

**NEWPORT WATER AND SEWER DISTRICT
WASHINGTON COUNTY
Regular Audit
December 31, 2008 and 2007**

**Perry and Associates
Certified Public Accountants, A.C.**



Mary Taylor, CPA

Auditor of State

Board of Directors
Newport Water and Sewer District
P.O. Box 367
Newport, Ohio 45768

We have reviewed the *Independent Accountant's Report* of the Newport Water and Sewer District, Washington County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2008 through December 31, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Newport Water and Sewer District is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

June 24, 2009

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NEWPORT WATER AND SEWER DISTRICT

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Newport Water and Sewer District

Board Members

Name	Position Held
Dan VanWey	President
Brenda Wilson	Vice-President
Jerry Graham	Secretary / Treasurer
Wayne Stephens	Director
Thomas Watkins	Director

Perry & Associates
Certified Public Accountants, A.C.

PARKERSBURG
1035 Murdoch Avenue
Parkersburg, WV 26101
(304) 422-2203

MARIETTA
428 Second Street
Marietta, OH 45750
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May 21, 2009

Board of Directors
Newport Water and Sewer District
P. O. Box 367
Newport, Ohio 45768

INDEPENDENT ACCOUNTANT'S REPORT

We have audited the accompanying financial statements of the business-type activities of Newport Water and Sewer District (the District) as of and for the years ended December 31, 2008 and 2007, 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 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 *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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Newport Water and Sewer District, as of December 31, 2008 and 2007 and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2009, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. 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.

Board of Directors
Newport Water and Sewer District
May 21, 2009
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Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The management's discussion and analysis on pages 3 through 6, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,



Perry and Associates
Certified Public Accountants, A.C.

**Newport Water and Sewer District
Management's Discussion and Analysis
For the year ended December 31, 2008
(Unaudited)**

The following discussion provides a summary overview of the financial activities of the Newport Water and Sewer District ("The District") for the year ended December 31, 2008. The information should be read in conjunction with the basic financial statements included in this report.

The Management Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented, and is presented in the MD&A.

Financial Highlights

- Assets exceeded liabilities by \$1,769,299 as of December 31, 2008.
- Net assets decreased by \$212 in 2008.
- Operating revenues and expenses decreased by \$8,343 (2.37%) and \$6,559 (1.83%), in 2008, respectively.
- Retirements of debt principal totaled \$48,799, and new debt of \$276,742 was issued in 2008.

Overview of the Financial Statements

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 Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets, the Statements of Cash Flows and the accompanying notes to the financial statements. These statements report information about the District as a whole and about its activities. The District is a single enterprise fund using proprietary fund accounting, which means these statements are presented in a manner similar to a private-sector business. The statements are presented using the economic resources measurement focus and the accrual basis of accounting.

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 the District's 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 Revenues, Expenses and Changes in Net Assets presents a summary of how the District's net assets changed during the year. Revenue is reported when earned and expenses are reported when incurred. This 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.

**Newport Water and Sewer District
Management's Discussion and Analysis (Continued)
For the Year Ended December 31, 2008
(Unaudited)**

The following table summarized the changes in Net Assets for the District for 2008, 2007, and 2006.

**Table 1
Condensed Statement of Net Assets
December 31,**

	2008	2007	\$ Change	% Change	2006	\$ Change	% Change
Assets							
Current Assets	\$ 258,692	\$ 255,566	\$ 3,126	1.22%	\$ 261,153	\$ (5,587)	-2.14%
Restricted Cash	66,920	66,720	200	0.30%	40,858	25,862	63.30%
Capital Assets, Net of Depreciation	3,106,311	2,882,674	223,637	7.76%	2,980,196	(97,522)	-3.27%
Other Assets	9,174	9,174	-	0.00%	9,174	-	0.00%
Total Assets	\$ 3,441,097	\$ 3,214,134	\$ 226,963	7.06%	\$ 3,291,381	\$ (77,247)	-2.35%
Liabilities							
Current Liabilities	\$ 107,948	\$ 91,886	\$ 16,062	17.48%	\$ 77,076	\$ 14,810	19.21%
Long Term Liabilities	1,563,850	1,352,737	211,113	15.61%	1,401,581	(48,844)	-3.48%
Total Liabilities	1,671,798	1,444,623	227,175	15.73%	1,478,657	(34,034)	-2.30%
Net Assets							
Net Assets Invested in Capital Assets,							
Net of Debt	1,476,788	1,481,094	(4,306)	-0.29%	1,578,615	(97,521)	-6.18%
Restricted Net Assets	66,920	66,720	200	0.30%	40,858	25,862	63.30%
Unrestricted Net Assets	225,591	221,697	3,894	1.76%	193,251	28,446	14.72%
Total Net Assets	1,769,299	1,769,511	(212)	-0.01%	1,812,724	(43,213)	-2.38%
Total Liabilities and Net Assets	\$ 3,441,097	\$ 3,214,134	\$ 226,963	7.06%	\$ 3,291,381	\$ (77,247)	-2.35%

As noted earlier, the net assets may serve as a useful indicator of the District's financial position. The District's assets exceeded liabilities by \$1,769,299, \$1,769,511, and \$1,812,724 for the years ended December 31, 2008, 2007, and 2006 respectively

The largest portion of the District's net assets is reflected in its cash and capital assets, less accumulated depreciation. The District strives to keep adequate cash reserves on hand in order to maintain or expand its facilities to meet the needs of it

For the year ended December 31, 2008 total assets of the District increased by \$226,963, due to the addition of a new deep well, which was capitalized at cost for a length of 40 years.

The following table summarized the changes in Revenues and Expenses for the District for 2008, 2007, and 2006.

**Table 2
Condensed Statement of Revenues, Expenses, and Change in Net Assets
December 31,**

	2008	2007	\$ Change	% Change	2006	\$ Change	% Change
Revenues							
Operating Revenues	\$ 343,013	\$ 351,356	\$ (8,343)	-2.37%	\$ 327,002	\$ 24,354	7.45%
Nonoperating Revenues	68,353	25,880	42,473	164.12%	64,920	(39,040)	-60.14%
Total Revenues	411,366	377,236	34,130	9.05%	391,922	(14,686)	-3.75%
Expenses							
Operating Expenses	350,994	357,553	(6,559)	-1.83%	339,573	17,980	5.29%
Nonoperating Expenses	60,584	62,896	(2,312)	-3.68%	64,286	(1,390)	-2.16%
Total Expenses	411,578	420,449	(8,871)	-2.11%	403,859	16,590	4.11%
Change in Net Assets	\$ (212)	\$ (43,213)	\$ 43,001	-99.51%	\$ (11,937)	\$ (31,276)	262.01%

**Newport Water and Sewer District
Management's Discussion and Analysis (Continued)
For the Year Ended December 31, 2008
(Unaudited)**

The following table summarizes the changes in Capital Assets for the District for 2008, 2007, and 2006.

Table 3 Capital Assets December 31,							
	<u>2008</u>	<u>2007</u>	<u>\$ Change</u>	<u>% Change</u>	<u>2006</u>	<u>\$ Change</u>	<u>% Change</u>
Revenues							
Land	\$ 25,195	\$ 25,195	\$ -	0.00%	\$ 25,195	\$ -	0.00%
Buildings	68,857	68,857	-	-	68,857	-	0.00%
Furniture and Lab Equipment	35,774	35,774	-	-	34,689	1,085	3.13%
Vehicles and Equipment	164,145	164,145	-	-	164,145	-	0.00%
Water Distribution System	2,987,588	2,607,437	380,151	0.15	2,603,511	3,926	0.15%
Sewage Collection and Treatment System	1,276,704	1,267,514	9,190	0.01	1,266,364	1,150	0.09%
Less: Accumulated Depreciation	(1,451,952)	(1,317,311)	(134,641)	0.10	(1,182,565)	(134,746)	11.39%
Construction in Progress	-	31,063	(31,063)	-100.00%	-	31,063	100.00%
Total Capital Assets	<u>3,106,311</u>	<u>2,882,674</u>	<u>223,637</u>	<u>7.76%</u>	<u>2,980,196</u>	<u>(97,522)</u>	<u>-3.27%</u>

As of December 31, 2008, 2007, and 2006 the district had \$3,106,311, \$2,882,674, and \$2,980,196, respectively invested in net capital assets. The 2008 amount represents a net increase of \$223,637 (7.76%) over 2007, and the 2007 amount is a decrease of \$9

Major additions in 2008 were to

Water Distribution System	
Reynolds Run Lind Drop	6,455
New Pump	1,152
Deep Well	372,544
	<u>380,151</u>
Sewage Collection and Treatment System	
(2) Chemical Feed Pumps	686
Blower	2,680
Lift Station	5,824
	<u>9,190</u>
 Total Additions to Capital Assets	 <u>389,341</u>

Additional information on the District's capital assets can be found in the notes to the financial statements.

**Newport Water and Sewer District
Management's Discussion and Analysis (Continued)
For the year ended December 31, 2008
(Unaudited)**

The Statement of Cash Flows provides information about the District's cash receipts and disbursements during the year. It summarizes net changes in cash resulting from operating, investing, and financing activities.

The notes to the financial statements provide additional information that is essential for a full understanding of the financial statements.

Debt Administration

The district finances its construction primarily through the issuance of loan programs with Rural Development, Ohio Water Development Authority (OWDA, and Ohio Public Water Commission (OPWC). The District had total debt outstanding of \$1,629,523, \$1,401,580 and \$1,434,928 at December 31, 2008, 2007, and 2006 respectively. This represents an increase of \$227,943 in the year 2008, as compared to 2007, due to the issuance of new debt, and a decrease of \$33,348 in the year 2007, as compared to 2006, due to the payment on principal of the debt.

Additional information on the District's long-term debt can be found in the notes to the financial statements.

Economic Factors and the 2008 Budget

The revenue budget for 2008 is \$12,099 less than actual revenues. The expense budget for 2008 is \$6,717 less than actual due to an unanticipated increase in expenses.

Contacting the District's Financial Management

This report is designed to provide the District's customer, bondholders, creditors, and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional information, please contact Jerry Graham at P.O. Box 367, Newport, Ohio, 45768 or (740) 373-1224.

Newport Water and Sewer District
Comparative Statement of Net Assets
As of December 31, 2008 and 2007

	2008	2007
Assets		
Current Assets:		
Cash & Cash Equivalents	\$ 98,511	\$ 104,248
Investments	115,861	108,942
Accounts receivable	38,897	36,358
Inventory	1,270	1,860
Prepaid Expenses	4,153	4,158
Total Current Assets	258,692	255,566
Noncurrent Assets:		
Restricted Assets:		
Cash and Investments - Debt Service Reserve and Customer Deposits	66,920	66,720
Total Restricted Assets	66,920	66,720
Capital Assets:		
Land	25,195	25,195
Construction in Progress	-	31,063
Buildings	68,857	68,857
Furniture and Lab Equipment	35,774	35,774
Vehicles and Equipment	164,145	164,145
Water Distribution System	2,987,588	2,607,437
Sewage Collection and Treatment System	1,276,704	1,267,514
Less: accumulated depreciation	(1,451,952)	(1,317,311)
Total Capital Assets	3,106,311	2,882,674
Other Assets	9,174	9,174
TOTAL ASSETS	\$ 3,441,097	\$ 3,214,134

The accompanying notes are an integral part of these financial statements.

Newport Water and Sewer District
Comparative Statement of Net Assets (Continued)
As of December 31, 2008 and 2007

	2008	2007
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 4,439	\$ 5,118
Accrued Payroll	974	1,035
Taxes Payable	4,724	4,679
Interest Payable	29,538	29,811
Current Portion - Notes Payable	65,673	48,843
Customer Meter Deposits	2,600	2,400
Total Current Liabilities	107,948	91,886
Long-term Liabilities (net of current portion):		
Note Payable - FmHa	1,175,000	1,188,765
Note Payable - #38281-60	7,022	11,586
OWDA Loan # 4865	262,910	-
OWDA Loan # 1791	47,166	76,047
OPWC Loan #CR02B	71,752	76,339
Total Long-Term Liabilities	1,563,850	1,352,737
Total Liabilities	1,671,798	1,444,623
Net Assets:		
Invested in Capital Assets, Net of Related Debt	1,476,788	1,481,094
Net Assets, Restricted	66,920	66,720
Net Assets, Unrestricted	225,591	221,697
Total Net Assets	1,769,299	1,769,511
TOTAL LIABILITIES AND NET ASSETS	\$ 3,441,097	\$ 3,214,134

The accompanying notes are an integral part of these financial statements.

Newport Water and Sewer District
Comparative Statement of Revenues, Expenses, and Changes in Net Assets
For the Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating Revenues:		
Operations	\$ 337,596	\$ 343,231
Service Connections	1,867	1,271
Miscellaneous	<u>3,550</u>	<u>6,854</u>
Total Operating Revenues	<u>343,013</u>	<u>351,356</u>
Operating Expenses:		
Insurance	5,221	5,181
Gross Salaries	92,482	78,086
Payroll Taxes	1,340	1,415
PERS Contributions	3,886	10,552
Employee Health Insurance	12,137	12,277
Workers' Compensation Insurance	2,403	4,208
Utilities	27,636	24,715
Water and Sewer Tests	4,009	3,981
Maintenance Repairs and Supplies	54,928	65,376
Office Supplies	-	4,683
Miscellaneous Expenses	538	866
Accounting and Legal Expenses	8,575	9,226
Engineering/Construction Expense	-	2,241
Other Taxes	3,198	-
Depreciation Expenses	<u>134,641</u>	<u>134,746</u>
Total Operating Expenses	<u>350,994</u>	<u>357,553</u>
Operating Income	<u>(7,981)</u>	<u>(6,197)</u>
Other Revenues and Expenses:		
Interest Income	7,186	6,871
Interest Expense	(60,584)	(62,896)
Grant Income	<u>61,167</u>	<u>19,009</u>
Total Other Revenue and Expenses	<u>7,769</u>	<u>(37,016)</u>
Change in Net Assets	<u>(212)</u>	<u>(43,213)</u>
Net Assets, Beginning of Year	<u>1,769,511</u>	<u>1,812,724</u>
Net Assets, End of Year	<u>\$ 1,769,299</u>	<u>\$ 1,769,511</u>

The accompanying notes are an integral part of these financial statements.

Newport Water and Sewer District
Comparative Statement of Cash Flows
For the Years Ended December 31, 2008 and 2007

	2008	2007
Cash Flows from Operating Activities:		
Cash Received from Water Sales and Tap Fees	\$ 336,924	\$ 341,997
Cash Received from Miscellaneous Income	3,550	6,854
Cash Payments to Supplier for Goods and Services	(106,392)	(115,610)
Cash Payments to Employees for Services	(109,861)	(107,412)
Net Cash Provided (used) by Operating Activities	124,221	125,829
Cash Flows from Investing Activities:		
Change in Restricted Assets	-	(25,862)
Change in Investments	(6,919)	19,251
Cash receipts from Interest Income	7,186	6,871
Net Cash Provided (used) by Investing Activities	267	260
Cash Flows from Capital and Related Financing Activities:		
Proceeds from Notes Payable	276,742	-
Principal Payments on Long-Term Debt	(48,799)	(33,348)
Interest Payments on Debt	(60,857)	(62,896)
Purchase of Property, Plant, and Equipment	(358,278)	(37,224)
Cash receipts from Grant Income	61,167	19,009
Net Cash Provided (used) by Financing Activities	(130,025)	(114,459)
Net Increase (Decrease) in Cash and Cash Equivalents	(5,537)	11,630
Beginning of Period Cash	104,248	92,618
End of Period Cash	\$ 98,711	\$ 104,248
Adjustments to Reconcile Operating Loss to Cash Flows from Operating Activities		
Operating income and changes in net assets	\$ (7,981)	\$ (6,197)
Depreciation Expenses	134,641	134,746
Decrease/(Increase) in Accounts Receivable	(2,539)	(2,305)
Decrease/(Increase) in Prepaid Expenses	5	(183)
Decrease/(Increase) in Inventories	590	454
Increase/(Decrease) in Accounts Payable	(679)	388
Increase/(Decrease) in Payroll Payable	(61)	(1,670)
Increase/(Decrease) in Taxable Payable	45	796
Increase/(Decrease) in Customer Deposits	200	(200)
Net Cash Provided (Used) by Operating Activities	\$ 124,221	\$ 125,829

Disclosure of Accounting Policy

For the purpose of the Statement of Cash Flows, the District considers all unrestricted highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

The accompanying notes are an integral part of these financial statements.

Newport Water and Sewer District
Notes to Financial Statements
December 31, 2008

Note 1. Nature of Activities

The Newport Water and Sewer District was established in 1988 as a governmental entity of the State of Ohio. The District operates under the direction of a five-member Board of Trustees. An appointed Secretary/Treasurer is responsible for the fiscal control of the resources of the District. The District was established to provide an adequate and uncontaminated water supply and a sanitary system for the District's residential and business users.

Note 2. Summary of Significant Accounting Policies

The financial Statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

Basis of Presentation

The District's operations are financed and operated in a manner similar to private business enterprises where the intent is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus and Basis of Accounting

The District's operations are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation are included on the statement of Net Assets. Equity (i.e., net total assets) is segregated into invested in capital, net of related debt, and restricted and unrestricted components. The operating statement presents increase (i.e., revenues) and decrease (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and Expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The District uses the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred.

Budgetary Process

The District does follow the budgeting procedures required by Ohio Rev. Code Chapter 5705. The District relied on Ohio Attorney General Opinion No. 77-068, which concluded that taxing districts that do not levy property taxes are not subject to Ohio Rev. Code Chapter 5705 budgetary requirements in that the budget does not need to be submitted to the County Auditor.

Newport Water and Sewer District
Notes to Financial Statements (Continued)
December 31, 2008

Note 2. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents in the District's operating account are considered cash for the purposes of the Statement of Cash Flows.

Bad Debt Expense

Bad debt expense is recorded using the direct write-off method. Under this method, the bad debt is charged to expense in the period when amounts due are determined to be uncollectible. This method is not in conformity with generally accepted accounting principles; however, any variances between this method and the allowance method are believed to be immaterial.

Inventory

The inventory is valued at cost, which approximates market, utilizing first in, first out (FIFO) method. The inventory of the District consists of expendable materials and supplies. The cost is recorded as an expense at the time individual inventory items are used.

Fixed Assets and Depreciation

Fixed assets acquired or constructed for the general use of the District in providing services are recorded at cost. Construction costs of the water systems are capitalized, including interest incurred on construction projects, when they are substantially completed. Donated assets are recorded at their fair market value at the time recorded. Depreciation of fixed assets of the District is calculated utilizing the straight-line method. No depreciation is charged in the year of acquisition. All assets reported in the financial statements are at cost less accumulated depreciation. Depreciation is charged to operations over the fixed assets estimated useful lives on the straight-line basis. The following lives are used:

Water System	5 to 40 years
Sewer Collections	10 to 40 years
Vehicles & Equipment	5 to 7 years
Furniture & Lab Equip.	5 to 7 years
Non-Permanent Structures	20 years

Estimates

In preparing financial statements in conformity with GAAP, management must make estimates based on future events that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from these estimates.

Grants

Grant amounts are recorded in the period when entitlement occurs as revenues.

Newport Water and Sewer District
Notes to Financial Statements (Continued)
December 31, 2008

Note 2. Summary of Significant Accounting Policies (Continued)

Tap Fees and Memberships

Taps fees from customers of the District are recognized as revenue in the period received.

Tax-Exempt Status

As a governmental entity, The District is exempt from federal income taxes and therefore no tax provision is presented.

Long-Term Obligations

The District records obligations not expected to be financed within one year by available financial resources as long-term debt, which consisted of Rural Development, Ohio Water Development Authority, Ohio Public Works Commission and Peoples Savings Bank.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling laws or regulations of other governments.

Accumulated Leave

All full time permanent employees are entitled to vacation leave, with pay, after the completion of one full year of employment. Vacation leave must be taken by the employee during the year. No carryover from year to year of vacation leave is allowed. At the time of separation, an employee is entitled to compensation at their current rate of pay for the pro-rated portion of any earned but unused vacation leave for the current year.

Revenue and Expenses

Operating revenues and expenses result from providing water conveyance services. Operating revenues consist of user charges for water services based on water consumption. Operating expenses include the cost of these water services, including administrative expenses. Revenues and expenses which do not meet these definitions are reported as Non-operating revenues or expenses.

**Newport Water and Sewer District
Notes to Financial Statements (Continued)
December 31, 2008**

Note 3. Significant Concentrations of Credit Risk

As of December, 31, 2008, the District had the following balances.

<u>Institution</u>	<u>Type</u>	<u>Maturities</u>	<u>Book Balance</u>	<u>Bank Balance</u>
Cash on Hand	Cash		\$ 80	\$ 80
The Peoples Savings Bank	Checking		98,631	101,884
The Peoples Savings Bank	Passbook Savings		7,766	7,752
The Peoples Savings Bank	Certificate of Deposit	2/26/2010	174,815	174,815
Total			<u>\$ 281,292</u>	<u>\$ 284,531</u>

Custodial credit risk for deposits 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. The District's deposits at each financial institution are federally insured up to \$ 100,000. Any amounts on deposit in excess of \$100,000 are secured by specifically identified pledged collateral. The total deposits of \$281,298 (book balance) include restricted cash of \$66,720.

The District has no deposit policy for custodial credit risk beyond the requirements of the State Statute. Ohio law requires that deposits be 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.

The District implemented GASB 40 as December 31, 2005.

Accounts Receivable

The District's accounts receivable balance at December 31, 2008, consists of amounts due from water customers for water services provided. More specifically, the amounts due are from the December billing. Due to such a large customer base, there is no significant concentration of credit risk.

Newport Water and Sewer District
Notes to Financial Statements (Continued)
December 31, 2008

Note 4. Capital Assets

The summary of and changes in the capital assets as of December 31, 2008 are as follows:

	Beginning Balance	Additions	Dispositions	Ending Balance
Land	\$ 25,195	\$ -	\$ -	\$ 25,195
Building	68,857	-	-	68,857
Furniture and Lab Equipment	35,774	-	-	35,774
Vehicles and Equipment	164,145	-	-	164,145
Water Line Systems	2,607,437	380,151	-	2,987,588
Sewage Collection and Treatment Systems	1,267,514	9,190	-	1,276,704
Work in Progress	31,063	-	(31,063)	-
Total	<u>4,199,985</u>	<u>389,341</u>	<u>(31,063)</u>	<u>4,558,263</u>
Accumulated Depreciation:				
Building	(40,713)	(2,643)	-	(43,356)
Furniture and Lab Equipment	(33,657)	(929)	-	(34,586)
Vehicles and Equipment	(64,224)	(22,306)	-	(86,530)
Water Line Systems	(494,153)	(76,308)	-	(570,461)
Sewage Collection and Treatment Systems	(684,564)	(32,455)	-	(717,019)
Total Accumulated Depreciation	<u>(1,317,311)</u>	<u>(134,641)</u>	<u>-</u>	<u>(1,451,952)</u>
Total Capital Assets Less Depreciation	<u>\$ 2,882,674</u>	<u>\$ 254,700</u>	<u>\$ (31,063)</u>	<u>\$ 3,106,311</u>

**Newport Water and Sewer District
Notes to Financial Statements (Continued)
December 31, 2008**

Note 4. Capital Assets (Continued)

The summary of and changes in the capital assets as of December 31, 2007 are as follows:

	Beginning Balance	Additions	Dispositions	Ending Balance
Land	\$ 25,195	\$ -	\$ -	\$ 25,195
Building	68,857	-	-	68,857
Furniture and Lab Equipment	34,689	1,085	-	35,774
Vehicles and Equipment	164,145	-	-	164,145
Water Line Systems	2,603,511	3,926	-	2,607,437
Sewage Collection and Treatment Systems	1,266,364	1,150	-	1,267,514
Work in Progress	-	31,063	-	31,063
Total	4,162,761	37,224	-	4,199,985
Accumulated Depreciation:				
Building	(38,070)	(2,643)	-	(40,713)
Furniture and Lab Equipment	(29,865)	(3,792)	-	(33,657)
Vehicles and Equipment	(41,917)	(22,307)	-	(64,224)
Water Line Systems	(420,356)	(73,797)	-	(494,153)
Sewage Collection and Treatment Systems	(652,357)	(32,207)	-	(684,564)
Total Accumulated Depreciation	(1,182,565)	(134,746)	-	(1,317,311)
Total Capital Assets Less Depreciation	\$ 2,980,196	\$ (97,522)	\$ -	\$ 2,882,674

**Newport Water and Sewer District
Notes to Financial Statements (Continued)
December 31, 2008**

Note 5. Long-Term Debt

The long-term debt and related current maturities of the District as of December 31, 2008 are as follows:

United States Department of Agriculture - Rural Development

Loan number 91-01 at 4.25% interest, payable at \$64,320 annually at:

2009	\$	13,800
2010		14,400
2011		15,000
2012		15,600
2013		16,300
2014-2018		92,400
2019-2023		113,800
2024-2028		140,100
2029-2033		172,500
2034-2038		212,500
2039-2043		261,500
2044-2045		120,900
		1,188,800
	\$	1,188,800

The notes payable to the Rural Development are covered by a water system grant agreement and a security agreement which contains conditions which the District is required to meet concerning use an disposition of property included in the agreement. The agreement also pledges accounts receivable and other property.

Ohio Water Development Authority

Loan number 1791 at 7.56% interest, payable at \$17,315 semi-annually at:

2009	28,881
2010	31,064
2011	16,102
	76,047
	76,047

**Newport Water and Sewer District
Notes to Financial Statements (Continued)
December 31, 2008**

Note 5. Long-Term Debt (Continued)

Loan number 4865 at 3.95% interest, payable at \$ 12,314 semi-annually, at:

2009	13,832
2010	14,384
2011	14,958
2012	15,554
2013	16,175
2014-2018	91,082
2019-2023	110,757
	<u>\$ 276,742</u>

Ohio Public Works Commission

Loan number CR02B at 2.00% interest, payable at \$3,046 semi-annually at:

2009	\$ 4,587
2010	4,679
2011	4,773
2012	4,869
2013	4,967
2014-2018	26,375
2019-2023	26,089
	<u>\$ 76,339</u>

Peoples Savings Bank

Loan number 38281-60 at 6.95% interest, payable at \$435.57 monthly at:

2009	\$ 4,573
2010	4,893
2011	2,129
	<u>\$ 11,595</u>

Newport Water and Sewer District
Notes to Financial Statements (Continued)
December 31, 2008

Note 5. Long-Term Debt (Continued)

The long-term activity for the year ended December 31, 2008 was as follows:

Long Term Debt	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
USDA Loan	\$ 1,202,000	\$ -	\$ 13,200	\$ 1,188,800	\$ 13,800
OWDA #1791	102,898	-	26,851	76,047	28,881
OWDA #4865	-	276,742	-	276,742	13,832
OPWC Loan	80,835	-	4,496	76,339	4,587
The Peoples Saving Bank Loan	15,847	-	4,252	11,595	4,573
	<u>\$ 1,401,580</u>	<u>\$ 276,742</u>	<u>\$ 48,799</u>	<u>\$ 1,629,523</u>	<u>\$ 65,673</u>

The long-term activity for the year ended December 31, 2007 was as follows:

Long Term Debt	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
USDA Loan	\$ 1,202,000	\$ -	\$ -	\$ 1,202,000	\$ 13,200
OWDA #1791	127,862	-	24,964	102,898	26,851
OPWC Loan	85,245	-	4,410	80,835	4,496
The Peoples Saving Bank Loan	19,823	-	3,976	15,847	4,252
	<u>\$ 1,434,930</u>	<u>\$ -</u>	<u>\$ 33,350</u>	<u>\$ 1,401,580</u>	<u>\$ 48,799</u>

Note 6. Prepaid Expenses

Prepaid Expenses comprise the following at December 31,

	<u>2008</u>	<u>2007</u>
Prepaid Insurance	\$ 3,472	\$ 3,593
Prepaid Maintenance	681	565
Total Prepaid Expenses	<u>\$ 4,153</u>	<u>\$ 4,158</u>

Newport Water and Sewer District
Notes to Financial Statements (Continued)
December 31, 2008

Note 7. Compensated Absences

GASB-16 establishes criteria for compensated absences. Compensated absences for vacation leave and benefits with similar characteristics should be recorded as a liability when earned by employees if the following conditions are satisfied:

1. Compensated absence is earned on the basis of services already performed by employees.
2. It is probable that the compensated absence will be paid in a future period.

The District's compensated absences are recorded in accordance with GASB-16. However, the District's policy is to not carry over vacation time from year to year. The District's does not provide sick leave to their employees.

Note 8. Restricted Net Assets

Restricted Assets consist of \$64,320 in Certificates of Deposit and Savings - which are held to satisfy USDA Rural Development Loan Reserve requirements of \$64,320 - and customer meter deposit of \$2,600.

Note 9. 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 5 years at 20% 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 year ended December 31, 2008, the members of all three plans were required to contribute 10 percent of their annual covered salaries. The 2008 employer contribution rate for District employers was 14 percent of covered payroll. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. For the year ended December 31, 2007, the members of all three plans were required to contribute 9.5 percent of their annual covered salaries. The 2007 employer contribution rate for District

Newport Water and Sewer District
Notes to Financial Statements (Continued)
December 31, 2008

Note 9. Defined Benefit Pension Plan (Continued)

employers was 13.85 percent of covered payroll. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

The District's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2008, 2007, 2006, and 2005 were \$9,985, \$10,552, \$9,810, and \$11,624, respectively. The full amount has been contributed for all years.

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 pension or combined plans. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contributions to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute.

The 2008 and 2007 local government employer contribution rates were 14.00 and 13.85 percent of covered payroll; 5.00 percent from January 1 through June 30, 2007 and 6.00 percent from July 1 through December 31, 2007 of covered payroll were the portions that were used to fund health care for 2008 and 2007, respectively.

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, 2006 include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 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 .50 to 5 percent annually for the next eight years and 4 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 approximated 374,979 in 2008 and 2007. 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, 2006, (the latest information available) was \$12 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$30.7 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. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

**Newport Water and Sewer District
Notes to Financial Statements (Continued)
December 31, 2008**

Note 10. Budget

Budget-activity for the year ending December 31 2008 is as follows:

Budgeted vs Actual Receipts

Budgeted Receipts	\$	353,040
Actual Receipts		<u>340,941</u>
Variance	<u>\$</u>	<u>12,099</u>

Budgeted vs Actual Expenditures

Budgeted Expenditures	\$	335,678
Actual Expenditures		<u>342,395</u>
Variance	<u>\$</u>	<u>(6,717)</u>

Note 11. Revenue Types

The District has two revenue types, water and sewer; however sewer is a minor portion of total revenue. The commingling of revenues from the two revenues sources has no significant bearing on the over all financial statement.

Note 12. Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, inquiries to employees and natural disasters. Any significant risk of losses is covered by commercial insurance. There were no significant change in insurance and no settlements that exceeded insurance coverage for each of the past three years.

Perry & Associates
Certified Public Accountants, A.C.

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

May 21, 2009

Board of Directors
Newport Water and Sewer District
P.O. Box 367
Newport, OH 45768

To the Board of Directors:

We have audited the financial statements of the business-type activities of the Newport Water and Sewer District, Washington County, (the District), as of and for the year ended December 31, 2008 which collectively comprise the District's basic financial statements and have issued our report thereon dated May 21, 2009. 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.

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 a 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting (2008-001).

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 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 internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Newport Water and Sewer District
Washington County
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Required by *Government Auditing Standards*
Page 2

Compliance and Other Matters

As part of reasonably assuring whether the District's basic 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 and responses. 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 District Board of Directors. It is not intended for anyone other than these specified parties.

Respectfully Submitted



Perry and Associates
Certified Public Accountants, A.C.

**Newport Water and Sewer District
Schedule of Findings and Responses
For the Years Ended December 31, 2008**

2008-001

Significant Deficiency

Segregation of Accounting Duties

A lack of segregation of accounting duties exists with the District. This situation provides for a less than desirable internal control since two people have control over all of the accounting functions.

We recommend that the Board of Trustees continue to provide detail oversight and review all transactions processed by the District.

Management's response

The board will continue to be involved with the operation of the district.

**Newport Water and Sewer District
Schedule of Prior Audit Findings
December 31, 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2007-001	Segregation of Duties	No.	Not Corrected. Repeated as Finding 2008-001.
2007-002	Untimely Deposits	Yes.	Fully Corrected.



Mary Taylor, CPA
Auditor of State

NEWPORT WATER AND SEWER DISTRICT

WASHINGTON 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
JULY 7, 2009**