



**Auditor of State
Betty Montgomery**

**MONROE WATER SYSTEMS
MONROE COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Cover Letter	1
Independent Accountants' Report.....	3
Statement of Cash Receipts, Cash Disbursements, and Changes in Cash Balances - For the Years Ended December 31, 2005 and 2004	5
Notes to the Financial Statement.....	7
Schedule of Federal Awards Expenditures.....	13
Notes to Schedule of Federal Awards Expenditures	14
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	15
Independent Accountants' Report on Compliance with Requirements Applicable to its Major Federal Program and On Internal Control Over Compliance in Accordance with OMB Circular A-133...	17
Schedule of Findings - <i>OMB Circular A-133 Section .505</i>	19

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**Auditor of State
Betty Montgomery**

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 statement due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare its financial statement pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statement in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statement presents 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 "Betty Montgomery".

Betty Montgomery
Auditor of State

July 10, 2006

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**Auditor of State
Betty Montgomery**

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 Monroe Water Systems, Monroe County, Ohio (the Water Systems), as of and for the years ended December 31, 2005 and 2004. 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Water Systems has prepared its 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.

Revisions to GAAP would require the Water Systems to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2005 and 2004. 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 the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Water Systems has elected not to reformat its statement. Since this Water Systems does not use GAAP to measure financial statement amounts, 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, 2005 and 2004 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, 2005 and 2004, or its changes in financial position or its cash flows 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, 2005 and 2004, and its cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Water Systems to include Management's Discussion and Analysis for the years ended December 31, 2005 and 2004. 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 July 10, 2006, 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.



Betty Montgomery
Auditor of State

July 10, 2006

**MONROE WATER SYSTEMS
MONROE COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
Operating Cash Receipts:		
Charges for Services	\$868,616	\$811,981
Penalties & Fees	51,788	58,743
Interest	4,915	4,212
Miscellaneous	18,718	6,636
	<u>944,037</u>	<u>881,572</u>
Operating Cash Disbursements:		
Personal Services	286,419	205,899
Utilities	80,790	71,819
Repairs and Maintenance	13,109	20,355
Testing and Licenses	4,431	7,017
Other Contractual Services	6,508	10,537
Chemicals and Operating Supplies	115,103	78,568
Office Supplies and Materials	18,499	14,471
Insurance	49,260	37,605
Capital Outlay	1,597,613	
Miscellaneous	6,882	5,711
	<u>2,178,614</u>	<u>451,982</u>
Operating Income/(Loss)	<u>(1,234,577)</u>	<u>429,590</u>
Non-Operating Cash Receipts:		
Intergovernmental Revenues	850,032	
Other Non-Operating Revenues	49,400	2,800
	<u>899,432</u>	<u>2,800</u>
Non-Operating Cash Disbursements:		
Debt Service	<u>283,197</u>	<u>283,589</u>
	<u>283,197</u>	<u>283,589</u>
Net Receipts Over/(Under) Disbursements	(618,342)	148,801
Cash Balances, January 1	<u>974,912</u>	<u>826,111</u>
Cash Balances, December 31	<u><u>\$356,570</u></u>	<u><u>\$974,912</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, 2005 AND 2004**

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 (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 the Water Systems.

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

B. Basis of Accounting

This financial statement follows the basis of accounting the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements basis of accounting. This basis 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. Budgetary Process

The Ohio Revised Code requires the Water Systems 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. 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.

A summary of 2005 and 2004 budgetary activity appears in Note 3.

**MONROE WATER SYSTEMS
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2005 AND 2004
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Property, Plant and Equipment

The accounting basis records acquisitions of property, plant, and equipment as capital outlay disbursements when paid. The accompanying financial statement does not include these assets.

E. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The Water Systems's accounting basis does not reflect a liability for unpaid leave.

2. CASH

The carrying amount of cash at December 31 follows:

	2005	2004
Demand deposits	\$356,570	\$974,912

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, 2005 and 2004, follows:

Budgeted vs. Actual Receipts		
	2005	2004
Budgeted Receipts	\$867,200	\$873,000
Actual Receipts	1,843,469	884,372
Variance	\$976,269	\$11,372

Budgeted vs. Actual Budgetary Basis Expenditures		
	2005	2004
Appropriation Authority	\$867,200	\$873,000
Budgetary Expenditures	2,461,811	735,571
Variance	(\$1,594,611)	\$137,429

Contrary to Ohio law, budgetary expenditures exceeded the Water Systems' appropriation authority by \$1,594,611 for the year ended December 31, 2005.

**MONROE WATER SYSTEMS
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2005 AND 2004
(Continued)**

4. DEBT

Debt outstanding at December 31, 2005, was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loans	\$2,471,236	2.00-7.89%
Water Resource Revenue Bonds	71,575	7.25%
Ohio Public Works Commission Loan	8,270	0%
Total	<u>\$2,551,081</u>	

There were six outstanding loans with the Ohio Water Development Authority (OWDA) for water line construction, which were long term, issued up to twenty-five 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 new water well. Revenue of the Water Systems has been pledged to repay this loan.

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 Loans</u>
2006	\$266,444	\$15,414	\$973
2007	266,848	14,673	973
2008	267,284	13,931	973
2009	267,755	13,190	973
2010	268,261	12,449	973
2011-2015	1,303,509	22,674	3,405
2016-2018	402,211		
Total	<u>\$3,042,312</u>	<u>\$92,331</u>	<u>\$8,270</u>

The Water Systems has utilized trustees to service the water resource revenue bonds for water line construction. Payments to 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.

**MONROE WATER SYSTEMS
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2005 AND 2004
(Continued)**

5. RETIREMENT SYSTEMS

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

The Ohio Revised Code also prescribes contribution rates. For 2005 and 2004, OPERS members contributed 8.5 percent of their gross salaries. The Water Systems contributed an amount equal to 13.55 percent of participants' gross salaries. The Water Systems has paid all contributions required through December 31, 2005.

6. RISK MANAGEMENT

Commercial Insurance

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

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

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. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$12,000,000 with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

Through 2004, PEP retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence. APEEP's Guarantee Fund was responsible for losses and loss adjustment expenses exceeding operating contributions.

**MONROE WATER SYSTEMS
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2005 AND 2004
(Continued)**

6. RISK MANAGEMENT (Continued)

Risk Pool Membership (Continued)

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable value. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2005 was \$1,682,589.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

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

Members may withdraw on each anniversary of the date they joined PEP. They must 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 contribution, minus the subsequent year's premium. Also upon withdrawal, payments for all property and casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

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, 2005 and 2004:

<u>Casualty Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$29,719,675	\$27,437,169
Liabilities	<u>(15,994,168)</u>	<u>(13,880,038)</u>
Retained earnings	<u>\$13,725,507</u>	<u>\$13,557,131</u>

<u>Property Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$4,443,332	\$3,648,272
Liabilities	<u>(1,068,245)</u>	<u>(540,073)</u>
Retained earnings	<u>\$3,375,087</u>	<u>\$3,108,199</u>

**MONROE WATER SYSTEMS
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2005 AND 2004
(Continued)**

6. RISK MANAGEMENT (Continued)

Risk Pool Membership (Continued)

The Casualty Coverage assets and retained earnings above include approximately \$14.3 million and \$12 million of unpaid claims to be billed to approximately 430 member governments in the future, as of December 31, 2005 and 2004, respectively. PEP will collect these amounts in future annual premium billings when PEP's related liabilities are due for payment. The Water System's share of these unpaid claims is approximately \$1,250.

7. CONTINGENT LIABILITIES

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience, management believes such refunds, if any, would not be material.

**MONROE WATER SYSTEMS
MONROE COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2005**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed through Ohio Department of Development / Monroe County Commissioners</i>			
Community Development Block Grant - Water and Sanitary Sewer Competitive Grant	B-W-02-052-1	14.228	\$495,000
Community Development Block Grant - Appalachian Regional Commission	B-P-03-052-1	14.228	<u>300,000</u>
Total U.S. Department of Housing and Urban Development			<u>795,000</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
<i>Passed through the Ohio Emergency Management Agency</i>			
Public Assistance Grants	FEMA-OH-DR1580	97.036	3,663
	FEMA-OH-DR1556	97.036	<u>51,369</u>
Total U.S. Department of Homeland Security			<u>55,032</u>
Total Federal Awards Expenditures			<u><u>\$850,032</u></u>

The Notes to the Schedule of Federal Awards Expenditures is an integral part of the Schedule.

**MONROE WATER SYSTEMS
MONROE COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
DECEMBER 31, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the Water System's federal award programs. The Schedule has been prepared on the cash basis of accounting.



**Auditor of State
Betty Montgomery**

**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 Monroe Water Systems, Monroe County, Ohio (the Water Systems), as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated July 10, 2006, wherein we noted the Water Systems followed accounting practices the Auditor of State prescribes 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 to determine our auditing procedures in order to express our opinion on the financial statement and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Water System's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying Schedule of Findings as item 2005-002.

A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statement we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the Water System's management dated July 10, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Water System's 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, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2005-001. In a separate letter to the Water System's management dated July 10, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, the Board of Trustees, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

July 10, 2006



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

To the Board of Trustees:

Compliance

We have audited the compliance of Monroe Water Systems, Monroe County, Ohio (the Water Systems), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended December 31, 2005. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the Water Systems' major federal program. The Water Systems' management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its major federal program. Our responsibility is to express an opinion on the Water Systems' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Water Systems' compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Water Systems' compliance with those requirements.

In our opinion, Monroe Water Systems, Monroe County, complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended December 31, 2005.

Internal Control Over Compliance

The Water Systems' management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Water Systems' internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the audit committee, management, the Board of Trustees, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

July 10, 2006

**MONROE WATER SYSTEMS
MONROE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2005 AND 2004**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Community Development Block Grant, CFDA #14.228
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**MONROE WATER SYSTEMS
MONROE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2005 AND 2004
(Continued)**

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2005-001

Noncompliance Citation

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision or taxing unit from making an expenditure unless it has been properly appropriated.

The following accounts had expenditures which exceeded appropriations at the legal level of control at December 31, 2005:

Function Account	Appropriations	Expenditures	Variance
Salaries and Wages	\$158,000	\$182,182	(\$24,182)
Withholding	45,100	67,082	(21,982)
System Supplies	55,000	91,438	(36,438)
Utilities	78,500	80,790	(2,290)
Insurance	42,300	49,260	(6,960)
Employer Medicare	2,850	3,592	(742)
Employer PERS	27,000	33,564	(6,564)
Chemicals	16,300	23,665	(7,365)
Dues & Schooling	3,000	3,073	(73)
Fly Project	0	729,010	(729,010)
FEMA	0	73,603	(73,603)
Fly Project (through Monroe County)	0	795,000	(795,000)

The excess expenditures for the Fly Project (through Monroe County) was caused by the Water Systems not budgeting for or recording all of the Community Development Block Grant funding received and expended on behalf of the Water Systems. (See Finding Number 2005-002) All other variances were caused by a misunderstanding as to which level of control the appropriation amendments needed to be passed.

We recommend the Water Systems Board of Trustees pass appropriation amendments at the same level of control as passed for the original appropriations. We recommend the Water Systems Clerk post these appropriation amendments as approved by the Water Systems Board of Trustees.

**MONROE WATER SYSTEMS
MONROE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2005 AND 2004
(Continued)**

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

FINDING NUMBER 2005-002

Reportable Condition

Auditor of State Audit Bulletin 2000-008 recommends the accounting treatment for on-behalf-of grants or loans. When a local government enters into an on-behalf-of program agreement with another local government or the State (or the federal government, if applicable), whereby the local government or its residents are the beneficiaries under the agreement, the cash value benefit of the program received under the agreement should be recorded as memorandum receipts and disbursements in the year on-behalf-of disbursements are made.

During 2005, the Water Systems' was the beneficiary of federal grants administered by Monroe County on their behalf. The Water Systems did not record receipts or disbursements on their accounting records for these grants. These grant receipts and disbursements were \$795,000, respectively. Adjustments were made to properly reflect this activity on the accompanying financial statement.

We recommend the Water Systems refer to Auditor of State Audit Bulletin 2000-008 and follow the recommended accounting treatment for all monies expended on-behalf-of the Water Systems.

Official's Response: We did not receive a response from Officials to the findings reported above.

3. FINDINGS FOR FEDERAL AWARDS

None



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MONROE WATER SYSTEMS

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
AUGUST 10, 2006**