



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

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 (the District) as of and for the years ended December 31, 2001 and 2000. 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 District as of December 31, 2001 and 2000, and its cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2002 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.

Sandusky Township Sewer District
Sandusky County
Report of Independent Accountants
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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.

Jim Petro
Auditor of State

April 10, 2002

**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

**STATEMENT OF CASH RECEIPTS
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Enterprise Fund</u>
	<u>2001</u>
Operating Cash Receipts:	
Charges for Services	\$692,375
Cash Balance, January 1	<u> </u>
Cash Balance, December 31	<u><u>\$692,375</u></u>

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

**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCE - GOVERNMENTAL FUND TYPE
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

	Capital Project Fund	
	2001	2000
Cash Receipts:		
Intergovernmental Revenues		\$143,156
Interest	\$3,642	134
Reimbursement		12,183
Miscellaneous	2,309	
Total Cash Receipts	5,951	155,473
Cash Disbursements:		
Legal Counsel	1,983	467
Consultants	17,353	80,910
Technical Services		707,621
OWDA Fees		7,752
Audit Fees		2,270
Capital Outlay	341,215	1,246,479
Miscellaneous	1,729	4,246
Total Cash Disbursements	362,280	2,049,745
Total Receipts (Under) Disbursements	(356,329)	(1,894,272)
Other Financing Receipts:		
Other Proceeds from Public Debt:		
Ohio Water Development Authority Loan Proceeds	270,897	1,857,693
Ohio Public Works Commission Loan Proceeds	79,771	32,145
Total Other Financing Receipts	350,668	1,889,838
Excess of Disbursements Over Receipts and Other Financing Receipts	(5,661)	(4,434)
Cash Balance, January 1	8,652	13,086
Cash Balance, December 31	\$2,991	\$8,652

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, 2001 AND 2000**

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 is directed by a five-member Board of Trustees. The Board members are appointed by 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.

Money market mutual funds (including STAR Ohio) are recorded at share values reported by the mutual fund.

D. Fund Accounting

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

1. Capital Projects Fund

The Capital Projects Fund is used to account for receipts that are restricted for the acquisition or construction of major capital projects. The District had the following significant capital project fund:

Sewer Construction Fund - Proceeds from an Ohio Water Development Authority loan are used to construct a sewer system.

**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

2. 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:

Assessment / Tap-In Fund - The District receives assessment and tap-in fees from users of sewer lines located in Sandusky Township.

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.

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 2001 and 2000 budgetary activity appears in Note 3.

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. EQUITY IN POOLED CASH AND INVESTMENTS

The District invests in STAR Ohio.

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

	<u>2001</u>	<u>2000</u>
Demand deposits	\$55,366	\$8,652
STAR Ohio	<u>640,000</u>	<u> </u>
Total deposits and investments	<u>\$695,366</u>	<u>\$8,652</u>

**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

Deposits: Deposits are insured by the Federal Depository Insurance Corporation.

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2001 and 2000 follows:

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
Capital Projects		356,619	356,619
Enterprise		692,375	692,375
Total		\$1,048,994	\$1,048,994

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
Capital Projects		\$362,280	\$(362,280)

2000 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
Capital Projects		\$2,045,311	\$2,045,311

2000 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
Capital Projects		\$2,049,745	\$(2,049,745)

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

4. DEBT

Debt outstanding at December 31, 2001 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority (OWDA)	\$2,214,773	6%
Ohio Public Works Commission (OPWC)	173,207	0%
Total	\$2,387,980	

**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

The Ohio Water Development Authority (OWDA) loan relates to the construction of the sewer project. The OWDA has approved up to \$2,214,773 for the construction loan. Construction loans are for a term of twenty five years with payments starting when the construction is finished.

The Ohio Public Works Commission (OPWC) loan related to utility construction project. The OPWC has approved \$173,207 for this loan.

Amortization of the above OPWC debt, is scheduled as follows:

<u>Year ending December 31:</u>	<u>OPWC Loan</u>
2002	\$8,660
2003	8,660
2004	8,660
2005	8,660
2006	8,660
2007-2021	<u>129,907</u>
Total	<u>\$173,207</u>

The OPWC loan agreement included the following debt covenant:

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 2001 and 2000.

5. RISK MANAGEMENT

Risk Pool Membership

The District is a member of the Public Entities Pool of Ohio (the Pool). The Pool assumes the risk of loss up to the limits of the policy. The Pool may make supplemental assessments if the experience of the overall pool is unfavorable. The Pool covers the following risks:

- General liability and casualty;
- Public official's liability;
- Vehicle; and
- Property.

The Pool reported the following summary of assets and actuarially-measured liabilities available to pay those liabilities as of December 31:

	<u>2000</u>	<u>1999</u>
Cash and investments	<u>\$18,687,743</u>	<u>\$16,413,611</u>
Actuarial liabilities	<u>\$7,996,596</u>	<u>\$6,916,414</u>



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**REPORT OF INDEPENDENT ACCOUNTANTS 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 the Sandusky Township Sewer District (the District) as of and for the years ended December 31, 2001 and 2000, and have issued our report thereon dated April 10, 2002. 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 2001-40172-001 through 2001-40172-006. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated April 10, 2002.

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 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 does not require inclusion in this report, that we have reported to management of the District in a separate letter dated April 10, 2002.

Sandusky Township Sewer District
Sandusky County
Report of Independent Accountants on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

This report is intended solely for the information and use of management and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

April 10, 2002

**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2001-40172-001

Noncompliance Citation

Ohio Revised Code § 5705.28 states on or before July 15, of each fiscal year, the taxing authority of each subdivision or other taxing unit is required to adopt an operating budget for the next succeeding fiscal year. In accordance with ORC § 5705.28 (B)(2)(a), (b), and (c), this document is not required to be filed with the county auditor. A budget was not adopted for 2001 nor 2000. We recommend an operating budget be adopted before July 15 of each year. Therefore, the District will be aware of it's financial situation.

FINDING NUMBER 2001-40172-002

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 unencumbered balances that existed at the end of the preceding year. In accordance with ORC § 5705.28 (B)(2)(a), (b), and (c), this document is not required to be filed with the county auditor. The Certification of available revenue was not performed for 2001 nor 2000. We recommend the Certification of available revenue be certified by the first day of each year. Therefore, the District is aware of the revenues available during the year.

FINDING NUMBER 2001-40172-003

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 taxing authority 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 ORC § 5705.28 (B)(2)(a), (b), and (c), this document is not required to be filed with the county auditor. An appropriation measure was not passed in 2001 or 2000. We recommend the appropriation measure be passed on or about the first day of each fiscal year. Therefore, the District is aware of the expenditures to be incurred.

FINDING NUMBER 2001-40172-004

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 ORC § 5705.28 (B)(2)(a), (b), and (c), this document is not required to be filed with the county auditor. The District does not appropriate money. We recommend appropriation measures be prepared and compared to the amended certificate of estimated resources and appropriate modifications be made. Therefore, the District is aware if more money is being spent than receiving.

FINDING NUMBER 2001-40172-005

Noncompliance Citation

Ohio Revised Code § 5705.41(D) states no orders or contracts involving the expenditure of money is 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 two “exceptions” to the above requirement:

- A. 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 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.
- B. If the amount involved is less than \$1,000 the fiscal officer may authorize it to be paid without the affirmation of the Board, 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 exceptions 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.

We also reported this matter in our audit of the 1999 and 1998 financial statements.

FINDING NUMBER 2001-40172-006

Debt Covenants

The Sandusky Township Sewer District entered into a debt agreement with the Ohio Public Works Commission dated July 1, 1998.

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 also reported this matter in our audit of the 1999 and 1998 financial statements.

**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2001 AND 2000**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
1999-40172-001	Debt Covenants Insurance	No	Not corrected.



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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 9, 2002**