



Mary Taylor, CPA
Auditor of State

MADISON WATER DISTRICT
RICHLAND COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets - Modified Cash Basis	7
Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Net Assets – Modified Cash Basis	8
Statement of Cash Flows	9
Notes to the Financial Statements	11
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	19
Schedule of Findings	21

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Mary Taylor, CPA

Auditor of State

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, 2007 and 2006, 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 2, 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, 2007 and 2006, 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 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2008, 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.

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 "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

March 25, 2008

Madison Water District
Richland County

Management's Discussion and Analysis
For the Years Ended December 31, 2007 and 2006
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, 2007 and 2006, 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 2007 and 2006 are as follows:

Net assets of the District's activities increased \$27,342, or 8.7 percent, and \$34,341, or 12.3 percent, a significant change from the prior year.

The District's operating receipts are primarily water bill collections. Charges for Services receipts represent respectively \$155,886, or 88.0 percent, and \$153,487, or 93.2 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, Disbursements 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 cash and investments owned by the District (assets) and the District's net assets. 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, Disbursements 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, 2007 and 2006
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, Disbursements and Changes in Net Assets reflect how the District did financially during 2007 and 2006, within the limitations of modified cash basis accounting. The Statement of Net Assets presents the cash and investment balances of the District at year end. The Statement of Cash Receipts, Disbursements 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 2007 and 2006 compared to 2005 on a modified cash basis.

Table 1
Net Assets

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Assets			
Equity in Cash and Cash Equivalents	\$93,012	\$131,707	\$150,421
Investments	<u>248,122</u>	<u>182,085</u>	<u>129,030</u>
<i>Total Assets</i>	<u>\$341,134</u>	<u>\$313,792</u>	<u>\$279,451</u>
Net Assets			
Unrestricted	<u>\$341,134</u>	<u>\$313,792</u>	<u>\$279,451</u>

Madison Water District
Richland County

Management's Discussion and Analysis
For the Years Ended December 31, 2007 and 2006
Unaudited

Table 2 provides a summary of the District's cash receipts, disbursements, and changes in net assets for 2007 and 2006 compared to 2005 on a modified cash basis.

Table 2
Changes in Net Assets

	2007	2006	2005
Operating Receipts			
Charges for Services	\$155,886	\$153,487	\$167,412
Fines and Penalties	4,763	5,786	0
Other Operating Receipts	1,014	882	831
<i>Total Operating Receipts</i>	<u>161,663</u>	<u>160,155</u>	<u>168,243</u>
Operating Disbursements			
Personal Services	19,325	17,762	13,283
Utilities	24,366	25,573	26,372
Rent	3,125	3,000	3,000
Repairs and Maintenance	28,927	15,852	8,942
Testing and Licenses	31,704	30,264	31,137
Accounting Fees	0	4,393	0
Professional Fees	0	595	695
Chemicals and Operating Expenses	31,040	23,462	5,581
Office Supplies and Materials	5,890	4,433	3,910
Insurance	2,913	3,145	3,395
Advertising	48	30	54
Miscellaneous	2,451	1,883	1,661
<i>Total Operating Disbursements</i>	<u>149,789</u>	<u>130,392</u>	<u>98,030</u>
<i>Operating Income</i>	<u>11,874</u>	<u>29,763</u>	<u>70,213</u>
Non-Operating Receipts			
Interest	15,468	4,578	9,092
Gain on Sale of Assets	0	0	29
<i>Total Non-Operating Receipts</i>	<u>15,468</u>	<u>4,578</u>	<u>79,334</u>
<i>Change in Net Assets</i>	27,342	34,341	79,334
<i>Net Assets Beginning of Year</i>	<u>313,792</u>	<u>279,451</u>	<u>200,117</u>
<i>Net Assets End of Year</i>	<u>\$341,134</u>	<u>\$313,792</u>	<u>\$279,451</u>

Madison Water District
Richland County

Management's Discussion and Analysis
For the Years Ended December 31, 2007 and 2006
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 2007 had operating receipts of \$161,663 and disbursements of \$149,789. The District's fund for 2006 had operating receipts of \$160,155 and disbursements of \$130,392.

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, customers 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, 2007 and 2006*

	<u>2007</u>	<u>2006</u>
Assets		
Equity in Cash and Cash Equivalents	\$93,012	\$131,707
Investments	248,122	182,085
<i>Total Assets</i>	<u>\$341,134</u>	<u>\$313,792</u>
Net Assets		
Unrestricted	<u>\$341,134</u>	<u>\$313,792</u>

See accompanying notes to the basic financial statements.

**MADISON WATER DISTRICT
RICHLAND COUNTY**

*Statement of Cash Receipts,
Disbursements and Changes in Net Assets - Modified Cash Basis
For the Years Ended December 31, 2007 and 2006*

	2007	2006
Operating Receipts		
Charges for Services	\$155,886	\$153,487
Fines and Penalties	4,763	5,786
Other Operating Receipts	1,014	882
<i>Total Operating Receipts</i>	<u>161,663</u>	<u>160,155</u>
Operating Disbursements		
Personal Services	19,325	17,762
Utilities	24,366	25,573
Rent	3,125	3,000
Repairs and Maintenance	28,927	15,852
Testing and Licenses	31,704	30,264
Accounting Fees	0	4,393
Professional Fees	0	595
Chemicals and Operating Expenses	31,040	23,462
Office Supplies and Materials	5,890	4,433
Insurance	2,913	3,145
Advertising	48	30
Miscellaneous	2,451	1,883
<i>Total Operating Disbursements</i>	<u>149,789</u>	<u>130,392</u>
<i>Operating Income</i>	<u>11,874</u>	<u>29,763</u>
Non-Operating Receipts		
Interest	15,468	4,578
<i>Change in Net Assets</i>	27,342	34,341
<i>Net Assets Beginning of Year</i>	<u>313,792</u>	<u>279,451</u>
<i>Net Assets End of Year</i>	<u><u>\$341,134</u></u>	<u><u>\$313,792</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, 2007 and 2006*

	2007	2006
Increase in Cash and Cash Equivalents		
Cash Flows From Operating Activities		
Cash from customers	\$155,886	\$153,487
Cash from fines and penalties	4,763	5,786
Cash from other operating activities	1,014	882
Cash payments to employees for services	(19,325)	(17,762)
Cash payments to suppliers for goods and services	(130,464)	(112,630)
<i>Net Cash Provided By Operating Activities</i>	<u>11,874</u>	<u>29,763</u>
Cash Flows From Investing Activities		
Purchase of investments	(248,122)	(182,085)
Redemption of investments	182,085	129,030
Interest income on investments	15,468	4,578
<i>Net Cash Used By Investing Activities</i>	<u>(50,569)</u>	<u>(48,477)</u>
<i>Net Decrease in Cash and Cash Equivalents</i>	(38,695)	(18,714)
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>131,707</u>	<u>150,421</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$93,012</u></u>	<u><u>\$131,707</u></u>
Operating Income/Net Cash Flows Provided by Operating Activities:		
Operating income	<u><u>\$11,874</u></u>	<u><u>\$29,763</u></u>

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, 2007 and 2006

Note 1 – Reporting Entity

The Madison Water District, Richland County, Ohio, (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 6 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.

**Madison Water District
Richland County**

Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006

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 fund, 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.

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 disbursements 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 expenses (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). 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.

**Madison Water District
Richland County**

Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006

Note 2 – Summary of Significant Accounting Policies (continued)

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 – 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;

**Madison Water District
Richland County**

Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006

Note 3 – Deposits and Investments (continued)

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; and
7. The State Treasurer's investment pool (STAR Ohio).

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, 2007, none of the District's bank balance of \$96,976 was exposed to custodial credit risk. At December 31, 2006, none of the District's bank balance of \$133,573 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, 2007 and 2006, the District had the following investments:

	Carrying Value	Maturity
Certificates of Deposit – 2007	\$248,122	Less than 1 year
Certificates of Deposit – 2006	\$182,085	Less than 1 year

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 has an investment policy. At December 31, 2007 and 2006, \$142,664 and \$85,096 of the District's certificates of deposit balance of \$248,122 and \$182,085, 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."

**Madison Water District
Richland County**

Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006

Note 4 – 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, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

For the year ended December 31, 2007 and 2006, the members of all three plans were required to contribute 9.5 percent and 9 percent, respectively, of their annual covered salaries. The District's contribution rate for pension benefits for 2007 and 2006 was approximately 8.35 percent and 9.2 percent, respectively. 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, 2007, 2006, and 2005 were \$1,354, \$1,264 and \$1,079, respectively. The full amount has been contributed for 2007, 2006 and 2005. Contributions to the member directed plan for 2007 and 2006 are available upon request.

Note 5 - 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 qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. 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 2007 and 2006 local government 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 qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. 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 2007 and 2006 local government employer contribution rates were 13.85 percent and 13.7 percent of covered payroll, respectively. For 2006, 4.50 percent of covered payroll was the portion that was used to fund health care. For 2007, the rate was 5 percent for January 1, 2007 to June 30, 2007 and 6 percent for July 1, 2007 to December 31, 2007.

**Madison Water District
Richland County**

Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006

Note 5 - Postemployment Benefits (continued)

Benefits are advance-funded using the individual entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50 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 costs were assumed to increase between .50 and 6.00 percent annually for the next nine years and 4.00 percent annually after nine years.

All investments are carried at market value. 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, not to exceed a 12 percent corridor.

The number of active contributing participants in the traditional and combined plans was 369,214. The number of active contributing participants for both plans used in the December 31, 2005 (the latest information available), actuarial valuation was 358,804. Actual employer contributions for 2007 and 2006 which were used to fund postemployment benefits were \$892 and \$681, respectively. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005, (the latest information available) were \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 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. To improve the solvency of the Health Care Fund, OPERS created a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

Note 6 – Risk Pool Membership

The District belongs to the Ohio Government Risk Management Plan (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to over 550 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 retains 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.

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 financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. 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, 2007 and 2006

Note 6 – Risk Pool Membership (continued)

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

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31: 2006 and 2005 (the latest information available):

	<u>2006</u>	<u>2005</u>
Assets	\$9,620,148	\$8,219,430
Liabilities	<u>(3,329,620)</u>	<u>(2,748,639)</u>
Members' Equity	<u>\$6,290,528</u>	<u>\$5,470,791</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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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

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, 2007 and 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 25, 2008 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 as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting: 2007-001.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe the significant deficiency described above is not a material weakness.

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*.

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings. We did not audit the District's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management and the Board of Trustees. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

March 25, 2008

**MADISON WATER DISTRICT
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2007-001

Significant Deficiency

Our receipt testing revealed the following:

- The District recorded \$1,719 and \$1,467 in 2007 and 2006, respectively of interest accrued on certificates of deposit which was not yet received. In addition, \$3,114 of interest was earned on a matured certificate of deposit in 2006 and was not posted until 2007. As a result, the interest receipt line item was overstated in 2007 and understated in 2006. These errors were reported to management as unadjusted items from our audit.

The District should only record interest on its books when certificates of deposit mature to ensure the District's records reflect actual interest receipts received.

- Penalties assessed for late payments of water bills of \$4,763 and \$5,786 for 2007 and 2006, respectively were recorded as interest receipts resulting in the interest receipt line item being overstated. The amounts have been reclassified for the financial statement presentation.

Penalties assessed for late payments should be recorded in a separate receipt line item as fines and penalties rather than interest to ensure receipts are properly classified and to allow management the ability to monitor the penalties for late payments and to monitor the interest earned on certificates of deposits and savings accounts.

Officials' Response: A special account has been set up for any penalties charged and a line item on the budget has been added. From this date forward all accrued interest from certificates of deposit will only be receipted when the certificate matures.



Mary Taylor, CPA
Auditor of State

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
MAY 6, 2008**