

Scippo Sewer District

Pickaway County, Ohio

Regular Audit

January 1, 2005 through December 31, 2006

Fiscal Years Audited Under GAGAS: 2006 and 2005

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Mary Taylor, CPA

Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Scippo Sewer District, Pickaway County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2005 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 27, 2007

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**SCIPPO SEWER DISTRICT
PICKAWAY COUNTY
TABLE OF CONTENTS**

For the Years Ended December 31, 2006 and 2005

| | |
|---|---------|
| Independent Auditor’s Report..... | 1 – 2 |
| Management’s Discussion and Analysis..... | 3 – 7 |
| Financial Statements: | |
| Statements of Net Assets | 8 |
| Statements of Revenues, Expenses and Changes in Net Assets | 9 |
| Statements of Cash Flows..... | 10 |
| Notes to the Basic Financial Statements | 11 - 21 |
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based On an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> | 22 - 23 |
| Schedule of Findings and Responses..... | 24 - 27 |
| Schedule of Prior Audit Findings | 28 |

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Member American Institute of Certified Public Accountants

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Independent Auditor's Report

Board of Trustees
Scippo Sewer District
PO Box 422
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We have audited the accompanying financial statements of the business-type activities of the Scippo Sewer District (the District), Pickaway County, as of and for the years ended December 31, 2006 and 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 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.

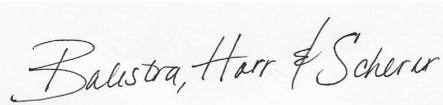
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of December 31, 2006 and 2005, and the results of its operations and its cash flows thereof, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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, 2006 and December 31, 2005 respectively of (\$298,798) and (\$285,368), negative net assets of (\$1,574,051) and (\$1,275,253), 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 August 24, 2007 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note K, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47, *Accounting for Termination Benefits*.

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

Balestra, Harr & Scherer, CPAs, Inc.
August 24, 2007

SCIPPO SEWER DISTRICT
PICKAWAY COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Years Ended December 31, 2006 and 2005
(Unaudited)

This discussion and analysis, along with the accompanying financial reports, of Scippo Sewer District (SSD or "the District") is designed to provide our customers, creditors and other interested parties with a general overview of the District and its financial activities.

FINANCIAL HIGHLIGHTS

The total liabilities of SSD exceeded total assets on December 31, 2006 by \$1.57 million. The District's net assets decreased by \$299 thousand (-23.4%) in 2006.

The District's operating revenues decreased by \$8 thousand (-5.1%) in 2006. Operating expenses decreased \$95 thousand (-22.6%) in 2006.

The total liabilities of SSD exceeded total assets on December 31, 2005 by \$1.28 million. The District's net assets decreased by \$285 thousand (-28.8%) in 2005.

The District's operating revenues increased by \$27 thousand (20.7%) in 2005. Operating expenses increased \$50 thousand (13.4%) in 2005.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

The District is a single enterprise fund using proprietary fund accounting, similar to private sector business. The Basic Financial Statements are presented using the accrual basis of accounting.

The **Statements of Net Assets** includes all of the District's Assets and Liabilities. These statements provide information about the nature and amounts of investments in resources (assets) owned by the District, and obligations owed by the District (liabilities) on December 31. The District's net assets are the difference between assets and liabilities.

The **Statements of Revenues, Expenses and Changes in Net Assets** provide information on the District's operations over the past two years and the success of recovering all its costs through user fees, charges, assessments, and other income. Revenues are reported when earned and expenses are reported when incurred.

The **Statements of Cash Flows** provide information about the District's cash receipts and cash disbursements. They summarize the net changes in cash resulting from operating, investing, capital financing, and non-capital financing activities.

SCIPPO SEWER DISTRICT
PICKAWAY COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Years Ended December 31, 2006 and 2005
(Unaudited)

STATEMENTS 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>2006</u> | <u>2005</u> | <u>Change Amount</u> | <u>2004</u> | <u>Change Amount</u> |
|--|-----------------------|-----------------------|--------------------------|---------------------|--------------------------|
| Current and Other Assets | \$ 1,854,346 | \$ 1,818,577 | \$ 35,769 | \$ 1,946,140 | \$ (127,563) |
| Capital Assets | 3,192,847 | 3,285,752 | (92,905) | 3,351,890 | (66,138) |
| Total Assets | 5,047,193 | 5,104,329 | (57,136) | 5,298,030 | (193,701) |
| Long Term Liabilities | 5,430,940 | 5,418,166 | 12,774 | 5,445,911 | (27,745) |
| Current and Other Liabilities | 1,190,304 | 961,416 | 228,888 | 842,004 | 119,412 |
| Total Liabilities | 6,621,244 | 6,379,582 | 241,662 | 6,287,915 | 91,667 |
| Net Assets | | | | | |
| Invested in Capital Assets, Net of Related Debt | (1,390,083) | (1,297,178) | (92,905) | (1,254,215) | (42,963) |
| Unrestricted | (183,968) | 21,925 | (205,893) | 264,330 | (242,405) |
| Total Net Assets | \$ (1,574,051) | \$ (1,275,253) | \$ (298,798) | \$ (989,885) | \$ (285,368) |

The District's Net Assets decreased by \$299 thousand (-23.4%) in 2006 and by \$285 thousand (-28.8%) in 2005. This decrease is a result of excess expenses over revenue.

Invested in Capital Assets, Net of Related Debt decreased by \$93 thousand in 2006 and decreased by \$43 thousand in 2005. The change in 2006 was primarily due to depreciation expense which was offset by grant monies received during 2006 which were expended for construction. The change in 2005 was primarily due to payoff of a note payable which was offset by depreciation expense.

Unrestricted assets decreased by \$206 thousand (-939.1%) in 2006 and by \$242 thousand (-91.7%) in 2005. Unrestricted assets may be used without constraints established by bond covenants or other legal requirements. Cash and Cash equivalents increased \$54 thousand in 2006 and \$281 thousand in 2005. The primary reason that cash and cash equivalents increased and that current and other liabilities increased was due to no OWDA interest payments being made during 2006 or 2005 and the receipt of assessment and interest from the AEP property sale in 2005.

SCIPPO SEWER DISTRICT
PICKAWAY COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Years Ended December 31, 2006 and 2005
(Unaudited)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

Table 2

| | <u>2006</u> | <u>2005</u> | <u>Difference</u> | <u>2004</u> | <u>Difference</u> |
|---|-----------------------|-----------------------|---------------------|---------------------|---------------------|
| Operating Revenues | \$ 151,783 | \$ 159,952 | \$ (8,169) | \$ 132,469 | \$ 27,483 |
| Total Operating Revenues | 151,783 | 159,952 | (8,169) | 132,469 | 27,483 |
| Operating Expenses (Excluding Depreciation and Amortization) | 128,579 | 231,815 | (103,236) | 184,106 | 47,709 |
| Depreciation and Amortization Expenses | 196,116 | 187,601 | 8,515 | 185,587 | 2,014 |
| Total Operating Expenses | 324,695 | 419,416 | (94,721) | 369,693 | 49,723 |
| Operating Loss | (172,912) | (259,464) | 86,552 | (237,224) | (22,240) |
| Non-Operating Revenues | 46,309 | 195,445 | (149,136) | 65,066 | 130,379 |
| Non-Operating Expenses | 258,378 | 329,345 | (70,967) | 367,918 | (38,573) |
| Capital Contributions | 86,183 | 107,996 | (21,813) | - | 107,996 |
| Changes in Net Assets | (298,798) | (285,368) | (13,430) | (540,076) | 254,708 |
| Net Assets at Beginning of Year | (1,275,253) | (989,885) | (285,368) | (449,809) | (540,076) |
| Net Assets at End of Year | \$ (1,574,051) | \$ (1,275,253) | \$ (298,798) | \$ (989,885) | \$ (285,368) |

Total operating revenues decreased \$8 thousand (-5.1%) in 2006. Decreases in 2006 revenues were primarily a result of an increase in accounts receivable in 2005 that leveled off in 2006. The decrease in non-operating expenses is due to a decrease in late payment penalties assessed to the District during 2006. 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. Capital contributions were \$86 thousand in 2006.

Total operating revenues increased \$27 thousand (20.7%) in 2005. Increases in 2005 revenues were a result of additional usage. The increase in non-operating revenues is due to interest revenue relating to a significant prepaid assessment payment received. 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. Capital contributions were \$108 thousand in 2005.

SCIPPO SEWER DISTRICT
PICKAWAY COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Years Ended December 31, 2006 and 2005
(Unaudited)

CAPITAL ASSETS

The District had \$4.97 million invested in Capital Assets (before depreciation) at the end of 2006. This amount is an increase of \$102 thousand (2.1%) from the previous year. The increase in capital assets before accumulated depreciation for 2006 was for payments related to a sewer construction project in 2006.

The District had \$4.87 million invested in Capital Assets (before depreciation) at the end of 2005. This amount is an increase of \$120 thousand (2.5%) from the previous year. The increase in capital assets before accumulated depreciation for 2005 was for payments related to a sewer project in 2005.

The decrease in net capital assets is primarily due to depreciation expense in 2006 and 2005. Please see Note D to the basic financial statements for additional information regarding capital assets.

Table 3

| | <u>2006</u> | <u>2005</u> | <u>Change Amount</u> | <u>2004</u> | <u>Change Amount</u> |
|---|----------------------------|----------------------------|---------------------------|----------------------------|---------------------------|
| Land | \$ 99,819 | \$ 99,819 | \$ - | \$ 99,819 | \$ - |
| Land Easements | 9,429 | 9,429 | - | 9,429 | - |
| Construction in Progress | 9,986 | 107,997 | (98,011) | - | 107,997 |
| General Equipment | 2,780 | 2,780 | - | 2,780 | - |
| Cost of Planning and Constructing | | | | | |
| Sewer System | 4,663,933 | 4,464,180 | 199,753 | 4,452,183 | 11,997 |
| Owens Road | 134,836 | 134,836 | - | 134,836 | - |
| Industrial Pretreatment Program | 4,912 | 4,912 | - | 4,912 | - |
| Cross Mounds Project | 3,043 | 3,043 | - | 3,043 | - |
| Earnhart Connection | 945 | 945 | - | 945 | - |
| Sewers to DuPont | 40,076 | 40,076 | - | 40,076 | - |
| Totals Before Accumulated Depreciation | <u>4,969,759</u> | <u>4,868,017</u> | <u>101,742</u> | <u>4,748,023</u> | <u>119,994</u> |
| Accumulated Depreciation | (1,776,912) | (1,582,265) | (194,647) | (1,396,133) | (186,132) |
| Net Capital Assets | <u>\$ 3,192,847</u> | <u>\$ 3,285,752</u> | <u>\$ (92,905)</u> | <u>\$ 3,351,890</u> | <u>\$ (66,138)</u> |

SCIPPO SEWER DISTRICT
PICKAWAY COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Years Ended December 31, 2006 and 2005
(Unaudited)

DEBT

The District issued long term debt to finance most of its construction. Ohio Water Development Authority (OWDA) loans were used to finance most general improvement projects.

Table 4

| | <u>2006</u> | <u>2005</u> | <u>Change Amount</u> | <u>2004</u> | <u>Change Amount</u> |
|---|---------------------|---------------------|--------------------------|---------------------|--------------------------|
| Ohio Water Development Authority (OWDA) | \$ 3,760,964 | \$ 3,760,964 | \$ - | \$ 3,784,139 | \$ (23,175) |
| Rotary Commission | 821,966 | 821,966 | - | 821,966 | - |
| Savings Bank | - | - | - | 149,886 | (149,886) |
| Total Long Term Debt | 4,582,930 | 4,582,930 | - | 4,755,991 | (173,061) |
| Less: Current Maturities | 57,206 | 69,980 | (12,774) | 215,296 | (145,316) |
| Net Total Long Term Debt | \$ 4,525,724 | \$ 4,512,950 | \$ 12,774 | \$ 4,540,695 | \$ (27,745) |

The District made no principal payments on its OWDA loans during 2006 and one principal payment of \$100,000 during 2005 which was offset by certain late fees being added by OWDA to the District's existing OWDA loan balance. Please see Note F to the basic financial statements for additional information regarding debt.

CASH

Cash and cash equivalents were \$432 thousand on December 31, 2006 and \$378 thousand on December 31, 2005.

CURRENT FINANCIAL RELATED ACTIVITIES

The District has been unable to make its required debt payments to the Ohio Water Development Authority. Since September, 2004, the District has made only one principal payment of \$100,000. 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.

CONTACT INFORMATION

Questions regarding this report and requests for additional information should be forwarded to Scippo Sewer District, P.O. Box 422, Circleville, Ohio 43113.

**SCIPPO SEWER DISTRICT
PICKAWAY COUNTY
STATEMENTS OF NET ASSETS
December 31, 2006 and 2005**

| | <u>2006</u> | <u>2005</u> |
|--|-----------------------|-----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash in bank | \$ 431,966 | \$ 378,104 |
| Accounts receivable - operating billings | 32,802 | 30,088 |
| Accrued interest receivable | <u>-</u> | <u>1,243</u> |
| TOTAL CURRENT ASSETS | <u>464,768</u> | <u>409,435</u> |
| NONCURRENT ASSETS | | |
| Capital assets, not being depreciated | 119,234 | 217,245 |
| Depreciable capital assets - net | 3,073,613 | 3,068,507 |
| Other Assets: | | |
| Prepaid insurance | 1,645 | 1,740 |
| Loan fees, net of accumulated amortization of \$14,808 and \$13,339 for 2006 and 2005 | 17,758 | 19,227 |
| Assessment receivables - planning and construction | <u>1,370,175</u> | <u>1,388,175</u> |
| TOTAL OTHER ASSETS | <u>1,389,578</u> | <u>1,409,142</u> |
| TOTAL ASSETS | <u>5,047,193</u> | <u>5,104,329</u> |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable | 16,393 | 33,109 |
| Contractor bonds payable | 5,360 | 5,360 |
| OWDA note payable - current portion | 57,206 | 69,980 |
| Accrued interest payable | <u>1,111,345</u> | <u>852,967</u> |
| TOTAL CURRENT LIABILITIES | <u>1,190,304</u> | <u>961,416</u> |
| NONCURRENT LIABILITIES | | |
| OWDA note payable - net of current portion | 3,703,758 | 3,690,984 |
| Rotary note payable | 821,966 | 821,966 |
| Deferred revenue - planning agricultural | 55,878 | 55,878 |
| Deferred revenue - construction agricultural | <u>849,338</u> | <u>849,338</u> |
| TOTAL NONCURRENT LIABILITIES | <u>5,430,940</u> | <u>5,418,166</u> |
| TOTAL LIABILITIES | <u>6,621,244</u> | <u>6,379,582</u> |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | (1,390,083) | (1,297,178) |
| Unrestricted (Deficit) | <u>(183,968)</u> | <u>21,925</u> |
| TOTAL NET ASSETS | <u>\$ (1,574,051)</u> | <u>\$ (1,275,253)</u> |

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

SCIPPO SEWER DISTRICT
PICKAWAY COUNTY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2006 and 2005

| | 2006 | 2005 |
|--|----------------|----------------|
| OPERATING REVENUES | | |
| Service fee income | \$ 151,783 | \$ 159,952 |
| OPERATING EXPENSES | | |
| Trustee fees | 3,450 | 3,750 |
| Contract labor | 9,600 | 9,600 |
| Operations and testing of plant/billing fees | 32,230 | 32,532 |
| Sludge Hauling | - | 250 |
| Repairs and maintenance | 3,159 | 27,673 |
| Engineering | 31,307 | 75,720 |
| Legal | 31,941 | 51,343 |
| Accounting and audit | 250 | 9,427 |
| Insurance | 7,263 | 7,668 |
| Telephone | 878 | 729 |
| Utilities | 7,448 | 11,338 |
| Licenses | 600 | 1,150 |
| Postage | 79 | 121 |
| Office supplies | 14 | - |
| Advertising and communication | 360 | 489 |
| Bank service fees | - | 25 |
| Depreciation | 194,647 | 186,132 |
| Amortization | 1,469 | 1,469 |
| Total operating expenses | 324,695 | 419,416 |
| Operating loss | (172,912) | (259,464) |
| NON-OPERATING REVENUES (EXPENSES) | | |
| Interest income - assessments | 32,399 | 47,640 |
| Interest income - savings | 12,720 | 8,817 |
| Interest income - assessments - AEP property sale | - | 137,793 |
| Contractor licenses | 40 | 45 |
| Rental income | 1,150 | 1,150 |
| Interest and fiscal charges expense | (258,378) | (329,345) |
| Net non-operating revenues (expenses) | (212,069) | (133,900) |
| Changes in Net Assets before Capital Contributions | (384,981) | (393,364) |
| Capital Contributions - Grants | 86,183 | 107,996 |
| CHANGES IN NET ASSETS | (298,798) | (285,368) |
| NET ASSETS, BEGINNING OF YEAR | (1,275,253) | (989,885) |
| NET ASSETS, END OF YEAR | \$ (1,574,051) | \$ (1,275,253) |

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

SCIPPO SEWER DISTRICT
PICKAWAY COUNTY
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2006 and 2005

| | <u>2006</u> | <u>2005</u> |
|---|-----------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from customers | \$ 149,069 | \$ 140,322 |
| Cash payments to suppliers for goods and services | (132,150) | (202,853) |
| Cash payments for clerk and trustees | (13,050) | (13,350) |
| Net cash provided by/(used for) operating activities | <u>3,869</u> | <u>(75,881)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| OWDA principal payments | - | (100,000) |
| Savings Bank loan principal payment | - | (149,886) |
| Savings Bank loan interest payment | - | (3,310) |
| Special assessment collection - AEP property sale | - | 386,811 |
| Special assessment interest income - AEP property sale | - | 137,793 |
| Special assessments collections | 18,000 | 41,040 |
| Special assessment interest income | 32,399 | 47,640 |
| Capital contributions - grants | 86,183 | 107,996 |
| Capital outlay | (101,742) | (119,996) |
| Net cash provided by capital and related financing activities | <u>34,840</u> | <u>348,088</u> |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES: | | |
| Rental income | 1,150 | 1,150 |
| Contractor licenses | 40 | 45 |
| Net cash provided by non-capital financing activities | <u>1,190</u> | <u>1,195</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Interest on savings account | 13,963 | 7,574 |
| Net increase in cash and cash equivalents | 53,862 | 280,976 |
| Cash and cash equivalents at beginning of year | 378,104 | 97,128 |
| Cash and cash equivalents at end of year | <u>431,966</u> | <u>378,104</u> |
| Reconciliation of Operating Loss to Net Cash Provided by/(Used for) Operating Activities: | | |
| Operating loss | (172,912) | (259,464) |
| Adjustments to Reconcile Operating Loss to Net Cash Provided by/(Used for) Operating Activities: | | |
| Depreciation and Amortization | 196,116 | 187,601 |
| Changes in assets and liabilities: | | |
| Decrease/(Increase) in accounts receivable | (2,714) | (19,630) |
| Decrease/(Increase) in prepaid insurance | 95 | 93 |
| Increase/(Decrease) in accounts payable (operating) | (16,716) | 15,519 |
| Total adjustments | <u>176,781</u> | <u>183,583</u> |
| Net cash provided by/(used for) operating activities | <u>\$ 3,869</u> | <u>\$ (75,881)</u> |

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

**SCIPPO SEWER DISTRICT
PICKAWAY COUNTY**
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2006 and 2005

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 6119.01 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.

In accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* (an amendment of GASB Statement No. 14), the accompanying financial statements include only the accounts and transactions of the District. Under the criteria specified in these GASB Statements, the District has no component units nor is it considered a component unit of the State of Ohio. The District is considered, however, a political subdivision to the State of Ohio. These conclusions regarding the financial reporting entity are based on the concept of financial accountability. The District is not financially accountable for any other organizations. This is evidenced by the fact that the District is a legally and fiscally separate and distinct organization. The District is solely responsible for its finances. The District is empowered to issue debt payable solely from District revenues.

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. Based upon the application of these criteria, 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.

SCIPPO SEWER DISTRICT
PICKAWAY COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES - Continued

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.

2. **Basis of Accounting**

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

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, 2006 and 2005 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 unencumbered cash as of January 1.

Encumbrances - The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made. The District only encumbers appropriations for incidental purposes, therefore does not fully comply with the Ohio Revised Code.

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 will be recorded when the taps have been installed and the customer is using the sewer services. All other revenues will be recognized when earned. The District did not have any new tap in fees during 2006 and 2005.

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

Special assessments for which there is an enforceable legal claim as of December 31, 2006 and December 31, 2005, but cannot be collected until the agricultural status of the land changes, are recorded as deferred revenue.

SCIPPO SEWER DISTRICT
PICKAWAY COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES - Continued

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. The District maintains a capitalization threshold of \$100. Depreciation expense for 2006 and 2005 was \$194,647 and \$186,132, respectively.

9. **Amortization**

Loan fees 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 computed using the straight-line method for financial statement reporting purposes. Loan cost amortization expense charged to operations for 2006 and 2005 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).

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 consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted 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 and therefore no net assets restricted by enabling legislation.

SCIPPO SEWER DISTRICT
PICKAWAY COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES - Continued

14. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2006 and 2005, 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 INVESTMENTS – LEGAL REQUIREMENTS FOR DEPOSITS WITH FINANCIAL INSTITUTIONS

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

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.

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, its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) of this footnote and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;

SCIPPO SEWER DISTRICT
PICKAWAY COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE C – CASH AND INVESTMENTS – LEGAL REQUIREMENTS FOR DEPOSITS WITH FINANCIAL INSTITUTIONS - Continued

9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio; and
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's average portfolio.

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

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

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

The District had no investments during 2006 or 2005.

Custodial credit risk is the risk that in the event of the failure of the counterparty, the District's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the federal deposit insurance corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The District's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

As of December 31, 2006, the District's bank balance of \$432,950 is either covered by FDIC or collateralized by the financial institutions public entity deposit pools in the manner described above. As of December 31, 2005, the District's bank balance of \$478,184 is either covered by FDIC or collateralized by the financial institutions public entity deposit pools in the manner described above.

SCIPPO SEWER DISTRICT
PICKAWAY COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE D – CAPITAL ASSETS

Capital assets activity for the fiscal year ended December 31, 2006 was as follows:

| | Ending Balance <u>12/31/05</u> | <u>Additions</u> | <u>Deletions</u> | Ending Balance <u>12/31/06</u> |
|--|--------------------------------------|-------------------|---------------------|--------------------------------------|
| Capital Assets, Not Being Depreciated | | | | |
| Land | \$ 99,819 | \$ - | \$ - | \$ 99,819 |
| Land Easements | 9,429 | - | - | 9,429 |
| Construction in Progress | 107,997 | 101,742 | (199,753) | 9,986 |
| Total Capital Assets, Not Being Depreciated | <u>217,245</u> | <u>101,742</u> | <u>(199,753)</u> | <u>119,234</u> |
| Depreciable Capital Assets | | | | |
| General Equipment | 2,780 | - | - | 2,780 |
| Cost of Planning & Constructing Sewer System | 4,464,180 | 199,753 | - | 4,663,933 |
| 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 |
| Total Depreciable Capital Assets | <u>4,650,772</u> | <u>199,753</u> | <u>-</u> | <u>4,850,525</u> |
| Less Accumulated Depreciation: | | | | |
| General Equipment | (2,640) | (111) | - | (2,751) |
| Cost of Planning & Constructing Sewer System | (1,549,324) | (187,183) | - | (1,736,507) |
| Owens Road | (20,038) | (5,393) | - | (25,431) |
| Industrial Pretreatment Program | (1,012) | (197) | - | (1,209) |
| Cross Mounds Project | (670) | (122) | - | (792) |
| Earnhart Connection | (210) | (38) | - | (248) |
| Sewers to DuPont | (8,371) | (1,603) | - | (9,974) |
| Total Accumulated Depreciation | <u>(1,582,265)</u> | <u>(194,647)</u> | <u>-</u> | <u>(1,776,912)</u> |
| Total Depreciable Capital Assets, Net | <u>3,068,507</u> | <u>5,106</u> | <u>-</u> | <u>3,073,613</u> |
| Total Capital Assets | <u>\$ 3,285,752</u> | <u>\$ 106,848</u> | <u>\$ (199,753)</u> | <u>\$ 3,192,847</u> |

SCIPPO SEWER DISTRICT
PICKAWAY COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE D – CAPITAL ASSETS - Continued

Capital assets activity for the fiscal year ended December 31, 2005 was as follows:

| | Ending Balance 12/31/04 | Additions | Deletions | Ending Balance 12/31/05 |
|--|-------------------------------|--------------------|-------------|-------------------------------|
| Capital Assets, Not Being Depreciated | | | | |
| Land | \$ 99,819 | \$ - | \$ - | \$ 99,819 |
| Land Easements | 9,429 | - | - | 9,429 |
| Construction in Progress | - | 107,997 | - | 107,997 |
| Total Capital Assets, Not Being Depreciated | <u>109,248</u> | <u>107,997</u> | <u>-</u> | <u>217,245</u> |
| Depreciable Capital Assets | | | | |
| General Equipment | 2,780 | - | - | 2,780 |
| Cost of Planning & Constructing Sewer System | 4,452,183 | 11,997 | - | 4,464,180 |
| 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 |
| Total Depreciable Capital Assets | <u>4,638,775</u> | <u>11,997</u> | <u>-</u> | <u>4,650,772</u> |
| Less Accumulated Depreciation: | | | | |
| General Equipment | (2,529) | (111) | - | (2,640) |
| Cost of Planning & Constructing Sewer System | (1,370,655) | (178,669) | - | (1,549,324) |
| Owens Road | (14,645) | (5,393) | - | (20,038) |
| Industrial Pretreatment Program | (816) | (196) | - | (1,012) |
| Cross Mounds Project | (548) | (122) | - | (670) |
| Earnhart Connection | (172) | (38) | - | (210) |
| Sewers to DuPont | (6,768) | (1,603) | - | (8,371) |
| Total Accumulated Depreciation | <u>(1,396,133)</u> | <u>(186,132)</u> | <u>-</u> | <u>(1,582,265)</u> |
| Total Depreciable Capital Assets, Net | <u>3,242,642</u> | <u>(174,135)</u> | <u>-</u> | <u>3,068,507</u> |
| Total Capital Assets | <u>\$ 3,351,890</u> | <u>\$ (66,138)</u> | <u>\$ -</u> | <u>\$ 3,285,752</u> |

**SCIPPO SEWER DISTRICT
PICKAWAY COUNTY**
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE E – 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, 2006 are as follows:

| | <u>Total Assessment</u> | <u>Principal Collected From Prepays 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 | 761,915 | 1,312,632 | 36.7% |

The details for the fiscal year ended December 31, 2005 are as follows:

| | <u>Total Assessment</u> | <u>Principal Collected From Prepays 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 | 743,915 | 1,330,632 | 35.9% |

Assessment receivable balances at December 31, 2006 and December 31, 2005 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 as 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.

**SCIPPO SEWER DISTRICT
PICKAWAY COUNTY**
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2006 and 2005

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. Including capitalized interest for previous planning and current construction loans of \$317,703, the balances owed, as of December 31, 2006 and December 31, 2005 were \$3,760,964 for both years.

| | Balance 12/31/2005 | Additions | Reductions | Balance 12/31/2006 | Amount due within 1 year |
|--|-----------------------|-------------|-------------|-----------------------|-----------------------------|
| O.W.D.A. Note Payable - 6.87% for planning & construction costs | \$ 3,760,964 | \$ - | \$ - | \$ 3,760,964 | \$ 57,206 |
| Water & Sewer Rotary Commission - 0% | 821,966 | - | - | 821,966 | - |
| Totals | \$ 4,582,930 | \$ - | \$ - | \$ 4,582,930 | \$ 57,206 |

| | Balance 12/31/2004 | Additions | Reductions | Balance 12/31/2005 | Amount due within 1 year |
|---|-----------------------|------------------|-------------------|-----------------------|-----------------------------|
| O.W.D.A. Note Payable - 6.87% for planning & construction costs | \$ 3,784,139 | \$ 76,825 | \$ 100,000 | \$ 3,760,964 | \$ 69,980 |
| The Savings Bank Note Payable - 4.9% for current operating costs | 149,886 | - | 149,886 | - | - |
| Water & Sewer Rotary Commission - 0% | 821,966 | - | - | 821,966 | - |
| Totals | \$ 4,755,991 | \$ 76,825 | \$ 249,886 | \$ 4,582,930 | \$ 69,980 |

Future payments of principal and interest for the O.W.D.A. note payable are as follows:

| As of 12/31/2006: | | Principal | Interest | Total |
|-------------------|-----------|------------------|---------------------|---------------------|
| 2007 | \$ | 57,206 | \$ 257,412 | \$ 314,618 |
| 2008 | | 61,203 | 253,415 | 314,618 |
| 2009 | | 65,480 | 249,138 | 314,618 |
| 2010 | | 70,056 | 244,562 | 314,618 |
| 2011 | | 74,951 | 239,667 | 314,618 |
| 2012-2016 | | 461,035 | 1,112,055 | 1,573,090 |
| 2017-2021 | | 646,262 | 926,827 | 1,573,089 |
| 2022-2026 | | 905,908 | 667,182 | 1,573,090 |
| 2027 | | 1,418,863 | 48,738 | 1,467,601 |
| Total | \$ | 3,760,964 | \$ 3,998,996 | \$ 7,759,960 |

| As of 12/31/2005: | | Principal | Interest | Total |
|-------------------|-----------|------------------|---------------------|---------------------|
| 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 | | 91,689 | 222,929 | 314,618 |
| 2011-2015 | | 563,990 | 1,009,099 | 1,573,089 |
| 2016-2020 | | 790,582 | 782,508 | 1,573,090 |
| 2021-2025 | | 1,108,210 | 464,879 | 1,573,089 |
| 2026-2027 | | 895,839 | 59,633 | 955,472 |
| Total | \$ | 3,760,964 | \$ 3,486,866 | \$ 7,247,830 |

**SCIPPO SEWER DISTRICT
PICKAWAY COUNTY**
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE F – DEBT - Continued

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 was paid off during fiscal year 2005.

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, 2006, the District made no debt payments. For the year ending December 31, 2005, the District made one payment of \$100,000. This amount was applied to the principal balance by OWDA. During the year, the District also incurred a late charge of \$76,825, which was added to the principal balance of the note. 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 loan was obtained to enable the District to make debt service payments on OWDA loans while these properties remain in agricultural status. The term is in effect as long as the properties listed as agricultural status pertaining to this loan do not change. If such properties do not qualify as agricultural status their assessment is collected by the District and payable to the Water and Sewer Rotary Commission within ten days after the status has changed. The agreement was entered into on June 6, 1995. No amortization schedule is provided for this note. There were no payments due to the Water and Sewer Rotary Commission for the fiscal years ended December 31, 2006 and December 31, 2005.

NOTE H – CONTINGENT LIABILITIES

Legal counsel for the District is the law firm of Schottenstein, Zox & Dunn (SZD). There was litigation outstanding as of December 31, 2006 and 2005; however, no determination regarding the ultimate outcome of this litigation can be made at this time.

NOTE I – 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 and natural disasters. 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 reinsured with Plan 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 District had no significant reductions in insurance coverage from prior years. The District has not had any insurance settlements which exceeded insurance coverage during the past three years.

**SCIPPO SEWER DISTRICT
PICKAWAY COUNTY**
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE I – RISK MANAGEMENT - Continued

The Pool's audited financial statements conform with generally accepted accounting principles and reported the following assets, liabilities and retained earnings at December 31, 2006 and 2005:

| | 2006 | 2005 |
|-----------------|--------------|--------------|
| Assets | \$ 9,620,148 | \$ 8,219,430 |
| Liabilities | 3,329,620 | 2,748,639 |
| Members' Equity | \$ 6,290,528 | \$ 5,470,791 |

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 financial statements for the years ended December 31, 2006 and 2005 reflect a going concern issue for the District. The District incurred net losses in 2006 and 2005 of \$298,798 and \$285,368, respectively. The District made no payments to O.W.D.A. during fiscal year 2006 and one payment of \$100,000 during fiscal year 2005 which was less than the required \$314,618 annual payments and is currently in default.

It appears that the District's ability to continue as a going concern may be jeopardized due to the above mentioned factors.

Remedial efforts by the District are underway. These efforts include negotiating with OWDA and working to increase the District's customer base.

NOTE K – CHANGE IN ACCOUNTING PRINCIPLES

For fiscal years 2005 and 2006, the District has implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation* and GASB Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. GASB Statement No. 46 requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. GASB Statement No. 47 establishes accounting standards for termination benefits. The application of these new standards did not have any effect on the financial statements, nor did their implementation require a restatement of prior year balances.

NOTE L – SUBSEQUENT EVENT

On May 9, 2007, Scippo Sewer District signed a letter of intent to sell all of its assets to the Earnhart Hill Regional Water and Sewer District, subject to several conditions. This is not a legally binding agreement. The letter of intent is solely to facilitate negotiations between Scippo, Earnhart Hill and OWDA with respect to the proposed acquisition of Scippo's assets by Earnhart Hill.

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

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

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

We have audited the accompanying financial statements of the business-type activities of the Scippo Sewer District, Pickaway County, (the District), as of and for the years ended December 31, 2006 and 2005, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated August 24, 2007, wherein we noted the District implemented Governmental Accounting Standard Board Statement Numbers 40, 42, 46 and 47. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting. These items are listed as items 2006-004 and 2006-005 in the schedule of findings and responses.

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and responses as items 2006-001, 2006-002 and 2006-003.

We noted certain matters that we reported to management of the District in a separate letter dated August 24, 2007.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the District's responses and, accordingly, we express no opinion on them.

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



Balestra, Harr & Scherer
Balestra, Harr & Scherer, CPAs, Inc.
August 24, 2007

**SCIPPO SEWER DISTRICT
PICKAWAY COUNTY**
December 31, 2006 and 2005
SCHEDULE OF FINDINGS AND RESPONSES

| |
|--|
| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
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| | |
|----------------|----------|
| Finding Number | 2006-001 |
|----------------|----------|

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, 2006 and 2005, the District had made payments to OWDA totaling \$0 and \$100,000, respectively. The annual amount required to be paid per the debt covenants is \$314,618. As of December 31, 2006, the District owes accrued interest of \$507,586. 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.

The District should adjust user fees to an amount sufficient to pay all its scheduled debt payments in accordance with the loan agreement.

Client Response:

The District is currently in negotiations with OWDA regarding this matter which should address this situation during 2007.

| | |
|----------------|----------|
| Finding Number | 2006-002 |
|----------------|----------|

Noncompliance Citation – Expenditures Exceeding Appropriations

Ohio Revised 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.

**SCIPPO SEWER DISTRICT
PICKAWAY COUNTY**
December 31, 2006 and 2005
SCHEDULE OF FINDINGS AND RESPONSES

| | |
|----------------|----------------------|
| Finding Number | 2006-002 (Continued) |
|----------------|----------------------|

Noncompliance Citation – Expenditures Exceeding Appropriations

At December 31, 2005, the District expended in excess of the approved appropriations by the following amount:

| Object Level | Approved Appropriations | Actual Expenditures | Expenditures in Excess of Appropriations |
|----------------|----------------------------|------------------------|--|
| Operations | \$215,000 | \$216,203 | (\$1,203) |
| Debt Service | 48,000 | 253,196 | (205,196) |
| Capital Outlay | 0 | 12,000 | (12,000) |
| Totals | \$263,000 | \$481,399 | (\$218,399) |

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

Client Response:

The District received a large lump sum payment on special assessments during 2005, which provided sufficient cash for the District to pay off their loan with The Savings Bank. The variances noted above were just an oversight as the District had sufficient resources to cover all of the excesses noted above. The District will work to ensure that the appropriations are properly amended for 2007.

| | |
|----------------|----------|
| Finding Number | 2006-003 |
|----------------|----------|

Noncompliance Citation – Certifying Funds Prior to Expenditure

Ohio Revised Code Section 5705.41(D)(1) provides no subdivision shall make any contract or order any expenditures 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.

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 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.

**SCIPPO SEWER DISTRICT
PICKAWAY COUNTY**
December 31, 2006 and 2005
SCHEDULE OF FINDINGS AND RESPONSES

| | |
|----------------|----------------------|
| Finding Number | 2006-003 (Continued) |
|----------------|----------------------|

Noncompliance Citation – Certifying Funds Prior to Expenditure

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. 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 certification may be outstanding at a particular time for any line item appropriation.

The District did not certify funds for most disbursements prior to the time of the obligation during the fiscal years ended December 31, 2006 and 2005, as purchase orders were used only for incidental purposes.

The Clerk should 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 Sections 5705.41(D)(1) and 5705.41(D)(3).

Client Response:

The District does not have a large number of checks written each year and they also do not have very many different contractors. The District believes that the current budgetary process provides sufficient control over the purchasing area given the minimal number of transactions processed per year by the District; however, since this is a legal compliance issue, the District has corrected the issue in 2007.

| | |
|----------------|----------|
| Finding Number | 2006-004 |
|----------------|----------|

Significant Deficiency – Posting of Special Assessment Receipts at Gross Amounts

The District receives special assessment receipts from the County Auditor for special assessments related to the construction of the District’s sewer lines. These funds are collected by the County Auditor and Treasurer and sent to the District, less an administrative fee for processing. However, the District currently posts these amounts at their net value, the total amount received less the applicable auditor fees withheld by the County Auditor. The District should post the gross amounts received from the auditor and show all related fees withheld by the auditor as corresponding memo expenditures.

Client Response:

The District acknowledges that the amount shown is net of the applicable fees; however, the District believes the amount is insignificant and has no net effect on the net income of the District. The District had gross amount on some of their records; however, the District’s ledger did not reflect the gross amount. The District will address this reporting issue for 2007.

SCIPPO SEWER DISTRICT
PICKAWAY COUNTY
December 31, 2006 and 2005
SCHEDULE OF FINDINGS AND RESPONSES

| | |
|----------------|----------|
| Finding Number | 2006-005 |
|----------------|----------|

Significant Deficiency – Bank Reconciliations

The District reports its book balance to the Board of Trustees each month. This report documents beginning balance, receipts, disbursements, and ending balance per its books for the period between meetings. However, the District does not prepare a formal bank reconciliation monthly to verify that its cash balance per books is accurate and complete. Failure to perform a bank reconciliation exposes the District to various risks, including, but not limited to, the failure to timely identify and resolve errors or irregularities in book or bank activity; the inability to identify misappropriation of assets; or misstated cash balances.

The District should implement procedures to ensure that formal bank reconciliations are prepared periodically to ensure cash balances are accurate and complete.

The District hires an outside consultant to prepare its GAAP-based financial statements at year-end, and this consultant identified errors and corrected the year-end cash balances. As a result, there was no adjustment to cash balance proposed by audit.

Client Response:

The District has a very small number of checks written per year and has not had any significant problems in the past as checks generally clear the bank fairly quickly and there are not many outstanding checks or other reconciling items at the end of each month. The District documents an informal bank reconciliation with a check mark to denote that the bank and the books balance, but does not prepare a detailed formal bank reconciliation. The District will consider addressing this issue for 2007.

SCIPPO SEWER DISTRICT
PICKAWAY COUNTY
December 31, 2006 and 2005
SCHEDULE OF PRIOR AUDIT FINDINGS

| | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain: |
|----------|---|------------------|---|
| 2004-001 | Failure to pay debt payments in accordance with OWDA loan agreement | No | Reissued as 2006-001 |
| 2004-002 | Expenditures exceeding appropriations | No | Reissued as 2006-002 |
| 2004-003 | Failure to certify funds prior to expenditure | No | Reissued as 2006-003 |



Mary Taylor, CPA
Auditor of State

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
OCTOBER 9, 2007**