

**EARNHART HILL REGIONAL  
WATER AND SEWER DISTRICT  
PICKAWAY COUNTY  
Regular Audit  
For the Years Ended December 31, 2012 & 2011**

***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 Auditor's 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, 2012 through December 31, 2012. 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

July 8, 2013

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

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# *Perry & Associates*

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## **INDEPENDENT AUDITOR'S REPORT**

June 12, 2013

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

To the Board of Trustees:

### ***Report on the Financial Statements***

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, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

### ***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 Earnhart Hill Regional Water and Sewer District, Pickaway County, Ohio, as of December 31, 2012 and 2011, and the respective changes in financial position and cash flows, thereof for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

*Change in Accounting Principles*

As described in Note 14, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*. We did not modify our opinion regarding this matter.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* listed in the table of contents, 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2013, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Respectfully Submitted,



**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, 2012 and 2011  
(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 the District exceeded liabilities on December 31, 2012 and 2011 by \$16.0 million and \$15.3 million, respectively. The District's net position increased by \$739 thousand (5%) in 2012 and \$136 thousand (1%) in 2011.

The District's Operating Revenues increased by \$288 thousand (10%) in 2012 and \$93 thousand (3%) in 2011. Operating Expenses increased \$16 thousand (1%) in 2012 and \$74 thousand (3%) in 2011.

The District issued no additional long term debt in 2012 or 2011.

**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 Position** 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 position (equity) are the difference between assets and liabilities.

The **Statements of Revenues, Expenses and Changes in Net Position** 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 POSITION**

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

**Table 1**

	2012	2011	Change	%	2010	Change	%
Current & Other Assets	\$ 3,765,788	\$ 4,079,338	\$ (313,550)	-8%	\$ 3,883,261	\$ 196,077	5%
Capital Assets	24,237,754	23,830,711	407,043	2%	24,133,208	(302,497)	-1%
Total Assets	28,003,542	27,910,049	93,493	0%	28,016,469	(106,420)	0%
Long Term Liabilities	10,606,883	11,223,568	(616,685)	-5%	11,477,957	(254,389)	-2%
Current & Other Liabilities	536,978	565,640	(28,662)	-5%	554,090	11,550	2%
Total Liabilities	11,143,861	11,789,208	(645,347)	-5%	12,032,047	(242,839)	-2%
Deferred Inflows	851,715	851,715	-	0%	851,715	-	0%
Net Position							
Net Investment in Capital							
Assets	14,202,646	13,171,852	1,030,794	8%	13,226,735	(54,883)	0%
Restricted	411,993	411,993	-	0%	411,993	-	0%
Unrestricted	1,393,327	1,685,281	(291,954)	-17%	1,493,979	191,302	13%
Total Net Position	\$ 16,007,966	\$ 15,269,126	\$ 738,840	5%	\$ 15,132,707	\$ 136,419	1%

The District's Net Position increased \$739 thousand (5%) in 2012 and \$136 thousand (1%) in 2011. These increases were a result of excess revenues over expenses, capital contributions and capital grants.

Restricted net position did not change in 2012 and 2011. Restricted assets are cash which is limited in use as part

**Earnhart Hill Regional Water and Sewer District**  
*Management's Discussion and Analysis*  
For The Years Ended December 31, 2012 and 2011  
(Unaudited)

of the District's loan covenants.

Unrestricted net position decreased by \$292 thousand (-17%) in 2012 and increased by \$191 thousand (13%) in 2011. Unrestricted net position may be used without constraints established by loan covenants or other legal requirements.

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

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

	<b>2012</b>	<b>2011</b>	Difference	%	<b>2010</b>	Difference	%
Operating Revenues	\$ 3,212,495	\$ 2,924,233	\$ 288,262	10%	\$ 2,831,490	\$ 92,743	3%
Total Operating Revenues	3,212,495	2,924,233	288,262	10%	2,831,490	92,743	3%
Treatment Expenses	184,471	205,968	(21,497)	-10%	222,788	(16,820)	-8%
Power	211,870	195,511	16,359	8%	199,851	(4,340)	-2%
Distribution	503,669	512,976	(9,307)	-2%	487,731	25,245	5%
Customer Accounting	207,112	196,995	10,117	5%	193,771	3,224	2%
Transportation	51,525	53,812	(2,287)	-4%	44,387	9,425	21%
Fringe Benefits	280,708	277,471	3,237	1%	251,050	26,421	11%
Depreciation and Amortization	844,621	824,512	20,109	2%	796,265	28,247	4%
Administrative & General	256,167	256,511	(344)	0%	254,311	2,200	1%
Total Operating Expenses	2,540,143	2,523,756	16,387	1%	2,450,154	73,602	3%
Operating Income	672,352	400,477	271,875	68%	381,336	19,141	5%
Non-Operating Expenses	331,226	363,790	(32,564)	-9%	367,268	(3,478)	-1%
Non-Operating Revenues	109,179	99,732	9,447	9%	116,575	(16,843)	-14%
Capital Contributions	288,535	-	288,535	100%	486,585	(486,585)	-100%
Changes in Net Position	738,840	136,419	602,421	442%	617,228	(480,809)	-78%
Net Position at Beginning of Year	15,269,126	15,132,707	136,419	1%	14,515,479	617,228	4%
Net Position at End of Year	\$ 16,007,966	\$ 15,269,126	\$ 738,840	5%	\$ 15,132,707	\$ 136,419	1%

Operating revenues increased \$288 thousand (10%) in 2012 and \$93 thousand (3%) in 2011. Increased operating revenues in 2012 were a result of water and sewer rate adjustments and increased sales due to drought conditions.

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 \$289 thousand in capital contributions in 2012, \$0 thousand in 2011 and \$487 thousand in 2010.

In 2012 the District received \$74 thousand in capital contributions from Ohio Christian University for the Campus Loop Phase I Project and \$171 thousand from the Pickaway County Commissioners for the Progress Parkway Sewer Extension. In 2012 the District also received \$34 thousand in cash capital contributions from the expiration of line extension reimbursement liabilities and \$10 thousand from PPG for the Well Field Analysis Project. In 2010 the District received \$269 thousand in capital contributions from USDA through the acquisition of the Tarlton & Stoutsville sewer systems. 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.

Operating expenses, excluding depreciation, decreased by \$4 thousand (0%) in 2012 and increased by \$45 thousand (3%) in 2011. Increases of \$16 thousand in power costs and \$10 thousand in customer accounting were offset by a decrease of \$21 thousand in treatment costs in 2012. Increases of \$26 thousand in fringe benefits and \$25 thousand in distribution accounted for most of the increase in 2011.

**Earnhart Hill Regional Water and Sewer District**  
*Management's Discussion and Analysis*  
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**CAPITAL ASSETS**

Table 3 summarizes the changes in Capital Assets.

**Table 3**

	<b>2012</b>	<b>2011</b>	Change	%	<b>2010</b>	Change	%
Land	\$ 746,797	\$ 746,797	\$ -	0%	\$ 746,797	\$ -	0%
Buildings	1,144,205	1,144,205	-	0%	1,144,205	-	0%
Treatment Facilities	5,742,356	5,566,880	175,476	3%	5,460,834	106,046	2%
Transmission & Storage	22,572,655	21,835,399	737,256	3%	21,565,820	269,579	1%
Vehicles	284,873	298,486	(13,613)	-5%	297,700	786	0%
Furniture & Equipment	579,972	559,087	20,885	4%	547,805	11,282	2%
Construction in Progress	876,265	594,553	281,712	47%	489,985	104,568	21%
Total before Depreciation	31,947,123	30,745,407	1,201,716	4%	30,253,146	492,261	2%
Accumulated Depreciation	(7,709,369)	(6,914,696)	(794,673)	11%	(6,119,938)	(794,758)	13%
Total Capital Assets	\$ 24,237,754	\$ 23,830,711	\$ 407,043	2%	\$ 24,133,208	\$ (302,497)	-1%

Capital Assets (before depreciation) increased \$1.2 million (4%) in 2012 and \$492 thousand (2 %) in 2011.

Total Capital Assets increased by \$407 thousand (2%) in 2012 and decreased by \$302 thousand (-1%) in 2011. Treatment Facilities increased \$175 thousand (3%) in 2012 and \$106 thousand (2%) in 2011. Transmission & Storage increased \$737 thousand (3%) in 2012 and \$270 thousand (1%) in 2011.

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>2012</b>	<b>2011</b>	Change	%	<b>2010</b>	Change	%
Savings Bank Loans	\$ 579,652	\$ 982,050	\$ (402,398)	-41%	\$ 1,013,453	\$ (31,403)	-3%
Rural Development Loans	6,812,931	6,926,220	(113,289)	-2%	7,034,509	(108,289)	-2%
OWDA Loans	2,267,525	2,350,589	(83,064)	-4%	2,433,511	(82,922)	-3%
OPWC Loan	375,000	400,000	(25,000)	-6%	425,000	(25,000)	-6%
Rotary Commission Loan	821,966	821,966	-	0%	821,966	-	0%
Total Long Term Debt	10,857,074	11,480,825	(623,751)	-5%	11,728,439	(247,614)	-2%
Less							
Current Maturities	250,191	257,257	(7,066)	-3%	250,482	6,775	3%
Net Total Long Term Debt	\$ 10,606,883	\$ 11,223,568	\$ (616,685)	-5%	\$ 11,477,957	\$ (254,389)	-2%

Net Long Term Debt decreased by \$617 thousand (-5%) in 2012 and by \$254 thousand (-2%) in 2011.

**Earnhart Hill Regional Water and Sewer District**  
*Management's Discussion and Analysis*  
*For The Years Ended December 31, 2012 and 2011*  
(Unaudited)

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**CASH**

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

**Table 5**

	<b>2012</b>	<b>2011</b>	Change	%	<b>2010</b>	Change	%
Unrestricted Cash and Cash Equivalents	\$ 1,695,462	\$ 1,942,032	\$ (246,570)	-13%	\$ 1,763,014	\$ 179,018	10%
Cash Restricted for Debt Service	411,993	411,993	-	0%	411,993	-	0%
Total Cash	<u>\$ 2,107,455</u>	<u>\$ 2,354,025</u>	<u>\$ (246,570)</u>	<u>-10%</u>	<u>\$ 2,175,007</u>	<u>\$ 179,018</u>	<u>8%</u>

Unrestricted Cash and Cash Equivalents decreased \$247 thousand (-13%) in 2012 and increased \$179 thousand (10%) in 2011. Cash restricted for debt service did not change in 2012 and 2011.

**CURRENT FINANCIAL RELATED ACTIVITIES**

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

A 3% water rate adjustment for all District customers was implemented on January 1, 2012. A sewer rate adjustment of 3% for Pickaway Township and Stoutsville/Tarlton service area customers and 10% for Circleville Township service area customers was implemented on January 1, 2012. Future rate adjustments are projected in the District's Ten Year Plan and are 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 Position*

*As of December 31, 2012 and 2011*

	2012	2011
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,695,462	\$ 1,942,032
Accounts receivable	387,945	354,830
Assessments receivable	1,117,410	1,169,402
Inventories	128,822	179,123
Prepaid expenses	24,156	21,958
<b>TOTAL CURRENT ASSETS</b>	<b>3,353,795</b>	<b>3,667,345</b>
<b>NONCURRENT ASSETS</b>		
Restricted Assets:		
Cash and cash equivalents - debt service reserve	411,993	411,993
<b>TOTAL RESTRICTED ASSETS</b>	<b>411,993</b>	<b>411,993</b>
<b>CAPITAL ASSETS</b>		
Land and land easements	746,797	746,797
Buildings	1,144,205	1,144,205
Treatment facilities	5,742,356	5,566,880
Transmission and storage	22,572,655	21,835,399
Vehicles	284,873	298,486
Furniture and equipment	579,972	559,087
Construction in progress	876,265	594,553
<b>TOTAL CAPITAL ASSETS</b>	<b>31,947,123</b>	<b>30,745,407</b>
Less: Accumulated depreciation	(7,709,369)	(6,914,696)
<b>NET CAPITAL ASSETS</b>	<b>24,237,754</b>	<b>23,830,711</b>
<b>TOTAL ASSETS</b>	<b>\$ 28,003,542</b>	<b>\$ 27,910,049</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 Position - Continued*  
*As of December 31, 2012 and 2011*

	2012	2011
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 22,086	\$ 4,031
Prepaid taps & main line extensions	161,311	195,497
Customer deposits	21,335	19,990
Insurance and taxes payable	12,960	18,234
Current portion of Savings Bank notes payable	23,480	35,912
Current portion of USDA revenue bonds payable	118,503	113,281
Current portion of OWDA notes payable	83,208	83,064
Current portion of OPWC notes payable	25,000	25,000
Accrued payroll	13,727	16,043
Intergovernmental payable	28,733	26,483
Accrued interest payable	26,635	28,105
<b>TOTAL CURRENT LIABILITIES</b>	<b>536,978</b>	<b>565,640</b>
<b>LONG-TERM LIABILITIES</b>		
Notes payable Savings Bank (net of current portion)	556,172	946,138
Revenue bonds payable USDA (net of current portion)	6,694,428	6,812,939
Notes payable OWDA (net of current portion)	2,184,317	2,267,525
Notes payable OPWC (net of current portion)	350,000	375,000
Notes payable Rotary Loan	821,966	821,966
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>10,606,883</b>	<b>11,223,568</b>
<b>TOTAL LIABILITIES</b>	<b>11,143,861</b>	<b>11,789,208</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Assessments-Construction-Agricultural	851,715	851,715
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>851,715</b>	<b>851,715</b>
<b>NET POSITION</b>		
Net investment in capital assets	14,202,646	13,171,852
Restricted for debt service	411,993	411,993
Unrestricted	1,393,327	1,685,281
<b>TOTAL NET POSITION</b>	<b>\$ 16,007,966</b>	<b>\$ 15,269,126</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 Position*  
For the Years Ended December 31, 2012 and 2011

	2012	2011
<b>OPERATING REVENUES</b>		
Service charges	\$ 3,136,951	\$ 2,863,143
Other	75,544	61,090
<b>TOTAL OPERATING REVENUES</b>	<b>3,212,495</b>	<b>2,924,233</b>
<b>OPERATING EXPENSES</b>		
Treatment expense	184,471	205,968
Power	211,870	195,511
Distribution	503,669	512,976
Customer accounting	207,112	196,995
Transportation	51,525	53,812
Fringe benefits	280,708	277,471
Depreciation and amortization	844,621	824,512
Administrative and general	256,167	256,511
<b>TOTAL OPERATING EXPENSES</b>	<b>2,540,143</b>	<b>2,523,756</b>
Operating income	672,352	400,477
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Capacity charges	48,600	50,700
Tap fee revenue	14,900	13,500
Interest income	11,462	13,391
Gain on sale of assets	17,609	5,086
Interest expense	(331,226)	(363,790)
Rental income	16,608	17,055
<b>NET NON-OPERATING REVENUES (EXPENSES)</b>	<b>(222,047)</b>	<b>(264,058)</b>
<b>CHANGES IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS</b>	<b>450,305</b>	<b>136,419</b>
Capital Contributions - Cash	43,999	-
Capital Contributions - Developer	244,536	-
<b>Total Capital Contributions</b>	<b>288,535</b>	<b>-</b>
<b>CHANGES IN NET POSITION</b>	<b>738,840</b>	<b>136,419</b>
<b>NET POSITION, BEGINNING OF YEAR</b>	<b>15,269,126</b>	<b>15,132,707</b>
<b>NET POSITION, END OF YEAR</b>	<b>\$ 16,007,966</b>	<b>\$ 15,269,126</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 Cash Flows*  
For the Years Ended December 31, 2012 and 2011

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 3,103,836	\$ 2,854,491
Cash paid for employee salaries and benefits	(971,843)	(952,165)
Cash payments to suppliers for goods and services	(662,861)	(798,935)
Cash received from other receipts	75,544	61,090
Net cash provided by operating activities	<u>1,544,676</u>	<u>1,164,481</u>
<b>CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Refundable line extensions	(34,186)	(5,432)
Deposits received	1,345	1,855
Net cash used for non-capital and related financing activities	<u>(32,841)</u>	<u>(3,577)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Tap fees	14,900	13,500
Capacity charges	48,600	50,700
Rental income	16,608	17,055
Revenue bond principal payments	(113,289)	(108,289)
Revenue bond interest payments	(304,028)	(304,027)
Note principal payments	(510,462)	(139,325)
Note interest payments	(28,669)	(60,297)
Special assessments received	51,992	52,335
Special assessment interest	45	9
Cash received for sale of assets	17,609	5,086
Proceeds from capital cash contributions	43,999	-
Capital outlay	(1,007,127)	(522,015)
Net cash used for capital and related financing activities	<u>(1,769,822)</u>	<u>(995,268)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on cash and investments	<u>11,417</u>	<u>13,382</u>
Net increase (decrease) in cash and cash equivalents	(246,570)	179,018
Cash and cash equivalents, beginning of year	<u>2,354,025</u>	<u>2,175,007</u>
Cash and cash equivalents, end of year	<u>\$ 2,107,455</u>	<u>\$ 2,354,025</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, 2012 and 2011

	2012	2011
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income	\$ 672,352	\$ 400,477
<b>Adjustments to reconcile operating income to net cash provided by operating activities:</b>		
Depreciation and amortization	844,621	824,512
<b>Changes in assets and liabilities:</b>		
Decrease (increase) in accounts receivable	(33,115)	(8,652)
Decrease (increase) in inventories	50,301	(57,792)
Decrease (increase) in prepaid expenses	(2,198)	(2,950)
Increase (decrease) in accounts payable (trade only)	18,055	(4,131)
Increase (decrease) in insurance and taxes payable	(5,274)	5,921
Increase (decrease) in accrued payroll	(2,316)	5,477
Increase (decrease) in intergovernmental payable	2,250	1,619
Total adjustments	<u>872,324</u>	<u>764,004</u>
Net cash provided by operating activities	<u>\$ 1,544,676</u>	<u>\$ 1,164,481</u>

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, 2012 and 2011*

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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 duly organized regional water and sewer district, a political subdivision of the state of Ohio organized pursuant to Chapter 6119 of the Ohio Revised Code. The Court approved the Plan to the Operation of the District which provided that the District would accept a transfer of the assets, and assumes all of the liabilities of the Company as a part of its organization.

**Reporting Entity**

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

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

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

The significant accounting policies followed in the preparation of these financial statements conform to generally accepted accounting principles for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. 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 position, 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, 2012 and 2011*

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

**C. 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, 2012 and 2011.

**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, 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 when used.

**Earnhart Hill Regional Water and Sewer District**

*Notes to the Basic Financial Statements*

*For the Years Ended December 31, 2012 and 2011*

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

**L. Prepaid Expenses**

Payments made to vendors for services that will benefit periods beyond December 31, 2012 and 2011 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, 2012 and 2011 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, 2012 and 2011.

**O. Net Position**

Net position represents the difference between assets and liabilities. Net position 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 position is 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 position is available. Of the District's \$411,993 and \$411,993 in restricted net position as of December 31, 2012 and 2011, 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 2012 and 2011, the following capital contributions were received:

	<u>2012</u>	<u>2011</u>
OCU Campus Loop Phase I	\$ 73,500	\$ -
Progress Parkway Sewer Extension	171,036	-
Cash Contributions from PPG	9,813	-
Line Extension Refund - McCallister	34,186	-
Totals	<u>\$ 288,535</u>	<u>\$ -</u>

**R. Deferred Inflow of Resources**

The \$851,715 balance of the deferred inflow of resources at December 31, 2012 and 2011 will be recognized as revenue an increase unrestricted net position only when those properties assessed no longer qualify for agricultural status, as defined in the Ohio Revised Code Chapter 929, and as certified by the County Auditor. The time frame for collection is therefore undeterminable.

**Earnhart Hill Regional Water and Sewer District**  
*Notes to the Basic Financial Statements*  
For the Years Ended December 31, 2012 and 2011

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

Current and long term debts at December 31, 2012 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.
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 12/31/2011	Additions	Deletions	Outstanding 12/31/2012	Due in One Year
91-04	Rural Development	6.625%	\$ 1,189,720	\$ -	\$ 29,754	\$ 1,159,966	\$ 31,782
91-06	Rural Development	4.250%	3,245,500	-	50,535	3,194,965	52,721
9210S	Rural Development	3.375%	2,491,000	-	33,000	2,458,000	34,000
44972	The Savings Bank	5.290%	603,611	-	23,959	579,652	23,480
44973	The Savings Bank	5.290%	378,439	-	378,439	-	-
4996	OWDA	0.000%	1,891,245	-	68,772	1,822,473	68,773
4839	OWDA	1.000%	459,344	-	14,292	445,052	14,435
CQ30H	OPWC	0.000%	400,000	-	25,000	375,000	25,000
	Rotary Loan	0.000%	821,966	-	-	821,966	-
			<u>\$ 11,480,825</u>	<u>\$ -</u>	<u>\$ 623,751</u>	<u>\$ 10,857,074</u>	<u>\$ 250,191</u>

Loan #	Payable To	Interest Rate	Principle Outstanding 12/31/2010	Additions	Deletions	Principle Outstanding 12/31/2011	Due in One Year
91-04	Rural Development	6.625%	\$ 1,217,572	\$ -	\$ 27,852	\$ 1,189,720	\$ 29,750
91-06	Rural Development	4.250%	3,293,937	-	48,437	3,245,500	50,531
9210S	Rural Development	3.375%	2,523,000	-	32,000	2,491,000	33,000
44972	The Savings Bank	5.290%	623,007	-	19,396	603,611	22,182
44973	The Savings Bank	5.290%	390,446	-	12,007	378,439	13,730
4996	OWDA	0.000%	1,960,017	-	68,772	1,891,245	68,772
4839	OWDA	1.000%	473,494	-	14,150	459,344	14,292
CQ30H	OPWC	0.000%	425,000	-	25,000	400,000	25,000
	Rotary Loan	0.000%	821,966	-	-	821,966	-
			<u>\$ 11,728,439</u>	<u>\$ -</u>	<u>\$ 247,614</u>	<u>\$ 11,480,825</u>	<u>\$ 257,257</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 and OWDA 4839 are due on January 3 and July 3 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, 2012 and 2011

**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
2013	\$ 23,480	\$ 30,100	\$ 53,580	\$ 118,503	\$ 293,619	\$ 412,122
2014	24,753	28,827	53,580	124,958	288,016	412,974
2015	26,095	27,485	53,580	130,661	282,098	412,759
2016	27,509	26,071	53,580	136,625	275,885	412,510
2017	29,000	24,580	53,580	142,867	269,361	412,228
2018-2022	170,352	97,548	267,900	825,844	1,236,505	2,062,349
2023-2027	221,802	46,097	267,899	1,048,036	1,014,232	2,062,268
2028-2032	56,661	1,774	58,435	1,216,907	729,965	1,946,872
2033-2037	-	-	-	1,028,559	495,516	1,524,075
2038-2042	-	-	-	1,251,249	272,431	1,523,680
2043-2047	-	-	-	564,722	89,887	654,609
2048-2049	-	-	-	224,000	11,407	235,407
Totals	<u>\$ 579,652</u>	<u>\$ 282,482</u>	<u>\$ 862,134</u>	<u>\$ 6,812,931</u>	<u>\$ 5,258,922</u>	<u>\$ 12,071,853</u>

  

Year	OWDA			OPWC		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 83,208	\$ 4,415	\$ 87,623	\$ 25,000	\$ -	\$ 25,000
2014	83,353	4,270	87,623	25,000	-	25,000
2015	83,498	4,124	87,622	25,000	-	25,000
2016	83,646	3,976	87,622	25,000	-	25,000
2017	83,795	3,827	87,622	25,000	-	25,000
2018-2022	421,267	16,845	438,112	125,000	-	125,000
2023-2027	425,224	12,887	438,111	125,000	-	125,000
2028-2032	429,385	8,726	438,111	-	-	-
2033-2037	433,758	4,352	438,110	-	-	-
2038-2039	140,391	467	140,858	-	-	-
Totals	<u>\$ 2,267,525</u>	<u>\$ 63,889</u>	<u>\$ 2,331,414</u>	<u>\$ 375,000</u>	<u>\$ -</u>	<u>\$ 375,000</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 \$15,640,401. For the current year, net revenue available, principal and interest paid and the coverage ratio is as follows: \$1,516,974; \$956,448; 1.58.

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, 2012 or 2011.

**Earnhart Hill Regional Water and Sewer District**

*Notes to the Basic Financial Statements*

*For the Years Ended December 31, 2012 and 2011*

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

State statutes classify monies held by the District into three categories.

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 withdraw able 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. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) of this footnote and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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, 2012 and 2011

**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, 2012 and 2011, \$250,000 and \$250,000 of the District’s bank balances of \$2,133,617 and \$2,379,882 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, 2012 and 2011 was as follows:

	Ending Balance 12/31/11	Additions	Deletions	Ending Balance 12/31/12
<b>Capital Assets, Not Being Depreciated</b>				
Land and Land Easements	\$ 746,797	\$ -	\$ -	\$ 746,797
Construction in Progress	594,553	320,860	(39,148)	876,265
<b>Total Capital Assets, Not Being Depreciated</b>	1,341,350	320,860	(39,148)	1,623,062
<b>Capital Assets Being Depreciated</b>				
Buildings	1,144,205	-	-	1,144,205
Treatment Facilities	5,566,880	175,476	-	5,742,356
Transmission & Storage	21,835,399	737,256	-	22,572,655
Vehicles	298,486	36,335	(49,948)	284,873
Furniture and Equipment	559,087	20,885	-	579,972
<b>Total Capital Assets, Being Depreciated</b>	29,404,057	969,952	(49,948)	30,324,061
<b>Less Accumulated Depreciation:</b>				
Buildings	(441,561)	(41,323)	-	(482,884)
Treatment Facilities	(1,757,955)	(186,113)	-	(1,944,068)
Transmission & Storage	(4,168,235)	(542,857)	-	(4,711,092)
Vehicles	(188,417)	(26,608)	49,948	(165,077)
Furniture and Equipment	(358,528)	(47,720)	-	(406,248)
<b>Total Accumulated Depreciation</b>	(6,914,696)	(844,621)	49,948	(7,709,369)
<b>Total Capital Assets Being Depreciated, Net</b>	22,489,361	125,331	-	22,614,692
<b>Total Capital Assets, Net</b>	\$ 23,830,711	\$ 446,191	\$ (39,148)	\$ 24,237,754

**Earnhart Hill Regional Water and Sewer District**  
*Notes to the Basic Financial Statements*  
For the Years Ended December 31, 2012 and 2011

**NOTE 5 - CAPITAL ASSETS - Continued**

	Balance 12/31/10	Additions	Deletions	Balance 12/31/11
<b>Capital Assets, Not Being Depreciated</b>				
Land and Land Easements	\$ 746,797	\$ -	\$ -	\$ 746,797
Construction in Progress	489,985	104,568		594,553
<b>Total Capital Assets, Not Being Depreciated</b>	1,236,782	104,568	-	1,341,350
<b>Capital Assets Being Depreciated</b>				
Buildings	1,144,205	-	-	1,144,205
Treatment Facilities	5,460,834	106,046	-	5,566,880
Transmission & Storage	21,565,820	280,967	(11,388)	21,835,399
Vehicles	297,700	15,283	(14,497)	298,486
Furniture and Equipment	547,805	15,152	(3,870)	559,087
<b>Total Capital Assets, Being Depreciated</b>	29,016,364	417,448	(29,755)	29,404,057
<b>Less Accumulated Depreciation:</b>				
Buildings	(400,238)	(41,323)	-	(441,561)
Treatment Facilities	(1,580,913)	(177,042)	-	(1,757,955)
Transmission & Storage	(3,644,994)	(534,628)	11,387	(4,168,235)
Vehicles	(180,679)	(22,235)	14,497	(188,417)
Furniture and Equipment	(313,114)	(49,284)	3,870	(358,528)
<b>Total Accumulated Depreciation</b>	(6,119,938)	(824,512)	29,754	(6,914,696)
<b>Total Capital Assets Being Depreciated, Net</b>	22,896,426	(407,064)	(1)	22,489,361
<b>Total Capital Assets, Net</b>	<u>\$ 24,133,208</u>	<u>\$ (302,496)</u>	<u>\$ (1)</u>	<u>\$ 23,830,711</u>

**NOTE 6 - DEFINED BENEFIT RETIREMENT PLAN**

Plan Description – The District participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Direct Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and (vested) employer contributions plus any investment earnings. The Combined Plan is 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 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 to the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

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

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, 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 Ohio Revised Code provides statutory authority for member and employer contributions. For 2012, 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

**Earnhart Hill Regional Water and Sewer District**

*Notes to the Basic Financial Statements*

*For the Years Ended December 31, 2012 and 2011*

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

the Traditional Pension Plan. The 2012 member contribution rates were 10.00% of covered payroll for members in state and local classifications.

The 2012 employer contribution rate for state and local employers was 14.00% of covered payroll.

The District's contributions for PERS for the years ended December 2012, 2011, and 2010, are \$95,901, \$94,712, and \$90,052 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.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to OPERS, 277 East Town Street, Columbus OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

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 coverage.

Employer contributions rates are expressed as a percentage of the covered payroll of active members. In 2012, state and local employers contributed at a rate of 14.00% of covered payroll and public safety and law enforcement employers contributed at 18.10%. These are the maximum employer contributions rates permitted by the Ohio Revised Code. 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 4.0% during the calendar year 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during the calendar year 2012. Effective January 1, 2013, the portion of employer contributions allocated to healthcare was lowered to 1% for both plans, as recommended by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. 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 \$27,399 for 2012 and \$27,059 for 2011.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4% of the employer contributions toward the health care fund after the end of the transition period.

**Earnhart Hill Regional Water and Sewer District**  
*Notes to the Basic Financial Statements*  
For the Years Ended December 31, 2012 and 2011

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**NOTE 8 - ACCOUNTS RECEIVABLE**

Following are accounts receivable balances presented by aging classifications as of December 31, 2012 and 2011:

	2012	2011
Current receivables (0-30 days)	\$ 275,361	\$ 259,357
Delinquent receivables (31-60 days)	28,538	26,818
Delinquent receivables (over 60 days)	30,692	26,970
Total accounts receivables	\$ 334,591	\$ 313,145

As of December 31, 2012 and 2011, the District also had miscellaneous receivables totaling \$53,354 and \$41,685.

**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 2012 and 2011, the District contracted with Rinehart-Walters-Danner & Associates and the Ohio Plan for liability, property, and related insurance.

Coverages provided by the program as of December 31, 2012 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	\$10,857,412
Inland Marine	\$233,460
Electronic Media	\$156,982
Faithful Performance & Employee Bond	\$425,000

There has been no significant reduction in coverage from the prior year. There have been no claims that exceed commercial insurance coverage during the past three years. Anthem provided health insurance January through March of 2012 and Medical Mutual of Ohio provided from April through December 2012. Anthem provided health insurance January through December of 2011.

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

**NOTE 10 – BUDGET**

Budgetary activity for the years ended December 31, 2012 and 2011 follows:

Budgeted vs. Actual Receipts

	2012	2011
Budgeted Receipts	\$ 3,181,200	\$ 3,063,800
Actual Receipts	3,385,895	3,069,503
Variance	\$ 204,695	\$ 5,703

Budgeted vs. Actual Budgetary Basis Expenditures

	2012	2011
Appropriation Authority	\$ 4,635,300	\$ 4,017,700
Budgetary Expenditures	3,632,465	2,890,485
Variance	\$ 1,002,835	\$ 1,127,215

**Earnhart Hill Regional Water and Sewer District**  
*Notes to the Basic Financial Statements*  
For the Years Ended December 31, 2012 and 2011

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**NOTE 11 - PENDING LITIGATION**

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

There was no material litigation pending or outstanding that management believes might have a significant affect on the accompanying financial statements.

**NOTE 12 - FEDERAL FINANCIAL ASSISTANCE**

The District received \$0 in financial assistance in 2012 and \$0 in 2011.

**NOTE 13 – ASSESSMENTS RECEIVABLE**

The details for the fiscal year ended December 31, 2012 are as follows:

<u>Construction Assessments</u>	<u>Total Assessment</u>	<u>Principal Collected From Prepaids and Auditor</u>	<u>Ending Receivable Balance</u>	<u>Percent Collected</u>
2012	\$ 2,102,001	\$ 984,591	\$ 1,117,410	46.8%
2011	2,102,001	932,599	1,169,402	44.4%

Assessment receivable balances at December 31, 2012 and 2011 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 – CHANGE IN ACCOUNTING PRINCIPLE**

The District implemented Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

# *Perry & Associates*

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

June 12, 2013

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

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, 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, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 22, 2013, wherein we noted the District has adopted Government Accounting Standards Board Statements number 63 and 65.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

***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, opining 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*.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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.

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# 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 23, 2013**