

SCIPPO SEWER DISTRICT
PICKAWAY COUNTY
REGULAR AUDIT

JANUARY 1, 2001 THROUGH DECEMBER 31, 2002

FISCAL YEARS AUDITED UNDER GAGAS:
2002 and 2001

BALESTRA & COMPANY

(A division of Harr & Scherer CPAs, Inc.)
CERTIFIED PUBLIC ACCOUNTANTS
528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639 E-Mail: mbalcpa@bright.net



**Auditor of State
Betty Montgomery**

Board of Trustees
Scippo Sewer District
Circleville, Ohio

We have reviewed the Independent Auditor's Report of the Scippo Sewer District, Pickaway County, prepared by Balestra & Company, for the audit period January 1, 2001 through December 31, 2002. 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.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

August 22, 2003

This Page is Intentionally Left Blank.

Scippo Sewer District
Pickaway County
For the years Ended December 31, 2002 and 2001

Table of Contents

Independent Auditors’ Report 1

General Purpose Financial Statements-Proprietary Fund Type,
for the years ending December 31, 2002 and 2001

Balance Sheets – Proprietary Fund Type..... 2-3

Statements of Revenues, Expenses, and Changes in Accumulated Deficit – Proprietary Fund Type4

Statements of Cash Flows – Proprietary Fund Type5

Notes to the Financial Statements..... 7-13

Report on Compliance and on Internal Control Over Financial Reporting Based
on an Audit of the Financial Statements Performed in Accordance
With *Government Audit Standards* 14

This Page is Intentionally Left Blank.

BALESTRA & COMPANY

(A division of Harr & Scherer CPAs, Inc.)
CERTIFIED PUBLIC ACCOUNTANTS
528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639 E-Mail: mbalcpa@bright.net

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditors' Report

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

We have audited the accompanying general purpose financial statements of the Scippo Sewer District, Pickaway County, (the "District"), as of and for the years ended December 31, 2002 and 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Scippo Sewer District, as of December 31, 2002 and 2001, and the results of its operations and cash flows of its proprietary fund for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated June 20, 2003 on our consideration of the Scippo Sewer District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note C to the general purpose financial statements, the District implemented Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, and Governmental Accounting Standards Board Statement No. 36, *Recipient Reporting for Certain Shared Non-exchange Revenues* (an amendment of GASB Statement No. 33).

The accompanying financial statements have been prepared assuming that the District will continue as a going concern. As discussed in Note L to the financial statements, the District has suffered recurring net losses and has restructured its outstanding loan in 2002 and was still unable to meet its debt obligation in January of 2003 which raises substantial doubt as to the District's ability to continue as a going concern. Management's plans in regard to this matter is also described in Note L. The general-purpose financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Balestra & Company

Balestra & Company

June 20, 2003

SCIPPO SEWER DISTRICT

BALANCE SHEETS - PROPRIETARY FUND TYPE

December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
ASSETS		
CURRENT ASSETS		
Cash in bank	\$ 281,791	\$ 80,965
Accounts receivable - operating billings	<u>4,956</u>	<u>5,014</u>
TOTAL CURRENT ASSETS	<u>286,747</u>	<u>85,979</u>
RESTRICTED ASSETS		
Assessment receivables - planning	60,760	161,850
Assessment receivables - construction	<u>1,808,291</u>	<u>1,821,346</u>
TOTAL RESTRICTED ASSETS	<u>1,869,051</u>	<u>1,983,196</u>
PROPERTY, PLANT AND EQUIPMENT		
Land	99,819	99,819
Land easements	9,429	9,429
General Equipment	2,780	0
Cost of planning and constructing sewer system	4,256,294	4,199,248
Owens Road	134,836	134,836
Industrial pretreatment program	4,913	4,913
Cross Mounds project	3,043	3,043
Earnhart connection	945	945
Sewers to Dupont	<u>40,076</u>	<u>40,076</u>
Total Gross Property, Plant and Equipment	4,552,135	4,492,309
Less: Accumulated depreciation	<u>(1,028,118)</u>	<u>(852,105)</u>
NET PROPERTY, PLANT AND EQUIPMENT	<u>3,524,017</u>	<u>3,640,204</u>
OTHER ASSETS		
Prepaid insurance	298	1,311
Loan fees, net of accumulated amortization of \$8,934 and \$7,465 for 2002 and 2001	<u>23,632</u>	<u>25,101</u>
TOTAL OTHER ASSETS	<u>23,930</u>	<u>26,412</u>
 TOTAL ASSETS	 <u>\$ 5,703,745</u>	 <u>\$ 5,735,791</u>

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

	<u>2002</u>	<u>2001</u>
LIABILITIES AND FUND EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 4,965	\$ 9,319
Savings Bank - Notes Payable	149,886	0
Dupont - Construction - Advance	172,000	0
Contractor bonds payable	5,360	5,360
Accrued interest	<u>127,430</u>	<u>129,351</u>
TOTAL CURRENT LIABILITIES	<u>459,641</u>	<u>144,030</u>
LONG-TERM LIABILITIES		
OWDA note payable	3,679,890	3,643,892
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 LONG-TERM LIABILITIES	<u>5,407,072</u>	<u>5,371,074</u>
FUND EQUITY		
Contributed capital:		
Grant - Ohio Public Works Commission	40,965	40,965
Donation	150,000	150,000
Planning assessments	553,345	553,345
Construction assessments	1,225,209	1,225,209
Accumulated deficit	<u>(2,132,487)</u>	<u>(1,748,832)</u>
TOTAL FUND EQUITY	<u>(162,968)</u>	<u>220,687</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 5,703,745</u>	<u>\$ 5,735,791</u>

SCIPPO SEWER DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN ACCUMULATED DEFICIT- PROPRIETARY FUND TYPE

For the Years Ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
OPERATING REVENUES		
Service fee income	\$ 61,137	\$ 53,983
OPERATING EXPENSES		
Trustee fees	4,875	4,350
Contract labor	8,800	9,600
Operations and testing of plant/billing fees	29,180	32,611
Cost of Meters	598	0
Sludge Hauling	100	0
Repairs and maintenance	9,562	2,024
Engineering	10,085	10,452
Legal	3,961	31
Accounting and audit	5,226	6,743
Insurance	2,203	3,765
Telephone	1,139	878
Utilities	11,902	9,422
Licenses	725	500
Postage	82	92
Office supplies	18	0
Advertising and communication	0	87
Bank service fees	187	154
Depreciation	<u>176,013</u>	<u>173,363</u>
Total operating expenses	<u>264,656</u>	<u>254,072</u>
Operating loss	<u>(203,519)</u>	<u>(200,089)</u>
OTHER INCOME (EXPENSE)		
Amortization	(1,469)	(1,469)
Sludge disposal income	0	210
Interest income - assessments	74,569	85,503
Interest income - savings	2,438	3,564
Contractor licenses	1,015	30
Tap Fee Revenue	1,180	0
Rental income	1,150	1,150
Interest expense	<u>(259,019)</u>	<u>(267,697)</u>
Net other income (expense)	<u>(180,136)</u>	<u>(178,709)</u>
NET LOSS	(383,655)	(378,798)
Accumulated deficit, beginning of year	<u>(1,748,832)</u>	<u>(1,370,034)</u>
Accumulated deficit, end of year	<u>\$ (2,132,487)</u>	<u>\$ (1,748,832)</u>

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

SCIPPO SEWER DISTRICT

STATEMENTS OF CASH FLOWS - PROPRIETARY FUND TYPE

For the Years Ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 61,195	\$ 61,060
Cash payments to suppliers for goods and services	(78,309)	(63,106)
Cash payments for clerk and trustees	(13,675)	(13,950)
Net cash used by operating activities	<u>(30,789)</u>	<u>(15,996)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Sludge disposal income	<u>0</u>	<u>210</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Rental income	1,150	1,150
Contractor licenses	1,015	30
Tap Fee Revenue	1,180	0
OWDA principal payments	(29,878)	(41,558)
OWDA interest payments	(195,064)	(126,177)
Proceeds from Savings Bank Loan	150,000	0
Savings Bank Loan principal payment	(114)	0
Proceeds from Dupont	172,000	0
Special assessments collections	114,145	106,236
Special assessment interest income	74,569	85,503
Capital outlay	(59,826)	(28,774)
Net cash provided by/(used) by capital and related financing activities	<u>229,177</u>	<u>(3,590)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on cash	<u>2,438</u>	<u>3,564</u>
Net increase/(decrease) in cash and cash equivalents	200,826	(15,812)
Cash and cash equivalents at beginning of year	<u>80,965</u>	<u>96,777</u>
Cash and cash equivalents at end of year	<u>\$ 281,791</u>	<u>\$ 80,965</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities:		
Operating loss	\$ (203,519)	\$ (200,089)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation	176,013	173,363
Changes in assets and liabilities:		
Decrease/(Increase) in accounts receivable	58	7,077
Decrease/(Increase) in prepaid insurance	1,013	(168)
Increase/(Decrease) in accounts payable	(4,354)	3,821
Total adjustments	<u>172,730</u>	<u>184,093</u>
Net cash used by operating activities	<u>\$ (30,789)</u>	<u>\$ (15,996)</u>

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

This Page Intentionally Left Blank.

SCIPPO SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and 2001

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 insure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations and sewer related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District has no component units.

The significant accounting policies followed in the preparation of these financial statements conform to generally accepted accounting principles for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. Under the guidelines of GASB Statement No. 20, the District has elected not to apply Financial Accounting Standards Board statements and interpretations issued after November 30, 1989 to its proprietary activities. A summary of the significant accounting policies consistently applied in preparation of the accompanying financial statements follows:

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

The accounts of the District are organized on the basis of funds, to report on its financial position and the results of its operations, each of which is considered a separate accounting entity. The District has created a single type of fund and a single fund within that fund type. The fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenses. This fund accounts for the governmental resources allocated to it for the purpose of carrying on specific activities in accordance with laws, regulations or other restrictions. The fund type used by the District is described below:

Proprietary Fund Type - This fund type accounts for operations that are organized to be self-supporting through user charges. The fund included in this category used by the District is the Enterprise Fund.

Enterprise Fund - This fund is established to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

SCIPPO SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and 2001

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES - Continued

2. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial 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 balance sheet. Fund equity is segregated into accumulated deficit and contributed capital components.

3. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually. The District has adopted a budget for the year ended December 31, 2002 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.

A summary of budgetary activity appears in Note E.

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.

SCIPPO SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and 2001

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES - Continued

5. **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.

6. **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.

7. **Property, Plant and Equipment**

Property, plant and equipment are stated at cost and are depreciated over the estimated useful lives of the assets, which is designated at 25 years for planning and construction costs. In addition, interest costs incurred during the construction of the sewer system are capitalized and included in property, plant and equipment. 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.

8. **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 2002 and 2001 was \$1,469 each year.

9. **Income Tax**

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

10. **Interest Expense**

Interest expense represents the interest portion of planning and construction loan payments to the Ohio Water Development Authority.

11. **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.

NOTE C – CHANGES IN ACCOUNTING PRINCIPLES

For the year ended December 31, 2001, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, and Governmental Accounting Standards Board (GASB) Statement No. 36, *Recipient Reporting for Certain Shared Non-exchange Revenues*. These statements establish accounting and financial reporting standards for non-exchange transactions.

NOTE D – EQUITY IN POOLED CASH AND INVESTMENTS – LEGAL REQUIREMENTS FOR DEPOSITS WITH FINANCIAL INSTITUTIONS

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.

SCIPPO SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and 2001

NOTE D – EQUITY IN POOLED CASH AND INVESTMENTS – LEGAL REQUIREMENTS FOR DEPOSITS WITH FINANCIAL INSTITUTIONS - Continued

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

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

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

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

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) of this footnote and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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

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

The following information classifies deposits by categories of risk as defined in GASB Statement No. 3, "*Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements.*" The District held no investments during fiscal year 2002 or 2001.

SCIPPO SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and 2001

NOTE G – 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 both previous planning and current construction loans of \$317,703, the balance owed, as of December 31, 2002 is \$3,679,890.

Future payments of principal and interest are as follows, including interest of \$4,028,251:

	2003	\$	314,618
	2004		314,618
	2005		314,618
	2006		314,618
	2007		314,618
2008 and thereafter			6,135,051
		\$	7,708,141

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. Refer to Note L for further information concerning the restructuring of the OWDA loan.

The District entered into a loan agreement with the Savings Bank with a maximum available loan amount of \$150,000 for a period of four years with an interest rate of 5.65%. The loan balance outstanding at December 31, 2002 was \$149,886.

NOTE H – LOAN FROM OHIO ROTARY COMMISSION

A \$821,966 long-term note is payable to the Ohio Rotary Commission with no annual interest rate. The term is 20 years, if the properties listed as agricultural status pertaining to this loan do not change. If such properties do not qualify as agricultural status within the 20-year period, their assessment is collected by the District and payable to the Ohio Rotary Commission within one year after the status has changed. The agreement was entered into on June 6, 1995.

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.

NOTE I – CONTRIBUTED CAPITAL

Capital grant - planning costs - In 1996, a \$40,965 loan enhancement grant was received from the Ohio Public Works Commission to pay for a portion of capitalized interest during construction.

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

Contributed capital was recorded by the District for receipts of capital grants and donations prior to the implementation of GASB Statements No. 33 and 36 in 2001. Increases in contributed capital will not be recognized in future years.

SCIPPO SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2002 and 2001

NOTE J – CONTINGENT LIABILITIES

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

The District is party to legal proceedings. The District's management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the District.

NOTE K – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal years 2002 and 2001, the District contracted with Rinehart-Walters-Danner Insurance for commercial general liability insurance.

The coverage insures up to \$3,000,000 for each occurrence and \$5,000,000 for an aggregate total. Settled claims have not exceeded this commercial coverage in any of the past five years. There has not been a significant reduction in coverage from the prior year.

NOTE L – GOING CONCERN

In 2000 and prior years the District had included a going concern disclosure in the notes to the financial statements. The financial statements for the year ended December 31, 2002 also reflect a going concern issue for the District. The District incurred net losses in 2002 and 2001 of \$383,655 and \$378,798, respectively. The OWDA loan was restructured during 2002 from a 25-year term to a 30-year term. The annual debt payment was reduced from \$335,470 to \$314,618 of which \$89,000 is paid from annual assessment collections from the County Auditor property tax billings with the remaining to be paid from operating revenues. However, operating revenues for the year 2003 are projected at \$174,620, after subtracting operating expenses, leaving a shortfall of \$50,998. The District has not paid their January 1, 2003 OWDA loan payment 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 renegotiating a payment plan with OWDA and presenting OWDA with a financial plan for approval. The financial plan includes an increase in customer rates as well as alternatives to adding industrial and residential customers.

BALESTRA & COMPANY

(A division of Harr & Scherer CPAs, Inc.)
CERTIFIED PUBLIC ACCOUNTANTS
528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639 E-Mail: mbalcpa@bright.net

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

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

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

We have audited the general purpose financial statements of the Scippo Sewer District (the District), Pickaway County, as of and for the years ended December 31, 2002 and 2001, in which we indicated there is substantial doubt as to the ability of the District to continue as a going concern and that the District had changed its method of accounting for non-exchange transactions, and have issued our report thereon dated June 20, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether the Scippo Sewer District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulation, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that we have report to the Management of the District in a separate letter dated June 20, 2003.

Internal Control Over Financial Reporting

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

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

Balestra & Company

Balestra & Company

June 20, 2003



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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 23, 2003**