NORTHERN OHIO RURAL WATER

SINGLE AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2011

Varney, Fink & Associates, Inc.
Certified Public Accountants

Dave Yost • Auditor of State

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

We have reviewed the *Independent Accountants' Report* of the Northern Ohio Rural Water District, Huron County, prepared by Varney, Fink & Associates, Inc., for the audit period January 1, 2011 through December 31, 2011. 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.

Dave Yost
Auditor of State

November 28, 2012

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NORTHERN OHIO RURAL WATER
FOR THE YEAR ENDED DECEMBER 31, 2011

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VARNEY, FINK & ASSOCIATES, INC.

CERTIFIED PUBLIC ACCOUNTANTS
121 College Street
Wadsworth, Ohio 44281
330.336.1706 Fax 330.334.5118

INDEPENDENT ACCOUNTANTS' REPORT

Northern Ohio Rural Water
Huron County
PO Box 96
Collins, OH 44826

To the Board of Trustees:

We have audited the accompanying financial statements of the business-type activities and remaining fund information of Northern Ohio Rural Water, Huron County (the District), as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and remaining fund information of Northern Ohio Rural Water, Huron County, as of December 31, 2011, and the changes in financial position and where applicable, cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2012, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include Management's Discussion and Analysis, as 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The Statement of Operating Expenses provide**s** additional analysis and is not a required part of the financial statements. The Schedule of Expenditures of Federal Awards provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profits Organizations,* and is also not a required part of the basic financial statements. The Statement of Operating Expenses and the Schedule of Expenditures Federal Awards are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. This statement and schedule were subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information 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, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Varney, Fink & Associates

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

September 19, 2012

NORTHERN OHIO RURAL WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2011

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

Overview of Basic Financial Statements

The District is described in Note 1, Description of Entity, on page thirteen (13). The Basic Financial Statements are presented using the accrual basis of accounting as further described in Note 2, Summary of Significant Accounting Policies. The **Statement of Net Assets** includes all of the District's Assets and Liabilities. This statement provides information about the nature and amounts of investments in resources (assets) owned by the District, and obligations owed by the District (liabilities) on December 31. The District's net assets (equity) are the difference between assets and liabilities. The **Statement of Revenues, Expenses and Changes in Net Assets** provides information on the District'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 the District'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 Assets of the District.

TABLE I

			2011 vs 2010	
	2011	2010	Dollar Change	Percent Change
Current and other assets	$2,743,300	$2,193,134	$550,166	25.1%
Capital assets	49,324,835	46,218,341	3,106,494	6.7%
Total assets	$52,068,135	$48,411,475	$3,656,660	7.6%
Current liabilities	$3,564,634	$3,590,649	($26,015)	-0.7%
Long-term liabilities	38,275,147	37,862,264	412,883	1.1%
Total liabilities	$41,839,781	$41,452,913	$386,868	0.9%
Invested in capital assets, net of related debt	9,843,053	7,395,111	2,447,942	33.1%
Restricted	581,968	414,658	167,310	40.3%
Unrestricted	(196,667)	(851,207)	654,540	-76.9%
Total net assets	$10,228,354	$6,958,562	$3,269,792	47.0%

- The total assets of the District exceeded liabilities on December 31, 2011 by $10,228,354.

- The District's net assets increased $3,269,792 in 2011.

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

TABLE II

			2011 vs 2010	
	2011	2010	Dollar Change	Percent Change
Operating revenue	$7,680,494	$6,936,482	$744,012	10.7%
Operating expenses	(5,269,851)	(5,038,790)	(231,061)	4.6%
Income from operations	2,410,643	1,897,692	533,141	27.0%
Non-operating revenue	2,849,114	101,221	2,747,893	2714.7%
Non-operating expenses	(1,989,965)	(1,928,209)	(61,756)	3.2%
Non-operating loss	859,149	(1,826,988)	2,686,137	147.0%
Change in net assets	3,269,792	70,704	3,199,088	4524.6%
Beginning net assets	6,958,562	6,887,858	70,704	1.0%
Ending net assets	$10,228,354	$6,958,562	$3,269,792	47.0%

- The District's Operating Revenues increased in 2011 by $744,012 (11%), while Operating Expenses increased $231,061 (4.6%).

Significant Events and Expenditures During the Year:

The District has applied for funding from USDA Rural Development for line extensions into Cranberry and Auburn Townships which are located in Crawford County, Sherman Township, Ripley Township, Richmond Township, Norwich Township, Greenwich Township, Peru Township, and Greenfield Township which are located in Huron County, and Reed Township which is located in Seneca County.

The District has applied for and received funding from the Ohio Water Development Authority for the improvement of a pressure zone in Berlin Township which is located in Erie County and for line extensions into Chatfield Township in Sandusky County. Additional information in regards to funding received is included in the notes to the financial statements.

NORTHERN OHIO RURAL WATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2011

Capital Assets:

Table III summarizes the changes in capital assets for the year ended December 31, 2011.

TABLE III

			2011 vs 2010	
	2011	2010	Dollar Change	Percent Change
Capital assets, nondepreciable:				
Land	$385,034	$378,389	$6,645	1.8%
Easements	303,638	294,049	9,589	3.3%
Current construction	251,093	3,050,561	(2,799,468)	-91.8%
Assets held for future use	745,823	745,823	0	0.0%
Capital assets, depreciable:				
Buildings	603,255	599,570	3,685	0.6%
Tanks, stations, and lines	64,663,728	57,014,283	7,649,445	13.4%
Furniture and fixtures	327,032	290,098	36,934	12.7%
Vehicles & distribution equip.	2,081,816	2,084,367	(2,551)	-0.1%
Total before depreciation	69,361,419	64,457,140	4,904,279	7.6%
Accumulated depreciation	(20,036,584)	(18,238,799)	(1,797,785)	
Total capital assets, net	$49,324,835	$46,218,341	$3,106,494	

The District has $69,361,419 invested in its system (before depreciation) at December 31, 2011. This amount includes additions of $7,949,517 and deletions of $3,045,238 during the year ended December 31, 2011.

The increase in water lines in the amount of $6,752,763 is the result of projects in Crawford, Erie, Huron, Lorain, and Sandusky, and Seneca Counties.

The increase in pump stations of $593,418 is the result of two stations that were built with one in Reed Township in Seneca County and the other in Cranberry Township in Crawford County.

See Note 4, Capital Assets, for further details of the various additions to capital assets.

Long-Term Debt

Table IV summarizes long-term debt for the District.

TABLE IV

	2011	2010	2011 vs 2010 Dollar Change	2011 vs 2010 Percent Change
Long term debt:				
OWDA Notes	$21,141,967	$22,220,844	($1,078,877)	-4.9%
Rural Development Bonds	17,974,000	16,186,764	1,787,236	11.0%
Buckeye Community Bank Notes	365,815	415,622	(49,807)	-12.0%
Total long-term debt	39,481,782	38,823,230	658,552	1.7%
Less: Current maturities	(1,570,597)	(1,483,068)	(87,529)	5.9%
Net total long-term debt	$37,911,185	$37,340,162	$571,023	1.5%

See Note 5 Long-Term Debt for details of issuance and retirement of debt for the year ended December 31, 2011.

Contact Information

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

NORTHERN OHIO RURAL WATER

STATEMENT OF NET ASSETS

PROPRIETARY FUND TYPE

December 31, 2011

ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$1,431,428
Restricted cash	208,067
Receivables:	
Trade (net of allowance for doubtful accounts of $8,114)	386,219
Other	9,548
Inventory	326,815
Prepaid expenses	6,322
Total current assets	2,368,399
NONCURRENT ASSETS:	
Restricted cash	373,901
Capital assets, nondepreciable:	
Land	385,034
Easements	303,638
Current construction	251,093
Assets held for future use	745,823
Capital assets, depreciable:	
Buildings	603,255
Tanks, stations, lines, meters, and taps	64,663,728
Furniture and fixtures	327,032
Vehicles and distribution equipment	2,081,816
	69,361,419
Less accumulated depreciation	(20,036,584)
	49,324,835
Total noncurrent assets	49,698,736
OTHER ASSET:	
Organization costs	1,000
Total assets	$52,068,135

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

NORTHERN OHIO RURAL WATER

STATEMENT OF NET ASSETS

PROPRIETARY FUND TYPE

December 31, 2011

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable	$461,145
City of Elyria payable	33,000
Projects and retainage payable	505,692
Tenant deposits	90,050
Accrued expenses:	
Wages	36,657
Compensated absences	58,477
Payroll taxes	58,755
Interest	750,261
Current portion of long-term debt	1,570,597
Total current liabilities	3,564,634
NONCURRENT LIABILITIES:	
Future tap installations	237,462
City of Elyria payable	126,500
Notes payable	21,507,782
Bonds payable	17,974,000
	39,845,744
Less current portion	(1,570,597)
Total noncurrent liabilities	38,275,147
Total liabilities	41,839,781
NET ASSETS:	
Invested in capital assets, net of related debt	9,843,053
Restricted for bonds payable	581,968
Unrestricted	(196,667)
Total net assets	$10,228,354

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

NORTHERN OHIO RURAL WATER

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

PROPRIETARY FUND TYPE

For the Year Ended December 31, 2011

OPERATING REVENUES:	
Water sales	$6,857,454
Tap fees	823,040
	7,680,494
OPERATING EXPENSES	5,269,851
INCOME FROM OPERATIONS	2,410,643
NON-OPERATING REVENUES:	
Credit card fees	4,039
Discounts earned	858
EPA income	16,961
Interest income	11,195
Line maintenance reimbursements	14,703
Miscellaneous	18,771
Reconnection fees	28,127
Tower income	1,760
Insurance recoveries	1,712
Sewer billing service fees	9,548
Gain on disposal of assets	15,127
USDA Grant income	2,726,313
	2,849,114
NON-OPERATING EXPENSES:	
Uncollectible accounts expense	501
EPA expense	17,014
Interest expense	1,972,450
	1,989,965
CHANGE IN NET ASSETS	3,269,792
NET ASSETS, Beginning of Year	6,958,562
NET ASSETS, End of Year	$10,228,354

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

NORTHERN OHIO RURAL WATER

STATEMENT OF CASH FLOWS

PROPRIETARY FUND TYPE

For the Year Ended December 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	$7,706,773
Cash payments to suppliers for goods and services	(2,080,832)
Cash payments for employees and professional contractors for services	(1,220,209)
Net cash provided by operating activities	4,405,732
CASH FLOWS FROM NON-CAPITAL ACTIVITIES:	
Proceeds from hydrant maintenance and reconnection fees	28,127
Proceeds from discounts earned, EPA, and tower income, net	2,565
Proceeds from line maintenance reimbursements	14,703
Proceeds from insurance recoveries	1,712
Proceeds from sale of assets	15,127
Other non-operating revenue, net	31,857
Net cash provided by non-capital activities	94,091
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase of equipment and new construction	(5,428,027)
Proceeds from USDA Grant	2,726,313
Proceeds from long-term debt	2,137,217
Repayment of principal on long-term debt	(1,478,665)
Interest paid on debt	(1,968,724)
Net cash used in capital and related financing activities	(4,011,886)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earned	11,195
Net cash provided by investing activities	11,195
INCREASE IN CASH AND CASH EQUIVALENTS	499,132
CASH AND CASH EQUIVALENTS - Beginning of period	1,514,264
CASH AND CASH EQUIVALENTS - End of period	$2,013,396

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

NORTHERN OHIO RURAL WATER

STATEMENT OF CASH FLOWS

PROPRIETARY FUND TYPE

For the Year Ended December 31, 2011

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Income from operations	$2,410,643
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	1,842,535
Changes in net assets and liabilities:	
(Increase) decrease in:	
Receivables	26,279
Inventory	(75,513)
Prepaid expenses	(1,800)
Increase (decrease) in:	
Accounts payable	176,460
Tenant tap deposits	7,550
Accrued expenses	19,578
Net cash provided by operating activities	$4,405,732

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

NORTHERN OHIO RURAL WATER

STATEMENT OF ASSETS AND LIABILITIES

FIDUCIARY FUND TYPE

December 31, 2011

	Agency
ASSETS	
Cash and cash equivalents	$24,805
Receivables	8,033
Total assets	$32,838
LIABILITIES	
Undistributed monies	$32,838

See accompanying notes to the basic financial statements

NORTHERN OHIO RURAL WATER

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

Note 1. Description of Entity:

Northern Ohio Rural Water, (the 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 for the purpose of providing a water supply for domestic, industrial, and public use to users within and outside 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 the regional water district. The following is a summary of significant accounting policies:

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. Under the guidelines of GASB Statement No. 20, the Authority has elected not to apply Financial Accounting Standards Board Statements (FASB) and Interpretations issued after November 30, 1989 to its proprietary activities. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principals Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating 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, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Proprietary fund reporting focuses on changes in net assets, 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 be financed or recovered primarily through user charges.

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

A. Basis of Presentation and Accounting (Continued):

Fiduciary fund reporting focuses on net assets and changes in net assets. 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.

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 $25,000, provided there are sufficient funds appropriated and remaining in the account 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 to any purpose or object for which the appropriation for the current fiscal year has proved insufficient.

C. Inventory:

Inventory, which consist of raw materials, is stated using the dollar cost average method of accounting. Inventories are recorded as expenditures when consumed rather than when purchased.

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

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

D. Capital Assets (Continued):

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.

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. Upon an employee reaching 20 years of uninterrupted employment with the District, the employee shall be allowed to accumulate an unlimited total of sick leave days. Upon retirement, employees are entitled to 25% of their accumulated sick leave balance after ten years of uninterrupted service, or 100% of their accumulated sick leave balance after 20 years of uninterrupted service. In the event of the employee's death, 100% of their accumulated sick leave balance would be paid to the employee's life insurance beneficiary. Since the employees' accumulating rights to receive compensation for future absences are contingent upon the absences being caused by future illnesses or death, a liability for unused sick leave is not recorded in the financial statements, unless the employee has accumulated sick leave after 20 years of uninterrupted service, which would be paid in its entirety. The recorded accrued unused vacation for the year ended December 31, 2011 was $58,477. The unrecorded estimated unused sick leave for the year ended December 31, 2011 was $265,584.

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.

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

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, actual results may differ from estimated amounts.

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.

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.

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

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

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, 2011, the carrying amount of all District deposits was $2,038,201. Based on the criteria described in GASB statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2011, $1,723,716 of the District's bank balance of $2,286,095 was exposed to custodial risk, while $562,379, 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.

Note 4 Capital Assets:

A summary of changes in capital assets for the year ended December 31, 2011, is as follows:

	Balance January 1, 2011	Additions	Deletions	Balance December 31, 2011
Capital assets, nondepreciable:				
Land	$378,389	$6,645	$0	$385,034
Easements	294,049	9,589	0	303,638
Current construction lines	3,050,561	201,020	(3,000,488)	251,093
Assets held for future use	745,823	0	0	745,823
Capital assets, depreciable:				
Buildings	599,570	3,685	0	603,255
Tanks, stations, lines, meters, and taps	57,014,283	7,649,445	0	64,663,728
Furniture and fixtures	290,098	36,934	0	327,032
Vehicles and distribution equipment	2,084,367	42,199	(44,750)	2,081,816
Totals	64,457,140	7,949,517	(3,045,238)	69,361,419
Less accumulated depreciation				
Buildings	(159,263)	(15,078)	0	(174,341)
Tanks, stations, lines, meters, and taps	(16,098,737)	(1,693,443)	0	(17,792,180)
Furniture and fixtures	(232,200)	(29,356)	0	(261,556)
Vehicles and distribution equipment	(1,748,599)	(104,658)	44,750	(1,808,507)
Total accumulated depreciation	(18,238,799)	(1,842,535)	44,750	(20,036,584)
Net capital assets	$46,218,341	$6,106,982	($3,000,488)	$49,324,835

Note 4 Capital Assets (Continued):

Depreciation expense for the year ended December 31, 2011 was $1,842,535.

Current construction at December 31, 2011 included capitalized construction period interest of $119 that was incurred. Total interest cost incurred was $1,972,450.

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 continues to evaluate the viability of this project.

Note 5. Long-Term Debt:

A summary of long-term debt for the year ended December 31, 2011, is as follows:

Description	Balance January 1, 2011	Borrowed	Repaid	Balance December 31, 2011	Due Within One Year
Northern Ohio Rural Water borrowed a total of $32,677,453 from the Ohio Water Development Authority from January 1, 1992 through December 31, 2011 for water line extensions, water system expansions and various other activities directly related to providing water service to surrounding communities. These notes are being paid in semi-annual installments due on January 1st and July 1st, including interest at rates from 2.99% to 7.66%. The maturity dates range from July 1, 2016 through January 1, 2043.	$22,220,844	$194,981	$1,273,858	$21,141,967	$1,359,512
Water Resource Improvement Revenue Bonds, Series 2003 were issued through the United States Department of Agriculture (USDA) for the purposes of constructing various water resource projects. The total amount loaned is $4,100,000. The loan requires annual principal and interest payments at 5.00% with a maturity date of December 2043.	3,824,000	-0-	48,000	3,776,000	50,000
Water Resource Improvement Revenue Bonds, Series 2007 were issued through the United States Department of Agriculture (USDA) for the purposes of constructing certain improvements to the water distribution system known as the Sandusky County water line project. 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.	3,485,000	-0-	41,000	3,444,000	44,000

Note 5. Long-Term Debt (Continued):

Description	Balance January 1, 2011	Borrowed	Repaid	Balance December 31, 2011	Due Within One Year
Water Resource Improvement Revenue Bonds Series 2009 were issued through the United States Department of Agriculture (USDA) for the purposes of acquiring certain improvements known as the Holiday Lake Water System. 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.	1,536,000	-0-	16,000	1,520,000	15,000
Water Resource Improvement Revenue Bonds Series 2009B were issued through the United States Department of Agriculture (USDA) for the purposes of constructing certain improvements to the water distribution system known as the Seneca County water lines project. 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.	4,717,000	-0-	50,000	4,667,000	51,000
Water Resource Improvement Revenue Bonds Series 2010 were issued through the United States Department of Agriculture (USDA) for the purposes of constructing various water resource projects. The total amount loaned is $4,567,000. The loan requires annual principal and interest payments at 3.25% with a maturity date of September 2050.	2,624,764	1,942,236	-0-	4,567,000	-0-
A note payable in the amount of $197,380 is due to Buckeye Community Bank. The loan requires monthly principal and interest payments at a variable index rate with a maturity date of September 2016.	164,483	-0-	28,197	136,286	28,917
A note payable in the amount 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.	251,139	-0-	21,610	229,529	22,168
	$38,823,230	$2,137,217	$1,478,665	$39,481,782	$1,570,597

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, 2011, are as follows:

Year Ending December 31,	Principal	Interest	Total
2012	$1,570,597	$1,926,000	$3,496,597
2013	1,733,750	1,830,279	3,564,029
2014	1,841,724	1,726,113	3,567,837
2015	2,087,385	1,610,406	3,697,791
2016	2,049,624	1,490,699	3,540,323
2017-2021	5,918,703	6,229,503	12,148,206
2022-2026	6,644,794	4,578,500	11,223,294
2027-2031	3,845,601	3,269,560	7,115,161
2032-2036	4,452,310	2,446,902	6,899,212
2037-2041	4,036,658	1,530,668	5,567,326
2042-2046	3,420,936	752,728	4,173,664
2047-2050	1,879,700	152,358	2,032,058
Total	$39,481,782	$27,543,716	$67,025,498

Note 6. Insurance:

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

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

Note 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 a defined benefit and defined contribution plan.

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

Note 7. Retirement Commitments (Continued):

A. Defined Benefit Pension Plans (Continued):

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a publicly available stand-alone financial report. Interested parties may obtain a copy by visiting https://www.opers.org/investments/cafr.shtml, writing to the OPERS at 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 statutorily authority for employee and employer contributions. For 2011, member and employer contribution rates were consistent across all three plans. The rate set for employee contributions for 2011 is 10% and the employer contribution rate is 14% of covered payroll. The rates are the actuarially determined contribution requirements for OPERS. Required employer contributions are equal to 100% of employer charges and should be extracted from the employer's records. The difference between the total employer rate and the portion used to fund pension obligations is the amount used to fund the health care programs. Pension expense for the years ended December 31, 2011, 2010, and 2009 was $194,582, $199,828 and $203,809, respectively.

B. Post-Employment Benefits:

In order to qualify for post-employment health care coverage, age-and-service retirees under Traditional Pension and Combined Plans with 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 Postemployment Benefit (OPEB) as described in GASB Statement No. 45.

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 benefits.

Note 7. Retirement Commitments (Continued):

B. Post-Employment Benefits (Continued):

Employer contribution rates are expressed as a percentage of the covered payroll of active members. The employer contribution rates is 14% of covered payroll from January 1 through December 31, 2011. The Ohio Revised Code currently limits the employer contribution rate not to exceed 14% of covered payrolls are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB Plan.

OPERS's Post Employment Health Care Plan was established under, and is administered in accordance with Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 4.0% during calendar year 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar year 2011. The portion of employer contributions allocated to health care for the calendar year beginning January 1, 2012 remained the same, but they are subject to change based on Board action. Employers will be notified if the portion allocated to health care changes during calendar year 2012. The OPERS Board of Trustees is also authorized to establish rules for the payment by the retiree or their surviving beneficiaries of a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The rates stated in the preceding paragraph are the contractually required contribution rates for OPERS. The employer contributions made by Northern Ohio Rural Water used to fund post-employment benefits were $55,592, $72,864, and $86,117 for 2011, 2010 and 2009 respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will be effective January 1, 2007. Member and employer contribution rates increased as of January 1 of each year from 2006 to 2008, which will allow additional funds to be allocated to the health care plan.

Note 8. Leasing Arrangements:

The District leases one copier under a 60 month operating lease which began in January 2010 and expires in December 2014. This lease requires rent in the amount of $512 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 leases as of December 31, 2011:

Note 8. Leasing Arrangements (Continued):

Year Ending December 31,	Amount
2012	$6,612
2013	6,612
2014	6,612
	$19,836

Office equipment lease expense for the year ended December 31, 2011 was $6,594.

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 entered into a 40-year 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 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.

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 the first 100,000 gallons, $1.98 per thousand gallons for the 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.

Note 9. 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.

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 purchase 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 an agreement for renting its antenna space with Bender Communications on a month-to-month basis for $135 per month.

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.

Note 10. Restricted Funds:

A. Bond Payment Fund:

This fund was created and will be maintained in the custody of the District as a cash fund and shall be used for the payment of principal and interest on USDA bonds when due. The District is required by bond agreements 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 payment date.

Note 10. Restricted Funds (Continued):

B. Water System Debt Service Reserve Fund:

This fund was created in January 2004 and will be maintained in the custody of the District 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 bond agreements 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:

	2011
Bond Payment Fund	$208,067
Water System Debt Service Reserve Fund	373,901
	$581,968

Note 11. City of Elyria Payable:

A payable in the amount of $159,500 is due to the City of Elyria in monthly installments of $2,750 through October 2016.

The annual payable requirements to maturity as of December 31, 2011 are as follows:

Year Ending December 31,	Amount
2012	$33,000
2013	33,000
2014	33,000
2015	33,000
2016	27,500
	$159,500

Note 12. Subsequent Events:

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through September 19, 2012, the date the financial statements were issued.

NORTHERN OHIO RURAL WATER

STATEMENT OF OPERATING EXPENSES

PROPRIETARY FUND TYPE

For the Year Ended December 31, 2011

OPERATING EXPENSES:		
Advertising	$	33,125
Audit fees		14,464
Communication equipment		8,958
Depreciation		1,842,535
Distribution supplies		106,926
Dues and subscriptions		6,615
Electric pump station and tanks		151,802
Engineering fees		9,808
Gasoline		104,022
Insurance:		
General		27,113
Hospitalization		208,563
Legal and professional fees		97,303
Licenses and permits		20,046
Maintenance and repairs:		
Administrative building and equipment		7,240
Pump stations		1,430
Tanks		2,986
Vehicles		48,107
Office equipment lease		7,778
Office supplies and expenses		32,713
Payroll taxes		43,387
O.P.E.R.S.		194,582
Postage		59,293
Tap fee refunds		20,190
Telephone		14,926
Travel and education expense		77,759
Utilities		18,902
Wages		862,958
Water purchased		1,246,320
	$	5,269,851

VARNEY, FINK & ASSOCIATES, INC.

CERTIFIED PUBLIC ACCOUNTANTS
121 College Street
Wadsworth, Ohio 44281
330.336.1706 Fax 330.334.5118

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

Northern Ohio Rural Water
Huron County
PO Box 96
Collins, OH 44826

To the Board of Trustees:

We have audited the financial statements of the business-type activities and remaining fund information of Northern Ohio Rural Water, Huron County (the District), as of and for the year ended December 31, 2011 which collectively comprise the District's basic financial statements and have issued our report thereon dated September 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards.*

Internal Control Over Financial Reporting

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

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 more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

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

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, providing an opinion 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*.

We did note a certain matter not requiring inclusion in this report that we reported to the District's management in a separate letter dated September 19, 2012.

We intend this report solely for the information and use of management, the Board of Trustees, others within the District, and federal awarding agencies. It is not intended for anyone other than these specified parties.

Varney, Fink & Associates

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

September 19, 2012

VARNEY, FINK & ASSOCIATES, INC.

CERTIFIED PUBLIC ACCOUNTANTS
121 College Street
Wadsworth, Ohio 44281
330.336.1706 Fax 330.334.5118

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Northern Ohio Rural Water
Huron County
PO Box 96
Collins, OH 44826

To the Board of Trustees:

Compliance

We have audited the compliance of Northern Ohio Rural Water, Huron County (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect Northern Ohio Rural Water's major federal program for the year ended December 31, 2011. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, Northern Ohio Rural Water complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal program for the year ended December 31, 2011.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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

We intend this report solely for the information and use of management, the Board of Trustees, others within the District, and federal awarding agencies. It is not intended for anyone other than these specified parties.

Varney, Fink & Associates

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

September 19. 2012

Northern Ohio Rural Water
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2011

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture			
Water and Waste Disposal Systems for Rural Communities			
- Guaranteed/Insured Loans	10.760	-	$1,942,236
- Project Grants	10.760	-	2,726,313
Total U.S. Department of Agriculture			$4,668,549

The note to this Schedule is an integral part of this Schedule.

NORTHERN OHIO RURAL WATER

NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505

FOR THE YEAR ENDED DECEMBER 31, 2011

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of financial statement opinion	Unqualified
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the financial statement level?	No
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level?	No
(d)(1)(iii)	Was there any material noncompliance reported at the financial statement level?	No
(d)(1)(iv)	Were there any material weaknesses in internal control over major federal programs reported?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control over major federal programs reported?	No
(d)(1)(v)	Type of major federal programs' compliance opinion	Unqualified
(d)(1)(vi)	Were there any reportable audit findings under §510?	No

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505

FOR THE YEAR ENDED DECEMBER 31, 2011
(CONTINUED)

(d)(1)(vii)	Major Programs:	Water and Waste Disposal Systems for Rural Communities, CFDA #10.760
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > $300,000 Type B: none
(d)(1)(ix)	Low Risk Auditee?	Yes

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

   None

3. **FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

   None

4. **PRIOR FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

   None

Dave Yost • Auditor of State

NORTHERN OHIO RURAL WATER DISTRICT

HURON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 11, 2012

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