

NEWPORT WATER AND SEWER DISTRICT
Financial Statements
December 31, 2007 and 2006



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of Newport Water and Sewer District, Washington County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2007 through December 31, 2007. 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. Newport Water and Sewer District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 26, 2008

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Newport Water and Sewer District
Table of Contents
December 31, 2007

	<u>Page</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements:	
Comparative Statement of Net Assets	8-9
Comparative Statements of Revenues, Expenses, and Changes in Net Assets	10
Comparative Statements of Cash Flows	11-12
Notes to The Basic Financial Statements	13-24
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	25-27
Schedule of Findings and Responses	28
Schedule of Prior Audit Findings	29

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May 31, 2008

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of Newport Water and Sewer District (the District) as of and for the years ended December 31, 2007 and 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express 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, 2007 and 2006 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 31, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 31, 2008
Page Two

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 7, 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, 2007

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, 2007. 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 \$1,769,511 as of December 31, 2007.
Net assets decreased by \$43,213 in 2007.
Operating revenues increased by \$24,354 (7.45%) and operating expenses increased by \$17,980 (5.29%) in 2007. Retirements of debt principal totaled \$33,348 in 2007

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
For the Year Ended December 31, 2007

Financial Analysis of the District's Financial Position and Results of Operations

The tables below provide a summary of the District's financial position and operations for 2007, 2006 and 2005, respectively.

Table 1
Condensed Statement of Net Assets
December 31,

	<u>2007</u>	<u>2006</u>	<u>Change Amount</u>	<u>%</u>	<u>2005</u>	<u>Change Amount</u>	<u>%</u>
Assets							
Current & Other Assets	\$ 255,566	\$ 261,153	\$ (5,587)	-2.14%	\$ 218,710	\$ 42,443	19.41%
Restricted Cash	66,720	40,858	25,862	63.30%	66,581	(25,723)	-38.63%
Capital Assets, Net	2,882,674	2,980,196	(97,522)	-3.27%	3,019,362	(39,166)	-1.30%
Other Assets	9,174	9,174	-	0.00%	9,174	-	100.00%
Total Assets	<u>3,214,134</u>	<u>3,291,381</u>	<u>(77,247)</u>	<u>-2.35%</u>	<u>3,313,827</u>	<u>(22,446)</u>	<u>-0.68%</u>
Liabilities							
Current Liabilities	91,886	77,076	14,810	19.21%	74,060	3,016	4.07%
Long Term Liabilities	1,352,737	1,401,581	(48,844)	-3.48%	1,415,106	(13,525)	-0.96%
Total Liabilities	<u>1,444,623</u>	<u>1,478,657</u>	<u>(34,034)</u>	<u>-2.30%</u>	<u>1,489,166</u>	<u>(10,509)</u>	<u>-0.71%</u>
Net Assets							
Net Assets Invested in Capital Assets,							
Net of Debt	1,481,094	1,578,615	(97,521)	-6.18%	1,576,726	1,889	0.12%
Restricted Net Assets	66,720	40,858	25,862	63.30%	66,581	(25,723)	-38.63%
Unrestricted Net assets	221,697	193,251	28,446	14.72%	181,354	11,897	6.56%
Total Net Assets	<u>\$ 1,769,511</u>	<u>\$ 1,812,724</u>	<u>\$ (43,213)</u>	<u>-2.38%</u>	<u>\$ 1,824,661</u>	<u>\$ (11,937)</u>	<u>-0.65%</u>

As noted earlier, the net assets may serve as a useful indicator of financial position. The District's assets exceeded liabilities by \$1,769,511, \$1,812,724 and \$1,824,661 respectively, for December 31, 2007, 2006 and 2005.

The largest portion of the District's net assets is reflected in its cash and its 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, 2007 and 2006, total assets of the District decreased by \$77,247 and \$22,446, respectively, due to increase in accumulated depreciation, which was from the systematic expense of the cost of capital assets. The liabilities of the District decreased by \$34,034 and 10,509, respectively, due mainly to decrease in notes payable.

Newport Water and Sewer District
Management's Discussion and Analysis
For the Year Ended December 31, 2007

Table 2
The following table summarizes the changes in revenues and expenses for the District
for 2007, 2006 and 2005:

Condensed Statement of Revenues, Expenses and Changes in Net Assets
For the Years Ended December 31,

	<u>2007</u>	<u>2006</u>	<u>Change Amount</u>	<u>%</u>	<u>2005</u>	<u>Change Amount</u>	<u>%</u>
Revenues							
<u>Operating Revenues</u>	\$ 351,356	\$ 327,002	\$ 24,354	7.45%	\$ 314,027	\$ 12,975	4.13%
<u>Nonoperating Revenues</u>	25,880	64,920	(39,040)	-60.14%	182,606	(117,686)	-64.45%
Total Revenues	<u>377,236</u>	<u>391,922</u>	<u>(14,686)</u>	<u>-3.75%</u>	<u>496,633</u>	<u>(104,711)</u>	<u>-21.08%</u>
Expenses							
<u>Operating Expenses</u>	357,553	339,573	17,980	5.29%	307,200	32,373	10.54%
<u>Nonoperating Expenses</u>	62,896	64,286	(1,390)	-2.16%	78,415	(14,129)	-18.02%
Total Expenses	<u>420,449</u>	<u>403,859</u>	<u>16,590</u>	<u>4.11%</u>	<u>385,615</u>	<u>18,244</u>	<u>4.73%</u>
Income/(Loss)	<u>(43,213)</u>	<u>(11,937)</u>	<u>(31,276)</u>	<u>262.01%</u>	<u>111,018</u>	<u>(122,955)</u>	<u>-110.75%</u>
Change in Net Assets	<u>\$ (43,213)</u>	<u>\$ (11,937)</u>	<u>\$ (31,276)</u>	<u>262.01%</u>	<u>\$ 111,018</u>	<u>\$ (122,955)</u>	<u>-110.75%</u>

Newport Water and Sewer District
Management's Discussion and Analysis
For the Year Ended December 31, 2007

Capital Assets

As of December 31, 2007, 2006 and 2005 the District had \$2,882,674, \$2,980,196 and \$3,019,362, respectively, invested in net capital assets. The 2007 amount represents a net decrease of \$97,522 (3.27%) over 2006 and the 2006 amount is a decrease of \$39,166 (1.30%) over 2005.

Table 3
Capital Assets
For the Years Ended December 31,

	<u>2007</u>	<u>2006</u>	<u>Change Amount</u>	<u>%</u>	<u>2005</u>	<u>Change Amount</u>	<u>%</u>
Land	\$ 25,195	\$ 25,195	-	0.00%	25,195	-	0.00%
Buildings	68,857	68,857	-	0.00%	66,195	(2,662)	-4.02%
Furniture & Lab Equipment	35,774	34,689	1,085	3.13%	34,689	-	0.00%
Vehicles and Equipment	164,145	164,145	-	0.00%	101,125	(63,020)	-62.32%
Water Distribution System	2,607,437	2,603,511	3,926	0.15%	2,579,733	(23,778)	-0.92%
Sewage Collection and Treatment System	1,267,514	1,266,364	1,150	0.09%	1,266,364	-	0.00%
Less: Accumulated Depreciation	(1,317,311)	(1,182,565)	(134,746)	11.39%	(1,053,939)	128,626	-12.20%
Construction in Progress	31,063	-	31,063	0.00%	-	-	100.00%
Totals	<u>\$ 2,882,674</u>	<u>\$ 2,980,196</u>	<u>(97,522)</u>	<u>-3.27%</u>	<u>\$ 3,019,362</u>	<u>\$ (39,166)</u>	<u>-1.30%</u>

Major additions was to Equipment
\$1,085 for purchase of Computer Hard Drive
\$3,926 for purchase of Meters
\$1,150 for purchase of Surge Protectors

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

Newport Water and Sewer District
Management's Discussion and Analysis (Continued)
For the year ended December 31, 2007

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 the Rural Development, Ohio Water Development Authority and Ohio Public Water Commission. The District had total debt outstanding of \$1,401,580, \$1,434,928 and \$1,442,636 at December 31, 2007, 2006 and 2005 respectively. This represents a decrease of \$33,348 in the year 2007 and \$7,708 in the year 2006 due to payments on principal of the debt.

Additional information on the District's long-term debt can be found in Note 5 to the financial statements.

Economic Factors and 2007 Budget

The operating budget for 2007 is \$595 more than the 2007 actual due to an anticipated moderate increase in expenses. The District does plan to increase service rates in the near future.

Contacting the District's Financial Management

This report is designed to provide the District's customers, 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, OH 45768 or 740-473-1224.

**Newport Water and Sewer District
Comparative Statement of Net Assets
As of December 31, 2007 and 2006**

	2007	2006
Assets		
Current Assets:		
Cash & Cash Equivalents (Note 3)	\$ 104,248	\$ 92,618
Investments	108,942	128,193
Accounts receivable	36,358	34,053
Inventory	1,860	2,314
Prepaid Expenses	4,158	3,975
Total Current Assets	255,566	261,153
 Restricted Assets:		
Restricted Cash and Investments (Note 8)	66,720	40,858
Total Restricted Assets	66,720	40,858
 Capital Assets: (Note 4)		
Land	25,195	25,195
Buildings	68,857	68,857
Furniture and Lab Equipment	35,774	34,689
Vehicles and Equipment	164,145	164,145
Water Distribution System	2,607,437	2,603,511
Sewage Collection and Treatment System	1,267,514	1,266,364
Less: accumulated depreciation	(1,317,311)	(1,182,565)
Construction in Progress	31,063	-
Total Capital Assets	2,882,674	2,980,196
 Other Assets		
Deferred Charges	9,174	9,174
 TOTAL ASSETS	\$ 3,214,134	\$ 3,291,381

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

**Newport Water and Sewer District
Comparative Statement of Net Assets
As of December 31, 2007 and 2006**

	2007	2006
Liabilities and Equity		
Current Liabilities:		
Accounts payable	\$ 5,118	\$ 4,730
Accrued Payroll	1,035	2,705
Taxes Payable	4,679	3,883
Interest Payable	29,811	29,811
Current Portion - Notes Payable (Note 5)	48,843	33,347
Customer Meter Deposits	2,400	2,600
Total Current Liabilities	91,886	77,076
Long-term Liabilities (net of current portion):		
Note Payable - FmHa (Note 5)	1,188,765	1,202,000
Note Payable - #38281-60 (Note 5)	11,586	15,847
OWDA Loan # 1791 (Note 5)	76,047	102,898
OPWC Loan #CR02B (Note 5)	76,339	80,836
Total Long-Term Liabilities	1,352,737	1,401,581
Total Liabilities	1,444,623	1,478,657
Net Assets:		
Invested in Capital Assets, Net of Related Debt	1,481,094	1,545,268
Net Assets, Restricted (Note 8)	66,720	40,858
Net Assets, Unrestricted	221,697	226,598
Total Net Assets	1,769,511	1,812,724
Total Liabilities and Net Assets	\$ 3,214,134	\$ 3,291,381

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

Newport Water and Sewer District
Comparative Statement of Revenues, Expenses and Changes in Net Assets
For The Years Ended December 31, 2007 and 2006

	2007	2006
Operating Revenues:		
Operations	\$ 343,231	\$ 319,566
Service Connections	1,271	4,005
Miscellaneous	6,854	3,431
	351,356	327,002
Operating Expenses:		
Insurance	5,181	4,710
Salaries	78,086	79,869
Payroll Taxes	1,415	1,788
PERS Contributions (Note 10)	10,552	9,810
Employee Health Insurance	12,277	
Workers' Compensation Insurance	4,208	6,919
Utilities	24,715	21,844
Water and Sewer Tests	3,981	3,681
Maintenance Repairs and Supplies	65,376	64,855
Service Connects Expenses	-	429
Office Supplies	4,683	5,076
Miscellaneous Expenses	866	1,383
Accounting and Legal Expenses	9,226	9,208
Contracted Services		1,375
Engineering/Construction Expense	2,241	-
Depreciation Expenses	134,746	128,626
	357,553	339,573
Operating Income	(6,197)	(12,571)
Other Revenues and Expenses:		
Interest Income	6,871	6,903
Interest Expense	(62,896)	(64,286)
Grant Income	19,009	58,017
	(37,016)	634
Change in Net Assets	(43,213)	(11,937)
Net Assets, Beginning of Year	1,812,724	1,824,661
Net Assets, End of Year	\$ 1,769,511	\$ 1,812,724

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

**Newport Water and Sewer District
Comparative Statement of Cash Flows
For the Year Ended December 31, 2007 and 2006**

	2007	2006
CASH FLOW FROM OPERATING ACTIVITIES:		
Water and Sewer Sales	\$ 340,726	\$ 318,692
Service Connections	1,271	3,666
Miscellaneous	6,854	3,431
Total Revenues	348,851	325,789
DISBURSEMENTS:		
Insurance	5,364	4,959
Salaries	79,756	85,887
Payroll Taxes	619	1,788
PERS Contributions	10,552	9,810
Employee Health Insurance	12,277	-
Workers' Compensation Insurance	4,208	6,919
Utilities	24,715	21,844
Water and Sewer Tests	3,981	3,681
Maintenance Repairs and Supplies	64,534	64,331
Service Connects Expenses	-	429
Office Supplies	4,683	5,076
Miscellaneous Expenses	866	1,383
Accounting and Legal Expenses	9,226	9,208
Contracted Services	2,241	1,375
Total Disbursements	223,022	216,690
Net Cash Provided (used) by Operating Activities	125,829	109,099
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in Restricted Assets	(25,862)	25,723
Change in Investments	19,251	-
Cash receipts from Interest Income	6,871	6,903
Net Cash Provided (used) by Investing Activities	260	32,626
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Notes Payable	-	22,017
Principal Payments on Long-Term Debt	(33,348)	(29,725)
Interest Payments on Debt	(62,896)	(68,723)
Purchase of Property, Plant, and Equipment	(37,224)	(89,460)
Cash receipts from Grant Income	19,009	58,017
Net Cash Provided (used) by Financing Activities	(114,459)	(107,874)
Net Increase (Decrease) in Cash and Cash Equivalents	11,630	33,851
Beginning of Period Cash	92,618	58,767
End of Period Cash	\$ 104,248	\$ 92,618

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
Comparative Statement of Cash Flows
As of December 31, 2007 and 2006**

RECONCILIATION OF NET INCOME (LOSS) TO NET CASH
PROVIDED (USED) BY OPERATING ACTIVITIES:

	<u>2007</u>	<u>2006</u>
Operating income and changes in net assets	\$ (6,197)	\$ (12,571)
Depreciation Expenses	134,746	128,626
Decrease/(Increase) in Accounts Receivable	(2,305)	(874)
Decrease/(Increase) in Prepaid Expenses	(183)	(249)
Decrease/(Increase) in Inventories	454	(1,235)
Increase/(Decrease) in Accounts Payable	388	1,759
Increase/(Decrease) in Payroll Payable	(1,670)	1,186
Increase/(Decrease) in Taxable Payable	796	(7,204)
Increase/(Decrease) in Customer Deposits	(200)	(339)
	<u> </u>	<u> </u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 125,829</u>	<u>\$ 109,099</u>

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

Newport Water and Sewer District
Notes to Financial Statements
December 31, 2007

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.

Newport Water and Sewer District
Notes to Financial Statements
December 31, 2007
(Continued)

Note 2. Summary of Significant Accounting Policies (Continued)

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.

Cash and Cash Equivalents

Cash and cash equivalents in the District's operating account is 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

Newport Water and Sewer District
Notes to Financial Statements
December 31, 2007
(Continued)

Note 2. Summary of Significant Accounting Policies (Continued)

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.

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.

Newport Water and Sewer District
Notes to Financial Statements
December 31, 2007
(Continued)

Note 2. Summary of Significant Accounting Policies (Continued)

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. Significant Concentrations of Credit Risk

As of December, 31, 2007, the District had the following investments.

Institution	Investments	Maturities	Book Balance	Bank Balance
Cash on Hand	Cash		\$ 80	\$ 80
The Peoples Savings Bank	Checking		106,491	108,921
The Peoples Savings Bank	Passbook Savings		5,392	5,392
The Peoples Savings Bank	Certificates of Deposits	01/26/07	167,947	167,947
Total			\$ 279,910	\$ 282,340

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 \$279,910 (book balance) include restricted cash of \$64,320.

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

A) Accounts Receivable

The District's accounts receivable balance at December 31, 2007, 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
December 31, 2007
(Continued)

Note 4. Capital Assets

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

	Beginning			Ending
	Balance	Additions	Dispositions	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	<u>4,162,761</u>	<u>37,224</u>	<u>-</u>	<u>4,199,985</u>
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	<u>(1,182,565)</u>	<u>(134,746)</u>	<u>-</u>	<u>(1,317,311)</u>
Capital Assets, Net	<u>\$2,980,196</u>	<u>\$ (97,522)</u>	<u>\$ -</u>	<u>\$2,882,674</u>
Depreciation Expense Charged to operation		<u>\$134,746</u>		

Newport Water and Sewer District
Notes to Financial Statements
December 31, 2007
(Continued)

Note 4. Capital Assets

The summary of and changes in the capital assets as of December 31, 2006 is as follows:

	Beginning			Ending
	Balance	Additions	Dispositions	Balance
Land	\$ 25,195	\$ -	\$ -	\$ 25,195
Building	66,195	2,662	-	68,857
Furniture and Lab Equipment	34,689	-	-	34,689
Vehicles and Equipment	101,125	63,020	-	164,145
Water Line Systems	2,579,733	23,778	-	2,603,511
Sewage Collection and Treatment Systems	1,266,364	-	-	1,266,364
Total	<u>4,073,301</u>	<u>89,460</u>	<u>-</u>	<u>4,162,761</u>
Accumulated Depreciation				
Building	(35,516)	(2,554)	-	(38,070)
Furniture and Lab Equipment	(26,005)	(3,860)	-	(29,865)
Vehicles and Equipment	(23,566)	(18,351)	-	(41,917)
Water Line Systems	(348,606)	(71,750)	-	(420,356)
Sewage Collection and Treatment Systems	(620,246)	(32,111)	-	(652,357)
Total Accumulated Depreciation	<u>(1,053,939)</u>	<u>(128,626)</u>	<u>-</u>	<u>(1,182,565)</u>
Capital Assets, Net	<u>\$3,019,362</u>	<u>\$ (39,166)</u>	<u>\$ -</u>	<u>\$2,980,196</u>
Depreciation Expense Charged to operation		<u>\$128,626</u>		

Newport Water and Sewer District
Notes to Financial Statements
December 31, 2007
(Continued)

Note 5. Long-Term Debt

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

United States Department of Agriculture - Rural Development

Loan number 91-01 at 4.25% interest, payable at \$ 64,320 Annually, principal Deferred two years.

	Principal	Interest
2008	13,235	51,085
2009	13,797	50,523
2010	14,384	49,936
2011	14,995	49,325
2012	15,633	48,687
2013-2017	88,711	232,889
2018-2022	109,234	212,366
2023-2027	134,505	187,095
2028-2032	165,623	155,977
2033-2037	203,939	117,661
2038-2042	251,119	70,481
2043-2047	176,825	12,616
	<u>\$ 1,202,000</u>	<u>\$1,238,641</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 \$ 34,630 yearly, in two semi-annual payments of \$ 17,315.

Year	Principal	Interest
2008	26,851	7,779
2009	28,881	5,749
2010	31,064	3,566
2011	16,102	1,213
	<u>\$ 102,898</u>	<u>\$ 18,307</u>

Newport Water and Sewer District
Notes to Financial Statements
December 31, 2007
(Continued)

Note 5. Long-Term Debt(Continued)

Ohio Public Works Commission

Loan number CR02B at 2.00% interest, payable at \$ 6,091 yearly, in two semi-annual payments of \$ 3,045

Interest	Principal	Interest
2008	4,497	1,594
2009	4,587	1,504
2010	4,679	1,412
2011	4,773	1,318
2012	4,869	1,222
2013-2017	25,855	4,601
2018-2022	28,560	1,896
2023-2027	3,016	29
	<u>\$ 80,836</u>	<u>\$ 13,576</u>

Peoples Savings Bank

Loan number 38281-60 at 6.950% interest, payable at \$ 5,228 yearly, in twelve monthly payments of \$ 436.

Interest	Principal	Interest
2008	4,260	967
2009	4,566	662
2010	4,894	334
2011	2,126	37
	<u>\$ 15,846</u>	<u>\$ 2,000</u>

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

2007					Amount
Proprietary Fund	Beginning			Ending	Due Within
Long-Term Debt	Balance	Additions	Reductions	Balance	One Year
FmHa 91-01 Loan	\$1,202,000	\$ -0-	\$ -0-	\$1,202,000	13,235
OWDA Loan #1791	127,862	-0-	24,964	102,898	26,851
OPWC Loan #CR02B	85,244	-0-	4,408	80,836	4,497
Peoples Bank #38281-60	19,822	-0-	3,976	15,846	4,260
Total	\$1,434,928	\$ -0-	\$ 33,348	\$1,401,580	\$48,843

Newport Water and Sewer District
Notes to Financial Statements
December 31, 2007
(Continued)

Note 5. Long-Term Debt(Continued)

The long-term activity for the year ended December 31, 2006 was as follows:

2006					Amount
Proprietary Fund	Beginning			Ending	Due Within
Long-Term Debt	Balance	Additions	Reductions	Balance	One Year
FmHa 91-01 Loan	\$1,202,000	\$ -0-	\$ -0-	\$1,202,000	-0-
OWDA Loan #1791	151,071	-0-	23,209	127,862	24,964
OPWC Loan #CR02B	89,565	-0-	4,321	85,244	4,408
Peoples Bank #38281-60		22,017	2,195	19,822	3,975
Total	\$1,442,636	\$ 22,017	\$ 29,725	\$1,434,928	\$33,347

Note 6. Prepaid Expenses

Prepaid Expenses comprise the following at December 31, 2007:

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

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 Districts policy is to not carry over vacation time from year to year. The District's does not provide sick leave to their employees.

Newport Water and Sewer District
Notes to Financial Statements
December 31, 2007
(Continued)

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 2,400.

Note 9. Defined Benefit Pension Plan

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

The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

For the year ended December 31, 2007 and 2006, the members participating in the traditional plan were required to contribute 9 and 8.5 percent, respectively of their annual covered salaries. The District's contribution rate for pension benefits for 2007 was 13.7 and 9.55 percent, respectively. The Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2007, 2006, and 2005 were \$10,313, \$10,056, and \$11,624 respectively. The full amount has been contributed for 2007, 2006 and 2005. The District does not participate in the member-directed plan.

Newport Water and Sewer District
Notes to Financial Statements
December 31, 2007
(Continued)

Note 9. Defined Benefit Pension Plan (Continued)

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2007 local government employer contribution rate was 13.70 percent of covered payroll and 4.00 percent of covered payroll was the portion that was used to fund health care.

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, 2007, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase between .50 and 6.00 percent annually for the next nine years and 4.00 percent annually after nine years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually not to exceed a 12% corridor.

The number of active contributing participants in the traditional and combined plans was 369,214. Actual employer contributions for 2007, which were used to fund postemployment benefits, were \$104,833. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2007, (the latest information available) were \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

On September 9, 2005, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs.

Newport Water and Sewer District
Notes to Financial Statements
December 31, 2007
(Continued)

Note 10. Budget

Budget-activity for the year ending December 31 2007 is as follows:

2007	
Budgeted vs Actual Receipts	
Budgeted Receipts	\$ 344,120
Actual Receipts	<u>349,085</u>
Variance	<u>\$ (4,965)</u>

Budgeted vs Actual Expenditures	
Budgeted Expenditures	\$ 332,414
Actual Expenditures	<u>331,819</u>
Variance	<u>\$ 595</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. Their where no significant change in insurance and no settlements that exceeded insurance coverage for each of the past three years.

Newport Water and Sewer District

For the Years Ended December 31, 2007

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Perry & Associates
Certified Public Accountants, A.C.

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Parkersburg, WV 26101
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MARIETTA
428 Second Street
Marietta, OH 45750
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May 31, 2008

To the Board of Directors of
Newport Water and Sewer District
Newport, Ohio 45768

We have audited the financial statements of the business-type activities, of Newport Water and Sewer District, as of and for the year ended December 31, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 31, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.
#2007-01.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as 2007-02.

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.

This report is intended solely for the information and use of management and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Perry and Associates, CPA's, A.C.

Newport Water and Sewer District
Schedule of Findings and Recommendations
For the Years Ended December 31, 2007

Significant Deficiency

2007-01. 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.

Recommendation

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

Official's response

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

Non-Compliance Citation/Significant Deficiency

2007-02 Ohio Rev. Code Section 9.38 states public money must be deposited with the treasurer of the public office or to a designated depository on the business day following the day of receipt. If the amount of daily receipts does not exceed \$1,000 and the receipts can be safeguarded, public offices may adopt a policy permitting their officials who receive this money to hold it past the next business day, but the deposit must be made no later than 3 business days after receiving it.

29% of deposits tested were not deposited timely.

We recommend the District take steps to ensure deposits are made timely as required by Ohio Rev. Code. In addition, the District could adopt the above-mentioned policy to allow deposits of less than \$1,000 to be deposited within three business days.

Official's response

The board will comply with Ohio Revenue code Section 9.38 as described above.

NEWPORT WATER
AND SEWER
DISTRICT

SCHEDULE OF
PRIOR FINDINGS
DECEMBER 31,
2007

Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding no Longer Valid; Explain
2006-01	Internal Control Recommendation Segregation of duties	No	Not Corrected Repeated as 2007-01.
2006-02	Ohio Revised Code 9.38 Deposits of Public Monies	No	Not Corrected Repeated as 2007-02



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 15, 2008**