

**NEWPORT WATER AND SEWER DISTRICT
WASHINGTON COUNTY
Regular Audit
December 31, 2010 and 2009**

Perry and Associates
Certified Public Accountants, A.C.



Dave Yost • Auditor of State

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

We have reviewed the *Independent Accountants' 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, 2010 through December 31, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

July 6, 2011

**NEWPORT WATER AND SEWER DISTRICT
WASHINGTON COUNTY**

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Perry & Associates
Certified Public Accountants, A.C.

MARIETTA
428 Second Street
Marietta, OH 45750
(740) 373-0056
(740) 373-2402 Fax

PARKERSBURG
1035 Murdoch Avenue
Parkersburg, WV 26101
(304) 422-2203
(304) 428-5587 Fax

ST. CLAIRSVILLE
121 E Main Street
St. Clairsville, OH 43950
(740) 695-1569
(740) 695-5775 Fax

INDEPENDENT ACCOUNTANTS' REPORT

June 17, 2011

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, Ohio (the District), as of and for the years ended June 30, 2010 and 2009, which collectively comprise the District's 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 reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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 June 30, 2010 and 2009, 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 17, 2011 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Newport Water and Sewer District
Washington County
Independent Accountants' Report
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Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis* as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the financial statements, the Governmental Accounting Standards board considers it essential for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

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
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(UNAUDITED)**

The following discussion provides a summary overview of the financial activities of the Newport Water and Sewer District ("The District") for the years ended December 31, 2010 and 2009. The information should be read in conjunction with the basic financial statements included in this report.

The Management's Discussion and Analysis (MD&A) is an element of the 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 \$1,596,572 as of December 31, 2010 and \$1,699,847 as of December 31, 2009.
- Net assets decreased by \$103,275 (6.08%) in 2010 and \$69,452 (3.93%) in 2009.
- Operating revenues decreased by \$2,021 (0.55%) in 2010 and increased by 25,882 (7.55%) in 2009 and operating expenses increased by \$34,465 (9.13%) in 2010 and \$26,446 (7.53%), in 2009, respectively.
- Retirements of debt principal totaled \$76,403 in 2010 and \$58,679 in 2009, and no new debt was issued in either year.

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, 2010 AND 2009
(UNAUDITED)**

The following table summarizes the changes in Net Assets for the District for 2010, 2009, and 2008.

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

	2010	2009	\$ Change	% Change	2008	\$ Change	% Change
Assets							
Current Assets	\$ 210,349	\$ 270,706	\$ (60,357)	-22.30%	\$ 258,692	\$ 12,014	4.64%
Restricted Assets	68,280	66,070	2,210	3.34%	66,920	(850)	-1.27%
Capital Assets, Net of Depreciation	2,842,039	2,975,239	(133,200)	-4.48%	3,106,311	(131,072)	-4.22%
Other Assets	9,174	9,174	-	0.00%	9,174	-	0.00%
Total Assets	\$ 3,129,842	\$ 3,321,189	\$ (191,347)	-5.76%	\$ 3,441,097	\$ (119,908)	-3.48%
Liabilities							
Current Liabilities	\$ 84,250	\$ 119,638	\$ (35,388)	-29.58%	\$ 107,948	\$ 11,690	10.83%
Long Term Liabilities	1,449,020	1,501,704	(52,684)	-3.51%	1,563,850	(62,146)	-3.97%
Total Liabilities	1,533,270	1,621,342	(88,072)	-5.43%	1,671,798	(50,456)	-3.02%
Net Assets							
Net Assets Invested in Capital Assets,							
Net of Debt	1,347,598	1,404,394	(56,796)	-4.04%	1,476,788	(72,394)	-4.90%
Restricted Net Assets	64,320	66,070	(1,750)	-2.65%	66,920	(850)	-1.27%
Unrestricted Net Assets	184,654	229,383	(44,729)	-19.50%	225,591	3,792	1.68%
Total Net Assets	1,596,572	1,699,847	(103,275)	-6.08%	1,769,299	(69,452)	-3.93%
Total Liabilities and Net Assets	\$ 3,129,842	\$ 3,321,189	\$ (191,347)	-5.76%	\$ 3,441,097	\$ (119,908)	-3.48%

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 \$1,596,572, \$1,699,847, and \$1,769,299 for the years ended December 31, 2010, 2009, and 2008 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, 2010 total assets of the District decreased by \$191,347, mainly due to the effects of accumulated depreciation.

The following table summarizes the changes in Revenues and Expenses for the District for 2010, 2009, and 2008.

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

	2010	2009	\$ Change	% Change	2008	\$ Change	% Change
Revenues							
Operating Revenues	\$ 366,874	\$ 368,895	\$ (2,021)	-0.55%	\$ 343,013	\$ 25,882	7.55%
Nonoperating Revenues	6,619	7,518	(899)	-11.96%	68,353	(60,835)	-89.00%
Total Revenues	373,493	376,413	(2,920)	-0.78%	411,366	(34,953)	-8.50%
Expenses							
Operating Expenses	411,905	377,440	34,465	9.13%	350,994	26,446	7.53%
Nonoperating Expenses	64,863	68,425	(3,562)	-5.21%	60,584	7,841	12.94%
Total Expenses	476,768	445,865	30,903	6.93%	411,578	34,287	8.33%
Change in Net Assets	\$ (103,275)	\$ (69,452)	\$ (33,823)	48.70%	\$ (212)	\$ (69,240)	32660.38%

**NEWPORT WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(UNAUDITED)**

The following table summarizes the changes in Capital Assets for the District for 2010, 2009, and 2008.

**Table 3
Capital Assets
December 31,**

Capital Assets	2010	2009	\$ Change	% Change	2008	\$ Change	% Change
Land	\$ 25,195	\$ 25,195	\$ -	0.00%	\$ 25,195	\$ -	0.00%
Buildings	73,326	73,326	-	0.00%	68,857	4,469	6.49%
Furniture and Lab Equipment	35,774	35,774	-	0.00%	35,774	-	0.00%
Vehicles and Equipment	168,647	168,647	-	0.00%	164,145	4,502	2.74%
Water Distribution System	2,615,043	2,615,043	-	0.00%	2,987,588	(372,545)	-12.47%
Sewage Collection and Treatment System	1,649,249	1,649,249	-	0.00%	1,276,704	372,545	29.18%
Less: Accumulated Depreciation	(1,725,195)	(1,591,995)	(133,200)	8.37%	(1,451,952)	(140,043)	9.65%
Total Capital Assets	<u>\$ 2,842,039</u>	<u>\$ 2,975,239</u>	<u>\$ (133,200)</u>	<u>-4.48%</u>	<u>\$ 3,106,311</u>	<u>\$ (131,072)</u>	<u>-4.22%</u>

As of December 31, 2010, 2009, and 2008 the district had \$2,842,039, \$2,975,239 and \$3,106,311, respectively invested in net capital assets. The 2010 amount represents a net decrease of \$133,200 (4.48%) under 2009, and the 2009 amount is a net decrease of \$131,072 (4.22%) under 2008.

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

**NEWPORT WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

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 \$1,494,441, \$1,570,844 and \$1,692,523 at December 31, 2010, 2009, and 2008 respectively. This represents a decrease of \$76,403 in the year 2010, as compared to 2009, due to the payment of principal, and a decrease of \$58,679 in the year 2009, as compared to 2008, due to the payment of principal.

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, 2010 AND 2009**

	2010	2009
ASSETS		
Current Assets:		
Cash & Cash Equivalents	\$ 39,164	\$ 99,281
Investments	127,869	122,906
Accounts Receivable	39,140	42,027
Inventory	1,452	1,270
Prepaid Expenses	2,724	5,222
Total Current Assets	210,349	270,706
Restricted Assets:		
Cash - Debt Service Reserve and Customer Deposits	7,823	7,045
Investments - Debt Service Reserve	60,457	59,025
Total Restricted Assets	68,280	66,070
Capital Assets:		
Land	25,195	25,195
Buildings	73,326	73,326
Furniture and Lab Equipment	35,774	35,774
Vehicles and Equipment	168,647	168,647
Water Distribution System	2,615,043	2,615,043
Sewage Collection and Treatment System	1,649,249	1,649,249
Less: Accumulated Depreciation	(1,725,195)	(1,591,995)
Total Capital Assets, Net of Accumulated Depreciation	2,842,039	2,975,239
Other Assets	9,174	9,174
TOTAL ASSETS	\$ 3,129,842	\$ 3,321,189
LIABILITIES AND NET ASSETS		
Liabilities		
Current Liabilities:		
Accounts Payable	\$ 2,683	\$ 9,895
Payroll Taxes Payable	3,402	4,371
Interest Payable	28,784	34,482
Current Portion - Notes Payable	45,421	69,140
Customer Meter Deposits	3,960	1,750
Total Current Liabilities	84,250	119,638
Long-term Liabilities (net of current portion):		
Notes Payable	1,449,020	1,501,704
Total Long-Term Liabilities	1,449,020	1,501,704
Total Liabilities	1,533,270	1,621,342
Net Assets:		
Invested in Capital Assets, Net of Related Debt	1,347,598	1,404,395
Net Assets, Restricted	64,320	59,025
Net Assets, Unrestricted	184,654	236,427
Total Net Assets	1,596,572	1,699,847
TOTAL LIABILITIES AND NET ASSETS	\$ 3,129,842	\$ 3,321,189

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, 2010 AND 2009

	2010	2009
Operating Revenues:		
Charges for Services	\$ 358,781	\$ 363,438
Service Connections	4,500	1,750
Miscellaneous	3,593	3,707
Total Operating Revenues	<u>366,874</u>	<u>368,895</u>
Operating Expenses:		
Salaries and Wages	87,109	86,326
Payroll Taxes	2,501	3,527
PERS Contributions	11,896	9,978
Employee Health Insurance	18,954	15,605
Workers' Compensation Insurance	-	1,406
Utilities	31,658	29,186
Water and Sewer Tests	4,455	4,750
Maintenance, Repairs, and Supplies	80,936	64,071
Property Insurance	5,479	4,956
Office Supplies	-	682
Miscellaneous Expenses	358	2,041
Accounting and Legal Expenses	8,145	8,220
Contracted Services	20,892	-
Other Taxes	6,322	6,649
Depreciation Expenses	133,200	140,043
Total Operating Expenses	<u>411,905</u>	<u>377,440</u>
Operating Income (Loss)	<u>(45,031)</u>	<u>(8,545)</u>
Non-Operating Revenues and (Expenses):		
Interest Income	6,619	7,518
Interest Expense	(64,863)	(68,425)
Total Non-Operating Revenue and (Expenses)	<u>(58,244)</u>	<u>(60,907)</u>
Change in Net Assets	<u>(103,275)</u>	<u>(69,452)</u>
Net Assets, Beginning of Year	<u>1,699,847</u>	<u>1,769,299</u>
Net Assets, End of Year	<u>\$ 1,596,572</u>	<u>\$ 1,699,847</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, 2010 AND 2009**

	2010	2009
Cash Flows from Operating Activities:		
Cash Received from Operations and Service Connections	\$ 368,378	\$ 362,058
Cash Received from Miscellaneous Income	3,593	3,707
Cash Payments to Supplier for Goods and Services	(163,141)	(117,018)
Cash Payments to Employees for Services	(121,429)	(118,170)
Net Cash Provided (used) by Operating Activities	87,401	130,577
Cash Flows from Investing Activities:		
Purchase of Investments	(6,395)	(7,117)
Cash receipts from Interest Income	6,619	7,518
Net Cash Provided (Used) by Investing Activities	224	401
Cash Flows from Capital and Related Financing Activities:		
Principal Payments on Long-Term Debt	(76,403)	(58,679)
Interest Payments on Debt	(70,561)	(63,480)
Purchase of Property, Plant, and Equipment	-	(8,970)
Net Cash Provided (used) by Financing Activities	(146,964)	(131,129)
Net Increase (Decrease) in Cash and Cash Equivalents	(59,339)	(151)
Cash and Cash Equivalents, Beginning of Year	106,326	106,477
Cash and Cash Equivalents, End of Year	\$ 46,987	\$ 106,326
Adjustments to Reconcile Operating Loss to Cash Flows from Operating Activities		
Operating Income (Loss)	\$ (45,031)	\$ (8,545)
Depreciation Expenses	133,200	140,043
Decrease/(Increase) in Accounts Receivable	2,887	(3,130)
Decrease/(Increase) in Prepaid Expenses	2,498	(1,069)
Decrease/(Increase) in Inventories	(182)	-
Increase/(Decrease) in Accounts Payable	(7,212)	5,456
Increase/(Decrease) in Accrued Payroll Payable	-	(974)
Increase/(Decrease) in Payroll Taxes Payable	(969)	(354)
Increase/(Decrease) in Customer Deposits	2,210	(850)
Net Cash Provided (Used) by Operating Activities	\$ 87,401	\$ 130,577

Disclosure of Accounting Policy

For the purpose of the Statement of Cash Flows, the District considers all 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, 2010 AND 2009**

NOTE 1. NATURE OF THE DISTRICT AND REPORTING ENTITY

The Newport Water and Sewer District (the 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.

Reporting Entity

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the Newport Water and Sewer District, there are no other boards and agencies other than the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations for which the District approves the budget, the issuance of debt or levying of taxes. The District has no component units.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements conform to generally accepted accounting principles for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. Under the guidelines of GASB Statement No. 20, the District has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989 to its proprietary activities. A summary of the significant accounting policies consistently applied in preparation of the accompanying financial statements is as follows:

Basis of Presentation - Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The District has created a single type of fund and a single fund within that fund type. The fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses.

This fund accounts for the resources allocated to it for the purpose of carrying on specific activities in accordance with laws, regulations or other restrictions.

**NEWPORT WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation - Fund Accounting (Continued)

The fund type that the District uses is described below:

Proprietary Fund Type - This fund type accounts for operations that are organized to be self-supporting through user charges. The fund included in this category used by the District is the Enterprise Fund.

Enterprise Fund - This fund is established to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The District's enterprise fund provides water and sewer services to its users.

Basis of Accounting

The accounting records are maintained on the accrual basis of accounting for financial reporting purposes.

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:

HB 262 Requirements	Applicable ORC Sections
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)

**NEWPORT WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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:

**NEWPORT WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fixed Assets and Depreciation (Continued)

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

Tap 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 consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted for debt service reserves as required by the Rural Development Loan requirements. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Of the District's \$64,320 and \$59,025 in restricted net assets as of December 31, 2010 and 2009, none was restricted by enabling legislation.

**NEWPORT WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. BUDGET

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

Budgeted vs Actual Receipts	2010	2009
Budgeted Receipts	\$ 369,900	\$ 367,560
Actual Receipts	372,058	366,039
Variance	\$ (2,158)	\$ 1,521
Budgeted vs Actual Expenditures		
Budgeted Expenditures	\$ 367,866	\$ 367,337
Actual Expenditures	420,846	379,143
Variance	\$ (52,980)	\$ (11,806)

Contrary to Ohio law, budgetary expenditures exceeded appropriation for the District by \$52,980 and \$11,806 for the years ended December 31, 2010 and 2009.

NOTE 4. 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.

**NEWPORT WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

NOTE 4. DEPOSITS AND INVESTMENTS (CONTINUED)

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;
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 2010 and 2009, the District had \$80 in undeposited cash on hand, included as part of *Cash and cash equivalents*.

Deposits At year-end 2010 and 2009, the carrying amount of the District's deposits was \$46,987 and \$106,246 and the bank balance was \$50,367 and \$107,605, 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, 2010 and 2009, the District had Certificates of Deposits with carrying values of \$188,326 and \$181,931, respectively.

**NEWPORT WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

NOTE 4. DEPOSITS AND INVESTMENTS (CONTINUED)

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.

NOTE 5. PREPAID EXPENSES

Prepaid Expenses comprise the following at December 31,

	2010	2009
Prepaid Insurance	\$ 313	\$ 3,114
Prepaid Licenses	843	1,520
Prepaid Maintenance	1,568	588
Total Prepaid Expenses	<u>\$ 2,724</u>	<u>\$ 5,222</u>

NOTE 6. RESTRICTED ASSETS

Restricted Assets consist of \$68,280 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 \$3,960.

NOTE 7. CAPITAL ASSETS

The summary of changes in capital assets for the year ended December 31, 2010 is as follows:

	Beginning Balance	Additions	Dispositions	Ending Balance
Non-Depreciable Capital Assets				
Land	\$ 25,195	\$ -	\$ -	\$ 25,195
Total Non-Depreciable Capital Assets	<u>25,195</u>	<u>-</u>	<u>-</u>	<u>25,195</u>
Depreciable Capital Assets				
Building	73,326	-	-	73,326
Furniture and Lab Equipment	35,774	-	-	35,774
Vehicles and Equipment	168,647	-	-	168,647
Water Line Systems	2,615,043	-	-	2,615,043
Sewage Collection and Treatment Systems	1,649,249	-	-	1,649,249
Total Depreciable Capital Assets	<u>4,542,039</u>	<u>-</u>	<u>-</u>	<u>4,542,039</u>
Accumulated Depreciation:				
Building	(46,155)	(2,866)	-	(49,021)
Furniture and Lab Equipment	(34,999)	(413)	-	(35,412)
Vehicles and Equipment	(109,311)	(22,617)	-	(131,928)
Water Line Systems	(639,577)	(68,811)	-	(708,388)
Sewage Collection and Treatment Systems	(761,953)	(38,493)	-	(800,446)
Total Accumulated Depreciation	<u>(1,591,995)</u>	<u>(133,200)</u>	<u>-</u>	<u>(1,725,195)</u>
Total Depreciable Capital Assets, Less Accumulated Depreciation	<u>2,950,044</u>	<u>(133,200)</u>	<u>-</u>	<u>2,816,844</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 2,975,239</u>	<u>\$ (133,200)</u>	<u>\$ -</u>	<u>\$ 2,842,039</u>

**NEWPORT WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

NOTE 7. CAPITAL ASSETS (CONTINUED)

The summary of changes in capital assets for the year ended December 31, 2009 is as follows:

	Beginning Balance	Additions	Dispositions	Ending Balance
Non-Depreciable Capital Assets				
Land	\$ 25,195	\$ -	\$ -	\$ 25,195
Total Non-Depreciable Capital Assets	<u>25,195</u>	<u>-</u>	<u>-</u>	<u>25,195</u>
Depreciable Capital Assets				
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	<u>4,533,068</u>	<u>381,516</u>	<u>(372,545)</u>	<u>4,542,039</u>
Accumulated Depreciation:				
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	<u>(1,451,952)</u>	<u>(142,537)</u>	<u>2,494</u>	<u>(1,591,995)</u>
Total Depreciable Capital Assets, Less Accumulated Depreciation	<u>3,081,116</u>	<u>238,979</u>	<u>(370,051)</u>	<u>2,950,044</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 3,106,311</u>	<u>\$ 238,979</u>	<u>\$ (370,051)</u>	<u>\$ 2,975,239</u>

NOTE 8. LONG-TERM DEBT

The long-term activity for the year ended December 31, 2010 was as follows:

Long Term Debt	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
USDA Loan	\$1,175,000	\$ -	\$ 14,400	\$1,160,600	\$ 15,000
OWDA #1791	47,166	-	31,064	16,102	16,102
OWDA #4865	269,894	-	21,368	248,526	7,406
OPWC Loan	71,752	-	4,679	67,073	4,773
Peoples Savings	7,032	-	4,892	2,140	2,140
	<u>\$1,570,844</u>	<u>\$ -</u>	<u>\$ 76,403</u>	<u>\$1,494,441</u>	<u>\$ 45,421</u>

**NEWPORT WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

NOTE 8. LONG-TERM DEBT (CONTINUED)

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
Peoples Savings	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 debt and related current maturities of the District as of December 31, 2010 are as follows:

United States Department of Agriculture - Rural Development

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

	Principal	Interest	Total
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	17,700	46,585	64,285
2016-2020	100,500	220,925	321,425
2021-2025	123,600	197,825	321,425
2026-2030	152,300	169,125	321,425
2031-2035	146,800	110,340	257,140
2036-2040	221,500	99,925	321,425
2041-2045	272,700	48,725	321,425
2046-2050	61,700	2,585	64,285
	<u>\$ 1,160,600</u>	<u>\$ 1,089,375</u>	<u>\$ 2,249,975</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

**NEWPORT WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

NOTE 8. LONG-TERM DEBT (CONTINUED)

Ohio Water Development Authority

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 16,102	\$ 1,123	\$ 17,225
	<u>\$ 16,102</u>	<u>\$ 1,123</u>	<u>\$ 17,225</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 7,406	\$ 4,908	\$ 12,314
2012	15,253	9,375	24,628
2013	15,862	8,767	24,629
2014	16,494	8,134	24,628
2015	17,152	7,476	24,628
2016-2020	96,586	26,554	123,140
2021-2025	79,773	6,426	86,199
	<u>\$ 248,526</u>	<u>\$ 71,640</u>	<u>\$ 320,166</u>

Ohio Public Works Commission

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	5,169	922	6,091
2016-2020	27,446	3,009	30,455
2021-2025	14,782	447	15,229
	<u>\$ 67,073</u>	<u>\$ 9,066</u>	<u>\$ 76,139</u>

Peoples Savings Bank

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 2,140	\$ 37	\$ 2,177
	<u>\$ 2,140</u>	<u>\$ 37</u>	<u>\$ 2,177</u>

**NEWPORT WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

NOTE 9. 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 does not provide sick leave to their employees.

NOTE 10. DEFINED BENEFIT RETIREMENT PLAN

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described below:

1. The Traditional Pension Plan – a cost-sharing multiple-employer defined benefit pension plan.
2. The Member-Directed Plan – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
3. The Combined Plan – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, 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 Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2010, member and employer contribution rates were consistent across all three plans.

**NEWPORT WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

NOTE 10. DEFINED BENEFIT RETIREMENT PLAN (CONTINUED)

The 2010 and 2009 member contribution rates were 10.0% of covered payroll for members in state and local classifications. The 2010 and 2009 employer contribution rate for state and local employers was 14.00% of covered payroll. The District's contributions to OPERS for the years ended December 31, 2010, 2009 and 2008 were \$11,823, \$11,611 and \$9,985, respectively. All required contributions have been made for each year.

NOTE 11. POST EMPLOYMENT BENEFITS

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 No. 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

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 contributions rates are expressed as a percentage of the covered payroll of active members. In 2010 and 2009, state and local employers contributed at a rate of 14.0% 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, 2010 AND 2009**

NOTE 11. POST EMPLOYMENT BENEFITS (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. The portion of the employer contributions allocated to health care for members in the Traditional Plan was 7% from January 1, 2009 through March 31, 2009 and 5.5% from April 1 2009 through February 28, 2010 and 5.0% from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73% from January 1 through February 28, 2010, and 4.23% from March 1 through December 31, 2010. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provide, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The employer contributions that were used to fund post employment benefits were \$601, \$682, and \$0 for 2010, 2009, and 2008 respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective on January 1, 2007. Member and employer contribution rates for state and local employers increased January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

NOTE 12. RISK MANAGEMENT

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

NOTE 13. SUBSEQUENT EVENTS

The District has evaluated events subsequent to the date of the financial statements through the date of this report. No events have occurred subsequent to the statement of the financial statements through the date of this report that would require adjustment or disclosure in the financial statements.

Perry & Associates
Certified Public Accountants, A.C.

MARIETTA
428 Second Street
Marietta, OH 45750
(740) 373-0056
(740) 373-2402 Fax

PARKERSBURG
1035 Murdoch Avenue
Parkersburg, WV 26101
(304) 422-2203
(304) 428-5587 Fax

ST. CLAIRSVILLE
121 E Main Street
St. Clairsville, OH 43950
(740) 695-1569
(740) 695-5775 Fax

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

June 17, 2011

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, Ohio (the District), as of and for the years ended December 31, 2010 and 2009, which collectively comprise the District's financial statements as listed in the table of contents and have issued our report thereon dated June 17, 2011. 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 for the purpose of opining 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 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 audit 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 2010-001 described in the accompanying schedule of audit findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of audit findings as item 2010-002.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated June 17, 2011.

We intend this report solely for the information and use of management, the Board of Directors and others within the District. We intend it for no one other than these specified parties.

Respectfully Submitted,



Perry and Associates
Certified Public Accountants, A.C.

**NEWPORT WATER AND SEWER DISTRICT
SCHEDULE OF AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2010**

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

FINDING 2010-001

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. The accompanying financial statements reflect all such adjusting journal entries.

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.

FINDING 2010-002

Noncompliance Citation

Ohio Rev. Cod Section 5705.28(B)(2)(a) states that the taxing authority of a taxing unit that does not levy a tax is not required to adopt a tax budget pursuant to division (A) of this section. Instead, on or before the fifteenth day of January each year, such taxing authority shall adopt an operating budget for the taxing unit for the ensuing fiscal year. The operating budget shall include an estimated of receipts from all sources, a statement of all taxing unit expenses that are anticipated to occur, and the amount required for debt charges during the fiscal year. The operating budget is not required to be filed with the county auditor or the county budget commission.

According to Ohio Rev. Cod Section 5705.28(B)(2)(b), although a taxing unit that does not levy a tax is not a taxing unit for purposes of Ohio Rev. Code Chapter 5705, a water and sewer district is still required to follow these Ohio Rev. Code Sections: 5705.36, 5705.38, 5705.40, 5705.41, 5705.43, 5705.44, and 5750.45. These sections separately require the District to, in part: certify beginning balances on or about the first day of each fiscal year, certify revenue available for appropriation, adopt appropriations within available resources, certify the availability of funds prior to incurring obligations, and limit expenditures to appropriations for each fund. However, documents prepared in accordance with such sections are not required to be filed with the county auditor or county budget commission.

**NEWPORT WATER AND SEWER DISTRICT
SCHEDULE OF AUDIT FINDINGS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2010**

FINDING 2010-002 (CONTINUED)

Noncompliance Citation (Continued)

Concerning the prior certification of the availability of funds prior to incurring obligations, Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing authority from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contract and orders for expenditures lacking prior certification shall be null and void.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in Sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

"Then and Now" Certificates - If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

Super Blanket Certificate – The entity may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. Only one super blanket certificate may be outstanding at a particular time for any one line-item appropriation.

Concerning the limiting of expenditures to appropriations, Ohio Rev. Code Section 5705.41(B) states that no subdivision or taxing unit shall make any expenditure of money unless the same has been properly appropriated.

Unless the exceptions noted above are used, prior certification is not only required by statute, but is a key control in the disbursement process to assure purchase commitments receive prior approval. To improve control over disbursements and to help reduce the possibility of the District's funds exceeding budgetary spending limitation, the fiscal officer should certify the funds are or will be available prior obligation by the district. When prior certification is not possible, "then and now" certifications should be used.

**NEWPORT WATER AND SEWER DISTRICT
SCHEDULE OF AUDIT FINDINGS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2010**

FINDING 2010-002 (CONTINUED)

Noncompliance Citation (Continued)

The District did not comply with the aforementioned budgetary laws for the periods ended December 31, 2010 and 2009.

We recommend the District certify purchases to which Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language Section 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the District incurs a commitment, and only when the requirements of Section 5705.41(D) are satisfied. The District should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

We also recommend the District Fiscal Officer modify appropriations with the District's Board before incurring obligations that would cause expenditures to exceed appropriations. The Fiscal Officer should deny any payments until the legislative authority has passed the necessary changes to the appropriation measure.

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, 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2009-001	Preparation of GAAP Financial Statements	No	Repeated as Finding 2010-001



Dave Yost • 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 19, 2011**