

SCIPPO SEWER DISTRICT  
PICKAWAY COUNTY  
REGULAR AUDIT

JANUARY 1, 1999 THROUGH DECEMBER 31, 2000

FISCAL YEARS AUDITED UNDER GAGAS:  
2000 and 1999

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Member American Institute of Certified Public Accountants  
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**STATE OF OHIO**  
**OFFICE OF THE AUDITOR**

JIM PETRO, AUDITOR OF STATE

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Members of the Board  
Scippo Sewer District

We have reviewed the Independent Auditor's Report of the Scippo Sewer District, Pickaway County, prepared by Balestra & Company for the audit period January 1, 1999 through December 31, 2000. Based upon this review, we have accepted this report in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

JIM PETRO  
Auditor of State

July 16, 2001

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SCIPPO SEWER DISTRICT  
PICKAWAY COUNTY  
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

Table of Contents

Report of Independent Auditor's .....	1
General Purpose Financial Statements-Proprietary Fund Type, for years ending December 31, 2000 and 1999	
Balance sheet .....	2-3
Statement of Revenue, Expenses, and Changes in Retained Earnings .....	4
Statement of Cash Flows .....	5
Notes to the Financial Statements .....	6-13
Report on compliance and on internal control over financial reporting based on an audit of the financial statements performed in accordance with government audit standards .....	14-15

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**REPORT OF INDEPENDENT AUDITOR'S**

Members of the Board  
Scippo Sewer District  
P.O. Box 422  
Circleville, Ohio 43113

We have audited the accompanying general-purpose financial statements of the Scippo Sewer District, Pickaway County, (the "District"), as of and for the years ended December 31, 2000, and 1999. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Scippo Sewer District, as of December 31, 2000 and 1999, and the results of its operations and cash flows of its proprietary fund for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have issued our report dated June 30, 2001 on our consideration of the Scippo Sewer District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with GAS and should be read in conjunction with this report in considering the results of our audit.

As discussed in Note 12, the District has doubt as to their ability to meet 2001 debt payments due to projected negative cash flows. The general-purpose financial statements do not include any adjustment relating to the amounts and classification of liabilities that might be necessary if the Scippo Sewer District, Pickaway County, is not able to meet its debts as they come due or if such debts are adjusted under the provisions of chapter 9 of the Federal Bankruptcy Code.

*Balestra & Company*  
BALESTRA & COMPANY

June 30, 2001

Scippo Sewer District  
 Balance Sheet-Proprietary Fund Type  
 For the year's ended December 31, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Current Assets		
Cash in bank	\$96,777	\$291,955
Accounts receivable-operating billings	<u>12,091</u>	<u>2,257</u>
Total Current Assets	108,868	294,212
Restricted Assets		
Restricted cash in bank	0	129,497
Assessments receivables-planning	252,625	336,247
Assessments receivables-construction	<u>1,836,807</u>	<u>1,857,081</u>
Total Restricted Assets	2,089,432	2,322,825
Property, Plant and Equipment		
Total Property, Plant and Equipment, Net of accumulated Depreciation	3,784,792	3,824,241
Other Assets		
Prepaid Insurance	1,143	1,143
Loan fees net of accumulated amortization	<u>26,569</u>	<u>28,038</u>
Total Other Assets	27,712	29,181
<b>TOTAL ASSETS</b>	<u><b>\$6,010,804</b></u>	<u><b>\$6,470,459</b></u>

(Continued)

The Notes to the Financial Statements are an integral part of this statement.



Scippo Sewer District  
Balance Sheet-Proprietary Fund Type  
For the year's ended December 31, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Current Liabilities		
Accounts payable	\$5,498	\$12,649
Contractor bonds payable	5,360	5,360
Notes payable	<u>83,116</u>	<u>77,722</u>
Total Current Liabilities	93,974	95,731
Long-Term Liabilities		
Note payable-net of current portion	3,590,164	3,673,333
Deferred revenue-planning agriculture	55,878	55,878
Deferred revenue-construction agricultural	849,338	849,338
Rotary note payable	<u>821,966</u>	<u>829,597</u>
Total Notes Payable	5,317,346	5,408,146
Total Liabilities	5,411,320	5,503,877
Fund Equity		
Contributed capital:		
Ohio Public Works Commission Grant	40,965	40,965
Planning Assessments	553,344	553,344
Construction Assessments	1,225,209	1,225,209
Donations	150,000	150,000
Retained fund balance	<u>(1,370,034)</u>	<u>(1,002,936)</u>
Total Fund Equity	599,484	966,582
TOTAL LIABILITIES AND FUND EQUITY	<u>\$6,010,804</u>	<u>\$6,470,459</u>

The Notes to the Financial Statements are an integral part of this statement.

Scippo Sewer District  
Statement of Revenues, Expenses and Changes in Retained Earnings-Proprietary Fund Type  
For the year's ended December 31, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Service Fee Income	\$48,713	\$53,027
Operating Expenses		
Depreciation	170,667	167,970
Trustee Fees	3,900	2,663
Contract Labor	9,600	9,200
Operations of plant	32,976	27,604
Engineering	24,846	11,304
Legal	594	4,428
Accounting	3,953	7,868
Insurance	3,428	3,255
Telephone	906	880
Utilities	7,048	7,273
Repairs and maintenance	95	0
Postage	64	57
Advertising and Communications	0	63
Licenses	190	0
Office supplies	38	0
Total Operating Expenses	<u>258,305</u>	<u>242,565</u>
Operating Income (Loss)	(209,592)	(189,538)
Other Income and Expenses		
Interest income-assessments	93,609	161,788
Interest income-savings	5,656	8,327
Rental income	1,150	1,150
Sludge removal	1,190	0
Contract license fees	55	124
Amortization	(1,469)	(1,469)
Interest Expense	<u>(257,697)</u>	<u>(262,967)</u>
Total Other Income and Expenses	(157,506)	(93,047)
Net Loss	<u>(\$367,098)</u>	<u>(\$282,585)</u>
Retained fund balance-Beginning of year	(1,002,936)	(720,351)
Retained fund balance-End of year	<u><u>(\$1,370,034)</u></u>	<u><u>(\$1,002,936)</u></u>

The Notes to the Financial Statements are an integral part of this statement.

Scippo Sewer District  
Statement of Cash Flows-Proprietary Fund Type  
For the year's ended December 31, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Cash Flows from Operating Activities:		
Cash received from customers	\$38,879	\$52,865
Cash payments to suppliers for goods and services	(81,290)	(61,651)
Cash payments for clerk and trustees	<u>(13,500)</u>	<u>(11,613)</u>
Net Cash Provided by (used for) Operating Activities	(55,911)	(20,399)
Cash Flows from Non-Capital Financing Activities		
Project Funding from Private Industry	0	150,000
Sludge Removal	<u>1,190</u>	<u>0</u>
Net Cash Provided by (used for) Non-Capital Financing Activities	1,190	150,000
Cash Flows from Capital and Related Financing Activities		
Rental Income	1,150	1,150
Net Contract fees	0	4,084
Contractor licenses	55	124
OWDA principal payments	(77,772)	(72,773)
OWDA interest payments	(257,697)	(262,697)
Repayment on Rotary Loan	(7,632)	0
Special assessments collections	104,557	34,514
Special assessment interest income	93,609	161,788
Capital outlay	<u>(131,880)</u>	<u>(41,601)</u>
Net Cash Used by Capital and Related Financing Activities	(275,610)	(175,411)
Cash Flows from Investing Activities		
Interest on cash and investments	<u>5,656</u>	<u>8,327</u>
Net Decrease in Cash and Cash Equivalents	(324,675)	(37,483)
Cash and Cash Equivalents at Beginning of Year	<u>421,452</u>	<u>458,935</u>
Cash and Cash Equivalents at End of Year	<u><u>96,777</u></u>	<u><u>421,452</u></u>
Reconciliation of Operating Loss to Net Cash provided by Operating Activities:		
Operating Loss	(209,592)	(189,538)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:		
Depreciation Expense	170,667	167,970
Changes in Assets and Liabilities:		
(Increase) in Prepaid Insurance	0	(174)
(Increase) in Accounts Receivable	(9,834)	(163)
Increase/(Decrease) in Accounts Payable	<u>(7,152)</u>	<u>1,506</u>
Total Adjustments	153,681	169,139
Net Cash Provided by Operating Activities	<u><u>(\$55,911)</u></u>	<u><u>(\$20,399)</u></u>

The Notes to the Financial Statements are an integral part of this statement.

SCIPPO SEWER DISTRICT  
PICKAWAY COUNTY, OHIO  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2000 AND 1999

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY**

SCIPPO Sewer District (the "District") was created by the Court of Common Pleas of Pickaway County to provide sewer services to the residents of surrounding townships in accordance with the provisions of Section 6119. et. seq. of the Revised Code. The District is managed by a Board comprised of five (5) appointed trustees.

*Reporting Entity:*

The reporting entity is comprised of the primary government, component units, and other organizations that are included to insure 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 Scippo Sewer 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.

**B. BASIS OF ACCOUNTING**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

For financial statement presentation purposes, the Scippo Sewer District utilizes the accrual basis of accounting. Under this method of accounting, revenues are recognized when they are earned. Revenue for tap fees will be recorded when taps have been installed and the customer is using sewer services. Un-billed sewer utility service receivables are recorded at year end.

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

Under the guidelines of GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting," the Water District has elected not to apply FASB Statements and Interpretations issued after November 30, 1989, to its proprietary activities.

SCIPPO SEWER DISTRICT  
PICKAWAY COUNTY, OHIO  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2000 AND 1999

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:** (Continued)

C. FUND ACCOUNTING

The Scippo Sewer District maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of government entities in which legal or other restraints require the recording of specific revenues and expenses. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restriction associated with each type of fund is as follows:

PROPRIETARY FUND

The proprietary fund is used to account for the District's ongoing activities that are similar to those found in the private sector. The following is the District's proprietary fund type:

Enterprise Fund

This fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purpose.

D. BUDGETARY PROCESS

Beginning in 2000, the Ohio Revised Code requires that each fund be budgeted annually.

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. Encumbrances outstanding at year end are canceled, and re-appropriated in the subsequent year.

A summary of 2000 budgetary activity appears in Note 3.

E. ACCOUNTS RECEIVABLE

Accounts receivable are shown at their net realizable value.

SCIPPO SEWER DISTRICT  
PICKAWAY COUNTY, OHIO  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2000 AND 1999

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:** (Continued)

F. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment 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 property, plant and equipment. Once construction was complete and the project was operational, depreciation began December 1, 1996 on all planning costs, construction costs, and capitalized interest over the life of the construction loan, which is determined to be the estimated useful life of the assets.

Depreciation is computed using the straight-line method for financial reporting purposes.

G. AMORTIZATION

Loan costs are being amortized over the life of each loan beginning on the first date that the project is fully operational, which was December 1, 1996. Amortization is being computed using the straight-line method for financial statement reporting purposes. Loan costs charged to operations were \$1,469 for both years ending December 31, 2000 and 1999.

H. INCOME TAX

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

I. CASH AND CASH EQUIVALENTS

To improve cash management, cash received by the District is pooled. The Proprietary fund's interest in the pool is presented as "cash and cash equivalents" on the balance sheet.

During fiscal years 2000 and 1999, the district had no investments.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

The District's cash and cash equivalents are considered to be cash on hand, deposits and short term investments with maturities of three months or less from the date of acquisition.

J. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles 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.

SCIPPO SEWER DISTRICT  
 PICKAWAY COUNTY, OHIO  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2000 AND 1999

**2. ASSESSMENTS RECEIVABLE AND CONTRIBUTED CAPITAL**

Assessments 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 are as follows:

	<u>Total assessment</u>	<u>Principle collected from prepaid and auditor</u>	<u>Prior Period Adjustment (See Note 13)</u>	<u>Ending receivable balance</u>	<u>Percent collected</u>
Planning Assessments	\$ 609,222	\$(356,597)		\$ 252,625	59%
Construction Assessments	<u>2,074,547</u>	<u>(74,763)</u>	<u>\$(162,977)</u>	<u>1,836,807</u>	2.51%
Total	<u>\$2,683,769</u>	<u>\$(431,360)</u>	<u>\$(162,977)</u>	<u>\$2,089,432</u>	

Assessment receivable balances at December 31, 2000 was \$2,089,432, which includes deferred agricultural property assessments of \$55,878 and \$849,338 for planning and construction respectively. These amounts will be collected as properties that 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 of collection is undeterminable. The Rotary loan of \$829,597 was obtained to ensure debt service of OWDA loans while these properties remain in agricultural status.

**3. BUDGETARY ACTIVITY**

Budgetary activity for the year ended December 31, 2000 is as follows:

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
Enterprise	\$657,158	\$244,444	\$412,714

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
Enterprise	\$554,057	\$569,108	\$(15,051)

SCIPPO SEWER DISTRICT  
 PICKAWAY COUNTY, OHIO  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2000 AND 1999

**4. DEBT OBLIGATIONS**

Debt outstanding at December 31, 2000 and 1999, consisted of the following:

	<u>2000</u>	<u>1999</u>
Ohio Water Development Authority Construction Loan		
Principal Outstanding	\$3,673,280	\$3,751,005
Interest Rate	6.87%	6.87%
 Rotary Commission Planning Loan		
Principal Outstanding	\$ 821,966	\$829,597
Interest Rate	0%	0%

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 annual requirements to amortize debt outstanding as of December 31, 2000, including interest payments of \$3,371,589 are as follows:

<u>Year Ending December 31:</u>	<u>Construction Loan:</u>	<u>*Planning Loan:</u>	<u>Total (Memorandum Only)</u>
2001	167,735	0	167,735
2002	335,470	0	335,470
2003	335,470	0	335,470
2004-2008	1,677,350	0	1,677,350
2009-2013	1,677,350	0	1,677,350
2014-2018	1,677,350	821,966	2,499,316
2019-2022	<u>1,174,144</u>	<u>0</u>	<u>1,174,144</u>
	<u>\$7,044,869</u>	<u>\$821,966</u>	<u>\$7,866,835</u>

\*The term is net payable in 20 years (2016), if the properties listed as agricultural status pertaining to this loan do not change. If such properties do not qualify as agricultural status within the 20-year period, their assessment is collected by the District and payable to the Rotary Commission within one year after the status has changed.

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.



SCIPPO SEWER DISTRICT  
 PICKAWAY COUNTY, OHIO  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2000 AND 1999

**5. PROPERTY, PLANT, AND EQUIPMENT**

The following is a schedule of property, plant, and equipment, at cost, at December 31, 2000 and 1999:

	<u>2000</u>	<u>1999</u>
Land	\$ 99,819	\$ 99,819
Land Easements	9,273	8,932
Cost of planning and constructing sewer system	4,199,248	4,199,248
Owens Road	134,836	24,317
Industrial Pretreatment Program	1,374	0
Cross Mounds project	2,773	0
Sewers to Dupont	<u>16,211</u>	<u>0</u>
 Total property, plant and equipment	 \$ 4,463,534	 \$4,332,316
Less accumulated depreciation	(678,742)	(508,075)
Property, Plant and Equipment, net of accumulated depreciation	\$ <u><u>3,784,792</u></u>	\$ <u><u>3,824,241</u></u>

**6. CONTRIBUTED CAPITAL**

Capital grant-planning costs - In 1998, a \$40,965 loan enhancement grant was received from the Ohio Public Works Commission to pay for a portion of capitalized interest during construction.

Contributed capital-In 1999, a donation of funds in the amount of \$150,000 was received from AEP-Colomet to construct the Owens Road Sewer Line. Any unused portion of these funds is to be returned.

**7. CASH AND INVESTMENTS**

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

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

Inactive deposits are public deposits 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 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. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts, including passbook accounts.

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 money deposited with the institution.

SCIPPO SEWER DISTRICT  
PICKAWAY COUNTY, OHIO  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2000 AND 1999

**7. CASH AND INVESTMENTS (CONTINUED)**

Interim monies may 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. Bond and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) 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); and,
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time.
8. Under limited circumstances, debt interest 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits With Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

**Deposits** At December 31, 2000 and 1999, the carrying amount of the District's deposits was \$ 96,777 and \$421,452, respectively, and the bank balance was \$97,152 and 421,465, respectively. Of the bank balance:

1. \$97,152 and \$100,000 was covered by federal depository insurance for 2000 and 1999; and
2. In 1999, the uninsured balance, which amounted to \$321,465, was collateralized by third party trustees in single institution collateral pools, securing all public funds on deposit with specific depository institutions, risk category 3.

SCIPPO SEWER DISTRICT  
 PICKAWAY COUNTY, OHIO  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2000 AND 1999

**8. OTHER REQUIRED FUND DISCLOSURES**

The accumulated retained fund balance for the District at December 31, 2000 and 1999 was (\$1,370,034) and (1,002,936), respectively.

**9. INTEREST INCOME**

	2000	1999
Interest income from savings account	\$ <u>5,656</u>	\$ <u>8,327</u>
Interest income from County Auditor assessment	<u>93,609</u>	<u>161,788</u>
Total interest income	\$ <u><u>99,265</u></u>	\$ <u><u>170,115</u></u>

**10. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal years 2000 and 1999, the District contracted with Ohio Government Risk Management Plan for property insurance and boiler and machinery coverage.

The policies include a \$100 deductible. Comprehensive liability is protected by The Ohio Government Risk Management Plan with a \$1,000,000 single occurrence limit and no deductible. Vehicles are covered by Ohio Government Risk Management Plan and hold no deductible. Automobile liability has a \$1,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past five years. There has not been a significant reduction in coverage from the prior year.

**12. GOING CONCERN**

Financial statements for the year ended December 31, 2000 reflect a going concern issue for the District. The District has substantial doubt as to their ability to pay their second half 2001 OWDA debt payment. The annual debt payment is approximately \$336,000 of which \$200,000 is paid from annual assessment collections from the County Auditor property tax billings with the remaining to be paid from operating revenues. However, operating revenues for the year 2001 are projected at \$50,000 leaving a shortfall of \$86,000. This shortfall will increase proportionately with operating expenditures.

Remedial efforts by the District are underway, as strongly suggested by the Ohio Water Development Authority. These efforts include, but are not limited to, substantially raising customer rates and ensuring the customer additions of Earnhart Housing Development and Dupont. The District maintains that substantial rate increases are in the process of being approved, near the date of our audit report. The District believes that it is highly probable that these two customer additions will materialize, however contract negotiations are still underway.

The Ohio Water Development Authority indicates they may consider loan restructuring if these remedial efforts are undertaken by the District.

**13. PRIOR PERIOD ADJUSTMENT**

The Enterprise Fund's beginning retained fund balance was adjusted due to correction of errors resulting in accrual restatements. The net effect of these adjustments was to increase accumulated deficit by \$181,025 as of January 1, 1999.

**BALESTRA & COMPANY**  
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Ohio Society of Certified Public Accountants

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT  
AUDITING STANDARDS*

Members of the Board  
Scippo Sewer District  
P.O. Box 422  
Circleville, Ohio 43113

We have audited the general purpose financial statements of the Scippo Sewer District for the years ended December 31, 2000 and 1999, and have issued our report thereon dated June 30, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

*Compliance*

As part of obtaining reasonable assurance about whether the Scippo Sewer District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulation, contracts and grants, 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*. We noted certain immaterial instances of non-compliance that we have report to the Management of the District in a separate letter dated June 30, 2001.

*Internal Control Over Financial Reporting*

In planning and performing our audit, we considered the Scippo Sewer District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance 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 over the financial reporting that might be material weaknesses.

Members of the Board

Scippo Sewer District

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON  
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STANDARDS*

Page 2

A material weakness is a condition in which the design or operation of the internal control components does not reduce to a relatively low level the risk that misstatements 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 weakness.

This report is intended for the information and use of the Audit Committee, Management, Members of the Board, and is not intended to be and should not be used by anyone other than these specified parties.

*Balestra & Company*

Balestra & Company

June 30, 2001





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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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  
AUGUST 9, 2001**