



**Auditor of State
Betty Montgomery**

**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Sandusky Township Sewer District
Sandusky County
119 Canterbury Drive
Fremont, Ohio 43420-9116

To the Board of Trustees:

We have audited the accompanying financial statements of the Sandusky Township Sewer District, Sandusky County, (the District) as of and for the years ended December 31, 2003 and 2002. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the District prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund cash balances of the Sandusky Township Sewer District, Sandusky County, as of December 31, 2003 and 2002, and its cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

As stated in Note 2 to the accompanying financial statements, a reclassification of fund balance was made from the capital projects fund to the enterprise fund.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2004 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 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.

This report is intended solely for the information and use of management, the Board of Trustees, and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

April 20, 2004

**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	Enterprise Fund	
	2003	2002
Operating Cash Receipts		
Charges for Services	\$ 186,559	\$ 166,825
Total Operating Cash Receipts	186,559	166,825
Operating Cash Disbursements		
Personal Services	10,678	5,843
Other Contractual Services	145,742	135,684
Office Supplies and Materials		52
Insurance	1,827	1,663
Capital Outlay	46,599	48,785
Total Operating Cash Disbursements	204,846	192,027
Operating Loss	(18,287)	(25,202)
Non-Operating Cash Receipts		
Intergovernmental Revenues		75,183
Special Assessments	76,560	87,802
Other Proceeds from Public Debt:		
Ohio Water Development Authority Loan Proceeds		21,703
Other Non-Operating Revenues	6,183	11,712
Total Non-Operating Cash Receipts	82,743	196,400
Non-Operating Cash Disbursements		
Debt Service	215,590	165,257
Total Non-Operating Cash Disbursements	215,590	165,257
Net Receipts Over/(Under) Disbursements	(151,134)	5,941
Cash Balances, January 1 - restated	701,307	695,366
Cash Balances, December 31	\$ 550,173	\$ 701,307

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

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**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Sandusky Township Sewer District, Sandusky County, (the District) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District was directed by a five-member Board of Trustees during fiscal year 2002. Beginning in fiscal year 2003 the District was reorganized to be directed by a three-member Board of Trustees. The Board members are appointed by the Sandusky Township. The District provides sewer services to residents of the District.

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 prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized 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. Deposits and Investments

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows Governments within the State to pool their funds for investment purposes. Investments in STAR Ohio are valued at STAR Ohio's share price.

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 fund type:

**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

Enterprise Fund

The Enterprise Sewer Fund accounts for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges. The District had the following significant Enterprise Fund:

Sewer Fund - This fund receives assessments and charges for services from residents to cover the cost of providing this utility.

E. Budgetary Process

The Ohio Revised Code requires the District to adopt an annual budget.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the function level of control, and appropriations may not exceed estimated resources. Appropriation Authority includes current year appropriations plus encumbrances carried over from the prior year (if any). The Board 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 commitments are made. The District did not use the encumbrance method of accounting.

A summary of 2003 and 2002 budgetary activity appears in Note 3.

**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as capital outlay disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

2. RESTATEMENT OF FUND BALANCES

The Board of Trustees reclassified the capital projects fund to the enterprise fund. This reclassification is related to a construction loan being repaid from sewer receipts.

	Enterprise	Capital Projects
Fund balance as previously reported at December 31, 2001	\$ 692,375	\$ 2,991
Adjustment	2,991	(2,991)
Restated fund balance at January 1, 2002	\$ 695,366	\$ -
Net receipts over disbursements/Excess of cash disbursements over receipts and other financing receipts reported at December 31, 2001	\$ 692,375	\$ (5,661)
Adjustment	(5,661)	5,661
Restated net receipts over disbursements/Excess of cash disbursements over receipts and other financing receipts reported at January 1, 2002	\$ 686,714	\$ -

3. EQUITY IN POOLED CASH AND INVESTMENTS

The District invests in STAR Ohio.

The District maintains a cash and investments pool used by all funds. The carrying amount of cash and investments at December 31 was as follows:

**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

	2003	2002
Demand deposits	\$ 121,425	\$ 138,561
STAR Ohio	428,748	562,746
Total deposits and investments	\$ 550,173	\$ 701,307

Deposits: Deposits are either insured by the Federal Depository Insurance Corporation, or collateralized by the financial institution's public entity deposit pool.

Investments: Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

4. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2003 and 2002 follows:

2003 Budgeted vs. Actual Receipts

	Budgeted Receipts	Actual Receipts	Variance
Enterprise	<u> </u>	<u>\$ 269,302</u>	<u>\$ 269,302</u>

2003 Budgeted vs. Actual Budgetary Basis Expenditures

	Appropriation Authority	Budgetary Expenditures	Variance
Enterprise	<u> </u>	<u>\$ 420,436</u>	<u>\$ (420,436)</u>

2002 Budgeted vs. Actual Receipts

	Budgeted Receipts	Actual Receipts	Variance
Enterprise	<u> </u>	<u>\$ 363,225</u>	<u>\$ 363,225</u>

**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
Enterprise		\$ 357,284	\$ (357,284)

Contrary to Ohio law, the District did not follow the budgetary process.

5. DEBT

Debt outstanding at December 31, 2003 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority (OWDA)	\$ 2,172,389	6.41%
Ohio Public Works Commission (OPWC)	106,720	
Total	\$ 2,279,109	

The Ohio Water Development Authority (OWDA) loan related to the construction of the sewer project. The OWDA approved up to \$2,295,926 for the construction loan. Construction loans are for the term of twenty five years with payments.

The Ohio Public Works Commission (OPWC) loan related to a utility construction project. The OPWC approved up to \$112,336 for the construction loan. Construction loans are for the term of twenty five years with payments.

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

Year ending December 31:	OPWC Loan	OWDA Loan
2004	\$ 2,808	\$ 180,147
2005	5,617	180,147
2006	5,617	180,147
2007	5,617	180,147
2008	5,617	180,147
2009 -2027	81,444	3,332,725
Total	\$ 106,720	\$ 4,233,460

The OPWC loan agreement included the following debt covenant:

**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

The District agrees to insure the project. Insurance policies issued shall be so written or endorsed as to make losses, if any, payable to the OPWC and the District as their respective interests may appear. Each policy shall contain a provision to the effect that the insurance company shall not cancel the same without first giving written notice thereof to the OPWC and the District at least 10 days in advance of such cancellation.

The District was not in compliance with this requirement during fiscal years 2003 and 2002.

6. RISK MANAGEMENT

Risk Pool Membership

The District belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty insurance for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

PEP retains casualty risks up to \$250,000 per claim, including loss adjustment expenses. Claims exceeding \$250,000 are reinsured with APEEP up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000, from the General Reinsurance Corporation.

If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

PEP retains property risks, including automobile physical damage, up to \$10,000 on any specific loss with an annual aggregate of \$700,000 for 2001 and \$1,250,000 for 2002. The Travelers Indemnity Company reinsures losses exceeding \$10,000 if the annual aggregate is reached and all specific losses exceeding \$100,000. APEEP's Operating Fund and Guarantee Fund pay for losses and loss adjustment expenses should they exceed operating contributions.

**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2002 (most recent information available):

<u>Casualty Coverage</u>	<u>2002</u>	<u>2001</u>
Assets	\$ 20,174,977	\$ 19,358,458
Liabilities	(8,550,749)	(8,827,588)
Retained Earnings	<u>\$ 11,624,228</u>	<u>\$ 10,530,870</u>

<u>Property Coverage</u>	<u>2002</u>	<u>2001</u>
Assets	\$ 2,565,408	\$ 1,890,323
Liabilities	(655,318)	(469,100)
Retained Earnings	<u>\$ 1,910,090</u>	<u>\$ 1,421,223</u>

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Sandusky Township Sewer District
Sandusky County
119 Canterbury Drive
Fremont, Ohio 43420-9116

To the Board of Trustees:

We have audited the accompanying financial statements of Sandusky Township Sewer District (the District) as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated April 20, 2004 wherein we noted a reclassification of fund balance was made. 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 District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2003-001 to 2003-006. We also noted a certain immaterial instance of noncompliance that we have reported to management of the District in a separate letter dated April 20, 2004.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial

Sandusky Township Sewer District
Sandusky County
Independent Accountants' Report on Compliance and on Internal
Control Required by *Government Auditing Standards*
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reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 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. However, we noted a matter involving the internal control over financial reporting that did not require inclusion in this report, that we have reported to management of the District in a separate letter dated April 20, 2004.

This report is intended solely for the information and use of management, the Board of Trustees, and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

April 20, 2004

**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2003-001

Noncompliance Citation

Ohio Revised Code § 5705.28(B)(2) states an entity which does not levy a tax is not required to adopt a tax budget pursuant to § 5705.28(A). Instead, on or before the fifteenth day of July each year, such taxing authority shall adopt an operating budget for the entity for the ensuing fiscal year. In accordance with § 5705.28(B)(2)(b), this document is not required to be filed with the county auditor or county budget commission. The Sewer District did not adopt an operating budget for fiscal year 2002, and did not adopt an operating budget for fiscal year 2003 until January 15, 2003. We recommend an operating budget be adopted on or before the fifteenth day of July each year.

FINDING NUMBER 2003-002

Noncompliance Citation

Ohio Revised Code § 5705.36 states on or about the first day of each fiscal year, the fiscal offices of subdivisions and other taxing units are to certify to the county auditor the total amount from all sources which is available for expenditures from each fund in the tax budget along with any encumbered balances that existed at the end of the preceding year. In accordance with § 5705.28(B)(2)(b), this document is not required to be filed with the county auditor or county budget commission. The District did not certify available resources for fiscal year 2003 or 2002. We recommend the District certify available resources on or about the first day of each fiscal year.

FINDING NUMBER 2003-003

Noncompliance Citation

Ohio Revised Code § 5705.38 states on or about the first day of each fiscal year, an appropriation measure is to be passed. If the subdivision or other taxing units wants to postpone the passage of the annual appropriation measure until an amended certificate is performed showing actual year end balances, it may pass a temporary appropriation measure for meeting the ordinary expenses until April 1. In accordance with § 5705.28(B)(2)(b), this document is not required to be filed with the county auditor or county budget commission. The District did not adopt an annual appropriation measure for fiscal year 2003 or 2002. We recommend the District adopt an annual appropriation measure on or about the first day of each fiscal year.

FINDING NUMBER 2003-004

Noncompliance Citation

Ohio Revised Code § 5705.41(B) states no subdivision or taxing authority shall make any expenditure of money unless it has been appropriated. In accordance with § 5705.28(B)(2)(b), this document is not required to be filed with the county auditor or county budget commission. The District did not adopt an annual appropriation measure for fiscal year 2003 or 2002. We recommend the District adopt an annual appropriation measure on or about the first day of each fiscal year.

FINDING NUMBER 2003-005

Noncompliance Citation

Ohio Revised Code § 5705.41(D) states that no subdivision or taxing unit shall make any expenditure of money unless it has been appropriated. Also, no orders or contracts involving the expenditure of money are to be made unless there is attached thereto a certificate of the fiscal officer certifying that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

This section also provides for two “exceptions” to the above requirement:

- Then and Now Certificate – If no certificate is furnished as required, upon receipt of the fiscal officer’s certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Board of Trustees may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.
- If the amount involved in the Then and Now Certification is less than \$1,000 (\$3,000 after April 7, 2003) the fiscal officer may authorize it to be paid without the affirmation of the Board of Trustees, if such expenditure is otherwise valid.

None of the transactions tested were certified by the fiscal officer at the time the commitment was incurred and neither of the expectations provided for were used. To improve controls over disbursements, we recommend all District disbursements receive certification of the fiscal officer that the funds are or will be available prior to the expense being incurred.

FINDING NUMBER 2003-006

Debt Covenants

The Sandusky Township Sewer District entered into a debt agreement with the Ohio Public Works Commission on July 1, 1998. This agreement included the following provisions for the District's insurance policies to include:

- Appendix C-1, Article 5.3 states the recipient agrees to insure the project in such amounts as similar properties are usually insured by political subdivisions similarly situated, against loss or damage of the kinds usually insured against by political subdivisions similarly situated, by means of policies issued by reputable insurance companies duly qualified to do such business in the State of Ohio.
- Appendix C-1, Article 5.4 states any insurance policy issued pursuant to Article 5.3 hereof shall be so written or endorsed as to make losses, if any, payable to the OPWC and the recipients as their interests may appear. Each insurance policy provided for in Article 5.3 hereof shall contain a provision to the effect that the insurance company shall not cancel the same without first giving written notice thereof to the OPWC and the recipients at least ten days in advance of such cancellation.

The District's insurance policy does not include these provisions. We recommend the District amend their insurance policy to include these provisions.

**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003 AND 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-40172-001	Revised Code § 5705.28 failure to adopt an operating budget.	No	Not corrected. Repeated as Finding # 2003-001.
2001-40172-002	Revised Code § 5705.36 failure to certify to the county auditor the total amount available for expenditures.	No	Not corrected. Repeated as Finding # 2003-002.
2001-40172-003	Revised Code § 5705.38 failure to adopt an appropriation measure.	No	Not corrected. Repeated as Finding # 2003-003.
2001-40172-004	Revised Code § 5705.41(B) failure to appropriate funds prior to incurring an expenditure.	No	Not corrected. Repeated as Finding # 2003-004.
2001-40172-005	Revised Code § 5705.41(D) failure to certify the availability of funds.	No	Not corrected. Repeated as Finding # 2003-005.
2001-40172-006	Debt Covenants failure to have proper provisions included in insurance policy.	No	Not corrected. Repeated as Finding # 2003-006.



**Auditor of State
Betty Montgomery**

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SANDUSKY TOWNSHIP SEWER DISTRICT

SANDUSKY 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
MAY 18, 2004**