



**Auditor of State
Betty Montgomery**

UPPER SCIOTO DRAINAGE AND CONSERVANCY DISTRICT
HARDIN COUNTY

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**Auditor of State
Betty Montgomery**

Upper Scioto Drainage and Conservancy District
Hardin County
One Courthouse Square, Suite 180
Kenton, Ohio 43326

To the Board of Directors:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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

Betty Montgomery
Auditor of State

May 31, 2005

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Upper Scioto Drainage and Conservancy District
Hardin County
One Courthouse Square, Suite 180
Kenton, Ohio 43326

To the Board of Directors:

We have audited the accompanying financial statements of Upper Scioto Drainage and Conservancy District, Hardin County, (the "District"), as of and for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described more fully in Note 1, the District has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the District to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004 (and 2003), the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2004. While the District does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The District has elected not to reformat its statements. Since this District does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of December 31, 2004, or their changes in financial position for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the District, as of December 31, 2004 and 2003, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the District to include Management's Discussion and Analysis for the year ended December 31, 2004. The District has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

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



Betty Montgomery
Auditor of State

May 31, 2005

**UPPER SCIOTO DRAINAGE & CONSERVANCY DISTRICT
HARDIN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Governmental Fund Types		Totals (Memorandum)
	General	Special	
Cash Receipts:			
Special Assessments	\$58,681	\$18,034	\$76,715
Interest	179	455	634
Miscellaneous	53		53
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	58,913	18,489	77,402
Cash Disbursements:			
Secretary & Office Asst	10,874		10,874
Directors	5,730		5,730
Attorney	1,470		1,470
OPERS, Employer Contribution	1,757		1,757
Real Estate Tax	99		99
Office Exp & Equip	618		618
Legal & Court Costs	74		74
Insurance, Bonds, Medicare, Workers Comp	472		472
Maintenance	9,597	1,921	11,518
Hardin Soil & Water Conservation District	6,750	750	7,500
Repay Bond Funds Borrowed	33,166		33,166
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	70,607	2,671	73,278
Total Cash Receipts Over/(Under) Cash Disbursements	(11,694)	15,818	4,124
Fund Cash Balances, January 1	42,239	81,329	123,568
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	\$30,545	\$97,147	\$127,692

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

**UPPER SCIOTO DRAINAGE & CONSERVANCY DISTRICT
HARDIN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Governmental Fund Types		Totals
	General	Special	(Memorandum)
Cash Receipts:			
Special Assessments	\$58,800	\$18,048	\$76,848
Interest	252	264	516
Total Cash Receipts	59,052	18,312	77,364
Cash Disbursements:			
Secretary & Office Asst.	11,870		11,870
Directors	5,288		5,288
Attorney	1,470		1,470
OPERS, Employer Contribution	2,452		2,452
Real Estate Tax	88		88
Office Exp & Equip	3,199		3,199
Legal & Court Costs	87		87
Insurance, Bonds, Medicare, Workers Comp	510		510
Hardin Soil & Water Conservation District	6,750	750	7,500
Auditor/Treasurer Fees	766	225	991
Audit Fees	1,776	197	1,973
Maintenance	8,627	10,196	18,823
Repay Bond Funds Borrowed	33,166		33,166
Total Cash Disbursements	76,049	11,368	87,417
Total Cash Receipts Over/(Under) Cash Disbursements	(16,997)	6,944	(10,053)
Fund Cash Balances, January 1	59,236	74,385	133,621
Fund Cash Balances, December 31	\$42,239	\$81,329	\$123,568

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

**UPPER SCIOTO DRAINAGE & CONSERVANCY DISTRICT
HARDIN COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Upper Scioto Drainage and Conservancy District, Hardin County, (the "District") as a body corporate and politic. The District is directed by a three-member Board of Directors appointed by the Judge of the Hardin County Court of Common Pleas. The District provides conservation and flood control.

The District's management believes these financial statements present all activities for which the District is financially accountable.

B. Basis of Accounting

These financial statements follow the basis of accounting the Auditor of State prescribes or permits, which is similar to the cash receipts and disbursements basis of accounting. This basis recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

The District's accounting basis reports Investments as assets. This basis does not report investment purchases as disbursements or investment sales as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

The District maintains checking and money market accounts valued at cost.

D. Fund Accounting

The District uses fund accounting to segregate cash and investments that are restricted as to use. The District classifies its funds into the following types:

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The District had the following significant Special Revenue Funds:

Cottonwood District Fund – This fund receives assessments that restricted for use in a specific area of the District.

Sub District Fund - This fund receives assessments that restricted for use in a specific area of the District.

**UPPER SCIOTO DRAINAGE & CONSERVANCY DISTRICT
HARDIN COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process

The Ohio Revised Code requires the Board to budget each fund annually.

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the District to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2004 and 2003 budgetary activity appears in Note 3.

2. CASH AND INVESTMENTS

The carrying amount of cash and investments at December 31 was as follows:

	2004	2003
Demand deposits	\$71,623	\$38,133
Money Market Accounts	56,069	85,435
Total deposits	\$127,692	\$123,568

Deposits: Deposits are insured by the Federal Depository Insurance Corporation, or collateralized by securities specifically pledged by the financial institution to the District.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2004 and 2003 follows:

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$58,680	\$58,913	\$233
Special Revenue	18,048	18,489	441
Total	\$76,728	\$77,402	\$674

**UPPER SCIOTO DRAINAGE & CONSERVANCY DISTRICT
HARDIN COUNTY**

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

3. BUDGETARY ACTIVITY (Continued)

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$101,323	\$70,607	\$30,716
Special Revenue	99,281	2,671	96,610
Total	<u>\$200,605</u>	<u>\$73,278</u>	<u>\$127,326</u>

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$58,800	\$59,052	\$252
Special Revenue	18,048	18,312	264
Total	<u>\$76,848</u>	<u>\$77,364</u>	<u>\$515</u>

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$118,041	\$76,049	\$41,992
Special Revenue	97,435	11,368	86,067
Total	<u>\$215,476</u>	<u>\$87,417</u>	<u>\$128,059</u>

4. PROPERTY ASSESSMENTS

Property assessments are levied on the basis of benefit to the property owner. The District may readjust or reappraise benefit to property owners through procedures outlined by the Ohio Revised Code. The District's last appraisal was during 2002.

The County is responsible for assessing property and for billing, collecting and distributing all assessments on behalf of the District.

5. DEBT

Debt outstanding at December 31, 2004:

	<u>Principal</u>	<u>Interest Rate</u>
Bonds	\$49,918	4.69%

**UPPER SCIOTO DRAINAGE & CONSERVANCY DISTRICT
HARDIN COUNTY**

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

5. DEBT (Continued)

On July 22, 2001 the District issued \$130,000 of bonds for the purpose of maintaining, operating, preserving, strengthening, repairing and restoring properties and improvements, and in connection therewith, to straighten, widen, deepen or otherwise alter the course of the Scioto River by removal of an oxbow. Repayment of these bonds will be in semi-annual principal and interest payments due on January 23 and July 23, until maturity on July 23, 2006. The bonds are subject to redemption prior to maturity in whole, or in part in integral multiples of \$1,000, at any time at the option of the District.

Amortization of the above debt, including interest, is scheduled as follows:

<u>Year ending December 31:</u>	<u>Bonds</u>
2005	\$33,166
2006	33,166
Total	<u>\$66,332</u>

The District did not establish a Bond Fund as required by the debt agreement.

6. RETIREMENT SYSTEM

The District's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as the Ohio Revised Code prescribes.

Contribution rates are also prescribed by the Ohio Revised Code. For 2004 and 2003, OPERS member employees contributed 8.5 percent of their gross salaries. The District contributed an amount equal to 13.55 percent of participants' gross salaries for 2004 and 2003. The District has paid all contributions required through December 31, 2004.

7. RISK MANAGEMENT

The District is covered under the Hardin County policy for the following risks:

- Comprehensive property and general liability;

The District has elected to not cover the office equipment which is in the Courthouse.



**Auditor of State
Betty Montgomery**

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

Upper Scioto Drainage and Conservancy District
Hardin County
One Courthouse Square, Suite 180
Kenton, Ohio 43326

To the Board of Directors:

We have audited the financial statements of the Upper Scioto Drainage and Conservancy District, Hardin County, (the "District"), as of and for the year ended December 31, 2004 and 2003, and have issued our report thereon dated May 31, 2005, wherein we noted the District followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2004-003.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as items 2004-001 and 2002.

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



Betty Montgomery
Auditor of State

May 31, 2005

**UPPER SCIOTO DRAINAGE AND CONSERVANCY DISTRICT
HARDIN COUNTY**

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

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2004-001

Ohio Rev. Code Section 117.38 states that cash-basis entities must file annual reports with the Auditor of State within 60 days of the fiscal year end. These reports must be filed on forms prescribed by the Auditor of State. However, if the Auditor of State has not prescribed a form for the report, the public office shall submit its report on the form utilized by the public office. Also, the public office must publish notice in a local newspaper stating the financial report is available for public inspection at the office of the chief fiscal officer.

The District filed did not file their 2004 report with the Auditor of State's Office and did not publish a notice in a local newspaper that their 2003 or 2004 financial report was available for public inspection.

The Board should implement monitoring procedures to help assure the filing and public notification of annual financial reports.

FINDING NUMBER 2004-002

Ohio Rev. Code Section 5705.09 and the Upper Scioto Drainage and Conservancy District, Conservancy Bonds Series 2001, dated July 22, 2001, require the establishment of a bond fund to pay the principal and interest on the bonds.

The District did not establish the required bond fund during 2004 and 2003.

To help prevent potential problems with the debt issuer that may impact the District's ability to service this debt, the District should establish the required bond fund.

FINDING NUMBER 2004-003

Monthly Bank Reconciliations

Monthly bank-to-book reconciliations should be prepared by the Secretary/Treasurer, and reviewed and approved by the Board. The Secretary/Treasurer did not reconcile the bank balances to cash fund balances during 2004.

The District's Board should monitor the completeness of the monthly bank reconciliations. Bank reconciliations should be added to the monthly financial reports that are presented to and approved by the Board.

**UPPER SCIOTO DRAINAGE AND CONSERVANCY DISTRICT
HARDIN COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2002-001	July 22, 2001 debt agreement – The District did not establish the required Project Fund or Bond Fund	No	The establishment of the Project Fund is not longer applicable since the project has been completed. The requirement to establish a Bond Fund was repeated as finding 2004-002



**Auditor of State
Betty Montgomery**

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**UPPER SCIOTO DRAINAGE AND CONSERVANCY DISTRICT
HARDIN COUNTY**

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 4, 2005**