

**EARNHART HILL REGIONAL WATER  
AND SEWER DISTRICT**

**PICKAWAY COUNTY, OHIO**

**FINANCIAL STATEMENTS**

\* \* \* \* \*

December 31, 2001 and 2000

**Harr & Scherer, CPAs, Inc.**  
**129 Pinckney Street - P.O. Box 837**  
**Circleville, Ohio 43113-0837**  
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STATE OF OHIO  
OFFICE OF THE AUDITOR

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Board of Trustees  
Earnhart Hill Regional Water and Sewer District  
2030 Stoneridge Drive  
P.O. Box 151  
Circleville, Ohio 43113-0151

We have reviewed the Independent Auditor's Report of the Earnhart Hill Regional Water and Sewer District, Pickaway County, prepared by Harr & Scherer, CPAs, Inc., for the audit period January 1, 2001 through December 31, 2001. 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 Earnhart Hill Regional Water and Sewer District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO  
Auditor of State

July 18, 2002

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# Harr & Scherer, CPAs, Inc.

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Board of Trustees  
Earnhart Hill Regional Water and Sewer District  
2030 Stoneridge Drive  
P.O. Box 151  
Circleville, Ohio 43113-0151

## INDEPENDENT AUDITOR'S REPORT

We have audited the financial statements of the Earnhart Hill Regional Water and Sewer District (the "District"), Ohio, as of December 31, 2001 and 2000, and for the years then ended as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 general purpose 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Earnhart Hill Regional Water and Sewer District, as of December 31, 2001 and 2000, and the results of its operations and its 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 a report dated May 23, 2002 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

Circleville, Ohio  
May 23, 2002



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# EARNHART HILL REGIONAL WATER AND SEWER DISTRICT

## BALANCE SHEETS

As of December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 1,318,777	\$ 1,008,380
Accounts receivable	127,129	129,931
Inventories	37,867	36,249
Prepaid expenses	14,225	15,380
TOTAL CURRENT ASSETS	<u>1,497,998</u>	<u>1,189,940</u>
<b>RESTRICTED ASSETS</b>		
Cash - debt service reserve	<u>156,836</u>	<u>156,836</u>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Land	182,564	182,564
Buildings	997,610	1,007,031
Treatment facilities	1,932,030	1,856,546
Transmission and storage	4,738,151	4,676,204
Vehicles	185,869	167,946
Furniture and equipment	368,046	310,580
Construction in progress	320,339	181,992
	<u>8,724,609</u>	<u>8,382,863</u>
Less: Accumulated depreciation	<u>(2,268,285)</u>	<u>(2,001,465)</u>
NET PROPERTY, PLANT AND EQUIPMENT	<u>6,456,324</u>	<u>6,381,398</u>
TOTAL ASSETS	<u>\$ 8,111,158</u>	<u>\$ 7,728,174</u>

	<u>2001</u>	<u>2000</u>
<b>LIABILITIES AND FUND EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 83,207	\$ 43,120
Customer deposits	7,800	7,703
Insurance and taxes payable	7,723	14,358
Current portion of long term debt	79,718	74,168
Accrued payroll	6,774	5,000
Compensated absences payable	3,714	1,967
Accrued interest payable	16,998	11,443
TOTAL CURRENT LIABILITIES	<u>205,934</u>	<u>157,759</u>
<b>LONG-TERM LIABILITIES</b>		
Notes payable	1,232,307	1,253,316
Revenue bonds payable	2,155,108	2,213,624
TOTAL LONG-TERM LIABILITIES	<u>3,387,415</u>	<u>3,466,940</u>
<b>FUND EQUITY</b>		
Contributed capital	564,166	564,166
Retained earnings	3,953,643	3,539,309
TOTAL FUND EQUITY	<u>4,517,809</u>	<u>4,103,475</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 8,111,158</u>	<u>\$ 7,728,174</u>

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

# EARNHART HILL REGIONAL WATER AND SEWER DISTRICT

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY

For the Years Ended December 31, 2001 and 2000

	2001	2000
<b>OPERATING REVENUES</b>		
Service charges	\$ 1,361,765	\$ 1,252,273
Other	16,409	22,436
<b>TOTAL OPERATING REVENUES</b>	<b>1,378,174</b>	<b>1,274,709</b>
<b>OPERATING EXPENSES</b>		
Treatment expense	88,355	71,270
Power	79,420	84,072
Distribution	236,182	228,254
Customer accounting	117,496	131,671
Transportation	22,099	28,194
Fringe benefits	121,679	127,913
Depreciation and amortization	327,028	246,929
Administrative and general	153,937	150,675
<b>TOTAL OPERATING EXPENSES</b>	<b>1,146,196</b>	<b>1,068,978</b>
Operating income	231,978	205,731
<b>OTHER INCOME (EXPENSE)</b>		
Capacity charges	71,000	87,500
Tap fee revenue	244,043	57,350
Interest income	42,186	53,671
Main extensions	13,923	20,542
Gain on sale of assets	5,419	72,934
Interest expense	(212,215)	(208,842)
Rental income	18,000	17,475
Net other income (expenses)	182,356	100,630
<b>NET INCOME</b>	<b>414,334</b>	<b>306,361</b>
Retained earnings, beginning of year	3,539,309	3,232,948
Retained earnings, end of year	<b>3,953,643</b>	<b>3,539,309</b>
Contributed capital, beginning of year	564,166	564,166
Contributed capital, end of year	564,166	564,166
Total fund equity, end of year	<b>\$ 4,517,809</b>	<b>\$ 4,103,475</b>

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

# EARNHART HILL REGIONAL WATER AND SEWER DISTRICT

## STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 1,364,567	\$ 1,229,842
Cash paid for employee salaries and benefits	(476,476)	(465,008)
Cash payments to suppliers for goods and services	(306,182)	(363,902)
Cash received from other receipts	16,409	22,436
Net cash provided by operating activities	<u>598,318</u>	<u>423,368</u>
 <b>CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Deposits received	<u>97</u>	<u>-</u>
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Tap fees	244,043	57,350
Capacity charges	71,000	87,500
Main extensions	13,923	20,542
Rental income	18,000	17,475
Revenue bond principal payments	(55,392)	(52,437)
Revenue bond interest payments	(137,832)	(140,787)
Note principal payments	(18,583)	(18,977)
Note interest payments	(61,167)	(68,023)
Cash received for sale of assets	28,686	77,660
Capital outlay	<u>(432,882)</u>	<u>(637,252)</u>
Net cash used by capital and related financing activities	<u>(330,204)</u>	<u>(656,949)</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on cash and investments	<u>42,186</u>	<u>53,671</u>
 Net decrease in cash and cash equivalents	310,397	(179,910)
Cash and cash equivalents, beginning of year	<u>1,165,216</u>	<u>1,345,126</u>
Cash and cash equivalents, end of year	<u>\$ 1,475,613</u>	<u>\$ 1,165,216</u>

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

# EARNHART HILL REGIONAL WATER AND SEWER DISTRICT

## STATEMENTS OF CASH FLOWS - Continued

For the Years Ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income	\$ 231,978	\$ 205,731
<b>Adjustments to reconcile operating income to net cash provided by operating activities:</b>		
Depreciation and amortization	327,028	246,929
<b>Changes in assets and liabilities:</b>		
Decrease (increase) in accounts receivable	2,802	(22,431)
Decrease (increase) in inventories	(1,618)	259
Decrease (increase) in prepaid expenses	1,155	(1,753)
Increase (decrease) in accounts payable	40,087	(1,801)
(Decrease) increase in insurance and taxes payable	(6,635)	769
Increase in accrued payroll	1,774	-
Increase (decrease) in compensated absences payable	1,747	(4,335)
Total adjustments	<u>366,340</u>	<u>217,637</u>
Net cash provided by operating activities	<u>\$ 598,318</u>	<u>\$ 423,368</u>

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

# EARNHART HILL REGIONAL WATER AND SEWER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2001 and 2000

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### **NOTE A – NATURE OF ORGANIZATION AND REPORTING ENTITY**

Earnhart Hill Regional Water and Sewer District (the District) was founded for the purpose of providing water and wastewater services to those areas in south central Ohio not served by other water companies. As of February 1, 1997, the previous company (Earnhart Hill Water District, Inc.) was declared by the Court to be a duly organized regional water and sewer district, a political subdivision of the state of Ohio organized pursuant to Chapter 6119 of the Ohio Revised Code. The Court approved the Plan to the Operation of the District which provided that the District would accept a transfer of the assets, and assume all of the liabilities of the company as a part of its organization.

#### **Reporting Entity**

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For Earnhart Hill Regional Water and Sewer District, there are no other boards and agencies other than the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations for which the District approves the budget, the issuance of debt or levying of taxes. The District has no component units.

### **NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies followed in the preparation of these financial statements conform to generally accepted accounting principles for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. Under the guidelines of GASB Statement No. 20, the District has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989 to its proprietary activities. The adoption of this approach to accounting for proprietary activities by the District required no change from prior years. A summary of the significant accounting policies consistently applied in preparation of the accompanying financial statements is as follows:

#### **1. Basis of Presentation - Fund Accounting**

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The District has created a single type of fund and a single fund within that fund type. The fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenses. This fund accounts for the governmental resources allocated to it for the purpose of carrying on specific activities in accordance with laws, regulations or other restrictions.

# EARNHART HILL REGIONAL WATER AND SEWER DISTRICT

## NOTES TO FINANCIAL STATEMENTS – Continued

December 31, 2001 and 2000

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### **NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

The fund type that the District uses is described below:

**Proprietary Fund Type** - This fund type accounts for operations that are organized to be self-supporting through user charges. The fund included in this category used by the District is the Enterprise Fund.

**Enterprise Fund** - This fund is established to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

2. **Basis of Accounting**

The accounting records are maintained on the accrual basis of accounting for financial reporting purposes.

3. **Budgetary Process**

The Ohio Revised Code requires that each fund be budgeted annually. The District has adopted a budget and adopted and passed annual appropriations for the years ended December 31, 2001 and 2000.

**Appropriations** - Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the major object level of control, and appropriations may not exceed estimated resources. The District must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year-end.

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

**Encumbrances** - The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made.

4. **Revenue Recognition**

Revenues for service fees are recorded in the period the service is provided. Revenue for tap fees are recorded when the taps have been installed and the customer is using the service. All other revenue is recognized when earned.

5. **Accounts Receivable**

Accounts receivable are presented at their net realizable value. Uncollectible account balances are certified to the County Auditor after administrative collection efforts have been exhausted.

6. **Restricted Assets**

As explained in Note E, a restricted account was established for the required reserve for the Water System Revenue Bonds and is recorded as a restricted asset in the accompanying financial statements.

# EARNHART HILL REGIONAL WATER AND SEWER DISTRICT

## NOTES TO FINANCIAL STATEMENTS – Continued

December 31, 2001 and 2000

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### **NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**7. Property, Plant, Equipment and Planning Costs**

Property, plant, equipment and planning costs are presented at cost and are depreciated over the estimated useful lives of the assets from 5 to 50 years, depending upon the type of asset. In addition, interest costs incurred during the construction of the water and sewer system are capitalized and included in property, plant and equipment. Once construction is complete and a project is operational, depreciation begins on all planning costs, construction costs, and capitalized interest over the estimated useful life of the assets.

Depreciation is computed using the straight-line method for financial reporting purposes. Repairs and maintenance costs are charged to operations when incurred. Improvements and additions are capitalized.

**8. Cash and Cash Equivalents**

For purposes of the statement of cash flows, the District does not have any investments; so all cash balances are included in the statement of cash flows.

**9. Interest Expense**

Interest expense represents the interest portion of loan payments to the United States Department of Agriculture, Rural Development, as well as amounts paid and accrued for the loans obtained through The Savings Bank of Circleville, Ohio.

**10. Interest Income**

Interest income represents earnings from all of the District's bank accounts.

**11. Inventory of Supplies**

Inventories are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenses when used.

**12. Prepaid Expenses**

Payments made to vendors for services that will benefit periods beyond December 31, 2001 and 2000, are recorded as prepaid items by using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

**13. Compensated Absences**

The District uses the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation 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 the employees for the benefits through paid time off or some other means. Sick leave benefits are not accrued as a liability as employees receive no payment for accrued sick leave upon termination or retirement.

# EARNHART HILL REGIONAL WATER AND SEWER DISTRICT

## NOTES TO FINANCIAL STATEMENTS – Continued

December 31, 2001 and 2000

### **NOTE C – CONTRIBUTED CAPITAL**

Certain payments received by the District to construct capital improvements in prior years have been reported as contributed capital in the accompanying financial statements. There were no changes to contributed capital during fiscal years 2001 and 2000.

### **NOTE D – DEFINED BENEFIT RETIREMENT PLAN**

All Earnhart Hill Regional Water and Sewer District full-time employees participate in the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer public employee retirement system created by the State of Ohio. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The 2001 employer contribution rate was 13.55% of covered payroll for employees. The Retirement Board instituted a temporary employer contribution rate rollback for calendar year 2000. The rate rollback was 20% for local government employees. The 2000 employer contribution rate was 10.84% of covered payroll for employees. The District's contributions to PERS for the years ended December 31, 2001, 2000, and 1999 were \$76,807, \$67,248, and \$69,989, respectively. These contributions were equal to the required contributions for fiscal years 1998 and 1999. The unpaid amount of \$5,689 for the year ended December 31, 2001 was reported as a liability as of December 31, 2001.

### **NOTE E – CURRENT AND LONG-TERM DEBT – PLANNING AND CONSTRUCTION LOANS**

Current and long-term debt at December 31, 2001 are as follows:

Loan #	Payable To	Interest Rate	First Payment	Principal Term	Principal Due in 2002	Principal Due after 2002
91-01	Rural Development	5.00%	10/1/1998	10 yrs.	\$ 21,450	\$ 152,117
93-02	Rural Development	5.00%	10/1/1998	16 yrs.	15,776	258,839
91-03	Rural Development	5.75%	10/1/1998	29 yrs.	4,176	227,717
91-04	Rural Development	6.625%	10/1/1998	33 yrs.	15,368	1,384,985
91-05	Rural Development	5.75%	10/1/1998	10 yrs.	1,747	131,450
44972	The Savings Bank	5.29%	7/1/1999	30 yrs.	13,095	758,188
44973	The Savings Bank	5.29%	7/1/1999	30 yrs.	<u>8,106</u>	<u>474,119</u>
					<u>\$ 79,718</u>	<u>\$ 3,387,415</u>

# EARNHART HILL REGIONAL WATER AND SEWER DISTRICT

## NOTES TO FINANCIAL STATEMENTS – Continued

December 31, 2001 and 2000

**NOTE E – CURRENT AND LONG-TERM DEBT – PLANNING AND CONSTRUCTION LOANS - Continued**

The debt listed with the United States Department of Agriculture – Rural Development is water system revenue bonds. The District is required to maintain a cash balance reserve to meet revenue bond requirements. This cash balance is reported as a restricted asset in the accompanying financial statements. The debt listed above with the Savings Bank is long term loans. Principal and interest payments for all of the above listed debt are due on the 1st day of each month. Interest is calculated at the rates reflected above and payable for the terms described above. Future principal and interest payments on all debt are as follows:

<u>Year</u>	<u>Savings Bank</u>			<u>Water System Revenue Bond</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 21,201	\$ 65,799	\$ 87,000	\$ 58,517	\$ 134,707	\$ 193,224
2003	22,350	64,650	87,000	61,821	131,403	193,224
2004	23,380	63,620	87,000	64,944	128,280	193,224
2005	24,829	62,171	87,000	68,985	124,239	193,224
2006	26,175	60,825	87,000	72,890	120,334	193,224
2007-2011	153,562	281,438	435,000	333,332	542,198	875,530
2012-2016	199,831	235,169	435,000	303,919	448,924	752,843
2017-2021	260,390	174,610	435,000	315,167	357,012	672,179
2022-2026	339,068	95,932	435,000	433,923	238,256	672,179
2027-2031	<u>182,722</u>	<u>11,418</u>	<u>194,140</u>	<u>500,127</u>	<u>86,084</u>	<u>586,211</u>
Totals	<u>\$ 1,253,508</u>	<u>\$ 1,115,632</u>	<u>\$ 2,369,140</u>	<u>\$ 2,213,625</u>	<u>\$2,311,437</u>	<u>\$4,525,062</u>

**NOTE F– DEPOSITS WITH FINANCIAL INSTITUTIONS – LEGAL REQUIREMENTS**

Active deposits are public deposits necessary to meet current demands on the Treasury. Such monies must be maintained either as cash in the District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Trustees has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits represent interim monies that are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts. Interim monies can be deposited or invested in the following securities:

# EARNHART HILL REGIONAL WATER AND SEWER DISTRICT

## NOTES TO FINANCIAL STATEMENTS – Continued

December 31, 2001 and 2000

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### **NOTE F – DEPOSITS WITH FINANCIAL INSTITUTIONS – LEGAL REQUIREMENTS – Continued**

1. 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;
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. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) of this footnote 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 (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian. The District held no investments during fiscal years 2001 and 2000.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution. The carrying amount of the District's deposits was \$1,475,613 and \$1,165,216 as of December 31, 2001 and 2000, respectively. The District's bank balance was \$1,506,770 and \$1,204,786 as of December 31, 2001 and 2000, respectively. Of the bank balances for each of the fiscal years ended, \$100,000 was covered by federal depository insurance. The remaining amounts were collateralized by specific investments held by a third party trustee in the name of the District.

# EARNHART HILL REGIONAL WATER AND SEWER DISTRICT

## NOTES TO FINANCIAL STATEMENTS – Continued

December 31, 2001 and 2000

### **NOTE G– POSTEMPLOYMENT BENEFITS**

The Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. 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 Post Employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set-aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The employer rate for employees was 13.55% of covered payroll during fiscal year 2001 and 10.84% of covered payroll for fiscal year 2000; 4.3% was the portion that was used to fund health care for both years, while employee contribution rates were 8.5%. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

The assumptions and calculations below were based on the latest actuarial review performed as of December 31, 2000. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2000 was 7.75%. A compounded annual increase of 4.75% is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees.

Additionally, annual pay increases, over and above the 4.75% base increase, were assumed to range from 0.54% to 5.1%. Health care costs were assumed to increase 4.75% annually.

OPEB's are advance-funded on an actuarially determined basis. The number of active contributing participants was 411,076. The District contributions actually made to fund postemployment benefits during fiscal year 2001 were \$14,978. \$11,735.9 million represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2000 (the most recent data available). The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$14,364.6 million and \$2,628.7 million, respectively.

### **NOTE H – ACCOUNTS RECEIVABLE**

Following are accounts receivable balances presented by aging classifications as of December 31:

	<u>2001</u>	<u>2000</u>
Current receivables (0-30 days)	\$ 109,186	\$ 112,668
Delinquent receivables (31-60 days)	11,841	10,201
Delinquent receivables (over 60 days)	<u>6,102</u>	<u>7,062</u>
Total accounts receivables	<u>\$ 127,129</u>	<u>\$ 129,931</u>

# EARNHART HILL REGIONAL WATER AND SEWER DISTRICT

## NOTES TO FINANCIAL STATEMENTS – Continued

December 31, 2001 and 2000

### **NOTE I – RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft or damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During 2001 and 2000 the County contracted with Rinehart-Walters-Danner & Associates and the Ohio Plan for liability, property, and related insurance.

Coverages provided by the program are as follows:

General Liability	\$2,000,000 per occurrence and \$4,000,000 aggregate
Public Officials	\$2,000,000 per occurrence and \$3,000,000 aggregate
Automobile	\$2,000,000
Property	\$2,632,861
Inland Marine	\$425,442
Faithful Performance and Employee Bond	\$500,000

There have been no claims that exceed commercial insurance coverage during the past three years. United Health Care provides health insurance.

Workers' compensation benefits are provided through the State Bureau of Workers' Compensation.

### **NOTE J– OHIO REVISED CODE 5705 COMPLIANCE**

Budgetary activity for the years ended December 31, 2001 and 2000, follows:

#### Budgeted vs. Actual Receipts

	<u>2001</u>	<u>2000</u>
Budgeted Receipts	1,456,000	1,300,400
Actual Receipts	<u>1,378,174</u>	<u>1,274,709</u>
Variance	<u>\$ 77,826</u>	<u>\$ 25,691</u>

#### Budgeted vs. Actual Budgetary Basis Expenditures

	<u>2001</u>	<u>2000</u>
Appropriation Authority	1,304,526	1,260,000
Budgetary Expenditures	<u>1,031,383</u>	<u>1,030,291</u>
Variance	<u>\$ 273,143</u>	<u>\$ 229,709</u>

# EARNHART HILL REGIONAL WATER AND SEWER DISTRICT

## NOTES TO FINANCIAL STATEMENTS – Continued

December 31, 2001 and 2000

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### **NOTE K – PENDING LITIGATION**

The District's general legal counsel is Huffer and Huffer, LPA, Circleville, Ohio.

There was no material litigation pending or outstanding as of December 31, 2001 and 2000 that management believes might have a significant affect on the accompanying financial statements.

### **NOTE L – FEDERAL FINANCIAL ASSISTANCE**

During fiscal years 2001 and 2000, the District had outstanding loans (CFDA # 10.760) with the United States Department of Agriculture – Rural Development. The District did not expend any monies in Federal Awards Expenditures during fiscal years 2001 and 2000. The outstanding loan balances were \$2,213,625 and \$2,269,017 as of December 31, 2001 and 2000, respectively. The District believes that it complied with all requirements of the loan agreements during fiscal years presented.

### **NOTE M – SUBSEQUENT EVENT**

On March 1, 2002, the United States Department of Agriculture – Rural Development sent notification to the District that a grant in the amount of \$1,200,000 and a loan in the amount of \$3,600,000 had been approved for a fifty two mile water line extension in Northern Pickaway County as well as a facility upgrade. Construction should begin in mid-2002 and should be completed within one year of the construction start date.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

# Harr & Scherer, CPAs, Inc.

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Board of Trustees  
Earnhart Hill Regional Water and Sewer District  
2030 Stoneridge Drive  
P.O. Box 151  
Circleville, Ohio 43113-0151

## REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of Earnhart Hill Regional Water and Sewer District (the District), Ohio, as of and for the years ended December 31, 2001 and 2000, and have issued our report thereon dated May 23, 2002. We conducted our audits 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 District'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 certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated May 23, 2002.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated May 23, 2002.

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

Circleville, Ohio  
May 23, 2002





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

88 East Broad Street  
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Columbus, Ohio 43216-1140  
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800-282-0370  
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**EARNHART HILL REGIONAL WATER AND SEWER DISTRICT**

**PICKAWAY 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 8, 2002**