

Scippo Sewer District

Pickaway County, Ohio

Final Audit

January 1, 2007 through April 30, 2008

Fiscal Years Audited Under GAGAS: 2008 and 2007

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Mary Taylor, CPA
Auditor of State

Board of Directors
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, 2007 through April 30, 2008. 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 14, 2009

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

Independent Auditor's Report

We have audited the accompanying financial statements of the business-type activities of the Scippo Sewer District, Pickaway County, Ohio, (the District), as of and for the four month period ended April 30, 2008 and year ended December 31, 2007, 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 the 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 opinions.

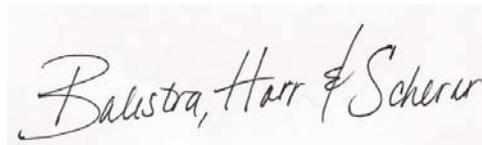
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District, as of April 30, 2008 and December 31, 2007, and the changes in financial position and cash flows thereof for the periods then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis information on pages 3 through 7 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted 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 noted in Note K and J of the financial statements the District was acquired by Earnhart Hill Regional Water and Sewer District effective May 1, 2008 and these are the final financial statements for the District.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2009, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

As described in Note 14 to the basic financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statements No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*.

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

Balestra, Harr & Scherer, CPAs, Inc.
June 30, 2009

**SCIPPO SEWER DISTRICT
PICKAWAY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FOUR MONTH PERIOD ENDED APRIL 30, 2008
AND THE FISCAL YEAR ENDED DECEMBER 31, 2007
(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 April 30, 2008 by \$1,669,119. The District's net assets decreased by \$8,945 during the four month period ended April 30, 2008.

The total liabilities of SSD exceeded total assets on December 31, 2007 by \$1,660,174. The District's net assets decreased by \$86,123 (5.5%) in 2007.

The District's operating revenues increased by \$16,667 (11.0%) in 2007. Operating expenses decreased slightly in 2007.

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). 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 four months ended April 30, 2008 and the year ended December 31, 2007 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 FOUR MONTH PERIOD ENDED APRIL 30, 2008
AND THE FISCAL YEAR ENDED DECEMBER 31, 2007**

(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>2008</u>	<u>2007</u>	<u>Change Amount</u>	<u>2006</u>	<u>Change Amount</u>
Current and Other Assets	\$ 2,004,130	\$ 1,953,332	\$ 50,798	\$ 1,854,346	\$ 98,986
Capital Assets	2,933,545	2,998,363	(64,818)	3,192,847	(194,484)
Total Assets	4,937,675	4,951,695	(14,020)	5,047,193	(95,498)
Long Term Liabilities	5,457,028	5,426,943	30,085	5,430,940	(3,997)
Current and Other Liabilities	1,149,766	1,184,926	(35,160)	1,190,304	(5,378)
Total Liabilities	6,606,794	6,611,869	(5,075)	6,621,244	(9,375)
Net Assets					
Invested in Capital Assets, Net of Related Debt	(1,649,385)	(1,584,567)	(64,818)	(1,390,083)	(194,484)
Unrestricted	(19,734)	(75,607)	55,873	(183,968)	108,361
Total Net Assets	\$ (1,669,119)	\$ (1,660,174)	\$ (8,945)	\$ (1,574,051)	\$ (86,123)

The District's Net Assets decreased by \$8,945 (0.5%) in the four month period ended April 30, 2008 and by \$86,123 (5.5%) in 2007.

Invested in Capital Assets, Net of Related Debt decreased by \$64,818 in the four month period ended April 30, 2008 and by \$194,484 in 2007. The decrease in 2008 and 2007 was due to depreciation expense.

Unrestricted assets increased by \$55,873 (73.9%) in the four month period ended April 30, 2008 and by \$108,361 (58.9%) in 2007; however, unrestricted assets remain negative. Unrestricted assets may be used without constraints established by bond covenants or other legal requirements. Cash and Cash equivalents increased \$84,534 in the four month period ended April 30, 2008 and \$128,584 in 2007. The primary reason that cash and cash equivalents increased and that current and other liabilities increased in 2007 was due to no OWDA debt service payments being made during 2008 or 2007.

**SCIPPO SEWER DISTRICT
PICKAWAY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FOUR MONTH PERIOD ENDED APRIL 30, 2008
AND THE FISCAL YEAR ENDED DECEMBER 31, 2007**

(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>2008</u>	<u>2007</u>	<u>Difference</u>	<u>2006</u>	<u>Difference</u>
Operating Revenues	\$ 65,134	\$ 168,450	\$ (103,316)	\$ 151,783	\$ 16,667
Total Operating Revenues	65,134	168,450	(103,316)	151,783	16,667
Operating Expenses (Excluding Depreciation and Amortization)	30,037	107,759	(77,722)	128,579	(20,820)
Depreciation and Amortization Expenses	65,308	195,953	(130,645)	196,116	(163)
Total Operating Expenses	95,345	303,712	(208,367)	324,695	(20,983)
Operating Loss	(30,211)	(135,262)	105,051	(172,912)	37,650
Non-Operating Revenues	148,490	306,551	(158,061)	46,309	260,242
Non-Operating Expenses	127,224	257,412	(130,188)	258,378	(966)
Capital Contributions	-	-	-	86,183	(86,183)
Changes in Net Assets	(8,945)	(86,123)	77,178	(298,798)	212,675
Net Assets at Beginning of Year	(1,660,174)	(1,574,051)	(86,123)	(1,275,253)	(298,798)
Net Assets at End of Year	\$ (1,669,119)	\$ (1,660,174)	\$ (8,945)	\$ (1,574,051)	\$ (86,123)

Total operating revenues were \$65,134 for the four month period ended April 30, 2008. Overall, net assets decreased \$8,945.

Total operating revenues increased \$16,667 (11.0%) in 2007. Increases in 2007 revenues were primarily a result of higher sewer billing collections. Total operating expenses decreased slightly in 2007. The increase in non-operating revenues relates to subsidized interest expense from the OWDA loan. Capital contributions will fluctuate from year to year depending on construction activity, and improvement projects that may qualify for special assessment and/or grant monies. There were no capital contributions in 2007.

**SCIPPO SEWER DISTRICT
PICKAWAY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FOUR MONTH PERIOD ENDED APRIL 30, 2008
AND THE FISCAL YEAR ENDED DECEMBER 31, 2007**

(Unaudited)

CAPITAL ASSETS

The District had \$4.97 million invested in Capital Assets (before depreciation) at April 30, 2008 and at December 30, 2007. This amount is the same as 2006.

The decrease in net capital assets is due to depreciation expense in 2008 and 2007. Please see Note D to the basic financial statements for additional information regarding capital assets.

Table 3

	<u>2008</u>	<u>2007</u>	<u>Change Amount</u>	<u>2006</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	(9,986)
General Equipment	2,780	2,780	-	2,780	-
Cost of Planning and Constructing					
Sewer System	4,673,919	4,673,919	-	4,663,933	9,986
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>4,969,759</u>	<u>-</u>	<u>4,969,759</u>	<u>-</u>
Accumulated Depreciation	(2,036,214)	(1,971,396)	(64,818)	(1,776,912)	(194,484)
Net Capital Assets	<u>\$ 2,933,545</u>	<u>\$ 2,998,363</u>	<u>\$ (64,818)</u>	<u>\$ 3,192,847</u>	<u>\$ (194,484)</u>

**SCIPPO SEWER DISTRICT
PICKAWAY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FOUR MONTH PERIOD ENDED APRIL 30, 2008
AND THE FISCAL YEAR ENDED DECEMBER 31, 2007
(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>2008</u>	<u>2007</u>	<u>Change Amount</u>	<u>2006</u>	<u>Change Amount</u>
Ohio Water Development Authority (OWDA)	\$ 3,760,964	\$ 3,760,964	\$ -	\$ 3,760,964	\$ -
Rotary Commission	821,966	821,966	-	821,966	-
Total Long Term Debt	4,582,930	4,582,930	-	4,582,930	-
Less: Current Maturities	31,118	61,203	(30,085)	57,206	3,997
Net Total Long Term Debt	<u>\$ 4,551,812</u>	<u>\$ 4,521,727</u>	<u>\$ 30,085</u>	<u>\$ 4,525,724</u>	<u>\$ (3,997)</u>

The District made no principal payments during the four month period ended April 30, 2008 or the fiscal year ended December 31, 2007. Please see Note F to the basic financial statements for additional information regarding debt.

CASH

Cash and cash equivalents were \$645,084 on April 30, 2008 and \$560,550 on December 31, 2007.

CURRENT FINANCIAL RELATED ACTIVITIES

The financial statements for the four month period ended April 30, 2008 and the year ended December 31, 2007 represent the final financial statements for the District. The District incurred a net loss for the four month period ended April 30, 2008 and for the year ended December 31, 2007 of \$8,945 and \$86,123, respectively. The District made no payments to O.W.D.A. during fiscal years 2008, 2007 or 2006. The required annual payment is \$314,618 and the loan is currently in default.

Negotiations are underway to arrange for the takeover of Scippo Sewer District by Earnhart Hill Regional Water and Sewer District. The District is currently being managed by Earnhart Hill Regional Water and Sewer District until completion of the takeover.

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

April 30, 2008 and December 31, 2007

	2008	2007
ASSETS		
CURRENT ASSETS		
Cash in bank	\$ 645,084	\$ 560,550
Accounts receivable - operating billings	15,830	22,458
TOTAL CURRENT ASSETS	660,914	583,008
NONCURRENT ASSETS		
Capital assets, not being depreciated	109,248	109,248
Depreciable capital assets - net	2,824,297	2,889,115
Other Assets:		
Prepaid insurance	1,893	1,657
Loan fees, net of accumulated amortization of \$16,767 and \$16,277 for 2008 and 2007	15,800	16,289
Assessment receivables - planning and construction	1,325,523	1,352,378
TOTAL OTHER ASSETS	1,343,216	1,370,324
TOTAL ASSETS	4,937,675	4,951,695
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	1,943	7,018
Savings Bank - Notes Payable - current portion	5,360	5,360
OWDA note payable - current portion	31,118	61,203
Accrued interest payable	1,111,345	1,111,345
TOTAL CURRENT LIABILITIES	1,149,766	1,184,926
NONCURRENT LIABILITIES		
OWDA note payable - net of current portion	3,729,846	3,699,761
Rotary note payable	821,966	821,966
Deferred revenue - planning agricultural	55,878	55,878
Deferred revenue - construction agricultural	849,338	849,338
TOTAL NONCURRENT LIABILITIES	5,457,028	5,426,943
TOTAL LIABILITIES	6,606,794	6,611,869
NET ASSETS		
Invested in capital assets, net of related debt	(1,649,385)	(1,584,567)
Unrestricted	(19,734)	(75,607)
TOTAL NET ASSETS	\$ (1,669,119)	\$ (1,660,174)

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 Four Month Period Ended April 30, 2008 and the Year Ended December 31, 2007

	2008	2007
OPERATING REVENUES		
Service fee income	\$ 65,134	\$ 168,450
OPERATING EXPENSES		
Trustee fees	300	3,525
Contract labor	2,657	9,743
Operations and testing of plant/billing fees	6,523	31,861
Repairs and maintenance	7,116	28,631
Engineering	-	1,487
Legal	4,960	6,313
Accounting and audit	-	6,000
Insurance	4,383	7,126
Telephone	345	775
Utilities	3,142	10,567
Licenses	500	1,150
Postage	-	117
Office supplies	-	19
Advertising and communication	90	445
Bank service fees	21	-
Depreciation	64,818	194,484
Amortization	490	1,469
Total operating expenses	95,345	303,712
Operating loss	(30,211)	(135,262)
NON-OPERATING REVENUES (EXPENSES)		
Interest income - assessments	14,975	31,365
Interest income - savings	6,285	15,797
Intergovernmental revenue	127,224	257,412
Contractor licenses	-	15
Rental income	-	1,150
Miscellaneous income	6	812
Interest and fiscal charges expense	(127,224)	(257,412)
Net non-operating revenues (expenses)	21,266	49,139
CHANGES IN NET ASSETS	(8,945)	(86,123)
NET ASSETS, BEGINNING OF YEAR	(1,660,174)	(1,574,051)
NET ASSETS, END OF YEAR	\$ (1,669,119)	\$ (1,660,174)

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 Four Month Period Ended April 30, 2008 and the Year Ended December 31, 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 71,762	\$ 178,794
Cash payments to suppliers for goods and services	(32,391)	(103,878)
Cash payments for clerk and trustees	(2,957)	(13,268)
Net cash provided by/(used for) operating activities	<u>36,414</u>	<u>61,648</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
OWDA interest payments	(127,224)	(257,412)
Subsidized OWDA interest payment	127,224	257,412
Special assessments collections	26,854	17,797
Special assessment interest income	14,975	31,365
Net cash provided by/(used for) capital and related financing activities	<u>41,829</u>	<u>49,162</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Rental income	-	1,150
Contractor licenses	-	15
Miscellaneous income	6	812
Net cash provided by non-capital financing activities	<u>6</u>	<u>1,977</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on savings account	6,285	15,797
Net increase in cash and cash equivalents	84,534	128,584
Cash and cash equivalents at beginning of year	560,550	431,966
Cash and cash equivalents at end of year	<u>\$ 645,084</u>	<u>\$ 560,550</u>
Reconciliation of Operating Loss to Net Cash Provided by/(Used for) Operating Activities:		
Operating loss	\$ (30,211)	\$ (135,262)
Adjustments to Reconcile Operating Loss to Net Cash Provided by/(Used for) Operating Activities:		
Depreciation and Amortization	65,308	195,953
Changes in assets and liabilities:		
Decrease/(Increase) in accounts receivable	6,628	10,344
Decrease/(Increase) in prepaid insurance	(236)	(12)
Increase/(Decrease) in accounts payable (operating)	(5,075)	(9,375)
Total adjustments	<u>66,625</u>	<u>196,910</u>
Net cash used by operating activities	<u>\$ 36,414</u>	<u>\$ 61,648</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
April 30, 2008 and December 31, 2007

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
April 30, 2008 and December 31, 2007

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 statements. 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 four month period ended April 30, 2008 and the year December 31, 2007 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. Encumbrances outstanding at year end are canceled and re-appropriated in the subsequent year.

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 2008 and 2007.

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 April 30, 2008 and December 31, 2007, 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
April 30, 2008 and December 31, 2007

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 the four month period ended April 30, 2008 and the year ended December 31, 2007 was \$64,818 and \$194,484, 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 the four month period ended April 30, 2008 and the year ended December 31, 2007 was \$490 and \$1,469, respectively.

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.

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
April 30, 2008 and December 31, 2007

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES - Continued

14. Prepaid Items

Payments made to vendors for services that will benefit periods beyond April 30, 2008 and December 31, 2007, 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
April 30, 2008 and December 31, 2007

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.

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 April 30, 2008, the District's bank balance of \$644,589 is either covered by FDIC or collateralized by the financial institutions public entity deposit pools in the manner described above. As of December 31, 2007, the District's bank balance of \$560,512 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
April 30, 2008 and December 31, 2007

NOTE D – CAPITAL ASSETS

Capital assets activity for the four month period ended April 30, 2008 was as follows:

	Ending Balance <u>12/31/07</u>	Additions	Deletions	Ending Balance <u>4/30/2008</u>
Capital Assets, Not Being Depreciated				
Land	\$ 99,819	\$ -	\$ -	\$ 99,819
Land Easements	9,429	-	-	9,429
Total Capital Assets, Not Being Depreciated	<u>109,248</u>	-	-	<u>109,248</u>
Depreciable Capital Assets				
General Equipment	2,780	-	-	2,780
Cost of Planning & Constructing Sewer System	4,673,919	-	-	4,673,919
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>4,860,511</u>	-	-	<u>4,860,511</u>
Less Accumulated Depreciation:				
General Equipment	(2,780)	-	-	(2,780)
Cost of Planning & Constructing Sewer System	(1,923,609)	(62,367)	-	(1,985,976)
Owens Road	(30,824)	(1,798)	-	(32,622)
Industrial Pretreatment Program	(1,406)	(65)	-	(1,471)
Cross Mounds Project	(914)	(41)	-	(955)
Earnhart Connection	(286)	(13)	-	(299)
Sewers to DuPont	(11,577)	(534)	-	(12,111)
Total Accumulated Depreciation	<u>(1,971,396)</u>	<u>(64,818)</u>	-	<u>(2,036,214)</u>
Total Depreciable Capital Assets, Net	<u>2,889,115</u>	<u>(64,818)</u>	-	<u>2,824,297</u>
Total Capital Assets	<u>\$ 2,998,363</u>	<u>\$ (64,818)</u>	<u>\$ -</u>	<u>\$ 2,933,545</u>

SCIPPO SEWER DISTRICT
PICKAWAY COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
April 30, 2008 and December 31, 2007

NOTE D – CAPITAL ASSETS - Continued

Capital assets activity for the fiscal year ended December 31, 2007 was as follows:

	Ending Balance 12/31/06	Additions	Deletions	Ending Balance 12/31/07
Capital Assets, Not Being Depreciated				
Land	\$ 99,819	\$ -	\$ -	\$ 99,819
Land Easements	9,429	-	-	9,429
Construction in Progress	9,986	-	(9,986)	-
Total Capital Assets, Not Being Depreciated	119,234	-	(9,986)	109,248
Depreciable Capital Assets				
General Equipment	2,780	-	-	2,780
Cost of Planning & Constructing Sewer System	4,663,933	9,986	-	4,673,919
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	4,850,525	9,986	-	4,860,511
Less Accumulated Depreciation:				
General Equipment	(2,751)	(29)	-	(2,780)
Cost of Planning & Constructing Sewer System	(1,736,507)	(187,102)	-	(1,923,609)
Owens Road	(25,431)	(5,393)	-	(30,824)
Industrial Pretreatment Program	(1,209)	(197)	-	(1,406)
Cross Mounds Project	(792)	(122)	-	(914)
Earnhart Connection	(248)	(38)	-	(286)
Sewers to DuPont	(9,974)	(1,603)	-	(11,577)
Total Accumulated Depreciation	(1,776,912)	(194,484)	-	(1,971,396)
Total Depreciable Capital Assets, Net	3,073,613	(184,498)	-	2,889,115
Total Capital Assets	\$ 3,192,847	\$ (184,498)	\$ (9,986)	\$ 2,998,363

SCIPPO SEWER DISTRICT
PICKAWAY COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
 April 30, 2008 and December 31, 2007

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 four month period ended April 30, 2008 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	806,567	1,267,980	38.9%

The details for the fiscal year ended December 31, 2007 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	779,712	1,294,835	37.6%

Assessment receivable balances at April 30, 2008 and December 31, 2007 include deferred agricultural property assessments of \$55,878 and \$849,338 for planning and construction, respectively. These amounts are recorded as deferred revenue in the accompanying financial statements and will be collected when the properties no longer qualify for agricultural property status, as defined in the Ohio Revised Code Chapter 929, and as certified by the County Auditor. The time frame for collection is undeterminable.

SCIPPO SEWER DISTRICT
PICKAWAY COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
April 30, 2008 and December 31, 2007

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 April 30, 2008 and December 31, 2007 were \$3,760,964 for both years.

	<u>Balance</u> <u>12/31/2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>4/30/2008</u>	<u>Amount due</u> <u>within 1 year</u>
O.W.D.A. Note Payable - 6.87% for planning & construction costs	\$ 3,760,964	\$ -	\$ -	\$ 3,760,964	\$ 31,118
Water & Sewer Rotary Commission - 0%	821,966	-	-	821,966	-
Totals	<u>\$ 4,582,930</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,582,930</u>	<u>\$ 31,118</u>

	<u>Balance</u> <u>12/31/2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/2007</u>	<u>Amount due</u> <u>within 1 year</u>
O.W.D.A. Note Payable - 6.87% for planning & construction costs	\$ 3,760,964	\$ -	\$ -	\$ 3,760,964	\$ 61,203
Water & Sewer Rotary Commission - 0%	821,966	-	-	821,966	-
Totals	<u>\$ 4,582,930</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,582,930</u>	<u>\$ 61,203</u>

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

As of 4/30/2008:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008 *	\$ 31,118	\$ 126,191	\$ 157,309
2009	65,480	249,138	314,618
2010	70,056	244,562	314,618
2011	74,951	239,667	314,618
2012	80,189	234,429	314,618
2013-2017	493,252	1,079,838	1,573,090
2018-2022	691,423	881,667	1,573,090
2023-2027	2,254,495	561,867	2,816,362
Total	<u>\$ 3,760,964</u>	<u>\$ 3,617,359</u>	<u>\$ 7,378,323</u>

As of 12/31/2007:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	80,189	234,429	314,618
2013-2017	493,252	1,079,838	1,573,090
2018-2022	691,423	881,667	1,573,090
2023-2027	2,224,410	560,834	2,785,244
Total	<u>\$ 3,760,964</u>	<u>\$ 3,743,550</u>	<u>\$ 7,504,514</u>

* The remaining payment for 2008 in the amortization schedule as of April 30, 2008 reflects a partial year.

SCIPPO SEWER DISTRICT
PICKAWAY COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
April 30, 2008 and December 31, 2007

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.

In connection with the OWDA loan listed above, the District has pledged future customer revenues, net of specified operating expenses, to repay this debt. Pledged revenues of a given year may also include specified portions of cash balances carried over from the prior year. The loan is payable, through its final maturity as listed above, solely from net revenues. Total interest and principal remaining to be paid on this loan is \$7,378,323 at April 30, 2008 and \$7,504,514 at December 31, 2007. For the four-month period ended April 30, 2008, net revenue available, principal and interest paid and the coverage ratio is as follows: \$34,607, \$0, and 0.00, respectively. For the year ended December 31, 2007, net revenue available, principal and interest paid and the coverage ratio is as follows: \$59,222, \$0 and 0.00, respectively.

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 four month period ended April 30, 2008 and the year ended December 31, 2007, the District made no debt payments. 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 four month period ended April 30, 2008 and the fiscal year ended December 31, 2007.

NOTE H – CONTINGENT LIABILITIES

Legal counsel for the District is the law firm of Schottenstein, Zox & Dunn (SZD). There was litigation outstanding as of April 30, 2008 and December 31, 2007; 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
April 30, 2008 and December 31, 2007

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, 2007 and 2006 (the latest available):

	2007	2006
Assets	\$ 11,136,455	\$ 9,620,148
Liabilities	4,273,553	3,329,620
Members' Equity	\$ 6,862,902	\$ 6,290,528

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 – FINAL FINANCIAL STATEMENTS

The financial statements for the four month period ended April 30, 2008 and the year ended December 31, 2007 represent the final financial statements for the District. The District incurred a net loss for the four month period ended April 30, 2008 and for the year ended December 31, 2007 of \$8,945 and \$86,123, respectively. The District made no payments to O.W.D.A. during fiscal years 2008, 2007 or 2006. The required annual payment is \$314,618 and the loan is currently in default.

NOTE K – AQUISITION OF OPERATIONS AND SUBSEQUENT EVENTS

Scippo Sewer District was acquired by the Earnhart Hill Regional Water and Sewer District effective May 1, 2008. The Scippo Sewer District was dissolved on this date with Earnhart Hill taking over operations. However, negotiations with the O.W.D.A. and other pertinent items were not finalized until December 18, 2008 with O.W.D.A. providing loan number 4996 in the amount of \$2,063,176 and a grant in the amount of \$706,034 to Earnhart Hill Regional Water and Sewer District to acquire Scippo Sewer District. This resolved Scippo Sewer District’s outstanding obligations to O.W.D.A. and allowed for the final transfer of assets to Earnhart Hill Regional Sewer District. Earnhart Hill Regional Water and Sewer District assumed assets of \$4,937,675, the liability due to the Water and Sewer Rotary Commission in the amount of \$821,966 and other current and non-current liabilities on Scippos Sewer District basic financial statements as of April 30, 2008 in the final negotiations with O.W.D.A.

NOTE L – CHANGE IN ACCOUNTING PRINCIPLES

For the fiscal year 2007, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 48, *Sales and Pledges of Receivables and Future Revenue and Intra-Equity Transfers of Assets and Future Revenues*, which establishes criteria that governments use to ascertain whether certain transactions should be regarded as sales or collateralized borrowings, and disclosures requirements for future revenues that are pledged or sold. The implementation of the Statement had no effect on the net assets of the District as previously reported.

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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*

Board of Directors
Scippo Sewer District
P.O. Box 422
Circleville, Ohio 45662

We have audited the business-type activities of the Scippo Sewer District, (the District) as of and for the four month period ended April 30, 2008 and the year ended December 31, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated June 30, 2009, wherein we noted the District implemented Governmental Accounting Standard Board Statement No. 48. Also, we noted the District was acquired by Earnhart Hill Regional Water and Sewer District and this is the District's final financial statements. 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.

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.

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 presented 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 or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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, CPAs, Inc.
June 30, 2009



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
SEPTEMBER 24, 2009**