

Eastern Ohio Regional Wastewater Authority

Audited Financial Statements

December 31, 2006 and 2005



Mary Taylor, CPA
Auditor of State

Board of Trustees
Eastern Ohio Regional Wastewater Authority
PO Box 508
Bridgeport, OH 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, 2005 to December 31, 2006. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

July 2, 2007

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**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

TABLE OF CONTENTS

<i>TITLE</i>	<i>PAGE</i>
Independent Auditor's Report	1
Management Discussion and Analysis	2-6
Basic Financial Statements:	
Statement of Net Assets.....	7
Statement of Revenues, Expenses and Changes in Net Assets	8
Statement of Cash Flows	9
Notes to the Financial Statements	10-23
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 <i>Government Auditing Standards</i>	24-25



June 20, 2007

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, 2006 and 2005, 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, 2006 and 2005, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 20, 2007 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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 is supplementary information required by the accounting principles generally accepted in the United States of America. 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, 2006

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, 2006. 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 2006 are as follows:

- Total net assets increased \$294,666, which represents a 3.1% increase from 2005.
- Total assets decreased \$127,698.
- Total liabilities decreased by \$422,364.
- Outstanding debt decreased from \$4,547,796 to \$ 4,093,854.

Using this Annual 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 utilizes 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, 2006

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

Table 1 provides a summary of the Authority's net assets for 2006, 2005 and 2004.

(Table 1)
Changes in Net Assets

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Assets			
Current and Other Assets	\$ 3,482,150	\$ 3,106,879	\$ 2,845,378
Capital Assets	<u>10,712,130</u>	<u>11,215,099</u>	<u>11,668,860</u>
Total Assets	<u>14,194,280</u>	<u>14,321,978</u>	<u>14,514,238</u>
Liabilities			
Long-Term Liabilities	3,796,613	4,275,721	4,846,076
Other Liabilities	<u>469,143</u>	<u>412,399</u>	<u>370,950</u>
Total Liabilities	<u>4,265,756</u>	<u>4,688,120</u>	<u>5,217,026</u>
Net Assets			
Invested in Capital			
Assets Net of Debt	7,175,084	7,372,183	7,867,258
Restricted	768,150	766,017	823,128
Unrestricted	<u>1,985,290</u>	<u>1,495,658</u>	<u>606,826</u>
Total Net Assets	<u>\$ 9,928,524</u>	<u>\$ 9,633,858</u>	<u>\$ 9,297,212</u>

Net assets for 2006 and 2005 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, 2006

Table 2 shows the changes in net assets for fiscal year 2006, 2005 and 2004, 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>2006</u>	<u>2005</u>	<u>2004</u>
<i>Operating Revenues</i>			
Charges for Service	\$ 2,644,049	\$ 2,666,686	\$ 2,764,924
Other Operating Revenue	28,300	16,950	12,900
<i>Non-Operating Revenues</i>			
Interest Income	112,922	60,210	18,477
Grants	0	133,176	0
Gain/(Loss) on Sale of Assets	<u>(995)</u>	<u>20,750</u>	<u>0</u>
Total Revenues	<u>2,784,276</u>	<u>2,897,772</u>	<u>2,796,301</u>
<i>Operating Expenses:</i>			
Cost of Operations	1,477,364	1,542,193	1,530,798
Administrative Expenses	252,725	243,414	233,844
Depreciation Expense	505,725	507,994	512,778
Bad Debt Expense	3,600	4,900	3,900
<i>Non-Operating Expenses:</i>			
Bond and Loan Interest	241,476	253,905	284,559
Amortized Long Term Debt	<u>8,720</u>	<u>8,720</u>	<u>8,720</u>
Total Expenses	<u>2,489,610</u>	<u>2,561,126</u>	<u>2,574,599</u>
<i>Change in Net Assets</i>	294,666	336,646	221,702
Net Assets Beginning of Year	<u>9,633,858</u>	<u>9,297,212</u>	<u>9,075,510</u>
Total Net Assets	<u><u>\$ 9,928,524</u></u>	<u><u>\$ 9,633,858</u></u>	<u><u>\$ 9,297,212</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 years 2003 and 2004. These surcharges decreased in 2005 and 2006 do to improvements made by EORWA's largest industrial user.

Eastern Ohio Regional Wastewater Authority
Management's Discussion and Analysis
For the Year Ended December 31, 2006

Capital Assets and Debt Administration

Capital Assets

At the end of 2006 and 2005, the Authority had \$10,712,130 and \$11,215,099 invested in capital assets, net of depreciation, respectively. Table 3 shows fiscal years 2006, 2005 and 2004 balances. Note 6 provides capital asset activity during 2006 and 2005.

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

	2006	2005	2004
Land	\$ 122,932	\$ 122,932	\$ 122,932
Contracts in Progress	0	11,250	0
Sewer Lines	570,487	629,328	688,329
Pumping & Ejector Stations	502,749	549,002	604,537
Treatment Plant	9,492,460	9,877,281	10,231,415
Furniture and Fixtures	23,502	25,306	21,647
Totals	\$ 10,712,130	\$ 11,215,099	\$ 11,668,860

There were no major capital acquisitions for 2006 and 2005. Depreciation expense accounted for the majority of the net decreases in assets.

Debt

The outstanding debt for the Authority as of December 31, 2006 and 2005 was \$4,093,854 and \$4,547,796 with \$413,843 and \$376,584 due within one year. Table 4 summarizes outstanding debt

(Table 4)
Outstanding Debt, at December 31

	2006	2005	2004
OWDA Loans	\$ 350,195	\$ 554,784	\$ 737,454
Bank Loan Payable	408,659	548,012	765,650
Revenue Bonds	3,335,000	3,445,000	3,550,000
<i>Total</i>	\$ 4,093,854	\$ 4,547,796	\$ 5,053,104

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, 2006

Current Financial Issues

The Authority continues to increase efficiencies and automate more of its operations. These improvements continue to aid the Authority in reducing its personnel costs and related fringe benefits. All reductions have been accomplished through attrition. The current sewer rate of \$19.00 per month continues to sustain Authority operations and allow for capital improvements as needed.

Contacting the Authority's Finance Department

This financial report is designed to provide our citizens, taxpayers, ratepayers, 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.org.

**Eastern Ohio Regional Wastewater Authority
Belmont County**

*Statements of Net Assets
For the Years ended December 31, 2006 and 2005*

	2006	2005
ASSETS:		
<i>Current Assets:</i>		
Cash and Cash Equivalents	\$ 1,939,038	\$ 1,595,284
Accounts Receivable (Net of Allowance for Doubtful Accounts)	572,245	534,430
Accrued Interest Receivable	0	5,712
Inventory	2,935	1,037
Prepaid Assets	45,624	41,521
<i>Total Current Assets</i>	2,559,842	2,177,984
<i>Capital Assets (Net of Accumulated Depreciation)</i>	10,712,130	11,215,099
<i>Restricted Assets:</i>		
Cash and Cash Equivalents	489,091	487,152
Cash and Cash Equivalents with Fiscal and Escrow Agent	279,059	278,865
<i>Total Restricted Assets</i>	768,150	766,017
<i>Other Assets:</i>		
Loans Receivable	6,009	6,009
Unamortized Long Term Debt	148,149	156,869
<i>Total Other Assets</i>	154,158	162,878
TOTAL ASSETS	\$ 14,194,280	\$ 14,321,978
LIABILITIES AND EQUITY:		
<i>Current Liabilities:</i>		
Accrued Wages and Benefits	\$ 34,163	\$ 31,289
Accounts Payable	23,587	32,774
Revenue Bonds Payable	115,000	110,000
O.W.D.A Payable	108,085	96,505
Bank Loan Payable	74,155	65,571
Accrued Interest Payable	13,527	5,340
Other Accrued Liabilities	65,368	35,682
<i>Total Current Liabilities</i>	433,885	377,161
<i>Non-Current Liabilities:</i>		
Revenue Bonds Payable	3,220,000	3,335,000
O.W.D.A Payable	242,110	458,280
Bank Loan Payable	334,503	482,441
Severance Payable	35,258	35,238
<i>Total Non-Current Liabilities</i>	3,831,871	4,310,959
TOTAL LIABILITIES	4,265,756	4,688,120
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt	7,175,084	7,372,183
Net Assets		
Restricted:		
Restricted for Debt Service	279,059	278,865
Restricted for Capital Improvements	489,091	487,152
Unrestricted	1,985,290	1,495,658
TOTAL NET ASSETS	9,928,524	9,633,858
TOTAL LIABILITIES AND EQUITY	\$ 14,194,280	\$ 14,321,978

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, 2006 and 2005*

	<u>2006</u>	<u>2005</u>
<i>Operating Revenues:</i>		
Charges for Services	\$ 2,644,049	\$ 2,666,686
Other Operating Revenues	28,300	16,950
<i>Total Operating Revenues</i>	<u>2,672,349</u>	<u>2,683,636</u>
<i>Operating Expenses:</i>		
Cost of Operations	1,477,364	1,542,193
Administrative Expenses	252,725	243,414
Depreciation Expenses	505,725	507,994
Bad Debt Expense	3,600	4,900
<i>Total Operating Expenses</i>	<u>2,239,414</u>	<u>2,298,501</u>
Operating Income	432,935	385,135
<i>Non-Operating Revenues:</i>		
Interest Income	112,922	60,210
Grants	0	133,176
Gain (Loss) on Sale of Assets	(995)	20,750
<i>Total Non-Operating Revenues</i>	<u>111,927</u>	<u>214,136</u>
<i>Non-Operating Expenses:</i>		
Bond and Loan Interest	241,476	253,905
Amortized Long Term Debt	8,720	8,720
<i>Total Non-Operating Expenses</i>	<u>250,196</u>	<u>262,625</u>
Net Income	294,666	336,646
<i>Net Assets at Beginning of Year</i>	<u>9,633,858</u>	<u>9,297,212</u>
Net Assets at End of Year	<u>\$ 9,928,524</u>	<u>\$ 9,633,858</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, 2006 and 2005*

	<u>2006</u>	<u>2005</u>
Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows from Operating Activities:		
Cash received from customers	\$ 2,602,650	\$ 2,655,321
Other operating revenues	28,300	16,950
Cash payments for goods and services	(536,988)	(647,365)
Cash payments for employee services and benefits	<u>(1,175,728)</u>	<u>(1,160,681)</u>
Net cash provided by operating activities	918,234	864,225
Cash Flows from Capital and Related Financing Activities:		
Payments for capital acquisitions	(3,750)	(54,231)
Proceeds from capital grants	0	133,176
Proceeds from sale of equipment	0	20,750
Principal paid on revenue bonds	(110,000)	(105,000)
Interest paid on revenue bonds	(166,612)	(170,603)
Principal paid on OWDA loan	(204,590)	(182,670)
Interest paid on OWDA loan	(38,835)	(51,622)
Principal paid on bank loans	(139,353)	(217,638)
Interest paid on bank loans	<u>(27,842)</u>	<u>(40,557)</u>
Net cash used for capital and related financing activities	(690,982)	(668,395)
Cash Flows from Investing Activities:		
Interest earned on investments	118,635	56,892
Net cash provided by investing activities	<u>118,635</u>	<u>56,892</u>
Net increase in cash and cash equivalents	345,887	252,722
<i>Cash and cash equivalents beginning of year</i>	<u>2,361,301</u>	<u>2,108,579</u>
<i>Cash and cash equivalents at end of year</i>	<u><u>\$ 2,707,188</u></u>	<u><u>\$ 2,361,301</u></u>
Reconciliation of Operating Gain (Loss) to Net Cash Provided by Operating Activities:		
Operating income	\$ 432,935	\$ 385,135
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	505,725	507,994
Bad debt expense	3,600	4,900
Changes in assets and liabilities:		
(Increase) Decrease in accounts receivable	(41,416)	(11,588)
(Increase) Decrease in inventory	(1,898)	5,640
(Increase) Decrease in prepaid expenses	(4,104)	(13,134)
Increase (Decrease) in accounts payable	(9,187)	(11,464)
Increase (Decrease) in accrued liabilities	<u>32,579</u>	<u>(3,258)</u>
Total adjustments	<u>(24,026)</u>	<u>(33,804)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 918,234</u></u>	<u><u>\$ 864,225</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, 2006 AND 2005**

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, 2006 AND 2005**

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 2006 and 2005 there was no capitalized interest.

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

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, 2006 AND 2005**

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 the year ended December 31, 2005, the Wastewater Authority has implemented GASB Statement No. 40 "*Deposit and Investment Risk Disclosures*", and Statement No. 42 "*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*."

GASB Statement No. 40 establishes new disclosure requirements for risks associated with deposits and investments.

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

NOTE 3: CHANGE IN ACCOUNTING PRINCIPLE (Continued)

For the year ended December 31, 2006, the Wastewater Authority has implemented GASB Statement No. 46 "*Net Assets Restricted by Enabling Legislation*", and Statement No. 47 "*Accounting for Termination Benefits*."

Statement No. 46 establishes that any amount of the primary government's net assets at the end of the reporting period restricted by enabling legislation should be disclosed in the notes to the financial statements.

Statement No. 47 provides guidance to governmental employers for measuring, recognizing, and reporting liabilities and expenses/expenditures related to *all* termination benefits without limitation as to the period of time during which the benefits are offered.

The implementation of these GASB Statements did not have an effect on the financial statements of the Authority.

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 has 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.

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

NOTE 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 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;
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.

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the City's name. During 2005 and 2006, the Authority and public depositories complied with the provisions of these statutes.

Undeposited Cash

The Wastewater Authority had \$163 and \$197 at December 31, 2006 and 2005, 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."

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

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

Deposits with Financial Institutions

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Authority.

At fiscal year-end 2005, the carrying amount of the Authority's deposits was \$2,361,104. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of December 31, 2005, \$2,254,729 of the Authority's bank balance of \$2,385,138 was exposed to custodial risk as discussed above, while \$130,409 was covered by Federal Deposit Insurance Corporation.

At fiscal year-end 2006, the carrying amount of the Authority's deposits was \$2,707,025. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of December 31, 2006, \$2,585,442 of the Authority's bank balance of \$2,728,541 was exposed to custodial risk as discussed above, while \$143,099 was covered by Federal Deposit Insurance Corporation.

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the Authority's investment policy limits investments to certificates of deposit and repurchase agreements.

Concentration of Credit Risk. The Authority places no limit on the amount that may be invested in any one issuer.

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:

	<u>Amounts at 12/31/2006</u>	<u>Amounts at 12/31/2005</u>
Gross Receivable	\$ 575,339	\$ 536,424
Less: Allowance for Doubtful Accounts	<u>(3,094)</u>	<u>(1,994)</u>
Net Receivables	<u>\$ 572,245</u>	<u>\$ 534,430</u>

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

NOTE 6: CAPITAL ASSETS

A summary of the Wastewater Authority's capital assets at December 31, 2006:

	Balance 12/31/2005	Additions	Deletions	Balance 12/31/2006
Non-depreciable:				
Land	\$ 122,932	\$ 0	\$ 0	\$ 122,932
Contracts in Progress	11,250	3,750	(15,000)	0
	<u>134,182</u>	<u>3,750</u>	<u>(15,000)</u>	<u>122,932</u>
Depreciable:				
Sewer Lines	2,942,031	0	0	2,942,031
Pumping & Ejector Stations	2,324,250	15,000	0	2,339,250
Treatment Plant	14,879,701	0	(28,197)	14,851,504
Office Equipment	86,004	0	(22,554)	63,450
	<u>20,231,986</u>	<u>15,000</u>	<u>(50,751)</u>	<u>20,196,235</u>
<i>Total Assets at Historical Cost</i>	20,366,168	18,750	(65,751)	20,319,167
Less: Accumulated Depreciation:				
Sewer Lines	(2,312,703)	(58,841)	0	(2,371,544)
Pumping & Ejector Stations	(1,775,249)	(61,252)	0	(1,836,501)
Treatment Plant	(5,002,419)	(383,828)	27,203	(5,359,044)
Office Equipment	(60,698)	(1,804)	22,554	(39,948)
<i>Total accumulated depreciation</i>	<u>(9,151,069)</u>	<u>(505,725)</u>	<u>49,757</u>	<u>(9,607,037)</u>
<i>Capital Assets, Net</i>	<u>\$ 11,215,099</u>	<u>\$ (486,975)</u>	<u>\$ (15,994)</u>	<u>\$ 10,712,130</u>

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

NOTE 6: CAPITAL ASSETS (Continued)

A summary of the Wastewater Authority's capital assets at December 31, 2005:

	Balance 12/31/2004	Additions	Deletions	Balance 12/31/2005
Non-depreciable:				
Land	\$ 122,932	\$ 0	\$ 0	\$ 122,932
Contracts in Progress	0	11,250	0	11,250
	122,932	11,250	0	134,182
Depreciable:				
Sewer Lines	2,942,031	0	0	2,942,031
Pumping & Ejector Stations	2,320,556	3,694	0	2,324,250
Treatment Plant	15,108,083	30,618	(259,000)	14,879,701
Office Equipment	77,335	8,669	0	86,004
	20,448,005	42,981	(259,000)	20,231,986
<i>Total Assets at Historical Cost</i>	20,570,937	54,231	(259,000)	20,366,168
Less: Accumulated Depreciation:				
Sewer Lines	(2,253,702)	(59,001)	0	(2,312,703)
Pumping & Ejector Stations	(1,716,019)	(59,230)	0	(1,775,249)
Treatment Plant	(4,876,668)	(384,751)	259,000	(5,002,419)
Office Equipment	(55,688)	(5,010)	0	(60,698)
<i>Total accumulated depreciation</i>	(8,902,077)	(507,992)	259,000	(9,151,069)
<i>Capital Assets, Net</i>	\$ 11,668,860	\$ (453,761)	\$ 0	\$ 11,215,099

NOTE 7: LONG-TERM OBLIGATIONS

Debt outstanding at December 31, 2006 consisted of the following:

	Principal	Interest Rate
Water Revenue bonds	\$ 3,335,000	3.25%-5.05%
OWDA Loan	350,195	12.00%
Bank Loan	408,659	5.875%
Total	\$ 4,093,854	

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, 2006 AND 2005**

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, 2006 AND 2005**

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
2007	\$ 115,000	\$ 162,322	\$ 229,140	\$ 42,024	\$ 74,163	\$ 22,033
2008	120,000	157,723	121,055	14,527	78,639	17,557
2009	120,000	152,862	0	0	83,385	12,810
2010	125,000	147,883	0	0	88,418	7,777
2011	135,000	142,570	0	0	84,053	2,449
2012-2016	770,000	609,843	0	0	0	0
2017-2021	975,000	395,975	0	0	0	0
2022-2025	975,000	124,750	0	0	0	0
Total	\$ 3,335,000	\$ 1,893,928	\$ 350,195	\$ 56,551	\$ 408,658	\$ 62,626

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, 2006:

	BALANCE			BALANCE	Amount
	December 31, 2005	Additions	Reductions		
Water Revenue Bonds, Series 2001	\$ 3,445,000	\$ 0	\$ 110,000	\$ 3,335,000	\$ 115,000
Ohio Water Development Authority Loan	554,784	0	204,589	350,195	229,140
Citizens Bank Loans	548,012	0	139,353	408,659	74,163
Total Debt	\$ 4,547,796	\$ 0	\$ 453,942	\$ 4,093,854	\$ 418,303

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

NOTE 7: LONG-TERM OBLIGATIONS (Continued)

Long-term debt activity for the year ended December 31, 2005:

	BALANCE December 31, 2004	Additions	Reductions	BALANCE December 31, 2005	Amount Due in 2006
Water Revenue Bonds, Series 2001	\$3,550,000	\$ 0	\$ 105,000	\$3,445,000	\$ 110,000
Ohio Water Development Authority Loan	737,454	0	182,670	554,784	204,590
Citizens Bank Loans	765,650	0	217,638	548,012	65,736
Total Debt	<u>\$5,053,104</u>	<u>\$ 0</u>	<u>\$ 505,308</u>	<u>\$4,547,796</u>	<u>\$ 380,326</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 2006 and 2005, 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 2006 and 2005 are as follows:

	2006	2005
Family Coverage	\$ 847.05	\$ 777.64
Single Coverage	282.35	259.10

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, 2006 AND 2005**

NOTE 9: DEFINED BENEFIT PENSION PLANS

A. Public Employees Retirement System

The Authority participates in the Ohio Public Employees Retirement Systems (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan—a cost-sharing, multiple—employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS provides retirement, disability, and survivor benefits as well as postretirement health care coverage to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. Authority to establish and amend benefits is provided in 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, or by calling 614-222-5601 or 800-222-7377.

For the year ended December 31, 2005, the members of all three plans were required to submit 8.5% of their annual covered salaries; for the year ended December 31, 2006, the members of all three plans were required to submit 9.0% of their annually covered salaries. The 2006 employer pension contribution rate for the Wastewater Authority was 13.7% of covered payroll, increased from 13.55% in 2005. Contributions are authorized by State Statute. The Ohio Revised Code provides statutory authority for members and employer contributions.

The Wastewater Authority's required contribution to PERS for the years ended December 31, 2006, 2005 and 2004 were \$119,049, \$117,110 and \$90,294, respectively. The full amount has been contributed for 2005 and 2004. 92.1% has been contributed for 2006, 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. Members of the member-directed plan do not qualify for post-employment health care coverage. 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 the traditional and combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 employer contribution rate was 13.7% of covered payroll; 4.5% was the portion that was used to fund health care for 2006. For 2005, the employer contribution rate was 13.55% of covered payroll; 4% was the portion that was used to fund health care for 2005.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2005, include a rate return on investments of 6.5%, 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 at the projected wage inflation plus an additional factor ranging from .50% to 6% for the next 9 years and 4% annually after 9 years.

**EASTERN OHIO REGIONAL WASTEWATER AUTHORITY
BELMONT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

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 annually, not to exceed a 12% corridor.

The Traditional Pension and Combined Plans had 369,214 active contributing participants as of December 31, 2006. The number of active contributing participants for both plans used in the December 31, 2005, actuarial valuation was 358,804. The Wastewater Authority's actual contributions for 2006 and 2005, respectively, which were used to fund postemployment benefits, were \$34,759 and \$34,572. The actual contribution and actuarially required contribution amounts are the same. OPERS' net assets available for payment of benefits at December 31, 2005 (the latest information available) were \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006 and January 1, 2007, which will allow additional funds to be allocated to the health care plan.



June 20, 2007

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 (the "Authority") as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated June 20, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we noted certain matters that we reported to management of the Authority in a separate letter dated June 20, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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 do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Hea & Associates, Inc.



Mary Taylor, CPA
Auditor of State

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
JULY 17, 2007**