



Mary Taylor, CPA
Auditor of State

**MONROE WATER SYSTEMS
MONROE COUNTY**

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Mary Taylor, CPA
Auditor of State

Monroe Water Systems
Monroe County
P.O. Box 15
43022 Six Points Road
Laings, Ohio 43752

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 statement you prepared using the cash basis and financial statement format the AOS permits.

A handwritten signature in black ink that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

August 11, 2010

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Monroe Water Systems
Monroe County
P.O. Box 15
43022 Six Points Road
Laings, Ohio 43752

To the Board of Trustees:

We have audited the accompanying financial statement of the Monroe Water Systems, Monroe County, Ohio (the Water Systems), as of and for the years ended December 31, 2009 and 2008. This financial statement is the responsibility of the Water Systems' management. Our responsibility is to express an opinion on this financial statement 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 Water Systems has prepared this financial statement 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 statement of the variances between these regulatory accounting practices and GAAP, we presume they are material.

While the Water Systems does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statement does not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require water systems to reformat their statement. The Water Systems 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 statement referred to above for the years ended December 31, 2009 and 2008 does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Water Systems as of December 31, 2009 and 2008, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statement referred to above presents fairly, in all material respects, the cash balances of Monroe Water Systems, Monroe County, as of December 31, 2009 and 2008, and its cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Water Systems 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 statement.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2010, on our consideration of the Water Systems' 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.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

August 11, 2010

**MONROE WATER SYSTEMS
MONROE COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCE
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
Operating Cash Receipts:		
Charges for Services	\$987,432	\$1,045,875
Penalties and Fees	28,446	50,894
Interest	11,442	18,479
Miscellaneous	4,274	10,073
	<hr/>	<hr/>
Total Operating Cash Receipts	1,031,594	1,125,321
	<hr/>	<hr/>
Operating Cash Disbursements:		
Personal Services	280,340	271,475
Utilities	78,804	71,455
Repairs and Maintenance	34,480	32,651
Testing and Licenses	6,066	6,120
Other Contractual Services	7,763	13,672
Chemicals and Operating Supplies	112,039	120,904
Office Supplies and Materials	15,807	17,624
Insurance	58,958	50,631
Capital Outlay	28,620	
Miscellaneous	1,121	1,789
	<hr/>	<hr/>
Total Operating Cash Disbursements	623,998	586,321
	<hr/>	<hr/>
Operating Income	407,596	539,000
	<hr/>	<hr/>
Non-Operating Cash Receipts:		
Intergovernmental Revenues	3,551	29,000
Other Non-Operating Cash Receipts	6,676	
	<hr/>	<hr/>
Total Non-Operating Cash Receipts	10,227	29,000
	<hr/>	<hr/>
Non-Operating Cash Disbursements:		
Debt Service	323,435	365,223
Other Non-Operating Cash Disbursements		12,031
	<hr/>	<hr/>
Total Non-Operating Cash Disbursements	323,435	377,254
	<hr/>	<hr/>
Net Receipts Over Disbursements	94,388	190,746
	<hr/>	<hr/>
Cash Balance, January 1	1,477,518	1,286,772
	<hr/>	<hr/>
Cash Balance, December 31	<u><u>\$1,571,906</u></u>	<u><u>\$1,477,518</u></u>

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

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**MONROE WATER SYSTEMS
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2009 AND 2008**

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 Monroe Water Systems, Monroe County, Ohio (the Water Systems), as a body corporate and politic. The Water Systems was established as a separate political subdivision of the State of Ohio under provisions of Chapter 6119 of the Ohio Revised Code. The Water Systems is directed by a seven-member Board of Trustees and an appointed Business Manager. The Board members are appointed by the Monroe County Common Pleas Court Judge. The Water Systems provides water services to residents of various locations within Monroe County.

The Water Systems participates in Public Entities Pool of Ohio (PEP), a public entity risk pool. Note 6 to the financial statement provides additional information for this entity.

The Water Systems' management believes this financial statement presents all activities for which the Water Systems is financially accountable.

B. Accounting Basis

This financial statement follows the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Water Systems recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred.

This statement includes adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Deposits

The Water Systems values certificates of deposit at cost.

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 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.

**MONROE WATER SYSTEMS
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2009 AND 2008
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

3. Encumbrances

The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year.

A summary of 2009 and 2008 budgetary activity appears in Note 3.

E. Property, Plant, and Equipment

The Water Systems records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statement does not report these items as assets.

F. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statement does not include a liability for unpaid leave.

2. DEPOSITS

The Water Systems 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:

	2009	2008
Demand deposits	\$1,571,906	\$977,518
Certificate of deposit		500,000
Total deposits	\$1,571,906	\$1,477,518

Deposits: Deposits are insured by the Federal Deposit Insurance Corporation or collateralized by securities specifically pledged by the financial institution to the Water Systems.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2009 and 2008, follows:

2009 Budgeted vs. Actual Receipts		
Budgeted Receipts	Actual Receipts	Variance
\$1,588,551	\$1,041,821	(\$546,730)

**MONROE WATER SYSTEMS
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2009 AND 2008
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2009 Budgeted vs. Actual Budgetary Basis Expenditures		
Appropriation Authority	Budgetary Expenditures	Variance
\$1,588,551	\$947,433	\$641,118

2008 Budgeted vs. Actual Receipts		
Budgeted Receipts	Actual Receipts	Variance
\$1,610,000	\$1,154,321	(\$455,679)

2008 Budgeted vs. Actual Budgetary Basis Expenditures		
Appropriation Authority	Budgetary Expenditures	Variance
\$1,610,000	\$963,575	\$646,425

4. DEBT

Debt outstanding at December 31, 2009, was as follows:

	Principal	Interest Rate
Water Resource Revenue Bonds	\$30,675	7.25%
Ohio Public Works Commission Loan	4,378	0.00%
Ohio Water Development Authority Loans	3,080,042	1.50 - 7.89%
Total	\$3,115,095	

There were seven outstanding loans with the Ohio Water Development Authority (OWDA) for water line construction, which were long term, issued up to thirty years. The loans are collateralized by water revenue. The Water Systems has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The Water Systems issued water resource revenue bonds to finance the expansion of its water lines. The bonds were issued October 9, 1992 for \$204,500 and have maturities through December 1, 2012. These bonds are collateralized by the future revenues from the Water Systems' water operations.

The Ohio Public Works Commission (OPWC) loan is a twenty year loan obtained for the purpose of constructing a water well. Revenue of the Water Systems has been pledged to repay this loan.

**MONROE WATER SYSTEMS
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2009 AND 2008
(Continued)**

4. DEBT (Continued)

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

<u>Year ending December 31:</u>	<u>OWDA Loans</u>	<u>Water Resource Revenue Bonds</u>	<u>OPWC Loan</u>
2010	\$308,791	\$12,449	\$973
2011	330,885	11,708	973
2012	331,423	10,966	973
2013	332,057		973
2014	317,159		486
2015-2019	952,498		
2020-2024	310,141		
2025-2029	310,141		
2030-2034	310,141		
2035-2039	124,057		
Total	<u>\$3,627,293</u>	<u>\$35,123</u>	<u>\$4,378</u>

The Water Systems has utilized trustees to service the water resource revenue bonds for water line construction. Payments to the trustees are recorded as expenditures in the year deposited with the trustee. The Water Systems annually submits the amount of principal and interest due to the trustee bank. There are no investment services provided by the trustee.

5. RETIREMENT SYSTEM

The Water Systems' 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 2009 and 2008, OPERS members contributed 10% of their gross salaries and the Water Systems contributed an amount equaling 14% of participants' gross salaries. The Water Systems has paid all contributions required through December 31, 2009.

6. RISK MANAGEMENT

Commercial Insurance

The Water Systems has obtained commercial insurance for the following risks:

- Comprehensive property;
- Vehicles; and
- Errors and omissions.

**MONROE WATER SYSTEMS
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2009 AND 2008
(Continued)**

6. RISK MANAGEMENT (Continued)

The Water Systems also provides health insurance coverage for full-time employees through a private carrier.

Risk Pool Membership

The Water Systems 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, 2008, PEP retained \$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.

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 retained earnings at December 31, 2008 and 2007 (the latest information available):

	<u>2008</u>	<u>2007</u>
Assets	\$35,769,535	\$37,560,071
Liabilities	<u>(15,310,206)</u>	<u>(17,340,825)</u>
Net Assets	<u>\$20,459,329</u>	<u>\$20,219,246</u>

At December 31, 2008 and 2007, respectively, the liabilities above include approximately \$13.8 million and \$15.9 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$12.9 million and \$15.0 million of unpaid claims to be billed to approximately 445 member governments in the future, as of December 31, 2008, and 2007, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Water Systems' share of these unpaid claims collectible in future years is approximately \$1,000.

**MONROE WATER SYSTEMS
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2009 AND 2008
(Continued)**

6. RISK MANAGEMENT (Continued)

Risk Pool Membership (Continued)

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>	
2007	\$625
2008	\$576
2009	\$625

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they 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 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.

7. CONTINGENT LIABILITIES

Amounts grantor agencies pay to the Water Systems are subject to audit and adjustment by the grantor. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.



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*

Monroe Water Systems
Monroe County
P.O. Box 15
43022 Six Points Road
Laings, Ohio 43752

To the Board of Trustees:

We have audited the financial statement of the Monroe Water Systems, Monroe County, Ohio (the Water Systems), as of and for the years ended December 2009 and 2008, have issued our report thereon dated August 11, 2010, wherein we noted the Water Systems prepared its financial statement using accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. 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 Water Systems' internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statement, but not for the purpose of opining on the effectiveness of the Water Systems' internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Water Systems' internal control over financial reporting.

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 combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Water Systems' financial statement will not be prevented, or detected and timely corrected.

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

Compliance and Other Matters

As part of reasonably assuring whether the Water Systems' 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*.

We did note certain matters not requiring inclusion in this report that we reported to the Water Systems' management in a separate letter dated August 11, 2010.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

August 11, 2010

**MONROE WATER SYSTEMS
MONROE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2009 AND 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2007-001	Ohio Rev. Code Section 5705.41(B) – expenditures exceeded appropriations in several functions.	No	Partially Corrected; Repeated in the Management Letter.
2007-002	Ohio Rev. Code Section 5705.41(D)(1) – no prior certification of availability of funds.	Yes	N/A.
2007-003	Ohio Admin Code Section 117-2-02(A) – Not posting on-behalf-of grant activity to ledgers.	Yes	N/A.
2007-004	Ohio Admin Code Section 117-2-02(C) – Accounting system did not provide encumbered or unencumbered disbursement information.	Yes	N/A.



Mary Taylor, CPA
Auditor of State

MONROE COUNTY WATER SYSTEMS

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
AUGUST 26, 2010**