



**SANDUSKY TOWNSHIP SEWER DISTRICT  
SANDUSKY COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED DECEMBER 31, 2004**



**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  
P.O. Box 191  
Gibsonburg, Ohio 43431-0191

To the Board of Trustees:

We have audited the accompanying basic financial statements of the business-type activities of Sandusky Township Sewer District, Sandusky County, Ohio (the District), as of and for the year ended December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions 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 opinions.

As discussed in Note 2, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of Sandusky Township Sewer District, Sandusky County, Ohio, as of December 31, 2004, and the respective changes in modified cash financial position and its cash flows thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

For the year ended December 31, 2004, the District revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2006, 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.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

**Betty Montgomery**  
Auditor of State

August 17, 2006

**SANDUSKY TOWNSHIP SEWER DISTRICT  
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
UNAUDITED**

This discussion and analysis of the Sandusky Township Sewer District's (the District) financial performance provides an overall review of the District's financial activities for the year ended December 31, 2004, within the limitations of the District's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

**Highlights**

Key highlights for 2004 are as follows:

- Net assets decreased \$86,345 or 15.7 percent during 2004. The primary reason contributing to the decrease in cash balance is during 2004 the District made several payments for Phases 1B and 3 of the sewer district construction project from current resources.

**Using the Basic Financial Statements**

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the District's modified cash basis of accounting.

**Report Components**

The statement of net assets and the statement of activities provide information about the cash activities of the District as a whole.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**Basis of Accounting**

The basis of accounting is a set of guidelines that determine when financial events are recorded. The District has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the District's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

**SANDUSKY TOWNSHIP SEWER DISTRICT  
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
UNAUDITED  
(Continued)**

Table 1 provides a summary of the District's net assets for 2004 compared to 2003 on a modified cash basis:

(Table 1)  
**Net Assets**

	2004	2003
<b>Assets</b>		
Cash and Cash Equivalents	\$463,828	\$550,173
Total Assets	\$463,828	\$550,173
 <b>Net Assets</b>		
Unrestricted	463,828	550,173
Total Net Assets	\$463,828	\$550,173

As mentioned previously, net assets decreased \$86,345 or 15.7 percent during 2004. The primary reason contributing to the decrease in cash balance is during 2004 the District made several payments for Phases 1B and 3 of the sewer district construction project from current resources.



**SANDUSKY TOWNSHIP SEWER DISTRICT  
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
UNAUDITED  
(Continued)**

Table 2 reflects the changes in net assets in 2004 compared to 2003.

(Table 2)  
**Changes in Net Assets**

	2004	2003
Receipts:		
Operating Receipts:		
Charges for Services and Sales	\$189,758	\$186,559
Non-Operating Receipts:		
Special Assessments	72,528	76,560
Interest	4,931	6,183
Total Non-Operating Receipts	77,459	82,743
Total Receipts	267,217	269,302
Disbursements:		
Operating Disbursements:		
Personal Services	9,330	10,678
Contractual Services	130,313	145,742
Supplies and Materials	72	
Insurance	1,833	1,827
Capital Outlay		46,599
Total Operating Disbursements	141,548	204,846
Non-Operating Disbursements:		
Sewer Construction	26,252	
Principal Retirement	47,170	74,455
Interest and Fiscal Charges	138,592	141,135
Total Non-Operating Disbursements	212,014	215,590
Total Disbursements	353,562	420,436
Decrease in Net Assets	(86,345)	(151,134)
Net Assets, January 1	550,173	701,307
Net Assets, December 31	\$463,828	\$550,173

**Capital Assets and Debt Administration**

Capital Assets

The District does not currently keep track of its capital assets and infrastructure in the accompanying financial statements, but records payments for capital assets as disbursements.

**SANDUSKY TOWNSHIP SEWER DISTRICT  
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
UNAUDITED  
(Continued)**

Debt

At December 31, 2004, the District's outstanding debt included \$2,130,836 from an Ohio Water Development Authority (OWDA) loan and \$101,103 from an Ohio Public Works Commission (OPWC) loan issued for the construction of Phases 1 and 1A of the District's sanitary sewer construction project. For further information regarding the District's debt, refer to Note 8 to the basic financial statements.

**Current Issues**

The challenge for all Districts is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. We rely heavily on special assessments and user charges for services provided.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Dan Linder, Board President, 2207 Oak Harbor Road, Fremont, Ohio 43420.

**SANDUSKY TOWNSHIP SEWER DISTRICT  
SANDUSKY COUNTY**

**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS  
PROPRIETARY FUND  
DECEMBER 31, 2004**

**Assets**

Equity in Pooled Cash and Cash Equivalents

\$463,828

Total Assets

\$463,828

**Net Assets**

Unrestricted

\$463,828

See accompanying notes to the basic financial statements.

**SANDUSKY TOWNSHIP SEWER DISTRICT  
SANDUSKY COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN NET ASSETS - MODIFIED CASH BASIS  
PROPRIETARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004**

<b>Operating Receipts</b>	
Charges for Services	<u>\$189,758</u>
<b>Operating Disbursements</b>	
Personal Services	9,330
Contractual Services	130,313
Supplies and Materials	72
Insurance	<u>1,833</u>
Total Operating Disbursements	<u>141,548</u>
Operating Income	<u>48,210</u>
<b>Non-Operating Receipts (Disbursements)</b>	
Special Assessments	72,528
Interest	4,931
Capital Outlay	(26,252)
Principal Payments	(47,170)
Interest and Fiscal Charges	<u>(138,592)</u>
Total Non-Operating Receipts (Disbursements)	<u>(134,555)</u>
Change in Net Assets	(86,345)
Net Assets Beginning of Year	<u>550,173</u>
Net Assets End of Year	<u><u>\$463,828</u></u>

See accompanying notes to the basic financial statements.

**SANDUSKY TOWNSHIP SEWER DISTRICT  
SANDUSKY COUNTY**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004**

<b>Cash Flows from Operating Activities</b>	
Cash Received from Customers	\$189,758
Cash Payments to Employees for Services	(8,340)
Cash Payments for Employee Benefits	(990)
Cash Payments for Goods and Services	(130,313)
Cash Payments for Insurance	(1,833)
Other Cash Payments	<u>(72)</u>
Net Cash Provided by Operating Activities	<u>48,210</u>
<b>Cash Flows from Noncapital Financing Activities</b>	
Cash Received from Special Assessments	72,528
Cash Payments for Principal Payments	(47,170)
Cash Payments for Interest and Fiscal Charges	<u>(138,592)</u>
Net Cash Used by Noncapital Financing Activities	<u>(113,234)</u>
<b>Cash Flows from Capital Financing Activities</b>	
Cash Payments for Sewer Construction	<u>(26,252)</u>
<b>Cash Flows from Investing Activities</b>	
Interest on Investments	<u>4,931</u>
Net Decrease in Cash and Cash Equivalents	(86,345)
Cash and Cash Equivalents Beginning of Year	<u>550,173</u>
Cash and Cash Equivalents End of Year	<u><u>\$463,828</u></u>

See accompanying notes to the basic financial statements.

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**SANDUSKY TOWNSHIP SEWER DISTRICT  
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 1 – DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY**

The Sandusky Township Sewer District, Sandusky County, Ohio (the District), is a body politic and corporate established in 1993 to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is directed by a three-member Board of Trustees. The Trustees are appointed by Sandusky Township. The District provides sewer services to residents of the District.

There is no potential for the District to provide a financial benefit to or impose a financial burden on the Sandusky Township Board of Trustees. Under the provisions of Statement No. 14 of the Governmental Accounting Standards Board, "The Financial Reporting Entity," the District is considered to be a related organization of the Sandusky Township.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 2.C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. The District also applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The District does not apply FASB statements issued after November 30, 1989. Following are the more significant of the District's accounting policies.

A. Basis of Presentation

The District's basic financial statements consist of a statement of net assets, a statement of receipts, disbursements and changes in net assets, and a statement of cash flows.

Proprietary fund reporting distinguishes operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the funds' principal services. Operating disbursements include costs of sales and services and administrative costs. All other receipts and disbursements are reported as nonoperating.

B. Fund Accounting

The District uses fund accounting to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The District categorized its fund as a proprietary fund.

Proprietary Fund

The District classifies its fund financed primarily from user charges for goods or services as proprietary. The proprietary fund is classified as enterprise.

Enterprise Fund – The enterprise fund is used to account for any activity for which a fee is charged to external users for goods or services.

**SANDUSKY TOWNSHIP SEWER DISTRICT  
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
(Continued)**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

C. Basis of Accounting

The District's financial statements are prepared using the modified cash basis of accounting. Receipts are recorded in the District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

All funds are legally required to be budgeted and appropriated. The major documents prepared are the operating budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The operating budget demonstrates a need for existing or increased billing rates. The certificate of estimated resources establishes a limit on the amount the District may appropriate.

The appropriations resolution is the District's authorization to spend resources and sets limits on disbursements plus encumbrances at the level of control selected by the District. The legal level of control has been established at the fund, function, and object level.

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the District's Fiscal Officer.

The appropriations resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources.

E. Cash and Investments

Investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as 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 negative receipts (contra revenue), respectively.

During 2004, the District invested in STAR Ohio. 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. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2004.



**SANDUSKY TOWNSHIP SEWER DISTRICT  
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
(Continued)**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

F. Inventory and Prepaid Items

The District reports disbursements for inventories and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

G. Capital Assets

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

H. Employer Contributions to Cost-Sharing Pension Plans

The District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 6 and 7, the employer contributions include portions for pension benefits and for postretirement health care benefits.

I. Long-Term Obligations

The District's modified cash basis financial statements do not report liabilities for bonds or other long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither another financing source nor a capital outlay expenditure are reported at inception.

J. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The District's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available. The District has no restricted assets.

**NOTE 3 – CHANGE IN BASIS OF ACCOUNTING**

Last year the District reported fund financial statements by fund type using the regulatory basis of accounting as prescribed by the State Auditor's Office. This year the District has implemented the modified cash basis of accounting described in note 2.

**NOTE 4 – DEPOSITS AND INVESTMENTS**

Monies held by the District are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the District treasury. Active 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.

**SANDUSKY TOWNSHIP SEWER DISTRICT  
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
(Continued)**

**NOTE 4 – DEPOSITS AND INVESTMENTS – (Continued)**

Inactive deposits are public deposits that the Trustees have 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 deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

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

1. United States Treasury bills, bonds, notes, 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 obligation or security 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 the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
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 division (1) or (2) 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).

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.

Deposits

Custodial credit risk is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$24,484 of the District's bank balance of \$124,484 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

**SANDUSKY TOWNSHIP SEWER DISTRICT  
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
(Continued)**

**NOTE 4 – DEPOSITS AND INVESTMENTS – (Continued)**

The District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of December 31, 2004, the District had the following investments:

	<u>Carrying Value</u>	<u>Maturity</u>
STAR Ohio	<u>\$343,460</u>	Less than 3 months

STAR Ohio carries a rating of AAAM by Standard and Poor's. The District has no investment policy dealing with investment credit risk beyond the requirements in state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

**NOTE 5 – RISK MANAGEMENT**

The District is exposed to various risks of property and casualty losses, and injuries to employees.

The District insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

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 coverage 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 occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$12,000,000 with the General Reinsurance Corporation, through contracts with PEP.

**SANDUSKY TOWNSHIP SEWER DISTRICT  
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
(Continued)**

**NOTE 5 – RISK MANAGEMENT – (Continued)**

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

Through 2004, PEP retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence. APEEP's Guarantee Fund was responsible for losses and loss adjustment expenses exceeding operating contributions.

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

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

Members may withdraw on each anniversary of the date they joined PEP. They must provide written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contribution, minus the subsequent year's premium. Also upon withdrawal, payments for all property and casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

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, 2004:

Casualty Coverage	2004
Assets	\$27,437,169
Liabilities	(13,880,038)
Retained earnings	\$13,557,131
Property Coverage	2004
Assets	\$3,648,272
Liabilities	(540,073)
Retained earnings	\$3,108,199

The Casualty Coverage assets and retained earnings above include approximately \$12 million of unpaid claims to be billed to approximately 430 member governments in the future, as of December 31, 2004. PEP will collect these amounts in future annual premium billings when PEP's related liabilities are due for payment. The District's share of these unpaid claims is approximately \$3,666.

**SANDUSKY TOWNSHIP SEWER DISTRICT  
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
(Continued)**

**NOTE 6 – DEFINED BENEFIT PENSION PLAN**

Ohio Public Employees Retirement System

The District participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings.

The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2004, the members of all three plans were required to contribute 8.5 percent of their annual covered salaries. The District's contribution rate for pension benefits for 2004 was 13.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the traditional plan for the years ended December 31, 2004, 2003, and 2002, were \$1,130, \$571, and \$546 respectively. The full amount has been contributed for 2004, 2003, and 2002.

**NOTE 7 – POSTEMPLOYMENT BENEFITS**

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 local government employer contribution rate was 13.55 percent of covered payroll; 4.00 percent of covered payroll was the portion that was used to fund health care.

**SANDUSKY TOWNSHIP SEWER DISTRICT  
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
(Continued)**

**NOTE 7 – POSTEMPLOYMENT BENEFITS – (Continued)**

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 1.00 and 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$335. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan

**NOTE 8 – DEBT**

The District's long-term debt activity for the year ended December 31, 2004, was as follows:

	Interest Rate	Balance December 31, 2003	Reductions	Balance December 31, 2004	Due Within One Year
<u>Enterprise Fund</u>					
Ohio Water Development Authority Loan:					
Loan No. 3245	6.41%	\$2,172,389	\$41,553	\$2,130,836	\$44,258
Ohio Public Works Commission Loan:					
Loan No. CE23B	0.00%	106,720	5,617	101,103	2,809
Total Enterprise Fund		<u>\$2,279,109</u>	<u>\$47,170</u>	<u>\$2,231,939</u>	<u>\$47,067</u>

The Ohio Water Development Authority (OWDA) loan is related to the construction of Phase 1 of the District's sanitary sewer project. Phase 1 of the sanitary sewer project was completed in 2002. The District started remitting payments for this loan on January 1, 2003.

The Ohio Public Works Commission (OPWC) loan is related to the construction of Phase 1A of the District's sanitary sewer project. Phase 1A of the sanitary sewer project was completed in 2002. The District started remitting payments for this loan on July 1, 2003.

**SANDUSKY TOWNSHIP SEWER DISTRICT  
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
(Continued)**

**NOTE 8 – DEBT – (Continued)**

The following is a summary of the District’s future annual debt service requirements:

Year	OWDA loan		OPWC loan
	Principal	Interest	Principal
2005	\$44,258	\$135,888	\$2,809
2006	47,141	133,006	5,617
2007	50,211	129,936	5,617
2008	53,481	126,666	5,617
2009	56,965	123,183	5,617
2010 – 2014	345,547	555,190	28,084
2015 – 2019	473,711	427,024	28,084
2020 – 2024	649,414	251,323	19,658
2025 – 2027	410,107	40,261	
Totals	<u>\$2,130,836</u>	<u>\$1,922,477</u>	<u>\$101,103</u>

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**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***

Sandusky Township Sewer District  
Sandusky County  
P.O. Box 191  
Gibsonburg, Ohio 43431-0191

To the Board of Trustees:

We have audited the basic financial statements of Sandusky Township Sewer District, Sandusky County, (the District) as of and for the year ended December 31, 2004, and have issued our report thereon dated August 17, 2006, where in we noted the District revised its financial statement presentation comparable to the requirements of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. 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. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated August 17, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

### **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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated August 17, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, and Board of Trustees. It is not intended for 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

August 17, 2006

**SANDUSKY TOWNSHIP SEWER DISTRICT  
SANDUSKY COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i><b>Explain</b></i>
2003-001	Revised Code § 5705.28(B)(2), failure to adopt an operating budget	Yes	
2003-002	Revised Code § 5705.36, failure to document available revenues	Yes	
2003-003	Revised Code § 5705.38, failure to adopt an annual appropriation measure	No	Partially Corrected. Repeated in the management letter.
2003-004	Revised Code § 5705.41(B), expenditures in excess of appropriations	No	Partially Corrected. Repeated in the management letter.
2003-005	Revised Code § 5705.41(D), failure to certify the availability of funds	No	Partially Corrected. Repeated in the management letter.
2003-006	Debt Covenants, failure to include required insurance provisions	Yes	





**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  
SEPTEMBER 7, 2006**