EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 1998-1997

JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

Eastern Ohio Regional Wastewater Authority
Belmont County
P.O. Box 508
Bridgeport, Ohio 43912

To the Board of Trustees:

We have audited the accompanying general purpose financial statements of Eastern Ohio Regional Wastewater Authority, Belmont County, Ohio (the Authority), as of and for the years ended December 31, 1998 and 1997. These general purpose financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Eastern Ohio Regional Wastewater Authority, Belmont County, as of December 31, 1998 and 1997, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 29, 2000, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Jim Petro
Auditor of State

February 29, 2000

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BALANCE SHEET
AS OF DECEMBER 31, 1998 AND 1997

	1998	1997
Assets:		
Equity in Pooled Cash and Cash Equivalents	$6,101,786	$4,324,918
Accounts Receivable	256,497	243,677
Accrued Interest Receivable	21,692	21,530
Investments:		
Certificates of Deposit		200,000
Inventory	199	873
Fixed Assets (Net of Accumulated Depreciation)	9,765,192	8,812,945
Prepaid Expenses	34,031	31,085
Total Assets	$16,179,397	$13,635,028
Liabilities and Equity:		
Liabilities:		
Accounts Payable	$15,722	$30,349
Accrued Wages and Benefits	71,788	66,817
Accrued Bond and Note Interest Payable	12,250	
Accrued Professional Services	8,525	1,197
OWDA Loan Payable	1,488,482	1,571,112
Bond Anticipation Note Payable	3,500,000	
Total Liabilities	5,096,767	1,669,475
Equity:		
Contributed Capital	8,482,553	8,313,566
Retained Earnings, Unreserved	2,600,077	3,651,987
Total Equity	11,082,630	11,965,553
Total Liabilities and Equity	$16,179,397	$13,635,028

The notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN EQUITY
AS OF DECEMBER 31, 1998 AND 1997

	1998	1997
Operating Revenues:		
Charges for Services	$1,879,873	$1,801,940
Other Operating Revenue	38,623	13,094
Total Operating Revenues	1,918,496	1,815,034
Operating Expenses:		
Operating Expenses	1,259,544	1,263,688
Administrative Expenses	367,327	329,732
Depreciation Expense	329,893	351,703
Total Operating Expenses	1,956,764	1,945,123
Operating Income (Loss)	(38,268)	(130,089)
Non-Operating Revenue:		
Other Non-Operating Revenue	290	456
Interest Income	187,876	254,878
Total Non-Operating Revenues	188,166	255,334
Non-Operating Expenses:		
Bond Interest Expense	200,783	203,012
Amortized Long-Term Debt Expense	1,104	1,786
Discounts on Services	19,604	19,747
Loss on Bad Debts	2,400	2,400
Loss on Disposal of Fixed Asset	934,797	753,023
EPA Civil Penalty		231,422
Miscellaneous Expenses	43,120	
Total Non-Operating Expenses	1,201,808	1,211,390
Net Income (Loss)	(1,051,910)	(1,086,145)
Equity at Beginning of Year	11,965,553	13,043,181
Increase in Contributed Capital	168,987	8,517
Equity at End of Year	$11,082,630	$11,965,553

The notes to the financial statements are an integral part of this statement.

STATEMENT OF CASH FLOWS
AS OF DECEMBER 31, 1998 AND 1997

	1998	1997
Cash Flows from Operating Activities:		
Cash Received from Customers	$1,845,050	$1,760,472
Other Operating Revenue	38,623	13,095
Cash Payments to Suppliers of Goods and Services	(632,528)	(647,284)
Cash Payments to Employees for Services	(999,757)	(948,829)
Net Cash Provided by Operating Activities	251,388	177,454
Cash Flows from Capital and Related Financing Activities:		
Increase in Fixed Assets	(2,057,220)	(249,170)
Proceeds from Sale of Equipment	40	2,464
Principal Paid on Revenue Bond Maturities		(250,000)
Proceeds from Sale of Note Issue	3,500,000	
Principal Paid on OWDA Loans	(82,630)	(73,777)
Interest Paid on Bonds and OWDA Loans	(188,533)	(203,012)
Payment to EPA-Civil Penalty		(231,421)
Proceeds from Issue II Grant	9,229	
Grant Given to the City of Bellaire	(43,120)	
Net Cash Provided by/Used for Capital and Related Financing Activities	1,137,766	(1,004,916)
Cash Flows from Investing Activities:		
Net Decrease in Investment Activities	200,000	524,804
Interest Earned on Investments	187,714	253,779
Net Cash Provided by/Used in Investing Activities	387,714	778,583
Net Increase/Decrease in Cash and Cash Equivalents	1,776,868	(48,879)
Equity in Pooled Cash and Cash Equivalents, January 1	4,324,918	4,373,797
Equity in Pooled Cash and Cash Equivalents, December 31	$6,101,786	$4,324,918
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income(Loss)	($38,268)	($130,089)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation Expense	329,893	351,703
Discounts on Services Rendered	(19,604)	(19,747)
Discounts on Purchases	291	456
Change in Assets and Liabilities:		
(Increase) Decrease in Inventory	673	684
(Increase) Decrease in Accounts Receivable	(15,220)	(21,720)
(Increase) Decrease in Prepaid Expenses	(4,050)	3,326
Increase (Decrease) in Accounts Payable	(14,627)	6,414
Increase (Decrease) in Accrued Liabilities	12,300	(13,573)
Total Adjustments	289,656	307,543
Net Cash Provided by Operating Activities	$251,388	$177,454

The notes to the financial statements are an integral part of this statement.

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NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997

1. DESCRIPTION OF ENTITY

The Belmont County Sewer Authority No. One, which is now renamed to Eastern Ohio Regional Wastewater Authority, was established June 4, 1958, by journal entry in the Court of Common Pleas, Belmont County, Ohio, to provide for the collection and disposal of storm and sanitary sewage. It is being governed by an appointed Board of Trustees. The Authority is defined by Section 6119.01 of the Ohio Revised Code.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The accounting policies of the Authority conform to generally accepted accounting principles as applicable to enterprise funds.

Pursuant to GASB Statement No. 20: *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the Authority follows GASB guidance as applicable to proprietary funds and *Financial Accounting Standards Board Statements and Interpretations*, *Accounting Principles Board Opinions* and *Accounting Research Bulletins* issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

B. Basis of Presentation

Enterprise funds are accounted for in the manner similar to private business enterprises where the intent of management is that the costs and expenses of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges and where management has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control and accountability.

Enterprise funds are accounted for on the accrual basis of accounting. Their revenues are recognized in the period earned and expenses are recognized in the period incurred.

Inventory is stated at cost.

Grant amounts are recorded in the period, when entitlement occurs, as capital contributions

Because some accounts may not be paid in full, an allowance for doubtful accounts is recorded. Increases to the allowance are recorded by a provision for bad debts recorded to expense. Estimating the risk of loss on any account is necessarily subjective. Accordingly, the allowance is maintained by management at a level considered adequate to cover possible losses that are currently anticipated based on past experience, general economic conditions, information about specific account situations, and other factors and estimates which are subject to change over time. While management may periodically allocate portions of the allowance for specific problem accounts, the whole allowance is available for any bad debts that occur. An account is charged off by management as a loss when deemed uncollectible, although collection efforts continue and future recoveries may occur.

The Authority is a nonprofit governmental agency and, therefore, is exempt from federal income taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Cash and Investments

To improve cash management, cash received by the Authority is pooled. Monies for all accounts are maintained in this pool. Individual account integrity is maintained through the Authority's records. Each acount's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" and "Investments" on the balance sheet.

During 1998 and 1997, investments were limited to repurchase agreements and certificates of deposit.

Nonparticipating investment contracts such as repurchase agreements are reported at cost.

For the purposes of the statement of cash flows and for presentation of the balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

D. Property, Plant, Equipment, and Depreciation

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not included or capitalized.

Property, plant and equipment of the Authority are recorded at cost. Property, plant, and equipment donated are recorded at their estimated fair value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant and equipment reflected are stated at historical cost (or estimated historical cost) and are updated for the cost of additions and retirements during the year. Depreciation has been provided on a straight-line basis over the following estimated useful lives:

Assets	Years
Sewer Lines	50
Buildings	45
Building Improvements	45
System Infrastructure	20
Vehicles	10
Computer Equipment	10
Office Equipment	10

3. CHANGE IN ACCOUNTING PRINCIPLES

The Authority has implemented GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans." Under new Internal Revenue Service guidelines, assets of the plan are held in trust for the benefit of the participants and their beneficiaries. The Ohio Public Employees Deferred Compensation Board established a trust fund on September 1, 1998. The Authority has no fiduciary responsibility for the trust so the amount held for Authority employee participants is no longer presented on the Authority's financial statements.

4. EQUITY IN POOLED CASH AND INVESTMENTS

The Authority maintains a cash and investments pool.

Legal Requirements
Monies in the accounts of the Authority, except as otherwise provided in any resolution authorizing the issuance of its sewer revenue bonds or in any trust agreement securing the same, in excess of current needs, may be invested in notes, bonds, or other obligations of the United States or of any agency or instrumentality thereof, or in obligations of this state or any political subdivision thereof.

Deposits
At December 31, 1998 and December 31, 1997, the carrying amount of the Authority's deposits were $212,786 and $350,918, respectively, and the bank balance was $283,061 and $368,478, respectively. The bank balance was fully covered by federal depository insurance or by collateral held by the Authority’s agent in the Authority’s name.

Investments
The Authority's investments are categorized below to give an indication of the level of risk assumed by the Authority at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Authority's name.

At December 31, 1998, the Authority’s investment balances were as follows:

	Category 3	Carrying Amount	Fair Value
Repurchase Agreements	$5,889,000	$5,889,000	$5,889,000

At December 31, 1997, the Authority’s investment balances were as follows:

	Category 2	Category 3	Carrying Amount	Fair Value
Certificate of Deposit	$200,000	$0	$200,000	$200,000
Repurchase Agreements		$3,974,000	$3,974,000	$3,974,000
Totals	$200,000	$3,974,000	$4,174,000	$4,174,000

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997
(Continued)

5. LONG-TERM OBLIGATIONS

Debt outstanding at December 31, 1998, consisted of the following:

O.W.D.A. Loans		1998
	Principal Outstanding	$1,488,482
	Interest Rate	12%
Bond Anticipation Note		
	Principal Outstanding	$3,500,000
	Interest Rate	4.2%

The Ohio Water Development Authority (O.W.D.A.) Loan is for utility construction projects. Property and revenue of the utility facilities have been pledged to repay this debt.

The Bond Anticipation Note was issued to pay for the costs of constructing improvements to the Authority's sewer collection and treatment system.

The annual requirements to amortize all debt outstanding as of December 31, 1998, including interest payments of $1,234,574, are as follows:

	1998	
Year Ending December 31:	O.W.D.A. Loan	Bond Anticipation Note
1999	$135,582	$3,647,000
2000	271,164	0
2001	271,164	0
2002	271,164	0
2003	271,164	0
2004-2008	1,355,818	0
Total	$2,576,056	$3,647,000

6. RISK MANAGEMENT

The Authority is exposed to various risks related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During 1998 and 1997, the Authority contracted with Westfield Insurance Company for property and general liability insurance, including boiler and machinery coverage.

Vehicles are covered by Westfield Insurance Company and hold a $100 to $1000 deductible. Automobile liability coverage has a $1,000,000 limit for collision, and a $1,000,000 limit for bodily injury.

The Authority pays the State Workers' Compensation System a premium based on a rate per $100 of salaries. This rate is calculated based on accident history and administrative costs.

The Authority provides life insurance, accidental death and dismemberment insurance to its employees.

The Authority contracts with the Health Plan and Advantage Health for hospitalization and prescription insurance for all employees and elected officials. The Authority pays 100 percent of the total monthly premiums, which are as follows:

	1998	1997
Health Plan		
Family Coverage	$419.07	$419.07
Individual Coverage	152.39	152.39
Advantage Health		
Family Coverage	373.29	373.29
Individual Coverage	144.23	144.23

Dental care coverage is provided by Delta Dental and eye care coverage is provided by Vision Service Plan. Plans are paid from the same funds that pay the employees' salaries.

Settled claims have not exceeded any aforementioned commercial coverage in any one of the past three years.

7. COMPENSATED ABSENCES

All full-time employees of the Authority earn vacation leave at varying rates depending on length of service. All accumulated, unused vacation leave time is paid upon separation. The following schedule details earned annual leave based on length of service.

Years of Employment	Vacation Leave
1 - 7 years	10 days
8 - 14 years	15 days
15 - 24 years	20 days
25 years or more	25 days

7. COMPENSATED ABSENCES (Continued)

Full-time employees earn 4.62 hours per pay period of sick leave. Upon retirement or death, any unused sick leave will be paid to the employee or his/her estate at the rate of twenty dollars ($20.00) per day up to a maximum of three hundred days. In accordance with Governmental Accounting Standards Board Statement No. 16, "Accounting for Compensated Absences", vacation and sick leave is accrued as a liability when an employee's right to receive compensation is attributable to services already rendered and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement.

8. DEFINED BENEFIT PENSION PLANS

Public Employees Retirement System

All full-time employees of the Authority participate in the Public Employees Retirement System of Ohio ("PERS"), a cost-sharing multiple employer public employee retirement system administered by the Public Employees Retirement Board. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations and the Authority is required to contribute 9.35 percent. Contribution rates are authorized by State Statute. The contribution rates are determined actuarially. The Authority's required contributions to PERS for the years ended December 31, 1998, 1997, and 1996 were $102,125, $94,717 and $60,612, respectively. The full amounts have been contributed for 1997 and 1996. 80 percent has been contributed for 1998, with the remainder being reported as a fund liability.
The Authority is enrolled in the employer pick-up program, whereby all full-time employees' salaries are reduced 8.5 percent and the Authority, in turn, contributes the employees' share of their retirement contribution.

9. POSTEMPLOYMENT BENEFITS

Public Employees Retirement System

The Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipient of such retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement Number 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care based on authority granted by State Statute. The 1998 and 1997 employer contribution rate was 13.55 percent of covered payroll for employees; 4.2 and 5.11 percent, respectively, were the portions that were used to fund health care for 1998 and 1997.

For 1998 and 1997, benefits were funded on a pay-as-you-go basis. OPEB are financed through employer contributions and investment earnings. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely. During 1998 and 1997, OPEB expenditures made by PERS were $440,596,663 and $393,559,827, respectively. As of December 31, 1998 and December 31, 1997, the unaudited estimated net assets available for future OPEB payments were $9,447,325,318 and $8,292,570,002, respectively. At December 31, 1998 and December 31, 1997, the total number of benefit recipients eligible for OPEB through PERS was 115, 579 and 113,906, respectively. The Authority's contributions for 1998 and 1997 which were used to fund OPEB were $4,477 and $5,101, respectively

10. FIXED ASSETS

A summary of the Authority's fixed assets at December 31, 1998 and December 31, 1997, is as follows:

	1998	1997
Land	$122,932	$122,932
Building and Building Improvements	10,536,882	11,625,670
Sewer Lines	2,942,031	2,942,031
Furniture, Fixtures, and Equipment	60,947	58,010
Construction In Progress	2,311,431	225,337
Total	15,974,223	14,973,980
Accumulated Depreciation	(6,209,031)	(6,161,035)
Net Fixed Assets	$9,765,192	$8,812,945

11. CONTRIBUTED CAPITAL

During 1998 and 1997, respectively, the following changes to contributed capital reported by the Authority:

	1998	1997
Balance at January 1	$8,313,566	$8,305,049
Contributions	168,987	8,517
Balance at December 31	$8,482,553	$8,313,566

12. PENDING LITIGATION

At December 31, 1998 and December 31, 1997, the Authority was a party to a lawsuit brought forth by the Authority's former Plant Superintendent. The final outcome of such case has not been ultimately determined and no effect on the Authority's financial statements could be determined.

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REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Eastern Ohio Regional Wastewater Authority
Belmont County
P.O. Box 508
Bridgeport, Ohio 43912

To the Board Of Trustees:

We have audited the financial statements of Eastern Ohio Regional Wastewater Authority, Belmont County, Ohio, (the Authority), as of and for the years ended December 31, 1998 and 1997, and have issued our report thereon dated February 29, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its 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 audit 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 audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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 financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Authority in a separate letter dated February 29, 2000.

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

Jim Petro
Auditor of State

February 29, 2000

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EASTERN OHIO REGIONAL WASTEWATER AUTHORITY

BELMONT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
APRIL 11, 2000