

**Eastern Ohio Regional
Wastewater Authority**

Audited Financial Statements

December 31, 2004 and 2003



**Auditor of State
Betty Montgomery**

Board of Trustees
Eastern Ohio Regional Wastewater Authority
P.O. Box 508
Bridgeport, Ohio 43912

We have reviewed the *Independent Auditor's Report* of the Eastern Ohio Regional Wastewater Authority, Belmont County, prepared by Rea & Associates, Inc., for the audit period January 1, 2003 through December 31, 2004. 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 Eastern Ohio Regional Wastewater Authority is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

September 21, 2005

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**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

August 4, 2005

The Board of Trustees
Eastern Ohio Regional Wastewater Authority
6000 North Guernsey St.
Bellaire, Ohio 43906

Independent Auditor's Report

We have audited the accompanying basic financial statements of Eastern Ohio Regional Wastewater Authority (the Authority), Belmont County, Ohio, as of and for the years ended December 31, 2004 and 2003, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Eastern Ohio Regional Wastewater Authority as of December 31, 2004 and 2003, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, Eastern Ohio Regional Wastewater Authority implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 4, 2005 on our consideration of Eastern Ohio Regional Wastewater Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. 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 results of our audit.

The Management's Discussion and Analysis is not a required part of the basic 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.

Rea & Associates, Inc.

Eastern Ohio Regional Wastewater Authority

Management's Discussion and Analysis For the Year Ended December 31, 2004

The discussion and analysis of the Eastern Ohio Regional Wastewater Authority's (the "Authority") financial performance provides an overall review of the Authority's financial activities for the fiscal year ended December 31, 2004. The intent of this discussion and analysis is to look at the Authority's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Authority's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- Total net assets increased \$221,702, which represents a 2.4% increase from 2003.
- Total assets decreased \$82,622.
- Total liabilities decreased by \$304,324 in 2004.
- Outstanding debt decreased from \$5,409,871 to \$5,053,104.

Using this Annual Financial Report

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements consist of the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets, the Statements of Cash Flows and the accompanying notes to the financial statements. These statements report information about the Authority as a whole and about its activities. The Authority is a single enterprise fund using proprietary fund accounting, which means these statements are presented in a manner similar to a private-sector business. The statements are presented using the economic resources measurement focus and the accrual basis of accounting.

The Statements of Net Assets presents the Authority's financial position and reports the resources owned by the Authority (assets), obligations owed by the Authority (liabilities) and the Authority net assets (the difference between assets and liabilities). The Statements of Revenues, Expenses and Changes in Net Assets presents a summary of how the Authority's net assets changed during the year. Revenue is reported when earned and expenses are reported when incurred. The Statements of Cash Flows provides information about the Authority's cash receipts and disbursements during the year. It summarizes 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.

Eastern Ohio Regional Wastewater Authority
Management's Discussion and Analysis
For the Year Ended December 31, 2004

Financial Analysis of the Authority's Financial Position and Results of Operations

Table 1 provides a summary of the Authority's net assets for 2004, 2003 and 2002. The Authority implemented Governmental Accounting Standards Board Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" in 2003. Certain reclassifications have been made to restate the 2002 financial statements in order to conform to the 2003 presentation.

(Table 1)
Changes in Net Assets

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Assets			
Current and Other Assets	\$ 2,845,378	\$ 2,425,604	\$2,156,765
Capital Assets	<u>11,668,860</u>	<u>12,171,256</u>	<u>12,607,144</u>
Total Assets	<u>14,514,238</u>	<u>14,596,860</u>	<u>14,763,909</u>
Liabilities			
Long-Term Liabilities	4,846,076	5,222,225	5,540,495
Other Liabilities	<u>370,950</u>	<u>299,125</u>	<u>295,116</u>
Total Liabilities	<u>5,217,026</u>	<u>5,521,350</u>	<u>5,835,611</u>
Net Assets			
Invested in Capital Assets Net of Debt	7,867,258	8,117,700	8,315,262
Restricted	320,262	322,686	321,263
Unrestricted (Deficit)	<u>1,109,692</u>	<u>635,124</u>	<u>291,773</u>
Total Net Assets	<u><u>\$ 9,297,212</u></u>	<u><u>\$ 9,075,510</u></u>	<u><u>\$8,928,298</u></u>

Net assets for 2004 and 2003 increased due to an increase in cash and cash equivalents and a reduction in long-term debt. A minimal sewer rate increase improved total billings for both years.

Eastern Ohio Regional Wastewater Authority
Management's Discussion and Analysis
For the Year Ended December 31, 2004

Table 2 shows the changes in net assets for fiscal year 2004, 2003 and 2002, as well as revenue and expense comparisons. This will enable the reader to draw further conclusion about the Authority's financial status and possibly project future problems.

(Table 2)
Changes in Net Assets

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<i>Operating Revenues:</i>			
Charges for Services	\$ 2,764,924	\$ 2,739,846	\$ 2,543,856
Other Operating Revenues	12,900	9,750	7,242
<i>Non-Operating Revenues:</i>			
Interest Income	18,477	12,970	19,716
Total Revenues	<u>2,796,301</u>	<u>2,762,566</u>	<u>2,570,814</u>
<i>Operating Expenses:</i>			
Cost of Operations	1,530,798	1,488,353	1,492,692
Administrative Expenses	233,844	227,523	218,602
Depreciation Expenses	512,778	518,778	504,390
Bad Debt Expense	3,900	3,150	2,900
<i>Non-Operating Expenses:</i>			
Bond and Loan Interest	284,559	333,069	364,557
Amortized Long Term Debt	8,720	8,720	8,720
Other Non-operating Expenses	0	35,761	8,720
Total Expenses	<u>2,574,599</u>	<u>2,615,354</u>	<u>2,600,581</u>
<i>Change in Net Assets</i>	221,702	147,212	(29,767)
<i>Net Assets Beginning of Year</i>	<u>9,075,510</u>	<u>8,928,298</u>	<u>8,949,345</u>
Net Assets End of Year	<u><u>\$ 9,297,212</u></u>	<u><u>\$ 9,075,510</u></u>	<u><u>\$ 8,919,578</u></u>

As mentioned previously, total long-term debt has been reduced with a corresponding reduction in interest expense. A reduction in the total workforce through attrition has reduced increases to salaries and wages and fringe benefits.

Substantial increases in industrial customer surcharges for high strength wastes increased total charges for services for the year. These surcharges decreased in 2004.

Eastern Ohio Regional Wastewater Authority
Management's Discussion and Analysis
For the Year Ended December 31, 2004

Capital Assets and Debt Administration

Capital Assets

At the end of 2004 and 2003, the Authority had \$11,668,860 and \$12,171,256 invested in capital assets, net of depreciation, respectively. Table 3 shows fiscal year 2004, 2003 and 2002 balances. Note 7 provides capital asset activity during 2004 and 2003.

(Table 3)
Capital Assets at December 31
(Net of Depreciation)

	2004	2003	2002
Land	\$ 122,932	\$ 122,932	\$ 122,932
Sewer Lines	688,329	747,170	806,011
Pumping & Ejector Stations	604,537	663,474	722,411
Treatment Plant	10,231,415	10,616,566	10,935,205
Furniture and Fixtures	21,647	21,114	20,585
Totals	\$ 11,668,860	\$ 12,171,256	\$ 12,607,144

There were no major capital acquisitions for 2003 and 2004. Depreciation expense accounted for the majority of the net decreases in assets.

Debt

The outstanding debt for the Authority as of December 31, 2004 and 2003 was \$5,053,104 and \$5,709,185 with \$243,780 and \$253,866 due within one year. Table 4 summarizes outstanding debt.

(Table 4)
Outstanding Debt, at December 31

	2004	2003	2002
OWDA Loans	\$ 737,454	\$ 900,552	\$ 1,046,174
Bank Loan Payable	765,650	859,320	913,011
Revenue Bonds	3,550,000	3,650,000	3,750,000
<i>Total</i>	\$ 5,053,104	\$ 5,409,872	\$ 5,709,185

Brief description of debt issues (year issued, purpose, etc.) and additional information concerning the Authority's debt can be found in Note 7 to the basic financial statements.

Eastern Ohio Regional Wastewater Authority
Management's Discussion and Analysis
For the Year Ended December 31, 2004

Current Financial Issues

The current economic climate in Belmont County has improved somewhat over the past year. The Authority's customer base has remained relatively stable over the past several years after a number of declining years. Billings to residential and commercial accounts continues to increase slightly. The Authority's residential sewer rate of \$19.00 remains 42.9% below the Ohio statewide average of \$33.25. The last rate increase was implemented in 2004. No increase is expected in the next fiscal year.

Contacting the Authority's Finance Department

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact David I. Thomas, Executive Director, Eastern Ohio Regional Wastewater Authority, P.O. Box 508, Bridgeport, OH 43912, by telephone at (740) 676-5911 or e-mail to dthomas@eorwa.com.

**Eastern Ohio Regional Wastewater Authority
Belmont County**

*Statements of Net Assets
For the Years ended December 31, 2004 and 2003*

	<u>2004</u>	<u>2003</u>
ASSETS:		
<i>Current Assets:</i>		
Cash and Cash Equivalents	\$ 1,285,451	\$ 879,965
Accounts Receivable (Net of Allowance for Doubtful Accounts)	527,742	513,738
Accrued Interest Receivable	2,395	851
Inventory	6,677	4,177
Prepaid Assets	28,387	26,011
<i>Total Current Assets</i>	<u>1,850,652</u>	<u>1,424,742</u>
<i>Fixed Assets (Net of Accumulated Depreciation)</i>	11,668,860	12,171,256
<i>Restricted Assets:</i>		
Cash and Cash Equivalents	502,866	497,858
Cash and Cash Equivalents with Fiscal and Escrow Agent	320,262	322,686
<i>Total Restricted Assets</i>	<u>823,128</u>	<u>820,544</u>
<i>Other Assets:</i>		
Loans Receivable	6,009	6,009
Unamortized Long Term Debt	165,589	174,309
<i>Total Other Assets</i>	<u>171,598</u>	<u>180,318</u>
TOTAL ASSETS	<u><u>\$ 14,514,238</u></u>	<u><u>\$ 14,596,860</u></u>
LIABILITIES AND EQUITY:		
<i>Current Liabilities:</i>		
Accrued Wages and Benefits	\$ 36,078	\$ 29,664
Accounts Payable	44,238	12,394
Revenue Bonds Payable	105,000	100,000
O.W.D.A Payable	86,165	76,933
Bank Loan Payable	52,615	46,962
Accrued Interest Payable	14,217	14,525
Other Accrued Liabilities	32,637	18,647
<i>Total Current Liabilities</i>	<u>370,950</u>	<u>299,125</u>
<i>Non-Current Liabilities:</i>		
Revenue Bonds Payable	3,445,000	3,550,000
O.W.D.A Payable	651,289	823,619
Bank Loan Payable	713,035	812,357
Severance Payable	36,752	36,249
<i>Total Non-Current Liabilities</i>	<u>4,846,076</u>	<u>5,222,225</u>
TOTAL LIABILITIES	5,217,026	5,521,350
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt	7,867,258	8,117,700
Net Assets		
Restricted:		
Restricted for Debt Service	320,262	322,686
Restricted for Capital Improvements	502,866	497,858
Unrestricted	606,826	137,266
TOTAL NET ASSETS	<u>9,297,212</u>	<u>9,075,510</u>
TOTAL LIABILITIES AND EQUITY	<u><u>\$ 14,514,238</u></u>	<u><u>\$ 14,596,860</u></u>

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

**Eastern Ohio Regional Wastewater Authority
Belmont County**

*Statements of Revenue, Expenses and Changes in Net Assets
For the Years ended December 31, 2004 and 2003*

	<u>2004</u>	<u>2003</u>
<i>Operating Revenues:</i>		
Charges for Services	\$ 2,764,924	\$ 2,739,846
Other Operating Revenues	12,900	9,750
<i>Total Operating Revenues</i>	<u>2,777,824</u>	<u>2,749,596</u>
<i>Operating Expenses:</i>		
Cost of Operations	1,530,798	1,488,353
Administrative Expenses	233,844	227,523
Depreciation Expenses	512,778	518,778
Bad Debt Expense	3,900	3,150
<i>Total Operating Expenses</i>	<u>2,281,320</u>	<u>2,237,804</u>
Operating Income	496,504	511,792
<i>Non-Operating Revenues:</i>		
Interest Income	18,477	12,970
<i>Non-Operating Expenses:</i>		
Bond and Loan Interest	284,559	333,069
Amortized Long Term Debt	8,720	8,720
Other Non-operating Expense	0	35,761
<i>Total Non-Operating Expenses</i>	<u>293,279</u>	<u>377,550</u>
Net Income	221,702	147,212
<i>Net Assets at Beginning of Year</i>	<u>9,075,510</u>	<u>8,928,298</u>
Net Assets at End of Year	<u>\$ 9,297,212</u>	<u>\$ 9,075,510</u>

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

**Eastern Ohio Regional Wastewater Authority
Belmont County**

*Statements of Cash Flows
For the Years Ended December 31, 2004 and 2003*

	<u>2004</u>	<u>2003</u>
Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows from Operating Activities:		
Cash received from customers	\$ 2,746,961	\$ 2,657,211
Other operating revenues	12,900	9,750
Cash payments for goods and services	(475,972)	(547,728)
Cash payments for employee services and benefits	<u>(1,240,736)</u>	<u>(1,183,599)</u>
Net cash provided by operating activities	1,043,153	935,634
Cash Flows from Capital and Related Financing Activities:		
Payments for capital acquisitions	(10,382)	(82,890)
Proceeds from sale of revenue bonds	0	0
Proceeds from bank loans	0	916,428
Principal paid on revenue bonds	(100,000)	(100,000)
Interest paid on revenue bonds	(174,302)	(177,903)
Principal paid on OWDA loan	(163,098)	(145,623)
Interest paid on OWDA loan	(63,039)	(101,104)
Principal paid on bank loans	(93,670)	(973,566)
Interest paid on bank loans	(47,525)	(50,094)
Contingent liability settlement	0	(35,761)
Net cash used for capital and related financing activities	<u>(652,016)</u>	<u>(750,513)</u>
Cash Flows from Investing Activities:		
Interest earned on investments	16,933	13,019
Loan made to Village of Bridgeport	0	(6,009)
Net cash provided by investing activities	<u>16,933</u>	<u>7,010</u>
Net increase in cash and cash equivalents	408,070	192,131
<i>Cash and cash equivalents beginning of year</i>	<u>1,700,509</u>	<u>1,508,378</u>
<i>Cash and cash equivalents at end of year</i>	<u><u>\$ 2,108,579</u></u>	<u><u>\$ 1,700,509</u></u>
Reconciliation of Operating Gain (Loss) to Net Cash Provided by Operating Activities:		
Operating income	\$ 496,504	\$ 511,792
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	512,778	518,778
Bad debt expense	3,900	3,150
Changes in assets and liabilities:		
(Increase) Decrease in accounts receivable	(17,904)	(82,773)
(Increase) Decrease in inventory	(2,500)	646
(Increase) Decrease in prepaid expenses	(2,376)	(493)
Increase (Decrease) in accounts payable	31,843	(21,891)
Increase (Decrease) in accrued liabilities	<u>20,908</u>	<u>6,425</u>
Total adjustments	<u>29,971</u>	<u>(98,086)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 1,043,153</u></u>	<u><u>\$ 935,634</u></u>

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

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

NOTE 1: DESCRIPTION OF ENTITY

The Belmont County Sewer Authority No. One, which currently operates as the Eastern Ohio Regional Wastewater Authority, Belmont County (the "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. The Wastewater Authority is governed by an appointed four member Board of Trustees. One Board member is appointed by the City of Martins Ferry, one member each is appointed by the Villages of Bellaire, Bridgeport and Brookside. The Wastewater Authority provides water and sewer services to residents of the participating members and its operations are defined by Section 6119.01 of the Ohio Revised Code. The Wastewater Authority has no component units.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Eastern Ohio Regional Wastewater Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Pursuant to GASB Statement No. 20: *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the Wastewater Authority follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board (FASB) Interpretations, Accounting Principles Board Opinions (APBO), and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

A. Basis of Presentation

The Wastewater Authority's basic financial statements consist of a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows.

The Wastewater Authority uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Wastewater Authority functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Wastewater Authority combines the various funds into a single enterprise fund for financial statement reporting purposes.

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of management is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

B. Measurement Focus and Basis of Accounting

All enterprise funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. Net assets (i.e., equity) is segregated into invested in capital assets, net of related debt, restricted for purpose, and unrestricted components. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Wastewater Authority finances and meets the cash flow needs of its enterprise activity.

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The Wastewater Authority uses the accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Unbilled service charges receivable are recognized as revenue at year end. Expenses are recognized at the time they are incurred.

C. Cash and Cash Equivalents

Cash balances of the Wastewater Authority's enterprise fund, except cash held by a trustee or fiscal agent, are invested in cash and short-term investments in order to provide improved cash management. During the audit period, investments were limited to repurchase agreements, which are reported at cost.

For purposes of the statement of cash flows and for presentation on the balance sheet, investments with original maturities of three months or less are considered cash equivalents.

D. Restricted Assets

Certain resources are restricted on the balance sheet for repayment of revenue bonds in accordance with applicable bond covenants and for capital improvements in accordance with an agreement with the State of Ohio.

E. Inventory of Supplies

Inventories are stated at cost and are determined on a first-in, first-out basis. The costs of inventory items are recorded as expenses when used.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond the balance sheet date are recorded as prepaid items using the consumption method. A current asset for prepaid amounts is recorded at the time of payment, and an expense is reported at the time the services are consumed.

G. Property, Plant and Equipment and Depreciation

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not included or capitalized. Property, plant and equipment of the Wastewater Authority are recorded at their estimated fair values upon the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The Wastewater Authority's policy is to capitalize net interest on construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project and the interest earned from temporary investment on debt proceeds. Capitalized interest is amortized on the straight line basis over the estimated useful life of the asset. For 2004 and 2003 there was no capitalized interest.

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Property, Plant and Equipment and Depreciation (Continued)

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:

<u>Description</u>	<u>Estimated Lives</u>
Sewer Lines	50 Years
Buildings	30-45 Years
Building Improvements	10-45 Years
Vehicles	10 Years
Office Equipment	10-15 Years

H. Accounts Receivable

Accounts receivable are reflected at their gross value reduced by the estimated amount that is expected to be uncollectible. Increases to the allowance are recorded by a provision for bad debt expense. 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.

Management considers all accounts receivable to be collected in full and may periodically allocate portions of the allowance for specific problem accounts, with the whole allowance available for any debts that occur. An account is charged off by management as a loss when deemed uncollectible, although most delinquent accounts receivable may be certified and collected as a special assessment, subject to foreclosure for nonpayment.

I. Compensated Absences

Government Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*, specifies the methods used to accrue liabilities for leave benefits. Vacation and benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate employees for the benefits through paid time off or some other means. Sick leave benefits are accrued using the vesting method. The liability is based on the sick leave accumulated at December 31 by those employees who are currently eligible to receive termination payments and by those employees for whom it is probable they will become eligible to receive termination benefits in the future.

The Wastewater Authority records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The Wastewater Authority records a liability for accumulated unused sick leave for all employees which meet established eligibility requirements. Upon termination, 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.

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Long-Term Obligations

The Wastewater Authority records fund obligations not expected to be financed within one year by available financial resources as long-term debt, which consisted of revenue bonds, Ohio Water Development Authority loans, and a bank loan.

K. Bond Discount and Issuance Costs

The Wastewater Authority has deferred and elected to amortize bond discount and issuance costs over the life of the bonds using the straight-line method. The election to amortize bond discount and issuance costs using the straight-line method does not materially depart from accounting principles generally accepted in the United States of America (GAAP). Issuance costs are reported as unamortized long-term debt within the financial statements.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Wastewater Authority or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The Wastewater Authority applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

M. Revenues and Expenses

Operating revenues and expenses result from providing wastewater conveyance and treatment services. Operating revenues consist of user charges for sewage services based on water consumption and flat rates for residential properties. Operating expenses include the cost of these sewer services, including administrative expenses.

N. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 3: CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2003, the Wastewater Authority has implemented GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments;" GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus," and GASB Statement No. 38, "Certain Financial Statement Note Disclosures." At December 31, 2002, there was no effect on the total net assets balance as a result of implementing these statements.

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

NOTE 4: EQUITY IN POOLED CASH AND CASH EQUIVALENTS

State statutes classify monies held by the Wastewater Authority 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 Wastewater Authority 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 the Board of Trustees have identified as not required for use within the current five-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 accounts, including passbook accounts.

Protection of the Wastewater Authority'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 treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public money deposited within the institution.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States.
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies of instrumentalities.
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

NOTE 4: EQUITY IN POOLED CASH AND CASH EQUIVALENTS (Continued)

6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interest rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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 Wastewater Authority, 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 treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements*.

Undeposited Cash: The Wastewater Authority had \$158 and \$175 at December 31, 2004 and 2003, respectively, in undeposited cash on hand. This is included on the statement of net assets of the Wastewater Authority as part of "Cash and Cash Equivalents."

Deposits: The carrying amount of the Wastewater Authority's deposits at December 31, 2004 and 2003 were \$578,421 and \$396,334, respectively, and the bank balances were \$597,563 and \$426,838, respectively. At December 31, 2004 and 2003, \$155,292 and \$104,152 was covered by federal depository insurance, respectively, with the remaining balance collateralized by securities held by the pledging financial institutions' trust department in the Wastewater Authority's name. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Wastewater Authority's deposits held to a successful claim by the FDIC.

Investments: The Wastewater Authority's investments are required to be categorized to give an indication of the level of risk assumed by the Wastewater Authority at year end. Category 1 includes investments that are insured or registered of for which the securities are held by the Wastewater Authority or its agent in the Wastewater 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 Wastewater 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 Wastewater Authority's name.

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

NOTE 4: EQUITY IN POOLED CASH AND CASH EQUIVALENTS (Continued)

At December 31, 2004, the Wastewater Authority's investment balances were as follows:

	Category 3	Carrying Amount	Fair Value
Repurchase Agreements	\$ 1,530,000	\$ 1,530,000	\$ 1,530,000

At December 31, 2003, the Wastewater Authority's investment balances were as follows:

	Category 3	Carrying Amount	Fair Value
Repurchase Agreements	\$ 1,304,000	\$ 1,304,000	\$ 1,304,000

The classification of cash and cash equivalents, and investments on the financial statements is based on criteria set forth in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*.

A reconciliation between the classifications of cash and cash equivalents and investments on the financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	December 31, 2004		December 31, 2003	
	Cash and Cash Equivalents	Investments	Cash and Cash Equivalents	Investments
	GASB Statement No. 9	\$ 2,108,579	\$ 0	\$ 1,700,509
Repurchase Agreements	(1,530,000)	1,530,000	(1,304,000)	1,304,000
Undeposited Cash	(158)	0	(175)	0
GASB Statement No. 3	\$ 578,421	\$ 1,530,000	\$ 396,334	\$ 1,304,000

NOTE 5: RECEIVABLES

Receivables at year end consisted of accounts (which include billed and unbilled charged services) and interest. Accounts receivable for the audit period, including the applicable allowances for uncollectible accounts, are as follows:

	Amounts at 12/31/2004	Amounts at 12/31/2003
Gross Receivable	\$ 529,444	\$ 515,841
Less: Allowance for Doubtful Accounts	(1,702)	(2,103)
Net Receivables	\$ 527,742	\$ 513,738

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

NOTE 6: CAPITAL ASSETS

A summary of the Wastewater Authority's capital assets at December 31, 2003:

	Balance 12/31/2002	Additions	Deletions	Balance 12/31/2003
Non-depreciable:				
Land	\$ 122,932	\$ 0	\$ 0	\$ 122,932
Depreciable:				
Sewer Lines	2,942,031	0	0	2,942,031
Pumping & Ejector Stations	2,320,556	0	0	2,320,556
Treatment Plant	15,038,040	76,800	(11,907)	15,102,933
Office Equipment	70,368	6,090	(4,355)	72,103
	<u>20,370,995</u>	<u>82,890</u>	<u>(16,262)</u>	<u>20,437,623</u>
<i>Total Assets at Historical Cost</i>	20,493,927	82,890	(16,262)	20,560,555
Less: Accumulated Depreciation:				
Sewer Lines	(2,136,020)	(58,841)	0	(2,194,861)
Pumping & Ejector Stations	(1,598,145)	(58,937)	0	(1,657,082)
Treatment Plant	(4,102,835)	(395,439)	11,907	(4,486,367)
Office Equipment	(49,783)	(5,561)	4,355	(50,989)
<i>Total accumulated depreciation</i>	<u>(7,886,783)</u>	<u>(518,778)</u>	<u>16,262</u>	<u>(8,389,299)</u>
<i>Capital Assets, Net</i>	<u>\$ 12,607,144</u>	<u>\$ (435,888)</u>	<u>\$ 0</u>	<u>\$ 12,171,256</u>

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

NOTE 6: CAPITAL ASSETS (Continued)

A summary of the Wastewater Authority's capital assets at December 31, 2004:

	Balance 12/31/2003	Additions	Deletions	Balance 12/31/2004
Non-depreciable:				
Land	\$ 122,932	\$ 0	\$ 0	\$ 122,932
Depreciable:				
Sewer Lines	2,942,031	0	0	2,942,031
Pumping & Ejector Stations	2,320,556	0	0	2,320,556
Treatment Plant	15,102,933	5,150	0	15,108,083
Office Equipment	72,103	5,232	0	77,335
	20,437,623	10,382	0	20,448,005
<i>Total Assets at Historical Cost</i>	20,560,555	10,382	0	20,570,937
Less: Accumulated Depreciation:				
Sewer Lines	(2,194,861)	(58,841)	0	(2,253,702)
Pumping & Ejector Stations	(1,657,082)	(58,937)	0	(1,716,019)
Treatment Plant	(4,486,367)	(390,301)	0	(4,876,668)
Office Equipment	(50,989)	(4,699)	0	(55,688)
<i>Total accumulated depreciation</i>	(8,389,299)	(512,778)	0	(8,902,077)
<i>Capital Assets, Net</i>	\$ 12,171,256	\$ (502,396)	\$ 0	\$ 11,668,860

NOTE 7: LONG-TERM OBLIGATIONS

Debt outstanding at December 31, 2004 consisted of the following:

	Principal	Interest Rate
Water Revenue bonds	\$ 3,550,000	3.25%-5.05%
OWDA Loan	737,454	12.00%
Bank Loan	765,650	5.875%
Total	\$ 5,053,104	

On July 1, 1983, the Wastewater Authority obtained a \$1,948,217 loan from the Ohio Water Development Authority (OWDA) for the purpose of utility construction contracts. The loan was issued for a 25-year period with final maturity of July 1, 2008.

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

NOTE 7: LONG-TERM OBLIGATIONS (Continued)

On February 15, 2001, the Wastewater Authority issued \$3,975,000 in Water Resource Revenue Bonds for the purpose of providing funds necessary to retire at maturity the Wastewater Authority's \$3,500,000 Water Resource Revenue Bond Anticipation Notes, which were issued to finance improvements to the Wastewater Authority's sanitary sewer utility, particularly renovation of the sewage treatment plant. The bonds were issued for a 24-year period with final maturity at December 1, 2025, and are subject to mandatory sinking fund redemption. This is to occur on December 1, 2012, and on each December 1 thereafter at 100% of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<u>December 1</u>	<u>Principal Amount to be Redeemed</u>
2012	\$ 140,000
2013	145,000
2014	155,000
2015	160,000
2016	170,000
2017	175,000
2018	185,000
2019	195,000

Unless otherwise called for redemption, the remaining \$205,000 principal amount of such Bonds will be payable at stated maturity (December 31, 2020).

The Series 2001 Bonds maturing December 1, 2025 will be subject to mandatory sinking fund redemptions in part on each December 1, commencing December 1, 2020 at the redemption price of 100% of the principal amount thereof to be redeemed plus accrued interest to the respective redemption dates in the principal amounts and in the years as follows:

<u>December 1</u>	<u>Principal Amount to be Redeemed</u>
2021	\$ 215,000
2022	225,000
2023	240,000
2024	250,000

Unless otherwise called for redemption, the remaining \$260,000 principal amount of such Bonds will be payable at stated maturity (December 31, 2025).

On March 6, 2003, the Wastewater Authority secured a \$916,428 bank loan which will be used to retire the 2002 bank loan for working capital and closing costs. The loan was issued for a 14-year period with final maturity on March 15, 2017.

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

NOTE 7: LONG-TERM OBLIGATIONS (Continued)

Amortization of the above debt, including interest, is scheduled as follows:

	Water Revenue Bonds		OWDA Loan		Bank Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 105,000	\$ 170,602	\$ 86,165	\$ 49,417	\$ 52,615	\$ 43,580
2006	110,000	166,613	193,009	78,154	55,791	40,404
2007	115,000	162,322	216,170	54,994	59,159	37,037
2008	120,000	157,723	242,110	29,054	62,729	33,466
2009	120,000	152,862	0	0	66,515	29,680
2010-2014	700,000	679,285	0	0	397,870	83,108
2015-2019	885,000	487,633	0	0	70,971	1,760
2020-2024	1,135,000	241,102	0	0	0	0
2025-2027	260,000	13,000	0	0	0	0
Total	\$ 3,550,000	\$ 2,231,142	\$ 737,454	\$ 211,619	\$ 765,650	\$ 269,035

The water revenue bonds, Ohio Water Department Authority loan, and the bank loan will be paid from revenues derived from user charges. In addition, the water revenue bonds have certain restrictive covenants and principally require that bond reserve funds be maintained and charges for fees to customers be maintained in sufficient amounts, as defined, to satisfy the obligations under the indenture agreements. In addition, special provisions exist regarding covenant violations, redemptions of principal, and maintenance of properties in good condition.

Long-term debt activity for the year ended December 31, 2004:

	BALANCE December 31, 2003	Additions	Reductions	BALANCE December 31, 2004	Amount Due in 2005
Water Revenue Bonds, Series 2001	\$ 3,650,000	\$ 0	\$ 100,000	\$ 3,550,000	\$ 105,000
Ohio Water Development Authority Loan	900,552	0	163,098	737,454	86,165
Citizens Bank Loans	859,320	0	93,670	765,650	52,615
Total Debt	\$ 5,409,872	\$ 0	\$ 356,768	\$ 5,053,104	\$243,780

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

NOTE 7: LONG-TERM OBLIGATIONS (Continued)

Long-term debt activity for the year ended December 31, 2003:

	BALANCE December 31, 2002	Additions	Reductions	BALANCE December 31, 2003	Amount Due in 2004
Water Revenue Bonds, Series 2001	\$3,750,000	\$ 0	\$ 100,000	\$3,650,000	\$ 100,000
Ohio Water Development Authority Loan	1,046,174	0	145,622	900,552	76,933
Citizens Bank Loans	913,011	916,428	970,119	859,320	46,962
Total Debt	<u>\$5,709,185</u>	<u>\$ 916,428</u>	<u>\$1,215,741</u>	<u>\$5,409,872</u>	<u>\$ 223,895</u>

NOTE 8: RISK MANAGEMENT

The Wastewater 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 2004 and 2003, the Wastewater 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 \$100 and \$1,000 deductible. Automobile liability coverage has a \$1,000,000 limit for collision, and a \$1,000,000 limit for bodily harm.

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

Life insurance, accidental death and dismemberment insurance are provided to employees. In addition, the Wastewater Authority contracts with the Health Plan for hospitalization and prescription insurance for all employees. The Wastewater Authority pays 100% of the total monthly premiums. Premiums for 2004 and 2003 are as follows:

Family Coverage	\$ 672.68
Single Coverage	224.23

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.

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

NOTE 9: DEFINED BENEFIT PENSION PLANS

A. Public Employees Retirement System

All full-time employees participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system administered by the Ohio Public Employees Retirement Board. OPERS 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. OPERS 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% of their annual covered salary to fund pension obligations. The 2004 employer pension contribution rate for the Wastewater Authority was 9.55% of covered payroll, increased from 8.55% in 2003. Contributions are authorized by State Statute. The contribution rates are determined actuarially. The Wastewater Authority's required contribution to PERS for the years ended December 31, 2004, 2003 and 2002 were \$90,294, \$79,161 and \$73,255, respectively. The full amount has been contributed for 2001 and 2002. 92.6% has been contributed for 2004, with the remainder being reported as a liability.

NOTE 10: POSTEMPLOYMENT BENEFITS

A. Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, *A Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers*. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 employer contribution rate was 13.55% of covered payroll; 4% was the portion that was used to fund health care for 2004. For 2003, the employer contribution rate was 13.55% of covered payroll; 5% was the portion that was used to fund health care for 2003.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2003, include a rate return on investments of 8%, an annual increase in active employee total payroll of 4% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll between .50% and 6.3% based on additional annual pay increases. Health care premiums were assumed to increase 4% annually.

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

NOTE 10: POSTEMPLOYMENT BENEFITS (Continued)

A. Public Employees Retirement System (Continued)

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets.

The number of active contribution participants was 369,885. The Wastewater Authority's actual contributions for 2004, which were used to fund postemployment benefits, were \$37,819. The actual contribution and actuarially required contribution amounts are the same. OPERS' net assets available for payment of benefits at December 31, 2004 (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

August 4, 2005

The Board of Trustees
Eastern Ohio Regional Wastewater Authority
Bellaire, Ohio 43906

**Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit
of Financial Statements Performed in Accordance
with Government Auditing Standards**

We have audited the basic financial statements of Eastern Ohio Regional Wastewater Authority as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated August 4, 2005. We have conducted our audit in accordance with auditing standards generally accepted 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Eastern Ohio Regional Wastewater 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted another matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to the management of Eastern Ohio Regional Wastewater Authority in a separate letter dated August 4, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Eastern Ohio Regional Wastewater Authority's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we 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*. However, we noted certain immaterial instances of noncompliance that we have reported to management of Eastern Ohio Regional Wastewater Authority in a separate letter dated August 4, 2005.

This report is intended for the information 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.



**Auditor of State
Betty Montgomery**

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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
OCTOBER 6, 2005**