Earnhart Hill Regional Water and Sewer District

Pickaway County

Regular Audit

January 1, 2006 through December 31, 2006

Fiscal Year Audited Under GAGAS: 2006

BALESTRA, HARR & SCHERER CPAs, INC.
528 South West Street, P.O. Box 687
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Mary Taylor, CPA
Auditor of State

Board of Trustees
Earnhart Hill Regional Water and Sewer District
2030 Stoneridge Drive
Circleville, Ohio 43113

We have reviewed the *Independent Auditor's Report* of the Earnhart Hill Regional Water and Sewer District, Pickaway County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2006 through 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 Earnhart Hill Regional Water and Sewer District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 8, 2007

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Earnhart Hill Regional Water and Sewer District

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For the Year Ended December 31, 2006

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Independent Auditor's Report

Board of Trustees
Earnhart Hill Regional Water and Sewer District
2030 Stoneridge Drive
Circleville, Ohio 43113

We have audited the accompanying financial statements of the business-type activities of Earnhart Hill Regional Water and Sewer District (the District), Pickaway County, as of and for the years ended December 31, 2006 and 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions 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 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 financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District, as of December 31, 2006 and 2005, and the respective changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2007, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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 considered in assessing the results of our audit.

Board of Trustees
Earnhart Hill Regional Water and Sewer District
Independent Auditor's Report

The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 5, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 42, *"Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries"*, GASB Statement No. 46, *"Net Assets Restricted by Enabling Legislation"*, and GASB Statement No. 47, *"Accounting for Termination Benefits"*.

Balestra, Harr & Scherer

Balestra, Harr & Scherer, CPAs, Inc.

April 20, 2007

This discussion and analysis, along with the accompanying financial report, of Earnhart Hill Regional Water and Sewer District (EHRWSD or "the District") is designed to provide our customers, creditors and other interested parties with a general overview of the District and its financial activities.

FINANCIAL HIGHLIGHTS

The total assets of EHRWSD exceeded liabilities on December 31, 2006 and 2005 by $8.8 million and $7.9 million, respectively. The District's net assets increased by $937 thousand (11.9%) in 2006 and $1.4 million (21.7%) in 2005.

The District's Operating Revenues increased by $200 thousand (10.5%) in 2006 and $98 thousand (5.4%) in 2005. Operating Expenses increased $124 thousand (7.7%) in 2006 and $125 thousand (8.3%) in 2005.

The District issued no additional long term debt in 2006 or 2005.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

The District is a single enterprise fund using proprietary fund accounting, similar to private sector business. The Basic Financial Statements are presented using the accrual basis of accounting.

The **Statements of Net Assets** includes all of the District's Assets and Liabilities. These statements provide information about the nature and amounts of investments in resources (assets) owned by the District, and obligations owed by the District (liabilities) on December 31. The District's net assets (equity) are the difference between assets and liabilities.

The **Statements of Revenues, Expenses and Changes in Net Assets** provide information on the District's operations over the past two years and the success of recovering all its costs through service charges, capacity charges and tap fees, and other income. Revenues are reported when earned and expenses are reported when incurred.

The **Statements of Cash Flows** provide information about the District's cash receipts and cash disbursements. It summarizes the net changes in cash resulting from operating, investing, capital financing and non-capital financing activities.

NET ASSETS

Table 1 summarizes the Net Assets of the District. Capital Assets are reported less accumulated depreciation. "Invested in Capital, Net of Debt", are Capital Assets less outstanding debt that was used to acquire those assets.

TABLE 1

	2006	2005	Change	2004	Change
Current & Other Assets	$1,658,972	$1,632,299	$26,673	$1,479,922	$152,377
Capital Assets	13,883,529	13,087,018	796,511	11,967,089	1,119,929
Total Assets	15,542,501	14,719,317	823,184	13,447,011	1,272,306
Long Term Liabilites	6,342,273	6,490,015	(147,742)	6,628,283	(138,268)
Current & Other Liabilities	385,363	351,866	33,497	345,249	6,617
Total Liabilities	6,727,636	6,841,881	(114,245)	6,973,532	(131,651)
Net Assets					
Invested in Capital Assets, Net of Debt	7,395,638	6,458,735	936,903	5,207,417	1,251,318
Restricted	265,435	246,686	18,749	227,937	18,749
Unrestricted	1,153,792	1,172,015	(18,223)	1,038,125	133,890
Total Net Assets	$8,814,865	$7,877,436	$937,429	$6,473,479	$1,403,957

The District's Net Assets increased $937 thousand (11.9%) in 2006 and $1.4 million (21.7%) in 2005. These increases were a result of excess revenues over expenses and additional capital contributions.

Restricted net assets increased $19 thousand (7.6%) in 2006 and $19 thousand (8.2%) in 2005. Restricted assets are cash that is limited in use as part of the District's loan covenants.

Unrestricted net assets decreased by $18 thousand (-1.6%) in 2006 and increased by $134 thousand (12.9%) in 2005. Unrestricted net assets may be used without constraints established by loan covenants or other legal requirements. Unrestricted Cash and Cash Equivalents increased $27 thousand in 2006 and $156 thousand in 2005.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Table 2 below summarizes the changes in Revenues and Expenses and the resulting Changes in Net Assets.

Table 2

	2006	2005	Difference	2004	Difference
Operating Revenues	$2,101,308	$1,901,443	$199,865	$1,803,422	$98,021
Total Operating Revenues	2,101,308	1,901,443	199,865	1,803,422	98,021
Treatment Expenses	124,875	90,461	34,414	84,748	5,713
Power	101,565	108,356	(6,791)	99,836	8,520
Distribution	394,278	370,465	23,813	325,787	44,678
Customer Accounting	150,349	142,481	7,868	141,848	633
Transportation	42,745	40,132	2,613	35,002	5,130
Fringe Benefits	212,001	203,218	8,783	176,878	26,340
Depreciation and Amortization	503,689	455,899	47,790	438,523	17,376
Administrative & General	219,605	213,705	5,900	196,980	16,725
Total Operating Expenses	1,749,107	1,624,717	124,390	1,499,602	125,115
Operating Income	352,201	276,726	75,475	303,820	(27,094)
Non-Operating Expenses	327,188	331,588	(4,400)	330,351	1,237
Non-Operating Revenues	240,250	296,004	(55,754)	229,157	66,847
Capital Contributions	672,166	1,162,815	(490,649)	197,118	965,697
Changes in Net Assets	937,429	1,403,957	(466,528)	399,744	1,004,213
Net Assets at Beginning of Year	7,877,436	6,473,479	1,403,957	6,073,735	399,744
Net Assets at End of Year	$8,814,865	$7,877,436	$937,429	$6,473,479	$1,403,957

Operating Revenues increased $200 thousand (10.5%) in 2006 and $98 thousand (5.4%) in 2005. Increased revenues in 2006 were a result of a rate increase and customer growth. The increase in 2005 was a result of customer growth. Capital Contributions will fluctuate from year to year depending on construction activity, and improvement projects that may qualify for special assessment and/or grant monies. In 2006 the District received $426,550 from the US Army Corp of Engineers and the Ohio Department of Development through Pickaway County, $0 in 2005, while in 2004 the District received $126 thousand in USDA grant monies. The District recorded $246 thousand in developer contributions in 2006 and $1.163 million in 2005, while recording $197 thousand in 2004. The variance in 2005 is related to the Casto Development (Wal-Mart).

In 2006 operating expenses, excluding depreciation, increased $77 thousand (6.6%). A $34 thousand increase in treatment expenses and $23 thousand increase in distribution repairs accounted for much of the increase.

In 2005 operating expenses, excluding depreciation, increased $108 thousand (10.2%). $20 thousand in additional wages operation related to temporary employment and overtime, basic wage increases, $22 thousand increase in distribution repairs, $16 thousand increase in employee health care costs, $8 thousand increase in chemical costs and $5 thousand in fuel costs accounted for much of the increase.

CAPITAL ASSETS

The District had $17.9 million, $16.6 million and $15.1 million invested in Capital Assets (before depreciation) as of December 31, 2006, 2005 and 2004, respectively. This represents an increase of 7.4% from 2005 to 2006 and 10.5% from 2004 to 2005.

TABLE 3

	2006	2005	Change	2004	Change
Land	$457,094	$457,094	$0	$452,494	$4,600
Buildings	1,042,845	1,016,910	25,935	1,016,910	-
Treatment Facilities	2,708,466	2,623,120	85,346	2,614,429	8,691
Transmission & Storage	12,260,437	11,648,478	611,959	10,168,145	1,480,333
Vehicles	252,596	258,681	(6,085)	223,993	34,688
Furniture & Equipment	495,423	502,546	(7,123)	465,427	37,119
Construction in Progress	663,628	142,371	521,257	131,974	10,397
Total before Depreciation	17,880,489	16,649,200	1,231,289	15,073,372	1,575,828
Accumulated Depreciation	(3,996,960)	(3,562,182)	(434,778)	(3,106,283)	(455,899)
Total Capital Assets	$13,883,529	$13,087,018	$796,511	$11,967,089	$1,119,929

Total Capital Assets increased by $797 thousand (6.1%) in 2006 and $1.1 million (9.4%) in 2005. The majority of the increase is in Transmission & Storage where there was a $612 thousand increase in 2006 and a $1.48 million increase in 2005. The significant addition in 2006 was $594 thousand for the North Pickaway Duval Area Water Line Project. This project is scheduled for completion in 2007. In 2005, $1,162,815 of the increase was from dedicated water and sewer lines from the Casto (Wal-Mart) Development. Total Capital Assets (before depreciation) from 2005 and 2006 increased $1.231 million and $1.576 million from 2004 and 2005.

For additional information regarding capital assets, please see Note 6 of the *Notes to the Basic Financial Statements*.

DEBT

The District issued long term debt to finance much of its construction. Rural Development Loans and bank loans were used to finance most general improvement projects.

For additional information regarding debt, please see Note 3 of the *Notes to the Basic Financial Statements*.

Table 4

	2006	2005	Change	2004	Change
Savings Bank Loans	$1,133,459	$1,161,757	($28,298)	$1,186,586	($24,829)
Rural Development Loans	5,354,432	5,466,526	(112,094)	5,573,086	(106,560)
Total Long Term Debt	6,487,891	6,628,283	(140,392)	6,759,672	(131,389)
Less					
Current Maturities	145,618	138,268	7,350	131,389	6,879
Net Total Long Term Debt	$6,342,273	$6,490,015	($147,742)	$6,628,283	($138,268)

CASH

Unrestricted Cash and Cash Equivalents on December 31, 2006 and 2005 were $1.013 million and $0.986 million, respectively. Cash restricted for debt service reserve as of December 31, 2006 and 2005 was $265 thousand and $247 thousand, respectively.

ECONOMIC FACTORS and 2007 BUDGET

The District has projected an increase of $1.5 million in net assets for the year ending December 31, 2007. The District is anticipating Federal & State grants of $0.8 million to aid in the construction of water lines to serve a Joint Economic Development Area (JEDD) in northern Pickaway County.

CONTACT INFORMATION

Questions regarding this report and requests for additional information should be forwarded to Dennis Williams, General Manager, Earnhart Hill Regional Water and Sewer District, 2030 Stoneridge Drive, Circleville, Ohio 43113-0151 or (740) 474-3114.

Earnhart Hill Regional Water and Sewer District

Statements of Net Assets

As of December 31, 2006 and 2005

	2006	2005
CURRENT ASSETS		
Cash and cash equivalents	$ 1,012,688	$ 986,020
Accounts receivable	288,561	283,370
Inventories	67,256	89,904
Prepaid expenses	25,032	26,319
TOTAL CURRENT ASSETS	1,393,537	1,385,613
NONCURRENT ASSETS		
Restricted Assets:		
Cash and cash equivalents - debt service reserve	265,435	246,686
TOTAL RESTRICTED ASSETS	265,435	246,686
Capital Assets:		
Land and land easements	457,094	457,094
Buildings	1,042,845	1,016,910
Treatment facilities	2,708,466	2,623,120
Transmission and storage	12,260,437	11,648,478
Vehicles	252,596	258,681
Furniture and equipment	495,423	502,546
Construction in progress	663,628	142,371
	17,880,489	16,649,200
Less: Accumulated depreciation	(3,996,960)	(3,562,182)
NET CAPITAL ASSETS	13,883,529	13,087,018
TOTAL ASSETS	$ 15,542,501	$ 14,719,317

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

Earnhart Hill Regional Water and Sewer District

Statements of Net Assets - Continued

As of December 31, 2006 and 2005

	2006	2005
CURRENT LIABILITIES		
Accounts payable	$ 24,169	$ 13,537
Prepaid taps & main line extensions	90,432	108,505
Customer deposits	11,880	11,210
Insurance and taxes payable	9,594	8,816
Current portion of notes payable	27,706	26,174
Current portion of revenue bonds payable	117,912	112,094
Accrued payroll	10,782	9,955
Intergovernmental payable	36,767	34,063
Retainage payable	29,192	-
Accrued interest payable	26,929	27,512
TOTAL CURRENT LIABILITIES	385,363	351,866
LONG-TERM LIABILITIES		
Notes payable (net of current portion)	1,105,753	1,135,583
Revenue bonds payable (net of current portion)	5,236,520	5,354,432
TOTAL LONG-TERM LIABILITIES	6,342,273	6,490,015
TOTAL LIABILITIES	6,727,636	6,841,881
NET ASSETS		
Restricted for capital assets, net of related debt	7,395,638	6,458,735
Restricted for debt service	265,435	246,686
Unrestricted	1,153,792	1,172,015
TOTAL NET ASSETS	$ 8,814,865	$ 7,877,436

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

Earnhart Hill Regional Water and Sewer District

Statements of Revenues, Expenses and Changes in Net Assets

For the Years Ended December 31, 2006 and 2005

	2006	2005
OPERATING REVENUES		
Service charges	$ 2,022,593	$ 1,799,471
Other	78,715	101,972
TOTAL OPERATING REVENUES	2,101,308	1,901,443
OPERATING EXPENSES		
Treatment expense	124,875	90,461
Power	101,565	108,356
Distribution	394,278	370,465
Customer accounting	150,349	142,481
Transportation	42,745	40,132
Fringe benefits	212,001	203,218
Depreciation and amortization	503,689	455,899
Administrative and general	219,605	213,705
TOTAL OPERATING EXPENSES	1,749,107	1,624,717
Operating income	352,201	276,726
NON-OPERATING REVENUES (EXPENSES)		
Capacity charges	111,300	203,692
Tap fee revenue	27,900	42,400
Interest income	39,952	28,189
Main extensions	19,166	-
Gain on sale of assets	19,579	-
Loss on sale of assets	(459)	-
Interest expense	(326,729)	(331,588)
Rental income	22,353	21,723
Net other income (expenses)	(86,938)	(35,584)
CHANGES IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	265,263	241,142
Capital contributions - intergovernmental	426,550	-
Capital contributions - developer	245,616	1,162,815
CHANGES IN NET ASSETS	937,429	1,403,957
NET ASSETS, BEGINNING OF YEAR	7,877,436	6,473,479
NET ASSETS, END OF YEAR	$ 8,814,865	$ 7,877,436

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

Earnhart Hill Regional Water and Sewer District

Statements of Cash Flows

For the Years Ended December 31, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 2,017,402	$ 1,817,875
Cash paid for employee salaries and benefits	(758,439)	(500,435)
Cash payments to suppliers for goods and services	(448,103)	(679,974)
Cash received from other receipts	78,715	101,972
Net cash provided by operating activities	889,575	739,438
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Prepaid tap fees	(16,500)	6,000
Refundable line extensions	(1,573)	13,401
Deposits received	670	425
Net cash provided (used) by non-capital and related financing activities	(17,403)	19,826
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Tap fees	27,900	42,400
Capacity charges	111,300	203,692
Main extensions	19,166	-
Rental income	22,353	21,723
Revenue bond principal payments	(112,094)	(106,560)
Revenue bond interest payments	(89,543)	(274,152)
Note principal payments	(28,298)	(24,829)
Note interest payments	(237,769)	(62,171)
Cash received for sale of assets	21,029	-
Proceeds from capital grant	426,550	-
Capital outlay	(1,027,301)	(413,014)
Net cash used by capital and related financing activities	(866,707)	(612,911)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on cash and investments	39,952	28,189
Net increase in cash and cash equivalents	45,417	174,542
Cash and cash equivalents, beginning of year	1,232,706	1,058,164
Cash and cash equivalents, end of year	$ 1,278,123	$ 1,232,706

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

Earnhart Hill Regional Water and Sewer District
Statements of Cash Flows - Continued
For the Years Ended December 31, 2006 and 2005

	2006	2005
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 352,201	$ 276,726
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	503,689	455,899
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	(5,191)	18,404
Decrease (increase) in inventories	22,648	3,434
Decrease (increase) in prepaid expenses	1,287	327
Increase (decrease) in accounts payable (trade only)	10,632	(13,075)
Increase (decrease) in insurance and taxes payable	778	387
Increase (decrease) in accrued payroll	827	(6,581)
Increase (decrease) in intergovernmental payable	2,704	3,917
Total adjustments	537,374	462,712
Net cash provided by operating activities	$ 889,575	$ 739,438

Developers dedicated water lines with total costs of $245,616 and $1,162,815 in 2006 and 2005, respectively, with such contributions recorded as developer capital contributions.

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

NOTE 1 - 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 2 - 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. 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, net assets, revenues, and expenses.

This fund accounts for the resources allocated to it for the purpose of carrying on specific activities in accordance with laws, regulations or other restrictions.

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. The District’s enterprise fund provides water and sewer services to its users.

2. **Basis of Accounting**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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, 2006 and 2005.

Appropriations - Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function, 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 3, a restricted account was established for the required reserve for the Rural Development Loans and is recorded as a restricted asset in the accompanying basic financial statements.

7. **Capital Assets**

Capital Assets 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.

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, including unrestricted 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. Cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenses or capitalized when used.

12. **Prepaid Expenses**

Payments made to vendors for services that will benefit periods beyond December 31, 2006 and 2005, 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

13. **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. The amount of vacation leave liability was insignificant as of December 31, 2006 and 2005 and is not recorded in the accompanying basic financial statements. Sick leave benefits are not accrued as a liability as employees receive no payment for accrued sick leave upon termination or retirement.

14. **Intergovernmental Payable**

The District bills and collects sewer fees and penalties for Scippo Sewer District, Circleville Sewer and Pickaway County Sewer. Intergovernmental payable represents those amounts collected on behalf of those districts but not yet paid as of December 31, 2006 and 2005.

15. **Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted for debt service reserves as required by the Rural Development Loan requirements. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Of the District's $265,435 and $246,686 in restricted net assets as of December 31, 2006 and 2005, respectively, none was restricted by enabling legislation.

16. **Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are fees and contract fee revenue for water and sewer services provided. Operating expenses are necessary costs incurred to provide the good and/or service that is the primary activity of the fund.

NOTE 3 - CURRENT AND LONG-TERM DEBT

Current and long-term debt at December 31, 2006 are as follows:

Loan #	Payable To	Interest Rate	First Payment	Principal Term
91-01	Rural Development	5.000%	10/1/1998	10 yrs.
93-02	Rural Development	5.000%	10/1/1998	16 yrs.
91-03	Rural Development	5.750%	10/1/1998	29 yrs.
91-04	Rural Development	6.625%	10/1/1998	33 yrs.
91-05	Rural Development	5.750%	10/1/1998	33 yrs.
91-06	Rural Development	4.250%	10/1/2003	39 yrs.
44972	The Savings Bank	5.290%	7/1/1999	30 yrs.
44973	The Savings Bank	5.290%	7/1/1999	30 yrs.

NOTE 3 - CURRENT AND LONG-TERM DEBT – Continued

Loan #	Payable To	Interest Rate	Principal Outstanding 12/31/2005	Additions	Deletions	Principal Outstanding 12/31/2006	Due in One Year
91-01	Rural Development	5.000%	$ 80,956	$ -	$ 26,188	$ 54,768	$ 27,527
93-02	Rural Development	5.000%	206,499	-	19,261	187,238	20,246
91-03	Rural Development	5.750%	213,651	-	5,253	208,398	5,562
91-04	Rural Development	6.625%	1,332,292	-	20,017	1,312,275	21,379
91-05	Rural Development	5.750%	125,567	-	2,197	123,370	2,327
91-06	Rural Development	4.250%	3,507,561	-	39,178	3,468,383	40,871
44972	The Savings Bank	5.290%	714,611	-	17,479	697,132	17,113
44973	The Savings Bank	5.290%	447,146	-	10,819	436,327	10,593
			$ 6,628,283	$ -	$ 140,392	$ 6,487,891	$ 145,618

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 basic financial statements. The debt listed above with the Savings Bank is a long-term loan. Principal and interest payments for Rural Development debt are due on the 1st day of each month. Principal and interest payments for Savings Bank are due on the 20th 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:

	Savings Bank			Water System Revenue Bond		
Year	Principal	Interest	Total	Principal	Interest	Total
2007	$27,706	$59,294	$87,000	$117,912	$262,800	$380,712
2008	29,208	57,792	87,000	122,361	256,657	379,018
2009	30,790	56,210	87,000	100,109	250,963	351,072
2010	32,459	54,541	87,000	105,371	245,701	351,072
2011	34,218	52,782	87,000	110,919	240,153	351,072
2012-2016	201,006	233,994	435,000	580,247	1,109,946	1,690,193
2017-2021	261,714	173,286	435,000	656,625	952,995	1,609,620
2022-2026	340,758	94,242	435,000	856,143	753,477	1,609,620
2027-2031	175,600	10,522	186,122	1,017,094	501,548	1,518,642
2032-2036	0	0	0	643,647	293,793	937,440
2037-2041	0	0	0	795,742	141,698	937,440
2042-2043	0	0	0	248,262	7,718	255,980
Totals	$1,133,459	$792,663	$1,926,122	$5,354,432	$5,017,449	$10,371,881

NOTE 4 - 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 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.

NOTE 4 - DEPOSITS WITH FINANCIAL INSTITUTIONS – LEGAL REQUIREMENTS – Continued

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:

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, its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. 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;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio; and
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's average portfolio.

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.

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.

Deposits – Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. As of December 31 2006 and 2005 $200,000 and $200,000 of the District's bank balances of $1,318,277 and $1,271,478 were covered by federal depository insurance. The remaining balances were covered by specific securities held by the pledging financial institution's trust department in the District's name and therefore, not subject to custodial credit risk. Although all State statutory requirements for the deposit of money have been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

NOTE 4 - DEPOSITS WITH FINANCIAL INSTITUTIONS – LEGAL REQUIREMENTS – Continued

The District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

NOTE 5 - CHANGE IN ACCOUNTING PRINCIPLES

For the fiscal year 2006, the District implemented GASB Statement No. 42, "*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries"*, GASB Statement No. 46, *"Net Assets Restricted by Enabling Legislation"* and GASB Statement No. 47, *"Accounting for Termination Benefits"*. GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. GASB No. 46 requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. GASB No. 47 establishes accounting standards for termination benefits. The application of these new standards did not have any effect on the basic financial statements, nor did their implementation require a restatement of prior year net assets.

For fiscal year 2005, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, "*Deposit and Investment Risk Disclosures*", and GASB Technical Bulletin No. 2004-2, *"Recognition of Pension and Other Post-employment Benefit Expenditures/Expenses and Liability by Cost-Sharing Employers."* GASB No. 40 establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risks on deposits. This statement applies to all state and local governments. The implementation had no effect on the District's basic financial statements. GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost sharing multiple-employer pension and other post-employment benefit (OPEB) plans. The implementation of GASB Technical Bulletin No. 2004-2 did not have an effect on the District's basic financial statements.

NOTE 6- CAPITAL ASSETS

Capital assets activity for the fiscal year ended December 31, 2006 and 2005 was as follows:

	Ending Balance 12/31/05	Additions	Deletions	Ending Balance 12/31/06
Capital Assets, Not Being Depreciated				
Land and Land Easements	$457,094	$0	$0	$457,094
Construction in Progress	142,371	963,241	(441,984)	663,628
Total Capital Assets, Not Being Depreciated	599,465	963,241	(441,984)	1,120,722
Capital Assets Being Depreciated				
Buildings & Bond Issue Costs	1,016,910	25,935	0	1,042,845
Treatment Facilities	2,623,120	85,346	0	2,708,466
Transmission & Storage & Collection	11,648,478	611,959	0	12,260,437
Vehicles	258,681	40,091	(46,176)	252,596
Furniture and Equipment	502,546	17,521	(24,644)	495,423
Total Capital Assets, Being Depreciated	16,049,735	780,852	(70,820)	16,759,767
Less Accumulated Depreciation:				
Buildings & Bond Issue Costs	(214,620)	(41,261)	0	(255,881)
Treatment Facilities	(1,044,951)	(103,211)	0	(1,148,162)
Transmission & Storage & Collection	(1,899,213)	(277,221)	0	(2,176,434)
Vehicles	(160,377)	(48,067)	46,176	(162,268)
Furniture and Equipment	(243,021)	(33,929)	22,735	(254,215)
Total Accumulated Depreciation	(3,562,182)	(503,689)	68,911	(3,996,960)
Total Capital Assets Being Depreciated, Net	12,487,553	277,163	(1,909)	12,762,807
Total Capital Assets, Net	$13,087,018	$1,240,404	($443,893)	$13,883,529

NOTE 6- CAPITAL ASSETS – Continued

	Ending Balance 12/31/04	Additions	Deletions	Ending Balance 12/31/05
Capital Assets, Not Being Depreciated				
Land and Land Easements	$452,494	$4,600	$0	$457,094
Construction in Progress	131,974	547,451	(537,054)	142,371
Total Capital Assets, Not Being Depreciated	584,468	552,051	(537,054)	599,465
Capital Assets Being Depreciated				
Buildings & Bond Issue Costs	1,016,910	0	0	1,016,910
Treatment Facilities	2,614,429	8,691	0	2,623,120
Transmission & Storage & Collection	10,168,145	1,480,333	0	11,648,478
Vehicles	223,993	34,688	0	258,681
Furniture and Equipment	465,427	37,119	0	502,546
Total Capital Assets, Being Depreciated	14,488,904	1,560,831	0	16,049,735
Less Accumulated Depreciation:				
Buildings & Bond Issue Costs	(186,685)	(27,935)	0	(214,620)
Treatment Facilities	(938,040)	(106,911)	0	(1,044,951)
Transmission & Storage & Collection	(1,662,152)	(237,061)	0	(1,899,213)
Vehicles	(123,424)	(36,953)	0	(160,377)
Furniture and Equipment	(195,982)	(47,039)	0	(243,021)
Total Accumulated Depreciation	(3,106,283)	(455,899)	0	(3,562,182)
Total Capital Assets Being Depreciated, Net	11,382,621	1,104,932	0	12,487,553
Total Capital Assets, Net	$11,967,089	$1,656,983	($537,054)	$13,087,018

NOTE 7- DEFINED BENEFIT RETIREMENT PLAN

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described below:

1. The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan.
2. The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.
3. The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by OPERS to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, and survivor benefits as well as postretirement health care coverage to qualifying members of both the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code.

The Ohio Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2006 and 2005, member and employer contribution rates were consistent across all three plans. Separate divisions for law enforcement and public safety exist only within the Traditional Pension Plan.

NOTE 7- DEFINED BENEFIT RETIREMENT PLAN – Continued

The 2006 and 2005 member contribution rates were 9.0% and 8.5% for the District.

The 2006 and 2005 employer contribution rates for the District were 13.7% and 13.55% of covered payroll.

The District's contributions to OPERS for the years ended December 31, 2006, 2005, and 2004, were $76,076, $69,417 and $63,967, respectively. These contributions were equal to the required contributions for fiscal years 2006, 2005 and 2004. The unpaid amounts of $5,790 and $8,816 for the years ended December 31, 2006 and 2005 were reported as a liability as of December 31, 2006 and 2005.

NOTE 8 - POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – 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 and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post employment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS is considered to be an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 12.

A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. For local government employer units, the rate was 13.70% and 13.55% of covered payroll for both fiscal years 2006 and 2005; respectively. The portion of employer contributions allocated for healthcare was 4.5% and 4.0% for the years 2006 and 2005, respectively.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.

Summary of Assumptions:

<u>Actuarial Review</u> - The assumptions and calculations below were based on OPERS' latest Actuarial Reviews performed as of December 31, 2005.

<u>Funding Method</u> – An individual entry age 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.

<u>Assets Valuation Method</u> – 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 deprecation on investment assets annually, not to exceed a 12% corridor.

<u>Investment Return</u> – The investment assumption rate for 2005 was 6.50%.

<u>Active Employee Total Payroll</u> – An annual increase of 4.0%, compounded annually, 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 4.0% base increase, were assumed to range from 0.5% to 6.3%.

<u>Health Care</u> – Health care cost were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 0.5% to 6% for the next 9 years. In subsequent years (10 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

NOTE 8 - POSTEMPLOYMENT BENEFITS – Continued

OPEB is advance-funded on an actuarially determined basis. The following disclosures are required:

1. The Traditional Pension and Combined Plans had 369,214 active contributing participants as of December 31, 2006. The number of active participants for both plans used in the December 31, 2005, actuarial valuation was 358,804.
2. The employer contributions that were used to fund post employment benefits were $24,991 for 2006 and $33,347 for 2005.
3. The amount of $11.1 billion represents the actuarial value of OPERS' net assets available for OPEB at December 31, 2005.
4. Based on the actuarial cost method used, the Actuarial Valuation as of December 31, 2005, reported the actuarial accrued liability and the unfunded actuarial accrued liability for OPEB at $31.3 billion and $20.2 billion, respectively.

OPERS Retirement Board adopts its Health Care Preservation Plan.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, is effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. 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.

NOTE 9 - ACCOUNTS RECEIVABLE

Following are accounts receivable balances presented by aging classifications as of December 31, 2006 and 2005:

	2006	2005
Current receivables (0-30 days)	$201,753	$205,646
Delinquent receivables (31-60 days)	29,735	21,628
Delinquent receivables (over 60 days)	57,073	56,096
Total accounts receivables	$288,561	$283,370

As of December 31, 2006 and 2005, the District had miscellaneous receivables totaling $0 and $1,973.

NOTE 10 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2006 and 2005, the District contracted with Rinehart-Walters-Danner & Associates and the Ohio Plan for liability, property, and related insurance.

Coverage's provided by the program are as follows:

General Liability	$5,000,000 per occurrence $7,000,000 aggregate
Public Officials Liability	$5,000,000 per occurrence $7,000,000 aggregate
Automobile Liability	$5,000,000
Property, Boiler & Machinery	$7,509,962
Inland Marine	$151,333
Electronic Media	$176,957
Faithful Performance & Employee Bond	$400,000

There have been no claims that exceed commercial insurance coverage during the past three years. General Liability, Public Officials Liability, and Automobile Liability limits were each increased by $2,000,000 from the previous year; other coverages were also increased as deemed appropriate by management. Anthem provides health insurance.

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

NOTE 11 - OHIO REVISED CODE 5705 COMPLIANCE

Budgetary activity for the years ended December 31, 2006 and 2005 follows:

Budgeted vs. Actual Receipts

	2006	2005
Budgeted Receipts	$3,634,000	$2,247,500
Actual Receipts	2,765,037	2,197,469
Variance	($868,963)	($50,031)

Budgeted vs. Actual Budgetary Basis Expenditures

	2006	2005
Appropriation Authority	$3,952,600	$2,377,100
Budgetary Expenditures	2,719,620	2,059,514
Variance	$1,232,980	$317,586

NOTE 12 - PENDING LITIGATION

The District's general legal counsel is Huffer and Huffer, LPA, Circleville, Ohio and Bricker & Eckler, LLP, Columbus, Ohio.

There was no material litigation pending or outstanding as of December 31, 2006 and 2005 that management believes might have a significant affect on the accompanying financial statements.

NOTE 13 - FEDERAL FINANCIAL ASSISTANCE

During fiscal years 2006 and 2005, the District had outstanding loans (CFDA # 10.760) with the United States Department of Agriculture – Rural Development. The outstanding loan balances were $5,354,432 and $5,466,526 as of December 31, 2006 and 2005, respectively. The District spent $426,550 in federal financial assistance during fiscal year 2006 and $0 in federal financial assistance during fiscal year 2005. The District believes that it complied with all requirements of the loan agreements during the fiscal years presented.

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Member American Institute of Certified Public Accountants Ohio Society of Certified Public Accountants

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*

Board of Trustees
Earnhart Hill Regional Water and Sewer District
2030 Stoneridge Drive
Circleville, Ohio 43113

We have audited the accompanying financial statements of the business-type activities of Earnhart Hill Regional Water and Sewer District (the District), Pickaway County, as of and for the year ended December 31, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated April 20, 2007, in which we indicated the District implemented Governmental Accounting Standards Board Statements No. 42, 46 and 47. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting 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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District'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 District'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 District's financial statements that is more than inconsequential will not be prevented or detected by the entity'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 presented or detected by the District'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.

Board of Trustees
Earnhart Hill Regional Water and Sewer District

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*
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we 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 the management and members of the Board and is not intended to be and should not be used by anyone other than these specified parties.

Balestra, Harr & Scherer

Balestra, Harr & Scherer, CPAs, Inc.

April 20, 2007

Mary Taylor, CPA
Auditor of State

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
MAY 22, 2007

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