



**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2007



Mary Taylor, CPA
Auditor of State

**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

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Mary Taylor, CPA

Auditor of State

Sandusky Township Sewer District
Sandusky County
551 Northcrest Avenue
Fremont, Ohio 43420-9010

To the Board of Trustees:

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 an 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 adverse 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

August 21, 2008

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Sandusky Township Sewer District
Sandusky County
551 Northcrest Avenue
Fremont, Ohio 43420-9010

To the Board of Trustees:

We have audited the accompanying financial statements of Sandusky Township Sewer District, Sandusky County, (the District) as of and for the years ended December 31, 2007 and 2006. 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.

Instead of the fund the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the District's larger (i.e. major) funds separately. 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 GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The District has elected not to follow GAAP statement formatting requirements. 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 years ended December 31, 2007 and 2006, 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, 2007 and 2006, or its changes in financial position or cash flows for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the cash balance of Sandusky Township Sewer District, Sandusky County, as of December 31, 2007 and 2006, and its cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

During 2006 the District changed its' financial statement presentation method to conform to presentation methods the Auditor of State prescribes or permits.

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 August 21, 2008, 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.



Mary Taylor, CPA
Auditor of State

August 21, 2008

**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCE - ENTERPRISE FUND
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	Enterprise Fund	
	2007	2006
Operating Cash Receipts:		
Charges for Services	\$320,847	\$260,052
Operating Cash Disbursements:		
Personal Services	12,328	9,895
Contractual Services	267,232	280,005
Supplies and Materials	159	95
Insurance	2,356	2,224
Total Operating Cash Disbursements	282,075	292,219
Operating Income/(Loss)	38,772	(32,167)
Non-Operating Cash Receipts:		
Local Taxes	75,337	42,378
Intergovernmental Revenues	40,000	
Special Assessments	108,731	340,668
Proceeds from Sale of Public Debt:		
Ohio Water Development Authority Loan Proceeds		90,689
Other Non-Operating Revenues	15,232	16,543
Total Non-Operating Cash Receipts	239,300	490,278
Non-Operating Cash Disbursements:		
Debt Service:		
Principal Payments	56,819	606,692
Interest Payments	34,555	133,006
Total Non-Operating Cash Disbursements	91,374	739,698
Net Receipts Over/(Under) Disbursements	186,698	(281,587)
Cash Balance, January 1	243,328	524,915
Cash Balance, December 31	\$430,026	\$243,328

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

**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

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 for the Sandusky Township Sewer District, Sandusky County, (the District) as a body corporate and politic. Each political subdivision within the District appoints one member to the Board of Trustees to direct the District. There are three Board members. The Trustees 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. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The District 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 the Auditor of State prescribes or permits.

C. Cash and Investments

The District's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

STAR Ohio is reported at the share values reported by the State of Ohio.

D. Fund Accounting

The District uses fund accounting to segregate cash and investments that are restricted as to use. The District classifies its fund as an enterprise fund.

Enterprise Fund

This fund account for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges.

E. Budgetary Process

The Ohio Revised Code requires the Board to budget annually.

**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

1. 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. 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. Encumbrances outstanding at year end are cancelled and reappropriated in the subsequent year.

A summary of 2007 and 2006 budgetary activity appears in Note 4.

F. Property, Plant, and Equipment

The District records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

2. CHANGE IN BASIS OF FINANCIAL STATEMENT PRESENTATION

In 2005, the District reported the financial statements on the cash basis of accounting comparable to the requirements of Governmental Accounting Standard No. 34. For 2006, the District reported on a regulatory basis. The District no longer presents entity wide financial statements. The fund financial statements now present a column for each fund type, rather than a separate column for each major fund with nonmajor funds aggregated and presented in a single column.

3. CASH AND INVESTMENTS

The revised code describes allowable deposits and investments. The carrying amount of cash and investments at December 31 was as follows:

	<u>2007</u>	<u>2006</u>
Demand deposits	\$132,111	\$203,384
STAR Ohio	<u>297,915</u>	<u>39,944</u>
Total deposits and investments	<u><u>\$430,026</u></u>	<u><u>\$243,328</u></u>

**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

3. CASH AND INVESTMENTS – (CONTINUED)

Deposits: Deposits are 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, 2007 and 2006 follows:

2007 Budgeted vs. Actual Receipts		
Budgeted Receipts	Actual Receipts	Variance
	\$560,147	\$560,147

2007 Budgeted vs. Actual Budgetary Basis Expenditures		
Appropriation Authority	Budgetary Expenditures	Variance
	\$373,449	(\$373,449)

2006 Budgeted vs. Actual Receipts		
Budgeted Receipts	Actual Receipts	Variance
	\$750,330	\$750,330

2006 Budgeted vs. Actual Budgetary Basis Expenditures		
Appropriation Authority	Budgetary Expenditures	Variance
	\$1,031,917	(\$1,031,917)

Contrary to Ohio law, the District failed to complete the certification of estimated resources or adopt annual appropriation measures during 2007 or 2006.

**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

5. DEBT

Debt outstanding at December 31, 2007 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority (OWDA):		
Loan No. 3245	\$1,478,782	6.41%
Loan No. 4405	809,100	3.75%
Ohio Public Works Commission (OPWC):		
Loan No. CE23B	87,061	0.00%
Loan No. CE38F	149,508	0.00%
Total	\$2,524,451	

The OWDA Loan No. 3245 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 OWDA Loan No. 4405 is related to the construction of Phase 1B and 3 of the District's sanitary sewer project. Phase 1B and 3 of the sanitary sewer project was completed in 2007. The District started remitting payments for this loan on July 1, 2007.

The OPWC Loan No. CE23B 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.

The OPWC Loan No. CE38F is related to the construction of Phase 1B of the District's sanitary sewer project. Phase 1B of the sanitary sewer project was completed in 2007. The District started remitting payments for this loan on January 1, 2007.

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

Year ending December 31:	Loan No. 3245	Loan No. 4405	Loan No. CE23B	Loan No. CE38F
2008	\$67,858	\$51,423	\$5,617	\$7,869
2009	135,716	51,423	5,617	7,869
2010	135,716	51,423	5,617	7,869
2011	135,716	51,423	5,617	7,869
2012	135,716	51,423	5,617	7,869
2013-2017	678,582	257,117	28,084	39,344
2018-2022	678,582	257,117	28,084	39,344
2023-2027	610,724	257,117	2,808	31,475
2027-2032		231,405		
Total	\$2,578,610	\$1,259,871	\$87,061	\$149,508

**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

6. RETIREMENT SYSTEM

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

The Ohio Revised Code also prescribes contribution rates. For 2007 and 2006, OPERS members contributed 9.5 and 9%, respectively, of their gross salaries and the District contributed an amount equaling 13.85 and 13.7%, respectively, of participants' gross salaries. The District has paid all contributions required through December 31, 2007.

7. 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

For an occurrence prior to January 1, 2006 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.

For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Districts can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with PEP.

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 (prior to January 1, 2006) or \$3,000,000 (on or subsequent to January 1, 2006) as noted above.

**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

7. RISK MANAGEMENT – (CONTINUED)

Property Coverage

Beginning in 2005, APEEP established a risk-sharing property program. Under the program, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. This amount was increased to \$300,000 in 2007. For 2007, APEEP reinsures members for specific losses exceeding \$100,000 up to \$300,000 per occurrence, subject to an annual aggregate loss payment. For 2006, APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000 in 2006, or \$100,000 and \$300,000 in 2007, Travelers will then reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2007 was \$2,014,548.

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.

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

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and net assets at December 31, 2007 and 2006:

Casualty Coverage	2007	2006
Assets	\$37,560,071	\$36,123,194
Liabilities	(17,340,825)	(16,738,904)
Retained earnings	\$20,219,246	\$19,384,290

At December 31, 2007 and 2006, respectively, the liabilities above include approximately \$15.9 million and \$15.0 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$15.0 million and \$14.4 million of unpaid claims to be billed to approximately 443 member governments in the future, as of December 31, 2007 and 2006, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The District's share of these unpaid claims collectible in future years is approximately \$5,000. This payable includes the subsequent year's contribution due if the District terminates participation, as described in the last paragraph below.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

7. RISK MANAGEMENT – (CONTINUED)

<u>Contributions to PEP</u>	
2005	\$2,090
2006	\$2,098
2007	\$2,356

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they give 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 contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.



Mary Taylor, CPA

Auditor of State

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
551 Northcrest Avenue
Fremont, Ohio 43420-9010

To the Board of Trustees:

We have audited the financial statements of the Sandusky Township Sewer District, Sandusky County, (the District) as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated August 21, 2008, wherein we noted the District changed its financial statement presentation method to conform to presentation methods the Auditor of State prescribes or permits. 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 as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted a certain matter that we reported to the District's management in a separate letter dated August 21, 2008.

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 an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2007-001.

We also noted a certain noncompliance matter that we reported to the District's management in a separate letter dated August 21, 2008.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of the audit committee, management and Board of Trustees. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

August 21, 2008

**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2007-001

Noncompliance Citation

Ohio Revised Code § 5705.28(B)(2) requires the District to follow sections 5705.36, 5705.38, 5705.41, 5705.44 and 5705.45 of the Revised Code. Documents prepared in accordance with the aforementioned sections are not required to be filed with the county auditor or county budget commission.

Ohio Revised Code § 5705.36 states on or about the first day of each fiscal year, the fiscal officers of subdivisions are to certify the total amount from all sources available for expenditures from each fund in the budget along with any unencumbered balances existing at the end of the preceding year.

During 2006 and 2007 the District failed to complete the certification described above.

Ohio Revised Code § 5705.38 requires on or about the first day of each fiscal year, an appropriation measure is to be passed and Ohio Revised Code § 5705.41 states no subdivision shall make an expenditure of money unless it has been appropriated as provided in Chapter 5705 and prohibits a subdivision from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

During 2006 and 2007 the District failed to adopt an appropriation measure and therefore the fiscal officer was unable to certify the funds were lawfully appropriated.

This resulted in the District's inability to present Board approved budgetary information in the notes to the financial statements. Furthermore, failure to have adequate estimated resources and appropriations in place at the time expenditures are being made could cause expenditures to exceed available resources, resulting in deficit spending practices. Finally, this practice impedes the ability of the Board and Fiscal Officer to properly monitor the District budgetary process.

We recommend the District complete the certification of amounts from all sources available for expenditures and adopt the appropriation measure in accordance with the sections of Ohio Revised Code described above. We further recommend the Fiscal Officer include monthly budget versus actual information in the financial reports presented to the Board which will assist them in monitoring the District financial status.

Officials' Response:

The Sandusky Township Sewer Board understands Finding Number 2007-001 and will correct this weakness in the future.



Mary Taylor, CPA
Auditor of State

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 4, 2008**