

Earnhart Hill Regional Water and Sewer District

Pickaway County

Regular Audit

January 1, 2004 through December 31, 2004

Year Audited Under GAGAS: 2004

BALESTRA, HARR & SCHERER CPAs, INC.

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

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

Earnhart Hill Regional Water and Sewer District
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For the Year Ended December 31, 2004

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's Report

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

We have audited the accompanying financial statements of Earnhart Hill Regional Water and Sewer District (the District), Pickaway County, as of and for the years ended December 31, 2004 and 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 5, 2005, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

As described in Note 5 to the basic financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.



Balestra, Harr & Scherer, CPAs, Inc.
May 5, 2005

Earnhart Hill Regional Water and Sewer District
Management's Discussion and Analysis
For the Year Ended December 31, 2004

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, 2004 by \$6.4 million. The District's net assets increased by \$0.4 million (6.6%) in 2004.

The District's Operating Revenues increased by \$232 thousand (14.8%) and Operating and Maintenance Expenses increased \$286 thousand (23.5%) in 2004.

The District issued no additional long term debt in 2004.

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 **Statement 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 and financing activities.

Earnhart Hill Regional Water and Sewer District
Management's Discussion and Analysis
For the Year Ended December 31, 2004

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

	Restated		Change
	2004	2003	
Current & Other Assets	\$1,479,922	\$1,275,512	\$204,410
Capital Assets	11,967,089	11,872,263	94,826
Total Assets	13,447,011	13,147,775	299,236
Long Term Liabilities	6,628,283	6,744,376	(116,093)
Other Liabilities	345,249	329,664	15,585
Total Liabilities	6,973,532	7,074,040	(100,508)
Net Assets			
Invested in Capital, Net of Debt	5,207,417	4,989,722	217,695
Restricted	227,937	204,312	23,625
Unrestricted	1,038,125	879,701	158,424
Total Net Assets	<u>\$6,473,479</u>	<u>\$6,073,735</u>	<u>\$399,744</u>

The District's Net Assets increased \$0.4 million (6.6%) in 2004. This increase was a result of excess revenues over expenses and capital contributions.

Restricted net assets increased \$24 thousand (11.6%) in 2004. Restricted assets are cash that is limited in use as part of the District's loan covenants.

Unrestricted assets increased by \$0.158 million (18.0%) in 2004. Unrestricted assets may be used without constraints established by loan covenants or other legal requirements. Cash and Cash Equivalents increased \$57 thousand in 2004.

Earnhart Hill Regional Water and Sewer District
Management's Discussion and Analysis
For the Year Ended December 31, 2004

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

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

Table 2

	2004	2003	Difference
Operating Revenues	\$1,803,422	\$1,571,031	\$232,391
Total Operating Revenues	\$1,803,422	\$1,571,031	\$232,391
Treatment Expenses	84,748	74,940	9,808
Power	99,836	78,126	21,710
Distribution	325,787	280,343	45,444
Customer Accounting	141,848	136,196	5,652
Transportation	35,002	33,963	1,039
Fringe Benefits	176,878	150,532	26,346
Depreciation Expenses	438,523	288,400	150,123
Administrative & General	196,980	171,385	25,595
Total Operating Expenses	1,499,602	1,213,885	285,717
Operating Income	303,820	357,146	(53,326)
Non-Operating Expenses	330,351	225,591	104,760
Non-Operating Revenues	229,157	189,296	39,861
Capital Contributions	197,118	1,074,113	(876,995)
Changes in Net Assets	399,744	1,394,964	(995,220)
Net Assets at Beginning of Year	6,073,735	4,678,771	1,394,964
Net Assets at End of Year	\$6,473,479	\$6,073,735	\$399,744

Operating Revenues increased \$0.232 million (14.8%) in 2004. Increased Revenues in 2004 were a result of the addition of 800 Phase IV customers. Capital Contributions will fluctuate from year to year depending on construction activity, and improvement projects that may qualify for special assessment and/or grant monies. In 2003 the District received \$1.074 million in USDA grant monies while in 2004 the District received only \$.126 million. The District recorded \$71 thousand in developer contributions in 2004 in comparison to \$0 in 2003. This variance is related to the Casto Development (Wal-Mart).

Earnhart Hill Regional Water and Sewer District
Management's Discussion and Analysis
For the Year Ended December 31, 2004

STATEMENT OF EARNINGS (CHANGES IN NET ASSETS) (CONTINUED)

In 2004 Operation and Maintenance expenses, excluding depreciation, increased \$286 thousand (23.5%). \$28 thousand in additional staffing related to the Phase IV Project, basic wage increases, \$22 thousand increase in purchased power, \$11 thousand increase in insurance costs and \$10 thousand increase in employee health care costs accounted for much of the increase.

CAPITAL ASSETS

The District had \$15.073 million invested in Capital Assets (before depreciation) at the end of 2004. This amount is an increase of \$0.439 million (3.0%) from the previous year.

TABLE 3

	2004	2003	Change
Land	\$452,494	\$452,494	\$0
Buildings	1,016,910	1,014,310	2,600
Treatment Facilities	2,614,429	2,605,783	8,646
Transmission & Storage	10,168,145	9,896,108	272,037
Vehicles	223,993	202,485	21,508
Furniture & Equipment	465,427	463,191	2,236
Construction in Progress	131,974	0	131,974
Total before Depreciation	15,073,372	14,634,371	439,001
Accumulated Depreciation	(3,106,283)	(2,762,108)	(344,175)
Total Capital Assets	<u>\$11,967,089</u>	<u>\$11,872,263</u>	<u>\$94,826</u>

The majority of the increase in capital assets for 2004 was in Transmission & Storage. Much of the increase is from waterline extensions. The increase in Construction in Progress is from the Casto (Wal-Mart) Project not completed by year's end. Total Capital Assets (before depreciation) from 2003 and 2004 increased \$0.439 million.

For additional information regarding capital assets, please see Note 6 of the *Notes to Basic Financial Statements*.

DEBT

The District issues long term debt to finance much of its construction. Rural Development Loans and bank loans were used to finance most general improvement projects.

For additional information regarding debt, please see Note 3 of the *Notes to Basic Financial Statements*.

Earnhart Hill Regional Water and Sewer District
Management's Discussion and Analysis
For the Year Ended December 31, 2004

DEBT (Continued)

Table 4

	2004	2003	Change
Savings Bank Loans	\$1,186,586	\$1,208,309	(\$21,723)
Rural Development Loans	5,573,086	5,674,232	(101,146)
Total Long Term Debt	\$6,759,672	\$6,882,541	(\$122,869)
Less			
Current Maturities	131,389	138,165	(6,776)
Net Total Long Term Debt	\$6,628,283	\$6,744,376	(\$116,093)

CASH

Cash and Cash Equivalents on December 31, 2004 were \$1.058 million. \$0.228 million of these funds are restricted for debt service reserves.

BUDGET vs. ACTUAL

EHRWSD's Board of Trustees adopts an Operating Budget annually in July for the next fiscal year. This budget is reviewed and revised, as necessary, and an appropriation measure is prepared and adopted in December.

Table 5 below is the District's Operating Budget for 2004 which compares budget amounts to actual results.

Table 5

	Original Budget	Amended	Actual	Variance Favorable (Unfavorable)
Operating Revenue	\$1,791,500	\$1,791,500	\$1,803,422	\$11,922
Operating Expenses	1,089,490	1,501,600	1,499,602	1,998
Excess of Operating Revenues over Expenses	702,010	289,900	303,820	13,920
Non Operating Revenue	232,600	571,000	426,275	(144,725)
Non Operating Expenses	338,400	338,400	330,351	8,049
Change in Net Assets	\$596,210	\$522,500	\$399,744	(\$122,756)

The District amended the budget in anticipation of needed additional appropriations for expected increased costs of treatment and power expenses. The amended budget also increased the estimate for depreciation.

Total operating revenues were \$12 thousand more than the budget. Most of the variance is a result of above normal inspection fees. Operating expenses were \$2 thousand more than the amended budget. Treatment expenses increased more than anticipated due to an emergency well repair. Total nonoperating revenues were \$145 thousand less than the budget. Most of the variance is due to lower than expected capital contributions. Total nonoperating expenses were \$8 thousand less than the budget. This variance was due to lower than expected interest expense on long-term debt.

Earnhart Hill Regional Water and Sewer District
Management's Discussion and Analysis
For the Year Ended December 31, 2004

ECONOMIC FACTORS and 2005 BUDGET

The District has projected an increase of \$0.277 million in net assets for the year ending December 31, 2005. The Casto Development (Wal-Mart) will be put into service in 2005. The development consists of a Super Wal-Mart and seven commercial lots. Expected revenue from this development is \$100 thousand per year once it is complete. Developers are proposing plans for three new subdivisions. Three Hundred additional customers are expected when these subdivisions are completed over the next three of years. \$500 thousand in donated water and sewer mains has been estimated for this year. The District's Board adopted increases in capacity charges effective January 1, 2005 and will also review rates during the 2005 fiscal year. A rate adjustment is scheduled for January 1, 2006. The amount of additional nonoperating revenue created by the increased capacity charges will be directly related to the number of new taps sold. If the number of taps sold in 2005 remains the same as 2004, an increase of \$80 thousand is expected.

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, 2030 Stoneridge Drive, Circleville, Ohio 43113-0151 or (740) 474-3114.

Earnhart Hill Regional Water and Sewer District
Statements of Net Assets
For the Years Ended December 31, 2004 and 2003

	2004	2003
CURRENT ASSETS		
Cash and cash equivalents	\$830,227	\$796,696
Accounts receivable	301,774	182,751
Inventories	93,338	65,945
Prepaid expenses	26,646	25,808
TOTAL CURRENT ASSETS	1,251,985	1,071,200
 NONCURRENT ASSETS		
Restricted Assets:		
Cash and cash equivalents - debt service reserve	227,937	204,312
TOTAL RESTRICTED ASSETS	227,937	204,312
Capital Assets:		
Land and Land Easements	452,494	452,494
Buildings	1,016,910	1,014,310
Treatment facilities	2,614,429	2,605,783
Transmission and storage	10,168,145	9,896,108
Vehicles	223,993	202,485
Furniture and equipment	465,427	463,191
Construction in progress	131,974	0
	15,073,372	14,634,371
Less: Accumulated depreciation (restated - note 14)	(3,106,283)	(2,762,108)
NET CAPITAL ASSETS	11,967,089	11,872,263
 TOTAL ASSETS	\$13,447,011	\$13,147,775

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

Earnhart Hill Regional Water and Sewer District
Statements of Net Assets - Continued
For the Years Ended December 31, 2004 and 2003

	2004	2003
CURRENT LIABILITIES		
Accounts payable	\$26,605	\$39,102
Prepaid taps & Main Line Extensions	89,104	0
Customer deposits	10,785	9,340
Insurance and taxes payable	8,429	10,158
Current portion of notes payable	24,829	23,638
Current portion of revenue bonds payable	106,560	114,527
Accrued payroll	16,536	14,216
Intergovernmental payable	30,146	30,181
Retainage payable	0	77,059
Accrued interest payable	32,255	11,443
TOTAL CURRENT LIABILITIES	345,249	329,664
LONG-TERM LIABILITIES		
Notes payable (net of current portion)	1,161,757	1,184,671
Revenue bonds payable (net of current portion)	5,466,526	5,559,705
TOTAL LONG-TERM LIABILITIES	6,628,283	6,744,376
TOTAL LIABILITIES	6,973,532	7,074,040
NET ASSETS		
Restricted for capital assets, net of related debt (restated - note 14)	5,207,417	4,989,722
Restricted for debt service	227,937	204,312
Unrestricted	1,038,125	879,701
TOTAL NET ASSETS	6,473,479	6,073,735
TOTAL LIABILITIES AND NET ASSETS	\$13,447,011	\$13,147,775

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, 2004 and 2003

	2004	2003
OPERATING REVENUES		
Service charges	\$1,729,047	\$1,571,031
Other	74,375	0
TOTAL OPERATING REVENUES	1,803,422	1,571,031
OPERATING EXPENSES		
Treatment expense	84,748	74,940
Power	99,836	78,126
Distribution	325,787	280,343
Customer accounting	141,848	136,196
Transportation	35,002	33,963
Fringe benefits	176,878	150,532
Depreciation and amortization	438,523	288,400
Administrative and general	196,980	171,385
TOTAL OPERATING EXPENSES	1,499,602	1,213,885
Operating income	303,820	357,146
NONOPERATING REVENUES (EXPENSES)		
Capacity charges	119,400	69,900
Tap fee revenue	43,600	44,100
Interest income	21,150	28,208
Main Extensions	0	27,112
Gain on sale of assets	23,592	850
Interest expense	(330,351)	(225,591)
Rental income	21,415	19,126
Net other income (expenses)	(101,194)	(36,295)
CHANGES IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	202,626	320,851
Capital Contributions - Intergovernmental	125,887	1,074,113
Capital Contributions - Developer Contributions	71,231	0
CHANGES IN NET ASSETS	399,744	1,394,964
NET ASSETS, BEGINNING OF YEAR	6,073,735	4,678,771
NET ASSETS, END OF YEAR	\$6,473,479	\$6,073,735

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, 2004 and 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$1,610,024	\$1,519,965
Cash paid for employee salaries and benefits	(651,368)	(436,885)
Cash payments to suppliers for goods and services	(526,942)	(663,892)
Cash received from other receipts	74,375	0
Net cash provided by operating activities	506,089	419,188
 CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Prepaid tap fees	16,500	0
Refundable line extensions	72,625	0
Deposits received	1,445	710
Net cash from non-capital and related financing activities	90,570	710
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Tap fees	43,600	44,100
Capacity charges	119,400	69,900
Main extensions	0	27,112
Rental income	21,415	19,126
Revenue bond principal payments	(101,146)	(80,717)
Revenue bond interest payments	(252,368)	(161,034)
Note principal payments	(21,723)	(22,443)
Note interest payments	(57,171)	(64,557)
Interim note principal payments	0	(3,600,000)
Cash received for sale of assets	5,727	850
Proceeds from insurance	62,465	0
Proceeds from USDA note	0	3,600,000
Proceeds from capital grant	125,887	1,074,113
Developer cash contributions	71,231	0
Capital outlay	(577,970)	(3,768,740)
Net cash used by capital and related financing activities	(560,653)	(2,862,290)
NET ASSETS, END OF YEAR		
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on cash and investments	21,150	28,208
Net increase (decrease) in cash and cash equivalents	57,156	(2,414,184)
Cash and cash equivalents, beginning of year	1,001,008	3,415,192
Cash and cash equivalents, end of year	\$1,058,164	\$1,001,008

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, 2004 and 2003

	2004	2003
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$303,820	\$357,146
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	438,523	288,400
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	(119,023)	(51,456)
Decrease (increase) in inventories	(27,393)	(26,498)
Decrease (increase) in prepaid expenses	(838)	(9,368)
Increase (decrease) in accounts payable (trade only)	(12,497)	(163,903)
Increase (decrease) in insurance and taxes payable	(1,729)	(1,214)
Increase (decrease) in accrued payroll	2,320	0
Increase (decrease) in intergovernmental payable	(35)	30,181
Increase (decrease) in retainage payable	(77,059)	0
Increase (decrease) in compensated absences payable	0	(4,100)
Total adjustments	202,269	62,042
Net cash provided by operating activities	\$506,089	\$419,188

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 Financial Statements

For the Year Ended December 31, 2004

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:

1. **Basis of Presentation - Fund Accounting**

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

This fund accounts for the governmental 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.

Earnhart Hill Regional Water and Sewer District

Notes to the Financial Statements

For the Year Ended December 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

2. **Basis of Accounting**

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

3. **Budgetary Process**

The Ohio Revised Code requires that each fund be budgeted annually. The District has adopted a budget and adopted and passed annual appropriations for the years ended December 31, 2004 and 2003.

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.

4. **Revenue Recognition**

Revenues for service fees are recorded in the period the service is provided. Revenue for tap fees are recorded when the taps have been installed and the customer is using the service. All other revenue is recognized when earned.

5. **Accounts Receivable**

Accounts receivable are presented at their net realizable value. Uncollectible account balances are certified to the County Auditor after administrative collection efforts have been exhausted.

6. **Restricted Assets**

As explained in Note 3, a restricted account was established for the required reserve for the Rural Development Loans and is recorded as a restricted asset in the accompanying financial statements.

7. **Capital Assets**

Capital Assets are presented at cost and are depreciated over the estimated useful lives of the assets from 5 to 50 years, depending upon the type of asset.

Depreciation is computed using the straight-line method for financial reporting purposes. Repairs and maintenance costs are charged to operations when incurred. Improvements and additions are capitalized.

8. **Cash and Cash Equivalents**

For purposes of the statement of cash flows, the District does not have any investments; so all cash balances are included in the statement of cash flows.

9. **Interest Expense**

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

10. **Interest Income**

Interest income represents earnings from all of the District's bank accounts.

Earnhart Hill Regional Water and Sewer District

Notes to the Financial Statements

For the Year Ended December 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

11. Inventory of Supplies

Inventories are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenses or capitalized when used.

12. Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond December 31, 2004 and 2003, 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.

13. Compensated Absences

The District uses the provisions of GASB Statement No. 16, *Accounting for 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, 2004 and 2003 and is not recorded in the accompanying basic financial statements. Sick leave benefits are not accrued as a liability as employees receive no payment for accrued sick leave upon termination or retirement.

14. Intergovernmental Payable

The District bills and collects sewer fees and penalties for Scippo Sewer District and 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, 2004.

15. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted for debt service reserves as required by the Rural Development Loan requirements. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

NOTE 3 - CURRENT AND LONG-TERM DEBT

Current and long-term debt at December 31, 2004 are as follows:

<u>Loan #</u>	<u>Payable To</u>	<u>Interest Rate</u>	<u>First Payment</u>	<u>Principal Term</u>	<u>Principal Due in 2005</u>	<u>Principal Due after 2005</u>
91-01	Rural Development	5.00%	10/1/1998	10 yrs.	\$24,913	\$80,956
93-02	Rural Development	5.00%	10/1/1998	16 yrs.	18,324	206,499
91-03	Rural Development	5.75%	10/1/1998	29 yrs.	4,960	213,651
91-04	Rural Development	6.625%	10/1/1998	33 yrs.	18,737	1,332,291
91-05	Rural Development	5.75%	10/1/1998	33 yrs.	2,075	125,567
91-06	Rural Development	4.25%	10/1/2003	39 yrs.	37,551	3,507,562
44972	The Savings Bank	5.29%	7/1/1999	30 yrs.	15,336	714,611
44973	The Savings Bank	5.29%	7/1/1999	30 yrs.	9,493	447,146
					<u>\$131,389</u>	<u>\$6,628,283</u>

Earnhart Hill Regional Water and Sewer District

Notes to the Financial Statements

For the Year Ended December 31, 2004

NOTE 3 - CURRENT AND LONG-TERM DEBT – Continued

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 financial statements. The debt listed above with the Savings Bank is a long-term loan. Principal and interest payments for all of the above listed debt are due on the 1st day of each month. Interest is calculated at the rates reflected above and payable for the terms described above. Future principal and interest payments on all debt are as follows:

Year	Savings Bank			Water System Revenue Bond		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$24,829	\$62,171	\$87,000	\$106,560	\$274,152	\$380,712
2006	26,174	60,826	87,000	112,094	268,618	380,712
2007	27,593	59,407	87,000	117,925	262,787	380,712
2008	28,922	58,078	87,000	121,638	257,382	379,020
2009	30,656	56,344	87,000	100,082	250,990	351,072
2010-2014	179,918	255,082	435,000	577,686	1,170,837	1,748,523
2015-2019	234,276	200,724	435,000	589,885	1,019,735	1,609,620
2020-2024	305,002	129,998	435,000	767,796	841,824	1,609,620
2025-2029	329,216	39,066	368,282	954,114	609,486	1,563,600
2030-2034	0	0	0	803,003	361,575	1,164,578
2035-2039	0	0	0	729,846	207,594	937,440
2040-2043	0	0	0	592,457	44,936	637,393
Totals	<u>\$1,186,586</u>	<u>\$921,696</u>	<u>\$2,108,282</u>	<u>\$5,573,086</u>	<u>\$5,569,916</u>	<u>\$11,143,002</u>

NOTED 4 - DEPOSITS WITH FINANCIAL INSTITUTIONS – LEGAL REQUIREMENTS

Active deposits are public deposits necessary to meet current demands on the Treasury. Such monies must be maintained either as cash in the District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Trustees has identified as not required for use within the current two-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 deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts. Interim monies can be deposited or invested in the following securities:

Earnhart Hill Regional Water and Sewer District

Notes to the Financial Statements

For the Year Ended December 31, 2004

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

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;
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 eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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. The District held no investments during fiscal years 2004 and 2003.

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. The carrying amounts of the District's deposits were \$1,058,164 and \$1,001,008 as of December 31, 2004 and 2003, respectively. The District's bank balances were \$1,232,446 and \$1,089,219 as of December 31, 2004 and 2003, respectively. Of the bank balances for each of the fiscal years ended, \$200,000 were covered by federal depository insurance. The remaining amounts were collateralized by specific investments held by a third party trustee in the name of the District.

Earnhart Hill Regional Water and Sewer District

Notes to the Financial Statements

For the Year Ended December 31, 2004

NOTE 5 - CHANGE IN ACCOUNTING PRINCIPLES

GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, were adopted by the District effective January 1, 2004. GASB 34 creates new basic financial statements for reporting on the District’s financial activities. The financial statements now include statements of net assets, statements of revenues, expenses and changes in net assets, and statements of cash flows all prepared on the accrual basis of accounting. The accompanying financial statements for 2003 have been restated for comparative purposes. The net changes to the 2003 financial statements relate to the net assets at the beginning of the year and the end of the year containing the sum of retained earnings and contributed capital previously reported as of December 31, 2003 and 2002, respectively.

NOTE 6- CAPITAL ASSETS

Capital assets activity for the fiscal year ended December 31, 2004 was as follows:

	Restated Ending Balance 12/31/03	Additions	Deletions	Ending Balance 12/31/04
Capital Assets, Not Being Depreciated				
Land and Land Easements	\$452,494	\$0	\$0	\$452,494
Construction in Progress	0	131,974	0	131,974
Total Capital Assets, Not Being Depreciated	452,494	131,974	0	584,468
Capital Assets Being Depreciated				
Buildings	1,014,310	2,600	0	1,016,910
Treatment Facilities	2,605,783	38,646	(30,000)	2,614,429
Transmission & Storage	9,896,108	272,037	0	10,168,145
Vehicles	202,485	50,738	(29,230)	223,993
Furniture and Equipment	463,191	81,975	(79,739)	465,427
Total Capital Assets, Being Depreciated	14,181,877	445,996	(138,969)	14,488,904
Less Accumulated Depreciation:				
Buildings	(152,085)	(34,600)	0	(186,685)
Treatment Facilities	(861,714)	(106,326)	30,000	(938,040)
Transmission & Storage	(1,438,368)	(223,784)	0	(1,662,152)
Vehicles	(116,238)	(35,976)	28,790	(123,424)
Furniture and Equipment	(193,703)	(37,837)	35,558	(195,982)
Total Accumulated Depreciation	<u>(2,762,108)</u>	<u>(438,523)</u>	<u>94,348</u>	<u>(3,106,283)</u>
Total Capital Assets Being Depreciated, Net	<u>11,419,769</u>	<u>7,473</u>	<u>(44,621)</u>	<u>11,382,621</u>
Total Capital Assets, Net	<u>\$11,872,263</u>	<u>\$139,447</u>	<u>(\$44,621)</u>	<u>\$11,967,089</u>

Earnhart Hill Regional Water and Sewer District

Notes to the Financial Statements

For the Year Ended December 31, 2004

NOTE 7 - DEFINED BENEFIT RETIREMENT PLAN

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described below:

1. The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan.
2. The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.
3. The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by OPERS to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, and survivor benefits as well as postretirement health care coverage to qualifying members of both 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 state statute per Chapter 145 of the Ohio Revised Code.

The Ohio Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2004, member and employer contribution rates were consistent across all three plans. Separate divisions for law enforcement and public safety exist only within the Traditional Pension Plan.

The 2004 member contribution rates were 8.5% for the District.

The 2004 employer contribution rate for the District was 13.55% of covered payroll.

The District's contributions to OPERS for the years ended December 31, 2004, 2003, and 2002, were \$104,095, \$94,626, and \$86,667, respectively. These contributions were equal to the required contributions for fiscal years 2004 and 2003. The unpaid amount of \$8,429 for the year ended December 31, 2004 was reported as a liability as of December 31, 2004.

NOTE 8 - POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS provides retirement, disability, and survivor benefits as well as postretirement health care coverage to qualifying members of both the Traditional and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage.

Earnhart Hill Regional Water and Sewer District

Notes to the Financial Statements

For the Year Ended December 31, 2004

NOTE 8 - POSTEMPLOYMENT BENEFITS - Continued

In order to qualify for post-retirement health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS is considered to be an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12.

A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. For local government employer units, the rate was 13.55% of covered payroll for both fiscal years 2004 and 2003; 4.0% was used to fund health care for the year 2004 and 5.0% was used to fund health care for the year 2003.

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

Summary of Assumptions:

Actuarial Review - The assumptions and calculations below were based on OPERS' latest Actuarial Reviews performed as of December 31, 2003.

Funding Method - An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

Assets Valuation Method - All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets annually.

Investment Return - The investment assumption rate for 2003 was 8.00%.

Active Employee Total Payroll - An annual increase of 4.0%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from .50% to 6.30%.

Health Care - Health care cost were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

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

1. The number of active contributing participants in the Traditional Pension and Combined Plans totaled 369,885 for 2004 and 364,881 for 2003.
2. The employer contributions that were used to fund postemployment benefits were \$38,411 for 2004 and \$34,868 for 2003.
3. \$10.0 billion represents the actuarial value of OPERS' net assets available for OPEBs at December 31, 2003.
4. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion, respectively.

OPERS Retirement Board adopts a Health Care Preservation Plan.

Earnhart Hill Regional Water and Sewer District

Notes to the Financial Statements

For the Year Ended December 31, 2004

NOTE 8 - POSTEMPLOYMENT BENEFITS - Continued

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

NOTE 9 - ACCOUNTS RECEIVABLE

Following are accounts receivable balances presented by aging classifications as of December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Current receivables (0-30 days)	\$176,838	\$157,193
Delinquent receivables (31-60 days)	25,632	12,070
Delinquent receivables (over 60 days)	38,696	13,488
Total accounts receivables	<u>\$241,166</u>	<u>\$182,751</u>

As of December 31, 2004, the District also had miscellaneous receivables totaling \$60,608.

NOTE 10 - 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 2004 and 2003, the District contracted with Rinehart-Walters-Danner & Associates and the Ohio Plan for liability, property, and related insurance.

Coverages provided by the program are as follows:

General Liability	\$3,000,000 per occurrence and \$5,000,000 aggregate
Public Officials	\$3,000,000 per occurrence and \$5,000,000 aggregate
Automobile	\$3,000,000
Property, Boiler and Machinery	\$6,761,149
Inland Marine	\$144,452
Electronic Media	\$176,957
Faithful Performance and Employee Bond	\$500,000

There have been no claims that exceed commercial insurance coverage during the past three years. There have been no significant changes in coverage from the prior year. United Health Care provides health insurance.

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

Earnhart Hill Regional Water and Sewer District

Notes to the Financial Statements

For the Year Ended December 31, 2004

NOTE 11 - OHIO REVISED CODE 5705 COMPLIANCE

Budgetary activity for the years ended December 31, 2004 and 2003, follows:

	<u>Budgeted vs. Actual Receipts</u>	
	<u>2004</u>	<u>2003</u>
Budgeted Receipts	\$2,362,500	\$2,871,600
Actual Receipts	<u>2,229,697</u>	<u>2,834,440</u>
Variance	<u>(\$132,803)</u>	<u>(\$37,160)</u>

	<u>Budgeted vs. Actual Budgetary Basis Expenditures</u>	
	<u>2004</u>	<u>2003</u>
Appropriation Authority	\$1,840,000	\$1,481,680
Budgetary Expenditures	<u>1,829,953</u>	<u>1,439,476</u>
Variance	<u>\$10,047</u>	<u>\$42,204</u>

NOTE 12 - PENDING LITIGATION

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

There was no material litigation pending or outstanding as of December 31, 2004 and 2003 that management believes might have a significant affect on the accompanying financial statements.

NOTE 13 - FEDERAL FINANCIAL ASSISTANCE

During fiscal years 2004 and 2003, the District had outstanding loans (CFDA # 10.760) with the United States Department of Agriculture – Rural Development. The outstanding loan balances were \$5,573,086 and \$5,674,387 as of December 31, 2004 and 2003, respectively. The District did expend \$125,887 (grant monies) in federal financial assistance during fiscal year 2004 and \$3,401,057 in federal financial assistance during fiscal year 2003. The District believes that it complied with all requirements of the loan agreements during the fiscal years presented.

NOTE 14 – RESTATEMENT OF NET ASSETS

Net assets and accumulated depreciation required restatement due to an error noted in accumulated depreciation balances. Changes noted as followed:

<u>Account Classification</u>	<u>Ending Balances, December 31, 2003</u>	<u>Restatements</u>	<u>Beginning Balances, January 1, 2004</u>
Accumulated Depreciation	\$2,818,390	(\$56,282)	\$2,762,108
Invested in Capital Assets, Net of Related Debt	\$4,933,440	\$56,282	\$4,989,722

BALESTRA, HARR & SCHERER CPAs, INC.

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

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

Member American Institute of Certified Public Accountants

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based On an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited the accompanying financial statements of Earnhart Hill Regional Water and Sewer District (the District), Pickaway County, as of and for the years ended December 31, 2004 and 2003, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated May 5, 2005, in which we indicated the District implemented Governmental Accounting Standards Board Statements No. 34, 37, 38, and Interpretation 6. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulation, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no material instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Board of Trustees
Earnhart Hill Regional Water and Sewer District

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance With *Government Auditing Standards*

Page 2

This report is intended solely for the information and use of the management and Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

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

Balestra, Harr & Scherer, CPAs, Inc.
May 5, 2005