



**MADISON WATER DISTRICT
RICHLAND COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2005-2004



**Auditor of State
Betty Montgomery**

**MADISON WATER DISTRICT
RICHLAND COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Madison Water District
Richland County
489 Indiana Avenue
Mansfield, Ohio 44905

To the Board of Trustees:

We have audited the accompanying financial statements of Madison Water District, Richland County, Ohio, (the District) as of and for the years ended December 31, 2005 and 2004, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements 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 opinions.

As discussed in Note 1, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of Madison Water District, Richland County, Ohio, as of December 31, 2005 and 2004, and the respective changes in modified cash financial position and cash flows thereof for the years then ended in conformity with the basis of accounting Note 1 describes.

For the years ended December 31, 2005 and 2004, the District revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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.

101 Central Plaza South / 700 Chase Tower / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

September 22, 2006

Madison Water District, Richland County
Management's Discussion and Analysis
For the Years Ended December 31, 2005 and 2004
Unaudited

This discussion and analysis of the Madison Water District's (the District) financial performance provides an overall review of the District's financial activities for the years ended December 31, 2005 and 2004, within the limitations of the District's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

Highlights

Key highlights for 2005 and 2004 are as follows:

Net assets of the District's activities increased \$79,334, or 39.6 percent, and \$37,939, or 23.4 percent, a significant change from the prior year.

The District's operating receipts are primarily water bill collections. These receipts represent respectively \$167,412, or 94.4 percent, and \$149,069, or 95.4 percent of the total cash received for the District's activities during the year.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the District's modified cash basis of accounting.

Report Components

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are the Statement of Net Assets, the Statement of Cash Receipts, Expenses and Changes in Net Assets, the Statement of Cash Flows, and the accompanying notes to the financial statements. These statements report information about the District's activities. The District is a single enterprise fund.

The Statement of Net Assets presents the District's financial position and reports the resources owned by the District (assets), obligations owed by the District (liabilities) and District net assets (the difference between assets and liabilities). It provides a way to measure the financial health of the District by providing the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The Statement of Net Assets and the Statement of Cash Receipts, Expenses and Changes in Net Assets provide information about the cash activities.

The notes to the financial statements are an integral part of the District's financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The District has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the District's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

Madison Water District, Richland County
 Management's Discussion and Analysis
 For the Years Ended December 31, 2005 and 2004
 Unaudited

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the District as a Whole

The Statement of Net Assets and the Statement of Cash Receipts, Expenses and Changes in Net Assets reflect how the District did financially during 2005, within the limitations of modified cash basis accounting. The Statement of Net Assets presents the cash balances of the district at year end. The Statement of Cash Receipts, Expenses and Changes in Net Assets present a summary of how the District's net assets changed during the year. Revenue is reported when earned and expenses are reported when incurred. The statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through user fees.

These statements report the District's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the District's financial health. Over time, increases or decreases in the District's cash position is one indicator of whether the District's financial health is improving or deteriorating. When evaluating the District's financial condition, you should also consider other nonfinancial factors as well such as the condition of the District's capital assets.

The District has one type of activity for the provision of water. This activity is financed by a fee charged to customers receiving the service.

The District as a Whole

Table 1 provides a summary of the District's net assets for 2005 compared to 2004 on a modified cash basis. In future years a comparative analysis of three years will be provided when prior year information is available.

Table 1
Net Assets

	2005	2004
Assets		
Equity in Cash and Cash Equivalents	\$150,421	\$123,117
Investments	129,030	77,000
<i>Total Assets</i>	\$279,451	\$200,117
Net Assets		
Unrestricted	\$279,451	\$200,117

Madison Water District, Richland County
Management's Discussion and Analysis
For the Years Ended December 31, 2005 and 2004
Unaudited

Table 2 provides a summary of the District's cash receipts, expenses, and changes in net assets for 2005 compared to 2004 on a modified cash basis. In future years a comparative analysis of three years will be provided when prior year information is available.

Table 2
Changes in Net Assets

	2005	2004
Operating Receipts		
Charges for Services	\$167,412	\$149,069
Other Operating Receipts	831	450
<i>Total Operating Receipts</i>	<u>168,243</u>	<u>149,519</u>
Operating Disbursements		
Personal Services	13,283	11,753
Utilities	26,372	26,157
Rent	3,000	3,000
Repairs and Maintenance	8,942	10,716
Testing and Licenses	31,137	41,145
Professional Fees	695	14,229
Chemicals and Operating Expenses	5,581	
Office Supplies and Materials	3,910	5,958
Insurance	3,395	3,436
Advertising	54	55
Miscellaneous	1,661	1,882
<i>Total Operating Disbursements</i>	<u>98,030</u>	<u>118,331</u>
<i>Operating Income</i>	<u>70,213</u>	<u>31,188</u>
Non-Operating Receipts		
Interest	9,092	6,751
Gain on Sale Assets	29	
<i>Change in Net Assets</i>	<u>79,334</u>	<u>37,939</u>
<i>Net Assets Beginning of Year</i>	<u>200,117</u>	<u>162,178</u>
<i>Net Assets End of Year</i>	<u><u>\$279,451</u></u>	<u><u>\$200,117</u></u>

Madison Water District, Richland County
Management's Discussion and Analysis
For the Years Ended December 31, 2005 and 2004
Unaudited

There were three primary reasons for the increase in net assets: an increase in interest income due to investing in certificates of deposit; an increase in customer base; and a three percent fee increase.

The water operation of the District is relatively small. The District has completed an engineer study for the possibility of expanding our customer base. The bottom line for expansion will depend on the public's demand for service in our areas.

The District's Fund

The District's fund for 2005 had operating receipts of \$168,243 and disbursements of \$98,030. The District's fund for 2004 had operating receipts of \$149,519 and disbursements of \$118,331.

The receipts increased due to a three percent fee increase which in turn made net assets increase because of the increased revenue. The interest earned increased due to increase in certificates of deposit and the increase in the interest rate. The expenditures were watched closely to minimize spending and kept expenses low.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Sue Cook, Office Manager or Sharon Willcox, Treasurer, Madison Water District, 489 Indiana Avenue, Mansfield, Ohio 44905.

MADISON WATER DISTRICT
RICHLAND COUNTY
Statement of Net Assets - Modified Cash Basis
As of December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Assets		
Equity in Cash and Cash Equivalents	\$150,421	\$123,117
Investments	129,030	77,000
<i>Total Assets</i>	<u>\$279,451</u>	<u>\$200,117</u>
Net Assets		
Unrestricted	<u>\$279,451</u>	<u>\$200,117</u>

See accompanying notes to the basic financial statements.

MADISON WATER DISTRICT
RICHLAND COUNTY
*Statement of Cash Receipts,
Expenses and Changes in Net Assets - Modified Cash Basis
For the Years Ended December 31, 2005 and 2004*

	2005	2004
Operating Receipts		
Charges for Services	\$167,412	\$149,069
Other Operating Receipts	831	450
<i>Total Operating Receipts</i>	<u>168,243</u>	<u>149,519</u>
Operating Disbursements		
Personal Services	13,283	11,753
Utilities	26,372	26,157
Rent	3,000	3,000
Repairs and Maintenance	8,942	10,716
Testing and Licenses	31,137	41,145
Professional Fees	695	14,229
Chemicals and Operating Expenses	5,581	
Office Supplies and Materials	3,910	5,958
Insurance	3,395	3,436
Advertising	54	55
Miscellaneous	1,661	1,882
<i>Total Operating Disbursements</i>	<u>98,030</u>	<u>118,331</u>
<i>Operating Income</i>	<u>70,213</u>	<u>31,188</u>
Non-Operating Receipts		
Interest	9,092	6,751
Gain on Sale of Assets	29	
<i>Total Non-Operating Receipts</i>	<u>9,121</u>	<u>6,751</u>
<i>Change in Net Assets</i>	79,334	37,939
<i>Net Assets Beginning of Year</i>	<u>200,117</u>	<u>162,178</u>
<i>Net Assets End of Year</i>	<u><u>\$279,451</u></u>	<u><u>\$200,117</u></u>

See accompanying notes to the basic financial statements.

MADISON WATER DISTRICT
RICHLAND COUNTY
Statement of Cash Flows
For the Years Ended December 31, 2005 and 2004

	2005	2004
Increase in Cash and Cash Equivalents		
Cash Flows From Operating Activities		
Cash from customers	\$167,412	\$149,069
Cash from other operating activities	831	450
Cash payments to employees for services	(13,283)	(11,753)
Cash payments to suppliers for goods and services	(84,747)	(106,578)
<i>Net Cash Provided By Operating Activities</i>	70,213	31,188
Cash Flows From Investing Activities		
Purchase of investments	(50,000)	(77,000)
Interest income on investments	7,062	6,751
<i>Net Cash Used By Investing Activities</i>	(42,938)	(70,249)
Cash Flows From Other Financing Activities		
Gain on sale of assets	29	
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	27,304	(39,061)
<i>Cash and Cash Equivalents at Beginning of Year</i>	123,117	162,178
<i>Cash and Cash Equivalents at End of Year</i>	\$150,421	\$123,117
Operating Income/Net Cash Flows Provided by Operating Activities:		
Operating income	\$70,213	\$31,188
Non-Cash Investing Activities		
Unrecorded interest income	\$2,030	

See accompanying notes to the basic financial statements.

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Madison Water District
Richland County
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004

Note 1 – Reporting Entity

The Madison Water District, Richland County, (the District), 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 District was created in 1997 by the Richland County Court of Common Pleas in accordance with the provisions of Chapter 6119 of the Ohio Revised Code. The District is directed by a five-member Board of Trustees appointed by a majority vote of the Board of Trustees of Madison Township. The District provides water services to residents of the District.

A. Component Units

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide support to, the organization; or the District is obligated for the debt of the organization. The District is also financially accountable for any organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the District, are accessible to the District and are significant in amount to the District.

The District has no component units.

B. Joint Ventures

A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. Under the modified cash basis of accounting, the District does not report assets for equity interests in joint ventures.

The District participates in a public entity risk pool. Note 8 to the financial statements provides additional information for this entity. This organization is:

Public Entity Risk Pool:

Ohio Government Risk Management Plan (OGRMP).

The District's management believes these financial statements present all activities for which the District is financially accountable.

Note 2 – Summary of Significant Accounting Policies

As discussed further in Note 2.A, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The District does not apply FASB statements issued after November 30, 1989. Following are the more significant of the District's accounting policies.

Note 2 – Summary of Significant Accounting Policies (continued)

A. Basis of Accounting

The District's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the District's financial records and reported in the financial statements when cash is received rather than when earned and expenses are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the District are described in the appropriate section in this note.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

B. Budgetary Process

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

Since the District's activity is reported in an enterprise fund, budgetary activity is not presented based on the modified cash basis of reporting.

C. Cash

The District maintains a money market checking account and a money market savings account. The District also has certificates of deposit.

D. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

Note 3 – Change in Basis of Accounting

Last audit period the District reported fund financial statements by fund type using the regulatory basis of accounting as prescribed by the State Auditor's Office. This year the District has implemented the modified cash basis of accounting described in Note 2.

Note 4 – Deposits and Investments

Monies held by the District are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the District treasury. Active monies must be maintained either as cash in the District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Trustees have identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by the District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).

Madison Water District
Richland County
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004

Note 4 – Deposits and Investments (continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Deposits

Custodial credit risk is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At December 31, 2005, \$1,836 of the District's bank balance of \$153,183 was exposed to custodial credit risk because those deposits were uninsured and uncollateralized. At December 31, 2004, none of the District's bank balance of \$124,264 was exposed to custodial credit risk.

The District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of December 31, 2005 and 2004, the District had the following investments:

	Carrying Value	Maturity
Certificates of Deposit - 2005	\$129,030	Less than 1 year
Certificates of Deposit - 2004	\$77,000	24 months

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The District does not have an investment policy. At December 31, 2005 and 2004, \$80,041 and \$2,760 of the District's certificates of deposit balance of \$129,030 and \$77,000, respectively was exposed to custodial credit risk because those deposits were uninsured and uncollateralized.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

Note 5 – Defined Benefit Pension Plan

Ohio Public Employees Retirement System

The District participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member-directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the years ended December 31, 2005 and 2004, the members of all three plans were required to contribute 8.5 percent of their annual covered salaries. The District's contribution rate for pension benefits for 2005 and 2004 was 13.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005 and 2004 were \$1,531 and \$1,331, respectively. The full amount has been contributed for 2005 and 2004.

Note 6 - Postemployment Benefits

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 and 2004 local government employer contribution rate was 13.55 percent of covered payroll; 4.00 percent of covered payroll was the portion that was used to fund health care.

Note 6 - Postemployment Benefits (continued)

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1.00 and 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 376,109. Actual employer contributions for 2005 and 2004 which were used to fund postemployment benefits were \$452 and \$363, respectively. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) was \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

Note 7 – Risk Management

The District belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 460 Ohio governments ("Members").

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages, modified for each Member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the Member's deductible.

The Plan issues its own policies and reinsures the Plan with A- VII or better rated carriers, except for the 15% casualty and the 10% property portions the Plan retains. The Plan pays the lesser of 15% or \$37,500 of casualty losses and the lesser of 10% or \$100,000 of property losses. Individual Members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other obligation to the Plan. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Madison Water District
Richland County
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004

Note 7 – Risk Management (continued)

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31:

	<u>2005</u>	<u>2004</u>
Assets	\$8,219,430	\$6,685,522
Liabilities	<u>(2,748,639)</u>	<u>(2,227,808)</u>
Members' Equity	<u>\$5,470,791</u>	<u>\$4,457,714</u>

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, www.ohioplan.org.

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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*

Madison Water District
Richland County
489 Indiana Avenue
Mansfield, Ohio 44905

To the Board of Trustees:

We have audited the financial statements of Madison Water District, Richland County, Ohio, (the District) as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated September 22, 2006 wherein we noted the District follows the modified cash basis of accounting. 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 District's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting 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 misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

However, in a separate letter to the District's management dated September 22, 2006, we reported an other matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, 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*.

101 Central Plaza South / 700 Chase Tower / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

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However, in a separate letter to the District's management dated September 22, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management and the Board of Trustees. 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

September 22, 2006

**MADISON WATER DISTRICT
RICHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005 AND 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-001	ORC 5705.41(D) – The District did not use purchase orders, which resulted in no expenditures being properly certified	No	Partially corrected – A similar comment will be made in the management letter.
2003-002	ORC 135.03 – The District had money invested with a credit union.	Yes	Finding no longer valid.
2003-003	ORC 5705.28(B)(2)(a&c) – The District did not approve estimated receipts as part of its operating budget.	Yes	Finding no longer valid.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

MADISON WATER DISTRICT

RICHLAND 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
OCTOBER 17, 2006**