

NEWPORT WATER AND SEWER DISTRICT
Financial Statements
December 31, 2002 and 2001

Perry & Associates
Certified Public Accountants, A.C.



**Auditor of State
Betty Montgomery**

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

We have reviewed the Independent Auditor's Report of the Newport Water and Sewer District, Washington County, prepared by Perry & Associates, for the audit period January 1, 2001 through December 31, 2002. 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

May 13, 2004

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December 22, 2003

Board of Directors
Newport Water and Sewer
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INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying balance sheets of the Newport Water and Sewer District (the District) as of December 31, 2002 and 2001, and the related statements of revenues, expenses, changes in retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to 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.

Original records on past fixed assets prior to December 31, 1996, were not available for review. Therefore, an accurate fixed asset cost could not be established at that time. We used loans incurred on various fixed assets as an indicator of original cost for reasonableness. We were unable to determine past deletions, additions, and costs and purchase dates of fixed assets and betterments.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the costs, purchase dates, and deletions of fixed assets referred to in the preceding paragraph been susceptible to satisfactory audit tests, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Newport Water and Sewer District as of December 31, 2002 and 2001, 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.

Board of Directors
Newport Water and Sewer
District
December 22, 2003
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In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2003, 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.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Newport Water and Sewer District taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "*Audits of States, Local Governments, and Non-Profit Organizations*," and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Respectfully submitted,

Perry & Associates, CPAs, AC

Perry and Associates
Certified Public Accountants, A.C.

Newport Water and Sewer District
Comparative Balance Sheets
December 31, 2002 and 2001

<u>ASSETS</u>	<u>2002</u>	<u>2001</u>
Current Assets:		
Cash on Hand and in Banks	\$ 140,211	\$ 99,043
Time Deposits and Short-Term Investments (Note 2)	20,160	18,977
Accounts Receivable	16,167	17,754
Inventories (Note 2)	1,609	1,276
Prepaid Expenses	<u>1,704</u>	<u>2,429</u>
Total Current Assets	<u>179,851</u>	<u>139,479</u>
Restricted Assets:		
Restricted Cash and Investments (Note 4)	<u>29,724</u>	<u>29,724</u>
Total Restricted Assets	<u>29,724</u>	<u>29,724</u>
Fixed Assets:		
Land	25,195	25,195
Buildings	60,600	60,600
Furniture and Lab Equipment	22,995	15,000
Vehicles and Equipment	8,000	8,000
Water Distribution System	1,894,157	279,938
Sewage Collection and Treatment System	1,266,364	1,266,364
Less Accumulated Depreciation	(753,166)	(702,471)
Construction In Progress	<u>220,310</u>	<u>-0-</u>
Total Fixed Assets	<u>2,744,455</u>	<u>952,626</u>
Total Assets	<u>\$ 2,954,030</u>	<u>\$ 1,121,829</u>

The accompanying notes are an integral part of these
financial statements

Newport Water and Sewer District
Comparative Balance Sheets
December 31, 2002 and 2001
(Continued)

<u>LIABILITIES AND EQUITY</u>	<u>2002</u>	<u>2001</u>
Current Liabilities:		
Accounts Payable	\$ 1,326	\$ 3,506
Customer Deposits	4,255	4,255
Taxes Payable	2,581	3,294
Interest Payable	555	640
Current Portion of Long-term Notes Payable	<u>49,499</u>	<u>42,853</u>
Total Current Liabilities	<u>58,216</u>	<u>54,548</u>
Long-Term Liabilities (net of current portion):		
Note Payable - FmHA (Note 5)	125,674	148,087
OWDA Loan 2068 (Note 5)	192,710	211,361
Construction OWDA Loan 3595 (Note 5)	1,214,218	-0-
OPWC Loan Gr02B (Note 5)	95,892	-0-
Notes Payable - Peoples Savings Bank (Note 5)	<u>7,836</u>	<u>11,964</u>
Total Long-Term Liabilities	<u>1,636,330</u>	<u>371,412</u>
Total Liabilities	<u>1,694,546</u>	<u>425,960</u>
Equity:		
Retained Earnings, Unrestricted	1,229,760	666,145
Retained Earnings, Restricted (Note 4)	<u>29,724</u>	<u>29,724</u>
Total Equity	<u>1,259,484</u>	<u>695,869</u>
Total Liabilities and Equity	<u>\$ 2,954,030</u>	<u>\$ 1,121,829</u>

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

Newport Water and Sewer District
Comparative Statements of Revenues, Expenses, and Changes in Retained Earnings
For the Years Ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Operating Revenues:		
Operations	\$ 234,382	\$ 227,075
Service Connections	1,575	1,885
Tap Fee	13,436	29,057
Miscellaneous	<u>864</u>	<u>1,269</u>
Total Operating Revenues	<u>250,257</u>	<u>259,286</u>
Operating Expenses:		
Real Property Insurance	3,361	3,369
Gross Salaries	77,755	66,978
Payroll Taxes	690	1,022
PERS Contributions (Note 9)	8,178	8,819
Workers' Compensation Insurance	782	1,313
Utilities	17,668	16,173
Water and Sewer Tests	3,019	4,420
Maintenance Repairs and Supplies	34,150	33,201
Service Connects Expenses	-0-	808
Office Supplies	7,115	2,097
Miscellaneous Expenses	2,215	2,348
Accounting and Legal Expenses	6,700	9,639
Waterline Extension Projects	3,286	11,144
Depreciation Expense	<u>50,695</u>	<u>45,639</u>
Total Operating Expenses	<u>215,614</u>	<u>206,970</u>
Operating Income	34,643	52,316
Other Revenue and Expenses:		
Interest Income	2,057	3,585
Interest Expense	(26,049)	(29,572)
Grant Income	<u>552,964</u>	<u>-0-</u>
Total Other Revenue and Expenses	<u>528,972</u>	<u>(25,987)</u>
Net Income	563,615	26,329
Retained Earnings, Beginning of Year	<u>695,869</u>	<u>669,540</u>
Retained Earnings, End of Year	<u>\$ 1,259,484</u>	<u>\$ 695,869</u>

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

Newport Water and Sewer District
Comparative Statements of Cash Flows
For the Years Ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
<u>Cash Flows from Operating Activities:</u>		
Operating Income	\$ <u>34,643</u>	\$ <u>52,316</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	50,695	45,639
(Increase) Decrease in Accounts Receivable	1,587	2,878
(Increase) Decrease in Inventory	(333)	2,817
(Increase) Decrease in Prepaid Expenses	725	(292)
Increase (Decrease) in Accounts Payable	(2,180)	(1,134)
Increase (Decrease) in Customer Deposits	-0-	(185)
Increase (Decrease) in Taxes Payable	<u>(713)</u>	<u>(241)</u>
Total Adjustments	<u>49,781</u>	<u>49,482</u>
Net Cash Provided by Operating Activities	<u>84,424</u>	<u>101,798</u>
<u>Cash Flows From Capital and Related Financing Activities:</u>		
Construction Costs Paid	(220,310)	-0-
Principal Payments on Long-Term Debt	(42,654)	(62,604)
Interest Payments on Debt	(26,134)	(34,217)
CDBG Grant	552,964	-0-
Proceeds from Long-term Loans	1,314,218	-0-
Additions to Property, Plant, and Equipment	<u>(1,622,214)</u>	<u>(11,910)</u>
Net Cash (Used) by Capital and Related Financing Activities	<u>(44,130)</u>	<u>(108,731)</u>

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

Newport Water and Sewer District
 Comparative Statements of Cash Flows
 For the Years Ended December 31, 2002 and 2001
 (Continued)

	<u>2002</u>	<u>2001</u>
<u>Cash Flows from Investing Activities:</u>		
Interest Income	2,057	3,584
Net Cash Provided by Investing Activities	2,057	3,584
Net Increase (Decrease) in Cash and Cash Equivalents	42,351	(3,349)
Cash and Cash Equivalents, Beginning of Year	118,020	121,369
Cash and Cash Equivalents, End of Year	\$ 160,371	\$ 118,020

Disclosure of Accounting Policy:

For the purpose of the Statement of Cash Flows, the District 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
Notes to Financial Statements
December 31, 2002 and 2001

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 general purpose of the District is to serve water and sewer customers of the rural area.

Note 2. Summary of Significant Accounting Policies

The accounting policies of the District conform to generally accepted accounting principles as applicable to enterprise funds.

Enterprise Funds are accounted for in a manner similar to private business enterprises where the intent of management is that the costs and expenses, including depreciation, of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges and where management has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control and accountability.

Enterprise Funds

Enterprise Funds are accounted for on the accrual basis of accounting. Their revenues are recognized in the period earned and expenses are recognized in the period incurred.

Investments

Investments, in the form of certificates of deposit, are stated at fair value.

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

Inventory is stated at cost.

Property and Equipment

Property and equipment are reported at cost. Construction costs of the water system are capitalized including interest incurred on construction projects until they are substantially completed.

Newport Water and Sewer District
Notes to Financial Statements
December 31, 2002 and 2001
(Continued)

Note 2. Summary of Significant Accounting Policies (Continued)

Depreciation

Depreciation is charged to operations over the fixed assets' estimated useful lives on the straight-line basis over estimated useful lives ranging from five to forty years.

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 current period earned.

Tax-Exempt Status

As a governmental entity, The District is exempt from federal income taxes and therefore no tax provision is presented.

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.

Note 3. Significant Concentrations of Credit Risk

A) Deposits with Financial Institutions

<u>Bank:</u>	<u>Book</u>	<u>Bank</u>
	<u>Balance</u>	<u>Balance</u>
Peoples Savings Bank		
Checking and Savings	\$173,597	\$193,481
Certificates of Deposit	<u>14,151</u>	<u>14,151</u>
Totals - Peoples Savings Bank	<u>\$187,748</u>	<u>\$207,632</u>
 <u>Bank:</u> Peoples Banking & Trust		
Savings	<u>\$ 2,347</u>	<u>\$ 2,347</u>
Totals - Peoples Banking & Trust	<u>\$ 2,347</u>	<u>\$ 2,347</u>
Total Deposits	<u>\$190,095</u>	<u>\$209,979</u>

Newport Water and Sewer District
Notes to Financial Statements
December 31, 2002 and 2001
(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 \$190,095 (book balance) include restricted cash and investments of \$29,724. This leaves a balance of \$160,371 of unrestricted cash and equivalents.

B) Accounts Receivable

The District's accounts receivable balance at December 31, 2002, 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. 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,

2003	\$ 9,110
2004	9,566
2005	10,044
2006	8,861
2007	-0-
	<u>\$ 37,581</u>

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

2003	\$ 11,896
2004	12,506
2005	13,148
2006	13,822
2007	14,531
Thereafter	4,986
	<u>\$ 70,889</u>

Newport Water and Sewer District
Notes to Financial Statements
December 31, 2002 and 2001
(Continued)

Note 5. Long-Term Debt (continued)

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

2003	\$ 1,609
2004	1,689
2005	1,773
2006	1,861
2007	1,546
Thereafter	31,341
	<u>\$ 39,819</u>

Peoples Savings Bank

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

2003	\$ 4,125
2004	4,379
2005	3,457
2006	-0-
2007	-0-
	<u>\$ 11,961</u>

Ohio Water Development Authority

Loan number 2068 at 7.56% interest, payable at \$ 34,630 yearly, in two semi-annual payments of \$ 17,315.

2003	\$ 18,651
2004	20,061
2005	21,578
2006	23,209
2007	26,358
Thereafter	101,324
	<u>\$ 211,361</u>

Construction Loan - Ohio Water Development Authority

Construction Loan number 3595 at 2.67% interest, all of which is payable July 1, 2004.

2003	\$ -0-
2004	1,214,218
2005	-0-
2006	-0-
2007	-0-
	<u>\$1,214,218</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.

Newport Water and Sewer District
Notes to Financial Statements
December 31, 2002 and 2001
(Continued)

Note 5. Long-Term Debt (continued)

Ohio Public Works Commission

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

2003	\$	4,108
2004		4,192
2005		4,362
2006		4,450
2007		4,540
Thereafter		78,348
		<u>\$ 100,000</u>

Note 6. Prepaid Expenses

Prepaid Expenses comprise the following at December 31, 2002 and December 31, 2001:

	<u>2002</u>	<u>2001</u>
Prepaid Insurance	\$1,704	\$2,429

Note 7. Compensated Absences

GASB-16 establishes criteria for compensated absences. Compensated absences for vacation leave and benefits with similar characteristics should be recorded as a liability when earned by employees if the following conditions are satisfied:

1. Compensated absence is earned on the basis of services already performed by employees.
2. It is probable that the compensated absence will be paid in a future period.

The District does record compensated absences in accordance with GASB-16, accrued vacation is not carried over and no sick leave is accrued.

Note 8. Retained Earnings - Reserved

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.

Newport Water and Sewer District
Notes to Financial Statements
December 31, 2002 and 2001
(Continued)

Note 9. Pension Obligations

Ohio Public Employees Retirement System (OPERS)

All District full-time employees participate in the OPERS. Ohio Public Employees Retirement System is a cost-sharing, multiple-employer, defined benefit pension plan. OPERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The Ohio Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377). The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contributions rates are 8.5 percent for employees. The 2002 employer contribution rate was 13.55% of covered payroll.

The District's contributions to OPERS for the years ended December 31, 2002, 2001, and 2000 were \$8,178, \$8,819, and \$8,389, respectively; 100 percent for all three years has been paid in.

Other Post-Employment Benefits

Ohio Public Employees Retirement System provides post-retirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is also available. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement program is separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The 2002 employer contribution rate was 13.55% and 5.00% was used to fund health care. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS. The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2001.

Funding Method. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. *Assets Valuation Method.* All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. *Investment Return.* The investment assumption rate for 2001 was 8.00%. *Active Employee Total Payroll.* An annual increase of 4.00% compounded annually, is the base portion of individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range to 0.50% to 6.30%. *Health Care.* Health care costs were assumed to increase 4.0% annually. OPEB are

Newport Water and Sewer District
Notes to Financial Statements
December 31, 2002 and 2001
(Continued)

Note 9. Pension Obligations (continued)

Other Post-Employment Benefits (continued)

advanced-funded on an actuarially determined basis. The number of active contributing participants was 402,401. The rates stated in paragraph one of this note are the actuarially determined contribution requirements for OPERS. The employer contributions actually made to fund post-employment benefits were \$3,017 for 2002. The Retirement System's net assets available for OPEB at December 31, 2001 totaled \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively. In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of Health Care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present plan.

Newport Water and Sewer District
For the Years Ended December 31, 2002 and 2001

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*

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December 22, 2003

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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 Newport Water and Sewer District (the District) as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated December 22, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether the 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the 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 District'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 as items 2002-01.

Board of Directors
Newport Water and Sewer
District
December 22, 2003
Page Two

A material weakness is a 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 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 the reportable condition described above is not a material weakness.

This report is intended for the information of the Board of Directors, 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 & Associates, CPAs, AC

Perry and Associates
Certified Public Accountants, A.C.

Newport Water and Sewer District
For the Year Ended December 31, 2002

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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December 22, 2003

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of Newport Water and Sewer District, with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to its major federal program for the year ended December 31, 2002. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2002.

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

Internal Control Over Compliance

The management of Newport Water and Sewer District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we considered 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 compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 2002-01.

A material weakness is a 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program 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 compliance would not necessarily disclose all matters 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 the reportable condition described above is not a material weakness.

This report is intended for the information of the Board of Directors, 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 & Associates, CPAs, AC

Perry and Associates
Certified Public Accountants, A.C.

Newport Water and Sewer District
 Schedule of Expenditures of Federal Awards
 For the Year Ended December 31, 2002
 (Cash Basis)

<u>Federal Grantor/ Pass Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Receipts</u>	<u>Disbursements</u>
<u>U. S. Department of Agriculture</u>			
Water and Waste	10.760	\$2,002,000	\$1,490,850

Newport Water and Sewer District
For the Year Ended December 31, 2002

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Newport Water and Sewer District
 Schedule of Findings and Questioned Costs
 For the Year Ended December 31, 2002

Section I - Summary of Auditor's Results

Financial Statements

Type of Auditor's Report issued: Qualified

Internal Control Over Financial Reporting:

Material weaknesses identified? No

Reportable conditions identified that are not considered to be material weaknesses? Yes

Noncompliance material to financial statements noted? No

Federal Awards

Internal Control Over Major Programs:

Material weaknesses identified? No

Reportable conditions identified that are not considered to be material weaknesses? Yes

Type of Auditor's Report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with § 501(a) of Circular A-133? No

Identification of Major Programs:

CFDA Name of Federal Program

10.760 Water and Waste

Dollar threshold used to distinguish between Type A and Type B Programs? \$ 300,000

Auditee qualified as Low-Risk Auditee? No

Newport Water and Sewer District
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2002
(Continued)

Section II - Financial Statement Findings

No items to report.

Section III - Federal Awards Findings and Questioned Costs

Finding 2002-01, Segregation of Accounting Duties

It was determined during our audit that virtually all accounting duties are performed by two people. Due to limited personnel, it is not feasible to adequately segregate the accounting duties. Therefore, it is recommended that the Board of Directors continue their role in the day-to-day operation of the District.

Management response: Due to limited resources, present staff will be maintained.

Newport Water and Sewer District
Status of Prior Audit Findings and Recommendations
For the Year Ended December 31, 2002

Finding 2001-01, Unsecured Deposits

Financial instruments that potentially subject the District to concentrations of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. At December 31, 2001, the District had approximately \$ 46,621 in excess of FDIC insured limits.

Management response: The District has obtained a secured collateral agreement in the amount of \$500,000 to cover any deposits not covered by FDIC insurance.

Finding 2001-02, Segregation of Accounting Duties

It was determined during our audit that virtually all accounting duties are performed by two people. Due to limited personnel, it is not feasible to adequately segregate the accounting duties. Therefore, it is recommended that the Board of Directors continue their role in the day-to-day operation of the District.

Management response: Due to limited resources, present staff will be maintained.



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

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
MAY 25, 2004**