

***NEWPORT WATER AND SEWER DISTRICT  
WASHINGTON COUNTY***

***AUDIT REPORT***

***FOR THE YEARS ENDED DECEMBER 31, 2014 & 2013***







# Dave Yost • Auditor of State

Board of Directors  
Newport Water and Sewer District  
PO Box 367  
Newport, Ohio 45768

We have reviewed the *Independent Auditor's Report* of the Newport Water and Sewer District, Washington County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2013 through December 31, 2014. 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

September 14, 2015

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*NEWPORT WATER AND SEWER DISTRICT*  
**WASHINGTON COUNTY**  
**AUDIT REPORT**  
For Years Ending December 31, 2014 and 2013

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Rockefeller Building  
614 W Superior Ave Ste 1242  
Cleveland OH 44113-1306  
Office phone - (216) 575-1630  
Fax - (216) 436-2411

***Charles E. Harris & Associates, Inc.***  
***Certified Public Accountants***

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REPORT OF INDEPENDENT ACCOUNTANTS

Newport Water and Sewer District  
Washington County  
P.O. Box 367  
Newport, Ohio 45768

To the Board of Directors:

***Report on the Financial Statements***

We have audited the accompanying financial statements and related notes of the Newport Water and Sewer District, Washington County, (the District) as of and for the years ended December 31, 2014 and 2013.

***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D); this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As described in Note 1 of the financial statements, the District prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the District does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the District as of December 31, 2014 and 2013, or changes in financial position or its cash flows for the years then ended.

***Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances of the Newport Water and Sewer District, Washington County, as of December 31, 2014 and 2013, and its cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permits, described in Note 1.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2015, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



***Charles E. Harris & Associates, Inc.***

June 17, 2015

**NEWPORT WATER AND SEWER DISTRICT  
WASHINGTON COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCE  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<b>2014</b>	<b>2013</b>
<b>Operating Cash Receipts:</b>		
Charges for Services	\$ 391,234	\$ 386,017
Service Connections	6,905	19,962
Miscellaneous	858	25
	398,997	406,004
<b>Operating Cash Disbursements:</b>		
Personal Services	139,743	127,195
Utilities	26,227	26,427
Repairs, Maintenance and Testing	86,774	86,998
Other Contractual Services	9,578	18,860
Office Expense and Insurance	18,736	16,210
Professional Expense	3,197	5,098
	284,255	280,788
Total Operating Cash Disbursements	284,255	280,788
Operating Income/(Loss)	114,742	125,216
<b>Non-Operating Cash Receipts:</b>		
Interest	5,074	4,933
Loan Proceeds	44,640	17,378
	49,714	22,311
Total Non-Operating Cash Receipts	49,714	22,311
<b>Non-Operating Cash Disbursements:</b>		
Debt Service	102,575	98,393
Engineering and Construction Expense	26,050	-
Capital Outlay	49,140	19,293
	177,765	117,686
Total Non-Operating Cash Disbursements	177,765	117,686
Net Receipts Over/(Under) Disbursements	(13,309)	29,841
Cash Balance, January 1	295,115	265,274
<b>Cash Balance, December 31</b>	<b>\$ 281,806</b>	<b>\$ 295,115</b>

*The notes to the financial statements are an integral part of this statement.*

NEWPORT WATER AND SEWER DISTRICT  
WASHINGTON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The constitution and laws of the State of Ohio establish the rights and privileges for the Newport Water and Sewer District, Washington County, (the District) as a body corporate and politic. The District is directed by an appointed five-member Board of Directors whose membership is composed of trustees elected every three years by water service customers whose accounts are in good standing. The Directors elects a president, vice president and secretary treasurer, who are responsible for fiscal control of the resources of the District. The District provides water and sewer services to residents of the District.

The District's management believes these financial statements present all activities for which the District is financially accountable

**B. Accounting Basis**

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The Board recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

**C. Deposits and Investments**

The District's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

**D. Budgetary Process**

The Ohio Revised Code requires the Board to budget annually.

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the function or object level of control, and appropriations may not exceed estimated resources. Appropriation authority includes current year appropriations plus encumbrances carried over from the prior year (if any). Appropriations lapse at year end.

**2. Estimated Resources**

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

NEWPORT WATER AND SEWER DISTRICT  
WASHINGTON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- (Continued)**

**D. Budgetary Process – (Continued)**

**3. 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 reappropriated.

A summary of 2014 and 2013 budgetary activity appears in Note 3.

**E. Property, Plant, and Equipment**

The District records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

**F. Accumulated Leave**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**2. EQUITY IN POOLED DEPOSITS AND INVESTMENTS**

The District may invest in certificates of deposits, notes, bonds, or other obligations of the United States, or any agency or instrumentality thereof, or in obligations of the State or any political subdivision thereof.

The carrying amount of deposits and investments at December 31 was as follows:

	2014	2013
Demand deposits	\$106,231	\$124,553
Certificates of deposit	175,575	170,562
Total deposits	281,806	295,115

**Deposits:** Deposits are insured by the Federal Depository Insurance Corporation and collateralized by securities specifically pledged by the financial institution to the District.

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2014 and 2013 follows:

2014 Budgeted vs. Actual Receipts		
Budgeted Receipts	Actual Receipts	Variance
\$449,887	\$448,711	(\$1,176)

NEWPORT WATER AND SEWER DISTRICT  
WASHINGTON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

**3. BUDGETARY ACTIVITY (Continued)**

2014 Budgeted vs. Actual Budgetary Basis Disbursements		
Appropriation Authority	Budgetary Disbursements	Variance
\$483,353	\$499,581	(\$16,228)

2013 Budgeted vs. Actual Receipts		
Budgeted Receipts	Actual Receipts	Variance
\$403,305	\$428,315	\$25,010

2013 Budgeted vs. Actual Budgetary Basis Disbursements		
Appropriation Authority	Budgetary Disbursements	Variance
\$420,322	\$436,035	(\$15,713)

Contrary to Ohio Rev. Code Section 5705.41(B), the District had expenditures in excess of appropriations.

**4. DEBT**

Debt outstanding at December 31, 2014 was as follows:

	Principal	Interest Rate
USDA Loans #91-01	\$ 1,096,800	4.25%
Ohio Water Development authority Loan 4865	185,020	3.95%
Ohio Public Works Commission Loan CR02B	47,396	2.00%
Peoples Bank Note 30	13,274	3.00%
Peoples Bank Note 40	42,369	5.50%
Total	\$ 1,384,859	

The District issued water revenue bonds through USDA to finance the expansion of its water lines. The bonds were issued in 2006 for \$2,190,000 and have a 2046 maturity. Future revenues from the District's water operations collateralize these bonds.

The District entered into loans with the Ohio Public Works Commission to finance improvements, expansion and rehabilitation of its water facilities and lines. The loans were entered into in 2009 for \$201,500 and \$188,590, and have maturities in 2040.

The District also entered into loans with the Ohio Water Development Authority (OWDA) to finance a water storage tank and water line extensions and improvements. The loans were entered into in 2005 for \$338,123, 2009 for \$273,602, 2011 for \$1,066,700 and 2012 for \$98,343. The loan issued in 2005 has a maturity date of 2026, the loan issued in 2009 has a maturity date in 2030, the loan issued in 2011 has a maturity date in 2042 and the loan issued in 2012 has a maturity date in 2042.

The District entered into loans with the Peoples Savings Bank to purchase a pickup truck and a pump meter reader. The truck loan was issued in 2013 for \$17,378 and matures in 2018. The loan for the pump meter reader was issued in 2014 for \$44,640 and matures in 2024.

NEWPORT WATER AND SEWER DISTRICT  
WASHINGTON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

**4. DEBT – (Continued)**

Amortization of the above debt, including interest, is scheduled as follows:

Year Ending December 31:	USDA Loan 91-01	OWDA 4865	OPWC CR02B	Peoples Bank Note 30	Peoples Bank Note 30
2015	\$ 64,285	\$ 24,628	\$ 3,046	\$ 3,747	\$ 5,815
2016	64,285	24,628	6,092	3,747	5,815
2017	64,285	24,628	6,092	3,747	5,815
2018	64,285	24,628	6,092	2,889	5,815
2019	64,285	24,628	6,092	-	5,815
2020-2024	321,425	110,826	24,368	-	25,198
2025-2029	321,425	-	-	-	-
2030-2034	321,425	-	-	-	-
2035-2039	321,425	-	-	-	-
2040-2044	321,425	-	-	-	-
2045-2046	64,285	-	-	-	-
<b>Total</b>	<b>\$ 1,992,835</b>	<b>\$ 233,966</b>	<b>\$ 51,782</b>	<b>\$ 14,130</b>	<b>\$ 54,273</b>

**5. RETIREMENT SYSTEMS**

The District's full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes the Plan's retirement benefits, including postretirement healthcare and survivor and disability benefits to participants.

The Ohio Revised Code also prescribes contribution rates. For 2014 and 2013, OPERS members contributed 10% of their gross salaries and the District contributed an amount equaling 14% of participants' gross salaries. The District has paid all contributions required through December 31, 2014.

**6. RISK MANAGEMENT**

**Commercial Insurance**

The District has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

Settlement amounts did not exceed insurance coverage for the past three fiscal years. There has been no reduction in liability limits.

**7. CONTINGENT LIABILITIES**

Amounts grantor agencies pay to the District are subject to audit and adjustment by the grantor, principally the federal government. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

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

Newport Water and Sewer District  
Washington County  
P.O. Box 367  
Newport, Ohio 45768

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Newport Water and Sewer District, Washington County, (the District) as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements and have issued our report thereon dated June 17, 2015, wherein we noted the District followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permits.

***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

*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 internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a *material weakness*, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

***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, opining 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 matter we must report under *Government Auditing Standard*, which is described in the accompanying schedule of findings as item 2014-001.

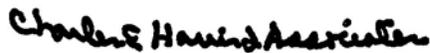
We also noted certain matters not requiring inclusion in this report that we have reported to management of the District in a separate letter dated June 17, 2015.

***Entity's Response to Finding***

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



***Charles E. Harris & Associates, Inc.***  
June 17, 2015

**NEWPORT WATER AND SEWER DISTRICT  
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2014 AND 2013**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2014-001  
Noncompliance Citation**

**Ohio Rev. Code § 5705.41(B)** prohibits a subdivision or taxing authority from expending money unless it has been appropriated.

We noted the following fund had disbursements plus encumbrances that exceeded appropriations at December 31, 2014:

Fund	Approved Appropriations	Budgetary Disbursements	Variance
Water and Sewer Fund	\$483,353	\$499,581	\$ (16,228)

We noted the following fund had disbursements plus encumbrances that exceeded appropriations at December 31, 2013:

Fund	Approved Appropriations	Budgetary Disbursements	Variance
Water and Sewer Fund	\$420,322	\$436,035	\$ (15,713)

The Secretary/Treasurer should deny payment requests exceeding appropriations, as required by **Ohio Rev. Code Section 5705.41(B)**. We recommend the Board and the Secretary/Treasurer compare expenditures to appropriations on a regular basis. If appropriations in addition to those already adopted will be needed, then the board should take the necessary steps to adopt additional appropriations, if possible, to prevent expenditures from exceeding appropriations.

**Management's Response:**

The Secretary/Treasurer will review budgetary requirements and implement as necessary.

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# 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  
SEPTEMBER 24, 2015**