



**Auditor of State
Betty Montgomery**

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
General Purpose Financial Statements – For the Years Ended December 31, 2002 and 2001:	
Balance Sheet	3
Statement of Revenues, Expenses, and Changes in Equity	4
Statement of Cash Flows	5
Notes to the Financial Statements	7
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	19

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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 the Eastern Ohio Regional Wastewater Authority, Belmont County, Ohio (the Wastewater Authority), as of and for the years ended December 31, 2002 and 2001, as listed in the Table of Contents. These general purpose financial statements are the responsibility of the Wastewater 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 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 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, 2002 and 2001, and the results of its operations and cash flows for the years 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 May 23, 2003, on our consideration of the Wastewater Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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.

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

May 23, 2003

This page intentionally left blank.

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**BALANCE SHEET
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

	2002	2001
Assets:		
Current Assets:		
Cash and Cash Equivalents	\$853,633	\$1,674,846
Accounts Receivable (Net of Allowance for Doubtful Accounts)	434,115	393,511
Accrued Interest Receivable	900	2,209
Inventory	4,823	3,622
Prepaid Assets	25,519	25,122
Total Current Assets	1,318,990	2,099,310
Fixed Assets (Net of Accumulated Depreciation)	12,607,144	12,947,751
Restricted Assets:		
Cash and Cash Equivalents	333,483	331,359
Cash and Cash Equivalents with Fiscal and Escrow Agent	321,263	317,714
Total Restricted Assets	654,746	649,073
Other Assets:		
Unamortized Long Term Debt	183,029	191,749
Total Assets	\$14,763,909	\$15,887,883
Liabilities and Equity:		
Current Liabilities		
Accounts Payable	\$34,286	\$21,013
Revenue Bonds Payable	100,000	95,000
O.W.D.A. Payable	68,690	61,330
Accrued Wages and Benefits	92,140	96,331
Total Current Liabilities	295,116	273,674
Non-Current Liabilities		
Revenue Bonds Payable	3,650,000	3,750,000
O.W.D.A. Payable	977,484	1,114,864
Contingent Payable	0	1,800,000
Bank Loan Payable	913,011	0
Total Non-Current Liabilities	5,540,495	6,664,864
Total Liabilities	5,835,611	6,938,538
Equity:		
Contributed Capital	8,705,049	8,705,049
Retained Earnings		
Reserved:		
Reserved for Replacement	333,483	331,359
Unreserved	(110,234)	(87,063)
Total Equity	8,928,298	8,949,345
Total Liabilities and Equity	\$14,763,909	\$15,887,883

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

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

	2002	2001
Operating Revenues:		
Charges for Services	\$2,543,856	\$2,373,680
Other Operating Revenues	7,242	30,392
Total Operating Revenues	2,551,098	2,404,072
Operating Expenses:		
Cost of Operations	1,492,692	1,554,416
Administrative Expenses	218,602	246,008
Depreciation Expense	504,390	408,658
Bad Debt Expense	2,900	2,400
Other Operating Expenses	0	2,006
Total Operating Expenses	2,218,584	2,213,488
Operating Income	332,514	190,584
Non-Operating Revenues:		
Interest Income	19,716	76,941
Other Non-Operating Revenues	0	40,417
Total Non-Operating Revenues	19,716	117,358
Non-Operating Expenses:		
Note Interest	0	35,663
Bond and Loan Interest	364,557	317,425
Amortized Long Term Debt	8,720	7,487
Total Non-Operating Expenses	373,277	360,575
Net Loss	(21,047)	(52,633)
Equity at Beginning of Year	8,949,345	9,001,978
Equity at End of Year	\$8,928,298	\$8,949,345

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

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

	2002	2001
<u>Increase (Decrease) in Cash and Cash Equivalents</u>		
Cash Flows from Operating Activities:		
Cash Received from Customers	\$2,500,312	\$2,297,234
Other Operating Revenues	7,242	30,392
Cash Payments for Goods and Services	(512,748)	(587,819)
Cash Payments for Employee Services and Benefits	(1,418,840)	(1,220,601)
	575,966	519,206
Cash Flows from Capital and Related Financing Activities:		
Payments for Capital Acquisitions	(163,784)	(61,457)
Proceeds from Sale of Revenue Bonds	0	3,825,012
Proceeds from Bank Loan	950,000	0
Principal Paid on Bond Anticipation Note	0	(3,500,000)
Interest Paid on Bond Anticipation Note	0	(47,163)
Principal Paid on Revenue Bonds	(95,000)	(130,000)
Interest Paid on Revenue Bonds	(181,133)	(147,256)
Principal Paid on OWDA Loan	(130,020)	(116,090)
Interest Paid on OWDA Loan	(141,143)	(155,074)
Principal Paid on Bank Loan	(33,841)	0
Interest Paid on Bank Loan	(37,745)	0
Contingent Liability Settlement	(1,579,802)	0
	(1,412,468)	(332,028)
Cash Flows from Investing Activities:		
Interest Earned on Investments	20,962	84,367
	20,962	84,367
Net Increase (Decrease) in Cash and Cash Equivalents	(815,540)	271,545
Cash and Cash Equivalents at Beginning of Year	2,323,919	2,052,374
Cash and Cash Equivalents at End of Year	\$1,508,379	\$2,323,919
<u>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</u>		
Operating Income	\$332,514	\$190,584
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation Expense	504,390	408,658
Bad Debt Expense	2,900	2,400
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(23,415)	(76,446)
(Increase) Decrease in Inventory	(1,202)	2,435
(Increase) Decrease in Prepaid Expenses	(604)	(4,583)
Increase (Decrease) in Accounts Payable	13,273	(2,700)
Increase (Decrease) in Clearance Account	(19,882)	0
Increase (Decrease) in Accrued Liabilities	(232,008)	(1,142)
	243,452	328,622
Net Cash Provided by Operating Activities	\$575,966	\$519,206

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

This page intentionally left blank.

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001**

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Eastern Ohio Regional Wastewater Authority have been prepared in conformity with generally accepted accounting principles (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 – Fund Accounting

The Wastewater Authority uses a fund 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 recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restriction, or limitations.

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

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. 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 balance sheet. Equity (i.e., net total assets) is segregated into contributed capital and retained earnings components.

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

The operating statement presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

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 services charges receivable are recognized as revenue at year end. Expenses are recognized at the time they are incurred.

C. Budgetary Process

The Ohio Revised Code requires the Wastewater Authority to adopt an operating budget.

1. Appropriations

Budgetary expenditures (that is, disbursements) may not exceed appropriations at the function or object level of control, and appropriations may not exceed estimated resources. The Wastewater Authority includes current year appropriations carried over from the prior year (if any). The Board must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1.

3. Encumbrances

The Ohio Revised Code requires the Wastewater Authority to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year.

A summary of 2002 and 2001 budgetary activity appears in Note 5.

D. 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.

E. Restricted Assets

Certain resources set aside for the repayment of revenue bonds are classified as restricted assets on the balance sheet in accordance with applicable bond covenants.

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. 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.

G. 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.

H. 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 2002 and 2001, interest costs incurred on construction projects were not material.

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:

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

I. 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.

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Compensated Absences

Governmental 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.

K. 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.

L. 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 straight-line method. The election to amortize bond discount and issuance costs using the straight-line method does not materially depart from Generally Accepted Accounting Principles (GAAP). Issuance costs are reported as Unamortized Long Term Debt within the financial statements.

M. Contributed Capital

Contributed capital represents resources provided by other governments and private sources that are not subject to repayment. These assets are recorded at their fair market value on the date contributed. There were no changes to contributed capital during the audit period.

N. Reserves of Fund Equity

Reserves have been established to account for debt service payments over the next 12 month period to satisfy bond covenants.

O. 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.

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

3. CHANGES IN ACCOUNTING PRINCIPLES

During 2001, the Wastewater Authority implemented GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions* and GASB Statement 36, *Reporting for Certain Shared Nonexchange Revenues*. The implementation of GASB Statements 33 and 36 had no effect on equity.

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 with 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 or instrumentalities;

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS (Continued)

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 two percent 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;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys 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: At years-end, the Wastewater Authority had \$169 and \$161, at December 31, 2002 and 2001, respectively, in undeposited cash on hand. This is included on the balance sheet of the Wastewater Authority as part of "Cash and Cash Equivalents."

Deposits: The carrying amount of the Wastewater Authority's deposits at December 31, 2002 and 2001 were \$448,210 and \$470,458, respectively, and the bank balances were \$479,416 and \$509,338, respectively. At December 31, 2002 and 2001, \$213,461 and \$210,976 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, non-compliance 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 years-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Wastewater Authority or its agent in the Wastewater Authority's name.

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS (Continued)

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.

At December 31, 2002, the Wastewater Authority's investment balances were as follows:

	Category 3	Carrying Amount	Fair Value
Repurchase Agreements	\$1,060,000	\$1,060,000	\$1,060,000

At December 31, 2001, the Wastewater Authority's investment balances were as follows:

	Category 3	Carrying Amount	Fair Value
Repurchase Agreements	\$1,853,000	\$1,853,000	\$1,853,000

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, 2002		December 31, 2001	
	Cash and Cash Equivalents	Investments	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$ 1,508,379	\$ -	\$ 2,323,919	\$ -
Repurchase Agreements	(1,060,000)	1,060,000	(1,853,000)	1,853,000
Undeposited Cash	(169)		(161)	
GASB Statement No. 3	\$448,210	\$1,060,000	\$470,758	\$1,853,000

5. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2002 and 2001, follows:

Budgeted vs. Actual Receipts		
	2002	2001
Budgeted Receipts	\$3,630,895	\$6,583,354
Actual Receipts	3,343,380	6,355,313
Variance	(\$287,515)	(\$228,041)

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

5. BUDGETARY ACTIVITY (Continued)

Budgeted vs. Actual Budgetary Basis Expenditures		
	2002	2001
Appropriation Authority	\$2,501,684	\$5,982,832
Budgetary Expenditures	2,337,168	5,901,152
Variance	\$164,516	\$81,680

6. RECEIVABLES

Receivables at years-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:

<u>Accounts Receivable</u>	<u>Amounts at 12/31/2002</u>	<u>Amounts at 12/31/2001</u>
Gross Receivables	\$ 437,432	\$ 397,008
Less: Allowance for Doubtful Accounts	(3,317)	(3,497)
Net Receivables	\$ 434,115	393,511

7. FIXED ASSETS

A summary of the Wastewater Authority's fixed assets at December 31, 2002 and 2001, respectively:

<u>Description</u>	<u>2002</u>	<u>2001</u>
Sewer Lines	\$2,942,031	\$2,942,031
Pumping & Ejector Stations	2,320,556	2,320,556
Treatment Plant	15,038,040	10,290,173
Furniture, Fixtures, & Equipment	70,368	70,368
Land	122,932	122,932
Construction In Progress	0	4,584,082
Total	20,493,927	20,330,142
Less: Accumulated Depreciation	(7,886,783)	(7,382,381)
Net Fixed Assets	\$12,607,144	\$12,947,751

8. LONG-TERM OBLIGATIONS

Debt outstanding at December 31, 2002, consisted of the following:

	<u>Principal</u>	<u>Interest Rate</u>
Water Revenue Bonds	\$3,750,000	3.25% - 5.05%
OWDA Loan	\$1,046,174	12.00%
Bank Loan	913,011	5.88%
Total	\$5,709,185	

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

8. LONG-TERM OBLIGATIONS (Continued)

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 twenty-five year period with final maturity of July 1, 2008.

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 twenty four 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 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

Redemption Date – December 1	Principal Amount to be Redeemed
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, 2021 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:

Redemption Date – December 1	Principal Amount to be Redeemed
2021	\$215,000
2022	225,000
2023	240,000
2024	250,000

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

8. LONG-TERM OBLIGATIONS (Continued)

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 1, 2002, the Wastewater Authority secured a \$950,000 bank loan which will be used for working capital and closing costs. The loan was issued for a fifteen year period with final maturity on December 15, 2013.

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

Year ending December 31:	Water Revenue		
	Bonds	OWDA Loan	Bank Loan
2003	\$277,903	\$271,164	\$80,100
2004	274,303	271,164	96,196
2005	275,603	271,164	96,196
2006	276,613	271,164	96,195
2007	277,323	271,164	96,195
2008-2012	1,377,804	135,582	480,978
2013-2017	1,375,958		408,832
2018-2022	1,371,846		
2023-2027	826,000		
Total	<u>\$6,333,353</u>	<u>\$1,491,402</u>	<u>\$1,354,692</u>

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.

9. 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 2002 and 2001, 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 a \$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 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 and elected officials. The Authority pays 100 percent of the total monthly premiums, excluding elected officials. Premiums for 2002 and 2001 are as follows:

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

9. RISK MANAGEMENT (Continued)

	<u>2002</u>
Family Coverage	\$619.12
Single Coverage	\$206.38

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 employee's salaries.

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

10. 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 percent of their annual covered salary to fund pension obligations. The 2002 employer pension contribution rate for the Wastewater Authority was 8.55 percent of covered payroll, decreased from 9.25 percent in 2001. Contributions are authorized by State Statute. The contribution rates are determined actuarially. The Wastewater Authority's required contributions to PERS for the years ended December 31, 2002, 2001, and 2000 were \$73,255, \$80,297, and \$73,562, respectively. The full amount has been contributed for 2001 and 2000. 85.5% has been contributed for 2002 with the remainder being reported as a liability.

11. 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 2002 employer contribution rate was 13.55 percent of covered payroll; 5 percent was the portion that was used to fund health care for 2002. For 2001, the employer contribution rate was 13.55 percent of covered payroll; 4.3 percent was the portion that was used to fund health care.

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

11. POSTEMPLOYMENT BENEFITS (Continued)

A. Public Employees Retirement System (Continued)

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2001, include a rate return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4 percent annually.

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

The number of active contribution participants was 402,041. The Wastewater Authority's actual contributions for 2002 which were used to fund postemployment benefits were \$42,840. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2001, (the latest information available) were \$11,600 million. The actuarially accrued liability and the unfunded actuarial accrued liability were \$16,400 million and \$4,800 million, respectively.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT 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 accompanying general purpose financial statements of the Eastern Ohio Regional Wastewater Authority, Belmont County, Ohio (the Wastewater Authority), as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated May 23, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether the Wastewater 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*. However, we noted a certain immaterial instance of noncompliance that we have reported to the management of the Wastewater Authority in a separate letter dated May 23, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 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 the management of the Wastewater Authority in a separate letter dated May 23, 2003.

Eastern Ohio Regional Wastewater Authority
Belmont County
Independent Accountants' Report on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

May 23, 2003



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

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
AUGUST 5, 2003**