

**NEWPORT WATER AND SEWER DISTRICT  
WASHINGTON COUNTY  
Regular Audit  
December 31, 2009 and 2008**

*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, 2009 through December 31, 2009. 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.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

July 27, 2010

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**NEWPORT WATER AND SEWER DISTRICT  
WASHINGTON COUNTY**

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**NEWPORT WATER AND SEWER DISTRICT  
WASHINGTON COUNTY**

**BOARD MEMBERS**

<b><u>NAME</u></b>	<b><u>POSITION HELD</u></b>
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  
(740) 373-0056

**INDEPENDENT ACCOUNTANTS' REPORT**

June 29, 2010

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

To the Board of Directors:

We have audited the accompanying financial statements of the business-type activities of the **Newport Water and Sewer District, Washington County**, (the District), as of and for the years ended December 31, 2009 and 2008, 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 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.

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 the District, as of December 31, 2009 and 2008, and the respective changes in financial position and cash flows thereof, for the years 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 June 29, 2010 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. 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 of 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.

Newport Water and Sewer District  
Washington County  
Independent Accountants' Report  
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The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America 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.

Respectfully submitted,



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

**NEWPORT WATER AND SEWER DISTRICT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

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, 2009. 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 \$1,699,847 as of December 31, 2009.
- Net assets decreased by \$69,452 (3.93%) in 2009.
- Operating revenues and expenses increased by \$25,882 (7.55%) and \$26,447 (7.53%), in 2009, respectively.
- Retirements of debt principal totaled \$58,679, and no new debt was issued in 2009.

**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 YEARS ENDED DECEMBER 31, 2009 AND 2008  
(UNAUDITED)**

The following table summarized the changes in Net Assets for the District for 2009, 2008, and 2007.

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

	<u>2009</u>	<u>2008</u>	<u>\$ Change</u>	<u>% Change</u>	<u>2007</u>	<u>\$ Change</u>	<u>% Change</u>
<b>Assets</b>							
Current Assets	\$ 270,706	\$ 258,692	\$ 12,014	4.64%	\$ 255,566	\$ 3,126	1.22%
Restricted Cash	66,070	66,920	(850)	-1.27%	66,720	200	0.30%
Capital Assets, Net of Depreciation	2,975,239	3,106,311	(131,072)	-4.22%	2,882,674	223,637	7.76%
Other Assets	9,174	9,174	-	0.00%	9,174	-	0.00%
<b>Total Assets</b>	<b>\$ 3,321,189</b>	<b>\$ 3,441,097</b>	<b>\$ (119,908)</b>	<b>-3.48%</b>	<b>\$ 3,214,134</b>	<b>\$ 226,963</b>	<b>7.06%</b>
<b>Liabilities</b>							
Current Liabilities	\$ 119,638	\$ 107,948	\$ 11,690	10.83%	\$ 91,886	\$ 16,062	17.48%
Long Term Liabilities	1,501,704	1,563,850	(62,146)	-3.97%	1,352,737	211,113	15.61%
<b>Total Liabilities</b>	<b>1,621,342</b>	<b>1,671,798</b>	<b>(50,456)</b>	<b>-3.02%</b>	<b>1,444,623</b>	<b>227,175</b>	<b>15.73%</b>
<b>Net Assets</b>							
Net Assets Invested in Capital Assets,							
Net of Debt	1,404,394	1,476,788	(72,394)	-4.90%	1,481,094	(4,306)	-0.29%
Restricted Net Assets	66,070	66,920	(850)	-1.27%	66,720	200	0.30%
Unrestricted Net Assets	229,383	225,591	3,792	1.68%	221,697	3,894	1.76%
<b>Total Net Assets</b>	<b>1,699,847</b>	<b>1,769,299</b>	<b>(69,452)</b>	<b>-3.93%</b>	<b>1,769,511</b>	<b>(212)</b>	<b>-0.01%</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 3,321,189</b>	<b>\$ 3,441,097</b>	<b>\$ (119,908)</b>	<b>-3.48%</b>	<b>\$ 3,214,134</b>	<b>\$ 226,963</b>	<b>7.06%</b>

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 \$1,699,847, \$1,769,299, and \$1,769,511 for the years ended December 31, 2009, 2008, and 2007 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 its customers and to comply with regulatory requirements.

For the year ended December 31, 2009 total assets of the District decreased by \$119,908, mainly due to the effects of accumulated depreciation.

The following table summarized the changes in Revenues and Expenses for the District for 2009, 2008, and 2007.

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

	<u>2009</u>	<u>2008</u>	<u>\$ Change</u>	<u>% Change</u>	<u>2007</u>	<u>\$ Change</u>	<u>% Change</u>
<b>Revenues</b>							
Operating Revenues	\$ 368,895	\$ 343,013	\$ 25,882	7.55%	\$ 351,356	\$ (8,343)	-2.37%
Nonoperating Revenues	7,518	68,353	(60,835)	-89.00%	25,880	42,473	164.12%
<b>Total Revenues</b>	<b>376,413</b>	<b>411,366</b>	<b>(34,953)</b>	<b>-8.50%</b>	<b>377,236</b>	<b>34,130</b>	<b>9.05%</b>
<b>Expenses</b>							
Operating Expenses	377,441	350,994	26,447	7.53%	357,553	(6,559)	-1.83%
Nonoperating Expenses	68,425	60,584	7,841	12.94%	62,896	(2,312)	-3.68%
<b>Total Expenses</b>	<b>445,866</b>	<b>411,578</b>	<b>34,288</b>	<b>8.33%</b>	<b>420,449</b>	<b>(8,871)</b>	<b>-2.11%</b>
<b>Change in Net Assets</b>	<b>\$ (69,453)</b>	<b>\$ (212)</b>	<b>\$ (69,241)</b>	<b>32660.85%</b>	<b>\$ (43,213)</b>	<b>\$ 43,001</b>	<b>-99.51%</b>

NEWPORT WATER AND SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008  
(UNAUDITED)

The following table summarizes the changes in Capital Assets for the District for 2009, 2008, and 2007.

		Table 3 Capital Assets December 31,					
Capital Assets	2009	2008	\$ Change	% Change	2007	\$ Change	% Change
Land	\$ 25,195	\$ 25,195	\$ -	0.00%	\$ 25,195	\$ -	0.00%
Buildings	73,326	68,857	4,469	6.49%	68,857	-	0.00%
Furniture and Lab Equipment	35,774	35,774	-	0.00%	35,774	-	0.00%
Vehicles and Equipment	168,647	164,145	4,502	2.74%	164,145	-	0.00%
Water Distribution System	2,615,043	2,987,588	(372,545)	-12.47%	2,607,437	380,151	14.58%
Sewage Collection and Treatment System	1,649,249	1,276,704	372,545	29.18%	1,267,514	9,190	0.73%
Less: Accumulated Depreciation	(1,591,995)	(1,451,952)	(140,043)	9.65%	(1,317,311)	(134,641)	10.22%
Construction in Progress	-	-	-	0.00%	31,063	(31,063)	100.00%
Total Capital Assets	<u>\$ 2,975,239</u>	<u>\$ 3,106,311</u>	<u>\$ (131,072)</u>	<u>-4.22%</u>	<u>\$ 2,882,674</u>	<u>\$ 223,637</u>	<u>7.76%</u>

As of December 31, 2009, 2008, and 2007 the district had \$2,975,239, \$3,106,311, and \$2,882,674, respectively invested in net capital assets. The 2009 amount represents a net decrease of \$131,072 (4.22%) under 2008, and the 2008 amount is a net increase of \$223,637 (7.76%) over 2007.

**Major additions in 2009 were to**

Buildings	
Building Repairs	\$ 4,469
	<u>4,469</u>
Vehicles and Equipment	
Zero-Turn Mower	3,189
Replacement Forks	1,313
	<u>4,502</u>
<b>Total Additions to Capital Assets</b>	<b><u>\$ 8,971</u></b>

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

**NEWPORT WATER AND SEWER DISTRICT  
STATEMENTS OF NET ASSETS  
AS OF DECEMBER 31, 2009 AND 2008**

**Overview of the Financial Statements (Continued)**

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 \$1,570,844, \$1,692,523, and \$1,401,580 at December 31, 2009, 2008, and 2007 respectively. This represents a decrease of \$58,679 in the year 2009, as compared to 2008, due to the payment of principal, and an increase of \$227,943 in the year 2008, as compared to 2007, due to the issuance of new debt.

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

**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) 473-1224.

**NEWPORT WATER AND SEWER DISTRICT  
STATEMENTS OF NET ASSETS  
AS OF DECEMBER 31, 2009 AND 2008**

	2009	2008
<b>ASSETS</b>		
Current Assets:		
Cash & Cash Equivalents	\$ 99,281	\$ 98,511
Investments	122,906	115,861
Accounts Receivable	42,027	38,897
Inventory	1,270	1,270
Prepaid Expenses	5,222	4,153
Total Current Assets	<u>270,706</u>	<u>258,692</u>
Restricted Assets:		
Cash - Debt Service Reserve and Customer Deposits	7,045	7,966
Investments - Debt Service Reserve	59,025	58,954
Total Restricted Assets	<u>66,070</u>	<u>66,920</u>
Capital Assets:		
Land	25,195	25,195
Buildings	73,326	68,857
Furniture and Lab Equipment	35,774	35,774
Vehicles and Equipment	168,647	164,145
Water Distribution System	2,615,043	2,987,588
Sewage Collection and Treatment System	1,649,249	1,276,704
Less: Accumulated Depreciation	(1,591,995)	(1,451,952)
Total Capital Assets, Net of Accumulated Depreciation	<u>2,975,239</u>	<u>3,106,311</u>
Other Assets	9,174	9,174
<b>TOTAL ASSETS</b>	<u>\$ 3,321,189</u>	<u>\$ 3,441,097</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Current Liabilities:		
Accounts Payable	\$ 9,895	\$ 4,439
Accrued Payroll	-	974
Taxes Payable	4,371	4,724
Interest Payable	34,482	29,538
Current Portion - Notes Payable	69,140	65,673
Customer Meter Deposits	1,750	2,600
Total Current Liabilities	<u>119,638</u>	<u>107,948</u>
Long-term Liabilities (net of current portion):		
Notes Payable	1,501,704	1,563,850
Total Long-Term Liabilities	<u>1,501,704</u>	<u>1,563,850</u>
Total Liabilities	<u>1,621,342</u>	<u>1,671,798</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	1,404,395	1,476,788
Net Assets, Restricted	59,025	66,920
Net Assets, Unrestricted	236,427	225,591
Total Net Assets	<u>1,699,847</u>	<u>1,769,299</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 3,321,189</u>	<u>\$ 3,441,097</u>

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

**NEWPORT WATER AND SEWER DISTRICT  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	2009	2008
Operating Revenues:		
Charges for Services	\$ 363,438	\$ 337,596
Service Connections	1,750	1,867
Miscellaneous	3,707	3,550
Total Operating Revenues	<u>368,895</u>	<u>343,013</u>
Operating Expenses:		
Gross Salaries	86,326	92,482
Payroll Taxes	3,527	1,340
PERS Contributions	9,978	3,886
Employee Health Insurance	15,605	12,137
Workers' Compensation Insurance	1,406	2,403
Utilities	29,186	27,636
Water and Sewer Tests	4,750	4,009
Maintenance, Repairs, and Supplies	64,071	54,928
Property Insurance	4,956	5,221
Office Supplies	682	-
Miscellaneous Expenses	2,041	538
Accounting and Legal Expenses	8,220	8,575
Other Taxes	6,649	3,198
Depreciation Expenses	140,043	134,641
Total Operating Expenses	<u>377,440</u>	<u>350,994</u>
Operating Income	<u>(8,545)</u>	<u>(7,981)</u>
Non-Operating Revenues and (Expenses):		
Interest Income	7,518	7,186
Interest Expense	(68,425)	(60,584)
Grant Income	-	61,167
Total Non-Operating Revenue and (Expenses)	<u>(60,907)</u>	<u>7,769</u>
Increase/(Decrease) in Net Assets	<u>(69,452)</u>	<u>(212)</u>
Net Assets, Beginning of Year	<u>1,769,299</u>	<u>1,769,511</u>
Net Assets, End of Year	<u>\$ 1,699,847</u>	<u>\$ 1,769,299</u>

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

**NEWPORT WATER AND SEWER DISTRICT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	2009	2008
<b>Cash Flows from Operating Activities:</b>		
Cash Received from Operations and Service Connections	\$ 362,058	\$ 336,924
Cash Received from Miscellaneous Income	3,707	3,550
Cash Payments to Supplier for Goods and Services	(117,018)	(106,392)
Cash Payments to Employees for Services	(118,170)	(109,861)
Net Cash Provided (used) by Operating Activities	130,577	124,221
<b>Cash Flows from Investing Activities:</b>		
Purchase of Investments	(7,117)	(6,919)
Cash receipts from Interest Income	7,518	7,186
Net Cash Provided (Used) by Investing Activities	401	267
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from Notes Payable	-	276,742
Principal Payments on Long-Term Debt	(58,679)	(48,799)
Interest Payments on Debt	(63,480)	(60,857)
Purchase of Property, Plant, and Equipment	(8,970)	(358,278)
Cash receipts from Grant Income	-	61,167
Net Cash Provided (used) by Financing Activities	(131,129)	(130,025)
Net Increase (Decrease) in Cash and Cash Equivalents	(151)	(5,537)
Cash and Cash Equivalents, Beginning of Year*	106,477	112,014
Cash and Cash Equivalents, End of Year	\$ 106,326	\$ 106,477
<b>Adjustments to Reconcile Operating Loss to Cash Flows from Operating Activities</b>		
Operating Income (Loss)	\$ (8,545)	\$ (7,981)
Depreciation Expenses	140,043	134,641
Decrease/(Increase) in Accounts Receivable	(3,130)	(2,539)
Decrease/(Increase) in Prepaid Expenses	(1,069)	5
Decrease/(Increase) in Inventories	-	590
Increase/(Decrease) in Accounts Payable	5,456	(679)
Increase/(Decrease) in Payroll Payable	(974)	(61)
Increase/(Decrease) in Taxes Payable	(354)	45
Increase/(Decrease) in Customer Deposits	(850)	200
Net Cash Provided (Used) by Operating Activities	\$ 130,577	\$ 124,221

\* Includes reserved cash that was omitted in previous years.

**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 THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 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**

Under HB 262, effective for fiscal years ended December 31, 2000 and subsequent, water and sewer districts not levying property taxes must follow most of the Ohio Revised Code Chapter 5705 budget requirements, but need not seek approval of a county budget commission for any budgetary actions. These districts must:

**NEWPORT WATER AND SEWER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

<b>HB 262 Requirements</b>	<b>Applicable ORC Sections</b>
Estimated receipts and adopt an operating budget	5705.28(B)(2)(a)
Prepare certificate of estimated resources (but does not require budget commission approval)	5705.36
Must amend estimated resources under the circumstances described in OCS	5705.36
Appropriate at the minimum level of control prescribed by ORC 5705.38. No budget commission approval is required.	5705.38
Cannot appropriate more than estimated resources	5705.28(B)(2)(c)
Must amend appropriations if they intend to spend more than the original appropriation	5705.40
Cannot disburse or encumber more than appropriated	5705.41(B)
Must certify availability of funds	5705.41(D)
May issue blanket or super blanket purchase orders	5705.41(D)

**Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Board of Directors must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year-end.

**Estimated Resources**

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1.

**Encumbrances**

The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year-end are carried over, and need not be re-appropriated. The District does not use encumbrances.

**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.

**Accounts Receivable**

Accounts receivable are shown at their net realizable value. The direct write-off method is used to records bad debts. Uncollectible accounts receivable are charged to operations during the period in which they are determined to be uncollectible; the results of using the direct write-off method closely approximated the reserve method of accounting for receivables. Bad debts are only recorded after all efforts for collection are exhausted, including certifying delinquent accounts to the county auditor, which are attached to real estate tax billings.

**NEWPORT WATER AND SEWER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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. 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.

**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.

**NEWPORT WATER AND SEWER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**NOTE 3. DEPOSITS AND INVESTMENTS**

State statutes classify monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such 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 District has 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 Notes, Bills, Bonds, 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;

**NEWPORT WATER AND SEWER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**NOTE 3. DEPOSITS AND INVESTMENTS (CONTINUED)**

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

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. Investments may only be made through specified dealers and institutions. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Village, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

*Undeposited Cash* At year-end 2009 and 2008, the District had \$80 in undeposited cash on hand, included as part of *Cash and cash equivalents*.

*Deposits* At year-end 2009 and 2008, the carrying amount of the District's deposits was \$106,246 and \$106,397 and the bank balance was \$107,605 and \$109,636, respectively. 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. Deposits with financial institutions were covered by federal depository insurance and/or were collateralized by a pool of securities maintained by the District's financial institutions but not in the District's name.

As of December 31, 2009 and 2008, the District had Certificates of Deposits with carrying values of \$181,931 and \$174,815, respectively.

*Investments* The District's investment policy does not address any restriction on investments relating to interest rate, credit, or custodial credit risks. The investment policy restricts investment in anything other than as identified in the Ohio Revised Code, except that all investments must mature within two years from the date of investments unless they are matched to a specific obligation or debt of the District. Purchasing investments that cannot be held until the maturity date is also restricted.

**NEWPORT WATER AND SEWER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**NOTE 4. CAPITAL ASSETS**

The summary of and changes in the capital assets as of December 31, 2009 are as follows:

	Beginning Balance	Additions	Dispositions	Ending Balance
<b>Non-Depreciable Capital Assets</b>				
Land	\$ 25,195	\$ -	\$ -	\$ 25,195
Total Non-Depreciable Capital Assets	25,195	-	-	25,195
<b>Depreciable Capital Assets</b>				
Building	68,857	4,469	-	73,326
Furniture and Lab Equipment	35,774	-	-	35,774
Vehicles and Equipment	164,145	4,502	-	168,647
Water Line Systems	2,987,588	-	(372,545)	2,615,043
Sewage Collection and Treatment Systems	1,276,704	372,545	-	1,649,249
Total Depreciable Capital Assets	4,533,068	381,516	(372,545)	4,542,039
<b>Accumulated Depreciation:</b>				
Building	(43,356)	(2,799)	-	(46,155)
Furniture and Lab Equipment	(34,586)	(413)	-	(34,999)
Vehicles and Equipment	(86,530)	(22,781)	-	(109,311)
Water Line Systems	(570,461)	(71,610)	2,494	(639,577)
Sewage Collection and Treatment Systems	(717,019)	(44,934)	-	(761,953)
Total Accumulated Depreciation	(1,451,952)	(142,537)	2,494	(1,591,995)
Total Depreciable Capital Assets, Less Accumulated Depreciation	3,081,116	238,979	(370,051)	2,950,044
Total Capital Assets, Net of Accumulated Depreciation	\$ 3,106,311	\$ 238,979	\$ (370,051)	\$ 2,975,239

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

	Beginning Balance	Additions	Dispositions	Ending Balance
<b>Non-Depreciable Capital Assets</b>				
Land	\$ 25,195	\$ -	\$ -	\$ 25,195
Work in Progress	31,063	-	(31,063)	-
Total Non-Depreciable Capital Assets	\$ 56,258	-	\$ (31,063)	\$ 25,195
<b>Depreciable Capital Assets</b>				
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
Total Depreciable Capital Assets	4,143,727	389,341	-	4,533,068
<b>Accumulated Depreciation:</b>				
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	(1,317,311)	(134,641)	-	(1,451,952)
Total Depreciable Capital Assets, Less Accumulated Depreciation	2,826,416	254,700	-	3,081,116
Total Capital Assets, Net of Accumulated Depreciation	\$ 2,882,674	\$ 254,700	\$ (31,063)	\$ 3,106,311

**NEWPORT WATER AND SEWER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**NOTE 5. LONG-TERM DEBT**

The long-term activity for the year ended December 31, 2009 was as follows:

Long Term Debt	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
USDA Loan	\$ 1,188,800	\$ -	\$ 13,800	\$ 1,175,000	\$ 14,400
OWDA #1791	76,047	-	28,881	47,166	31,064
OWDA #4865	276,742	-	6,848	269,894	14,105
OPWC Loan	76,339	-	4,587	71,752	4,679
The Peoples Saving					
Bank Loan	11,595	-	4,563	7,032	4,892
	<u>\$ 1,629,523</u>	<u>\$ -</u>	<u>\$ 58,679</u>	<u>\$ 1,570,844</u>	<u>\$ 69,140</u>

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>

**NEWPORT WATER AND SEWER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**NOTE 5. LONG-TERM DEBT (CONTINUED)**

The long-term debt and related current maturities of the District as of December 31, 2009 are as follows:

**United States Department of Agriculture - Rural Development**

Loan number 91-01 at 4.25% interest, payable at \$64,285 annually:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 14,400	\$ 49,885	\$ 64,285
2011	15,000	49,285	64,285
2012	15,600	48,685	64,285
2013	16,300	47,985	64,285
2014	16,900	47,385	64,285
2015-2019	96,400	225,025	321,425
2020-2024	118,600	202,825	321,425
2025-2029	146,100	175,325	321,425
2030-2034	179,800	141,625	321,425
2035-2039	221,500	99,925	321,425
2040-2044	272,700	48,725	321,425
2045-2049	61,700	2,585	64,285
	<u>\$ 1,175,000</u>	<u>\$ 1,139,260</u>	<u>\$ 2,314,260</u>

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 and 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:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 31,064	\$ 3,566	\$ 34,630
2011	16,102	1,213	17,315
	<u>\$ 47,166</u>	<u>\$ 4,779</u>	<u>\$ 51,945</u>

**NEWPORT WATER AND SEWER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**NOTE 5. LONG-TERM DEBT (CONTINUED)**

**Ohio Water Development Authority (Continued)**

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

	Principal	Interest	Total
2010	\$ 14,105	\$ 10,523	\$ 24,628
2011	14,668	9,960	24,628
2012	15,253	9,375	24,628
2013	15,862	8,767	24,629
2014	16,494	8,134	24,628
2015-2019	92,881	30,259	123,140
2020-2024	100,631	10,197	110,828
	<u>\$ 269,894</u>	<u>\$ 87,215</u>	<u>\$ 357,109</u>

**Ohio Public Works Commission**

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

	Principal	Interest	Total
2010	\$ 4,679	\$ 1,412	\$ 6,091
2011	4,773	1,318	6,091
2012	4,869	1,222	6,091
2013	4,967	1,124	6,091
2014	5,067	1,024	6,091
2015-2019	26,905	3,550	30,455
2020-2024	20,492	828	21,320
	<u>\$ 71,752</u>	<u>\$ 10,478</u>	<u>\$ 82,230</u>

**Peoples Savings Bank**

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

	Principal	Interest	Total
2010	\$ 4,892	\$ 335	\$ 5,227
2011	2,140	38	2,178
	<u>\$ 7,032</u>	<u>\$ 373</u>	<u>\$ 7,405</u>

**NEWPORT WATER AND SEWER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**NOTE 6. PREPAID EXPENSES**

Prepaid Expenses comprise the following at December 31,

	2009	2008
Prepaid Insurance	\$ 3,114	\$ 3,472
Prepaid Licenses	1,520	-
Prepaid Maintenance	588	681
Total Prepaid Expenses	\$ 5,222	\$ 4,153

**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 \$66,070 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 \$1,750.

**NOTE 9. 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.

**NEWPORT WATER AND SEWER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**NOTE 9. PENSION PLAN (CONTINUED)**

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

For the years ended December 31, 2008 and 2009, the members of all three plans, were required to contribute 10 percent of their annual covered salaries. The 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.

The District's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2009, 2008, 2007 and 2006 were \$9,978, \$9,985, \$10,552 and \$9,810, respectively. The full amount has been contributed for all years.

**Plan Description**

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan—a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

**Funding Policy**

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2008 and 2009, state and local employers contributed at a rate of 14.00% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

**NEWPORT WATER AND SEWER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**NOTE 9. PENSION PLAN (CONTINUED)**

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. For 2008 and 2009, the employer contribution allocated to the health care plan was 7.0% of covered payroll. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The portion of employer contributions that were used to fund post-employment benefits for 2009 and 2008 approximated \$0 and \$0, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective 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.

**NOTE 10. 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.

**NOTE 11. BUDGET**

Budget activity is as follows for the year ending December 31,

Budgeted vs Actual Receipts	2009	2008
Budgeted Receipts	\$ 367,560	\$ 353,040
Actual Receipts	366,039	340,941
Variance	\$ 1,521	\$ 12,099
Budgeted vs Actual Expenditures		
Budgeted Expenditures	\$ 367,337	\$ 335,678
Actual Expenditures	379,143	342,395
Variance	\$ (11,806)	\$ (6,717)

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

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

MARIETTA  
428 Second Street  
Marietta, OH 45750  
(740) 373-0056

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

June 29, 2010

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 years ended December 31, 2009 and 2008, which collectively comprise the District's financial statements as listed in the table of contents and have issued our report thereon dated June 29, 2010. 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 opinion 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected. We consider finding 2009-001 described in the accompanying schedule of finding to be 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 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*.

We did note certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated June 29, 2010.

We intend this report solely for the information and use of management and the Board of Directors. It is not intended for anyone other than these specified parties.

Respectfully Submitted,

A handwritten signature in cursive script that reads "Perry & Associates CPAs A.C.".

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

**NEWPORT WATER AND SEWER DISTRICT  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
--

**FINDING 2009-001**

**Material Weakness**

**Preparation of GAAP Financial Statements**

Standards and practices regarding internal controls require the District's internal controls be adequately designed to ensure that its financial statements and related disclosures conform, in all material respects, to the requirements of the basis of accounting on which the statements are prepared. During our audit, we noted the District understands the principles governing the basis of accounting on which the statements are prepared, but does not possess the necessary skills to prepare the year-end financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America.

As a result, several material audit adjustments were required in order for the year-end financial statements to be presented correctly.

While the District possesses the necessary skills, knowledge, and expertise to evaluate the financial statements that we drafted, we recommend the District prepare its financial statements on the full accrual basis of accounting which is required for governmental proprietary funds. The District should consider implementing additional controls, such as hiring additional employees or outside accountants, to prepare the required financial statement.

**Management's Response** – We did not receive a response from officials to this finding.

**NEWPORT WATER AND SEWER DISTRICT  
SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i></b>
2008-01	Segregation of Duties	Yes.	





**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  
AUGUST 10, 2010**