



**Auditor of State  
Betty Montgomery**



**MONROE WATER SYSTEMS  
MONROE COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Monroe Water Systems  
Monroe County  
43022 Six Points Road, P. O. Box 15  
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, 2003 and 2002. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial 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 that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Water Systems prepares its financial statement on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash balances of the Monroe Water Systems, Monroe County, as of December 31, 2003 and 2002, and its cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2004, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of management, the Board of Trustees, and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

June 14, 2004

**MONROE WATER SYSTEMS  
MONROE COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**

	<u>2003</u>	<u>2002</u>
<b>Operating Cash Receipts:</b>		
Charges for Services	\$809,388	\$753,060
Penalties, Fees, and Construction Costs	53,177	49,625
Miscellaneous	1,279	12,853
	<u>863,844</u>	<u>815,538</u>
<b>Operating Cash Disbursements:</b>		
Personal Services	197,965	160,771
Utilities	65,103	58,920
Repairs and Maintenance	50,304	27,702
Testing and Licenses	4,813	3,195
Other Contractual Services	3,856	10,562
Chemicals and Operating Supplies	95,177	78,657
Office Supplies and Materials	23,707	7,460
Insurance	29,135	24,101
Miscellaneous	5,314	5,380
	<u>475,374</u>	<u>376,748</u>
Operating Income	<u>388,470</u>	<u>438,790</u>
<b>Non-Operating Cash Receipts:</b>		
Interest	4,443	4,167
Other Non-Operating Revenues	1,600	10,800
	<u>6,043</u>	<u>14,967</u>
<b>Non-Operating Cash Disbursements:</b>		
Debt Service	287,424	291,427
Other Non-Operating Cash Disbursements		10,829
	<u>287,424</u>	<u>302,256</u>
Net Cash Receipts Over Cash Disbursements	107,089	151,501
Cash Balances, January 1	<u>719,022</u>	<u>567,521</u>
<b>Cash Balances, December 31</b>	<u><u>\$826,111</u></u>	<u><u>\$719,022</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, 2003 AND 2002**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The Monroe Water Systems, Monroe County (the Water Systems), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The 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 prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

This statement includes adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

**C. Budgetary Process**

The Ohio Revised Code requires the Water Systems to adopt an annual budget.

**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.

**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 2003 and 2002 budgetary activity appears in Note 3.

**MONROE WATER SYSTEMS  
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
DECEMBER 31, 2003 AND 2002  
(Continued)**

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

**D. Property, Plant and Equipment**

Acquisitions of property, plant and equipment are recorded as capital outlay disbursements when paid. These items are not reflected as assets on the accompanying financial statement.

**E. Accumulated Leave**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Water Systems' basis of accounting.

**2. CASH**

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

	2003	2002
Demand deposits	\$826,111	\$719,022

**Deposits:** Deposits are either (1) insured by the Federal Deposit Insurance Corporation or (2) collateralized by securities specifically pledged by the financial institution to the Water Systems.

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2003 and 2002, follows:

Budgeted vs. Actual Receipts		
	2003	2002
Budgeted Receipts	\$817,700	\$817,700
Actual Receipts	869,887	830,505
Variance	\$52,187	\$12,805

Budgeted vs. Actual Expenditures		
	2003	2002
Appropriation Authority	\$817,700	\$817,700
Actual Expenditures	762,798	679,004
Variance	\$54,902	\$138,696

**4. DEBT**

Debt outstanding at December 31, 2003, was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loans	\$2,808,199	0-7.89%
Water Resource Revenue Bonds	92,025	7.25%
Ohio Public Works Commission Loan	10,216	0.00%
Total	\$2,910,440	

**MONROE WATER SYSTEMS  
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**4. DEBT (Continued)**

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:

Year Ending December 31	OWDA Loans	Water Resource Revenue Bonds	OPWC Loan
2,004	\$265,720	\$16,897	\$973
2,005	266,068	16,155	973
2,006	266,444	15,414	973
2,007	266,848	14,673	973
2,008	267,284	13,931	973
2009 - 2013	1,344,246	48,313	4,865
2014 - 2018	897,487	0	486
<b>Total</b>	<b>\$3,574,097</b>	<b>\$125,383</b>	<b>\$10,216</b>

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.

**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 prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2003 and 2002, OPERS members contributed 8.5% of their gross salaries. The Water Systems contributed an amount equal to 13.55% of participants' gross salaries. The Water Systems has paid all contributions required through December 31, 2003.

**MONROE WATER SYSTEMS  
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**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 insurance 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 claim, including loss adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reissues claims exceeding \$250,000, up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000, from the General Reinsurance Corporation.

If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

PEP retains property risks, including automobile physical damage, up to \$100,000 on any specific loss with an annual aggregate of \$1,250,000 for 2002. There is no aggregate for 2003 and future accident years. Beginning in 2003, PEP retains property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemity Company reinsures losses exceeding \$100,000. APEEP's Guarantee Fund pay losses and loss adjustment expenses exceeding operating contributions.

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 Township.

**MONROE WATER SYSTEMS  
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**6. RISK MANAGEMENT (Continued)**

**Risk Pool Membership (Continued)**

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 (the latest information available):

<u>Casualty Coverage</u>	<u>2003</u>	<u>2002</u>
Assets	\$25,288,098	\$20,174,977
Liabilities	<u>(12,872,985)</u>	<u>(8,550,749)</u>
Retained earnings	<u>\$12,415,113</u>	<u>\$11,624,228</u>

<u>Property Coverage</u>	<u>2003</u>	<u>2002</u>
Assets	\$3,158,813	\$2,265,408
Liabilities	<u>(792,061)</u>	<u>655,318</u>
Retained earnings	<u>\$2,366,752</u>	<u>\$1,910,090</u>

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Monroe Water Systems  
Monroe County  
43022 Six Points Road, P. O. Box 15  
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, 2003 and 2002, and have issued our report thereon dated June 14, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Water Systems' financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the Water Systems in a separate letter dated June 14, 2004.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Water Systems' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Water Systems in a separate letter dated June 14, 2004.

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

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

**Betty Montgomery**  
Auditor of State

June 14, 2004





**Auditor of State  
Betty Montgomery**

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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 17, 2004**