

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

AUDIT REPORT

FOR THE YEARS ENDED DECEMBER 31, 2016 & 2015





Dave Yost • Auditor of State

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

We have reviewed the *Report of Independent Auditors* of the Newport Water and Sewer District, Washington County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2015 through December 31, 2016. 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

June 29, 2017

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**NEWPORT WATER AND SEWER DISTRICT
WASHINGTON COUNTY
AUDIT REPORT
For Years Ending December 31, 2016 and 2015**

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REPORT OF INDEPENDENT AUDITORS

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

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements and related notes of the Newport Water and Sewer District, Washington County (the District), as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements.

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 Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; 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 2 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, 2016 and 2015, or changes in financial position or cash flows thereof 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, 2016 and 2015, 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) permit, described in Note 2.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2017 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.
May 17, 2017

**NEWPORT WATER AND SEWER DISTRICT
WASHINGTON COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES CASH BALANCE**

For the Year Ended December 31, 2016

	2016
Operating Cash Receipts:	
Charges for Services	\$ 435,335
Service Connections	5,491
Miscellaneous	745
Total Operating Cash Receipts	441,571
Operating Cash Disbursements:	
Personal Services	155,138
Utilities	24,932
Repairs, Maintenance and Testing	66,153
Other Contractual Services	7,750
Office Expense and Insurance	25,880
Professional Expense	2,454
Total Operating Cash Disbursements	282,308
Operating Income/(Loss)	159,263
Non-Operating Cash Receipts:	
Intergovernmental	149,500
Interest	1,672
Loan Proceeds	666,257
Total Non-operating Cash Receipts	817,429
Non-Operating Cash Disbursements:	
Debt Service:	
Principal	183,667
Interest	52,828
Capital Outlay	687,214
Total Non-operating Cash Disbursements	923,709
Net Receipts Over/(Under) Disbursements	52,983
Cash Balance, January 1	267,660
Cash Balance, December 31	\$ 320,643

See Accompanying Notes to the Financial Statements.

**NEWPORT WATER AND SEWER DISTRICT
WASHINGTON COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES CASH BALANCE
For the Year Ended December 31, 2015**

	2015
Operating Cash Receipts:	
Charges for Services	\$ 385,189
Service Connections	5,094
Miscellaneous	500
Total Operating Cash Receipts	390,783
Operating Cash Disbursements:	
Personal Services	147,103
Utilities	28,536
Repairs, Maintenance and Testing	70,344
Other Contractual Services	22,475
Office Expense and Insurance	24,909
Professional Expense	5,842
Total Operating Cash Disbursements	299,209
Operating Income/(Loss)	91,574
Non-Operating Cash Receipts:	
Interest	2,233
Loan Proceeds	106,696
Total Non-operating Cash Receipts	108,929
Non-Operating Cash Disbursements:	
Debt Service:	
Principal	50,693
Interest	57,260
Capital Outlay	106,696
Total Non-operating Cash Disbursements	214,649
Net Receipts Over/(Under) Disbursements	(14,146)
Cash Balance, January 1	281,806
Cash Balance, December 31	\$ 267,660

See Accompanying Notes to the Financial Statements.

NEWPORT WATER AND SEWER DISTRICT
WASHINGTON COUNTY
Notes to the Financial Statements
For the Year Ended December 31, 2016 and 2015

Note 1 - Reporting Entity

The Newport Water and Sewer District, Washington County, (the District) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is directed by a 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 elect 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.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The District's financial statements consist of a statement of receipts, disbursements and changes in fund balances (regulatory cash basis).

Basis of Accounting

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 of Trustees 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.

Budgetary Process

The Ohio Revised Code requires the Board to budgeted annually.

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. The District must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end.

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

Encumbrances: The Ohio Revised Code requires the District to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

NEWPORT WATER AND SEWER DISTRICT
WASHINGTON COUNTY
Notes to the Financial Statements
For the Year Ended December 31, 2016 and 2015

A summary of 2016 and 2015 budgetary activity appears in Note 4.

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.

Capital Assets

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

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.

Note 3 - Compliance

Contrary to Ohio Revised Code Section 5705.41(B), budgetary disbursements exceeded appropriation authority in the operating fund in 2015.

Note 4 - Budgetary Activity

Budgetary activity for the years ending December 31, 2016 and 2015 follows:

2016 Budgeted vs. Actual Receipts		
Budgeted Receipts	Actual Receipts	Variance
\$1,215,523	\$1,259,000	\$43,477
2016 Budgeted vs. Actual Budgetary Basis Disbursements		
Appropriation Authority	Budgetary Disbursements	Variance
\$1,213,985	\$1,206,017	\$7,968
2015 Budgeted vs. Actual Receipts		
Budgeted Receipts	Actual Receipts	Variance
\$509,531	\$499,712	(\$9,819)
Appropriation Authority	Budgetary Disbursements	Variance
\$475,364	\$513,858	(\$38,494)

NEWPORT WATER AND SEWER DISTRICT
WASHINGTON COUNTY
Notes to the Financial Statements
For the Year Ended December 31, 2016 and 2015

Note 5 – Deposits and Investments

The District maintains a deposit and investments pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of deposits and investments at December 31 was as follows:

	2016	2015
Demand deposits	\$141,268	\$89,896
Certificates of deposit	179,375	177,764
Total deposits	320,643	267,660
Total deposits	\$320,643	\$267,660

Deposits

Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by the financial institution’s public entity deposit pool.

Note 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 have not exceeded insurance coverage for the last three years. There have been no reduction in liability limits.

Note 7 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

District employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan’s benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. 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, 2016.

NEWPORT WATER AND SEWER DISTRICT
WASHINGTON COUNTY
Notes to the Financial Statements
For the Year Ended December 31, 2016 and 2015

Note 8 – Postemployment Benefits

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the traditional pension and the combined plans. OPERS contributes 2 percent of the employer contribution to fund these benefits.

Note 9 – Debt

Debt outstanding at December 31, 2016 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
USDA Loans #91-01	\$1,060,600	4.250%
Ohio Water Development Authority Loan 4865	149,320	3.950%
Ohio Public Works Commission Loan CR02B	33,512	2.000%
Ohio Water Development Authority Loan 7391	177,956	1.800%
Ohio Public Works Commission Loan CR04T	460,659	0.000%
People Bank Note 30	6,384	3.000%
People Bank Note 40	35,021	5.500%
Total	<u>\$1,923,452</u>	

The District issued water revenue bonds through USDA to finance the expansion of its water lines. The Bonds (#91-01) 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 a loan (CR02B) with the Ohio Public Works Commission to finance water line improvements. The loans were entered into in 2003 and matures in July of 2023.

The District entered into loan (7391) with the Ohio Water Development Authority (OWDA) to finance wastewater treatment plant improvements. The loan amount \$674,766 of which \$177,936 was outstanding at December 31, 2016. The loan amortization has not been determined.

The District entered into loan (4865) with the Ohio Water Development Authority (OWDA) to finance the construction of an influent lift station. The loan was issued in 2009 for \$276,742 and final payment is due January of 2024.

The District entered into loans with the Peoples Saving Bank to purchase a pick truck and a pump meter reader. The truck loan (Note 30) was issued in 2013 for \$17,378 and matures in 2018. The loan (Note 40) for the pump meter reader was issued in 2014 for \$44,640 and matures in 2024.

The District entered into a loan (CR04T) with the Ohio Public Works Commission to finance wastewater treatment plant improvements. The total loan amount is \$1,450,500 at 0 % interest of which \$460,659 was disbursed as of December 31, 2016. The loan amortization has not been determined.

NEWPORT WATER AND SEWER DISTRICT
WASHINGTON COUNTY
Notes to the Financial Statements
For the Year Ended December 31, 2016 and 2015

Note 9 – 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 Saving Note 30	Peoples Saving Note 40
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	64,285	24,628	6,092	-	5,815
2021	64,285	24,628	6,092	-	5,815
2022-2026	321,425	61,570	12,184	-	13,568
2027-2031	321,425	-	-	-	-
2032-2036	321,425	-	-	-	-
2037-2041	321,425	-	-	-	-
2042-2046	<u>257,120</u>	-	-	-	-
Total	<u>\$1,864,245</u>	<u>\$184,710</u>	<u>\$42,644</u>	<u>\$6,636</u>	<u>\$42,643</u>

Note 10 – Contingencies

The District may be a defendant in several lawsuits. Although management cannot presently determine the outcome of these suits, they believe the resolution of these matters will not materially affect the District's financial condition.

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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 Trustees:

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 cash balances, receipts and disbursements of the Newport Water and Sewer District, Washington County, (the District) as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements and have issued our report thereon dated May 17, 2017. 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

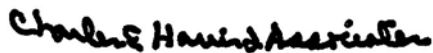
As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial 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 Standards*, which is described in the accompanying schedule of findings as item 2016-001.

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.
May 17, 2017

**NEWPORT WATER AND SEWER DISTRICT
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2016 AND 2015**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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**FINDING NUMBER 2016-001
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, 2015:

Fund	Approved Appropriations	Budgetary Disbursements	Variance
Operating Fund	\$475,364	\$513,858	\$ (38,494)

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:

See Corrective Action Plan

NEWPORT WATER AND SEWER DISTRICT
WASHINGTON COUNTY
For the Years Ended December 31, 2016 and 2015

SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING NUMBER	FUNDING SUMMARY	FULLY CORRECTED?	Not Corrected. Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2014-001	Contrary to Ohio Rev. Code §5705.41 (B) , District had disbursements and encumbrances that exceeded appropriations.	No	Not Corrected. Secretary/Treasurer and Board did not amend appropriations. Reissued as Finding # 2016-001.

NEWPORT WATER AND SEWER DISTRICT
 WASHINGTON COUNTY
 CORRECTIVE ACTION PLAN
 FOR THE YEARS ENDING DECEMBER 31, 2016 AND 2015

FINDING NUMBER	PLANNED CORRECTIVE ACTION	ANTICIPATED COMPLETION DATE	RESPONSIBLE CONTACT PERSON
2016-001	Secretary/Treasurer and Board will amend appropriations as needed.	Immediately	Jerry Graham, Secretary/Treasurer

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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
JULY 11, 2017**