



**SCIPPO SEWER DISTRICT
PICKAWAY COUNTY**

REGULAR AUDIT

**FOR THE YEARS ENDED DECEMBER 31, 2004
AND DECEMBER 31, 2003**



**Auditor of State
Betty Montgomery**

**SCIPPO SEWER DISTRICT
PICKAWAY COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Scippo Sewer District
Pickaway County
P.O. Box 422
Circleville, Ohio 43113

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Scippo Sewer District, Pickaway County, Ohio, (the District), as of and for the years ended December 31, 2004 and December 31, 2003, 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 that our audit provides a reasonable basis for our opinion.

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

As described in Note K, during the year ended December 31, 2004, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

The accompanying financial statements have been prepared assuming that the District will continue as a going concern. As discussed in Note J to the financial statements, the District's net operating loss at December 31, 2004 and December 31, 2003 respectively of (\$540,076) and (\$286,841), negative net assets of (\$989,885) and (\$449,809), and its default on the note with OWDA raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

October 31, 2005

**SCIPPO SEWER DISTRICT
PICKAWAY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

The discussion and analysis of the Scippo Sewer District's financial performance provides an overall review of the District's financial activities for the fiscal year ended December 31, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the financial statements and notes to those respective statements to enhance their understanding of the District's financial performance.

Financial Highlights

The liabilities of the District exceeded the assets on December 31, 2004 by \$989,885.

The District's net assets decreased by \$540,076, which represents a 120 percent decrease.

The District's operating revenues increased by \$5,187 or 4.1 percent. Operating expenses increased by \$8,762 or 2.4 percent

Using this Financial Report

This annual report consists of a series of financial statements. These statements are organized so the reader can understand the financial position of the District. Enterprise accounting uses a flow of economic resources measurement focus, which is similar to that which is used by most private-sector companies. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of net assets represents the basic statement of position for the District. The statement of revenues, expenses and changes in net assets presents increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. The change in net assets is important because it tell the reader whether the financial position of the District has increased or decreased during the period. The statement of cash flows reflects how the District finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Statement of Net Assets

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

Table 1

	<u>2004</u>	<u>2003</u>
Current and Other Assets	\$1,946,140	\$1,974,343
Capital Assets	3,351,890	3,530,499
Total Assets	5,298,030	5,504,842
Long Term Liabilities	5,445,911	5,360,206
Other Liabilities	842,004	594,445
Total Liabilities	6,287,915	5,954,651
Net Assets		
Invested in Capital Assets, Net of Related Debt	(1,254,215)	(987,692)
Unrestricted	264,330	537,883
Total Net Assets	(\$989,885)	(\$449,809)

**SCIPPO SEWER DISTRICT
PICKAWAY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
UNAUDITED
(Continued)**

Current and other assets remained relatively stable between 2003 and 2004.

Capital Assets decreased due to additional depreciation expense.

Other Liabilities increased \$247,559 or 41.6 percent. This increase is due to the additional interest that is accruing on the District's OWDA loan, as the District has defaulted on this note.

Invested in Capital Assets, Net of Related Debt decreased by \$266,523 or 27%. This is due to the increased liability for the OWDA loan and due to depreciation.

Unrestricted net assets decreased by \$273,553 or 50.9 percent. Unrestricted assets may be used without constraints established by bond covenants or other legal requirements. Due to the District's inability to meet their current obligations with current assets, the District has been utilizing these assets which have been accumulated since the creation of the District.

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.

	2004	2003
Operating Revenues	\$132,469	\$127,282
Total Operating Revenues	132,469	127,282
Operating Expenses (Excluding Depreciation and Amortization)	184,106	175,565
Depreciation and Amortization Expenses	185,587	185,366
Total Operating Expenses	369,693	360,931
Operating Loss	(237,224)	(233,649)
Non-Operating Revenues	65,066	71,284
Non-Operating Expenses	367,918	298,010
Capital Contributions	0	173,534
Changes in Net Assets	(540,076)	(286,841)
Net Assets at Beginning of Year	(449,809)	(162,968)
Net Assets at End of Year	(\$989,885)	(\$449,809)

Operating revenues increased \$5,187 or 4.1 percent. This increase was a result of general rate increases.

**SCIPPO SEWER DISTRICT
PICKAWAY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
UNAUDITED
(Continued)**

Non-Operating expenses increased by \$68,908 or 23.5 percent. This increase is due to late payment penalties assessed to the District during 2004 due to the District being in default on their OWDA loan.

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. There were no capital contributions in 2004 as compared to \$173,534 in 2003.

Capital Assets

The District had \$4,748,023 invested in Capital Assets (before depreciation) at the end of 2004. This amount is an increase of \$5,509 to the cost of planning and constructing the sewer system.

The decrease in net capital assets is primarily due to depreciation expense in 2004. Please see Note E to the basic financial statements for additional information regarding capital assets.

Table 3 provides a summary of the District's Capital Assets for 2004 and 2003:

Table 3

	2004	2003
Land	\$99,819	\$99,819
Land Easements	9,429	9,429
General Equipment	2,780	2,780
Cost of Planning and Constructing		
Sewer System	4,452,183	4,446,674
Owens Road	134,836	134,836
Industrial Pretreatment Program	4,912	4,912
Cross Mounds Project	3,043	3,043
Earnhart Connection	945	945
Sewers to DuPont	40,076	40,076
Totals Before Accumulated Depreciation	4,748,023	4,742,514
Accumulated Depreciation	(1,396,133)	(1,212,015)
Net Capital Assets	\$3,351,890	\$3,530,499

Debt

The District issued long-term debt through the Ohio Water Development Authority (OWDA) to finance much of its construction. An additional loan was obtained through the Ohio Rotary Commission to assist in financing the construction. The District has also secured a line of credit through The Savings Bank to provide funding for the District's operating costs.

**SCIPPO SEWER DISTRICT
PICKAWAY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
UNAUDITED
(Continued)**

Table 4 summarizes the District's outstanding debt as of December 31, 2004 and December 31, 2003.

Table 4

	<u>2004</u>	<u>2003</u>
Ohio Water Development Authority (OWDA)	\$3,784,139	\$3,696,225
Water and Sewer Rotary Commission Loan	821,966	821,966
Savings Bank Loan	<u>149,886</u>	<u>149,886</u>
Total Debt	4,755,991	4,668,077

The District made a \$15,000 principal payment during 2004. This amount was used to offset certain late fees which were added by OWDA to the District's existing OWDA loan balance due to the District's late payments. Please see Notes F and G to the basic financial statements for additional information regarding debt.

The Savings bank debt have been classified as short term debt on the District's financial statements since the District may be required to pay the entire balance of this debt agreement within the next year.

The Rotary Commission debt has been classified as long term debt on the District's financial statements since the District should not be required to pay any portion of this debt agreement within the next year.

Cash

Cash and cash equivalents were \$97,128 on December 31, 2004, which represents a \$3,991 increase from 2003.

Current Financial Related Activities

The District has been unable to make their required debt payments to the Ohio Water Development Authority. The District has not been able to make any payments on this loan since September 2004. The future consequences of this are currently unknown. Please see note J to the basic financial statements for additional information regarding the District's ability to continue operations.

Contract Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions regarding this report and requests for additional information should be forwarded to Roberta Morrison, Clerk, Scippo Sewer District, P.O. Box 422, Circleville, Ohio 43113.

**SCIPPO SEWER DISTRICT
PICKAWAY COUNTY
STATEMENT OF NET ASSETS
DECEMBER 31, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 97,128	\$ 93,137
Accounts receivable - operating billings	10,458	16,801
TOTAL CURRENT ASSETS	<u>107,586</u>	<u>109,938</u>
NONCURRENT ASSETS		
Capital assets, not being depreciated	109,248	109,248
Depreciable capital assets - net	3,242,642	3,421,251
Other Assets:		
Prepaid insurance	1,833	1,543
Loan fees, net of accumulated amortization of \$11,872 and \$10,403 for 2004 and 2003	20,695	22,164
Assessment receivables - planning and construction	1,816,026	1,840,698
TOTAL OTHER ASSETS	<u>1,838,554</u>	<u>1,864,405</u>
TOTAL ASSETS	<u>\$ 5,298,030</u>	<u>\$ 5,504,842</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 17,590	\$ 29,432
Savings Bank Notes Payable	149,886	149,886
Contractor bonds payable	5,360	5,360
OWDA note payable	65,410	63,201
Accrued interest	603,758	346,566
TOTAL CURRENT LIABILITIES	<u>842,004</u>	<u>594,445</u>
NONCURRENT LIABILITIES		
OWDA note payable - net of current portion	3,718,729	3,633,024
Water and Sewer Rotary Commission note payable	821,966	821,966
Deferred revenue - planning agricultural	55,878	55,878
Deferred revenue - construction agricultural	849,338	849,338
TOTAL NONCURRENT LIABILITIES	<u>5,445,911</u>	<u>5,360,206</u>
TOTAL LIABILITIES	<u>6,287,915</u>	<u>5,954,651</u>
NET ASSETS		
Invested in capital assets, net of related debt	(1,254,215)	(987,692)
Unrestricted	264,330	537,883
TOTAL NET ASSETS	<u>\$ (989,885)</u>	<u>\$ (449,809)</u>

See accompanying notes to the basic financial statements.

**SCIPPO SEWER DISTRICT
PICKAWAY COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	2004	2003
OPERATING REVENUES		
Service fee income	\$ 132,469	\$ 127,282
OPERATING EXPENSES		
Trustee fees	3,975	4,650
Contract labor	9,615	9,985
Operations and testing of plant/billing fees	30,896	32,417
Sludge Hauling	175	100
Repairs and maintenance	3,372	2,705
Engineering	32,414	36,692
Legal	76,704	59,914
Accounting and audit	5,120	13,626
Insurance	7,580	5,454
Telephone	824	726
Utilities	12,311	8,732
Licenses	600	377
Postage	75	75
Office supplies	9	0
Advertising and communication	376	99
Bank service fees	60	13
Depreciation	184,118	183,897
Amortization	1,469	1,469
Total operating expenses	369,693	360,931
Operating loss	(237,224)	(233,649)
NON-OPERATING REVENUES (EXPENSES)		
Interest income - assessments	62,846	67,222
Interest income - Depository Account	1,025	2,882
Contractor licenses	45	30
Rental income	1,150	1,150
Interest and fiscal charges expense	(367,918)	(298,010)
Net non-operating revenues (expenses)	(302,852)	(226,726)
Changes in Net Assets before Capital Contributions	(540,076)	(460,375)
Capital Contributions - Customers	-	173,534
CHANGES IN NET ASSETS	(540,076)	(286,841)
NET ASSETS, BEGINNING OF YEAR (AS RESTATED)	(449,809)	(162,968)
NET ASSETS, END OF YEAR	\$ (989,885)	\$ (449,809)

See accompanying notes to the basic financial statements.

**SCIPPO SEWER DISTRICT
PICKAWAY COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 138,812	\$ 115,437
Cash payments to suppliers for goods and services	(182,663)	(137,708)
Cash payments for clerk and trustees	(13,575)	(14,635)
Net cash used for operating activities	<u>(57,426)</u>	<u>(36,906)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Rental income	1,150	1,150
Contractor licenses	45	30
OWDA principal payments	(15,000)	(21,327)
OWDA interest payments	-	(33,673)
Savings Bank Loan interest payment	(7,812)	(7,538)
Proceeds from Dupont	-	1,535
Special assessments collections	24,672	28,353
Special assessment interest income	62,846	67,222
Capital outlay	(5,509)	(190,382)
Net cash provided by/(used) by capital and related financing activities	<u>60,392</u>	<u>(154,630)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on cash	<u>1,025</u>	<u>2,882</u>
Net increase/(decrease) in cash and cash equivalents	3,991	(188,654)
Cash and cash equivalents at beginning of year	<u>93,137</u>	<u>281,791</u>
Cash and cash equivalents at end of year	<u>\$ 97,128</u>	<u>\$ 93,137</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities:		
Operating loss	\$ (237,224)	\$ (233,649)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation and Amortization	185,587	185,366
Changes in assets and liabilities:		
Decrease/(Increase) in accounts receivable	6,343	(11,845)
Decrease in prepaid insurance	(290)	(1,245)
Increase/(Decrease) in accounts payable	(11,842)	24,467
Total adjustments	<u>179,798</u>	<u>196,743</u>
Net cash used by operating activities	<u>\$ (57,426)</u>	<u>\$ (36,906)</u>

See accompanying notes to the basic financial statements.

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**SCIPPO SEWER DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

NOTE A – NATURE OF ORGANIZATION

Scippo Sewer District, hereafter referred to as (the District), was created by the Court of Common Pleas of Pickaway County in accordance with the provisions of Section 6119 of the Revised Code to provide sewer services to the residents of the surrounding townships. The District is managed by a Board comprised of five appointed trustees.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 the District, this includes general operations and sewer related activities of 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 that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District has no component units.

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 follows:

1. Basis of Presentation - Fund Accounting

The accounts of the District are organized on the basis of funds, to report on its financial position and the results of its operations, 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 governmental resources allocated to it for the purpose of carrying on specific activities in accordance with laws, regulations or other restrictions. The fund type used by the District 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.

**SCIPPO SEWER DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES - Continued

2. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements.

For financial statement presentation purposes, the District utilizes the accrual basis of accounting. Under this method of accounting, revenues are recognized when they are earned.

Expenses are recognized under the accrual basis of accounting when the liability is incurred.

The proprietary fund is accounted for on a flow of economic resources and all assets and liabilities associated with the operation are included on the Statement of Net Assets

3. Budgetary Process

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

Appropriations - Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The District must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year-end.

Estimated Resources - Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1.

Encumbrances - The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made.

The District did not use the encumbrance method of accounting, or certify that funds were available prior to obligating funds.

On March 8, 2000, the Governor signed Substitute House Bill 262, regarding water and sewer district compliance with ORC 5705 budgetary and appropriation requirements. The Bill was effective June 8, 2000, and exempts the districts from reporting budget information to the County Auditor or County Budget Commission. For the State of Ohio audit purposes, it does not exempt districts from complying with the budgetary, appropriation, and encumbrance requirements.

4. Revenue Recognition

Revenue for service fees is 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 sewer services. All other revenues are recognized when earned. The District did not have any new tap in fees during 2004 and 2003.

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

**SCIPPO SEWER DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES - Continued

4. Revenue Recognition (Continued)

Special assessments for which there is an enforceable legal claim as of December 31, 2004 and December 31, 2003, but cannot be collected until the agricultural status of the land changes, are recorded as deferred revenue.

5. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the District. For the District, operating revenues are those received by the District for sewer services provided to customers. Operating expenses are necessary costs incurred to provide services that are the primary activity of the District. Revenues and expenses not meeting these definitions are reported as non-operating.

6. Cash and Cash Equivalents

For financial statement purposes, the District considers all cash on hand, deposits, and short term investments with maturities of three months or less from the date of acquisition to be cash and cash equivalents.

7. Accounts Receivable

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

8. Capital Assets

Capital assets are stated at cost and are depreciated over the estimated useful lives of the assets, which is designated at 25 years for planning and construction costs. In addition, interest costs incurred during the construction of the sewer system are capitalized and included in capital assets. When construction was completed and the project became operational, depreciation began December 1, 1996. All planning costs, construction costs, loan fees, and capitalized interest are depreciated over the useful life of the asset. Depreciation is computed using the straight-line method for financial reporting purposes. Depreciation expense for 2004 and 2003 was \$184,118 and \$183,897 respectively.

9. Amortization

Loan fees are being amortized over the life of each loan beginning on the first date that the project was fully operational, which was December 1, 1996. Amortization is computed using the straight-line method for financial statement reporting purposes. Loan cost amortization expense charged to operations for 2004 and 2003 was \$1,469 each year.

10. Income Tax

The District operates as a public sewer system exempt from federal income tax under Internal Revenue Code Section 501(c)(1).

**SCIPPO SEWER DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES - Continued

11. Interest Expense

Interest expense represents the interest portion of planning and construction loan payments to the Ohio Water Development Authority and interest payments on the loan payable to The Savings Bank.

12. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

13. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists 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 when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. The District has no restricted net assets.

14. Prepaid Items

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 provided.

NOTE C – CASH AND CASH EQUIVALENTS

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

Inactive deposits are public deposits that the Board of Trustees has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bond 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.

**SCIPPO SEWER DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

NOTE C – CASH AND CASH EQUIVALENTS - Continued

Interim monies can be deposited or invested in the following securities:

1. United States Treasury 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.

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 following information classifies deposits by categories of risk as defined in GASB Statement No. 3, *"Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements."* The District held no investments during fiscal year 2004 or 2003.

All of the District's deposits as the balance sheet dates were insured with the Federal Depository Insurance Corporation.

**SCIPPO SEWER DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

NOTE C – CASH AND CASH EQUIVALENTS - Continued

Deposits - The carrying amount of cash and cash equivalents at December 31, 2004 and 2003 was as follows:

	2004	2003
SCIPPO carrying amount of deposits	\$ 97,128	\$ 93,137
Bank carrying amount of deposits	\$ 97,653	\$ 94,257
Insured by the FDIC	\$ 97,653	\$ 94,257

NOTE D – ASSESSMENTS RECEIVABLE

Assessment receivables are from the planning and construction costs for the sewer line and the issuance of final assessments to residents to cover those costs. The receivables are guaranteed through property tax billing.

The details for the fiscal year ended December 31, 2004 are as follows:

	<u>Total Assessment</u>	<u>Principal Collected From Prepaids and Auditor</u>	<u>Ending Receivable Balance</u>	<u>Percent Collected</u>
Planning assessments	\$ 609,222	\$ 551,679	\$ 57,543	90.6%
Construction assessments	2,074,547	316,064	\$ 1,758,483	15.2%

The details for the fiscal year ended December 31, 2003 were as follows:

	<u>Total Assessment</u>	<u>Principal Collected From Prepaids and Auditor</u>	<u>Ending Receivable Balance</u>	<u>Percent Collected</u>
Planning assessments	\$ 609,222	\$ 551,257	\$ 57,965	90.5%
Construction assessments	2,074,547	291,814	1,782,733	14.1%

Assessment receivable balances at December 31, 2004 and December 31, 2003 include deferred agricultural property assessments of \$55,878 and \$849,338 for planning and construction, respectively. 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. The Water and Sewer Rotary Commission loan of \$821,966 was obtained to enable the District to make debt service payments on OWDA loans while these properties remain in agricultural status.

**SCIPPO SEWER DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

NOTE E – CAPITAL ASSETS

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

	Ending Balance 12/31/03	Additions	Deletions	Ending Balance 12/31/04
Capital Assets, Not Being Depreciated				
Land	\$99,819	\$0	\$0	\$99,819
Land Easements	9,429	0	0	9,429
Total Capital Assets, Not Being Depreciated	109,248	0	0	109,248
Depreciable Capital Assets				
General Equipment	2,780	0	0	2,780
Cost of Planning & Constructing Sewer System	4,446,674	5,509	0	4,452,183
Owens Road	134,836	0	0	134,836
Industrial Pretreatment Program	4,912	0	0	4,912
Cross Mounds Project	3,043	0	0	3,043
Earnhart Connection	945	0	0	945
Sewers to DuPont	40,076	0	0	40,076
Total Depreciable Capital Assets	4,633,266	5,509	0	4,638,775
Less Accumulated Depreciation:				
General Equipment	(1,973)	(556)	0	(2,529)
Cost of Planning & Constructing Sewer System	(1,192,423)	(178,232)	0	(1,370,655)
Owens Road	(11,274)	(3,371)	0	(14,645)
Industrial Pretreatment Program	(620)	(196)	0	(816)
Cross Mounds Project	(426)	(122)	0	(548)
Earnhart Connection	(134)	(38)	0	(172)
Sewers to DuPont	(5,165)	(1,603)	0	(6,768)
Total Accumulated Depreciation	(1,212,015)	(184,118)	0	(1,396,133)
Total Depreciable Capital Assets, Net	3,421,251	(178,609)	0	3,242,642
Total Capital Assets	\$3,530,499	(\$178,609)	\$0	\$ 3,351,890

**SCIPPO SEWER DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

NOTE E – CAPITAL ASSETS- Continued

Capital asset activity for the fiscal year ended December 31, 2003 was as follows:

	Ending Balance 12/31/02	Additions	Deletions	Ending Balance 12/31/03
Capital Assets, Not Being Depreciated				
Land	\$99,819	\$0	\$0	\$99,819
Land Easements	9,429	0	0	9,429
Total Capital Assets, Not Being Depreciated	109,248	0	0	109,248
Depreciable Capital Assets				
General Equipment	2,780	0	0	2,780
Cost of Planning & Constructing Sewer System	4,256,294	190,380	0	4,446,674
Owens Road	134,836	0	0	134,836
Industrial Pretreatment Program	4,913	0	0	4,913
Cross Mounds Project	3,043	0	0	3,043
Earnhart Connection	945	0	0	945
Sewers to DuPont	40,076	0	0	40,076
Total Depreciable Capital Assets	4,442,887	190,380	0	4,633,267
Less Accumulated Depreciation:				
General Equipment	(1,418)	(557)	0	(1,975)
Cost of Planning & Constructing Sewer System	(1,014,412)	(178,011)	0	(1,192,423)
Owens Road	(7,903)	(3,371)	0	(11,274)
Industrial Pretreatment Program	(423)	(196)	0	(619)
Cross Mounds Project	(304)	(122)	0	(426)
Earnhart Connection	(96)	(38)	0	(134)
Sewers to DuPont	(3,562)	(1,603)	0	(5,165)
Total Accumulated Depreciation	(1,028,118)	(183,898)	0	(1,212,016)
Total Depreciable Capital Assets, Net	3,414,769	6,482	0	3,421,251
Total Capital Assets	\$3,524,017	\$6,482	\$0	\$ 3,530,499

**SCIPPO SEWER DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

NOTE F – DEBT

The note payable to the Ohio Water Development Authority, bears an annual interest rate of 6.87% and term of 30 years. This note was issued to finance the planning and construction costs of the District's waste water treatment and disposal facility. Including capitalized interest for previous planning and current construction loans of \$317,703, the balances owed, as of December 31, 2004 and December 31, 2003 were \$3,784,139 and \$3,696,225, respectively.

Future payments of principal and interest are as follows, including interest of \$3,736,076:

	Principal	Interest	Total
2005	\$65,410	\$249,208	\$314,618
2006	69,980	244,638	314,618
2007	74,871	239,747	314,618
2008	80,103	234,515	314,618
2009	85,700	228,918	314,618
2010-2014	527,153	1,045,937	1,573,090
2015-2019	738,945	834,145	1,573,090
2020-2024	1,035,827	537,263	1,573,090
2025-2027	1,106,150	121,705	1,227,855
Total	\$3,784,139	\$3,736,076	\$7,520,215

The residents of the District guarantee the District's indebtedness. By state charter, in the event of default, residents will be assessed for the debt outstanding.

The District secured a line of credit with the Savings Bank with a maximum available loan amount of \$150,000 for a period of four years with an interest rate of 4.9%. This line of credit was obtained to aid the District in paying their operating costs. The loan balance outstanding at December 31, 2004 was \$149,886. This balance is due on June 21, 2006.

Since 2001, the District has been unable to make their regular semi-annual debt payments of \$314,618 for their Ohio Water Development Authority (OWDA) loan. For the year ending December 31, 2003, the District made three payments totaling \$55,000. Of these payments, \$21,326.87 was applied to principal and the remaining portion was applied to interest. For the year ending December 31, 2004, the District made one payment of \$15,000. This amount was used to offset certain late fees which are added to the principle balance by OWDA. As of the date of this report, the District has not made any additional debt payments on this issuance.

NOTE G – LOAN FROM WATER AND SEWER ROTARY COMMISSION

An \$821,966 long-term note is payable to the Water and Sewer Rotary Commission with no annual interest rate. The term is in as long as the properties listed as agricultural status pertaining to this loan do not change. If such properties do not qualify as agricultural status their assessment is collected by the District and payable to the Water and Sewer Rotary Commission within ten days after the status has changed. The agreement was entered into on June 6, 1995. No amortization schedule is provided for this note. There were no payments due to the Water and Sewer Rotary Commission for the fiscal years ended December 31, 2004 and December 31, 2003.

**SCIPPO SEWER DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

NOTE H – CONTINGENT LIABILITIES

Legal counsel for the District is the law firm of Schottenstein, Zox & Dunn (SZD).

The District is party to legal proceedings. This lawsuit was subsequently settled on January 20, 2005 with a stipulated judgment entry on May 10, 2005. See Note L concerning this subsequent event.

NOTE I – RISK MANAGEMENT

The District belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 500 Ohio governments ("Members").

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages, modified for each Member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the Member's deductible.

The Plan issues its own policies and reinsures the Plan with A- VII or better rated carriers, except for the 5% portion retained by the Plan. After September 1, 2003, the Plan pays the lesser of 5% or \$25,000 of casualty losses and the lesser of 5% or \$50,000 of property losses. The individual members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31:

	<u>2004</u>	<u>2003</u>
Assets	\$6,685,522	\$5,402,167
Liabilities	\$2,227,808	\$1,871,123
Members' Equity	\$4,457,714	\$3,531,044

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, www.ohioplan.org.

NOTE J – GOING CONCERN

The District incurred net losses in 2004 and 2003 of (\$540,076) and (\$286,841), respectively. The District also incurred negative net assets in 2004 and 2003 of (\$989,885) and (\$449,809), respectively. The annual OWDA loan payment of \$314,618, is to be paid from annual assessment collections from the County Auditor property tax billings of \$89,000, with the remaining \$225,618 to be paid from operating revenues. However, the District's operating revenues are significantly less than the required debt payments. This shortage of funds does not allow the District to make the annual payments. During fiscal years 2004 and 2003, the District made payments of \$15,000 and \$55,000, respectively. However these payments were used to offset penalties applied to the principle by OWDA.

It appears that the District's ability to continue as a going concern may be jeopardized due to the above mentioned factors. Additionally, the District is projecting an operating loss for fiscal year 2005.

Remedial efforts by the District are and have continued to be to increase the District's customer base. However, attempts to date have been unsuccessful.

**SCIPPO SEWER DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

NOTE K – CHANGE IN ACCOUNTING PRINCIPLES

For the fiscal year ended December 31, 2004, the District implemented 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*, GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. At December 31, 2003, there was no effect on the financial statements as a result of implementing GASB Statement Nos. 37, 38 and 39 and GASB Interpretation No. 6. 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, 2002 and December 31, 2003, respectively.

NOTE L – SUBSEQUENT EVENTS

In April of 2005, the District received a payment in the amount of \$524,604 for deferred assessments. The payment was for land that had originally qualified for an agricultural deferment of the construction assessment. The land has subsequently been removed from agricultural status and the owner has paid the assessment as required by the deferment.

On January 20, 2005 a summary judgment was entered with stipulated judgment entry on May 10, 2005, the lawsuit between the Ohio Water Development Authority (OWDA) and the District was settled by the Franklin County Court of Common Pleas. The court entered a stipulated judgment entry that stated that the District owes the OWDA \$4,259,889 (which includes principal, interest and penalties) as the amount due through November 30, 2004; \$995.08 (comprised of interest and penalties) accruing daily from November 30, 2004 until date of payment; and \$24,668.73 for Plaintiff’s attorney fees. As of the date of this report, the District has not made any additional debt payments on this issuance since 2004.

On April 26, 2005, the District paid the loan with the savings bank in full including accrued interest for a total of \$150,868.44.

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**Auditor of State
Betty Montgomery**

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

Scippo Sewer District
Pickaway County
P.O. Box 422
Circleville, Ohio 43113

To the Board of Trustees:

We have audited the basic financial statements of the Scippo Sewer District, Pickaway County, Ohio, (the District) as of and for the years ended December 31, 2004 and December 31, 2003, and have issued our report thereon dated October 31, 2005, wherein we noted that the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. We also noted that the District is having certain financial difficulties that raise substantial doubt about its ability to continue as a going concern. 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 to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting 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 material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated October 31, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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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 instances of noncompliance that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2004-001 through 2004-003. In a separate letter to the District's management dated October 31, 2005, we reported an other matter related to noncompliance we deemed immaterial.

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



Betty Montgomery
Auditor of State

October 31, 2005

**SCIPPO SEWER DISTRICT
PICKAWAY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2004-001
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Noncompliance Citation

OWDA Debt Covenants-Repayment of Debt

Article IV, Section 4.1, of the OWDA loan agreement with the District states in part that the District agrees to and shall pay semi-annually on January 1 and July 1 of each of the contract period of years, commencing on the first payment date, to the OWDA, but solely from the pledged revenues, one-half of the participation charge. If the District does not pay any of the charges on or before the 5th day after the due date, the amount of the default shall bear interest at the default rate. Additionally, payments not received within 30 days of the due date shall include a late charge, in addition to the aforementioned default interest, of 1% for each 30 days payment is behind. In the event of a default as aforesaid, all of the costs incurred by the OWDA incurring such default including, but not limited to, court costs and attorney fees, shall (to the extent not previously repaid to the OWDA) be paid as part of the eligible project costs. Additionally, Article IV, Section 4.3 states in part that the District will at all times prescribe and charge rates for services at least adequate to provide for the payments described in Section 4.1.

Article VI, Section 6.3 (a) of the OWDA loan agreement with the District states in part that “whenever an event of default shall have happened and be subsisting, the OWDA may exercise any and all rights and remedies for the enforcement of the obligations. In addition to any other rights or remedies provided herein, by law or otherwise, the OWDA may declare the full amount of the then unpaid project participation principal amount to be immediately due and payable.

As of December 31, 2004 and December 31, 2003, the District made payments to OWDA totaling \$15,000 and \$55,000 respectively. However, the District’s annual payment to OWDA is \$314,618. As of December 31, 2004 the District owes accrued interest and penalties of \$603,758. The District has not been able to make the required payments because it has not received enough user fees and assessments to cover the annual payments.

Failure to pay debt payments in accordance with the loan agreement has resulted in the District defaulting on the loan. Additionally, the District is accruing late fees and additional interest on its loan and OWDA may require the unpaid participation principal amount to be immediately due and payable.

We recommend the District adjust user fees to an amount sufficient to pay all their scheduled debt payments in accordance with the loan agreement.

**SCIPPO SEWER DISTRICT
PICKAWAY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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Finding Number	2004-002
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Expenditures Exceeding Appropriations

Ohio Rev. Code Section 5705.41(B) states in part that no subdivision is to expend money unless it has been appropriated as provided in such chapter.

At December 31, 2004 and December 31, 2003, the District expended in excess of the approved appropriations by the following amounts:

2004:

Approved Appropriations	Actual Expenditures	Amount Expenditures Exceeded Appropriations by:
\$206,000	\$224,559	(\$18,559)

2003:

Approved Appropriations	Actual Expenditures	Amount Expenditures Exceeded Appropriations by:
\$365,000	\$405,263	(\$40,263)

The District should amend the appropriations within estimated resources when and if expenditures are expected to exceed appropriations.

We recommend that the District only expend funds within the approved appropriations.

Finding Number	2004-003
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Certifying Funds Prior to Expenditure

Ohio Rev. Code Section 5705.41(D)(1) provides no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. The amount so certified shall be recorded against the applicable appropriation account.

SCIPPO SEWER DISTRICT
PICKAWAY COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number	2004-003 (Continued)
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Certifying Funds Prior to Expenditure (Continued)

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" certificate-** If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the District can authorize the drawing of a warrant for the payment of the amount due. The District has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 (\$1,000 prior to April 7, 2003) may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.

2. **Blanket Certificate-** Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate-** The District may also issue certificates for any amount for expenditures and contracts from a specific line-item appropriation account in a specified fund for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expenses. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The District did not certify funds for any disbursements at the time of the obligation during the fiscal years ended December 31, 2004 and December 31, 2003. Additionally, then and now certificates were not issued.

We recommend the Clerk ensure funds are certified as available prior to the obligation through the issuance of a purchase order containing appropriate certification, or through the use of then and now certificates or so-called blanket or super blanket certificates as further permitted by Section 5705.41(D)(1) and 5705.41(D)(3).



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**SCIPPO 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
DECEMBER 30, 2005**