

**EARNHART HILL REGIONAL  
WATER AND SEWER DISTRICT  
PICKAWAY COUNTY  
Single Audit  
For the Year Ended December 31, 2009**

*Perry & Associates*  
**Certified Public Accountants, A.C.**





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 Accountants' Report* of the Earnhart Hill Regional Water and Sewer District, Pickaway County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2009 through December 31, 2009. 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

July 12, 2010

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**EARNHART HILL REGIONAL WATER and SEWER DISTRICT  
PICKAWAY COUNTY**

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***Perry & Associates***  
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**INDEPENDENT ACCOUNTANTS' REPORT**

May 28, 2010

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

To the Board of Trustees:

We have audited the accompanying financial statements of the business-type activities of the **Earnhart Hill Regional Water and Sewer District, Pickaway County, Ohio** (the District), as of and for the years ended December 31, 2009 and 2008, 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 an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 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, 2009 and 2008, 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 May 28, 2010 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.

Management's Discussion and Analysis 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 the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Respectfully Submitted,

A handwritten signature in black ink that reads "Perry & Associates CPAs A.C." in a cursive script.

**Perry & Associates**  
Certified Public Accountants, A.C.

**Earnhart Hill Regional Water and Sewer District**  
*Management's Discussion and Analysis*  
For the Years Ended December 31, 2009 and 2008  
(Unaudited)

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, 2009 and 2008 by \$14.5 million and \$11.00 million, respectively. The District's net assets increased by \$3.5 million (32%) in 2009 and \$1.0 million (10%) in 2008.

The District's Operating Revenues increased by \$293 thousand (13%) in 2009 and \$104 thousand (5%) in 2008. Operating Expenses increased \$68 thousand (3%) in 2009 and \$162 thousand (9%) in 2008.

The District issued \$3.5 million in additional long term debt in 2009 and \$2.9 million in 2008.

**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**

	2009	2008	Change	%	2007	Change	%
Current & Other Assets	\$ 3,387,602	\$ 3,330,193	\$ 57,409	2%	\$ 2,016,760	\$ 1,313,433	65%
Capital Assets	24,278,335	17,421,558	6,856,777	39%	14,610,887	2,810,671	19%
Total Assets	27,665,937	20,751,751	6,914,186	33%	16,627,647	4,124,104	25%
Long Term Liabilities	12,538,652	9,298,044	3,240,608	35%	6,190,695	3,107,349	50%
Current & Other Liabilities	611,806	455,477	156,329	34%	449,790	5,687	1%
Total Liabilities	13,150,458	9,753,521	3,396,937	35%	6,640,485	3,113,036	47%
Net Assets							
Invested in Capital Assets,							
Net of Debt	13,169,484	8,806,785	4,362,699	50%	8,268,626	538,159	7%
Restricted	295,164	302,933	(7,769)	-3%	284,184	18,749	7%
Unrestricted	1,050,831	1,888,512	(837,681)	-44%	1,434,352	454,160	32%
Total Net Assets	\$ 14,515,479	\$ 10,998,230	\$ 3,517,249	32%	\$ 9,987,162	\$ 1,011,068	10%

The District's Net Assets increased \$3.5 million (32%) in 2009 and \$1.01 million (10%) in 2008. These increases were a result of excess revenues over expenses, capital contributions and capital grants.

Restricted net assets decreased \$8 thousand (-3%) in 2009 and increased \$19 thousand (7%) in 2008. 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, 2009 and 2008  
(Unaudited)

Unrestricted assets decreased by \$837 thousand (-44%) in 2009 and increased by \$454 thousand (32%) in 2008. Unrestricted assets may be used without constraints established by loan covenants or other legal requirements.

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

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

**Table 2**

	<b>2009</b>	<b>2008</b>	Difference	%	<b>2007</b>	Difference	%
Operating Revenues	\$ 2,565,262	\$ 2,272,006	\$ 293,256	13%	\$ 2,168,490	\$ 103,516	5%
Total Operating Revenues	2,565,262	2,272,006	293,256	13%	2,168,490	103,516	5%
Treatment Expenses	181,572	160,420	21,152	13%	138,853	21,567	16%
Power	159,680	138,155	21,525	16%	117,142	21,013	18%
Distribution	456,789	479,462	(22,673)	-5%	420,066	59,396	14%
Customer Accounting	168,702	165,518	3,184	2%	165,854	(336)	0%
Transportation	39,489	62,945	(23,456)	-37%	54,841	8,104	15%
Fringe Benefits	243,531	246,014	(2,483)	-1%	231,779	14,235	6%
Depreciation and Amortization	606,184	538,132	68,052	13%	511,364	26,768	5%
Administrative & General	258,939	256,218	2,721	1%	244,632	11,586	5%
Total Operating Expenses	2,114,886	2,046,864	68,022	3%	1,884,531	162,333	9%
Operating Income	450,376	225,142	225,234	100%	283,959	(58,817)	-21%
Non-Operating Expenses	298,601	313,137	(14,536)	-5%	325,587	(12,450)	-4%
Non-Operating Revenues	226,134	324,947	(98,813)	-30%	443,745	(118,798)	-27%
Capital Contributions	3,139,340	774,116	2,365,224	306%	770,180	3,936	1%
Changes in Net Assets	3,517,249	1,011,068	2,506,181	248%	1,172,297	(161,229)	-14%
Net Assets at Beginning of Year	10,998,230	9,987,162	1,011,068	10%	8,814,865	1,172,297	13%
Net Assets at End of Year	\$ 14,515,479	\$ 10,998,230	\$ 3,517,249	32%	\$ 9,987,162	\$ 1,011,068	10%

Operating revenues increased \$293 thousand (13%) in 2009 and \$104 thousand (5%) in 2008. Increased operating revenues in 2009 were a result of a 15% rate adjustment and sewer customer growth from the purchase of the Tarlton & Stoutsville sewer systems.

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. The District recorded \$3.09 million in capital contributions in 2009, \$0.77 million in 2008 and \$0.77 million in 2007.

In 2009 the District received \$2,892,592 in capital contributions from USDA through the acquisition of the Tarlton & Stoutsville sewer systems as more fully described in Note 2 in the Basic Financial Statements. In 2009 the District also received \$214,748 in cash capital contributions from PPG for the relocation of Well #6. In 2008 the District received \$706,034 in capital contributions from OWDA through the acquisition of the Scippo Sewer District. In 2007 the District received \$770,180 in grant funds from the US Army Corp of Engineers and the Ohio Department of Development for the North Pickaway Duvall Area Water Line Project.

Operating expenses, excluding depreciation, increased by \$30 (0%) in 2009 and by \$135 thousand (10%) in 2008. Increases of \$21 thousand in treatment expenses and \$21 thousand in power were offset by decreases of \$23 thousand in distribution expenses and \$23 thousand in transportation expenses in 2009. Increases of \$59 thousand in distribution expenses, \$22 thousand in treatment expenses and \$21 thousand in power accounted for most of the increase in 2008.

**Earnhart Hill Regional Water and Sewer District**  
*Management's Discussion and Analysis*  
For the Years Ended December 31, 2009 and 2008  
(Unaudited)

**CAPITAL ASSETS**

Table 3 summarizes the changes in Capital Assets.

**Table 3**

	<b>2009</b>	<b>2008</b>	<b>Change</b>	<b>%</b>	<b>2007</b>	<b>Change</b>	<b>%</b>
Land	\$ 746,797	\$ 611,344	\$ 135,453	22%	\$ 457,094	\$ 154,250	34%
Buildings	1,103,628	1,083,848	19,780	2%	1,042,845	41,003	4%
Treatment Facilities	5,197,779	3,820,196	1,377,583	36%	2,713,506	1,106,690	41%
Transmission & Storage	21,134,344	15,550,928	5,583,416	36%	13,833,326	1,717,602	12%
Vehicles	350,088	257,776	92,312	36%	236,400	21,376	9%
Furniture & Equipment	483,783	505,509	(21,726)	-4%	510,338	(4,829)	-1%
Construction in Progress	775,516	555,730	219,786	40%	288,326	267,404	93%
Total before Depreciation	29,791,935	22,385,331	7,406,604	33%	19,081,835	3,303,496	17%
Accumulated Depreciation	(5,513,600)	(4,963,773)	(549,827)	11%	(4,470,948)	(492,825)	11%
Total Capital Assets	\$ 24,278,335	\$ 17,421,558	\$ 6,856,777	39%	\$ 14,610,887	\$ 2,810,671	19%

Capital Assets (before depreciation) increased \$7.4 million (33%) in 2009 and \$3.3 million (17 %) in 2008.

Total Capital Assets increased by \$6.9 million (39%) in 2009 and \$2.8 million (19%) in 2008. Transmission & Storage increased \$5.6 million in 2009 and \$1.7 million in 2008. Treatment Facilities increased \$1.4 million in 2009 and \$1.1 million in 2008. The purchase of the Stoutsville & Tarlton sewer systems accounted for increases of \$5.2 million in Transmission and Storage and \$1.4 million in Treatment Facilities in 2009. The purchase of the Scippo Sewer District accounted for increases of \$1.4 million in Transmission and Storage and \$1.0 million in Treatment Facilities in 2008.

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. Loans from USDA Rural Development, Ohio Water Development Authority, Ohio Public Works Commission and The Savings Bank 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 summarizes the changes in Long Term Debt.

**Table 4**

	<b>2009</b>	<b>2008</b>	<b>Change</b>	<b>%</b>	<b>2007</b>	<b>Change</b>	<b>%</b>
Savings Bank Loans	\$ 1,045,926	\$ 1,076,726	\$ (30,800)	-3%	\$ 1,105,755	\$ (29,029)	-3%
Rural Development Loans	7,138,005	4,652,905	2,485,100	53%	5,236,507	(583,602)	-11%
OWDA Loans	2,474,920	2,063,176	411,744	20%	-	2,063,176	NA
OPWC Loan	450,000	-	450,000	NA	-	-	NA
Rotary Commission Loan	821,966	821,966	-	0%	-	821,966	NA
Total Long Term Debt	11,930,817	8,614,773	3,316,044	38%	6,342,262	2,272,511	36%
Less							
Current Maturities	243,880	168,444	75,436	45%	151,567	16,877	11%
Net Total Long Term Debt	\$ 11,686,937	\$ 8,446,329	\$ 3,240,608	38%	\$ 6,190,695	\$ 2,255,634	36%

Net Long Term Debt increased \$3.3 million in 2009 and \$2.3 million in 2008. In 2009 the District obtained a \$2,554,000 loan from USDA and assumed loans of \$450,000 and \$487,503 from OPWC and OWDA, respectively, for the purchase of the Stoutsville and Tarlton sewer systems. The District obtained a \$2,063,176 loan from OWDA in 2008 for the purchase of the Scippo Sewer District. The District also assumed the liability of

**Earnhart Hill Regional Water and Sewer District**  
*Management's Discussion and Analysis*  
For the Years Ended December 31, 2009 and 2008  
(Unaudited)

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an \$821,966 Rotary Commission Loan with the acquisition of the Scippo Sewer District in 2008. The District paid off the remaining \$518,110 balance of four USDA loans in 2008.

**CASH**

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

**Table 5**

	<b>2009</b>	<b>2008</b>	Change	%	<b>2007</b>	Change	%
Unrestricted Cash and Cash Equivalents	\$ 1,298,042	\$ 1,273,813	\$ 24,229	2%	\$ 1,340,343	\$ (66,530)	-5%
Cash Restricted for Debt Service	295,164	302,933	(7,769)	-3%	284,184	18,749	7%
Total Cash	<u>\$ 1,593,206</u>	<u>\$ 1,576,746</u>	<u>\$ 16,460</u>	<u>1%</u>	<u>\$ 1,624,527</u>	<u>\$ (47,781)</u>	<u>-3%</u>

Unrestricted Cash and Cash Equivalents increased \$24 thousand (2%) in 2009 and decreased \$67 thousand (-5%) in 2008. Cash restricted for debt service decreased \$8 thousand (-3%) in 2009 and increased \$19 thousand (7%) in 2008.

**CURRENT FINANCIAL RELATED ACTIVITIES**

The District anticipates a decrease in new residential services over the next few years and has revised its budget accordingly.

The District purchased the sewer systems of the Village of Tarlton and the Village of Stoutsville in 2009. The purchase of the village sewer systems adds an additional wastewater treatment plant, operating at 25% capacity, 5 lift stations and 462 sewer customers to the District's assets. The District purchased the assets of the Scippo Sewer District in 2008. The purchase of the Scippo Sewer District added an additional wastewater treatment plant, operating at 30% capacity, and twelve industrial/commercial customers to the District's assets. Future plans are to expand the former Scippo plant and abandon the District's exiting wastewater treatment plant, adding additional capacity to the region.

A 5% water and sewer rate adjustment was implemented on January 1, 2010. Future rate adjustments will be evaluated annually.

**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*  
For the Years Ended December 31, 2009 and 2008

	2009	2008
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,298,042	\$ 1,273,813
Accounts receivable	385,146	289,464
Assessments Receivable	1,276,389	1,306,778
Inventories	112,576	136,859
Prepaid expenses	20,285	20,346
<b>TOTAL CURRENT ASSETS</b>	<b>3,092,438</b>	<b>3,027,260</b>
 <b>NONCURRENT ASSETS</b>		
Restricted Assets:		
Cash and cash equivalents - debt service reserve	295,164	302,933
<b>TOTAL RESTRICTED ASSETS</b>	<b>295,164</b>	<b>302,933</b>
 <b>CAPITAL ASSETS</b>		
Land and Land Easements	746,797	611,344
Buildings	1,103,628	1,083,848
Treatment facilities	5,197,779	3,820,196
Transmission and storage	21,134,344	15,550,928
Vehicles	350,088	257,776
Furniture and equipment	483,783	505,509
Construction in progress	775,516	555,730
	29,791,935	22,385,331
Less: Accumulated depreciation	(5,513,600)	(4,963,773)
<b>NET CAPITAL ASSETS</b>	<b>24,278,335</b>	<b>17,421,558</b>
 <b>TOTAL ASSETS</b>	<b>\$ 27,665,937</b>	<b>\$ 20,751,751</b>

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*  
For the Years Ended December 31, 2009 and 2008

	2009	2008
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 84,704	\$ 14,599
Prepaid taps & main line extensions	177,289	181,241
Customer deposits	16,240	14,330
Insurance and taxes payable	11,493	11,060
Current portion of Savings Bank notes payable	32,450	30,780
Current portion of USDA revenue bonds payable	103,578	68,891
Current portion of OWDA notes payable	82,852	68,773
Current portion of OPWC notes payable	25,000	-
Accrued payroll	7,923	5,671
Intergovernmental payable	38,698	36,564
Retainage payable	4,404	-
Accrued interest payable	27,175	23,568
<b>TOTAL CURRENT LIABILITIES</b>	<b>611,806</b>	<b>455,477</b>
<b>LONG-TERM LIABILITIES</b>		
Notes payable Savings Bank (net of current portion)	1,013,476	1,045,946
Revenue bonds payable USDA (net of current portion)	7,034,427	4,584,014
Notes payable OWDA (net of current portion)	2,392,068	1,994,403
Notes payable OPWC (net of current portion)	425,000	-
Notes payable Rotary Loan	821,966	821,966
Deferred Revenue - Construction Agricultural	851,715	851,715
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>12,538,652</b>	<b>9,298,044</b>
<b>TOTAL LIABILITIES</b>	<b>13,150,458</b>	<b>9,753,521</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	13,169,484	8,806,785
Restricted for debt service	295,164	302,933
Unrestricted	1,050,831	1,888,512
<b>TOTAL NET ASSETS</b>	<b>14,515,479</b>	<b>10,998,230</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 27,665,937</b>	<b>\$ 20,751,751</b>

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, 2009 and 2008

	2009	2008
<b>OPERATING REVENUES</b>		
Service charges	\$ 2,450,319	\$ 2,172,657
Other	114,943	99,349
<b>TOTAL OPERATING REVENUES</b>	<u>2,565,262</u>	<u>2,272,006</u>
<b>OPERATING EXPENSES</b>		
Treatment expense	181,572	160,420
Power	159,680	138,155
Distribution	456,789	479,462
Customer accounting	168,702	165,518
Transportation	39,489	62,945
Fringe benefits	243,531	246,014
Depreciation and amortization	606,184	538,132
Administrative and general	258,939	256,218
<b>TOTAL OPERATING EXPENSES</b>	<u>2,114,886</u>	<u>2,046,864</u>
Operating income	<u>450,376</u>	<u>225,142</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Capacity charges	107,925	170,175
Tap fee revenue	31,320	23,510
Interest income	60,286	98,711
Gain (Loss) on sale of assets	(3,154)	13,450
Interest expense	(288,044)	(313,137)
Rental income	19,200	19,101
<b>NET NON-OPERATING REVENUES (EXPENSES)</b>	<u>(72,467)</u>	<u>11,810</u>
<b>CHANGES IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS</b>	377,909	236,952
Capital Contributions - Intergovernmental	2,892,592	706,034
Capital Contributions - Cash	214,748	-
Capital Contributions - Developer	32,000	68,082
<b>Total Capital Contributions</b>	<u>3,139,340</u>	<u>774,116</u>
<b>CHANGES IN NET ASSETS</b>	3,517,249	1,011,068
<b>NET ASSETS, BEGINNING OF YEAR (Restated see note 14)</b>	<u>10,998,230</u>	<u>9,987,162</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 14,515,479</u>	<u>\$ 10,998,230</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, 2009 and 2008

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 2,354,637	\$ 2,161,231
Cash paid for employee salaries and benefits	(848,023)	(849,643)
Cash payments to suppliers for goods and services	(561,410)	(776,793)
Cash received from other receipts	114,943	99,349
Net cash provided by operating activities	<u>1,060,147</u>	<u>634,144</u>
<b>CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Refundable line extensions	(3,953)	64,937
Deposits received	1,910	1,300
Net cash from non-capital and related financing activities	<u>(2,043)</u>	<u>66,237</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Tap fees	31,320	23,510
Capacity charges	107,925	170,175
Rental income	19,200	19,101
Revenue bond principal payments	(68,900)	(583,602)
Revenue bond interest payments	(226,263)	(257,900)
Note principal payments	(106,559)	(29,029)
Note interest payments	(58,174)	(57,970)
Special assessments received	30,389	-
Special assessment interest	31,167	35,204
Cash received for sale of assets	7,870	22,101
Proceeds from USDA note	2,554,000	-
Proceeds from OWDA note	-	2,063,176
Proceeds from capital grant	864,437	-
Proceeds from capital cash contributions	214,748	-
Capital outlay	(4,471,923)	(2,209,133)
Net cash used by capital and related financing activities	<u>(1,070,763)</u>	<u>(804,367)</u>
<b>NET ASSETS, END OF YEAR</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on cash and investments	<u>29,119</u>	<u>56,205</u>
Net increase (decrease) in cash and cash equivalents	16,460	(47,781)
Cash and cash equivalents, beginning of year	<u>1,576,746</u>	<u>1,624,527</u>
Cash and cash equivalents, end of year	<u>\$ 1,593,206</u>	<u>\$ 1,576,746</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, 2009 and 2008

	2009	2008
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income	\$ 450,376	\$ 225,142
<b>Adjustments to reconcile operating income to net cash provided by operating activities:</b>		
Depreciation and amortization	606,184	538,132
<b>Changes in assets and liabilities:</b>		
Decrease (increase) in accounts receivable	(95,682)	(11,426)
Decrease (increase) in inventories	24,283	(44,867)
Decrease (increase) in prepaid expenses	61	1,857
Increase (decrease) in accounts payable (trade only)	70,106	(45,081)
Increase (decrease) in insurance and taxes payable	433	(91)
Increase (decrease) in accrued payroll	2,252	(8,214)
Increase (decrease) in intergovernmental payable	2,134	(21,308)
Total adjustments	609,771	409,002
Net cash provided by operating activities	\$ 1,060,147	\$ 634,144

Developer dedicated water lines with totals of \$32,000 and \$68,082 in 2009 and 2008, respectively, were non-cash contributions and were 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, 2009 and 2008*

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**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:

**A. 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.

**B. Basis of Accounting**

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

**Earnhart Hill Regional Water and Sewer District**

*Notes to the Basic Financial Statements*

*For the Years Ended December 31, 2009 and 2008*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**C. 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, 2009 and 2008.

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

**D. 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.

**E. 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.

**F. 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.

**G. Capital Assets**

Capital Assets are presented at cost or fair market value 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 over \$5,000 are capitalized.

**H. 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.

**I. Interest Expense**

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

**J. Interest Income**

Interest income represents earnings from all of the District's bank accounts and interest earned on assessments.

**K. 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.

**Earnhart Hill Regional Water and Sewer District**  
*Notes to the Basic Financial Statements*  
For the Years Ended December 31, 2009 and 2008

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**L. Prepaid Expenses**

Payments made to vendors for services that will benefit periods beyond December 31, 2009 and 2008 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.

**M. 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, 2009 and 2008 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.

**N. Intergovernmental Payable**

The District bills and collects sewer fees and penalties for City of 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, 2009 and 2008.

**O. 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 \$295,164 and \$302,933 in restricted net assets as of December 31, 2009 and 2008, none was restricted by enabling legislation.

**P. 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 goods and/or service that are the primary activity of the fund.

**Q. Capital Contributions**

The District records capital contributions of capital assets or grants and other outside contributions restricted to capital acquisition and construction. During 2009 and 2008, the following capital contributions were received:

	<u>2009</u>	<u>2008</u>
Intergovernmental contribution from OWDA for the Scippo Sewer District acquisition	\$ -	\$ 706,034
Intergovernmental contribution from USDA for the Tarlton/Stoutsville sewer acquisition	2,892,592	-
Cash Contributions from PPG	214,748	-
Developer donated lines	32,000	68,082
Totals	<u>\$ 3,139,340</u>	<u>\$ 774,116</u>

**Earnhart Hill Regional Water and Sewer District**  
*Notes to the Basic Financial Statements*  
For the Years Ended December 31, 2009 and 2008

**NOTE 3 - CURRENT AND LONG-TERM DEBT**

Current and long term debts at December 31, 2009 are as follows:

Loan #	Payable To	Interest Rate	First Payment	Principal Term
91-04	Rural Development	6.625%	10/1/1998	33 yrs.
91-06	Rural Development	4.250%	10/1/2003	39 yrs.
9210S	Rural Development	3.375%	12/1/2010	40 yrs.
44972	The Savings Bank	5.290%	7/1/1999	30 yrs.
44973	The Savings Bank	5.290%	7/1/1999	30 yrs.
4996	OWDA	0.000%	6/1/2009	30 yrs.
4839	OWDA	1.000%	1/1/2010	30 yrs.
CQ30H	OPWC	0.000%	1/1/2010	20 yrs.

Loan #	Payable To	Interest Rate	Outstanding 12/31/2008	Additions	Deletions	Outstanding 12/31/2009	Due in One Year
91-04	Rural Development	6.625%	1,268,047	-	24,404	1,243,643	26,067
91-06	Rural Development	4.250%	3,384,858	-	44,496	3,340,362	46,420
9210S	Rural Development	3.375%	-	2,554,000	-	2,554,000	31,091
44972	The Savings Bank	5.290%	662,088	-	19,023	643,065	20,043
44973	The Savings Bank	5.290%	414,638	-	11,777	402,861	12,407
4996	OWDA	0.000%	2,063,176	-	68,772	1,994,404	68,773
4839	OWDA	1.000%	-	487,503	6,987	480,516	14,079
CQ30H	OPWC	0.000%	-	450,000	-	450,000	25,000
	Rotary Loan	0.000%	821,966	-	-	821,966	-
			<u>\$ 8,614,773</u>	<u>\$ 3,491,503</u>	<u>\$ 175,459</u>	<u>\$ 11,930,817</u>	<u>\$ 243,880</u>

Loan #	Payable To	Interest Rate	Principle Outstanding 12/31/2007	Additions	Deletions	Principle Outstanding 12/31/2008	Due in One Year
91-01	Rural Development	5.000%	\$ 27,241	\$ -	\$ 27,241	\$ -	\$ -
93-02	Rural Development	5.000%	166,991	-	166,991	-	-
91-03	Rural Development	5.750%	202,835	-	202,835	-	-
91-04	Rural Development	6.625%	1,290,891	-	22,844	1,268,047	24,400
91-05	Rural Development	5.750%	121,043	-	121,043	-	-
91-06	Rural Development	4.250%	3,427,506	-	42,648	3,384,858	44,491
44972	The Savings Bank	5.290%	680,019	-	17,931	662,088	19,012
44973	The Savings Bank	5.290%	425,736	-	11,098	414,638	11,768
4996	OWDA	0.000%	-	2,063,176	-	2,063,176	68,773
	Rotary Loan	0.000%	-	821,966	-	821,966	-
			<u>\$ 6,342,262</u>	<u>\$ 2,885,142</u>	<u>\$ 612,631</u>	<u>\$ 8,614,773</u>	<u>\$ 168,444</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, OWDA and OPWC are long-term loans. Principal and interest payments for Rural Development 91-04 and 91-06 debt are due on the 1st day of each month. Principal and interest payments for Rural Development 9210S are due on December 1 of each year. Principal and interest payments for Savings Bank are due on the 20<sup>th</sup> day of each month. Principal payments for OWDA 4996 are due on June 1 and December 1 of each year.

**Earnhart Hill Regional Water and Sewer District**

*Notes to the Basic Financial Statements*

*For the Years Ended December 31, 2009 and 2008*

**NOTE 3 - CURRENT AND LONG-TERM DEBT – Continued**

Starting in 2010, principal and interest payments for OWDA 4839 will be due on June 1 and December 1 of each year and principal payments for OWPC CQ30H will be due on January 1 and July 1 of each year. 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:

Year	Savings Bank			Water System Revenue Bond		
	Principal	Interest	Total	Principal	Interest	Total
2010	\$ 32,450	\$ 54,550	\$ 87,000	\$ 103,578	\$ 308,875	\$ 412,453
2011	34,209	52,791	87,000	108,419	304,033	412,452
2012	36,063	50,937	87,000	113,505	298,948	412,453
2013	38,017	48,983	87,000	118,848	293,605	412,453
2014	40,078	46,922	87,000	124,462	287,990	412,452
2015-2019	235,427	199,573	435,000	717,124	1,345,138	2,062,262
2020-2024	306,532	128,468	435,000	907,881	1,154,381	2,062,262
2025-2029	323,150	37,439	360,589	1,154,362	907,900	2,062,262
2030-2034	-	-	-	1,108,975	622,828	1,731,803
2035-2039	-	-	-	1,112,349	411,533	1,523,882
2040-2044	-	-	-	1,037,058	180,278	1,217,336
2045-2049	-	-	-	531,444	54,999	586,443
Totals	<u>\$ 1,045,926</u>	<u>\$ 619,663</u>	<u>\$ 1,665,589</u>	<u>\$ 7,138,005</u>	<u>\$ 6,170,508</u>	<u>\$ 13,308,513</u>

Year	OWDA			OPWC		
	Principal	Interest	Total	Principal	Interest	Total
2010	\$ 82,852	\$ 4,770	\$ 87,622	\$ 25,000	\$ -	\$ 25,000
2011	82,993	4,629	87,622	25,000	-	25,000
2012	83,136	4,486	87,622	25,000	-	25,000
2013	83,280	4,342	87,622	25,000	-	25,000
2014	83,425	4,197	87,622	25,000	-	25,000
2015-2019	419,359	18,751	438,110	125,000	-	125,000
2020-2024	423,220	14,891	438,111	125,000	-	125,000
2025-2029	427,279	10,832	438,111	75,000	-	75,000
2030-2034	431,544	6,566	438,110	-	-	-
2035-2039	357,832	2,882	360,714	-	-	-
Totals	<u>\$ 2,474,920</u>	<u>\$ 76,346</u>	<u>\$ 2,551,266</u>	<u>\$ 450,000</u>	<u>\$ -</u>	<u>\$ 450,000</u>

In connection with the Rural Development Bonds, Savings Bank Loans, OPWC, and OWDA 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 and loans is \$18,006,999. For the current year, net revenue available, principal and interest paid and the coverage ratio is as follows: \$1,056,560, \$459,896, 2.29.

An \$821,966 long-term note is payable to the Water and Sewer Rotary Commission with no annual interest rate. The loan was obtained to enable the District to make debt service payments on OWDA loans while these properties remain in agricultural status. The term is in effect as long as the properties listed as agricultural status pertaining to this loan do not change. If such properties do not qualify as agricultural status their assessment is collected by the District and payable to the Water and Sewer Rotary Commission within ten days after the status has changed. The agreement was entered into on June 6, 1995. No amortization schedule is provided for this note. There were no payments due to the Water and Sewer Rotary Commission for the fiscal years ended December 31, 2009 or 2008.

**Earnhart Hill Regional Water and Sewer District**

*Notes to the Basic Financial Statements*

*For the Years Ended December 31, 2009 and 2008*

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**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.
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.

**Earnhart Hill Regional Water and Sewer District**

*Notes to the Basic Financial Statements*

*For the Years Ended December 31, 2009 and 2008*

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

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, 2009 and 2008, \$250,000 and \$250,000 of the District’s bank balances of \$1,641,285 and \$1,729,166 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.

**NOTE 5 - CAPITAL ASSETS**

Capital assets activity for the fiscal year ended December 31, 2009 and 2008 was as follows:

	Balance 12/31/08	Additions	Deletions	Balance 12/31/09
<b>Capital Assets, Not Being Depreciated</b>				
Land and Land Easements	\$ 611,344	\$ 135,453	\$ -	\$ 746,797
Construction in Progress	555,730	219,786	-	775,516
<b>Total Capital Assets, Not Being Depreciated</b>	1,167,074	355,239	-	1,522,313
<b>Capital Assets Being Depreciated</b>				
Buildings & Bond Issue Costs	1,083,848	19,780	-	1,103,628
Treatment Facilities	3,820,196	1,377,583	-	5,197,779
Transmission & Storage & Collection	15,550,928	5,593,717	(10,301)	21,134,344
Vehicles	257,776	92,726	(414)	350,088
Furniture and Equipment	505,509	34,940	(56,666)	483,783
<b>Total Capital Assets, Being Depreciated</b>	21,218,257	7,118,746	(67,381)	28,269,622
<b>Less Accumulated Depreciation:</b>				
Buildings & Bond Issue Costs	(325,342)	(36,277)	-	(361,619)
Treatment Facilities	(1,356,501)	(130,800)	-	(1,487,301)
Transmission & Storage & Collection	(2,790,736)	(375,361)	215	(3,165,882)
Vehicles	(182,867)	(22,304)	413	(204,758)
Furniture and Equipment	(308,327)	(41,442)	55,729	(294,040)
<b>Total Accumulated Depreciation</b>	<b>(4,963,773)</b>	<b>(606,184)</b>	<b>56,357</b>	<b>(5,513,600)</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>16,254,484</b>	<b>6,512,562</b>	<b>(11,024)</b>	<b>22,756,022</b>
<b>Total Capital Assets, Net</b>	<b>\$ 17,421,558</b>	<b>\$ 6,867,801</b>	<b>\$ (11,024)</b>	<b>\$ 24,278,335</b>

**Earnhart Hill Regional Water and Sewer District**  
*Notes to the Basic Financial Statements*  
For the Years Ended December 31, 2009 and 2008

**NOTE 5 - CAPITAL ASSETS - Continued**

	Ending Balance 12/31/07	Additions	Deletions	Ending Balance 12/31/08
<b>Capital Assets, Not Being Depreciated</b>				
Land and Land Easements	\$ 457,094	\$ 154,250	\$ -	\$ 611,344
Construction in Progress	288,326	268,154	(750)	555,730
<b>Total Capital Assets, Not Being Depreciated</b>	<b>745,420</b>	<b>422,404</b>	<b>(750)</b>	<b>1,167,074</b>
<b>Capital Assets Being Depreciated</b>				
Buildings & Bond Issue Costs	1,042,845	41,003	-	1,083,848
Treatment Facilities	2,713,506	1,106,690	-	3,820,196
Transmission & Storage & Collection	13,833,326	1,717,602	-	15,550,928
Vehicles	236,400	63,515	(42,139)	257,776
Furniture and Equipment	510,338	6,990	(11,819)	505,509
<b>Total Capital Assets, Being Depreciated</b>	<b>18,336,415</b>	<b>2,935,800</b>	<b>(53,958)</b>	<b>21,218,257</b>
<b>Less Accumulated Depreciation:</b>				
Buildings & Bond Issue Costs	(290,913)	(34,429)	-	(325,342)
Treatment Facilities	(1,251,136)	(105,365)	-	(1,356,501)
Transmission & Storage & Collection	(2,467,233)	(323,503)	-	(2,790,736)
Vehicles	(184,421)	(31,934)	33,488	(182,867)
Furniture and Equipment	(277,245)	(42,901)	11,819	(308,327)
<b>Total Accumulated Depreciation</b>	<b>(4,470,948)</b>	<b>(538,132)</b>	<b>45,307</b>	<b>(4,963,773)</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>13,865,467</b>	<b>2,397,668</b>	<b>(8,651)</b>	<b>16,254,484</b>
<b>Total Capital Assets, Net</b>	<b>\$ 14,610,887</b>	<b>\$ 2,820,072</b>	<b>\$ (9,401)</b>	<b>\$ 17,421,558</b>

**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 – a cost-sharing multiple-employer defined benefit pension plan.
2. The Member-Directed Plan – 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 – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions 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, survivor and death 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, 2009 and 2008*

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**NOTE 6 - DEFINED BENEFIT RETIREMENT PLAN - Continued**

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request 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 2009, 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 2009 and 2008 member contribution rates were 10.0% for members in state and local classifications. The 2009 and 2008 employer contribution rate for state and local employers was 14.00% of covered payroll. The District's contributions to OPERS for the years ended December 31, 2009, 2008 and 2007 were \$85,126, \$85,011, and \$81,525, respectively. All required contributions have been made for each year.

**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 maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment 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. 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits. In 2009 and 2008, state and local employers contributed at a rate of 14.00% of covered payroll. OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of the employer contributions allocated to health care was 7.00% during 2008 and from January 1 through March 31, 2009 and 5.5% from April 1 through December 31, 2009. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

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, 2008.

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.

**Earnhart Hill Regional Water and Sewer District**

*Notes to the Basic Financial Statements*

*For the Years Ended December 31, 2009 and 2008*

**NOTE 7 - POSTEMPLOYMENT BENEFITS - Continued**

Investment Return – The investment assumption rate for 2008 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%.

Health Care – Health care cost were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 0.50% to 3% for the next 6 years. In subsequent years (7 and beyond) health care costs were assumed to increase at 4% (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 357,584 active contributing participants as of December 31, 2009. The number of active participants for both plans used in the December 31, 2008, actuarial valuation was 356,388.
2. The employer contributions that were used to fund post employment benefits were \$35,575 for 2009 and \$41,227 for 2008.
3. The amount of \$10.7 billion represents the actuarial value of OPERS' net assets available for OPEB at December 31, 2008.
4. Based on the actuarial cost method used, the Actuarial Valuation as of December 31, 2008, reported the actuarial accrued liability and the unfunded actuarial accrued liability for OPEB at \$29.6 billion and \$18.9 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, was effective on January 1, 2007. Member and employer contribution rates increased as of January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed 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, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Current receivables (0-30 days)	\$ 244,552	\$ 237,873
Delinquent receivables (31-60 days)	43,695	16,523
Delinquent receivables (over 60 days)	<u>34,249</u>	<u>34,902</u>
Total accounts receivables	<u>\$ 322,496</u>	<u>\$ 289,298</u>

As of December 31, 2009 and 2008, the District had miscellaneous receivables totaling and \$62,650 and \$166.

**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 2009 and 2008, the District contracted with Rinehart-Walters-Danner & Associates and the Ohio Plan for liability, property, and related insurance.

**Earnhart Hill Regional Water and Sewer District**  
*Notes to the Basic Financial Statements*  
For the Years Ended December 31, 2009 and 2008

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**NOTE 9 - RISK MANAGEMENT - Continued**

Coverages provided by the program as of December 31, 2009 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	\$10,175,181
Inland Marine	\$141,333
Electronic Media	\$156,982
Faithful Performance & Employee Bond	\$475,000

There have been no claims that exceed commercial insurance coverage during the past three years. Anthem provided health insurance January and February of 2008, then Medical Mutual of Ohio from March to December of 2008. Anthem provided health insurance in 2009.

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

**NOTE 10 - BUDGET**

Budgetary activity for the years ended December 31, 2009 and 2008 follows:

Budgeted vs. Actual Receipts

	<u>2009</u>	<u>2008</u>
Budgeted Receipts	\$ 7,216,300	\$ 6,156,576
Actual Receipts	<u>6,361,665</u>	<u>4,716,289</u>
Variance	<u>\$ (854,635)</u>	<u>\$ (1,440,287)</u>

Budgeted vs. Actual Budgetary Basis Expenditures

	<u>2009</u>	<u>2008</u>
Appropriation Authority	\$ 10,163,400	\$ 6,567,000
Budgetary Expenditures	<u>6,345,205</u>	<u>4,764,070</u>
Variance	<u>\$ 3,818,195</u>	<u>\$ 1,802,930</u>

**NOTE 11 - PENDING LITIGATION**

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

There was no material litigation pending or outstanding as of December 31, 2009 that management believes might have a significant affect on the accompanying financial statements.

**NOTE 12 - FEDERAL FINANCIAL ASSISTANCE**

The District received \$3,408,437 in financial assistance in 2009 and \$0 in 2008.

**Earnhart Hill Regional Water and Sewer District**  
*Notes to the Basic Financial Statements*  
For the Years Ended December 31, 2009 and 2008

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**NOTE 13 – ASSESSMENTS RECEIVABLE**

The details for the fiscal year ended December 31, 2009 are as follows:

<b>Construction Assessments</b>	<b>Total Assessment</b>	<b>Collected From Prepays and Auditor</b>	<b>Ending Receivable Balance</b>	<b>Percent Collected</b>
2009	\$ 2,102,001	825,612	\$ 1,276,389	39.3%
2008	2,102,001	795,223	1,306,778	37.8%

Assessment receivable balances at December 31, 2009 and 2008 include deferred agricultural property construction assessments of \$851,715. These amounts are recorded as deferred revenue in the accompanying financial statements and will be collected when the properties no longer qualify for agricultural property status, as defined in the Ohio Revised Code Chapter 929, and as certified by the County Auditor. The time frame for collection is undeterminable.

**NOTE 14 – RESTATEMENT OF NET ASSETS**

The District restated its December 31, 2008 balance to correct the assessments receivable balance as previously reported. The restatement had the following effect on net assets:

	<u>December 31, 2008</u>
Net Assets, as previously reported	\$ 10,970,776
Correction of receivable balance	27,454
Net Assets, restated	<u>\$ 10,998,230</u>

**Earnhart Hill Regional Water and Sewer District**  
*Schedule of Expenditures of Federal Awards*  
*For the Year Ended December 31, 2009*

Federal Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>			
<i>Direct Program:</i>			
Water and Waste System Loans and Grants	N/A	10.781	<u>\$ 3,408,235</u>
<b>Total U.S. Department of Agriculture</b>			<u><b>3,408,235</b></u>
<b>Total Expenditures of Federal Awards</b>			<u><b>\$ 3,408,235</b></u>

See Notes to the Schedule of Expenditures of Federal Awards

**Earnhart Hill Regional Water and Sewer District**  
*Notes To The Schedule of Expenditures of Federal Awards*  
*For the Year Ended December 31, 2009*

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Earnhart Hill Regional Water and Sewer District, and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

***Perry & Associates***  
**Certified Public Accountants, A.C.**

PARKERSBURG  
1035 Murdoch Avenue  
Parkersburg, WV 26101  
(304) 422-2203

MARIETTA  
428 Second Street  
Marietta, OH 45750  
(740) 373-0056

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

May 28, 2010

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

To the Board of Trustees:

We have audited the financial statements of the business-type activities of the **Earnhart Hill Regional Water and Sewer District, Pickaway County, Ohio** (the District), as of and for the years ended December 31, 2009 and 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 28, 2010. 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 audit procedures for the purpose of expressing our opinions 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

Earnhart Hill Regional Water and Sewer District  
Pickaway County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

### **Compliance and Other Matters**

As part of reasonably assuring whether the District's basic 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 we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of management, District Trustees and federal awarding agencies. It is not intended for anyone other than these specified parties.

Respectfully Submitted

A handwritten signature in black ink that reads "Perry & Associates CPAs A.C." in a cursive script.

**Perry & Associates**  
Certified Public Accountants, A.C.

***Perry & Associates***  
Certified Public Accountants, A.C.

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

May 28, 2010

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

To the Board of Trustees:

**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, 2009. The summary of auditor's results section of the accompanying schedule of findings 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 each 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 directly and materially affect one of the major federal programs. 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, 2009.

**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 programs to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

**Internal Control Over Compliance (Continued)**

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of 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 over compliance that might be deficiencies, 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 management, District Trustees, and federal awarding agencies. It is not intended for anyone other than these specified parties.

Respectfully Submitted,



**Perry and Associates**  
Certified Public Accountants, A.C.

**Earnhart Hill Regional Water and Sewer District**  
*For the Year Ended December 31, 2009*

**SCHEDULE OF FINDINGS**  
**OMB CIRCULAR A -133 § .505**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unqualified
<i>(d)(1)(ii)</i>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(ii)</i>	<b>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iii)</i>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any other significant deficiencies in internal control reported for major federal programs?</b>	No
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under § .510?</b>	No
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	Water and Waste System Loans and Grants CFDA # 10.781
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A\B Programs</b>	Type A: > \$ 300,000
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	No

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

None.

**3. FINDINGS FOR FEDERAL AWARDS**

None.





**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**  
**JULY 27, 2010**