



Dave Yost • Auditor of State



**MONROE WATER SYSTEMS  
MONROE COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Trustees:

### ***Report on the Financial Statement***

We have audited the accompanying financial statement of the cash balances, receipts and disbursements, and related notes of the Monroe Water Systems, Monroe County, Ohio (the Water Systems), as of and for the years ended December 31, 2015 and 2014.

### ***Management's Responsibility for the Financial Statement***

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

### ***Auditor's Responsibility***

Our responsibility is to opine on this financial statement 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 statement is 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 Water Systems' preparation and fair presentation of the financial statement 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 Water Systems' 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 opinions.

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

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

Although the effects on the financial statement of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Water Systems does not intend this statement to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

***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 statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Water Systems as of December 31, 2015 and 2014, 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 statement referred to above presents fairly, in all material respects, the cash balances of the Monroe Water Systems, Monroe County as of December 31, 2015 and 2014, and its cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code § 117.38 and Ohio Administrative Code § 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 August 17, 2016, 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. 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 Water Systems' internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

August 17, 2016

**MONROE WATER SYSTEMS  
MONROE COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES (CASH BASIS)  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<b>2015</b>	<b>2014</b>
<b>Operating Cash Receipts:</b>		
Charges for Services	\$788,169	\$962,548
Penalties and Fees	105,286	67,994
Interest	1,164	1,374
Miscellaneous	9,304	41,605
<i>Total Operating Cash Receipts</i>	<i>903,923</i>	<i>1,073,521</i>
<b>Operating Cash Disbursements:</b>		
Personal Services	330,986	321,408
Utilities	115,074	114,641
Repairs and Maintenance	20,850	15,207
Testing and Licenses	8,671	7,255
Other Contractual Services	6,982	10,812
Chemicals and Operating Supplies	130,756	142,559
Office Supplies and Materials	17,374	16,942
Insurance	98,823	95,971
Capital Outlay	808,369	3,266,602
Miscellaneous	2,690	1,706
<i>Total Operating Cash Disbursements</i>	<i>1,540,575</i>	<i>3,993,103</i>
<i>Operating (Loss)</i>	<i>(636,652)</i>	<i>(2,919,582)</i>
<b>Non-Operating Cash Receipts:</b>		
Loan Proceeds	728,246	3,141,403
Other Non-Operating Revenues	0	707
<i>Total Non-Operating Cash Receipts</i>	<i>728,246</i>	<i>3,142,110</i>
<b>Non-Operating Cash Disbursements:</b>		
Debt Service	481,436	317,645
Other Non-Operating Cash Disbursements	2,583	
<i>Total Non-Operating Cash Disbursements</i>	<i>484,019</i>	<i>317,645</i>
<i>Net Receipts (Under) Disbursements</i>	<i>(392,425)</i>	<i>(95,117)</i>
Cash Balances, January 1	1,737,401	1,832,518
<i>Cash Balances, December 31</i>	<i>\$1,344,976</i>	<i>\$1,737,401</i>

*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, 2015 AND 2014**

**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 County 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 permitted by the financial reporting provisions of Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The Board recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

This statement includes adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D) permit.

**C. 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 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). 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 Water Systems to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are canceled and reappropriated in the subsequent year.

**MONROE WATER SYSTEMS  
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
DECEMBER 31, 2015 AND 2014  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Budgetary Process (Continued)**

A summary of 2015 and 2014 budgetary activity appears in Note 3.

**D. 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.

**E. 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. EQUITY IN POOLED 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 at December 31 was as follows:

	2015	2014
Demand deposits	\$232,254	\$625,285
Other time deposits (savings and NOW accounts)	1,112,722	1,112,116
Total deposits	\$1,344,976	\$1,737,401

**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, 2015 and 2014, follows:

2015 Budgeted vs. Actual Receipts		
Budgeted	Actual	
Receipts	Receipts	Variance
\$5,287,000	\$1,632,169	(\$3,654,831)

2015 Budgeted vs. Actual Budgetary Basis Expenditures		
Appropriation	Budgetary	
Authority	Expenditures	Variance
\$5,287,000	\$2,024,594	\$3,262,406

**MONROE WATER SYSTEMS  
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
DECEMBER 31, 2015 AND 2014  
(Continued)**

**3. BUDGETARY ACTIVITY (Continued)**

2014 Budgeted vs. Actual Receipts		
Budgeted	Actual	
Receipts	Receipts	Variance
\$5,346,000	\$4,215,631	(\$1,130,369)

2014 Budgeted vs. Actual Budgetary Basis Expenditures		
Appropriation	Budgetary	
Authority	Expenditures	Variance
\$5,346,000	\$4,310,748	\$1,035,252

**4. DEBT**

Debt outstanding at December 31, 2015, was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loans	\$1,499,746	1.50 - 7.89%

There were six 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.

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

Year ending December 31:	OWDA Loans
2016	\$151,307
2017	174,834
2018	174,834
2019	118,431
2020	62,028
2021-2025	310,141
2026-2030	310,141
2031-2035	310,141
2036-2040	93,042
Total	\$1,704,899

As of December 31, 2015, the Ohio Water Development Authority (OWDA) approved up to \$4,026,734 in loans to the Water Systems for the water treatment plant project. The Water Systems' will repay the loans in semiannual installments at an annual percentage rate from 1.5% - 3.4%, with final payment due January 1, 2045. As of December 31, 2015, \$3,899,689 plus capitalized interest of \$12,734 is the total amount drawn down on these loans.

These loans are not included in the debt or amortization schedules above as OWDA will adjust the scheduled payments to reflect any revisions in amounts the Water Systems actually borrows. Water receipts collateralize the loans. The Water Systems has agreed to set utility rates sufficient to cover OWDA debt service requirements.

**MONROE WATER SYSTEMS  
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
DECEMBER 31, 2015 AND 2014  
(Continued)**

**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 2015 and 2014, 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, 2015.

**6. RISK MANAGEMENT**

**Commercial Insurance**

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

- Comprehensive property and general liability;
- Vehicles;
- Inland Marine; and
- Terrorism

**Risk Pool Membership**

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

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

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. 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 York. 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, 2015, 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.

**MONROE WATER SYSTEMS  
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
DECEMBER 31, 2015 AND 2014  
(Continued)**

**6. RISK MANAGEMENT (Continued)**

Financial Position

PEP's financial statements (audited by other auditor's) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2014 and 2015:

	<u>2014</u>	<u>2015</u>
Assets	\$35,402,177	\$38,307,677
Liabilities	<u>(12,363,257)</u>	<u>(12,759,127)</u>
Net Position	<u>\$23,038,920</u>	<u>\$25,548,550</u>

At December 31, 2014 and 2015, respectively, the liabilities above include approximately 11.1 million and \$11.5 million of estimated incurred claims payable. The assets above also include approximately \$10.8 million and \$11.0 million of unpaid claims to be billed. The Pool's membership increased from 488 members in 2014 to 499 members in 2015. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2015, the Water System's share of these unpaid claims collectible in future years is approximately \$1,000.

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>2014</u>	<u>2015</u>
\$1,698	\$1,701

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.

**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.

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S 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 in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statement of the cash balances, receipts, and disbursements of the Monroe Water Systems, Monroe County, Ohio (the Water Systems), as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statement and have issued our report thereon dated August 17, 2016, wherein we noted the Water Systems followed financial reporting provisions Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D) permit.

### ***Internal Control Over Financial Reporting***

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

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Water System's financial statement. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings that we consider a significant deficiency. We consider finding 2015-001 to be a significant deficiency.

***Compliance and Other Matters***

As part of reasonably assuring whether the Water Systems' financial statement is 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***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 Water Systems' internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Water Systems' 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

August 17, 2016

**MONROE WATER SYSTEMS  
MONROE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2015 AND 2014**

<b>FINDING RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2015-001**

**Significant Deficiency**

All local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements.

The management of each local public office is responsible for the assertions underlying the information in the public office's financial statements. The accounting system should assure that the following assertion is achieved for all transaction types and account balances applicable to the local public office's operations, considering the basis of accounting applicable to it:

**Presentation and disclosure:** That financial statement elements are accurately reported and appropriate disclosures are made as required by generally accepted accounting principles, or as prescribed by the auditor of state for entities that do not follow generally accepted accounting principles.

At December 31, 2015 and 2014, the Board incorrectly reported amounts for Charges for Services. Charges for Services were over-stated at December 31, 2015 and 2014 by \$77,724 and \$57,154, respectively.

At December 31, 2015 and 2014, the Board incorrectly classified Capital Outlay expenditures as Non-Operating Disbursements instead of Operating Disbursements in the amount of \$808,369 and \$3,266,602, respectively.

At December 31, 2015 and 2014, the Board incorrectly classified Debt Retirement payments as Operating Disbursements instead of Non-Operating Disbursements in the amount of \$481,436 and \$317,645, respectively.

The adjustments, with which management agrees, were posted to the accounting records and are reflected in the accompanying financial statements.

The Board should establish procedures to help ensure transactions are accurately reported on the financial statements.

**Officials' Response:** We did not receive a response from Officials to this finding.

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# Dave Yost • Auditor of State

**MONROE WATER DISTRICT**

**MONROE 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 22, 2016**