

**EARNHART HILL REGIONAL
WATER AND SEWER DISTRICT
PICKAWAY COUNTY
Regular Audit
For the Year Ended December 31, 2010 & 2009**

Perry & Associates
Certified Public Accountants, A.C.



Dave Yost • 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, 2010 through December 31, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Earnhart Hill Regional Water and Sewer District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

June 21, 2011

This Page is Intentionally Left Blank.

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

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statements of Net Assets.....	7
Statements of Revenues, Expenses and Changes in Net Assets.....	9
Statements of Cash Flows.....	10
Notes to the Basic Financial Statements.....	12
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	23

Perry & Associates
Certified Public Accountants, A.C.
www.perrycpas.com

MARIETTA
428 Second Street
Marietta, OH 45750
(740) 373-0056
(740) 373-2402 Fax

PARKERSBURG
1035 Murdoch Avenue
Parkersburg, WV 26101
(304) 422-2203
(304) 428-5587 Fax

ST. CLAIRSVILLE
121 E Main Street
St. Clairsville, OH 43950
(740) 695-1569
(740) 695-5775 Fax

INDEPENDENT ACCOUNTANTS' REPORT

June 8, 2011

Earnhart Hill Regional Water and Sewer District
Pickaway County
2030 Stoneridge Drive
Circleville, Ohio 43113

To the Board of Trustees:

We have audited the accompanying financial statements of the business-type activities of **Earnhart Hill Regional Water and Sewer District**, Pickaway County, Ohio, (the District) as of and for the years ended December 31, 2010 and 2009, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 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, 2010 and 2009, 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 June 8, 2011 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

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, 2010 and 2009
(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, 2010 and 2009 by \$15.1 million and \$14.5 million, respectively. The District's net assets increased by \$617 thousand (4%) in 2010 and \$3.5 million (32%) in 2009.

The District's Operating Revenues increased by \$266 thousand (10%) in 2010 and \$293 thousand (13%) in 2009. Operating Expenses increased \$335 thousand (16%) in 2010 and \$68 thousand (3%) in 2009.

The District issued no additional long term debt in 2010 and \$3.5 million in 2009.

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

	2010	2009	Change	%	2008	Change	%
Current & Other Assets	\$ 3,883,261	\$ 3,387,602	\$ 495,659	15%	\$ 3,330,193	\$ 57,409	2%
Capital Assets	24,133,208	24,278,335	(145,127)	-1%	17,421,558	6,856,777	39%
Total Assets	28,016,469	27,665,937	350,532	1%	20,751,751	6,914,186	33%
Long Term Liabilities	12,329,672	12,538,652	(208,980)	-2%	9,298,044	3,240,608	35%
Current & Other Liabilities	554,090	611,806	(57,716)	-9%	455,477	156,329	34%
Total Liabilities	12,883,762	13,150,458	(266,696)	-2%	9,753,521	3,396,937	35%
Net Assets							
Invested in Capital Assets, Net of Debt	13,226,735	13,169,484	57,251	0%	8,806,785	4,362,699	50%
Restricted	411,993	295,164	116,829	40%	302,933	(7,769)	-3%
Unrestricted	1,493,979	1,050,831	443,148	42%	1,888,512	(837,681)	-44%
Total Net Assets	\$ 15,132,707	\$ 14,515,479	\$ 617,228	4%	\$ 10,998,230	\$ 3,517,249	32%

The District's Net Assets increased \$617 thousand (4%) in 2010 and \$3.5 million (32%) in 2009. These increases were a result of excess revenues over expenses, capital contributions and capital grants.

Restricted net assets increased \$117 thousand (40%) in 2010 and decreased \$8 thousand (-3%) in 2009. Restricted assets are cash which is limited in use as part of the District's loan covenants.

Unrestricted assets increased by \$443 thousand (42%) in 2010 and decrease by \$837 thousand (-44%) in 2009. Unrestricted assets may be used without constraints established by loan covenants or other legal requirements.

Earnhart Hill Regional Water and Sewer District
Management's Discussion and Analysis
For the Years Ended December 31, 2010 and 2009
(Unaudited)

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

	2010	2009	Difference	%	2008	Difference	%
Operating Revenues	\$ 2,831,490	\$ 2,565,262	\$ 266,228	10%	\$ 2,272,006	\$ 293,256	13%
Total Operating Revenues	2,831,490	2,565,262	266,228	10%	2,272,006	293,256	13%
Treatment Expenses	222,788	181,572	41,216	23%	160,420	21,152	13%
Power	199,851	159,680	40,171	25%	138,155	21,525	16%
Distribution	487,731	456,789	30,942	7%	479,462	(22,673)	-5%
Customer Accounting	193,771	168,702	25,069	15%	165,518	3,184	2%
Transportation	44,387	39,489	4,898	12%	62,945	(23,456)	-37%
Fringe Benefits	251,050	243,531	7,519	3%	246,014	(2,483)	-1%
Depreciation and Amortization	796,265	606,184	190,081	31%	538,132	68,052	13%
Administrative & General	254,311	258,939	(4,628)	-2%	256,218	2,721	1%
Total Operating Expenses	2,450,154	2,114,886	335,268	16%	2,046,864	68,022	3%
Operating Income	381,336	450,376	(69,040)	-15%	225,142	225,234	100%
Non-Operating Expenses	367,268	291,198	76,070	26%	313,137	(21,939)	-7%
Non-Operating Revenues	116,575	218,731	(102,156)	-47%	324,947	(106,216)	-33%
Capital Contributions	486,585	3,139,340	(2,652,755)	-85%	774,116	2,365,224	306%
Changes in Net Assets	617,228	3,517,249	(2,900,021)	-82%	1,011,068	2,506,181	248%
Net Assets at Beginning of Year	14,515,479	10,998,230	3,517,249	32%	9,987,162	1,011,068	10%
Net Assets at End of Year	\$ 15,132,707	\$ 14,515,479	\$ 617,228	4%	\$ 10,998,230	\$ 3,517,249	32%

Operating revenues increased \$266 thousand (10%) in 2010 and \$293 thousand (13%) in 2009. Increased operating revenues in 2010 were a result of a 5% water and sewer rate adjustment and the additional revenue related to the acquisition of the Stoutsville and Tarlton 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 \$487 thousand in capital contributions in 2010, \$3.1 million in 2009 and \$774 thousand in 2008.

In 2010 the District received \$269 thousand 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 2010 the District also received \$66 thousand in cash contributions from PPG for the relocation of Well #6 and \$152 thousand in equipment from the Village of Tarlton. In 2009 the District received \$2.9 million in capital contributions from USDA through the acquisition of the Tarlton & Stoutsville sewer systems. In 2009 the District also received \$215 thousand in cash capital contributions from PPG for the relocation of Well #6. In 2008 the District received \$706 thousand in capital contributions from OWDA through the acquisition of the Scippo Sewer District.

Operating expenses, excluding depreciation, increased by \$145 thousand (10%) in 2010 and by \$30 (0%) in 2009. Increases of \$41 thousand in treatment expenses, \$40 thousand in power and \$31 thousand in distribution accounted for most of the increase in 2010. 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.

Earnhart Hill Regional Water and Sewer District
Management's Discussion and Analysis
For the Years Ended December 31, 2010 and 2009
(Unaudited)

CAPITAL ASSETS

Table 3 summarizes the changes in Capital Assets.

Table 3

	2010	2009	Change	%	2008	Change	%
Land	\$ 746,797	\$ 746,797	\$ -	0%	\$ 611,344	\$ 135,453	22%
Buildings	1,144,205	1,103,628	40,577	4%	1,083,848	19,780	2%
Treatment Facilities	5,460,834	5,197,779	263,055	5%	3,820,196	1,377,583	36%
Transmission & Storage	21,565,820	21,134,344	431,476	2%	15,550,928	5,583,416	36%
Vehicles	297,700	350,088	(52,388)	-15%	257,776	92,312	36%
Furniture & Equipment	547,805	483,783	64,022	13%	505,509	(21,726)	-4%
Construction in Progress	489,985	775,516	(285,531)	-37%	555,730	219,786	40%
Total before Depreciation	30,253,146	29,791,935	461,211	2%	22,385,331	7,406,604	33%
Accumulated Depreciation	(6,119,938)	(5,513,600)	(606,338)	11%	(4,963,773)	(549,827)	11%
Total Capital Assets	<u>\$ 24,133,208</u>	<u>\$ 24,278,335</u>	<u>\$ (145,127)</u>	<u>-1%</u>	<u>\$ 17,421,558</u>	<u>\$ 6,856,777</u>	<u>39%</u>

Capital Assets (before depreciation) increased \$461 thousand (2%) in 2010 and \$7.4 million (33 %) in 2009.

Total Capital Assets decreased by \$145 thousand (-1%) in 2010 and increased by \$6.9 million (39%) in 2009. Transmission & Storage increased \$431 thousand (2%) in 2010 and \$5.6 million (36%) in 2009. Treatment Facilities increased \$263 thousand (5%) in 2010 and \$1.4 million (36%) in 2009. 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.

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

	2010	2009	Change	%	2008	Change	%
Savings Bank Loans	\$ 1,013,453	\$ 1,045,926	\$ (32,473)	-3%	\$ 1,076,726	\$ (30,800)	-3%
Rural Development Loans	7,034,509	7,138,005	(103,496)	-1%	4,652,905	2,485,100	53%
OWDA Loans	2,433,511	2,474,920	(41,409)	-2%	2,063,176	411,744	20%
OPWC Loan	425,000	450,000	(25,000)	-6%	-	450,000	NA
Rotary Commission Loan	821,966	821,966	-	0%	821,966	-	0%
Total Long Term Debt	11,728,439	11,930,817	(202,378)	-2%	8,614,773	3,316,044	38%
Less							
Current Maturities	250,482	243,880	6,602	3%	168,444	75,436	45%
Net Total Long Term Debt	<u>\$ 11,477,957</u>	<u>\$ 11,686,937</u>	<u>\$ (208,980)</u>	<u>-2%</u>	<u>\$ 8,446,329</u>	<u>\$ 3,240,608</u>	<u>38%</u>

Net Long Term Debt decreased by \$209 thousand (-2%) in 2010 and increased by \$3.2 million (38%) in 2009. In 2009 the District obtained a \$2,544,000 loan from USDA and assumed loans of \$500,000 and \$487,503 from OPWC and OWDA, respectively, for the purchase of the Stoutsville and Tarlton sewer systems.

Earnhart Hill Regional Water and Sewer District
Management's Discussion and Analysis
For the Years Ended December 31, 2010 and 2009
(Unaudited)

CASH

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

Table 5

	2010	2009	Change	%	2008	Change	%
Unrestricted Cash and Cash Equivalents	\$ 1,763,014	\$ 1,298,042	\$464,972	36%	\$ 1,273,813	\$ 24,229	2%
Cash Restricted for Debt Service	411,993	295,164	116,829	40%	302,933	(7,769)	-3%
Total Cash	<u>\$2,175,007</u>	<u>\$ 1,593,206</u>	<u>\$581,801</u>	<u>37%</u>	<u>\$ 1,576,746</u>	<u>\$ 16,460</u>	<u>1%</u>

Unrestricted Cash and Cash Equivalents increased \$465 thousand (36%) in 2010 and \$24 thousand (2%) in 2009. Cash restricted for debt service increased \$117 thousand (40%) in 2010 and decreased \$8 thousand (-3%) in 2009.

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 added an additional wastewater treatment plant, operating at 25% capacity, 5 lift stations and 462 sewer customers to the District's assets.

A 5% water and sewer rate adjustment was implemented on January 1, 2011. 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

As of December 31, 2010 and 2009

	2010	2009
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,763,014	\$ 1,298,042
Accounts receivable	346,178	385,146
Assessments receivable	1,221,737	1,276,389
Inventories	121,331	112,576
Prepaid expenses	19,008	20,285
TOTAL CURRENT ASSETS	3,471,268	3,092,438
NONCURRENT ASSETS		
Restricted assets:		
Cash and cash equivalents - debt service reserve	411,993	295,164
TOTAL RESTRICTED ASSETS	411,993	295,164
CAPITAL ASSETS		
Land and land easements	746,797	746,797
Buildings	1,144,205	1,103,628
Treatment facilities	5,460,834	5,197,779
Transmission and storage	21,565,820	21,134,344
Vehicles	297,700	350,088
Furniture and equipment	547,805	483,783
Construction in progress	489,985	775,516
	30,253,146	29,791,935
Less: Accumulated depreciation	(6,119,938)	(5,513,600)
NET CAPITAL ASSETS	24,133,208	24,278,335
TOTAL ASSETS	\$ 28,016,469	\$ 27,665,937

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, 2010 and 2009

	2010	2009
CURRENT LIABILITIES		
Accounts payable	\$ 8,162	\$ 84,704
Prepaid taps & main line extensions	200,929	177,289
Customer deposits	18,135	16,240
Insurance and taxes payable	12,313	11,493
Current portion of Savings Bank notes payable	34,210	32,450
Current portion of USDA revenue bonds payable	108,279	103,578
Current portion of OWDA notes payable	82,993	82,852
Current portion of OPWC notes payable	25,000	25,000
Accrued payroll	10,566	7,923
Intergovernmental payable	24,864	38,698
Retainage payable	-	4,404
Accrued interest payable	28,639	27,175
TOTAL CURRENT LIABILITIES	554,090	611,806
LONG-TERM LIABILITIES		
Notes payable Savings Bank (net of current portion)	979,243	1,013,476
Revenue bonds payable USDA (net of current portion)	6,926,230	7,034,427
Notes payable OWDA (net of current portion)	2,350,518	2,392,068
Notes payable OPWC (net of current portion)	400,000	425,000
Notes payable Rotary Loan	821,966	821,966
Deferred Revenue - Construction Agricultural	851,715	851,715
TOTAL LONG-TERM LIABILITIES	12,329,672	12,538,652
TOTAL LIABILITIES	12,883,762	13,150,458
NET ASSETS		
Invested in capital assets, net of related debt	13,226,735	13,169,484
Restricted for debt service	411,993	295,164
Unrestricted	1,493,979	1,050,831
TOTAL NET ASSETS	15,132,707	14,515,479
TOTAL LIABILITIES AND NET ASSETS	\$ 28,016,469	\$ 27,665,937

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, 2010 and 2009

	2010	2009
OPERATING REVENUES		
Service charges	\$ 2,762,224	\$ 2,450,319
Other	69,266	114,943
TOTAL OPERATING REVENUES	2,831,490	2,565,262
OPERATING EXPENSES		
Treatment expense	222,788	181,572
Power	199,851	159,680
Distribution	487,731	456,789
Customer accounting	193,771	168,702
Transportation	44,387	39,489
Fringe benefits	251,050	243,531
Depreciation and amortization	796,265	606,184
Administrative and general	254,311	258,939
TOTAL OPERATING EXPENSES	2,450,154	2,114,886
Operating income	381,336	450,376
NON-OPERATING REVENUES (EXPENSES)		
Capacity charges	41,550	107,925
Tap fee revenue	12,375	31,320
Interest income	14,004	60,286
Gain (Loss) on sale of assets	23,821	(3,154)
Interest expense	(367,268)	(288,044)
Rental income	24,825	19,200
NET NON-OPERATING REVENUES (EXPENSES)	(250,693)	(72,467)
CHANGES IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS		
	130,643	377,909
Capital Contributions - Intergovernmental	268,563	2,892,592
Capital Contributions - Cash	66,022	214,748
Capital Contributions - Developer	152,000	32,000
Total Capital Contributions	486,585	3,139,340
CHANGES IN NET ASSETS	617,228	3,517,249
NET ASSETS, BEGINNING OF YEAR	14,515,479	10,998,230
NET ASSETS, END OF YEAR	\$ 15,132,707	\$ 14,515,479

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, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 2,801,192	\$ 2,354,637
Cash paid for employee salaries and benefits	(895,705)	(848,023)
Cash payments to suppliers for goods and services	(852,574)	(561,410)
Cash received from other receipts	69,266	114,943
Net cash provided by operating activities	<u>1,122,179</u>	<u>1,060,147</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Refundable line extensions	23,640	(3,953)
Deposits received	1,895	1,910
Net cash provided/(used) by non-capital and related financing activities	<u>25,535</u>	<u>(2,043)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Tap fees	12,375	31,320
Capacity charges	41,550	107,925
Rental income	24,825	19,200
Revenue bond principal payments	(103,496)	(68,900)
Revenue bond interest payments	(308,866)	(226,263)
Note principal payments	(98,882)	(106,559)
Note interest payments	(56,938)	(58,174)
Special assessments received	54,652	30,389
Special assessment interest	-	31,167
Cash received for sale of assets	23,821	7,870
Proceeds from USDA note	-	2,554,000
Proceeds from capital grant	268,563	864,437
Proceeds from capital cash contributions	66,022	214,748
Capital outlay	(503,543)	(4,471,923)
Net cash used by capital and related financing activities	<u>(579,917)</u>	<u>(1,070,763)</u>
NET ASSETS, END OF YEAR		
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on cash and investments	14,004	29,119
Net increase (decrease) in cash and cash equivalents	581,801	16,460
Cash and cash equivalents, beginning of year	<u>1,593,206</u>	<u>1,576,746</u>
Cash and cash equivalents, end of year	<u>\$ 2,175,007</u>	<u>\$ 1,593,206</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, 2010 and 2009

	2010	2009
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 381,336	\$ 450,376
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	796,265	606,184
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	38,968	(95,682)
Decrease (increase) in inventories	(8,755)	24,283
Decrease (increase) in prepaid expenses	1,277	61
Increase (decrease) in accounts payable (trade only)	(76,541)	70,106
Increase (decrease) in insurance and taxes payable	820	433
Increase (decrease) in accrued payroll	2,643	2,252
Increase (decrease) in intergovernmental payable	(13,834)	2,134
Total adjustments	740,843	609,771
Net cash provided by operating activities	\$ 1,122,179	\$ 1,060,147

Developer dedicated water lines and equipment with totals of \$152,000 and \$32,000 in 2010 and 2009, 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, 2010 and 2009

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, 2010 and 2009

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, 2010 and 2009.

Appropriations - Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund 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, Ohio public Works Commission, 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, 2010 and 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

L. Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond December 31, 2010 and 2009 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, 2010 and 2009 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 the 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, 2010 and 2009.

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 \$411,993 and \$295,164 in restricted net assets as of December 31, 2010 and 2009, 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 2010 and 2009, the following capital contributions were received:

	2010	2009
Intergovernmental contribution from USDA for the Tarlton/Stoutsville sewer acquisition	\$ 268,563	\$ 2,892,592
Cash Contributions from PPG	66,022	214,748
Developer donated lines and equipment	152,000	32,000
Totals	\$ 486,585	\$ 3,139,340

Earnhart Hill Regional Water and Sewer District

Notes to the Basic Financial Statements

For the Years Ended December 31, 2010 and 2009

NOTE 3 - CURRENT AND LONG-TERM DEBT

Current and long term debts at December 31, 2010 are as follows:

Payable To	Interest Rate	First Payment	Principal Term
Rural Development	6.625%	10/1/1998	33 yrs
Rural Development	4.250%	10/1/2003	39 yrs
Rural Development	3.375%	12/1/2010	40 yrs.
The Savings Bank	5.290%	7/28/1999	30 yrs.
The Savings Bank	5.290%	7/28/1999	30 yrs.
OWDA	0.000%	6/1/2009	30 yrs.
OWDA	1.000%	1/1/2010	30 yrs.
OPWC	0.000%	1/1/2010	20 yrs.

Loan #	Payable To	Interest Rate	Outstanding 12/31/2009	Additions	Deletions	Outstanding 12/31/2010	Due in One Year
91-04	Rural Development	6.625%	\$ 1,243,643	\$ -	\$ 26,071	\$ 1,217,572	\$ 27,847
91-06	Rural Development	4.250%	3,340,362	-	46,425	3,293,937	48,432
9210S	Rural Development	3.375%	2,554,000	-	31,000	2,523,000	32,000
44972	The Savings Bank	5.290%	643,065	-	20,058	623,007	21,130
44973	The Savings Bank	5.290%	402,861	-	12,415	390,446	13,080
4996	OWDA	0.000%	1,994,404	-	34,387	1,960,017	68,773
4839	OWDA	1.000%	480,516	-	7,022	473,494	14,220
CQ30H	OPWC	0.000%	450,000	-	25,000	425,000	25,000
	Rotary Loan	0.000%	821,966	-	-	821,966	-
			<u>\$ 11,930,817</u>	<u>\$ -</u>	<u>\$ 202,378</u>	<u>\$ 11,728,439</u>	<u>\$ 250,482</u>

Loan #	Payable To	Interest Rate	Principle Outstanding 12/31/2008	Additions	Deletions	Principle 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>

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 20th day of each month. Principal payments for OWDA 4996 and OWDA 4839 are due on January 1 and July 1 of each year. Principal payments for OPWC CQ30H are due on January 31 and July 31 of each year.

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

NOTE 3 - CURRENT AND LONG-TERM DEBT – Continued

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
2011	\$ 34,210	\$ 52,790	\$ 87,000	\$ 108,279	\$ 304,036	\$ 412,315
2012	36,064	50,936	87,000	113,280	289,955	403,235
2013	38,019	48,981	87,000	118,502	293,620	412,122
2014	40,080	46,920	87,000	124,957	288,017	412,974
2015	42,252	44,748	87,000	130,660	282,099	412,759
2016-2020	248,197	186,803	435,000	751,555	1,310,733	2,062,288
2021-2025	323,158	111,842	435,000	951,631	1,110,038	2,061,669
2026-2030	251,473	22,055	273,528	1,211,965	850,470	2,062,435
2031-2035	-	-	-	1,047,859	576,393	1,624,252
2036-2040	-	-	-	1,156,702	367,011	1,523,713
2041-2045	-	-	-	886,119	143,431	1,029,550
2046-2049	-	-	-	433,000	37,158	470,158
Totals	<u>\$ 1,013,453</u>	<u>\$ 565,075</u>	<u>\$ 1,578,528</u>	<u>\$ 7,034,509</u>	<u>\$ 5,852,961</u>	<u>\$ 12,887,470</u>

Year	OWDA			OPWC		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 82,993	\$ 4,700	\$ 87,693	\$ 25,000	\$ -	\$ 25,000
2012	83,064	4,558	87,622	25,000	-	25,000
2013	83,208	4,415	87,623	25,000	-	25,000
2014	83,352	4,270	87,622	25,000	-	25,000
2015	83,499	4,124	87,623	25,000	-	25,000
2016-2020	419,737	18,374	438,111	125,000	-	125,000
2021-2025	423,617	14,494	438,111	125,000	-	125,000
2026-2030	427,696	10,415	438,111	50,000	-	50,000
2031-2035	431,982	6,128	438,110	-	-	-
2036-2039	314,363	1,669	316,032	-	-	-
Totals	<u>\$ 2,433,511</u>	<u>\$ 73,147</u>	<u>\$ 2,506,658</u>	<u>\$ 425,000</u>	<u>\$ -</u>	<u>\$ 425,000</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 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 \$17,397,656. For the current year, net revenue available, principal and interest paid and the coverage ratio is as follows: \$1,177,601; \$568,182; 2.1.

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 year ended December 31, 2010 or 2009.

Earnhart Hill Regional Water and Sewer District

Notes to the Basic Financial Statements

For the Years Ended December 31, 2010 and 2009

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.

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.

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

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

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, 2010 and 2009, \$250,000 of the District’s bank balances of \$2,343,667 and \$1,641,285, respectively, 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, 2010 and 2009 was as follows:

	Balance 12/31/09	Additions	Deletions	Balance 12/31/10
Capital Assets, Not Being Depreciated				
Land and Land Easements	\$ 746,797	\$ -	\$ -	\$ 746,797
Construction in Progress	775,516	-	(285,531)	489,985
Total Capital Assets, Not Being Depreciated	1,522,313	-	(285,531)	1,236,782
Capital Assets Being Depreciated				
Buildings & Bond Issue Costs	1,103,628	40,577	-	1,144,205
Treatment Facilities	5,197,779	338,055	(75,000)	5,460,834
Transmission & Storage & Collection	21,134,344	466,487	(35,011)	21,565,820
Vehicles	350,088	-	(52,388)	297,700
Furniture and Equipment	483,783	91,550	(27,528)	547,805
Total Capital Assets, Being Depreciated	28,269,622	936,669	(189,927)	29,016,364
Less Accumulated Depreciation:				
Buildings & Bond Issue Costs	(361,619)	(38,619)	-	(400,238)
Treatment Facilities	(1,487,301)	(168,612)	75,000	(1,580,913)
Transmission & Storage & Collection	(3,165,882)	(514,123)	35,011	(3,644,994)
Vehicles	(204,758)	(28,309)	52,388	(180,679)
Furniture and Equipment	(294,040)	(46,602)	27,528	(313,114)
Total Accumulated Depreciation	(5,513,600)	(796,265)	189,927	(6,119,938)
Total Capital Assets Being Depreciated, Net	22,756,022	140,404	-	22,896,426
Total Capital Assets, Net	<u>\$ 24,278,335</u>	<u>\$ 140,404</u>	<u>\$ (285,531)</u>	<u>\$ 24,133,208</u>

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

NOTE 5 - CAPITAL ASSETS - Continued

	Balance 12/31/08	Additions	Deletions	Balance 12/31/09
Capital Assets, Not Being Depreciated				
Land and Land Easements	\$ 611,344	\$ 135,453	\$ -	\$ 746,797
Construction in Progress	555,730	219,786	-	775,516
Total Capital Assets, Not Being Depreciated	1,167,074	355,239	-	1,522,313
Capital Assets Being Depreciated				
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
Total Capital Assets, Being Depreciated	21,218,257	7,118,746	(67,381)	28,269,622
Less Accumulated Depreciation:				
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)
Total Accumulated Depreciation	(4,963,773)	(606,184)	56,357	(5,513,600)
Total Capital Assets Being Depreciated, Net	16,254,484	6,512,562	(11,024)	22,756,022
Total Capital Assets, Net	\$ 17,421,558	\$ 6,867,801	\$ (11,024)	\$ 24,278,335

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.
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, but less than, 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.

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

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2010, 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.

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

NOTE 6 - DEFINED BENEFIT RETIREMENT PLAN - Continued

The 2010 and 2009 member contribution rates were 10.0% of covered payroll for members in state and local classifications. The 2010 and 2009 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, 2010, 2009 and 2008 were \$90,052, \$85,126, and \$85,011, 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 – a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan - a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS 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.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The post-employment health care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). 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.

Employer contributions rates are expressed as a percentage of the covered payroll of active members. In 2010 and 2009, state and local employers contributed at a rate of 14.00% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

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 for members in the Traditional Plan was 7% from January 1, 2009 through March 31, 2009 and 5.5% from April 1 2009 through February 28, 2010 and 5.0% from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73% from January 1 through February 28, 2010, and 4.23% from March 1 through December 31, 2010. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provide, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The employer contributions that were used to fund post employment benefits were \$32,664 for 2010 and \$35,575 for 2009.

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 for state and local employers increased 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.

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

NOTE 8 - ACCOUNTS RECEIVABLE

Following are accounts receivable balances presented by aging classifications as of December 31, 2010 and 2009:

	2010	2009
Current receivables (0-30 days)	\$ 262,573	\$ 244,552
Delinquent receivables (31-60 days)	25,908	43,695
Delinquent receivables (over 60 days)	26,550	34,249
Total accounts receivables	\$ 315,031	\$ 322,496

As of December 31, 2010 and 2009, the District had miscellaneous receivables totaling \$31,147 and \$62,650.

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 2010 and 2009, the District contracted with Rinehart-Walters-Danner & Associates and the Ohio Plan for liability, property, and related insurance.

Coverage provided by the program as of December 31, 2010 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	\$10,154,603
Inland Marine	\$235,610
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 through December of 2010. Anthem also provided health insurance January through December of 2009.

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

NOTE 10 – BUDGET

Budgetary activity for the years ended December 31, 2010 and 2009 follows:

Budgeted vs. Actual Receipts

	2010	2009
Budgeted Receipts	\$ 3,365,100	\$ 7,216,300
Actual Receipts	3,401,805	6,361,665
Variance	\$ 36,705	\$ (854,635)

Budgeted vs. Actual Budgetary Basis Expenditures

	2010	2009
Appropriation Authority	\$ 3,907,750	\$ 10,163,400
Budgetary Expenditures	2,820,004	6,345,205
Variance	\$ 1,087,746	\$ 3,818,195

Earnhart Hill Regional Water and Sewer District
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and 2009

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, 2010 that management believes might have a significant affect on the accompanying financial statements.

NOTE 12 - FEDERAL FINANCIAL ASSISTANCE

The District received \$268,563 in financial assistance in 2010 and \$3,408,437 in 2009.

NOTE 13 – ASSESSMENTS RECEIVABLE

The details for the fiscal year ended December 31, 2010 are as follows:

Construction Assessments	Total Assessment	Collected From Prepays and Auditor	Ending Receivable Balance	Percent Collected
2010	\$ 2,102,001	880,264	\$ 1,221,737	41.9%
2009	2,102,001	825,612	1,276,389	39.3%

Assessment receivable balances at December 31, 2010 and 2009 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.

Perry & Associates
Certified Public Accountants, A.C.
www.perrycpas.com

MARIETTA
428 Second Street
Marietta, OH 45750
(740) 373-0056
(740) 373-2402 Fax

PARKERSBURG
1035 Murdoch Avenue
Parkersburg, WV 26101
(304) 422-2203
(304) 428-5587 Fax

ST. CLAIRSVILLE
121 E Main Street
St. Clairsville, OH 43950
(740) 695-1569
(740) 695-5775 Fax

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

June 8, 2011

Earnhart Hill Regional Water and Sewer District
Pickaway County
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, 2010 and 2009, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 8, 2011. 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.

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 we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of management, the Board of Trustees of Earnhart Hill Regional Water and Sewer District, and others within the District. We intend it for no one other than these specified parties.

Respectfully Submitted,

A handwritten signature in black ink that reads "Perry & Associates CPAs A.C." The signature is written in a cursive, flowing style.

Perry & Associates
Certified Public Accountants, A.C.

This Page is Intentionally Left Blank.



Dave Yost • 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 05, 2011**