

NEWPORT WATER AND SEWER DISTRICT
Financial Statements
December 31, 2004 and 2003



**Auditor of State
Betty Montgomery**

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

We have reviewed the *Independent Auditor's Report* of the Newport Water and Sewer District, Washington County, prepared by Perry & Associates CPAs, A.C., for the audit period January 1, 2003 through December 31, 2004. 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 cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

October 3, 2005

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August 16, 2005

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 the business-type activities of Newport Water and Sewer District (the District) as of and for the years ended December 31, 2004 and 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Association'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 position of the Newport Water and Sewer District as of December 31, 2004 and 2003, and the results of its operations and its cash flows 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 August 16, 2005, 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
August 16, 2004
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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 the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 12 to the basic financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

Respectfully submitted,

Perry and Associates
Certified Public Accountants, A.C.

Newport Water and Sewer District

Management's Discussion and Analysis

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, 2004. 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 \$1,713,643 as of December 31, 2004.
Net assets increased by \$344,327 in 2004.
Operating revenues decreased by \$16,590 (4.88%) and operating expenses increased by \$37,952 (14.13%) in 2004.
Retirements of debt principal totaled \$52,260 and \$47,525, respectively in 2004 and 2003. Capitalization of interest on the Construction Loan (Ohio Water Development Authority #3595) was \$32,182 and \$32,095, respectively in 2004 and 2003.

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.

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 2004 and 2003, respectively.

Table 1
Condensed Statement of Net Assets
December 31,

	<u>2004</u>	<u>2003</u>	<u>Change Amount</u>	<u>%</u>
Assets				
Current & Other Assets	\$ 271,506	\$ 234,566	\$ 36,940	15.75%
Restricted Cash & Investments	29,724	29,724	-	0.00%
Fixed Assets, Net	3,067,930	2,780,063	287,867	10.35%
Total Assets	<u>3,369,160</u>	<u>3,044,353</u>	<u>324,807</u>	<u>10.67%</u>
Liabilities				
Current Liabilities	1,342,041	1,307,319	(34,722)	-2.66%
Long-term Debt	313,476	367,718	54,242	14.75%
Total Liabilities	<u>1,655,517</u>	<u>1,675,037</u>	<u>19,520</u>	<u>1.17%</u>
Net Assets				
Retained Earnings, Unrestricted	1,683,919	1,339,592	344,327	25.70%
Retained Earnings, Restricted	29,724	29,724	-	0.00%
Total Net Assets	<u>\$ 1,713,643</u>	<u>\$ 1,369,316</u>	<u>\$ 344,327</u>	<u>25.15%</u>

As Noted earlier, the net assets may serve as a useful indicator of financial position. The District's assets exceeded liabilities by \$1,713,643 as of December 31, 2004.

The largest portion of the District's net assets is reflected in its cash and certificates of deposit, and its capital assets, less accumulated depreciation and related debt outstanding. 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, 2004, total assets of the district increased by \$324,807 due to increase in net cash flows, which was from grant income. Total liabilities of the District decreased by \$19,520 due mainly to retirement of debt.

The following table summarizes the changes in revenues and expenses for the District for 2004 and 2003:

Table 1
Condensed Statements of Revenues, Expenditures and Changes in Net Assets
For the Years Ended December 31

	<u>2004</u>	<u>2003</u>	<u>Change Amount</u>	<u>%</u>
<u>Operating Revenues</u>				
Sales to Customers	\$ 310,756	\$ 330,303	\$ (19,547)	-5.92%
Other	12,426	9,469	2,957	31.23%
Total Operating Revenues	<u>323,182</u>	<u>339,772</u>	<u>(16,590)</u>	<u>-4.88%</u>
<u>Non-operating Revenues</u>				
Grant Income	346,725	57,100	289,625	507.22%
Interest Income	2,345	2,036	309	15.18%
Total Non-Operating Revenues	<u>349,070</u>	<u>59,136</u>	<u>289,934</u>	<u>490.28%</u>
 Total Revenues	 <u>672,252</u>	 <u>398,908</u>	 <u>273,344</u>	 <u>68.52%</u>
<u>Operating Expenses</u>				
Operations	159,693	139,235	20,458	14.69%
Maintenance	49,999	35,800	14,199	39.66%
Depreciation	96,789	93,494	3,295	3.52%
Total Operating Expenses	<u>306,481</u>	<u>268,529</u>	<u>37,952</u>	<u>14.13%</u>
<u>Non-operating Expenses</u>				
Interest Expense	21,444	20,547	897	4.37%
Total Non-Operating Expenses	<u>21,444</u>	<u>20,547</u>	<u>897</u>	<u>4.37%</u>
 Total Expenses	 <u>327,925</u>	 <u>289,076</u>	 <u>38,849</u>	 <u>13.44%</u>
 Income/(Loss)	 <u>344,327</u>	 <u>109,832</u>	 <u>234,495</u>	 <u>213.50%</u>
 Change in Net Assets	 <u>\$ 344,327</u>	 <u>\$ 109,832</u>	 <u>\$ 234,495</u>	 <u>213.50%</u>

Capital Assets

As of December 31, 2004, the District had \$3,067,930 invested in net capital assets.
This amount represents a net increase of \$287,867 (10.35%) over 2003

Table 1
Capital Assets
For the Years Ended December 31

	<u>2004</u>	<u>2003</u>	<u>Change Amount</u>	<u>%</u>
Land	\$ 25,195	\$ 25,195	\$ -	0.00%
Buildings	66,195	60,600	5,595	9.23%
Furniture & Lab Equipment	34,387	33,320	1,067	3.20%
Vehicles and Equipment	93,624	25,100	68,524	273.00%
Water Distribution System	1,905,426	1,900,522	4,904	0.26%
Sewage Collection and Treatment System	1,266,364	1,266,364	-	0.00%
Less: Accumulated Depreciation	(943,449)	(846,659)	(96,790)	11.43%
Construction in Progress	620,188	315,621	304,567	96.50%
Totals	<u>3,067,930</u>	<u>2,780,063</u>	<u>287,867</u>	<u>10.35%</u>

Major additions in 2004, at cost:

- \$4,904 for purchase of water distribution systems
- \$5,595 for purchase of pole buidging
- \$1,067 purchase of software and office furniture
- \$68,524 purchase of equipment

Additional information on the District's capital assets can be found in Note 5 on pages 16 and 17 of this report

Newport Water and Sewer District

Management's Discussion and Analysis (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 the Rural Development Ohio Water Development Authority and Ohio Public Water Commission. The District had total debt outstanding of \$1,646,213, \$1,666,288 and \$1,681,718 at December 31, 2004, 2003 and 2002 respectively. This represents an increase due to capitalized interest each year of \$32,182 and \$32,095 and a decrease of \$52,260, \$47,525 and \$42,654 due to payments on principal of the debt. The Ohio Water Development Authority loan #3595 (construction loan) will be retired in 2005 by the issuance of a Rural Development Loan for the principle and Ohio Water Development Grant for the capitalized interest.

Additional information on the District's long-term debt can be found in Note 6 to the financial statements.

Economic Factors and 2005 Budget

The operating budget for 2005 is \$294,684 less than the 2004 actual due to expected decrease costs for grant income and only moderate growth in water sales in 2005. The District does not plan to increase service rates in the near future. The District will receive an OPW Credit Enhancement Grant (project to be \$108,200) to pay off the capitalized interest on the Ohio Water Development (construction loan). The construction project, which has been in progress for several year will be completed in 2005.

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, 2004 and 2003**

	2004	2003
Assets		
Current Assets:		
Cash & Cash Equivalents (Note 3)	\$ 214,611	\$ 178,163
Certificates of Deposits	14,879	14,553
Accounts receivable	37,454	37,944
Inventory	1,786	1,787
Prepaid Expenses	2,776	2,119
Total Current Assets	271,506	234,566
Restricted Assets:		
Restricted Cash and Investments (Note 4)	29,724	29,724
Total Restricted Assets	29,724	29,724
Fixed Assets: (Note 5)		
Land	25,195	25,195
Buildings	66,195	60,600
Furniture and Lab Equipment	34,387	33,320
Vehicles and Equipment	93,624	25,100
Water Distribution System	1,905,426	1,900,522
Sewage Collection and Treatment System	1,266,364	1,266,364
Less: accumulated depreciation	(943,449)	(846,659)
Construction in Progress	620,188	315,621
Total Fixed Assets	3,067,930	2,780,063
TOTAL ASSETS	\$ 3,369,160	\$ 3,044,353

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, 2004 and 2003**

	2004	2003
Liabilities and Equity		
Current Liabilities:		
Accounts payable	\$ 1,511	1,202
Taxes Payable	5,819	5,180
Interest Payable	374	467
Current Portion - Notes Payable (Note 6)	1,332,737	1,298,570
Customer Meter Deposits	1,600	1,900
Total Current Liabilities	1,342,041	1,307,319
Long-term Liabilities (net of current portion):		
Note Payable -FmHa (Note 6)	77,209	102,094
Notes Payable - Peoples Savings Bank (Note 6)	-	3,458
OWDA Loan # 2068 (Note 6)	151,071	172,648
OPWC Loan Pr02B (Note 6)	85,196	89,518
Total Long-Term Liabilities	313,476	367,718
Total Liabilities	1,655,517	1,675,037
Net Assets:		
Retained Earnings, Unrestricted	1,683,919	1,339,592
Retained Earnings, Restricted (Note 4)	29,724	29,724
Total Net Assets	1,713,643	1,369,316
Total Liabilities and Net Assets	\$ 3,369,160	\$ 3,044,353

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, 2004 and 2003

	2004	2003
Operating Revenues:		
Operations	\$ 310,756	\$ 330,303
Service Connections	5,797	2,621
Tap Fee	300	6,355
Miscellaneous	6,329	493
Total Operating Revenues	<u>323,182</u>	<u>339,772</u>
Operating Expenses:		
Insurance	4,920	2,851
Gross Salaries	71,785	56,932
Payroll Taxes	1,649	1,213
PERS Contributions (Note 10)	9,190	7,089
Workers' Compensation Insurance	3,229	2,865
Utilities	17,841	16,421
Water and Sewer Tests	5,195	3,088
Maintenance Repairs and Supplies	49,999	35,800
Service Connects Expenses	2,554	2,266
Office Supplies	3,771	3,488
Miscellaneous Expenses	3,482	3,642
Accounting and Legal Expenses	12,168	1,650
Contracted Services	21,000	37,730
Engineering/Construction Expense	2,909	-
Depreciation Expenses	96,789	93,494
Total Operating Expenses	<u>306,481</u>	<u>268,529</u>
Excess (Deficiency) of Revenues Over Expenses from Operations	<u>16,701</u>	<u>71,243</u>
Other Revenues and Expenses:		
Interest Income	2,345	2,036
Interest Expense	(21,444)	(20,547)
Grant Income	346,725	57,100
Total Other Revenue and Expenses	<u>327,626</u>	<u>38,589</u>
Excess (Deficiency) of Operating Revenues and Other Revenues over Operating Expenses and Other Expenses	<u>344,327</u>	<u>109,832</u>
Net Assets, Beginning of Year	<u>1,369,316</u>	<u>1,259,484</u>
Net Assets, End of Year	<u>\$ 1,713,643</u>	<u>\$ 1,369,316</u>

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, 2004 and 2003

	2004	2003
CASH FLOW FROM OPERATING ACTIVITIES:		
Water and Sewer Sales	\$ 311,246	\$ 308,526
Service Connections	5,797	2,621
New taps	-	4,000
Miscellaneous	6,329	493
Total Revenues	323,372	315,640
DISBURSEMENTS:		
Insurance	5,575	3,267
Gross Salaries	71,785	56,932
Payroll Taxes	1,649	1,213
PERS Contributions	8,551	5,795
Workers' Compensation Insurance	3,229	1,560
Utilities	17,532	16,545
Water and Sewer Tests	5,195	3,088
Maintenance Repairs and Supplies	49,998	35,978
Service Connects Expenses	2,554	2,266
Office Supplies	3,771	3,488
Miscellaneous Expenses	3,482	3,642
Accounting and Legal Expenses	12,168	1,650
Contracted Services	21,000	37,730
Engineering/Construction Expense	2,909	-
Total Disbursements	209,398	173,154
Net Cash Provided (used) by Operating Activities	113,974	142,486
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to Property, Plant, and Equipment	(352,475)	(97,006)
Interest Payments on Debt	(21,535)	(24,746)
Principal Payments on Long-Term Debt	(52,260)	(47,525)
Net Cash Provided (used) by Investing Activities	(426,270)	(169,277)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash receipts from Grant Income	346,725	57,100
Cash receipts from Interest Income	2,019	1,634
Net Cash Provided (used) by Financing Activities	348,744	58,734
Net Increase (Decrease) in Cash and Cash Equivalents	36,448	31,943
Beginning of Period Cash	178,163	146,220
End of Period Cash	\$ 214,611	\$ 178,163
Cash paid to interest expense	\$ 21,538	\$ 24,743

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, 2004 and 2003

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

	2004	2003
Net Income (Loss)	\$ 16,701	\$ 71,243
Depreciation Expenses	96,789	93,494
Decrease/(Increase) in Accounts Receivable	490	(21,777)
Decrease/(Increase) in Prepaid Expenses	(657)	(415)
Decrease/(Increase) in Inventories	1	(178)
Increase/(Decrease) in Accounts Payable	309	(124)
Increase/(Decrease) in Taxable Payable	639	2,599
Increase/(Decrease) in Customer Deposits	(300)	(2,355)
Net Cash Provided (Used) by Operating Activities	\$ 113,972	\$ 142,487

Newport Water and Sewer District
Notes to Financial Statements
December 31, 2004 and 2003

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 or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The District uses the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred.

Budgetary Process

The District does not 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.

Newport Water and Sewer District
Notes to Financial Statements
December 31, 2004 and 2003
(Continued)

Note 2. Summary of Significant Accounting Policies (Continued)

Budgetary Process (Continued)

The Ohio Attorney General opinion No. 99-020 concerning the applicability of Ohio Rev. Code Chapter 5705 to regional water and sewer districts, formed under Ohio Rev. Code Chapter 6119, was issued in March 1999. This Opinion concluded that various requirements of Ohio Rev. Code Chapter 5705 are applicable to regional water and sewer districts.

The District will become compliant with the Ohio Attorney General Opinion No. 99-020 in the year ending December 31, 2005.

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, 2004 and 2003
(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.

Note 3. Significant Concentrations of Credit Risk

As of December, 31, 2004, the District had the following investments.

Institution	Investments	Maturities	Book Balance	Bank Balance
Cash on Hand	Cash		\$ 80	\$ 80
The Peoples Savings Bank	Checking		79,080	119,846
The Peoples Savings Bank	Passbook Savings		165,175	165,175
The Peoples Savings Bank	Certificates of Deposits	01/16/05	14,879	14,879
Total			\$ 259,214	\$ 299,900

Newport Water and Sewer District
Notes to Financial Statements
December 31, 2004 and 2003
(Continued)

Note 3. Significant Concentrations of Credit Risk (continued)

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 \$259,214 (book balance) include restricted cash and investments of \$29,724. This leaves a balance of \$229,490 of unrestricted cash and equivalents.

A) Accounts Receivable

The District's accounts receivable balance at December 31, 2004, 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.

Note 4. Restricted Assets

Restricted Assets consist of \$29,724 in Certificates of Deposit and Savings which are held to satisfy USDA Rural Development Loan Reserve requirements.

Note 5. Fixed Assets

A summary of the fixed assets as of December 31, 2004 and December 31, 2003 is as follows:

	December 31, 2004	December 31, 2003
Land	\$ 25,195	\$ 25,195
Building	66,195	60,600
Furniture and Lab Equip.	34,387	33,320
Vehicles and Equipment	93,624	25,100
Water Distribution System	1,905,426	1,900,522
Sewage Collection and Treatment System	1,266,364	1,266,364
Construction in Progress	<u>620,188</u>	<u>315,621</u>
Total	<u>\$4,011,379</u>	<u>\$ 3,626,722</u>
Less Accumulated Depreciation		
Building	(33,007)	(30,776)
Furniture and Lab Equip.	(22,881)	(16,986)
Vehicles	(10,850)	(8,407)
Water Distribution Systems	(288,577)	(234,468)
Sewer Collection and Treatment Systems	<u>(588,134)</u>	<u>(556,022)</u>
Total Accum. Depreciation	<u>(943,449)</u>	<u>(846,659)</u>
Total Net Capital Assets	<u>\$ 3,067,930</u>	<u>\$ 2,780,063</u>

Newport Water and Sewer District
Notes to Financial Statements
December 31, 2004 and 2003
(Continued)

Note 5. Capital Assets (Continued)

The changes in Capital Assets for the years ended 2004 and 2003 are as follows:

2004	Beginning			Ending
Proprietary Fund	Balance	Additions	Dispositions	Balance
Land	\$ 25,195	\$ -0-	\$ -0-	\$ 25,195
Building	60,600	5,595	-0-	66,195
Furniture and Lab Equipment	33,320	1,067	-0-	34,387
Vehicles and Equipment	25,100	68,524		93,624
Water Line Systems	1,900,522	4,904	-0-	1,905,426
Sewage Collection And Treatment System	1,266,364	-0-	-0-	1,266,364
Construction in Progress	\$ 315,621	\$ 304,567	\$ -0-	\$ 620,188

2003	Beginning			Ending
Proprietary Fund	Balance	Additions	Dispositions	Balance
Land	\$ 25,195	\$ -0-	\$ -0-	\$ 25,195
Building	60,600	-0-	-0-	60,600
Furniture and Lab Equipment	22,995	10,325	-0-	33,320
Vehicles and Equipment	8,000	17,100	-0-	25,100
Water Line Systems	1,894,157	6,365	-0-	1,900,522
Sewage Collection And Treatment System	1,266,364	-0-	-0-	1,266,364
Construction in Progress	\$ 220,310	\$ 95,311	\$ -0-	\$ 315,621

Note 6. 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 5% interest, payable at \$ 895 monthly,

	Principal	Interest
2005	\$ 10,018	\$ 722
2006	8,964	211
2007	-0-	-0-
2008	-0-	-0-
2009	-0-	-0-
	<u>\$ 18,982</u>	<u>\$ 933</u>

Newport Water and Sewer District
Notes to Financial Statements
December 31, 2004 and 2003
(Continued)

Note 6. Long-Term Debt(Continued)

Loan Number 92-02 at 5% interest, payable at \$ 1,265 monthly,

Year	Principal	Interest
2005	\$ 13,155	\$ 2,025
2006	13,828	1,352
2007	14,536	644
2008	4,948	46
2009	-0-	-0-
Thereafter	-0-	-0-
	<u>\$ 46,467</u>	<u>\$ 4,067</u>

Loan number 93-04 at 5% interest, payable at \$ 292 monthly,

Year	Principal	Interest
2005	\$ 1,711	\$ 1,793
2006	1,798	1,705
2007	1,890	1,614
2008	1,987	1,517
2009	2,089	1,415
2010-2015	14,977	5,361
2016-2019	<u>12,192</u>	<u>2,098</u>
	<u>\$ 36,644</u>	<u>\$ 15,503</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 2068 at 7.56% interest, payable at \$ 34,630 yearly, in two semi-annual payments of \$ 17,315.

Year	Principal	Interest
2005	\$ 21,578	\$ 12,085
2006	23,209	10,575
2007	24,964	8,950
2008	26,851	7,203
2009	28,881	5,323
2010-2011	<u>47,166</u>	<u>4,425</u>
	<u>\$ 172,649</u>	<u>\$ 48,561</u>

Newport Water and Sewer District
Notes to Financial Statements
December 31, 2004 and 2003
(Continued)

Note 6. Long-Term Debt (continued)
Construction Loan - Ohio Water Development Authority

Construction Loan number 3595 at 2.67% interest, all of which is will be paid by Rural Development in 2005.

Year	Principal	Interest
2005	\$1,202,000	-0-
2006	-0-	-0-
2007	-0-	-0-
2008	-0-	-0-
2009	-0-	-0-
Thereafter	<u>\$1,202,000</u>	<u>\$ -0-</u>

Rural Development will pay-off OWDA Construction Loan #3595 and issue a loan for the same amount for the District.

Construction Capitalized Loan Interest - Ohio Water Development Authority
OPW Credit Enhancement Grant will pay off the capitalized interest portion of Construction Loan number 3595 at 2.67% interest, in 2005.

Year	Principal	Interest
2005	\$ 76,495	\$ -0-
2006	-0-	-0-
2007	-0-	-0-
2008	-0-	-0-
2009	-0-	-0-
Thereafter	-0-	-0-
	<u>\$ 76,495</u>	<u>-0-</u>

Peoples Savings Bank

Loan number 2911660 at 6% interest, payable at \$ 394.24 monthly,

Year	Principal	Interest
2005	\$ 3,458	\$ 33
2006	-0-	-0-
2007	-0-	-0-
2008	-0-	-0-
2009	-0-	-0-
Thereafter	-0-	-0-
	<u>\$ 3,458</u>	<u>33</u>

Newport Water and Sewer District
Notes to Financial Statements
December 31, 2004 and 2003
(Continued)

Note 6. Long-Term Debt (continued)
Ohio Public Works Commission

Loan number GR02B at 2.00% interest, payable at \$ 6,071 yearly.

Interest	Principal	Interest
2005	\$ 4,322	\$ 1,767
2006	4,409	1,682
2007	4,498	1,593
2008	4,588	1,503
2009	4,680	1,411
2010 - 2014	24,851	5,604
2015 - 2019	27,451	3,004
2020 - 2023	14,719	416
	\$ 89,518	\$ 16,980

The long-term activity for the year ended December 31, 2004 and 2003 was as follows:

2004				Ending	Amount
Proprietary Fund	Beginning			Balance	Due Within
Long-Term Debt	Balance	Additions	Reductions	Balance	One Year
FmHa 91-01 Loan	\$ 28,513	\$ -0-	\$ 9,531	\$ 18,982	\$ 10,018
FmHa 92-02 Loan	58,981	-0-	12,516	46,467	13,155
FmHa 93-04 Loan	38,271	-0-	1,628	36,644	1,711
Ohio Water Development Authority #2068	192,710	-0-	20,061	172,649	21,578
Ohio Water Development Authority Construction Loan	1,202,000	-0-	-0-	1,202,000	1,202,000
Ohio Water Development Authority Construction Loan Capitalized Interest	44,313	32,182	-0-	76,495	76,495
Peoples Savings Bank	\$ 7,837	\$ -0-	\$ 4,379	\$ 3,458	\$ 3,458
Ohio Public Works Commission	93,663	-0-	4,145	89,518	4,322

Newport Water and Sewer District
Notes to Financial Statements
December 31, 2004 and 2003
(Continued)

Note 6. Long-Term Debt (continued)

2003					Amount
Proprietary Fund	Beginning			Ending	Due Within
Long-Term Debt	Balance	Additions	Reductions	Balance	One Year
FmHa 91-01 Loan	\$ 37,581	\$ -0-	\$ 9,066	\$ 28,513	\$ 9,531
FmHa 92-02 Loan	70,889	-0-	11,908	58,981	12,515
FmHa 93-04 Loan	39,819	-0-	1,548	38,271	1,627
Ohio Water Development Authority #2068	211,361	-0-	18,651	192,710	20,060
Ohio Water Development Authority Construction Loan	1,202,000	-0-	-0-	1,202,000	1,202,000
Ohio Water Development Authority Construction Loan Capitalized Interest	12,218	32,095	-0-	44,313	44,313
Peoples Savings Bank	\$ 11,960	\$ -0-	\$ 4,123	\$ 7,837	\$ 4,379
Ohio Public Works Commission	95,892	-0-	2,229	93,663	4,145

Note 7. Prepaid Expenses

Prepaid Expenses comprise the following at December 31, 2004 and December 31, 2003:

	<u>2004</u>	<u>2003</u>
Prepaid Insurance	\$2,776	\$2,119

Note 8. 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, accrued vacation is not carried over and no sick leave is accrued.

Newport Water and Sewer District
Notes to Financial Statements
December 31, 2004 and 2003
(Continued)

Note 9. Net Assets - Restricted

The amount shown as a reservation of retained earnings represents the portion of net assets restricted for USDA Rural Development reserve requirements equaling one year's payment amounts due.

Note 10. Pension Obligations

Ohio Public Employees Retirement System (OPERS)

Plan Description: The district contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer defined pension plan administered by the State. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established and amended by state statute per Chapter 145 of the Ohio Revised Code.

The PERS issues a stand-alone, publicly available annual financial report that includes financial statements and required supplementary information. This report may be obtained by writing to Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS(7377).

Funding Policy: Plan members are required to contribute 8.5% of their annual covered salary and the District is required to contribute 13.55%. The Ohio Revised Code provides statutory authority for employee and employer contribution rates. The percentage of the employer contribution rate used to fund healthcare was 4.3% for 2004 and 2003. The District's required contributions to PERS for the years ending December 31, 2004, 2003 and 2002 were \$9,190, \$7,089 and \$8,178, respectively. In the years ending 2004, 2003 and 2002 all required contributions were paid.

Post employment Benefits: The PERS of Ohio also provides post employment health care benefits to age and service retirees with ten(10) or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients. A portion of each employer's contribution to PERS is set aside for the funding of post retirement health care which is considered an Other Post Employment Benefit (OPEB). The Ohio Revised Code provides statutory authority for employer contributions and requires public employers to fund post retirement health care through their contributions to PERS. of the 12.80% employer contribution rate for the District, 4.3% was used to fund health care for the year 2004 and 2003, which amounted to \$3,087 and \$2,448, respectively. Through the contributions of employers and the investment earnings thereon, the amount allocated to retiree health care is expected to be sufficient to maintain the program indefinitely.

During 2004, the Expenses for OPEB were \$966,078,653. As of December 31, 2004, the unaudited estimated net asset available for future OPEB payments were \$13,318,429,562 and the number of active participants was 369,885. During 1998, the Retirement Board adopted a new calculation method for determining employer contributions applied to OPEB. This was effective January 1, 1998, and under this new method employer contributions equal to 4.3% of member covered payroll will be used to fund health care expense.

Newport Water and Sewer District
Notes to Financial Statements
December 31, 2004 and 2003
(Continued)

Note 11. Budget - activity for the year ending December 31 2004 and 2003 are as follows:

2004	
Budgeted vs Actual Receipts	
Budgeted Receipts	\$ -0-
Actual Receipts	672,252
Variance	<u>\$ (672,252)</u>

Budgeted vs Actual Expenditures	
Budgeted Expenditures	\$ -0-
Actual Expenditures	327,924
Variance	<u>\$ (327,924)</u>

2003	
Budgeted vs Actual Receipts	
Budgeted Receipts	\$ -0-
Actual Receipts	398,908
Variance	<u>\$ (398,908)</u>

Budgeted vs Actual Expenditures	
Budgeted Expenditures	\$ -0-
Actual Expenditures	289,076
Variance	<u>\$ (289,076)</u>

Note 12. Change in Accounting Principle

For the year December 31, 2004, Newport Water and Sewer District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus"; GASB Statement No. 38, "Certain Financial Statement Note Disclosures"; and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statement." There were no restatements of net assets as a result of implementing GASB Statements 34, 37, 38 or Interpretation No. 6.

Note 13. Revenue Types

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

Newport Water and Sewer District
For the Years Ended December 31, 2004 and 2003

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

August 15, 2005

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the proprietary activities of the Newport Water and Sewer District as of and for the years ended December 31, 2004 and 2003, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 15, 2005, wherein we noted the District adopted Governmental Accounting Standards Board Statement numbers 34,37,38 and Interpretation 6. 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 Newport Water and Sewer District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Association's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and recommendations as item 2004-01.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Board of Directors
Newport Water and Sewer
District
August 15, 2004
Page Two

Compliance

As part of obtaining reasonable assurance about whether Newport Water and Sewer District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and recommendations as items 2004-02 through 2004-06. In a separate letter to the District management dated June 22, 2005, we reported other matters related to noncompliance we deemed immaterial.

This report is intended solely for the information and use of the Board of Trustees, management and various regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Perry and Associates
Certified Public Accountants, A.C.

Newport Water and sewer District
Schedule of Findings and Recommendations
For the Years Ended December 31, 2004 and December 31, 2003

Internal Control Recommendation

2004-01. It was noted that due to the small size of the District, that nearly all of the office duties are performed by two individual.

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

Legal Compliance Citations
Ohio Revised Code

2004-02. Ohio Revised Code 5705.36 (A)(1) states on or about the first day of each fiscal year, the fiscal officer of each subdivision shall certify the total amount from all sources available for expenditures from each fund created by or on behalf of the taxing authority. The amount certified shall include any unencumbered balances that existed at the end of the proceeding year.

The District fiscal officer did not certify available revenue for fiscal year 2004 or 2003.

We recommend the fiscal officer design or procure forms to certify available revenue and properly prepare such forms at the prescribed time.

The District officers have conveyed to the auditor that the non-compliance was unintentional on this finding due to a lack of knowledge on Ohio code 5705.36(A) (1). The district will take immediate action to correct the non-compliance.

2004-03. Ohio Revised Code 5705.38 states on or about the first day of each year, the taxing authority of each subdivision or other taxing unit shall pass an appropriation measure, and thereafter during the year it may pass any supplemental measures as it finds necessary, based upon the revised operating budget and certificate of estimated resources or amendments thereto.

The District did not pass an appropriation measure for fiscal year 2004 or 2003.

We recommend the District pass an appropriation measure or make temporary appropriations on or about the first day of each year. If the District chooses to make temporary appropriations; then they must pass a permanent appropriation measure by the first day of April of the current year, and the appropriations in the annual appropriations measure for that fiscal year when passed.

The District officers have conveyed to the auditor that the non-compliance was unintentional on this finding due to a lack of knowledge on Ohio code 5705.38. The district will take immediate action to correct the non-compliance.

Legal Compliance Citations (continued)
Ohio Revised Code (continued)

- 2004-04. Ohio Revised Code 5705.41 (B) states that no subdivision or taxing unit shall make any expenditure of money unless it has been appropriated as provided in such chapter.

The District failed to pass any such appropriation measure for fiscal year 2004 or 2003.

We recommend the District Fiscal Officer not make any expenditure of District funds unless an appropriation has been properly passed.

The District officers have conveyed to the auditor that the non-compliance was unintentional on this finding due to a lack of knowledge on Ohio code 5705.41(B). The district will take immediate action to correct the non-compliance.

- 2004-05. Ohio Revised Code 5705.41 (D) (1) states that no subdivision or taxing unit shall make any contract or give any order involving expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation or, in the case of a continuing contract to be performed in whole or in part in an ensuing fiscal year, the amount required to meet the obligation in the fiscal year in which the contract is made, has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The disbursements during the audit period did not have a properly completed certificate prepared. This could result in errors and irregularities occurring and not being detected in a timely manner.

We recommend that a properly completed purchase order and certification be prepared for all disbursements issued by the District.

The District officers have conveyed to the auditor that the non-compliance was unintentional on this finding due to a lack of knowledge on Ohio code 5705.41(D). The district will take immediate action to correct the non-compliance.

2004-06. Ohio Revised Code 117.38 states at the time the financial report is filed with the Auditor of State, the chief fiscal officer shall publish notice in a newspaper published in the political subdivision or taxing district, and if there is no such newspaper, then a newspaper of general circulation in the political subdivision or taxing district. The notice shall state that the financial report has been completed by the public office and is available for public inspection at the office of the chief fiscal officer.

The District did not present any evidence that the required notice was published.

We recommend the District publish the required notice and retain a copy of such notice in their files for future audits.

The District officers have conveyed to the auditor that the non-compliance was unintentional on this finding due to a lack of knowledge on Ohio code 117.38. The district will take immediate action to correct the non-compliance.

NEWPORT WATER
AND SEWER
DISTRICT

SCHEDULE OF
PRIOR FINDINGS
DECEMBER 31,
2002 AND 2001

Finding umber	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding no Longer Valid; Explain
2001-001	Unsecured Deposits	Yes	Corrected
2002-007	Internal Control Recommendation Segregation of duties	No	Board review all segments of office Manager duties



**Auditor of State
Betty Montgomery**

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800-282-0370

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**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
OCTOBER 18, 2005**