



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, 2003 and 2002. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 *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 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 that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the District prepares its financial statements 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 statements referred to above present fairly, in all material respects, the cash balance of the District 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 May 14, 2004 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 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.

Madison Water District
Richland County
Independent Accountants' Report
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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

May 14, 2004

**MADISON WATER DISTRICT
RICHLAND COUNTY**

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

	2003	2002
Operating Cash Receipts:		
Charges for Services	\$196,942	\$141,316
Miscellaneous	105	75
Total Operating Cash Receipts	197,047	141,391
Operating Cash Disbursements:		
Personal Services	10,956	10,217
Utilities	22,496	20,540
Rent	2,750	3,000
Repairs and Maintenance	11,119	12,102
Testing and Licenses	38,010	37,955
Professional Fees	12,858	15,961
Chemicals and Operating Supplies	5,069	10,594
Office Supplies and Materials	20,849	3,430
Insurance	3,473	2,770
Miscellaneous	3,207	594
Total Operating Cash Disbursements	130,787	117,163
Operating Income	66,260	24,228
Non-Operating Cash Receipts:		
Interest Income	4,793	3,736
Excess of Receipts Over Disbursements	71,053	27,964
Cash Balances, January 1	91,125	63,161
Cash Balances, December 31	\$162,178	\$91,125

The notes to the financial statements are an integral part of this statement.

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**MADISON WATER DISTRICT
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the 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.

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

B. Basis of Accounting

These financial statements follow 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.

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Deposits and Investments

The District maintains a money market checking account and a money market savings account. The District had no investments.

D. 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.

**MADISON WATER DISTRICT
RICHLAND COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

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.

A summary of 2003 and 2002 budgetary activity appears in Note 3.

E. 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 statements.

2. CASH

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

	2003	2002
Money Market Checking	\$60,961	\$91,125
Money Market Savings	101,217	0
Total deposits	\$162,178	\$91,125

Deposits: Deposits are either insured by the Federal Depository Insurance Corporation or insured by ASI.

Contrary to Ohio Rev. Code Section 135.03, the District had funds on deposit during 2003 with a credit union which is not an eligible public depository.

3. BUDGETARY ACTIVITY

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

Budgeted vs. Actual Receipts		
	2003	2002
Budgeted Receipts	\$149,350	\$151,273
Actual Receipts	201,840	145,127
Variance	\$52,490	(\$6,146)

Budgeted vs. Actual Budgetary Basis Expenditures		
	2003	2002
Appropriation Authority	\$149,350	\$151,273
Budgetary Expenditures	130,787	117,163
Variance	\$18,563	\$34,110

**MADISON WATER DISTRICT
RICHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002**

3. BUDGETARY ACTIVITY (Continued)

Contrary to Ohio Rev. Code Section 5705.41(D), the District did not certify the availability of funds for expenditures prior to incurring the obligations.

Contrary to Ohio Rev. Code Sections 5705.28(B)(2)(a) and (3), the District did not budget for estimated receipts as part of their operating budgets for 2003 and 2002.

4. RETIREMENT SYSTEMS

The District's employee and the Board of Trustees 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, members of OPERS contributed 8.5% of their gross salaries. The District contributed an amount equal to 13.55% of participants' gross salaries. The District has paid all contributions required through December 31, 2003.

5. RISK MANAGEMENT

The District belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association with approximately 600 governmental entity members providing a formalized, jointly administered self-insurance risk management program and other administrative services.

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed 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 coverage, 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 uses conventional insurance coverages and reinsures these coverages. Effective September 1, 2002, the Plan retains 5% of the premium and losses on the first \$500,000 casualty treaty (up to \$25,000 of a loss) and 5% of the first \$1,000,000 property treaty (up to \$50,000 of a loss). The Plan also participates in a loss corridor in its first \$500,000 casualty reinsurance. The corridor includes losses paid between 55% and 65% of premiums earned under this treaty. (Reinsurance coverage would resume after a paid loss ratio of 65% is exceeded.) The individual members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
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 accompanying financial statements of Madison Water District, Richland County, Ohio, (the District) as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated May 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 District's financial statements are 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2003-001 through 2003-003.

We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated May 14, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements 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.

Madison Water District
Richland County
Independent Accountants' Report on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

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

May 14, 2004

**MADISON WATER DISTRICT
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Noncompliance Citations

FINDING NUMBER 2003-001

Ohio Rev. Code Section 5705.41(D) requires that no subdivision or taxing unit shall make any contract or order any expenditure of money unless there is attached thereto a certificate of the fiscal officer. The fiscal officer must certify that the amount required to meet the same commitment has been lawfully appropriated for such purposes and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Every such contract made without such certificate should be null and void and no warrant shall be issued in payment of any amount due thereon.

This section also provides two “exceptions” to the above requirements:

- a. Then and Now Certificates - If no certificate is furnished as required, upon receipt of the fiscal officer’s certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Board of Trustees may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate
- b. If the amount involved is less than \$1,000 (\$3,000 effective April 7, 2003), the fiscal officer may authorize it to be paid without the affirmation of the Board upon completion of the “then and now” certificate, if such expenditure is otherwise valid.

During 2003 and 2002, none of the expenditures tested were certified by the Treasurer prior to incurring the obligation. It was also found that neither of the two exceptions above were utilized for the items found to be in non-compliance. The District should certify the availability of funds prior to incurring the obligation for expenditures. The District should also implement the use of Then and Now Certificates and Blanket Certificates as further means to certify funds pursuant to Ohio Rev. Code Section 5705.41(D).

FINDING NUMBER 2003-002

Ohio Rev. Code Section 135.03 states that any national bank located in this state and any bank as defined by Section 1101.01 of the Revised Code, subject to inspection by the superintendent of financial institutions, is eligible to become a public depository, subject to Sections 135.01 to 135.21 of the Revised Code. The definition of “bank” found at ORC Section 1101.01 specifically excludes credit unions.

The District had \$101,212 on deposit with Tappan Credit Union at December 31, 2003, and had deposits with the credit union throughout 2003 and 2002. Even though the credit union account is collateralized through American Share Insurance up to \$250,000, a credit union is not eligible to become a public depository. The District should deposit these funds with a financial institution that is eligible to be a public depository to be in compliance with ORC 135.03.

FINDING NUMBER 2003-003

Ohio Rev. Code Section 5705.28(B)(2)(a), requires the taxing authority of a taxing unit that does not levy a tax shall adopt an operating budget for the taxing unit for the ensuing fiscal year. The operating budget shall include an estimate of receipts from all sources, a statement of all taxing unit expenses that are anticipated to occur, and the amount required for debt charges during the fiscal year. The operating budget is not required to be filed with the county auditor or the county budget commission.

Ohio Rev. Code Section 5705.28(B)(2)(c), states the total appropriations from each fund of a taxing unit that does not levy a tax shall not exceed the total estimated revenue available for expenditures from the fund, and appropriations shall be made from each fund only for the purposes for which the fund is established.

The District did not approve estimated receipts for 2003 and 2002, as part of its operating budget or by a separate action. As a result, all appropriations exceeded total estimated revenue for both years as no estimated revenues were adopted.

The District should approve estimated revenue as part of its operating budget. This will allow the District to monitor appropriations versus estimated revenue to help avoid overspending.

**MADISON WATER DISTRICT
RICHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDING
DECEMBER 31, 2003 AND 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-40570-001	ORC 5705.41(B) – Expenses exceeded appropriations.	Yes	Finding No Longer Valid.



**Auditor of State
Betty Montgomery**

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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
JUNE 8, 2004**