Lime and Ridgefield Township line expansions, tank rehabilitation, garage construction, and membrane pilot study. These notes are being paid in semi-annual installments due on January 1 st and July 1 st , including interest at rates from 2.99% to 7.66%. The maturity dates range from July 1, 2016 through January 1, 2043.	\$ 19,349,523	\$ -0-	\$ 1,574,883	\$ 17,774,640	\$1,666,613
Water Resource Improvement Revenue Bonds, Series 2003 were issued through the United States Department of Agriculture (USDA) for the purpose of constructing various water resource projects. The total amount loaned is \$4,100,000. The loan requires annual principal and interest payments at 5.00% with a maturity date of December 2043.	3,673,000	-0-	55,000	3,618,000	58,000
Water Resource Improvement Revenue Bonds, Series 2007 were issued through the United States Department of Agriculture (USDA) for the purpose of constructing various water resource projects. The total amount loaned is \$3,600,000. The loan requires annual principal and interest payments at 4.125% with a maturity date of December 2047.	3,355,000	-0-	47,000	3,308,000	48,000
Water Resource Improvement Revenue Bonds, Series 2009 were issued through the United States Department of Agriculture (USDA) for the purpose of constructing various water resource projects. The total amount loaned is \$1,550,000. The loan requires annual principal and interest payments at 4.50% with a maturity date of January 2049.	1,488,000	-0-	17,000	1,471,000	18,000
Water Resource Improvement Revenue Bonds, Series 2009B were issued through the United States Department of Agriculture (USDA) for the purpose of constructing various water resource projects. The total amount loaned is \$4,764,000. The loan requires annual principal and interest payments at 4.25% with a maturity date of December 2049.	4,563,000	-0-	56,000	4,507,000	58,000
A note payable in the amount of \$197,380 is due to Buckeye Community Bank. The loan requires monthly principal and interest payments at the index rate with a maturity date of October 2016.	79,892	-0-	28,197	51,695	28,197
Water Resource Improvement Revenue Bonds, Series 2010 were issued through the United States Department of Agriculture (USDA) for the purpose of constructing various water resource projects. The total amount loaned is \$4,567,000. The loan requires annual interest payments through 2012 at 3.25% with a maturity date of September 2050.	4,504,400	-0-	64,600	4,439,800	66,700
A note payable with a total amount loaned of \$265,000 is due to Buckeye Community Bank. The loan requires monthly principal and interest payments at a rate of 5% with a maturity date of April 2015.	182,922	-0-	25,150	157,772	26,591
A note payable in the amount of \$93,500 is due to the City of Elyria. The loan requires monthly principal payments in the amount of \$2,750 with a maturity date of October 2016.	93,500	-0-	33,000	60,500	33,000
A promissory note with a total amount loaned of \$2,200,000 is due to CoBank. The note requires monthly principal and interest payments at a fixed interest rate per annum with a minimum fixed period of 180 days that is quoted by CoBank with a maturity date of October 2033.	2,189,624	-0-	64,533	2,125,091	68,003
	<u>\$ 39,478,861</u>	<u>\$ -0-</u>	<u>\$ 1,965,363</u>	<u>\$ 37,513,498</u>	<u>\$ 2,071,104</u>

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 and 2013

Note 5. Long-Term Debt (Continued):

The full faith credit and resources of the District have been irrevocably pledged to collateralize all of the revenue bonds and notes payable. A summary of long-term debt for the year ended December 31, 2013, is as follows:

Description	Balance December 31, 2012	Borrowed	Repaid	Balance December 31, 2013	Due Within One Year
Northern Ohio Rural Water borrowed a total of \$34,946,338 from the Ohio Water Development Authority from January 1, 1992 through December 31, 2013 for the Fitchville, Crystal Rock, Green Creek, Baumhart Road, Lime and Ridgefield Township line expansions, tank rehabilitation, garage construction, and membrane pilot study. These notes are being paid in semi-annual installments due on January 1 st and July 1 st , including interest at rates from 2.99% to 7.66%. The maturity dates range from July 1, 2016 through January 1, 2043.	\$ 20,809,502	\$ 3,750	\$ 1,463,729	\$ 19,349,523	\$1,561,663
Water Resource Improvement Revenue Bonds, Series 2003 were issued through the United States Department of Agriculture (USDA) for the purpose of constructing various water resource projects. The total amount loaned is \$4,100,000. The loan requires annual principal and interest payments at 5.00% with a maturity date of December 2043.	3,726,000	-0-	53,000	3,673,000	55,000
Water Resource Improvement Revenue Bonds, Series 2007 were issued through the United States Department of Agriculture (USDA) for the purpose of constructing various water resource projects. The total amount loaned is \$3,600,000. The loan requires annual principal and interest payments at 4.125% with a maturity date of December 2047.	3,400,000	-0-	45,000	3,355,000	47,000
Water Resource Improvement Revenue Bonds, Series 2009 were issued through the United States Department of Agriculture (USDA) for the purpose of constructing various water resource projects. The total amount loaned is \$1,550,000. The loan requires annual principal and interest payments at 4.50% with a maturity date of January 2049.	1,505,000	-0-	17,000	1,488,000	17,000
Water Resource Improvement Revenue Bonds, Series 2009B were issued through the United States Department of Agriculture (USDA) for the purpose of constructing various water resource projects. The total amount loaned is \$4,764,000. The loan requires annual principal and interest payments at 4.25% with a maturity date of December 2049.	4,616,000	-0-	53,000	4,563,000	56,000
A note payable in the amount of \$197,380 is due to Buckeye Community Bank. The loan requires monthly principal and interest payments at the index rate with a maturity date of October 2016.	108,089	-0-	28,197	79,892	28,197
Water Resource Improvement Revenue Bonds, Series 2010 were issued through the United States Department of Agriculture (USDA) for the purpose of constructing various water resource projects. The total amount loaned is \$4,567,000. The loan requires annual interest payments through 2012 at 3.25% with a maturity date of September 2050.	4,567,000	-0-	62,600	4,504,400	64,600
A note payable with a total amount loaned of \$265,000 is due to Buckeye Community Bank. The loan requires monthly principal and interest payments at a rate of 5% with a maturity date of April 2015.	206,830	-0-	23,908	182,922	25,272
A note payable in the amount of \$93,500 is due to the City of Elyria. The loan requires monthly principal payments in the amount of \$2,750 with a maturity date of October 2016.	126,500	-0-	33,000	93,500	33,000
A promissory note with a total amount loaned of \$2,200,000 is due to CoBank. The note requires monthly principal and interest payments at a fixed interest rate per annum with a minimum fixed period of 180 days that is quoted by CoBank with a maturity date of October 2033.	-0-	2,200,000	10,376	2,189,624	64,533
	<u>\$ 39,064,921</u>	<u>\$ 2,203,750</u>	<u>\$ 1,789,810</u>	<u>\$ 39,478,861</u>	<u>\$ 1,952,265</u>

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 and 2013

Note 5. Long-Term Debt (Continued):

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of December 31, 2014, are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 2,071,104	\$ 1,743,049	\$ 3,814,153
2016	2,176,398	1,603,409	3,779,807
2017	1,209,161	1,473,747	2,682,908
2018	1,240,288	1,409,585	2,649,873
2019	1,323,896	1,345,321	2,669,217
2020-2024	6,886,722	5,656,768	12,543,490
2025-2029	5,654,317	3,934,189	9,588,506
2030-2034	4,746,469	2,858,341	7,604,810
2035-2039	4,490,605	1,888,479	6,379,084
2040-2044	3,569,903	1,046,597	4,616,500
2045-2049	2,916,300	364,754	3,281,054
2050-2054	204,400	6,643	211,043
	<u>\$ 36,489,563</u>	<u>\$ 23,330,882</u>	<u>\$ 59,820,445</u>

OWDA loan 5977 for the Chatfield Waterline Project has not been completed and no amortization schedule is available at this time. Accordingly, the schedule above only reflects the January 2015 payment due, but does not reflect future debt service payments for this loan. As of December 31, 2014, the District had borrowed \$1,076,433 with principal paid of \$39,080 and a net outstanding balance of \$1,037,353.

Note 6. Insurance:

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

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

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

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 and 2013

Note 7. Retirement Commitments:

A. Defined Benefit Pension Plans:

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

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

The Ohio Revised Code permits, but does not require, OPERS to provide OPEB benefits to its eligible benefit recipients. Authority to establish and amend health care coverage is provided in Chapter 145 of the Ohio Revised Code.

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

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

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2014, member and employer contribution rates were consistent across all three plans. The rate set for member contributions for 2014 and 2013 is 10.00%, and the employer contribution rate is 14.00% of covered payroll. Total required employer contributions are equal to 100% of employer charges and should be extracted from the employer's records. Pension expense for the year ended December 31, 2014, 2013, 2012, and 2011 is \$184,657, \$191,671, \$205,653, and \$194,582 respectively. For 2014, 91% has been contributed with the balance being reported as part of the total for the accrued expense of payroll taxes. The full amount has been contributed for 2013, 2012 and 2011. Contributions to the member-directed plan for 2014 were \$45,904 made by the plan members.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 and 2013

Note 7. Retirement Commitments (Continued):

B. Post-Employment Benefits:

In order to qualify for post-employment health care coverage, age-and-service retirees under Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45. OPERS' eligibility requirements for post-employment health care coverage changed for those retiring on and after January 1, 2015.

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

Employer contribution rates are expressed as a percentage of the earnable salary of active members. The employer contribution rate is 14.00% of covered payroll from January 1 through December 31, 2013 and 2012, respectively. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members do not fund the OPEB Plan.

OPERS' Post Employment Health Care Plan was established under, and is administered in accordance with Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care. The portion of employer contribution allocated to health care for members in the Traditional Plan was 2.0% during calendar year 2014. Effective January 1, 2015, the portion of employer contributions allocated to healthcare remained at 2.0% for both plans, as recommended by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The rates stated in the preceding paragraph are the statutorily required contribution rates for OPERS. The employer contributions made by Northern Ohio Rural Water used to fund post-employment benefits were \$26,369, \$13,685, \$58,755, and \$55,592 for 2014, 2013, 2012, and 2011 respectively.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4.0% of the employer contributions toward the health care fund after the end of the transition period.

In June 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This accounting standard replaces GASB Statement 27, and it is effective for employer fiscal years beginning after June 15, 2014.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 and 2013

Note 8. Leasing Arrangements:

The District leases one copier under a 63-month operating lease which began in June 2014, and expires in August 2019. This lease requires rent in the amount of \$689 per month.

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

The following is a schedule of future minimum rental payments required under the above operating lease as of December 31, 2014:

<u>Year Ending December 31,</u>	<u>Amount</u>
2015	\$ 8,268
2016	8,268
2017	8,268
2018	8,268
2019	5,512
	<u>\$38,584</u>

Office equipment lease expense for the year ended December 31, 2014 and 2013 was \$10,094 and \$10,821, respectively.

Note 9. Commitments:

A. Water Purchase Agreements:

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

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

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

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

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 and 2013

Note 9. Commitments (Continued):

A. Water Purchase Agreements (Continued):

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

B. Water Supply Agreements:

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

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

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

C. Tower Income:

The District has entered into a lease agreement for renting its antenna space with WaveLinc Communications with an option for one additional year for \$140 per month that expires in October 2015.

D. Sewer Billing Service Agreement:

On January 30, 2011, the District entered into an agreement with the Village of New Washington to provide billing services for sewer, storm sewer, and capital improvement charges by the Village.

E. Land License Agreement:

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

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 and 2013

Note 10. Restricted Funds:

A. Bond Payment Fund:

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

B. Water System Debt Service Reserve Fund:

This fund was created in January 2004 and will be maintained in the custody of the Issuer as a cash fund and shall be used for the purpose of paying the cost of repairing or replacing any damage to the system which may be caused by an unforeseen catastrophe, and when necessary for the purpose of making payments of principal and interest on the bonds when due if the amount in the Bond Payment Fund is not sufficient to meet such payments. The District is required by the bond agreement to make monthly deposits equal to \$8,104 until there is \$972,477 accumulated in the fund, after which no further payments need to be made to the fund except to replace withdrawals therefrom.

C. Restricted Cash:

	<u>2014</u>	<u>2013</u>
Bond Payment Fund	\$140,283	\$211,428
Water System Debt Service Reserve Fund	<u>780,329</u>	<u>573,832</u>
	<u>\$920,612</u>	<u>\$785,260</u>

Note 11. CoBank Investment:

The District has an equity patronage investment with CoBank based on the District's average outstanding loan balance with the bank during the year. The District's average outstanding CoBank loan balance during the year is multiplied by 1% with 75% of the 1% patronage paid to the District in cash and 25% kept in an equity account at the bank until the loan is paid off.

NORTHERN OHIO RURAL WATER

SCHEDULES OF OPERATING EXPENSES

PROPRIETARY FUND TYPE

For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
OPERATING EXPENSES:		
Advertising	\$ 43,648	\$ 39,858
Audit fees	13,879	17,611
Communication equipment	30,283	15,368
Depreciation	1,902,306	1,837,773
Distribution supplies	134,016	116,028
Dues and subscriptions	10,490	9,251
Electric pump station and tanks	189,193	167,299
Engineering fees	14,427	7,739
Gasoline	72,748	85,376
Insurance:		
General	29,143	29,797
Hospitalization	216,760	188,988
Legal and professional fees	117,143	123,903
Licenses and permits	10,899	12,846
Maintenance and repairs:		
Administrative building and equipment	14,643	4,437
Pump stations	0	1,648
Tanks	0	19
Vehicles	49,504	75,034
Office equipment lease	10,094	10,821
Office supplies and expense	61,321	45,432
Payroll taxes	37,441	18,452
O.P.E.R.S.	184,657	191,671
Postage	66,225	61,246
Tap fee refunds	17,125	8,163
Telephone	14,513	12,984
Travel, mileage, and education expense	68,098	72,005
Utilities	31,024	19,865
Wages	847,256	813,448
Water purchased	1,274,587	1,262,485
	<u>\$ 5,461,423</u>	<u>\$ 5,249,547</u>

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

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Dave Yost • Auditor of State

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

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

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Northern Ohio Rural Water, Huron County, Ohio (the District) as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 15, 2015.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

October 15, 2015



Dave Yost • Auditor of State

NORTHERN OHIO RURAL WATER

HURON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 10, 2015**