

Earnhart Hill Regional Water and Sewer District

Pickaway County

Single Audit

January 1, 2007 through December 31, 2007

Fiscal Year Audited Under GAGAS: 2007



Balestra, Harr & Scherer, CPAs, Inc.

528 South West St, P.O. Box 687, Piketon, Ohio 45661 Phone: 740.289.4131 Fax: 740.289.3639



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Earhart Hill Regional Water and Sewer District, Pickaway County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2007 through December 31, 2007. 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 Earhart Hill Regional Water and Sewer District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 26, 2008

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Earnhart Hill Regional Water and Sewer District
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BALESTRA, HARR & SCHERER CPAs, INC.

528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhsecpas.com

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

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, 2007 and 2006, 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 the Comptroller of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the basic 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, 2007 and 2006, 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.

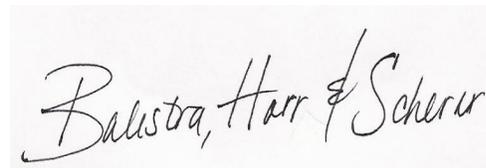
In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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 accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 13, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

July 31, 2008

Earnhart Hill Regional Water and Sewer District

Management's Discussion and Analysis

For the Years Ended December 31, 2007 and 2006

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, 2007 and 2006 by \$10.0 million and \$8.8 million, respectively. The District's net assets increased by \$1.2 million (13.3%) in 2007 and \$937 thousand (11.9%) in 2006.

The District's Operating Revenues increased by \$67 thousand (3.2%) in 2007 and \$200 thousand (10.5%) in 2006. Operating Expenses increased \$135 thousand (7.7%) in 2007 and \$124 thousand (7.7%) in 2006.

The District issued no additional long term debt in 2007 or 2006.

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

	2007	2006	Change	2005	Change
Current & Other Assets	\$2,016,760	\$1,658,972	\$ 357,788	\$1,632,299	\$26,673
Capital Assets	14,610,887	13,883,529	727,358	13,087,018	796,511
Total Assets	16,627,647	15,542,501	1,085,146	14,719,317	823,184
Long Term Liabilities	6,190,695	6,342,273	(151,578)	6,490,015	(147,742)
Current & Other Liabilities	449,790	385,363	64,427	351,866	33,497
Total Liabilities	6,640,485	6,727,636	(87,151)	6,841,881	(114,245)
Net Assets					
Invested in Capital Assets, Net of Debt	8,268,626	7,395,638	872,988	6,458,735	936,903
Restricted	284,184	265,435	18,749	246,686	18,749
Unrestricted	1,434,352	1,153,792	280,560	1,172,015	(18,223)
Total Net Assets	\$9,987,162	\$8,814,865	\$1,172,297	\$7,877,436	\$937,429

The District's Net Assets increased \$1.2 million (13.3%) in 2007 and \$937 thousand (11.9%) in 2006. These increases were a result of excess revenues over expenses and additional capital contributions.

Restricted net assets increased \$19 thousand (7.1%) in 2007 and \$19 thousand (7.6%) in 2006. Restricted assets are cash which is limited in use as part of the District's loan covenants.

Earnhart Hill Regional Water and Sewer District

Management's Discussion and Analysis

For the Years Ended December 31, 2007 and 2006

Unrestricted assets increased by \$281 thousand (24.3%) in 2007 and decreased by \$18 thousand (-1.6%) in 2006. Unrestricted assets may be used without constraints established by loan covenants or other legal requirements. Unrestricted Cash and Cash Equivalents increased \$328 thousand in 2007 and \$27 thousand in 2006.

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

	2007	2006	Difference	2005	Difference
Operating Revenues	\$2,168,490	\$2,101,308	\$67,182	\$1,901,443	\$199,865
Total Operating Revenues	\$2,168,490	\$2,101,308	\$67,182	\$1,901,443	\$199,865
Treatment Expenses	138,853	124,875	13,978	90,461	34,414
Power	117,142	101,565	15,577	108,356	(6,791)
Distribution	420,066	394,278	25,788	370,465	23,813
Customer Accounting	165,854	150,349	15,505	142,481	7,868
Transportation	54,841	42,745	12,096	40,132	2,613
Fringe Benefits	231,779	212,001	19,778	203,218	8,783
Depreciation and Amortization	511,364	503,689	7,675	455,899	47,790
Administrative & General	244,632	219,605	25,027	213,705	5,900
Total Operating Expenses	1,884,531	1,749,107	135,424	1,624,717	124,390
Operating Income	283,959	352,201	(68,242)	276,726	75,475
Non-Operating Expenses	325,587	327,188	(1,601)	331,588	(4,400)
Non-Operating Revenues	443,745	240,250	203,495	296,004	(55,754)
Capital Contributions	770,180	672,166	98,014	1,162,815	(490,649)
Changes in Net Assets	1,172,297	937,429	234,868	1,403,957	(466,528)
Net Assets at Beginning of Year	8,814,865	7,877,436	937,429	6,473,479	1,403,957
Net Assets at End of Year	\$9,987,162	\$8,814,865	\$1,172,297	\$7,877,436	\$937,429

Operating revenues increased \$67 thousand (3.2%) in 2007 and \$200 thousand (10.5%) in 2006. Increased revenues in 2007 were a result of customer growth. Increased operating revenues in 2006 were a result of a rate adjustment and 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 2007 the District received \$770,180 from the US Army Corp of Engineers. In 2006 the District received \$426,550 from the US Army Corp of Engineers and the Ohio Department of Development through Pickaway County. The District recorded \$0 in developer contributions in 2007, \$246 thousand in 2006 and \$1.163 million in 2005. The variance in 2005 is related to the Casto Development (Wal-Mart).

Operating expenses, excluding depreciation, increased by \$128 thousand (10.3%) in 2007. Increases of \$26 thousand in distribution expenses, \$25 thousand in administrative & general expenses, \$20 thousand in fringe benefits and \$16 thousand in power accounted for most of the increase.

Operating expenses, excluding depreciation, increased by \$77 thousand (6.6%) in 2006. Increase of \$34 thousand in treatment expenses and \$24 thousand in distribution expenses accounted for most of the increase.

Earnhart Hill Regional Water and Sewer District

Management's Discussion and Analysis

For the Years Ended December 31, 2007 and 2006

CAPITAL ASSETS

Table 3 below summarizes the changes in Capital Assets.

Table 3

	2007	2006	Change	2005	Change
Land	\$457,094	\$457,094	\$0	\$457,094	\$0
Buildings	1,042,845	1,042,845	0	1,016,910	25,935
Treatment Facilities	2,713,506	2,708,466	5,040	2,623,120	85,346
Transmission & Storage	13,833,326	12,260,437	1,572,889	11,648,478	611,959
Vehicles	236,400	252,596	(16,196)	258,681	(6,085)
Furniture & Equipment	510,338	495,423	14,915	502,546	(7,123)
Construction in Progress	288,326	663,628	(375,302)	142,371	521,257
Total before Depreciation	19,081,835	17,880,489	1,201,346	16,649,200	1,231,289
Accumulated Depreciation	(4,470,948)	(3,996,960)	(473,988)	(3,562,182)	(434,778)
Total Capital Assets	\$14,610,887	\$13,883,529	\$727,358	\$13,087,018	\$796,511

Capital Assets (before depreciation) increased \$1.2 million (6.7%) in 2007 and \$1.2 million (7.4%) in 2006.

Total Capital Assets increased by \$727 thousand (5.2%) in 2007 and \$797 thousand (6.1%) in 2006. An increase of \$1.6 million in Transmission & Storage in 2007 and \$612 thousand in 2006 accounted for most of the increase. The completion of the North Pickaway Duvall Area Water Line Project (\$1.3 million) accounted for the majority of the increase in Transmission and Storage.

For additional information regarding capital assets, please see Note 5 of the *Notes to the Basic Financial Statements*.

DEBT

The District issues 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 below summarizes the changes in Long Term Debt.

Table 4

	2007	2006	Change	2005	Change
Savings Bank Loans	\$1,105,755	\$1,133,459	(\$27,704)	\$1,161,757	(\$28,298)
Rural Development Loans	5,236,507	5,354,432	(117,925)	5,466,526	(\$112,094)
Total Long Term Debt	\$6,342,262	\$6,487,891	(\$145,629)	\$6,628,283	(\$140,392)
Less					
Current Maturities	151,567	145,618	5,949	138,268	\$7,350
Net Total Long Term Debt	\$6,190,695	\$6,342,273	(\$151,578)	\$6,490,015	(\$147,742)

Earnhart Hill Regional Water and Sewer District
Management's Discussion and Analysis
 For the Years Ended December 31, 2007 and 2006

CASH

Table 5 below summarizes the changes in Unrestricted and Restricted Cash and Cash Equivalents.

Table 5

	2007	2006	Change	2005	Change
Unrestricted Cash and Cash Equivalents	\$1,340,343	\$1,012,688	\$327,655	\$986,020	\$26,668
Cash Restricted for Debt Service	284,184	265,435	18,749	246,686	18,749
Total Cash	\$1,624,527	\$1,278,123	\$346,404	\$1,232,706	\$45,417

Unrestricted Cash and Cash Equivalents increased by \$328 thousand (32.4%) in 2007 and \$27 thousand (2.7%) in 2006. Cash restricted for debt service increased \$19 thousand in 2007 and 2006.

ECONOMIC FACTORS and 2008 BUDGET

The District anticipates a decrease in new residential services over the next few years and is revising its budget accordingly. The District is also anticipating the build out of the Northern Pickaway County JEDD. The Norfolk Southern Intermodal will go into service in March of 2008 and is projected to create 20,000 jobs in the next 30 years. Most of those jobs will come from the creation of new warehousing, which will require both potable and fire protection services.

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, PO Box 151, Circleville, Ohio 43113-0151 or (740) 474-3114.

Earnhart Hill Regional Water and Sewer District

Statements of Net Assets

As of December 31, 2007 and 2006

	2007	2006
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,340,343	\$ 1,012,688
Accounts receivable	278,038	288,561
Inventories	91,992	67,256
Prepaid expenses	22,203	25,032
TOTAL CURRENT ASSETS	1,732,576	1,393,537
NONCURRENT ASSETS		
Restricted Assets:		
Cash and cash equivalents - debt service reserve	284,184	265,435
TOTAL RESTRICTED ASSETS	284,184	265,435
Capital Assets:		
Land and Land Easements	457,094	457,094
Buildings	1,042,845	1,042,845
Treatment facilities	2,713,506	2,708,466
Transmission and storage	13,833,326	12,260,437
Vehicles	236,400	252,596
Furniture and equipment	510,338	495,423
Construction in progress	288,326	663,628
	19,081,835	17,880,489
Less: Accumulated depreciation	(4,470,948)	(3,996,960)
NET CAPITAL ASSETS	14,610,887	13,883,529
TOTAL ASSETS	\$ 16,627,647	\$ 15,542,501

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, 2007 and 2006

	2007	2006
CURRENT LIABILITIES		
Accounts payable	\$ 59,680	\$ 24,169
Prepaid taps & main line extensions	116,304	90,432
Customer deposits	13,030	11,880
Insurance and taxes payable	11,151	9,594
Current portion of notes payable	29,207	27,706
Current portion of revenue bonds payable	122,360	117,912
Accrued payroll	13,885	10,782
Intergovernmental payable	57,872	36,767
Retainage payable	-	29,192
Accrued interest payable	26,301	26,929
TOTAL CURRENT LIABILITIES	449,790	385,363
LONG-TERM LIABILITIES		
Notes payable (net of current portion)	1,076,548	1,105,753
Revenue bonds payable (net of current portion)	5,114,147	5,236,520
TOTAL LONG-TERM LIABILITIES	6,190,695	6,342,273
TOTAL LIABILITIES	6,640,485	6,727,636
NET ASSETS		
Invested in capital assets, net of related debt	8,268,626	7,395,638
Restricted for debt service	284,184	265,435
Unrestricted	1,434,352	1,153,792
TOTAL NET ASSETS	\$ 9,987,162	\$ 8,814,865

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, 2007 and 2006

	2007	2006
OPERATING REVENUES		
Service charges	\$ 2,079,670	\$ 2,022,593
Other	88,820	78,715
TOTAL OPERATING REVENUES	<u>2,168,490</u>	<u>2,101,308</u>
OPERATING EXPENSES		
Treatment expense	138,853	124,875
Power	117,142	101,565
Distribution	420,066	394,278
Customer accounting	165,854	150,349
Transportation	54,841	42,745
Fringe benefits	231,779	212,001
Depreciation and amortization	511,364	503,689
Administrative and general	244,632	219,605
TOTAL OPERATING EXPENSES	<u>1,884,531</u>	<u>1,749,107</u>
Operating income	<u>283,959</u>	<u>352,201</u>
NON-OPERATING REVENUES (EXPENSES)		
Capacity charges	289,750	111,300
Tap fee revenue	69,939	27,900
Interest income	55,511	39,952
Main Extensions	-	19,166
Gain on sale of assets	5,805	19,579
Loss on sale of assets	(3,354)	(459)
Interest expense	(322,233)	(326,729)
Rental income	22,740	22,353
Net other income (expenses)	<u>118,158</u>	<u>(86,938)</u>
CHANGES IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	402,117	265,263
Capital Contributions - Intergovernmental	770,180	426,550
Capital Contributions - Developer	<u>-</u>	<u>245,616</u>
CHANGES IN NET ASSETS	1,172,297	937,429
NET ASSETS, BEGINNING OF YEAR	<u>8,814,865</u>	<u>7,877,436</u>
NET ASSETS, END OF YEAR	<u>\$ 9,987,162</u>	<u>\$ 8,814,865</u>

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, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 2,090,193	\$ 2,017,402
Cash paid for employee salaries and benefits	(814,560)	(758,439)
Cash payments to suppliers for goods and services	(519,240)	(448,103)
Cash received from other receipts	88,820	78,715
Net cash provided by operating activities	<u>845,213</u>	<u>889,575</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Prepaid tap fees	(6,000)	(16,500)
Refundable line extensions	31,872	(1,573)
Deposits received	1,150	670
Net cash from non-capital and related financing activities	<u>27,022</u>	<u>(17,403)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Tap fees	69,939	27,900
Capacity charges	289,750	111,300
Main extensions	-	19,166
Rental income	22,740	22,353
Revenue bond principal payments	(117,925)	(112,094)
Revenue bond interest payments	(262,787)	(89,543)
Note principal payments	(27,704)	(28,298)
Note interest payments	(60,074)	(237,769)
Cash received for sale of assets	5,805	21,029
Proceeds from capital grant	770,180	426,550
Capital outlay	(1,271,266)	(1,027,301)
Net cash used by capital and related financing activities	<u>(581,342)</u>	<u>(866,707)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on cash and investments	<u>55,511</u>	<u>39,952</u>
Net increase in cash and cash equivalents	346,404	45,417
Cash and cash equivalents, beginning of year	<u>1,278,123</u>	<u>1,232,706</u>
Cash and cash equivalents, end of year	<u>\$ 1,624,527</u>	<u>\$ 1,278,123</u>

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, 2007 and 2006

	2007	2006
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 283,959	\$ 352,201
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	511,364	503,689
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	10,521	(5,191)
Decrease (increase) in inventories	(24,736)	22,648
Decrease (increase) in prepaid expenses	2,829	1,287
Increase (decrease) in accounts payable (trade only)	35,511	10,632
Increase (decrease) in insurance and taxes payable	1,557	778
Increase (decrease) in accrued payroll	3,103	827
Increase (decrease) in intergovernmental payable	21,105	2,704
Total adjustments	561,254	537,374
Net cash provided by operating activities	<u>\$ 845,213</u>	<u>\$ 889,575</u>

Developer dedicated water lines with totals of \$0 and \$245,616 in 2007 and 2006, respectively, which were non-cash contributions recorded as developer capital contributions.

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

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2007 and 2006

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 assumes 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.

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, 2007 and 2006.

Earnhart Hill Regional Water and Sewer District

Notes to the Basic Financial Statements

For the Years Ended December 31, 2007 and 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Appropriations - Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund-department-function 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 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, 2007 and 2006, 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.

Earnhart Hill Regional Water and Sewer District

Notes to the Basic Financial Statements

For the Years Ended December 31, 2007 and 2006

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, 2007 and 2006 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, Village of Stoutsville Sewer and Pickaway County Sewer. Intergovernmental payable represents those amounts collected on behalf of those districts but not yet paid as of December 31, 2007 and 2006.

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 \$284,184 and \$265,435 in restricted net assets as of December 31, 2007 and 2006, for both years 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, 2007 are as follows:

<u>Loan #</u>	<u>Payable To</u>	<u>Interest Rate</u>	<u>First Payment</u>	<u>Principal Term</u>
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.

Earnhart Hill Regional Water and Sewer District

Notes to the Basic Financial Statements

For the Years Ended December 31, 2007 and 2006

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
			<u>\$ 6,628,283</u>	<u>\$ -</u>	<u>\$ 140,392</u>	<u>\$ 6,487,891</u>	<u>\$ 145,618</u>

Loan #	Payable To	Interest Rate	Principle Outstanding 12/31/2006	Additions	Deletions	Principle Outstanding 12/31/2007	Due in One Year
91-01	Rural Development	5.000%	\$ 54,768	\$ -	\$ 27,527	\$ 27,241	\$ 27,241
93-02	Rural Development	5.000%	187,238	-	20,247	166,991	21,282
91-03	Rural Development	5.750%	208,398	-	5,563	202,835	5,891
91-04	Rural Development	6.625%	1,312,275	-	21,384	1,290,891	22,840
91-05	Rural Development	5.750%	123,370	-	2,327	121,043	2,464
91-06	Rural Development	4.250%	3,468,383	-	40,877	3,427,506	42,642
44972	The Savings Bank	5.290%	697,132	-	17,113	680,019	18,040
44973	The Savings Bank	5.290%	436,327	-	10,591	425,736	11,167
			<u>\$ 6,487,891</u>	<u>\$ -</u>	<u>\$ 145,629</u>	<u>\$ 6,342,262</u>	<u>\$ 151,567</u>

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:

Earnhart Hill Regional Water and Sewer District

Notes to the Basic Financial Statements

For the Years Ended December 31, 2007 and 2006

NOTE 3 - CURRENT AND LONG-TERM DEBT – Continued

Year	Savings Bank			Water System Revenue Bond		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 29,207	\$ 57,793	\$ 87,000	\$ 122,360	\$ 256,657	\$ 379,017
2009	30,790	56,210	87,000	100,110	250,962	351,072
2010	32,459	54,541	87,000	105,371	245,701	351,072
2011	34,218	52,782	87,000	110,920	240,152	351,072
2012	36,073	50,927	87,000	116,771	234,301	351,072
2013-2017	211,900	223,100	435,000	581,344	1,079,700	1,661,044
2018-2022	275,899	159,101	435,000	692,246	917,374	1,609,620
2023-2027	359,226	75,774	435,000	891,512	706,670	1,598,182
2028-2032	95,982	3,145	99,127	946,282	449,338	1,395,620
2033-2037	-	-	-	671,544	265,896	937,440
2038-2042	-	-	-	830,231	107,209	937,440
2043	-	-	-	67,816	654	68,470
Totals	<u>\$ 1,105,755</u>	<u>\$ 733,372</u>	<u>\$ 1,839,127</u>	<u>\$ 5,236,507</u>	<u>\$ 4,754,614</u>	<u>\$ 9,991,121</u>

In connection with the Rural Development Bonds and Savings Bank Loans listed above, the District has pledged future customer revenues, net of specified operating expenses, to repay this debt. Pledged revenues of a given year may also include specified portions of cash balances carried over from the prior year. The bonds are payable, through their final maturities as listed above, solely from net revenues. Total interest and principal remaining to be paid on these bonds is \$11,830,248. For the current year, net revenue available, principal and interest paid and the coverage ratio is as follows: \$795,323, \$468,490, 1.70.

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.

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 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.

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2007 and 2006

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

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, 2007 and 2006 \$200,000 and \$200,000 of the District's bank balances of \$1,737,790 and \$1,318,277 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.

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.

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2007 and 2006

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the fiscal year ended December 31, 2007 and 2006 was as follows:

	Ending Balance 12/31/06	Additions	Deletions	Ending Balance 12/31/07
Capital Assets, Not Being Depreciated				
Land and Land Easements	\$457,094	\$0	\$0	\$457,094
Construction in Progress	663,628		(375,302)	288,326
Total Capital Assets, Not Being Depreciated	1,120,722	0	(375,302)	745,420
Capital Assets Being Depreciated				
Buildings & Bond Issue Costs	1,042,845	0	0	1,042,845
Treatment Facilities	2,708,466	8,238	(3,198)	2,713,506
Transmission & Storage & Collection	12,260,437	1,572,889	0	13,833,326
Vehicles	252,596	411	(16,607)	236,400
Furniture and Equipment	495,423	35,841	(20,926)	510,338
Total Capital Assets, Being Depreciated	16,759,767	1,617,379	(40,731)	18,336,415
Less Accumulated Depreciation:				
Buildings & Bond Issue Costs	(255,881)	(35,032)	0	(290,913)
Treatment Facilities	(1,148,162)	(105,105)	2,131	(1,251,136)
Transmission & Storage & Collection	(2,176,434)	(290,799)	0	(2,467,233)
Vehicles	(162,268)	(38,760)	16,607	(184,421)
Furniture and Equipment	(254,215)	(41,668)	18,638	(277,245)
Total Accumulated Depreciation	(3,996,960)	(511,364)	37,376	(4,470,948)
Total Capital Assets Being Depreciated, Net	12,762,807	1,106,015	(3,355)	13,865,467
Total Capital Assets, Net	\$13,883,529	\$1,106,015	(\$378,657)	\$14,610,887

Earnhart Hill Regional Water and Sewer District

Notes to the Basic Financial Statements

For the Years Ended December 31, 2007 and 2006

NOTE 5- CAPITAL ASSETS - Continued

	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				
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 - 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 and annual cost-of-living adjustments to members of 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 in Chapter 145 of the Ohio Revised Code.

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2007 and 2006

NOTE 6 - DEFINED BENEFIT RETIREMENT PLAN - Continued

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a writing to OPERS, Attention: Finance Director, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2007, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan.

The 2007 and 2006 member contribution rates were 9.5% and 9.0% for the District.

The 2007 and 2006 employer contribution rates for the District were 13.85% and 13.7% of covered payroll.

The District's contributions to OPERS for the years ended December 31, 2007, 2006, and 2005, were \$81,525, \$76,076 and \$69,417, respectively. These contributions were equal to the required contributions for fiscal years 2007, 2006 and 2005. The unpaid amounts of \$6,614 and \$5,790 for the years ended December 31, 2007 and 2006 were reported as a liability as of December 31, 2007 and 2006.

NOTE 7 - 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 meets the definition of 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-employment health care. The Ohio Revised Code provides statutory authority for employer contributions. For local government employer units, the rate was 13.85% and 13.70% of covered payroll for both fiscal years 2007 and 2006; respectively. The portion of employer contributions allocated for healthcare was 5.00% from January 1 through June 30, 2007, 6.00% from July 1 through December 31, 2007 and 4.5% for the year 2006.

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

Summary of Assumptions:

Actuarial Review - The assumptions and calculations below were based on OPERS' latest Actuarial Reviews performed as of December 31, 2006.

Funding Method – 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.

Assets Valuation Method – 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 annually, not to exceed a 12% corridor.

Investment Return – The investment assumption rate for 2006 was 6.50%.

Active Employee Total Payroll – An annual increase of 4.00%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. In addition, annual pay increases over and above the 4.00% base increase, were assumed to range from 0.50% to 6.30%.

Earnhart Hill Regional Water and Sewer District

Notes to the Basic Financial Statements

For the Years Ended December 31, 2007 and 2006

NOTE 7 - POSTEMPLOYMENT BENEFITS - Continued

Health Care – Health care cost were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 0.50% to 5.00% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4.00% (the projected wage inflation rate).

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

1. The Traditional Pension and Combined Plans had 374,979 active contributing participants as of December 31, 2007. The number of active participants for both plans used in the December 31, 2006, actuarial valuation was 362,130.
2. The employer contributions that were used to fund post employment benefits were \$34,869 for 2007 and \$24,991 for 2006.
3. The amount of \$12.0 billion represents the actuarial value of OPERS' net assets available for OPEB at December 31, 2006.
4. Based on the actuarial cost method used, the Actuarial Valuation as of December 31, 2006, reported the actuarial accrued liability and the unfunded actuarial accrued liability for OPEB at \$30.7 billion and \$18.7 billion, respectively.

OPERS Retirement Board adopts it's Health Care Preservation Plan.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective on January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which will allow additional funds to be allocated to the health care plan.

NOTE 8 - ACCOUNTS RECEIVABLE

Following are accounts receivable balances presented by aging classifications as of December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Current receivables (0-30 days)	\$225,621	\$201,753
Delinquent receivables (31-60 days)	24,077	29,735
Delinquent receivables (over 60 days)	<u>25,260</u>	<u>57,073</u>
Total accounts receivables	<u>\$274,958</u>	<u>\$288,561</u>

As of December 31, 2007 and 2006, the District had miscellaneous receivables totaling \$3,080 and \$0.

NOTE 9 - 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 2007 and 2006, 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	\$7,810,360
Inland Marine	\$151,333
Electronic Media	\$196,957
Faithful Performance & Employee Bond	\$400,000

There have been no claims that exceed commercial insurance coverage during the past three years. There has been no significant change in coverage from the prior yer. Anthem provides health insurance.

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

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2007 and 2006

NOTE 10 - OHIO REVISED CODE 5705 COMPLIANCE

Budgetary activity for the years ended December 31, 2007 and 2006 follows:

	<u>Budgeted vs. Actual Receipts</u>	
	<u>2007</u>	<u>2006</u>
Budgeted Receipts	\$3,440,100	\$3,634,000
Actual Receipts	<u>3,425,960</u>	<u>2,765,037</u>
Variance	<u>(\$14,140)</u>	<u>(\$868,963)</u>

	<u>Budgeted vs. Actual Budgetary Basis Expenditures</u>	
	<u>2007</u>	<u>2006</u>
Appropriation Authority	\$3,354,700	\$3,952,600
Budgetary Expenditures	<u>3,079,556</u>	<u>2,719,620</u>
Variance	<u>\$275,144</u>	<u>\$1,232,980</u>

NOTE 11 - 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, 2007 and 2006 that management believes might have a significant affect on the accompanying financial statements.

NOTE 12 - FEDERAL FINANCIAL ASSISTANCE

During fiscal years 2007 and 2006, the District had outstanding loans (CFDA # 10.760) with the United States Department of Agriculture – Rural Development. The outstanding loan balances were \$5,236,507 and \$5,354,432 as of December 31, 2007 and 2006, respectively. The District spent \$545,180 in federal financial assistance during fiscal year 2007 and \$426,550 in federal financial assistance during fiscal year 2006. The District believes that it complied with all requirements of the loan agreements during the fiscal years presented.

NOTE 13 – CHANGES IN ACCOUNTING PRINCIPLES

For the fiscal year 2007, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, which establishes criteria that governments use to ascertain whether certain transactions should be regarded as sales or collateralized borrowings, and disclosures requirements for future revenues that are pledged or sold. The implementation of this Statement had no effect on the net assets of the District as previously reported.

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 net assets of the District as previously reported.

NOTE 14 – SUBSEQUENT EVENTS

On February 14, 2008, the District passed a resolution authorizing the acquisition of the assets and assumption of certain liabilities of the Scippo Sewer District, and authorizing the execution of a purchase agreement, loan agreement, supplemental trust agreement, and other necessary documents in connection therewith. The purchase agreement was entered into on April 16, 2008.

Earnhart Hill Regional Water and Sewer District
Schedule of Federal Awards Expenditures
For the Year Ended December 31, 2007

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
UNITED STATES DEPARTMENT OF DEFENSE			
<i>Passed through Department of the Army, Office of the Chief of Engineers</i>			
Section 594 of the Water Resource Development Act of 1999	N/A	12.xxx	<u>\$545,180</u>
Total United States Department of Defense			<u>545,180</u>
Total Federal Financial Assistance			<u><u>\$545,180</u></u>

N/A - Pass through entity number not available

See notes to the schedule of federal awards expenditures.

Earnhart Hill Water and Sewer District
Notes to the Schedule of Federal Awards Expenditures
For the Year Ended December 31, 2007

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures is a summary of the activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B – MATCHING REQUIREMENTS

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

BALESTRA, HARR & SCHERER CPAs, INC.

528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

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, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated July 31, 2008, in which we indicated the District implemented GASB Statement No. 48. 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 the Comptroller General of the United States' *Government Auditing Standards*.

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 expressing our opinion on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined 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 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 its applicable accounting basis such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies, resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

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 internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider 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 reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters that we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of the management, members of the Board, and federal awarding agencies. We intend it for no one other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.

July 31, 2008

BALESTRA, HARR & SCHERER, CPAs, INC.

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Piketon, Ohio 45661

Telephone (740) 289-4131

Fax (740) 289-3639

www.bhscpas.com

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of Earnhart Hill Regional Water and Sewer District, Pickaway County Ohio, (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that apply to its major federal program for the year ended December 31, 2007. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts and grants applicable to its major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2007.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Board of Trustees

Earnhart Hill Regional Water and Sewer District

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Page 2

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of the internal control over compliance 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 compliance that we consider to be material weaknesses, as defined above.

We intend this report solely for the information and use of the management, members of the Board, and federal awarding agencies. We intend it for no one other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.

July 31, 2008

**Earnhart Hill Regional Water and Sewer District
Pickaway County**

*SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505
FOR THE YEAR ENDED DECEMBER 31, 2007*

1. SUMMARY OF AUDITOR' S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any significant internal control deficiencies reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any material weakness reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any significant internal control deficiencies reported for major federal programs?	No
(d)(1)(iv)	Were there any material weakness reported for major federal programs?	No
(d)(1)(v)	Type of Major Program' s Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under section .510?	No
(d)(1)(vii)	Major Programs (list):	Section 594 of the Water Resource Development Act of 1999 CFDA #12.xxx
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**Earnhart Hill Regional Water and Sewer District
Pickaway County**

*SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2007*

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding Number	None
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3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Finding Number	None
CFDA Title and Number	
Federal Award Number/Year	
Federal Agency	
Pass-Through Agency	



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
OCTOBER 9, 2008**