

**EARNHART HILL REGIONAL  
WATER AND SEWER DISTRICT  
PICKAWAY COUNTY  
Regular Audit  
For the Years Ended December 31, 2011 & 2010**

***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, 2011 through December 31, 2011. 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 30, 2012

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

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**INDEPENDENT ACCOUNTANTS' REPORT**

June 22, 2012

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, 2011 and 2010, 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, 2011 and 2010, 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 22, 2012 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* as 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 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, 2011 and 2010  
(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, 2011 and 2010 by \$15.3 million and \$15.1 million, respectively. The District's net assets increased by \$136 thousand (1%) in 2011 and \$617 thousand (4%) in 2010.

The District's Operating Revenues increased by \$93 thousand (3%) in 2011 and \$266 thousand (10%) in 2010. Operating Expenses increased \$74 thousand (3%) in 2011 and \$335 thousand (16%) in 2010.

The District issued no additional long term debt in 2011 or 2010.

**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**

	<b>2011</b>	<b>2010</b>	Change	%	<b>2009</b>	Change	%
Current & Other Assets	\$ 4,079,338	\$ 3,883,261	\$ 196,077	5%	\$ 3,387,602	\$ 495,659	15%
Capital Assets	23,830,711	24,133,208	(302,497)	-1%	24,278,335	(145,127)	-1%
Total Assets	27,910,049	28,016,469	(106,420)	0%	27,665,937	350,532	1%
Current & Other Liabilities	565,640	554,090	11,550	2%	611,806	(57,716)	-9%
Long Term Liabilities	12,075,283	12,329,672	(254,389)	-2%	12,538,652	(208,980)	-2%
Total Liabilities	12,640,923	12,883,762	(242,839)	-2%	13,150,458	(266,696)	-2%
Net Assets							
Invested in Capital Assets,							
Net of Debt	13,171,852	13,226,735	(54,883)	0%	13,169,484	57,251	0%
Restricted	411,993	411,993	-	0%	295,164	116,829	40%
Unrestricted	1,685,281	1,493,979	191,302	13%	1,050,831	443,148	42%
Total Net Assets	\$ 15,269,126	\$ 15,132,707	\$ 136,419	1%	\$ 14,515,479	\$ 617,228	4%

The District's Net Assets increased \$136 thousand (1%) in 2011 and \$617 thousand (4%) in 2010. These increases were a result of excess revenues over expenses, capital contributions and capital grants.

Restricted net assets did not change in 2011 and increased \$117 thousand (40%) in 2010. Restricted assets are cash which is limited in use as part of the District's loan covenants.

**Earnhart Hill Regional Water and Sewer District**  
*Management's Discussion and Analysis*  
For The Years Ended December 31, 2011 and 2010  
(Unaudited)

Unrestricted net assets increased by \$191 thousand (12%) in 2011 and by \$443 thousand (42%) in 2010. Unrestricted net assets may be used without constraints established by loan covenants or other legal requirements.

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

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

**Table 2**

	<b>2011</b>	<b>2010</b>	Difference	%	<b>2009</b>	Difference	%
Operating Revenues	\$ 2,924,233	\$ 2,831,490	\$ 92,743	3%	\$ 2,565,262	\$ 266,228	10%
Total Operating Revenues	<u>2,924,233</u>	<u>2,831,490</u>	<u>92,743</u>	<u>3%</u>	<u>2,565,262</u>	<u>266,228</u>	<u>10%</u>
Treatment Expenses	205,968	222,788	(16,820)	-8%	181,572	41,216	23%
Power	195,511	199,851	(4,340)	-2%	159,680	40,171	25%
Distribution	512,976	487,731	25,245	5%	456,789	30,942	7%
Customer Accounting	196,995	193,771	3,224	2%	168,702	25,069	15%
Transportation	53,812	44,387	9,425	21%	39,489	4,898	12%
Fringe Benefits	277,471	251,050	26,421	11%	243,531	7,519	3%
Depreciation and Amortization	824,512	796,265	28,247	4%	606,184	190,081	31%
Administrative & General	256,511	254,311	2,200	1%	258,939	(4,628)	-2%
Total Operating Expenses	<u>2,523,756</u>	<u>2,450,154</u>	<u>73,602</u>	<u>3%</u>	<u>2,114,886</u>	<u>335,268</u>	<u>16%</u>
Operating Income	400,477	381,336	19,141	5%	450,376	(69,040)	-15%
Non-Operating Expenses	363,790	367,268	(3,478)	-1%	291,198	76,070	26%
Non-Operating Revenues	99,732	116,575	(16,843)	-14%	218,731	(102,156)	-47%
Capital Contributions	-	486,585	(486,585)	-100%	3,139,340	(2,652,755)	-85%
Changes in Net Assets	<u>136,419</u>	<u>617,228</u>	<u>(480,809)</u>	<u>-78%</u>	<u>3,517,249</u>	<u>(2,900,021)</u>	<u>-82%</u>
Net Assets at Beginning of Year	15,132,707	14,515,479	617,228	4%	10,998,230	3,517,249	32%
Net Assets at End of Year	<u>\$ 15,269,126</u>	<u>\$ 15,132,707</u>	<u>\$ 136,419</u>	<u>1%</u>	<u>\$ 14,515,479</u>	<u>\$ 617,228</u>	<u>4%</u>

Operating revenues increased \$93 thousand (3%) in 2011 and \$266 thousand (10%) in 2010. Increased operating revenues in 2011 were a result of water and sewer rate adjustments.

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 \$0 in capital contributions in 2011, \$487 thousand in 2010 and \$3.1 million in 2009.

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 \$2,892,592 in capital contributions from USDA through the acquisition of the Tarlton & Stoutsville sewer systems. In 2009 the District also received \$214,748 in cash capital contributions from PPG for the relocation of Well #6.

Operating expenses, excluding depreciation, increased by \$45 thousand (3%) in 2011 and by \$145 thousand (10%) in 2010. Increases of \$26 thousand in fringe benefits and \$25 thousand in distribution accounted for most of the increase in 2011. Increases of \$41 thousand in treatment expenses, \$40 thousand in power and \$31 thousand in distribution accounted for most of the increase in 2010.

**Earnhart Hill Regional Water and Sewer District**  
*Management's Discussion and Analysis*  
For The Years Ended December 31, 2011 and 2010  
(Unaudited)

**CAPITAL ASSETS**

Table 3 summarizes the changes in Capital Assets.

**Table 3**

	<b>2011</b>	<b>2010</b>	<b>Change</b>	<b>%</b>	<b>2009</b>	<b>Change</b>	<b>%</b>
Land	\$ 746,797	\$ 746,797	\$ -	0%	\$ 746,797	\$ -	0%
Buildings	1,144,205	1,144,205	-	0%	1,103,628	40,577	4%
Treatment Facilities	5,566,880	5,460,834	106,046	2%	5,197,779	263,055	5%
Transmission & Storage	21,835,399	21,565,820	269,579	1%	21,134,344	431,476	2%
Vehicles	298,486	297,700	786	0%	350,088	(52,388)	-15%
Furniture & Equipment	559,087	547,805	11,282	2%	483,783	64,022	13%
Construction in Progress	594,553	489,985	104,568	21%	775,516	(285,531)	-37%
Total before Depreciation	30,745,407	30,253,146	492,261	2%	29,791,935	461,211	2%
Accumulated Depreciation	(6,914,696)	(6,119,938)	(794,758)	13%	(5,513,600)	(606,338)	11%
Total Capital Assets	\$ 23,830,711	\$ 24,133,208	\$ (302,497)	-1%	\$ 24,278,335	\$ (145,127)	-1%

Capital Assets (before depreciation) increased \$492 thousand (2%) in 2011 and \$461 thousand (2 %) in 2010.

Total Capital Assets decreased by \$302 thousand (-1%) in 2011 and decreased by \$145 thousand (-1%) in 2010. Treatment Facilities increased \$106 thousand (2%) in 2011 and \$263 thousand (5%) in 2010. Transmission & Storage increased \$270 thousand (1%) in 2011 and \$431 thousand (2%) in 2010.

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>2011</b>	<b>2010</b>	<b>Change</b>	<b>%</b>	<b>2009</b>	<b>Change</b>	<b>%</b>
Savings Bank Loans	\$ 982,050	\$ 1,013,453	\$ (31,403)	-3%	\$ 1,045,926	\$ (32,473)	-3%
Rural Development Loans	6,926,220	7,034,509	(108,289)	-2%	7,138,005	(103,496)	-1%
OWDA Loans	2,350,589	2,433,511	(82,922)	-3%	2,474,920	(41,409)	-2%
OPWC Loan	400,000	425,000	(25,000)	-6%	450,000	(25,000)	-6%
Rotary Commission Loan	821,966	821,966	-	0%	821,966	-	0%
Total Long Term Debt	11,480,825	11,728,439	(247,614)	-2%	11,930,817	(202,378)	-2%
Less							
Current Maturities	257,257	250,482	6,775	3%	243,880	6,602	3%
Net Total Long Term Debt	\$ 11,223,568	\$ 11,477,957	\$ (254,389)	-2%	\$ 11,686,937	\$ (208,980)	-2%

Net Long Term Debt decreased by \$254 thousand (-2%) in 2011 and decrease by \$209 thousand (-2%) in 2010.

**Earnhart Hill Regional Water and Sewer District**  
*Management's Discussion and Analysis*  
*For The Years Ended December 31, 2011 and 2010*  
*(Unaudited)*

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**CASH**

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

**Table 5**

	<b>2011</b>	<b>2010</b>	Change	%	<b>2009</b>	Change	%
Unrestricted Cash and Cash Equivalents	\$ 1,942,032	\$ 1,763,014	\$ 179,018	10%	\$ 1,298,042	\$ 464,972	36%
Cash Restricted for Debt Service	411,993	411,993	-	0%	295,164	116,829	40%
Total Cash	<u>\$ 2,354,025</u>	<u>\$ 2,175,007</u>	<u>\$ 179,018</u>	<u>8%</u>	<u>\$ 1,593,206</u>	<u>\$ 581,801</u>	<u>37%</u>

Unrestricted Cash and Cash Equivalents increased \$179 thousand (10%) in 2011 and \$465 thousand (36%) in 2010. Cash restricted for debt service did not change in 2011 and increased \$117 thousand (40%) in 2010.

**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, 2011. 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, 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, 2011 and 2010*

	2011	2010
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,942,032	\$ 1,763,014
Accounts receivable	354,830	346,178
Assessments receivable	1,169,402	1,221,737
Inventories	179,123	121,331
Prepaid expenses	21,958	19,008
<b>TOTAL CURRENT ASSETS</b>	<b>3,667,345</b>	<b>3,471,268</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	5,566,880	5,460,834
Transmission and storage	21,835,399	21,565,820
Vehicles	298,486	297,700
Furniture and equipment	559,087	547,805
Construction in progress	594,553	489,985
<b>TOTAL CAPITAL ASSETS</b>	<b>30,745,407</b>	<b>30,253,146</b>
Less: Accumulated depreciation	(6,914,696)	(6,119,938)
<b>NET CAPITAL ASSETS</b>	<b>23,830,711</b>	<b>24,133,208</b>
<b>TOTAL ASSETS</b>	<b>\$ 27,910,049</b>	<b>\$ 28,016,469</b>

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

**Earnhart Hill Regional Water and Sewer District**  
*Statements of Net Assets - Continued*  
*As of December 31, 2011 and 2010*

	2011	2010
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 4,031	\$ 8,162
Prepaid taps & main line extensions	195,497	200,929
Customer deposits	19,990	18,135
Insurance and taxes payable	18,234	12,313
Current portion of Savings Bank notes payable	35,912	34,210
Current portion of USDA revenue bonds payable	113,281	108,279
Current portion of OWDA notes payable	83,064	82,993
Current portion of OPWC notes payable	25,000	25,000
Accrued payroll	16,043	10,566
Intergovernmental payable	26,483	24,864
Accrued interest payable	28,105	28,639
<b>TOTAL CURRENT LIABILITIES</b>	<b>565,640</b>	<b>554,090</b>
<b>LONG-TERM LIABILITIES</b>		
Notes payable Savings Bank (net of current portion)	946,138	979,243
Revenue bonds payable USDA (net of current portion)	6,812,939	6,926,230
Notes payable OWDA (net of current portion)	2,267,525	2,350,518
Notes payable OPWC (net of current portion)	375,000	400,000
Notes payable Rotary Loan	821,966	821,966
Deferred Revenue - Construction Agricultural	851,715	851,715
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>12,075,283</b>	<b>12,329,672</b>
<b>TOTAL LIABILITIES</b>	<b>12,640,923</b>	<b>12,883,762</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	13,171,852	13,226,735
Restricted for debt service	411,993	411,993
Unrestricted	1,685,281	1,493,979
<b>TOTAL NET ASSETS</b>	<b>15,269,126</b>	<b>15,132,707</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 27,910,049</b>	<b>\$ 28,016,469</b>

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

**Earnhart Hill Regional Water and Sewer District**  
*Statements of Revenues, Expenses and Changes in Net Assets*  
For the Years Ended December 31, 2011 and 2010

	2011	2010
<b>OPERATING REVENUES</b>		
Service charges	\$ 2,863,143	\$ 2,762,224
Other	61,090	69,266
<b>TOTAL OPERATING REVENUES</b>	<b>2,924,233</b>	<b>2,831,490</b>
<b>OPERATING EXPENSES</b>		
Treatment expense	205,968	222,788
Power	195,511	199,851
Distribution	512,976	487,731
Customer accounting	196,995	193,771
Transportation	53,812	44,387
Fringe benefits	277,471	251,050
Depreciation and amortization	824,512	796,265
Administrative and general	256,511	254,311
<b>TOTAL OPERATING EXPENSES</b>	<b>2,523,756</b>	<b>2,450,154</b>
Operating income	400,477	381,336
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Capacity charges	50,700	41,550
Tap fee revenue	13,500	12,375
Interest income	13,391	14,004
Gain (Loss) on sale of assets	5,086	23,821
Interest expense	(363,790)	(367,268)
Rental income	17,055	24,825
<b>NET NON-OPERATING REVENUES (EXPENSES)</b>	<b>(264,058)</b>	<b>(250,693)</b>
<b>CHANGES IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS</b>		
	136,419	130,643
Capital Contributions - Intergovernmental	-	268,563
Capital Contributions - Cash	-	66,022
Capital Contributions - Developer	-	152,000
<b>Total Capital Contributions</b>	<b>-</b>	<b>486,585</b>
<b>CHANGES IN NET ASSETS</b>	<b>136,419</b>	<b>617,228</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>15,132,707</b>	<b>14,515,479</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 15,269,126</b>	<b>\$ 15,132,707</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, 2011 and 2010

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 2,854,491	\$ 2,801,192
Cash paid for employee salaries and benefits	(952,165)	(895,705)
Cash payments to suppliers for goods and services	(798,935)	(852,574)
Cash received from other receipts	61,090	69,266
Net cash provided by operating activities	<u>1,164,481</u>	<u>1,122,179</u>
<b>CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Refundable line extensions	(5,432)	23,640
Deposits received	1,855	1,895
Net cash from non-capital and related financing activities	<u>(3,577)</u>	<u>25,535</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Tap fees	13,500	12,375
Capacity charges	50,700	41,550
Rental income	17,055	24,825
Revenue bond principal payments	(108,289)	(103,496)
Revenue bond interest payments	(304,027)	(308,866)
Note principal payments	(139,325)	(98,882)
Note interest payments	(60,297)	(56,938)
Special assessments received	52,335	54,652
Special assessment interest	9	-
Cash received for sale of assets	5,086	23,821
Proceeds from capital grant	-	268,563
Proceeds from capital cash contributions	-	66,022
Capital outlay	(522,015)	(503,543)
Net cash used by capital and related financing activities	<u>(995,268)</u>	<u>(579,917)</u>
<b>NET ASSETS, END OF YEAR</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on cash and investments	<u>13,382</u>	<u>14,004</u>
Net increase in cash and cash equivalents	179,018	581,801
Cash and cash equivalents, beginning of year	<u>2,175,007</u>	<u>1,593,206</u>
Cash and cash equivalents, end of year	<u>\$ 2,354,025</u>	<u>\$ 2,175,007</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, 2011 and 2010

	2011	2010
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income	\$ 400,477	\$ 381,336
<b>Adjustments to reconcile operating income to net cash provided by operating activities:</b>		
Depreciation and amortization	824,512	796,265
<b>Changes in assets and liabilities:</b>		
Decrease (increase) in accounts receivable	(8,652)	38,968
Decrease (increase) in inventories	(57,792)	(8,755)
Decrease (increase) in prepaid expenses	(2,950)	1,277
Increase (decrease) in accounts payable (trade only)	(4,131)	(76,541)
Increase (decrease) in insurance and taxes payable	5,921	820
Increase (decrease) in accrued payroll	5,477	2,643
Increase (decrease) in intergovernmental payable	1,619	(13,834)
Total adjustments	764,004	740,843
Net cash provided by operating activities	\$ 1,164,481	\$ 1,122,179

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*

*As of December 31, 2011 and 2010*

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### **NOTE 1 - NATURE OF ORGANIZATION AND REPORTING ENTITY**

Earnhart Hill Regional Water and Sewer District (the District) was founded for the purpose of providing water and wastewater services to those areas in south central Ohio not served by other water companies. As of February 1, 1997, the previous company (Earnhart Hill Water District, Inc.) was declared by the Court to be a duly organized regional water and sewer district, a political subdivision of the state of Ohio organized pursuant to Chapter 6119 of the Ohio Revised Code. The Court approved the Plan to the Operation of the District which provided that the District would accept a transfer of the assets, and assume all of the liabilities of the Company as a part of its organization.

#### **Reporting Entity**

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

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

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

The significant accounting policies followed in the preparation of these financial statements conform to generally accepted accounting principles for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. Under the guidelines of GASB Statement No. 20, the District has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989 to its proprietary activities. A summary of the significant accounting policies consistently applied in preparation of the accompanying financial statements is as follows:

#### **A. Basis of Presentation - Fund Accounting**

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The District has created a single type of fund and a single fund within that fund type. The fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses.

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

The fund type that the District uses is described below:

**Proprietary Fund Type** - This fund type accounts for operations that are organized to be self-supporting through user charges. The fund included in this category used by the District is the Enterprise Fund.

**Enterprise Fund** - This fund is established to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The District's enterprise fund provides water and sewer services to its users.

#### **B. Basis of Accounting**

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

**Earnhart Hill Regional Water and Sewer District**

*Notes to the Basic Financial Statements*

*As of December 31, 2011 and 2010*

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

**C. Budgetary Process**

The Ohio Revised Code requires that each fund be budgeted annually. The District has adopted a budget and adopted and passed annual appropriations for the years ended December 31, 2011 and 2010.

**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*  
*As of December 31, 2011 and 2010*

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

**L. Prepaid Expenses**

Payments made to vendors for services that will benefit periods beyond December 31, 2011 and 2010 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, 2011 and 2010 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, 2011 and 2010.

**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 \$411,993 in restricted net assets as of December 31, 2011 and 2010, 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 2011 and 2010, the following capital contributions were received:

	<b>2011</b>	<b>2010</b>
Intergovernmental contribution from USDA for the Tarlton/Stoutsville sewer acquisition	\$ -	\$ 268,563
Cash Contributions from PPG	-	66,022
Developer donated lines and equipment	-	152,000
Totals	\$ -	\$ 486,585

**Earnhart Hill Regional Water and Sewer District**

*Notes to the Basic Financial Statements*

*As of December 31, 2011 and 2010*

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

Current and long term debts at December 31, 2011 and 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 12/31/2010	Additions	Deletions	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>

Loan #	Payable To	Interest Rate	Principle Outstanding 12/31/2009	Additions	Deletions	Principle 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>

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 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*  
*As of December 31, 2011 and 2010*

**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
2012	\$ 35,912	\$ 51,088	\$ 87,000	\$ 113,281	\$ 298,955	\$ 412,236
2013	37,858	49,142	87,000	118,502	293,619	412,121
2014	39,910	47,090	87,000	124,958	288,016	412,974
2015	42,074	44,926	87,000	130,661	282,098	412,759
2016	44,354	42,646	87,000	136,625	275,885	412,510
2017-2021	260,546	174,454	435,000	787,874	1,274,562	2,062,436
2022-2026	339,236	95,764	435,000	998,232	1,063,370	2,061,602
2027-2031	182,160	11,318	193,478	1,264,498	789,920	2,054,418
2032-2036	-	-	-	989,661	535,091	1,524,752
2037-2041	-	-	-	1,202,760	320,657	1,523,417
2042-2046	-	-	-	729,168	113,181	842,349
2047-2049	-	-	-	330,000	22,545	352,545
Totals	<u>\$ 982,050</u>	<u>\$ 516,428</u>	<u>\$ 1,498,478</u>	<u>\$ 6,926,220</u>	<u>\$ 5,557,899</u>	<u>\$ 12,484,119</u>

  

Year	OWDA			OPWC		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 83,064	\$ 4,558	\$ 87,622	\$ 25,000	\$ -	\$ 25,000
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
2017-2021	420,497	17,613	438,110	125,000	-	125,000
2022-2026	424,416	13,694	438,110	125,000	-	125,000
2027-2031	428,536	9,575	438,111	25,000	-	25,000
2032-2036	432,867	5,245	438,112	-	-	-
2037-2039	227,504	977	228,481	-	-	-
Totals	<u>\$ 2,350,589</u>	<u>\$ 68,447</u>	<u>\$ 2,419,036</u>	<u>\$ 400,000</u>	<u>\$ -</u>	<u>\$ 400,000</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 \$16,801,633. For the current year, net revenue available, principal and interest paid and the coverage ratio is as follows: \$1,224,989; \$611,938; 2.0.

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, 2011 or 2010.

**Earnhart Hill Regional Water and Sewer District**

*Notes to the Basic Financial Statements*

*As of December 31, 2011 and 2010*

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

Active deposits are public deposits necessary to meet current demands on the Treasury. Such monies must be maintained either as cash in the District Treasury, in commercial accounts payable or 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. 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. Banker's acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's average portfolio.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

**Earnhart Hill Regional Water and Sewer District**

*Notes to the Basic Financial Statements*

*As of December 31, 2011 and 2010*

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

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**Deposits** – Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. As of December 31, 2011 and 2010, \$250,000 and \$250,000 of the District’s bank balances of \$2,379,882 and \$2,343,667 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, 2011 and 2010 was as follows:

	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 & Bond Issue Costs	1,144,205	-	-	1,144,205
Treatment Facilities	5,460,834	106,046	-	5,566,880
Transmission & Storage & Collection	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 & Bond Issue Costs	(400,238)	(41,323)	-	(441,561)
Treatment Facilities	(1,580,913)	(177,042)	-	(1,757,955)
Transmission & Storage & Collection	(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>	<u>(6,119,938)</u>	<u>(824,512)</u>	<u>29,754</u>	<u>(6,914,696)</u>
<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>

**Earnhart Hill Regional Water and Sewer District**  
*Notes to the Basic Financial Statements*  
*As of December 31, 2011 and 2010*

**NOTE 5 - CAPITAL ASSETS - Continued**

	Ending Balance 12/31/09	Additions	Deletions	Ending Balance 12/31/10
<b>Capital Assets, Not Being Depreciated</b>				
Land and Land Easements	\$ 746,797	\$ -	\$ -	\$ 746,797
Construction in Progress	775,516	-	(285,531)	\$ 489,985
<b>Total Capital Assets, Not Being Depreciated</b>	<b>1,522,313</b>	<b>-</b>	<b>(285,531)</b>	<b>1,236,782</b>
<b>Capital Assets Being Depreciated</b>				
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
<b>Total Capital Assets, Being Depreciated</b>	<b>28,269,622</b>	<b>936,669</b>	<b>(189,927)</b>	<b>29,016,364</b>
<b>Less Accumulated Depreciation:</b>				
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)
<b>Total Capital Assets Being Depreciated, Net</b>	<b>22,756,022</b>	<b>140,404</b>	<b>-</b>	<b>22,896,426</b>
<b>Total Capital Assets, Net</b>	<b>\$ 24,278,335</b>	<b>\$ 140,404</b>	<b>\$ (285,531)</b>	<b>\$ 24,133,208</b>

**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-Directed 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 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 by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy 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 and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law and public safety employer units. Member contribution rates, as set in the Ohio Revised Code, are not to exceed 10 percent. For the year ended December 31, 2010, members in state and local classifications contributed 10 percent of covered payroll while public safety and law enforcement members contributed 10.5 percent and 11.1 percent, respectively. 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. For 2010, member and employer contribution rates were consistent across all three plans.

**Earnhart Hill Regional Water and Sewer District**

*Notes to the Basic Financial Statements*

*As of December 31, 2011 and 2010*

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

The District's 2010 contribution rate was 14.0 percent, except for those plan members in law enforcement or public safety, for whom the District's contribution was 17.87 percent of covered payroll. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 5.5 percent from January 1 through February 28, 2010, and 5 percent 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 percent from January 1 through February 28, 2010, and 4.23 percent from March 1 through December 31, 2010. Employer contribution rates are actuarially determined.

The 2011 and 2010 member contribution rates were 10.0% of covered payroll for members in state and local classifications. The 2011 and 2010 employer contribution rate for state and local employers was 14.0% of covered payroll. The District's contributions to OPERS for the years ended December 31, 2011, 2010 and 2009 were \$94,712, \$90,052, and \$85,126, respectively. All required contributions have been made for each year.

**NOTE 7 - POSTEMPLOYMENT BENEFITS**

Plan Description – 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 health care plan for 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. The plan includes a medical plan, prescription drug program and Medicare Part B premium reimbursement.

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 Ohio Revised Code permits, but does not mandate, OPERS to provide health care 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 contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2010, state and local employers contributed at a rate of 14.0 percent of covered payroll, and public safety and law enforcement employers contributed at 17.87 percent. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law and public safety employer units.

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 employer contributions allocated to health care for members in the Traditional Plan was 5.5 percent from January 1 through February 28, 2010, and 5 percent 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 percent from January 1 through February 28, 2010, and 4.23 percent 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 provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan.

**Earnhart Hill Regional Water and Sewer District**

*Notes to the Basic Financial Statements*

*As of December 31, 2011 and 2010*

**NOTE 7 - POSTEMPLOYMENT BENEFITS - Continued**

The employer contributions that were used to fund post employment benefits were \$27,059 for 2011 and \$32,664 for 2010.

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.

**NOTE 8 - ACCOUNTS RECEIVABLE**

Following are accounts receivable balances presented by aging classifications as of December 31, 2011 and 2010:

	2011	2010
Current receivables (0-30 days)	\$ 259,357	\$ 262,573
Delinquent receivables (31-60 days)	26,818	25,908
Delinquent receivables (over 60 days)	26,970	26,550
Total accounts receivables	<u>\$ 313,145</u>	<u>\$ 315,031</u>

As of December 31, 2011 and 2010, the District also had miscellaneous receivables totaling \$41,685 and \$31,147.

**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 2011 and 2010, the District contracted with Rinehart-Walters-Danner & Associates and the Ohio Plan for liability, property, and related insurance.

Coverage's provided by the program as of December 31, 2011 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	\$10,376,913
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 December of 2011. Anthem also provided health insurance January through December of 2010.

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

**Earnhart Hill Regional Water and Sewer District**  
*Notes to the Basic Financial Statements*  
*As of December 31, 2011 and 2010*

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**NOTE 10 – BUDGET**

Budgetary activity for the years ended December 31, 2011 and 2010 follows:

	<u>Budgeted vs. Actual Receipts</u>	
	<u>2011</u>	<u>2010</u>
Budgeted Receipts	\$ 3,063,800	\$ 3,365,100
Actual Receipts	<u>3,069,503</u>	<u>3,401,805</u>
Variance	<u>\$ 5,703</u>	<u>\$ 36,705</u>

	<u>Budgeted vs. Actual Budgetary Basis Expenditures</u>	
	<u>2011</u>	<u>2010</u>
Appropriation Authority	\$ 4,017,700	\$ 3,907,750
Budgetary Expenditures	<u>2,890,485</u>	<u>2,820,004</u>
Variance	<u>\$ 1,127,215</u>	<u>\$ 1,087,746</u>

**NOTE 11 - PENDING LITIGATION**

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

There was no material litigation pending or outstanding as of December 31, 2011 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 2011 and \$268,563 in 2010.

**NOTE 13 – ASSESSMENTS RECEIVABLE**

The details for the fiscal year ended December 31, 2011 are as follows:

Construction Assessments	Total Assessment	Principal Collected From Prepaids and Auditor	Ending Receivable Balance	Percent Collected
2011	\$ 2,102,001	\$ 932,599	\$ 1,169,402	44.4%
2010	2,102,001	880,264	1,221,737	41.9%

Assessment receivable balances at December 31, 2011 and 2010 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***  
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**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

June 22, 2012

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, 2011 and 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 22, 2012. 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 for the purpose of opining 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.

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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  
AUGUST 14, 2012**