

NEWPORT WATER AND SEWER DISTRICT
Financial Statements
December 31, 2006 and 2005



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Newport Water and Sewer District, Washington County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2006 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

July 30, 2007

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Newport Water and Sewer District
Table of Contents
December 31, 2006

	<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 Financial Statements	13-24
Independent Auditor's Report on Internal Control 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

June 25, 2007

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, 2006 and 2005, 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, 2006 and 2005 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 June 25, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Board of Directors
Newport Water and Sewer District
June 25, 2007
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 year ended December 31, 2006

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, 2006. 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 \$1,812,724 as of December 31, 2006.
Net assets decreased by \$11,937 in 2006.
Operating revenues increased by \$12,975 (4.13%) and operating expenses increased by \$32,373 (10.54%) in 2006. Retirements of debt principal totaled \$29,725 in 2006

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, 2006

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 2006, 2005 and 2004, respectively.

Table 1
Condensed Statement of Net Assets
December 31,

	<u>2006</u>	<u>2005</u>	<u>Change Amount</u>	<u>%</u>	<u>2004</u>	<u>Change Amount</u>	<u>%</u>
Assets							
Current & Other Assets	\$ 261,153	\$ 218,710	\$ 42,443	19.41%	\$ 271,506	\$ (52,796)	-19.45%
Restricted Cash	40,858	66,581	(25,723)	-38.63%	29,724	36,857	124.00%
Capital Assets, Net	2,980,196	3,019,362	(39,166)	-1.30%	3,067,930	(48,568)	-1.58%
Other Assets	9,174	9,174	-	0.00%	-	9,174	100.00%
Total Assets	<u>3,291,381</u>	<u>3,313,827</u>	<u>(22,446)</u>	<u>-0.68%</u>	<u>3,369,160</u>	<u>(55,333)</u>	<u>-1.64%</u>
Liabilities							
Current Liabilities	77,076	74,060	3,016	4.07%	1,342,041	(1,267,981)	-94.48%
Long Term Liabilities	1,401,581	1,415,106	(13,525)	-0.96%	313,476	1,101,630	351.42%
Total Liabilities	<u>1,478,657</u>	<u>1,489,166</u>	<u>(10,509)</u>	<u>-0.71%</u>	<u>1,655,517</u>	<u>(166,351)</u>	<u>-10.05%</u>
Net Assets							
Net Assets Invested in Capital Assets,							
Net of Debt	1,578,615	1,576,726	1,889	0.12%	1,421,717	155,009	10.90%
Restricted Net Assets	40,858	66,581	(25,723)	-38.63%	29,724	36,857	124.00%
Unrestricted Net assets	193,251	181,354	11,897	6.56%	262,202	(80,848)	-30.83%
Total Net Assets	<u>\$ 1,812,724</u>	<u>\$ 1,824,661</u>	<u>\$ (11,937)</u>	<u>-0.65%</u>	<u>\$ 1,713,643</u>	<u>\$ 111,018</u>	<u>6.48%</u>

As noted earlier, the net assets may serve as a useful indicator of financial position. The District's assets exceeded liabilities by \$1,812,724, \$1,824,661 and \$1,713,643 respectively, for December 31, 2006, 2005 and 2004.

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, 2006 and 2005, total assets of the District decreased by \$22,446 and \$55,333, 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 \$10,509 and 166,351, respectively, due mainly to decrease in notes payable.

Newport Water and Sewer District
Management's Discussion and Analysis
For the Year Ended December 31, 2006

The following table summarizes the changes in revenues and expenses for the District for 2006, 2005 and 2004:

Table 2
Condensed Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended December 31,

	<u>2006</u>	<u>2005</u>	<u>Change Amount</u>	<u>%</u>	<u>2004</u>	<u>Change Amount</u>	<u>%</u>
Revenues							
<u>Operating Revenues</u>	\$ 327,002	\$ 314,027	\$ 12,975	4.13%	\$ 323,182	\$ (9,155)	-2.83%
<u>Nonoperating Revenues</u>	64,920	182,606	(117,686)	-64.45%	349,070	(166,464)	-47.69%
<u>Total Revenues</u>	<u>391,922</u>	<u>496,633</u>	<u>(104,711)</u>	<u>-21.08%</u>	<u>672,252</u>	<u>(175,619)</u>	<u>-26.12%</u>
Expenses							
<u>Operating Expenses</u>	339,573	307,200	32,373	10.54%	306,481	719	0.23%
<u>Nonoperating Expenses</u>	64,286	78,415	(14,129)	-18.02%	21,444	56,971	265.67%
<u>Total Expenses</u>	<u>403,859</u>	<u>385,615</u>	<u>18,244</u>	<u>4.73%</u>	<u>327,925</u>	<u>57,690</u>	<u>17.59%</u>
<u>Income/(Loss)</u>	<u>(11,937)</u>	<u>111,018</u>	<u>(122,955)</u>	<u>-110.75%</u>	<u>344,327</u>	<u>(233,309)</u>	<u>-67.76%</u>
<u>Change in Net Assets</u>	<u>\$ (11,937)</u>	<u>\$ 111,018</u>	<u>\$ (122,955)</u>	<u>-110.75%</u>	<u>\$ 344,327</u>	<u>\$ (233,309)</u>	<u>-67.76%</u>

Newport Water and Sewer District
Management's Discussion and Analysis
For the Year Ended December 31, 2006

Capital Assets

As of December 31, 2006, 2005 and 2004 the District had \$2,980,196, \$3,019,362 \$3,067,930, respectively, invested in net capital assets. The 2006 amount represents a net decrease of \$39,166 (1.30%) over 2005 and the 2005 amount is a decrease of \$48,568 (1.58%) over 2004.

Table 3
Capital Assets
For the Years Ended December 31,

	<u>2006</u>	<u>2005</u>	<u>Change Amount</u>	<u>%</u>	<u>2004</u>	<u>Change Amount</u>	<u>%</u>
Land	\$ 25,195	\$ 25,195	-	0.00%	25,195	-	0.00%
Buildings	68,857	66,195	2,662	4.02%	66,195	-	0.00%
Furniture & Lab Equipment	34,689	34,689	-	0.00%	34,387	(302)	-0.88%
Vehicles and Equipment	164,145	101,125	63,020	62.32%	93,624	(7,501)	-8.01%
Water Distribution System	2,603,511	2,579,733	23,778	0.92%	1,905,426	(674,307)	-35.39%
Sewage Collection and Treatment System	1,266,364	1,266,364	-	0.00%	1,266,364	-	0.00%
Less: Accumulated Depreciation	(1,182,565)	(1,053,939)	(128,626)	12.20%	(943,449)	110,490	-11.71%
Construction in Progress	-	-	-	0.00%	620,188	620,188	100.00%
Totals	<u>\$ 2,980,196</u>	<u>\$ 3,019,362</u>	<u>(39,166)</u>	<u>-1.30%</u>	<u>3,067,930</u>	<u>48,568</u>	<u>1.58%</u>

Major additions were to Furniture and Equipment, Vehicles and Equipment and Water Distribution System

- \$1,917 for purchase of building improvements
- \$745 for purchase of Carport
- \$3,667 for purchase of Hand Tool Set
- \$1,399 for the purchase of Air Compressor
- \$273 for the purchase of Tool set
- \$10,450 for the purchase of Trailer
- \$22,885 for the purchase of Skid Steer
- \$1,499 the purchase of Lincoln Welder
- \$22,848 the purchase of Ford Truck
- \$1,855 the purchase of Meters Sets
- \$21,924 the purchase of Pump

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 year ended December 31, 2006

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 \$1,430,953, \$1,442,636 and \$1,646,213 at December 31, 2006, 2005 and 2004 respectively. This represents a decrease of \$11,683 in the year 2006 and \$203,577 in the year 2005 due to payments on principal of the debt. The District finances a new truck through issuance of Notes Payable with Peoples Savings Bank

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

Economic Factors and 2006 Budget

The operating budget for 2006 is \$23,409 more than the 2006 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.

**Newport Water and Sewer District
Comparative Statement of Net Assets
As of December 31, 2006 and 2005**

	2006	2005
Assets		
Current Assets:		
Cash & Cash Equivalents (Note 3)	\$ 92,618	\$ 58,767
Investments	128,193	121,959
Accounts receivable	34,053	33,179
Inventory	2,314	1,079
Prepaid Expenses	3,975	3,726
Total Current Assets	261,153	218,710
Restricted Assets:		
Restricted Cash and Investments (Note 8)	40,858	66,581
Total Restricted Assets	40,858	66,581
Capital Assets: (Note 4)		
Land	25,195	25,195
Buildings	68,857	66,195
Furniture and Lab Equipment	34,689	34,689
Vehicles and Equipment	164,145	101,125
Water Distribution System	2,603,511	2,579,733
Sewage Collection and Treatment System	1,266,364	1,266,364
Less: accumulated depreciation	(1,182,565)	(1,053,939)
Total Capital Assets	2,980,196	3,019,362
Other Assets	9,174	9,174
TOTAL ASSETS	\$ 3,291,381	\$ 3,313,827

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, 2006 and 2005**

	2006	2005
Liabilities and Equity		
Current Liabilities:		
Accounts payable	\$ 4,730	\$ 2,971
Accrued Payroll	2,705	1,519
Taxes Payable	3,883	11,087
Interest Payable	29,811	28,692
Current Portion - Notes Payable (Note 5)	33,347	27,530
Customer Meter Deposits	2,600	2,261
Total Current Liabilities	77,076	74,060
Long-term Liabilities (net of current portion):		
Note Payable - FmHa (Note 5)	1,202,000	1,202,000
Note Payable - #38281-60 (Note 5)	15,847	-
OWDA Loan # 1791 (Note 5)	102,898	127,862
OPWC Loan #CR02B (Note 5)	80,836	85,244
Total Long-Term Liabilities	1,401,581	1,415,106
Total Liabilities	1,478,657	1,489,166
Net Assets:		
Invested in Capital Assets, Net of Related Debt	1,545,268	1,576,726
Net Assets, Restricted (Note 8)	40,858	66,581
Net Assets, Unrestricted	226,598	181,354
Total Net Assets	1,812,724	1,824,661
Total Liabilities and Net Assets	\$ 3,291,381	\$ 3,313,827

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
As of December 31, 2006 and 2005

	2006	2005
Operating Revenues:		
Operations	\$ 319,566	\$ 304,902
Service Connections	4,005	2,425
Tap Fee	-	6,509
Miscellaneous	3,431	191
Total Operating Revenues	327,002	314,027
Operating Expenses:		
Insurance	4,710	4,418
Gross Salaries	79,869	83,843
Payroll Taxes	1,788	1,743
PERS Contributions (Note 10)	9,810	11,624
Workers' Compensation Insurance	6,919	7,194
Utilities	21,844	18,061
Water and Sewer Tests	3,681	2,991
Maintenance Repairs and Supplies	64,855	46,692
Service Connects Expenses	429	-
Office Supplies	5,076	4,420
Miscellaneous Expenses	1,383	742
Accounting and Legal Expenses	9,208	13,997
Contracted Services	1,375	133
Engineering/Construction Expense	-	852
Depreciation Expenses	128,626	110,490
Total Operating Expenses	339,573	307,200
Operating Income and Changes in Net Assets	(12,571)	6,827
Other Revenues and Expenses:		
Interest Income	6,903	6,316
Interest Expense	(64,286)	(78,415)
Grant Income	58,017	176,290
Total Other Revenue and Expenses	634	104,191
Excess (Deficiency) of Operating Revenues and Other Revenues over Operating Expenses and Other Expenses	(11,937)	111,018
Net Assets, Beginning of Year	1,824,661	1,713,643
Net Assets, End of Year	\$ 1,812,724	\$ 1,824,661

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

**Newport Water and Sewer District
Comparative Statement of Cash Flows
As of December 31, 2006 and 2005**

	2006	2005
CASH FLOW FROM OPERATING ACTIVITIES:		
Water and Sewer Sales	\$ 318,692	\$ 309,838
Service Connections	3,666	2,425
New taps	-	6,509
Miscellaneous	3,431	191
Total Revenues	325,789	318,963
DISBURSEMENTS:		
Insurance	4,959	4,418
Gross Salaries	85,887	82,324
Payroll Taxes	1,788	1,743
PERS Contributions	9,810	13,084
Workers' Compensation Insurance	6,919	1,926
Utilities	21,844	19,011
Water and Sewer Tests	3,681	2,991
Maintenance Repairs and Supplies	64,331	45,985
Service Connects Expenses	429	4,420
Office Supplies	5,076	742
Miscellaneous Expenses	1,383	13,997
Accounting and Legal Expenses	9,208	133
Contracted Services	1,375	852
Total Disbursements	216,690	191,626
Net Cash Provided (used) by Operating Activities	109,099	127,337
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in Restricted Assets	25,723	(36,857)
Cash receipts from Interest Income	6,903	6,316
Net Cash Provided (used) by Investing Activities	32,626	(30,541)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Notes Payable	22,017	-
Principal Payments on Long-Term Debt	(29,725)	(207,861)
Interest Payments on Debt	(68,723)	(67,969)
Purchase of Property, Plant, and Equipment	(89,460)	(61,922)
Cash receipts from Grant Income	58,017	85,112
Net Cash Provided (used) by Financing Activities	(107,874)	(252,640)
Net Increase (Decrease) in Cash and Cash Equivalents	33,851	(155,844)
Beginning of Period Cash	58,767	214,611
End of Period Cash	\$ 92,618	\$ 58,767

Disclosure of Accounting Policy

For the purpose of the Statement of Cash Flows, the Association 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, 2006 and 2005**

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

	<u>2006</u>	<u>2005</u>
Operating income and changes in net assets	\$ (12,571)	\$ 6,827
Depreciation Expenses	128,626	110,490
Decrease/(Increase) in Accounts Receivable	(874)	4,275
Decrease/(Increase) in Prepaid Expenses	(249)	(950)
Decrease/(Increase) in Inventories	(1,235)	707
Increase/(Decrease) in Accounts Payable	1,759	(1,460)
Increase/(Decrease) in Payroll Payable	1,186	1,519
Increase/(Decrease) in Taxable Payable	(7,204)	5,268
Increase/(Decrease) in Customer Deposits	<u>(339)</u>	<u>661</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 109,099</u>	<u>\$ 127,337</u>

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

Newport Water and Sewer District
Notes to Financial Statements
December 31, 2006

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, 2006
(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, 2006
(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, 2006
(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, 2006, the District had the following investments.

Institution	Investments	Maturities	Book Balance	Bank Balance
Cash on Hand	Cash		\$ 80	\$ 80
The Peoples Savings Bank	Checking		92,538	96,964
The Peoples Savings Bank	Passbook Savings		7,678	7,678
The Peoples Savings Bank	Certificates of Deposits	01/26/07	161,373	161,373
Total			\$ 261,669	\$ 266,015

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 \$261,669 (book balance) include restricted cash of \$40,858.

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, 2006, 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, 2006
(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>\$128,528</u>		

Newport Water and Sewer District
Notes to Financial Statements
December 31, 2006
(Continued)

Note 4. Capital Assets

The summary of and changes in the capital assets as of December 31, 2005 is as follows:

	Beginning Balance	Additions	Dispositions	Ending Balance
Land	\$ 25,195	\$ -	\$ -	\$ 25,195
Building	66,195	-	-	66,195
Furniture and Lab Equipment	34,387	302	-	34,689
Vehicles and Equipment	93,624	7,501	-	101,125
Water Line Systems	1,905,426	674,307	-	2,579,733
Sewage Collection and Treatment Systems	1,266,364	-	-	1,266,364
Construction in Progress	620,188	(620,188)	-	-
Total	<u>4,011,379</u>	<u>61,922</u>	<u>-</u>	<u>4,073,301</u>
Accumulated Depreciation				
Building	(33,007)	(2,509)	-	(35,516)
Furniture and Lab Equipment	(22,881)	(3,124)	-	(26,005)
Vehicles and Equipment	(10,850)	(12,716)	-	(23,566)
Water Line Systems	(288,577)	(60,029)	-	(348,606)
Sewage Collection and Treatment Systems	(588,134)	(32,112)	-	(620,246)
Total Accumulated Depreciation	<u>(943,449)</u>	<u>(110,490)</u>	<u>-</u>	<u>(1,053,939)</u>
Capital Assets, Net	<u>\$3,067,930</u>	<u>\$(48,568)</u>	<u>\$ -</u>	<u>\$3,019,362</u>
Depreciation Expense Charged to operation		<u>\$110,490</u>		

Newport Water and Sewer District
Notes to Financial Statements
December 31, 2006
(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
2007	-0-	49,965
2008	13,235	51,085
2009	13,797	50,523
2010	14,384	49,936
2011	14,995	49,325
2012-2016	85,095	236,505
2017-2021	104,781	216,819
2022-2026	129,022	192,578
2027-2031	158,870	162,730
2032-2036	195,625	125,975
2037-2041	240,882	80,718
2042-2046	231,314	25,031
	<u>\$ 1,202,000</u>	<u>\$1,291,190</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
2007	24,964	9,666
2008	26,851	7,779
2009	28,881	5,749
2010	31,064	3,566
2011	16,102	1,213
	<u>\$ 127,862</u>	<u>\$ 27,973</u>

Newport Water and Sewer District
Notes to Financial Statements
December 31, 2006
(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
2007	4,408	1,683
2008	4,497	1,594
2009	4,587	1,504
2010	4,679	1,412
2011	4,773	1,318
2012-2016	25,346	5,110
2017-2021	27,997	2,458
2022-2026	8,957	180
	<u>\$ 85,244</u>	<u>\$ 15,259</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
2007	3,975	1,253
2008	4,262	968
2009	4,566	662
2010	4,894	334
2011	2,125	37
	<u>\$ 19,822</u>	<u>\$ 3,253</u>

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

Newport Water and Sewer District
Notes to Financial Statements
December 31, 2006
(Continued)

Note 5. Long-Term Debt(Continued)

The long-term activity for the year ended December 31, 2005 was as follows:

2005					Amount
Proprietary Fund	Beginning			Ending	Due Within
Long-Term Debt	Balance	Additions	Reductions	Balance	One Year
FmHa 91-01 Loan	\$ 18,982	\$ -0-	\$ 18,982	\$ -0-	\$ -0-
FmHa 92-02 Loan	46,467	-0-	46,467	-0-	-0-
FmHa 93-04 Loan	36,644	-0-	36,644	-0-	-0-
FmHa 91-01 Loan	-0-	1,202,000		1,202,000	-0-
OWDA Loan #1791	172,649	-0-	21,578	151,071	23,209
OWDA Loan Construction Loan	1,202,000	-0-	1,202,000	-0-	-0-
OWDA Construction Loan Capitalized Interest	76,495	14,683	91,178	-0-	-0-
Peoples Savings Bank	3,458	-0-	3,458	-0-	-0-
OPWC Loan #CR02B	93,802	-0-	4,237	89,565	4,321
Total	\$1,650,497	\$1,216,683	\$1,424,544	\$1,442,636	\$27,530

Note 6. Prepaid Expenses

Prepaid Expenses comprise the following at December 31, 2006:

	2006
Prepaid Insurance	\$ 3,484
Prepaid Maintenance	491
Total Prepaid Expenses	<u>\$ 3,975</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 does record compensated absences in accordance with GASB-16, due to the vacation time not being carried over at year end. The District's does not provide sick leave to their employees.

Newport Water and Sewer District
Notes to Financial Statements
December 31, 2006
(Continued)

Note 8. Restricted Assets

Restricted Assets consist of \$40,858 in Certificates of Deposit and Savings, which are held to satisfy USDA Rural Development Loan Reserve requirements of \$38,258 and customer meter deposit of 2,600.

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, 2006 and 2005, 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 2006 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, 2006, 2005, and 2004 were \$9,810, \$11,624, and \$9,190 respectively. The full amount has been contributed for 2006, 2005 and 2004. The District does not participate in the member-directed plan.

Newport Water and Sewer District
Notes to Financial Statements
December 31, 2006
(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 2006 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, 2005, 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 2005, 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, 2005, (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, 2006
(Continued)

Note 10. Budget

Budget-activity for the year ending December 31 2006 is as follows:

2006	
Budgeted vs Actual Receipts	
Budgeted Receipts	\$ 332,640
Actual Receipts	<u>391,922</u>
Variance	<u>\$ (59,282)</u>

Budgeted vs Actual Expenditures	
Budgeted Expenditures	\$ 298,642
Actual Expenditures	<u>275,233</u>
Variance	<u>\$ (23,409)</u>

Note 11. Revenue Types

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

Note 12. Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, inquiries to employees and natural disasters. Any significant risk of losses is covered by commercial insurance. There where no significant changes in insurance coverage 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, 2006

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*

June 25, 2007

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, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 25, 2007. 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. Finding #2006-01.

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. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as 2006-02.

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, 2006

Internal Control Citations

2006-01. 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.

Internal Control Citations

2006-02 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,
2006

Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding no Longer Valid; Explain
2005-01	Internal Control Recommendation Segregation of duties	No	Board review all segments of office Manager duties. Repeated as 2006-01.
2005-06	Ohio Revised Code 117.38 Publication of Financial Report	Yes	



Mary Taylor, CPA
Auditor of State

NEWPORT WATER AND SEWER DISTRICT

WASHINGTON COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 9, 2007**