
NORTHERN OHIO RURAL WATER

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2002 AND 2001

OTHER INFORMATION

INDEPENDENT AUDITORS' REPORT

RADACHI AND COMPANY

Certified Public Accountants and Business Consultants

900 EAST BROAD STREET, SUITE A, ELYRIA, OHIO 44035 • (440) 365-3115 • FAX: (440) 365-4668



**Auditor of State
Betty Montgomery**

Board of Trustees
Northern Ohio Rural Water District
P.O. Box 96
Collins, OH 44826

We have reviewed the Independent Auditor's Report of the Northern Ohio Rural Water District, Huron County, prepared by Radachi and Company, for the audit period January 1, 2001 through December 31, 2002. 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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

August 26, 2003

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NORTHERN OHIO RURAL WATER

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RADACHI AND COMPANY

Certified Public Accountants and Business Consultants

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying general purpose financial statements of Northern Ohio Rural Water (a public subdivision) as of and for the years ended December 31, 2002 and 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of Northern Ohio Rural Water's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audits.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Northern Ohio Rural Water as of December 31, 2002 and 2001, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles in the United States of America.

The Statements of Operating Expenses on page 21 are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2003, on our consideration of Northern Ohio Rural Water's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, and a separate management letter dated June 16, 2003, on recommendations for record keeping. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the result of our audits.

Radachi and Company

June 16, 2003

NORTHERN OHIO RURAL WATER

BALANCE SHEETS

December 31, 2002 and 2001

| | 2002 | 2001 |
|------------------------------------------------------------------------------------------|---------------|---------------|
| <u>ASSETS</u> | | |
| CURRENT ASSETS: | | |
| Cash | \$ 717,241 | \$ 1,130,543 |
| Receivables: | | |
| Trade (net of allowance for doubtful accounts of \$4,244 in 2002 and \$4,321 in 2001) | 196,421 | 193,205 |
| Other | -0- | 8,525 |
| Inventory (Note 1) | 500,519 | 480,400 |
| Prepaid expenses (Note 1) | 294 | 23,146 |
| Total current assets | 1,414,475 | 1,835,819 |
| PROPERTY, PLANT, AND EQUIPMENT, AT COST: (Note 1) | | |
| Land and easements | 406,247 | 278,420 |
| Buildings | 328,191 | 324,026 |
| Tanks, stations, and lines | 27,907,653 | 26,378,125 |
| Furniture and fixtures | 133,225 | 132,735 |
| Vehicles and distribution equipment | 1,123,684 | 1,074,993 |
| | 29,899,000 | 28,188,299 |
| Less: Accumulated depreciation | 6,892,186 | 5,799,207 |
| | 23,006,814 | 22,389,092 |
| Current construction | 566,121 | 1,293,857 |
| | 23,572,935 | 23,682,949 |
| OTHER ASSET: | | |
| Organization costs | 1,000 | 1,000 |
| | \$ 24,988,410 | \$ 25,519,768 |

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

NORTHERN OHIO RURAL WATER

BALANCE SHEETS

December 31, 2002 and 2001

| | <u>2002</u> | <u>2001</u> |
|-------------------------------------------------|----------------------|----------------------|
| <u>LIABILITIES AND RETAINED EARNINGS</u> | | |
| CURRENT LIABILITIES: | | |
| Current portion of long-term debt | \$ 668,901 | \$ 603,935 |
| Note payable - Line of credit (Note 8) | 329,120 | -0- |
| Accounts payable | 475,867 | 230,870 |
| Projects and retainage payable | 19,167 | 380,656 |
| Advance deposits | 47,750 | 49,650 |
| Accrued expenses: | | |
| Wages | 26,787 | 23,985 |
| Compensated absences (Note 1) | 25,318 | 18,672 |
| Payroll taxes | 31,347 | 30,567 |
| Interest | 731,579 | 702,169 |
| Total current liabilities | <u>2,355,836</u> | <u>2,040,504</u> |
| | | |
| LONG-TERM DEBT: (Note 3) | | |
| Notes payable | 21,547,200 | 21,701,975 |
| Less: Current portion | <u>668,901</u> | <u>603,935</u> |
| | 20,878,299 | 21,098,040 |
| | | |
| RETAINED EARNINGS | <u>1,754,275</u> | <u>2,381,224</u> |
| | <u>\$ 24,988,410</u> | <u>\$ 25,519,768</u> |

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

NORTHERN OHIO RURAL WATER

STATEMENTS OF INCOME

Year Ended December 31, 2002 and 2001

| | <u>2002</u> | <u>2001</u> |
|--------------------------|---------------------|-------------------|
| REVENUE: | | |
| Water sales | \$ 3,842,256 | \$ 3,172,743 |
| OPERATING EXPENSES | <u>3,276,248</u> | <u>2,593,567</u> |
| INCOME FROM OPERATIONS | 566,008 | 579,176 |
| OTHER INCOME: | | |
| Discounts earned | 21 | 18 |
| Developer fees | -0- | 499,000 |
| EPA income | 6,106 | 5,725 |
| Hydrant maintenance fees | 1,125 | 1,100 |
| Interest income | 2,511 | 17,543 |
| Miscellaneous | 7,840 | 25,802 |
| Reconnection fees | 20,449 | 13,420 |
| Tower income | 11,861 | 11,231 |
| Tap fees | 260,151 | 478,700 |
| | <u>310,064</u> | <u>1,052,539</u> |
| | 876,072 | 1,631,715 |
| OTHER EXPENSES: | | |
| Bank charges | 5,603 | 6,970 |
| EPA expense | 5,735 | 10,148 |
| Interest expense | 1,491,683 | 1,174,729 |
| | <u>1,503,021</u> | <u>1,191,847</u> |
| NET INCOME (LOSS) | <u>\$ (626,949)</u> | <u>\$ 439,868</u> |

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

See Independent Auditors' Report.

NORTHERN OHIO RURAL WATER

STATEMENTS OF RETAINED EARNINGS

Years Ended December 31, 2002 and 2001

| | <u>2002</u> | <u>2001</u> |
|------------------------------------------|---------------------|---------------------|
| BALANCE - Beginning of year | \$ 2,381,224 | \$ 1,941,356 |
| | | |
| ADDITION (DEDUCTION) - Net income (loss) | <u>(626,949)</u> | <u>439,868</u> |
| | | |
| BALANCE - End of year | <u>\$ 1,754,275</u> | <u>\$ 2,381,224</u> |

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

NORTHERN OHIO RURAL WATER

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2002 and 2001

| | 2002 | 2001 |
|-----------------------------------------------------------------------------------------------|-------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Income from operations | \$ 566,008 | \$ 579,176 |
| Adjustments to reconcile income from operations to net cash provided by operating activities: | | |
| Depreciation | 1,092,978 | 556,876 |
| (Increase) decrease in: | | |
| Receivables | 5,304 | (3,192) |
| Inventory | (20,119) | (160,171) |
| Prepaid expenses | 22,852 | (11,884) |
| Increase (decrease) in: | | |
| Accounts payable | 244,997 | 50,093 |
| Deferred tap deposits | (1,900) | 28,000 |
| Accrued expenses | 39,644 | 249,635 |
| Contractors payable | (198,125) | (368,508) |
| Retainage payable | (163,364) | (24,086) |
| Net cash provided by operating activities | 1,588,275 | 895,939 |
| CASH FLOWS FROM NON-CAPITAL ACTIVITIES: | | |
| Other nonoperating revenues and expenses | 296,215 | 1,017,878 |
| Net cash provided by noncapital activities | 296,215 | 1,017,878 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Purchase and construction of property and equipment | (982,965) | (5,784,330) |
| Proceeds from long-term debt | 320,024 | 5,879,513 |
| Repayment of long-term debt | (474,799) | (479,837) |
| Proceeds from short-term debt | 329,120 | -0- |
| Interest paid on debt | (1,491,683) | (1,174,735) |
| Net cash used in capital and related financing activities | (2,300,303) | (1,559,389) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Interest earned | 2,511 | 17,543 |
| Net cash provided by investing activities | 2,511 | 17,543 |
| INCREASE (DECREASE) IN CASH | (413,302) | 371,971 |
| CASH AND CASH EQUIVALENTS - Beginning of year | 1,130,543 | 758,572 |
| CASH AND CASH EQUIVALENTS - End of year | \$ 717,241 | \$ 1,130,543 |

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

See Independent Auditors' Report.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

Note 1. Summary of Significant Accounting Policies:

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

A. Introduction:

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

B. Basis of Accounting:

Northern Ohio Rural Water prepares its financial statements based on the flow of economic resources (measurement focus) and the accrual basis of accounting. 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 \$15,000, 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, 2002 and 2001

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

D. Inventory:

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

E. Investments:

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

F. Property and Equipment:

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

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

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

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

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

Depreciation expense for the years ended December 31, 2002 and 2001 was \$1,092,978 and \$556,876, respectively.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

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

F. Property and Equipment (Continued):

A summary of changes in property, plant, and equipment for the years ended December 31, 2002 and 2001, is as follows:

| | Balance December 31, 2001 | Additions | Deletions | Balance December 31, 2002 |
|-------------------------------------|---------------------------------|--------------|------------|---------------------------------|
| Land and easements | \$ 278,420 | \$ 127,827 | \$ -0- | \$ 406,247 |
| Buildings | 324,026 | 4,165 | -0- | 328,191 |
| Tanks, stations, and lines | 26,378,125 | 1,529,528 | -0- | 27,907,653 |
| Furniture and fixtures | 132,735 | 490 | -0- | 133,225 |
| Vehicles and distribution equipment | 1,074,993 | 48,691 | -0- | 1,123,684 |
| Subtotal | 28,188,299 | 1,710,701 | -0- | 29,899,000 |
| Current Construction | 1,293,857 | -0- | 727,736 | 566,121 |
| | \$ 29,482,156 | \$ 1,710,701 | \$ 727,736 | \$ 30,465,121 |

A summary of changes in property, plant, and equipment for the years ended December 31, 2001 and 2000, is as follows:

| | Balance December 31, 2000 | Additions | Deletions | Balance December 31, 2001 |
|-------------------------------------|---------------------------------|--------------|-----------|---------------------------------|
| Land and easements | \$ 238,789 | \$ 39,631 | \$ -0- | \$ 278,420 |
| Buildings | 316,346 | 7,680 | -0- | 324,026 |
| Tanks, stations, and lines | 21,645,323 | 4,732,802 | -0- | 26,378,125 |
| Furniture and fixtures | 115,386 | 17,349 | -0- | 132,735 |
| Vehicles and distribution equipment | 947,450 | 127,543 | -0- | 1,074,993 |
| Subtotal | 23,263,294 | 4,925,005 | -0- | 28,188,299 |
| Current Construction | 434,532 | 859,325 | -0- | 1,293,857 |
| | \$ 23,697,826 | \$ 5,784,330 | \$ -0- | \$ 29,482,156 |

G. Prepaid Expenses:

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

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

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

H. Tap Fees:

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

I. Compensated Absences Payable:

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

Sick leave accumulates to employees at a rate of 4.6 hours for every 80 hours of service completed up to specified maximums. Upon an employee reaching 20 years of uninterrupted employment with the District, the employee shall be allowed to accumulate 120 days of sick leave. Upon retirement, employees are entitled to 25% of their accumulated sick leave balance after ten years of uninterrupted service, or 100% of their accumulated sick leave balance after 20 years of uninterrupted service. In the event of the employee's death, 100% of their accumulated sick leave balance would be paid to the employee's life insurance beneficiary. Since the employees' accumulating rights to receive compensation for future absences are contingent upon the absences being caused by future illnesses or death, a liability for unused sick leave is not recorded in the financial statements, unless the employee has accumulated sick leave after 20 years of uninterrupted service, which would be paid in its entirety. The recorded accrued unused vacation for the years ended December 31, 2002 and 2001 was \$25,318 and \$18,672, respectively. The unrecorded estimated unused sick leave for the years ended December 31, 2002 and 2001 was \$101,241 and \$79,625, respectively.

J. Statements of Cash Flows:

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

K. Use of Estimates:

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

See Independent Auditors' Report.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

Note 2. Equity in Pooled Cash and Investment:

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

A. Legal Requirements:

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

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

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

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

Northern Ohio Rural Water has no investments. All monies are maintained in cash accounts.

B. Deposits:

At December 31, 2002 and 2001, the fair market value of the District deposits were \$717,241 and \$1,130,543, and the bank balances were \$782,064 and \$1,212,753, respectively.

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

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

Note 3. Long-Term Debt:

A summary of long-term debt for the year ended December 31, 2002, is as follows:

| Description | Balance December 31, 2001 | Borrowed | Repaid | Balance December 31, 2002 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|-------------------|-------------------|---------------------------------|
| Northern Ohio Rural Water borrowed a total of \$24,507,811 from the Ohio Water Development Authority from January 1, 1992 through December 31, 2002 for the Fitchville, Crystal Rock, Green Creek, and Baumhart Road line expansions. These notes are being paid in semi-annual installments of \$1,049,728 due on January 1 st and July 1 st , including interest at rates from 5.39% to 7.66%. The maturity dates range from July 1, 2016 through January 1, 2027. | \$ 21,585,966 | \$ 320,024 | \$ 433,420 | \$ 21,472,570 |
| Northern Ohio Rural Water borrowed \$119,000 from FirstMerit Bank on April 14, 1994 to purchase the administrative office building. The note is being paid in equal monthly installments of \$1,145, including interest at a rate of 7.5%. The note matures in April 2009, and is secured by the building. | 70,693 | -0- | 11,212 | 59,481 |
| Northern Ohio Rural Water borrowed \$46,358 from Southeastern Equipment Co., Inc., on September 1, 2000 to purchase a Case 4Wheel Drive Forklift. The note is being paid in equal monthly installments of \$1,798 with interest at a rate of 4.75%. The note matures in July, 2002. | 10,789 | -0- | 10,789 | -0- |
| Northern Ohio Rural Water borrowed \$39,230 from Columbus Equipment Company on September 6, 2001 to purchase a Komatsu backhoe loader. The note is being paid in equal monthly installments of \$1,717 with no interest. The note matures in September, 2003. | 34,527 | -0- | 19,378 | 15,149 |
| | <u>\$ 21,701,975</u> | <u>\$ 320,024</u> | <u>\$ 474,799</u> | <u>\$ 21,547,200</u> |

See Independent Auditors' Report.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

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, 2002, are as follows:

| Year Ending December 31, | Amount |
|-----------------------------------|---------------|
| 2003 | \$ 2,128,651 |
| 2004 | 2,113,201 |
| 2005 | 2,113,201 |
| 2006 | 2,113,201 |
| 2007 | 2,109,668 |
| 2008 to 2023 | 28,100,072 |
| Total Principal and Interest | 38,677,994 |
| Less: Interest | 17,130,794 |
| Liability as of December 31, 2002 | \$ 21,547,200 |

A summary of long-term debt for the year ended December 31, 2001, is as follows:

| Description | Balance December 31, 2000 | Borrowed | Repaid | Balance December 31, 2001 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|--------------|------------|---------------------------------|
| Northern Ohio Rural Water borrowed a total of \$25,297,639 from the Ohio Water Development Authority from March 20, 1990 through December 31, 2001 for the Fitchville, Crystal Rock, Green Creek, and Baumhart Road line expansions. These notes are being paid in semi-annual installments of \$670,123 due on January 1 st and July 1 st , including interest at rates from 5.85% to 7.66%. The maturity dates range from January 1, 2001 through January 1, 2023. | \$ 16,158,044 | \$ 5,840,283 | \$ 412,361 | \$ 21,585,966 |
| Northern Ohio Rural Water borrowed \$119,000 from FirstMerit Bank on April 14, 1994 to purchase the administrative office building. The note is being paid in equal monthly installments of \$1,145, including interest at a rate of 7.5%. The note matures in April 2009, and is secured by the building. | 79,482 | -0- | 8,789 | 70,693 |
| Northern Ohio Rural Water borrowed \$129,624 from Komatsu Financial on June 1, 1999 to purchase a hydraulic excavator. The note is being paid in equal monthly installments of \$5,401 with no interest. The note matures in June, 2001. | 32,406 | -0- | 32,406 | -0- |
| Northern Ohio Rural Water borrowed \$46,358 from Southeastern Equipment Co., Inc., on September 1, 2000 to purchase a Case 4-Wheel Drive Forklift. The note is being paid in equal monthly installments of \$1,798 with interest at a rate of 4.75%. The note matures in July, 2002. | 32,367 | -0- | 21,578 | 10,789 |
| Northern Ohio Rural Water borrowed \$39,230 from Columbus Equipment Company on September 6, 2001 to purchase a Komatsu backhoe loader. The note is being paid in equal monthly installments of \$1,717 with no interest. The note matures in September, 2003. | -0- | 39,230 | 4,703 | 34,527 |
| | \$ 16,302,299 | \$ 5,879,513 | \$ 479,837 | \$ 21,701,975 |

See Independent Auditors' Report.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

Note 4. Insurance:

The District is exposed to various tasks of loss related to torts, theft, damage to or destruction of assets, errors and omissions, employee injuries, 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. Real property and contents are 90 percent coinsured.

Settled claims have not exceeded this 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 and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. 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.

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 2002, 2001 and 2000 was 8.50% and the employer contribution rate was 13.55% for 2002, 2001 and January through June of 2000 with a temporary rollback rate of 8.13% for July through December 2000 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 2002, 2001 and 2000 was \$125,113, \$112,712 and \$80,169, respectively.

See Independent Auditors' Report.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

Note 5. Retirement Commitments (Continued):

A. Defined Benefit Pension Plans (Continued):

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

Historical trend information showing the OPERS System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's December 31, 2001 Comprehensive Annual Financial Report.

B. Post-Employment Benefits:

The Ohio Public Employees Retirement System provides post-retirement health care coverage to age and service retirees 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 Post-Employment 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, 2002 and 2001.

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, 2001. The investment assumption rate for 2001 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.

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

Note 5. Retirement Commitments (Continued):

B. Post-Employment Benefits (Continued):

OPEBs are advanced-funded on an actuarially determined basis. The number of active contributing participants in the State of Ohio was 402,041. The employer contributions made by Northern Ohio Rural Water used to fund post-employment benefits were \$46,167 and \$35,764 for 2002 and 2001, respectively. Eleven billion six hundred million dollars (\$11,600,000,000) represents the actuarial value of Retirement Systems' net assets available for OPEB at December 31, 2001. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method, was \$16.4 billion and \$4.8 billion, respectively.

Note 6. Leasing Arrangements:

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

The following is a schedule of future minimum rental payments required under the above operating lease as of December 31, 2002:

| <u>Year Ending December 31,</u> | <u>Amount</u> |
|---------------------------------|------------------|
| 2003 | \$ 5,136 |
| 2004 | 5,136 |
| 2005 | 3,424 |
| | <u>\$ 13,696</u> |

Office equipment lease expense for the years ended December 31, 2002 and 2001 was \$6,171 and \$5,963, respectively.

Note 7. Commitments:

A. Water Purchase Agreements:

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

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

Note 7. Commitments (Continued):

B. Water Supply Agreements:

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

C. Tower Income:

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

Note 8. Line of Credit:

At December 31, 2002, the district has a line of credit with Buckeye Community Bank of \$1,000,000, with \$710,835 unused. The line of credit requires monthly interest payments at the prime rate. The line of credit matures in June, 2003. \$289,165

A note payable in the amount of \$39,955 is due to Buckeye Community Bank. An additional \$4,260,045 is available to be borrowed. The note requires monthly interest payments at 5% with a maturity date of June, 2003. The note is guaranteed by the USDA. 39,955
\$329,120

Note 9. Deferred Tap Deposits:

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

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SUPPLEMENTARY INFORMATION

NORTHERN OHIO RURAL WATER

STATEMENTS OF OPERATING EXPENSES

Years Ended December 31, 2002 and 2001

| | 2002 | 2001 |
|---------------------------------------|--------------|--------------|
| OPERATING EXPENSES: | | |
| Advertising | \$ 113 | \$ 2,233 |
| Audit fees | -0- | 25,191 |
| Communication equipment | 15,417 | 10,505 |
| Depreciation | 1,092,978 | 556,876 |
| Distribution supplies | 136,025 | 330,015 |
| Dues and subscriptions | 2,356 | 3,405 |
| Electric pump station and tanks | 143,440 | 76,015 |
| Engineering fees | 4,310 | 19,495 |
| Gasoline | 26,708 | 26,056 |
| Insurance: | | |
| General | 24,067 | 17,305 |
| Hospitalization | 97,283 | 82,134 |
| Legal and professional fees | 134,389 | 82,036 |
| Licenses and permits | 5,893 | 6,018 |
| Maintenance and repairs: | | |
| Administrative building and equipment | 6,004 | 6,344 |
| Pump stations | 792 | 327 |
| Tanks | 2,373 | 359 |
| Vehicles | 26,114 | 22,664 |
| Water lines | 10,445 | 6,435 |
| Office equipment lease | 6,171 | 5,963 |
| Office supplies and expense | 32,445 | 38,910 |
| O.P.E.R.S. | 125,113 | 112,712 |
| Payroll taxes | 12,647 | 6,850 |
| Postage | 20,099 | 20,281 |
| Tap installations | 55,644 | 120,530 |
| Telephone | 14,539 | 16,379 |
| Travel and education expense | 49,022 | 33,117 |
| Utilities | 14,027 | 13,394 |
| Wages | 584,230 | 484,612 |
| Water purchased | 633,604 | 467,406 |
| | \$ 3,276,248 | \$ 2,593,567 |

See Independent Auditors' Report.

OTHER INFORMATION

NORTHERN OHIO RURAL WATER

APPOINTED OFFICIALS

As of December 31, 2002

| <u>Appointed Officials</u> | <u>Township or Village</u> | <u>Title</u> | <u>Term of Office</u> |
|----------------------------|----------------------------------------|-------------------------|-----------------------|
| Charles Cleavenger | Berlin Township | Trustee | 12/12/99 – 12/12/03 |
| Tom Reese | Bronson Township | Trustee | 12/13/01 – 12/13/05 |
| Ronald Mate | Brownhelm Township | Trustee | 12/15/01 – 12/15/05 |
| Daniel Webber | Clarksfield Township | Trustee | 01/17/02 – 12/17/06 |
| Thomas Cawrse | Fitchville Township | President | 12/13/02 – 12/13/06 |
| Orville Saylor | Florence Township | Trustee | 12/17/00 – 12/17/04 |
| Earl Lowe | Green Creek Township | Trustee | 01/11/01 – 12/11/05 |
| Karl Hurst | Hartland Township | Trustee | 12/15/02 – 12/15/06 |
| W. W. Dees | Huron Township | Vice-President | 12/14/00 – 12/14/04 |
| Keith Kreager | Margaretta Township | Trustee | 11/01/01 – 11/01/05 |
| John Landoll | Milan Township | Trustee | 12/14/00 – 12/14/04 |
| Robert Wilson | Norwalk Township | Trustee | 12/14/02 – 12/14/06 |
| Al Guaderrama | Townsend Township (Huron County) | Trustee | 12/12/99 – 12/12/03 |
| Richard Jones | Townsend Township (Sandusky County) | Trustee | 12/07/01 – 08/27/05 |
| Clarence Wolf | Vermilion Township | Secretary/ Treasurer | 12/14/00 – 12/14/04 |
| Kenneth Green | Wakeman Township | Trustee | 12/13/02 – 12/13/06 |

See Independent Auditors' Report.

NORTHERN OHIO RURAL WATER

ADMINISTRATIVE PERSONNEL

As of December 31, 2002

| <u>Name</u> | <u>Title</u> | <u>Contract Period</u> |
|--------------------|---------------------------|------------------------|
| Anthony Quebodeaux | General Manager | 01/01/02 – 12/31/02 |
| Jim Ruggles | Administrative Supervisor | N/A |

See Independent Auditors' Report.

RADACHI AND COMPANY

Certified Public Accountants and Business Consultants

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

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

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

We have audited the general purpose financial statements of the Northern Ohio Rural Water as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated June 16, 2003. We conducted our audits in accordance with generally accepted auditing standards in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audits of the general purpose financial statements of Northern Ohio Rural Water for the years ended December 31, 2002 and 2001, we considered its internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting.

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

A material weakness is a 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 in amounts that would be material in relation to the general purpose 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Northern Ohio Rural Water in a separate letter dated June 16, 2003.

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

Radachi and Company

June 16, 2003

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**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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
SEPTEMBER 18, 2003**