



Dave Yost • Auditor of State

**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of Sandusky Township Sewer District, Sandusky County, Ohio, (the District) as of and for the years ended December 31, 2013 and 2012.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the District prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy these requirements.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the District as of December 31, 2013 and 2012, or changes in financial position or cash flows thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

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, Ohio, as of December 31, 2013 and 2012, and its cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 8, 2014, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

July 8, 2014

**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCE (CASH BASIS)
ENTERPRISE FUND
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	2013	2012
Operating Cash Receipts:		
Charges for Services	\$562,926	\$497,501
Operating Cash Disbursements:		
Personal Services	11,749	10,473
Other Contractual Services	476,502	382,244
Office Supplies and Materials	220	62
Insurance	512	9,699
Capital Outlay		9,771
<i>Total Operating Cash Disbursements</i>	488,983	412,249
<i>Operating Income</i>	73,943	85,252
Non-Operating Cash Receipts:		
Local Taxes	50,072	27,054
Special Assessments	118,378	95,667
Other Debt Proceeds		98,271
Miscellaneous		589
<i>Total Non-Operating Cash Receipts</i>	168,450	221,581
Non-Operating Cash Disbursements:		
Redemption of Principal	118,892	107,545
Interest and Other Fiscal Charges	109,930	114,533
Miscellaneous	273	
<i>Total Non-Operating Cash Disbursements</i>	229,095	222,078
<i>Net Receipts Over Disbursements</i>	13,298	84,755
<i>Cash Balance, January 1</i>	671,808	587,053
<i>Cash Balance, December 31</i>	\$685,106	\$671,808

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, 2013 AND 2012**

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, Ohio (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 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. Deposits 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 recorded at share values reported by the State Treasurer.

D. Budgetary Process

The Ohio Revised Code requires the Board to budget annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the 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.

**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

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 2013 and 2012 budgetary activity appears in Note 3.

E. 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. EQUITY IN POOLED DEPOSITS AND INVESTMENTS

The District may invest in certificates of deposits, notes, bonds, or other obligations of the United States, or any agency or instrumentality thereof, or in obligations of the State or any political subdivision thereof.

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

	2013	2012
Demand deposits	\$275,284	\$262,146
STAR Ohio	409,822	409,662
Total deposits and investments	\$685,106	\$671,808

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.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2013 and 2012 follows:

2013 Budgeted vs. Actual Receipts		
Budgeted Receipts	Actual Receipts	Variance
\$431,000	\$731,376	\$300,376

2013 Budgeted vs. Actual Budgetary Basis Expenditures		
Appropriation Authority	Budgetary Expenditures	Variance
\$674,950	\$718,078	(\$43,128)

**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

2012 Budgeted vs. Actual Receipts		
Budgeted Receipts	Actual Receipts	Variance
\$431,000	\$719,082	\$288,082

2012 Budgeted vs. Actual Budgetary Basis Expenditures		
Appropriation Authority	Budgetary Expenditures	Variance
\$700,450	\$634,327	\$66,123

Contrary to Ohio law, budgetary expenditures exceeded appropriations of the District by \$43,128 for the year ended December 31, 2013.

4. DEBT

Debt outstanding at December 31, 2013 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority (OWDA):		
Loan No. 3245	\$1,213,914	6.41%
Loan No. 4405	681,643	3.75%
Loan No. 5524	270,379	0.00%
Loan No. 5804	310,530	1.00%
Ohio Public Works Commission (OPWC):		
Loan No. CE23B	53,360	0.00%
Loan No. CE38F	102,295	0.00%
Total	\$2,632,121	

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 2012. The District started remitting payments for this loan on January 1, 2003. Sewer revenues collateralize this loan.

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. Sewer revenues collateralize this loan.

The OWDA Loan No. 5524 is related to the construction of Fangboner Road portion of the District's sanitary sewer project. The Fangboner Road portion of the sanitary sewer project was completed in 2010. The District started remitting payments for this loan on July 1, 2011. As of December 31, 2013, loan amounts have not been finalized; therefore, a schedule of future payments has not been included. Sewer revenues collateralize this loan.

The OWDA Loan No. 5804 is related to the construction of the Whittaker Drive Lift Station. The Whittaker Drive Lift Station was completed in 2011. The District started remitting payments for this loan on January 1, 2012. As of December 31, 2013, loan amounts have not been finalized; therefore, a schedule of future payments has not been included. Sewer revenues collateralize this loan.

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

**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

remitting payments for this loan on July 1, 2003. Sewer revenues collateralize this loan.

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. Sewer revenues collateralize this loan.

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

Year ending December 31:	OWDA		OPWC	
	Loan No. 3245	Loan No. 4405	Loan No. CE23B	Loan No. CE38F
2014	\$135,716	\$51,423	\$5,617	\$7,869
2015	135,716	51,423	5,617	7,869
2016	135,716	51,423	5,617	7,869
2017	135,716	51,423	5,617	7,869
2018	135,716	51,423	5,617	7,869
2019-2023	678,582	257,117	25,275	39,344
2024-2028	475,007	257,117		23,606
2029-2032		179,982		
Total	<u>\$1,832,169</u>	<u>\$951,331</u>	<u>\$53,360</u>	<u>\$102,295</u>

5. 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 2013 and 2012, OPERS members contributed 10%, of their gross salaries and the District contributed an amount equaling 14%, of participants' gross salaries. The District has paid all contributions required through December 31, 2013.

6. 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. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. 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 and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2013, PEP retained

**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

\$350,000 for casualty claims and \$100,000 for property claims.

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 government.

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2012 and 2013.

	<u>2012</u>	<u>2013</u>
Assets	\$34,389,569	\$34,411,883
Liabilities	<u>(14,208,353)</u>	<u>(12,760,194)</u>
Net Position	<u>\$20,181,216</u>	<u>\$21,651,689</u>

At December 31, 2012 and 2013, respectively, the liabilities above include approximately \$13.1 million and \$11.6 million of estimated incurred claims payable. The assets above also include approximately \$12.6 million and \$11.1 million of unpaid claims to be billed to approximately 475 member governments in the future, as of December 31, 2012 and 2013, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2013, the District's share of these unpaid claims collectible in future years is approximately \$4,000.

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.

<u>Contributions to PEP</u>	
<u>2012</u>	<u>2013</u>
\$5,536	\$5,672

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to PEP. 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.



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INDEPENDENT AUDITOR'S 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, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Sandusky Township Sewer District, Sandusky County, Ohio, (the District) as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, and have issued our report thereon dated July 8, 2014 wherein we noted the District followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2013-001 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining 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 or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2013-002.

Entity's Response to Findings

The District's response to the findings 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.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

July 8, 2014

**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2013 AND 2012**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2013-001

Material Weakness – Financial Reporting

Sound financial reporting is the responsibility of the Fiscal Officer and Board of Trustees and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. As a result of the audit procedures performed, errors were noted in the financial statements that required material audit adjustments.

During 2012, debt proceeds in the amount of \$9,771 paid directly to construction vendors from the Ohio Water Development Authority (OWDA) were not recorded by the District.

During 2013, charges for services receipts and contractual services expenditures were overstated in the amount of \$379,105.

The accompanying financial statements have been adjusted to correct these errors.

To ensure the District's financial statements and notes to the statements are complete and accurate, the Board should adopt policies and procedures, including a final review of the annual report by the audit committee to identify and correct errors and omissions.

FINDING NUMBER 2013-002

Noncompliance Citation

Ohio Rev. 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 Rev. Code § 5705.41(B) states no subdivision shall make an expenditure of money unless it has been appropriated.

During 2013 the District's expenditures exceeded the appropriation measure.

Appropriations	Expenditures	Variance
\$ 674,950	\$ 718,078	\$ (43,128)

We recommend the Board approve supplemental appropriations when needed and monitor the budget to assure budgetary expenditures are within appropriations.

Officials' Response:

The Sewer Board acknowledges that errors were made and will correct in the future.

**SANDUSKY TOWNSHIP SEWER DISTRICT
SANDUSKY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2013 AND 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-001	Material weakness in financial reporting due to errors in financial statements.	No	Not Corrected. Repeated as Finding #2013-001 in this report.
2011-002	Ohio Rev. Code §§ 5705.28 and 5705.41(B) for failure to complete certification of the total amount from all sources available for expenditures and failed to approve annual appropriation measures.	No	Partially Corrected. Repeated as Finding #2013-002 in this report.



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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
JULY 22, 2014**