

**SOUTHWEST LICKING COMMUNITY  
WATER & SEWER DISTRICT**

Licking County

Regular Audit

January 1, 2002 Through December 31, 2003

**BALESTRA, HARR & SCHERER, CPAs, Inc.  
CERTIFIED PUBLIC ACCOUNTANTS**

528 South West Street, P.O. Box 687  
Piketon, Ohio 45661

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**Auditor of State  
Betty Montgomery**

Board of Trustees  
Southwest Licking Community Water and Sewer District  
P.O. Box 215  
Etna, Ohio 43018

We have reviewed the Independent Auditor's Report of the Southwest Licking Community Water and Sewer District, Licking County, prepared by Balestra, Harr & Scherer CPAs, Inc., for the audit period January 1, 2002 through December 31, 2003. 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 Southwest Licking Community Water and Sewer District is responsible for compliance with these laws and regulations.

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

December 29, 2004

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SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT  
LICKING COUNTY

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

**INDEPENDENT AUDITOR-S REPORT**

Board of Trustees  
Southwest Licking Community Water & Sewer District  
69 Zellers Lane  
Pataskala, Ohio 43062

We have audited the accompanying financial statements of the Southwest Licking Community Water & Sewer District, Licking County, Ohio, (the District) as of and for the years ended December 31, 2003 and 2002, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Southwest Licking Community Water & Sewer District, as of December 31, 2003 and 2002, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2004 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.

Balestra, Harr & Scherer  
Balestra, Harr & Scherer

July 15, 2004

**SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT  
LICKING COUNTY**

**BALANCE SHEET  
AS OF DECEMBER 31, 2003 AND 2002**

**ASSETS**

	<b>2003</b>	<b>2002</b>
<b>Current Assets:</b>		
Cash in checking	\$ 987,960	\$ 516,166
Petty cash	140	140
Board designated cash fund	1,000	815
General manager discretionary	1,891	348
Postage fund	1,971	7,781
Accounts receivable - operating billings less allowance for doubtful accounts (\$200,000 in 2003 and \$260,000 in 2002)	357,952	276,036
Prepaid insurance	23,148	53,015
Meter inventory	75,919	32,481
Total current assets	1,449,981	886,782
<b>Restricted Assets:</b>		
Cash in savings-contractor bonds	39,300	37,800
Cash in savings	4,427,236	4,066,531
Assessment receivables-water	7,759,826	7,984,484
Assessment receivables-sewer	9,376,307	9,682,169
Total restricted assets	21,602,669	21,770,984
<b>Property, Plant, and Equipment, net</b>		
of Accumulated Depreciation	63,097,901	55,572,025
<b>Other Assets:</b>		
Loan fees, net of \$75,805 and \$68,799 accumulated amortization for 2003 and 2002 respectively	141,818	148,823
Jefferson water tap rights, net of \$78,709 and \$70,642 accumulated amortization for 2003 and 2002 respectively	96,436	104,503
Total other assets	238,254	253,326
Total Assets	\$ 86,388,805	\$ 78,483,117

The Notes to the Financial Statements are an integral part of this presentation

**SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT  
LICKING COUNTY**

**BALANCE SHEET  
AS OF DECEMBER 31, 2003 AND 2002**

**LIABILITIES AND FUND EQUITY**

	<b>2003</b>	<b>2002</b>
<b>Current Liabilities:</b>		
Accounts payable	\$ 773,959	\$ 619,670
Note payable - current portion	1,145,478	1,020,904
Deposits payable to developers	37,503	102,260
Contractor bonds payable	39,300	37,800
Contractor retainage payable	172,667	140,478
Accrued employee benefits	83,526	72,492
Accrued employee wages	9,919	7,113
Obligations under capital lease - current portion	24,049	23,162
Payroll taxes accrued and withheld	95,091	83,134
Total current liabilities	2,381,492	2,107,013
 <b>Long Term Liabilities</b>		
Obligations under capital leases	-	23,162
Deferred revenue-special assessments	3,937,006	3,927,967
Notes and recoupment agreements payable	64,643,931	57,501,008
Total long term liabilities	68,580,937	61,452,137
 <b>Fund Equity:</b>		
Contributed capital:		
Grants	324,590	324,590
Water assessments	11,137,567	11,137,567
Sewer assessments	16,008,490	16,008,490
Donated developer lines	2,844,480	2,844,480
Retained fund deficit	(14,888,751)	(15,391,161)
Total fund equity	15,426,376	14,923,966
Total liabilities and fund equity	\$ 86,388,805	\$ 78,483,116

The Notes to the Financial Statements are an integral part of this presentation.



**SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT  
LICKING COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN ACCUMULATED DEFICIT  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**

	<b>2003</b>	<b>2002</b>
<b>OPERATING REVENUES</b>		
Service revenues	\$ 2,909,136	\$ 2,580,410
Late charges	93,705	80,519
Total Operating Revenues	3,002,841	2,660,929
<b>OPERATING EXPENSES</b>		
Salaries	688,828	609,017
Contract labor	-	34
Training	11,000	5,043
Medicare tax expense	9,824	8,624
P.E.R.S. expense	91,321	80,416
Workers compensation expense	22,370	19,738
Operations and testing	22,065	29,625
Chemicals and operating supplies	68,523	60,928
Sludge hauling	84,070	77,170
Refuse	996	1,194
Equipment rental	17,029	8,503
Repairs and maintenance	298,910	215,910
Engineering	-	3,340
Legal	63,329	57,806
Accounting	20,408	42,500
Professional fees - software	3,623	638
Audit fees	-	7,891
Advertising and communications	3,937	2,299
Insurance:		
General	86,123	41,479
Health	98,694	41,232
Life	793	658
Telephone	54,532	51,885
Utilities	208,943	189,699
Office supplies	35,905	22,645
Cleaning	2,900	2,562
Postage	36,443	40,026
Real Estate Taxes	5,789	111
Security	550	650
Uniform rental	4,879	1,669
Small tools	2,229	2,604
Vehicle expense	3,018	2,031
Collection and bank fees	406	870
Dues and subscriptions	1,983	962
Licenses	21,911	17,229
Depreciation	2,926,612	2,838,679
Amortization	15,073	15,073
Total operating expenses	4,913,016	4,500,740
Operating loss	(1,910,175)	(1,839,811)
<b>OTHER INCOME (EXPENSE)</b>		
Debt service fee income	993,878	1,056,389
Inspection revenue	15,165	14,165
Tap fee income	3,264,055	3,784,366
Capacity fee revenue	257,800	314,600
Interest income	1,028,840	1,066,392
Miscellaneous income	9,684	48,848
Interest expense	(3,760,987)	(3,504,098)
Total other income (expense)	1,808,435	2,780,662
NET INCOME (LOSS)	(101,740)	940,851
Capital contributions - special assessments	140,261	45,810
Capital contributions - developers	463,889	-
Accumulated deficit, beginning of year	(15,391,161)	(16,377,822)
Accumulated deficit, end of year	\$ (14,888,751)	\$ (15,391,161)

The Notes to the Financial Statements are an integral part of this presentation.

**SOUTHWEST LICKING COMMUNITY WATER AND SEWER DISTRICT  
LICKING COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**

	<b>2003</b>	<b>2002</b>
<b>Cash Flows from Operating Activities:</b>		
Cash received from customers	\$ 2,920,925	\$ 2,850,836
Cash payments to suppliers for goods and services	(1,105,123)	(1,176,643)
Cash payments for employee services and benefits	(936,834)	(747,128)
Net cash provided by operating activities	<u>878,968</u>	<u>927,065</u>
<b>Cash Flows from Non-capital Financing Activities:</b>		
Interest income from savings	<u>68,141</u>	<u>43,900</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Payments for planning and construction, including capitalized interest	(9,478,041)	(2,367,332)
Purchase of land and land easements	(5,400)	-
Assessment principal payments received	670,781	517,071
Debt service fees collected	993,878	1,056,389
Increase (Decrease) in contractor retainage payable	32,189	(70,017)
(Decrease) in developer deposits	(64,757)	-
Purchase of equipment and furniture	(216,854)	(92,029)
Construction loan proceeds	9,068,495	1,718,544
Principal repayments on loans	(1,841,624)	(1,874,392)
Interest repayments on loans	(3,758,208)	(3,500,441)
Principal payment on capital lease	(22,275)	(21,397)
Interest payment on capital lease	(2,779)	(3,657)
Assessment interest income	960,699	1,022,492
Inspection, tap fee and miscellaneous income	<u>3,546,704</u>	<u>4,161,979</u>
Net cash provided by capital and related financing activities	<u>(117,192)</u>	<u>547,210</u>
Net increase in cash and cash equivalents	829,917	1,518,175
Cash and cash equivalents at beginning of year	<u>4,629,581</u>	<u>3,111,406</u>
Cash and cash equivalents at end of year	<u>\$ 5,459,498</u>	<u>\$ 4,629,581</u>
<b>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:</b>		
Operating loss	\$ (1,910,175)	\$ (1,839,811)
<b>Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:</b>		
Depreciation and amortization	2,941,685	2,853,752
<b>Changes in Assets and Liabilities:</b>		
(Increase) in accounts receivable	(81,916)	189,907
(Increase) in prepaid insurance	29,867	(18,637)
(Increase) decrease in meter inventory	(43,438)	(18,066)
Increase in accounts payable	(80,046)	(289,340)
Increase (decrease) in accrued wages and benefits	22,991	49,260
Total adjustments	<u>2,789,143</u>	<u>2,766,876</u>
Net cash provided by operating activities	<u>\$ 878,968</u>	<u>\$ 927,065</u>

The Notes to the Financial Statements are an integral part of this presentation

# SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

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### **1. NATURE OF ORGANIZATION**

Southwest Licking Community Water & Sewer District (hereafter referred to as SWLCWSD) was created, during late 1989, by the Court of Common Pleas of Licking County to provide water and sewer services to the residents of Licking County in accordance with the provisions of Section 6119.01 of the Revised Code. SWLCWSD is managed by a Board consisting of three (3) appointed trustees.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies followed in the preparation of these financial statements conform to generally accepted accounting principles for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. Under the guidelines of GASB Statement No. 20, SWLCWSD has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989 to its proprietary activities. The adoption of this approach to accounting for proprietary activities by SWLCWSD required no change from prior years. A summary of the significant accounting policies consistently applied in preparation of the accompanying financial statements follows:

#### **1. Basis of Presentation - Fund Accounting**

The accounts of SWLCWSD are organized on the basis of funds, to report on its financial position and the results of its operations, each of which is considered a separate accounting entity. SWLCWSD has created a single type of fund and a single fund within that fund type. The fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, retained earnings/fund balance, revenues, and expenses. This fund accounts for the governmental resources allocated to it for the purpose of carrying on specific activities in accordance with laws, regulations or other restrictions. The fund type, which SWLCWSD uses, is described below:

**Proprietary Fund Type** - This fund type accounts for operations that are organized to be self-supporting through user charges. The fund included in this category used by the SWLCWSD is the Enterprise Fund.

**Enterprise Fund** - This fund is established to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is those costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

#### **2. Basis of Accounting**

The accounting records are maintained on the accrual basis of accounting for financial reporting purposes. The proprietary fund is accounted for on a flow of economic resources and all assets and liabilities associated with the operation are included on the balance sheet. Fund equity is segregated into accumulated deficit and contributed capital components.

# SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

## NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2003 and 2002

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### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

3. **Budgetary Process**

Annually, the SWLCWSD adopts an operating budget. The SWLCWSD also adopts annual appropriations, which are limited by estimated resources. Budgetary activity has been prepared on the cash (non-GAAP) basis of accounting. A summary of 2003 and 2002 budgetary activity appears in the footnote entitled "BUDGETARY PROCESS".

4. **Revenue Recognition**

Revenues for service fees are recorded in the period the service is provided. Revenues for the tap fees are recorded when the taps have been installed and the customer is using the water and/or sewer services. All other revenue is recognized when earned.

5. **Accounts Receivable**

Accounts receivable are shown at their net realizable value. The water shut-off policy, implemented in full force on January 1, 1995, specifies the details of collections for both water and sewer delinquent accounts. Note that uncollectible sewer account balances are certified to the County Auditor after administrative collection efforts have been exhausted. SWLCWSD has set up an allowance for doubtful accounts for fiscal years 2003 and 2002. Amounts determined to potentially be uncollectible are set up as an allowance and a corresponding entry to an expense account is recorded during the year that the accounts are determined to be potentially uncollectible.

6. **Restricted Assets**

A restricted savings account was established for contractor bonds as discussed in the footnote entitled "CASH IN SAVINGS". After resolutions are passed to accept completed construction projects and respective assessment schedules, water and sewer assessments are issued to the property owners within the project. All monies received as advance assessment payments have been designated by the Board as restricted funds to be utilized to pay corresponding principal and interest, inspection fees, and final construction costs that are not submitted to incur additional debt. Refer to the footnote entitled "ACCOUNTS AND ASSESSMENTS RECEIVABLE" for prepaid amounts collected by project.

7. **Property, Plant and Equipment**

Property, plant and equipment costs are stated at cost (except see next paragraph referring to donated developer lines) and are depreciated over the estimated useful lives of the assets from 7 years to 25 years depending upon the type of asset. In addition, interest costs incurred during the construction of the water and sewer system are capitalized and included in property, plant and equipment. Once construction is complete and a project is operational, depreciation begins on all planning costs, construction costs, and capitalized interest.

Donated developer lines are stated at fair value based on developer documentation, and are depreciated over 25 years, which are the estimated useful lives of the assets. Refer also to the footnote entitled "CONTRIBUTED CAPITAL". Depreciation is computed using the straight-line method for financial reporting purposes. Repairs and maintenance costs are charged to operations when incurred. Improvements and additions are capitalized. The planning costs for proposed projects consist of capitalized interest and the engineering, legal and administrative

# SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

## NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2003 and 2002

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### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

#### **7. Property, Plant and Equipment - Continued**

planning costs, which are not allocated to specific projects currently in construction. If the proposed project begins construction, the respective planning costs will be depreciated. If the proposed project does not enter construction, respective planning costs will be amortized. General administrative, legal, engineering, and other costs, which cannot be directly allocated to specific projects are proportionately allocated to operations and planning/construction for projects serviced during that time frame.

#### **8. Amortization**

Prior to fiscal year 2000, loan costs were being amortized over the life of each loan beginning on the first date of each loan. Amortization is computed using the straight-line method for financial statement reporting purposes. Loan cost amortization expense charged to operations for 2003 and 2002 was \$8,067 and \$8,067. Effective January 1, 2000 loan costs are capitalized as part of the cost of each respective project.

Jefferson water tap rights are being amortized over twenty-five years. The actual contract term is twenty-five years, with an additional renewal of twenty-five years, unless SWLCWSD specifically requests to decline the renewal. Amortization is computed using the straight-line method for financial statement reporting purposes. Jefferson tap rights amortization expense charged to operations for 2003 and 2002 was \$7,006 for both years.

#### **9. Provision for Income Tax**

SWLCWSD operates as a public water-sewer system exempt from federal income tax under Internal Revenue Code Section 501(c)(1).

#### **10. Cash and Cash Equivalents**

For purposes of the statement of cash flows, SWLCWSD considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as non-negotiable certificates of deposits are reported at cost. In 2003 and 2002, SWLCWSD's investment consisted of a repurchase agreement.

#### **11. Vacation, Sick Leave and Other Compensated Absences**

The SWLCWSD employees are entitled to certain compensated absences based on their length of employment. Accrued employee benefits include cumulative vested vacation, sick leave, and compensatory hours multiplied by current hourly rates.

#### **12. Board Designated Cash Fund**

During 1997, the Board of Trustees set up a \$1,000 cash fund, via resolution, for expenditures to be designated by the Trustees. This procedure is in accordance with the Ohio Revised Code.

# SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

## NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2003 and 2002

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### **3. COMPLIANCE AND ACCOUNTABILITY**

#### **A. Fund Deficit**

The accumulated deficits for SWLCWSD were \$14,888,751 and \$15,391,161 at December 31, 2003 and 2002, respectively.

#### **B. Encumbering Funds**

For the years ended 2003 and 2002 the district did not encumber funds as required by Ohio Revised Code 5705.41(D).

### **4. CASH IN SAVINGS**

SWLCWSD invests a portion of the assessment and tap fee payments received in a savings account utilizing repurchase agreements to earn higher interest rates. The balance in the savings account at December 31, 2003 was \$4,427,236 of which \$1,904,393 was the water portion and \$2,522,843 the sewer portion. The balance in the savings account at December 31, 2002 was \$4,066,531 of which \$2,153,122 was the water portion and \$1,913,409 was the sewer portion. Included in the savings account is the contractor retainage balance. Upon deposit into the account of retainage payable, interest is calculated on each deposit until the retainage is paid to the contractor. At that time, all interest earned on the retainage is due to the contractor along with the retainage money.

A separate escrow savings account was established to maintain the contractor bonds' balance due on the construction of the water and sewer lines. The account is a non-interest bearing account; therefore, interest is not due to the contractor. The balance at December 31, 2003 and 2002 was \$39,300 and \$37,800, respectively.

### **5. EQUITY IN POOLED CASH AND INVESTMENTS**

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Trustees has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must be evidenced either by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim monies may be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

# SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

## NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2003 and 2002

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### **5. EQUITY IN POOLED CASH AND INVESTMENTS - Continued**

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations for the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) of this footnote and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements".

Deposits - The SWLCWSD had cash on hand as of December 31, 2003 and 2002 of \$5,002 and \$9,084, respectively. The carrying amount of the SWLCWSD deposits as of December 31, 2003 and 2002 was \$(72,328) and \$(399,316), and the bank balance was \$345,686 and \$454,896. Of the bank balance:

1. For December 31, 2003 and 2002, \$100,000 was covered by federal depository insurance; and
2. \$245,686 and \$354,896 for 2003 and 2002, respectively was collateralized third party trustee in single institution collateral pools, securing all public funds on deposit with specific depository institutions.

# SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

## NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2003 and 2002

### **5. EQUITY IN POOLED CASH AND INVESTMENTS - Continued**

**Investments** – The SWLCWSD’s investments are required to be categorized to give an indication of the level of risk assumed by the SWLCWSD at year end. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the SWLCWSD’s name.

<b>Balance as of December 31, 2003</b>			
	<b>Category 3</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
Repurchase Agreements	\$ 5,526,824	\$ 5,526,824	\$ 5,526,824
<b>Balance as of December 31, 2002</b>			
	<b>Category 3</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
Repurchase Agreements	\$ 5,019,813	\$ 5,019,813	\$ 5,019,813

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, “Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting”.

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

#### GASB 3 to GASB 9 Reconciliation

<u>GASB 9 Balances</u>	<u>Equivalents 12/31/2003</u>	<u>Investments 12/31/2003</u>	<u>Equivalents 12/31/2002</u>	<u>Investments 12/31/2002</u>
GASB 9 Balance	\$ 5,459,498	\$ -	\$ 4,629,581	\$ -
Cash on Hand	(5,002)	-	(9,084)	-
Repurchase Agreements	(5,526,824)	5,526,824	(5,019,813)	5,019,813
 GASB 3	 \$ (72,328)	 \$ 5,526,824	 \$ (399,316)	 \$ 5,019,813

### **6. INTEREST INCOME**

Interest income came from the following sources:

	<u>2003</u>	<u>2002</u>
Interest income from savings accounts	\$ 68,141	\$ 87,999
Interest income from assessments, accrued and collected	960,699	978,393
 Total interest income	 \$ <u>1,028,840</u>	 \$ <u>1,066,392</u>



# SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

## NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2003 and 2002

### **7. PROPERTY, PLANT AND EQUIPMENT**

The following is a schedule of property, plant and equipment at December 31:

	<u>2003</u>	<u>2002</u>
Land	\$ 628,136	\$ 628,136
Land easements	158,866	153,466
Land improvements	2,500	2,500
Planning and construction in progress - Water	23,187,474	22,389,393
Planning and construction in progress - Sewer	57,653,074	48,684,821
Developer lines	3,308,369	2,844,480
Office equipment and furniture	146,404	88,336
General equipment	438,750	328,815
Safety equipment	17,928	10,709
Vehicles	<u>128,389</u>	<u>86,746</u>
<b>Total Property, Plant and Equipment</b>	<b>\$ 85,669,890</b>	<b>\$ 75,217,402</b>
Less: Accumulated depreciation	<u>(22,571,989)</u>	<u>(19,645,377)</u>
<b>NET PROPERTY, PLANT AND EQUIPMENT</b>	<b><u>\$ 63,097,901</u></b>	<b><u>\$ 55,572,025</u></b>

As of December 31, 2003 and December 31, 2002 there was \$9,718,254 and \$3,370,041, respectively in outstanding construction projects that were included in the above category "Planning and Construction in progress – Sewer" and "Planning and Construction in progress – Water" that were not completed; therefore, no depreciation expense was charged on these projects during fiscal year 2003 or 2002.

### **8. ACCOUNTS AND ASSESSMENTS RECEIVABLE**

Account receivable balances at December 31, 2003 and 2002 for operating billings are as follows:

	<u>2003</u>	<u>2002</u>
Current	\$ 285,580	\$ 281,465
Over 30 days	88,647	49,185
Over 60 days	31,858	16,739
Over 90 days	<u>151,867</u>	<u>188,647</u>
<b>Gross Receivables</b>	<b>557,952</b>	<b>536,036</b>
Less: Allowance for Doubtful Accounts	<u>(200,000)</u>	<u>(260,000)</u>
<b>Net Accounts Receivable</b>	<b><u>\$ 357,952</u></b>	<b><u>\$ 276,036</u></b>

# SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

## NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2003 and 2002

### **8. ACCOUNTS AND ASSESSMENTS RECEIVABLE - Continued**

Assessment accounts receivable are from completed construction projects and the issuance of final assessments to residents to cover those costs. The receivables are guaranteed through property tax billing. Included in the balances at December 31, 2003 and 2002, are deferred agricultural property assessments and the related accrued interest receivable. These amounts will be collected when the properties no longer qualify for agricultural property status, as defined in the Ohio Revised Code Chapter 929, and as certified by the County Auditor. These receivables are not recorded as revenue, but rather are offset by a liability account that is called deferred revenue. The time frame of collection is undeterminable. The negative county auditor's collection amounts result primarily in part due to these deferred collections. The assessment accounts receivable balances at December 31, 2003 are as follows:

<u>Project Name</u>	<u>Total Assessed</u>	<u>Prepaid Assessments</u>	<u>County Auditor and Deferred Assessments Paid</u>	<u>% Collected</u>
Beechwood Trails-S	\$ 3,773,810	\$ 1,411,145	\$ 560,686	52.25%
Summit Station Phase I-S	1,655,693	530,607	201,663	44.23%
Summit Station Phase I-W	1,792,334	621,931	300,025	51.44%
US 40 Etna-S	1,677,521	473,285	253,573	43.33%
Summit Station Phase II-S	910,264	398,382	72,359	51.71%
Summit Station Phase II-W	413,798	216,465	46,235	63.49%
US 40 Water Treatment-W	973,786	270,203	119,273	40.00%
Etna SR 40 Environs-W	1,237,781	532,621	150,132	55.16%
Etna SR 40 Environs-S	1,699,257	683,485	189,914	51.40%
Columbia Center-S	945,160	232,455	154,096	40.90%
York/Blacks/Outville Roads-W	1,012,860	305,308	11,047	31.23%
York/Blacks/Outville Roads-W	810,685	285,815	112,738	49.16%
Russell Heights-S	343,851	201,536	21,871	64.97%
New England/Russell/Mink-W	824,753	423,260	73,485	60.23%
Summit Rd and SR 40-W	1,003,390	225,070	131,507	35.54%
York Rd.-W	23,062	11,245	2,090	57.82%
Columbia Rd. and Refugee-S	188,545	48,071	46,962	50.40%
SR 310/Refugee/Smoke-W	444,505	124,407	42,704	37.59%
Havens Corners Rd.-W	67,765	10,793	(6,419)	6.45%
SR 16 Belmar to Summit-S	139,925	71,947	12,754	60.53%
SR 16 Belmar to Summit-W	125,519	76,367	6,733	66.21%
Watkins to I 70-W	62,439	13,586	15,832	47.11%
Blacks Outville Rd.-S	1,326,907	548,381	108,021	49.47%
SR 310 N. of US 40-S	120,113	34,743	4,705	32.84%
Fursville/Columbia Center-W	837,835	190,781	61,774	30.14%
Watkins N. from US 40-S	29,073	16,056	22,230	131.69%
SR 16/Charles/Daley-S	459,210	218,320	32,071	54.53%
Subtotal	\$ 22,899,841	\$ 8,176,265	\$ 2,748,061	

**SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT**

NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2003 and 2002

**8. ACCOUNTS AND ASSESSMENTS RECEIVABLE - Continued**

<b>Project Name</b>	<b>Total Assessed</b>	<b>Prepaid Assessments</b>	<b>County Auditor and Deferred Assessments Paid</b>	<b>% Collected</b>
Watkins and Blacks Rds. S	\$ 465,859	\$ 245,588	\$ 33,741	59.96%
Watkins and Blacks Rd. W	414,399	194,906	37,785	56.15%
SR 16/Charles and Daley W	414,872	159,103	34,777	46.73%
Happy Homes/Sunshine S	393,199	123,937	31,711	39.59%
Hillside Farm Estates S	243,283	143,461	11,435	63.67%
Ashcraft/Pine Oak/Indian Hills W	902,061	271,310	90,990	40.16%
Ashcraft/Pine Oak/Indian S	825,771	263,521	103,008	44.39%
York/US 40 to Refugee S	108,767	3,434	9,316	11.72%
Sunshine/Happy Homes W	472,450	124,467	40,357	34.89%
SR 310 and Tatman S	283,684	182,270	13,981	69.18%
Columbia Rd. S	93,464	71,068	3,323	79.59%
Columbia/Refugee Rds. W	69,486	43,550	3,862	68.23%
Lynns Road S	141,971	46,431	64,397	78.06%
Lynns Road W	95,610	32,900	6,024	40.71%
SR 310/US 40 to Refugee W	185,938	69,876	18,617	47.59%
Cleveland Rd. / Mink St. S	690,562	270,510	44,970	45.68%
Palmer Rd./W. Etna Twp. S	713,789	319,578	45,711	51.18%
Palmer Rd./W. Etna Twp. W	728,634	315,932	65,908	52.40%
Palmer Road Sant. Sewer Est.	224,200	116,269	14,967	58.54%
Palmer Road Water Line Est.	177,424	93,744	7,947	57.32%
Subtotal	<u>7,645,423</u>	<u>3,091,855</u>	<u>682,827</u>	
Subtotal from previous page	22,899,841	8,176,265	2,748,061	
Total	<u>\$ 30,545,264</u>	<u>\$ 11,268,120</u>	<u>\$ 3,430,888</u>	
Net assessment receivable 12/31/03	<u>\$ 17,136,133</u>			
Net assessment receivable 12/31/02	<u>\$ 17,666,653</u>			

The net assessment receivable includes accrued interest of \$1,289,877 and \$1,159,972 from deferred assessments receivable at December 31, 2003 and 2002, respectively.

# SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

## NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2003 and 2002

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### **9. CURRENT AND LONG-TERM DEBT – PLANNING AND CONSTRUCTION LOANS**

The current and long-term debt listed are planning and construction loans with Ohio Public Works Commission (O.P.W.C.) (Issue II), Ohio Water Development Authority (O.W.D.A.), the Rotary Commission, and Park National Bank (PNB). In addition, recoupment agreements have been established with one developer for the oversizing portion of donated lines, of which costs are considered the responsibility of SWLCWSD. The recoupment agreements are payable in monthly increments of \$2,300 for each tap fee received by SWLCWSD for a customer within the development. The Highland Hills agreement incurs 9.25% interest per annum, calculated monthly on the outstanding balance, and originally was scheduled to be forgiven on August 31, 2001 (even if outstanding debt exists). During 2001, the agreement was extended an additional five years to August 31, 2006.

On December 29, 1998, the SWLCWSD received a loan from Park National Bank in the amount of \$1,501,019 to reimburse the SWLCWSD for water and sewer costs already paid by the District out of the District's funds. The term of the loan is five (5) years and interest is calculated at 7.40%. Ten (10) semiannual payments of \$189,822 of principal and interest began on January 1, 2000 and mature on July 1, 2004. The note is secured by a pledge of water and sewer revenues.

On July 1, 1999, the SWLCWSD received an additional loan from Park National Bank in the amount of \$550,000 to reimburse the SWLCWSD for water and sewer costs already paid by the SWLCWSD out of the SWLCWSD's funds. The term of the loan is five (5) years and interest is calculated at 8.40%. Ten (10) semiannual payments of \$68,487 (based upon the principal amount borrowed of \$550,000) of principal and interest began on January 1, 2000 and mature on July 1, 2004. The note is secured by a pledge of water and sewer revenues.

SWLCWSD has six (6) interest free loans from the Ohio Public Works Commission. Each loan requires semiannual payments for a term of twenty (20) years. Loan CQ616 for \$481,332, used to finance the Columbia Center/Fursville sanitary sewer lines, began on January 1, 1995 and will mature January 1, 2015. Loan CQ808 for \$236,351, used to finance Blanches E. Broad Street Addition waterline improvements, commenced July 1, 1995 and will mature July 1, 2015. Loan CQ807 for \$290,364 was used to finance Happy Homes/Sunshine Park sanitary sewer improvements. The loan commenced July 1, 1996 and will mature July 1, 2016. The loan, CQ021, for \$248,600 was used to finance Cleveland Road/Mink Street sanitary sewer improvements. The loan commenced in 1999 and will mature July 1, 2020. The next loan, CQ23D, for \$500,000 was used to assist in the Phase I-A Wastewater Treatment Plant expansion. The loan commenced in 2002 and will mature July 1, 2022. The final loan, CQ24E, is in the amount of \$733,000 and is being used to assist in the Phase I-B Wastewater Treatment Plant expansion. The outstanding loan balance at December 31, 2003 was \$393,716. A payment schedule has yet to be determined for this loan.

The District has three (3) loans with the Rotary Commission used to finance construction of water and sewer lines for the Columbia Center, Etna S.R. 40, Ashcraft Acres, Pine Oak Estates, and Indian Hills sewer line projects. The outstanding balances of \$106,351; \$65,495; and \$175,095 will be paid back to the Rotary Commission when properties within each project are taken out of agricultural district status. No payment schedule has been established for these loans.

**SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT**

NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2003 and 2002

**10. CURRENT AND LONG-TERM DEBT – PLANNING AND CONSTRUCTION LOANS – Continued**

<u>Loan #</u>	<u>Payable To</u>	<u>Interest Rate</u>	<u>First Payment</u>	<u>Principal Term</u>	<u>Principal Due in 2004</u>	<u>Principal Due after 2004</u>
1865	O.W.D.A.	7.54	1/1/1994	25 yrs.	\$ 35,229	\$ 1,775,467
1866	O.W.D.A.	6.24	1/1/1994	25 yrs.	3,921	178,078
1867	O.W.D.A.	7.45	1/1/1994	25 yrs.	39,972	1,999,934
1868	O.W.D.A.	6.61	1/1/1994	25 yrs.	6,993	327,077
1869	O.W.D.A.	6.61	1/1/1995	25 yrs.	71,834	3,735,127
3019	O.W.D.A.	6.85	1/1/1995	25 yrs.	63,954	3,395,012
3020	O.W.D.A.	6.02	1/1/1995	25 yrs.	5,358	264,870
3021	O.W.D.A.	5.77	1/1/1995	25 yrs.	3,461	167,487
3025	O.W.D.A.	6.75	7/1/1995	25 yrs.	51,691	2,772,111
3039	O.W.D.A.	6.51	7/1/1995	25 yrs.	21,222	1,115,291
3040	O.W.D.A.	5.77	7/1/1996	25 yrs.	3,633	197,228
3041	O.W.D.A.	6.51	7/1/1995	25 yrs.	28,973	1,522,624
3043	O.W.D.A.	6.24	7/1/1995	25 yrs.	44,848	2,303,781
3048	O.W.D.A.	6.24	7/1/1995	25 yrs.	1,127	57,915
3053	O.W.D.A.	6.16	7/1/1995	25 yrs.	1,891	96,475
3054	O.W.D.A.	6.16	7/1/1995	25 yrs.	6,327	322,850
3055	O.W.D.A.	6.16	7/1/1995	25 yrs.	18,910	964,920
3063	O.W.D.A.	6.16	1/1/1996	25 yrs.	14,248	786,903
3064	O.W.D.A.	6.16	1/1/1996	25 yrs.	2,611	144,208
3079	O.W.D.A.	6.02	1/1/1996	25 yrs.	36,282	1,978,341
3080	O.W.D.A.	6.02	1/1/1996	25 yrs.	17,639	961,752
3105	O.W.D.A.	5.77	1/1/1996	25 yrs.	6,117	325,996
3106	O.W.D.A.	5.77	1/1/1996	25 yrs.	4,400	234,461
2005	O.W.D.A.	5.90	7/1/1996	25 yrs.	22,457	1,233,518
2930	O.W.D.A.	5.90	7/1/1996	25 yrs.	12,310	676,196
2956	O.W.D.A.	6.64	1/1/1997	25 yrs.	2,434	155,060
2957	O.W.D.A.	6.64	1/1/1997	25 yrs.	7,991	508,946
2969	O.W.D.A.	6.72	1/1/1997	25 yrs.	14,506	931,232
2970	O.W.D.A.	6.72	1/1/1997	25 yrs.	56,398	3,620,652
2971	O.W.D.A.	6.36	1/1/1997	25 yrs.	5,459	338,265
2093	O.W.D.A.	6.87	7/1/1997	25 yrs.	57,645	3,813,483
2094	O.W.D.A.	6.87	7/1/1997	25 yrs.	59,983	3,968,174
2095	O.W.D.A.	6.36	1/1/1998	25 yrs.	18,661	1,269,477
2096	O.W.D.A.	6.36	1/1/1998	25 yrs.	9,339	635,324
2099	O.W.D.A.	6.32	7/1/1999	25 yrs.	8,829	663,501
2101	O.W.D.A.	6.11	7/1/1999	25 yrs.	19,717	1,448,182
Subtotal					<u>\$ 786,370</u>	<u>\$ 44,889,918</u>

**SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT**

NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2003 and 2002

**10. CURRENT AND LONG-TERM DEBT – PLANNING AND CONSTRUCTION LOANS – Continued**

<b>Loan #</b>	<b>Payable To</b>	<b>Interest Rate</b>	<b>First Payment</b>	<b>Principal Term</b>	<b>Principal Due in 2004</b>	<b>Principal Due after 2004</b>
2103	O.W.D.A.	6.11	7/1/1999	25 yrs.	14,368	1,055,284
2174	O.W.D.A.	5.77	1/1/2002	25 yrs.	8,591	764,486
2497	O.W.D.A.	3.20	7/1/2000	5 yrs.	11,695	11,882
2498	O.W.D.A.	3.20	7/1/2000	5 yrs.	-	(3,928)
3279	O.W.D.A.	6.41	1/1/2002	25 yrs.	45,918	4,446,398
3682	O.W.D.A.	5.20	7/1/2004	25 yrs.	-	2,732,248
3683	O.W.D.A.	5.20	7/1/2004	25 yrs.	-	807,441
3756	O.W.D.A.	3.59	1/1/2005	20 yrs.	-	5,847,465
3760	O.W.D.A.	4.84	7/1/2004	15 yrs.		833,385
3912	O.W.D.A.	4.28	1/1/2005	25 yrs.		1,004,068
3944	O.W.D.A.	4.35	1/1/2005	25 yrs.		235,694
CQ021	O.P.W.C	0.00	1/1/00	20 yrs.	6,215	186,450
CQ616	O.P.W.C	0.00	7/1/1995	20 yrs.	12,033	252,699
CQ807	O.P.W.C	0.00	1/1/1997	20 yrs.	6,799	163,179
CQ808	O.P.W.C	0.00	1/1/1996	20 yrs.	5,909	129,993
CQ23D	O.P.W.C	0.00	1/1/2003	20 yrs.	8,670	320,777
CQ24E	O.P.W.C	0.00	Unknown	20 yrs.	-	393,716
	Rotary	0.00		20 yrs.	-	106,351
	Rotary	0.00		20 yrs.	-	175,095
	Rotary	0.00		20 yrs.	-	65,495
Highland Hills Recoupment		9.25		5 yrs.	-	225,835
Park National Bank		7.40	1/1/2000	5 yrs.	<u>238,910</u>	<u>-</u>
Subtotal of this page					359,108	19,754,013
Subtotal of previous page					<u>786,370</u>	<u>44,889,918</u>
Totals					<u>\$ 1,145,478</u>	<u>\$ 64,643,931</u>

# SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

## NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2003 and 2002

### **10. CURRENT AND LONG-TERM DEBT – PLANNING AND CONSTRUCTION LOANS – Continued**

Construction loans principal and interest due (based on loan maturity):						
<u>Loan #</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009 &amp; after</u>
1865	\$ 104,821	\$ 209,642	\$ 209,642	\$ 209,642	\$ 209,642	\$ 2,096,417
1866	9,722	19,445	19,445	19,445	19,445	194,446
1867	117,448	234,896	234,896	234,896	234,896	2,348,956
1868	18,265	36,530	36,530	36,530	36,530	365,301
1869	200,029	400,058	400,058	400,058	400,058	4,400,634
3019	184,614	369,228	369,228	369,228	369,228	4,061,510
3020	13,654	27,307	27,307	27,307	27,307	300,377
3021	8,493	16,987	16,987	16,987	16,987	186,852
3025	146,995	293,989	293,989	293,989	293,989	3,380,875
3039	58,215	116,431	116,431	116,431	116,431	1,338,956
3040	9,428	18,855	18,855	18,855	18,855	235,689
3041	79,477	158,954	158,954	158,954	158,954	1,827,976
3043	118,125	236,250	236,250	236,250	236,250	2,716,877
3048	2,970	5,939	5,939	5,939	5,939	68,300
3053	4,920	9,841	9,841	9,841	9,841	113,169
3054	16,466	32,932	32,932	32,932	32,932	378,714
3055	49,212	98,425	98,425	98,425	98,425	1,131,884
3063	39,362	78,724	78,724	78,724	78,724	944,684
3064	7,213	14,427	14,427	14,427	14,427	173,123
3079	98,014	196,028	196,028	196,028	196,028	2,352,332
3080	47,649	95,298	95,298	95,298	95,298	1,143,578
3105	15,875	31,750	31,750	31,750	31,750	381,002
3106	11,418	22,835	22,835	22,835	22,835	274,022
2005	59,508	119,016	119,016	119,016	119,016	1,487,694
2930	32,621	65,243	65,243	65,243	65,243	815,532
2956	7,744	15,488	15,488	15,488	15,488	201,347
2957	25,418	50,836	50,836	50,836	50,836	660,870
2969	46,770	93,540	93,540	93,540	93,540	1,216,021
2970	181,842	363,683	363,683	363,683	363,683	4,727,884
2971	16,563	33,127	33,127	33,127	33,127	430,647
2093	190,618	381,236	381,236	381,236	381,236	5,146,683
2094	198,350	396,700	396,700	396,700	396,700	5,355,455
2095	60,217	120,434	120,434	120,434	120,434	1,686,077
2096	30,136	60,273	60,273	60,273	60,273	843,815
2099	30,074	60,149	60,149	60,149	60,149	932,303
2101	64,561	129,123	129,123	129,123	129,123	2,001,404
2103	47,046	94,091	94,091	94,091	94,091	1,458,417
2174	30,894	61,788	61,788	61,788	61,788	1,112,185
3279	189,897	379,794	379,794	379,794	379,794	6,836,289
2497	12,072	12,072	-	-	-	-
Subtotals	2,586,716	5,161,364	5,149,292	5,149,292	5,149,292	65,328,297

# SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

## NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2003 and 2002

### **10. CURRENT AND LONG-TERM DEBT – PLANNING AND CONSTRUCTION LOANS – Continued**

Construction loans principal and interest due (based on loan maturity):

<u>Loan #</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009 &amp; after</u>
CQ021	6,215	12,430	12,430	12,430	12,430	136,730
CQ616	12,033	24,067	24,067	24,067	24,067	156,432
CQ807	6,799	13,598	13,598	13,598	13,598	108,787
CQ808	5,909	11,818	11,818	11,818	11,818	82,721
CQ23D	8,670	17,339	17,339	17,339	17,339	251,421
PNB	<u>258,309</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal of this page	297,935	79,252	79,252	79,252	79,252	736,091
Subtotal of previous page	2,586,716	5,161,364	5,149,292	5,149,292	5,149,292	65,328,297
Totals	\$ 2,884,651	\$ 5,240,616	\$ 5,228,544	\$ 5,228,544	\$ 5,228,544	\$ 66,064,388

Project loan agreements 3682, 3683, 3756, 3760, 3912, 3944, and CQ24E have not been finalized with the OWDA or the Ohio Public Works Commission; therefore, no amortization schedules have been created. As a result these loans are not shown on the above maturity schedule. Project loan agreement 2498 has been finalized; however, there is a negative balance due which will be credited against another loan. Therefore, there is no amortization schedule for this project.

### **11. CAPITAL LEASE OBLIGATIONS**

The District entered into an agreement with Park National Bank on September 6, 2001 to lease five Chevrolet S-10 trucks. The terms of the agreement provide for transfer of ownership at the end of the lease. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases," which defines a capital lease generally as one that transfers benefits and risks of ownership to the lessee. The District made one payment on this lease during fiscal year 2002 and one payment during fiscal year 2003. One additional payment is required on September 6, 2004. Payments of the principal amount on the lease will be recorded as reductions of the capital lease obligation and payments of the interest amount on the lease will be recorded as interest expense in the District's financial statements.

The District's future minimum lease payment under capital lease obligations as of December 31, 2003 is as follows:

2004	<u>\$25,055</u>
Total minimum lease payments	25,055
Less: amount representing interest	<u>1,006</u>
Present value of minimum lease payments	<u>\$24,049</u>



# SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

## NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2003 and 2002

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### **12. CONTRIBUTED CAPITAL**

Capital grant-planning costs - In 1989, a \$24,000 capital grant was received to fund start-up planning costs.

Capital grant-construction in progress - In 1992, a \$74,970 capital grant was received to fund construction costs of the Oak Meadows improvements project. During 1996, the Ohio Public Works Commission disbursed \$135,063 on behalf of SWLCWSD for a credit enhancement grant. The grant was utilized to pay Ohio Water Development Authority for \$74,672 capitalized interest and \$60,391 of the first years interest expense for the Russell Heights sewer project. During 1997, the Ohio Public Works Commission disbursed \$90,557 on behalf of SWLCWSD for a credit enhancement grant. The grant was utilized to pay Ohio Water Development Authority for a portion of the capitalized interest for the Happy Homes/Sunshine Park water project.

Contributed capital for water and sewer projects is cumulative of total final assessments, less 2% discount given for assessment prepayment and less deferred assessments which will not be collected until property is sold or converted to non-agricultural use. The deferred assessments are recorded as a liability in the deferred revenue account. When the property is taken out of deferred status and the assessment is paid, the liability will be removed from the account and prior to 2001, contributed capital would be recorded. Since 2001 payments have been recorded as capital contributions – special assessments. Contributed capital from donated developer line represents the fair value of construction for the new developments placed in service beginning in 1996. The developers' contracts state that the lines must be donated to the SWLCWSD once a resolution has been passed to accept the lines as operational, and for use and hookup. Since 2001 such donations have been recorded as capital contributions – donated lines.

### **13. DEFINED BENEFIT RETIREMENT PLAN**

- A. The Public Employees Retirement Systems of Ohio (PERS) administers three separate pension plans as described below:
- 1) The Traditional Pension Plan (TP) – a cost-sharing multiple -employer defined benefit pension plan.
  - 2) The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.
  - 3) The Combined Plan (CO) – a cost-sharing multiple -employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.
- B. PERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Plan and Combined Plan. Members of the Member-Directed Plan do not qualify for ancillary benefits.
- C. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code.
- D. The Public Employees Retirement System issues a stand-alone financial report. Interest 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 1-800-222-7377.
- E. The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rates were 8.5% for employees for 2003 for all three plans (TP, MD, and CO) and for 2002. The 2003 (for all three plans) and 2002 employer contribution rates for local government employer units were 13.55% of covered payroll for both years.

The District's contributions to PERS for the years ended December 31, 2003, 2002, and 2001, were \$109,192, \$80,416, and \$80,509, respectively.

# SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

## NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2003 and 2002

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### **14. POSTEMPLOYMENT BENEFITS**

- A. Public Employees Retirement of Ohio (PERS) administers three separate pension plans: The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

PERS provides retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the Traditional and the Combined Plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set-aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. For local government employer units the rate was 13.55% of covered payroll for both fiscal years 2003 and 2002 and 5.0% was the portion used to fund health care for the years 2003 and 2002, respectively.

- B. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

- C. Summary of Assumptions:

Actuarial Review – The assumptions and calculations below were based on the System's latest Actuarial Reviews performed as of December 31, 2002 and 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 2002 and 2001 was 8.00%.

Active Employee Total Payroll – An annual increase of 4.0% for 2002 and 2001 compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increases, were assumed to range from .50% to 6.30% for 2002 and 2001.

Health Care – Health care cost were assumed to increase 4.0% annually for 2002 and 2001.

- D. The rates stated in A are the actuarially determined contribution requirements for PERS. OPEBs are advance-funded on an actuarially determined basis. The following disclosures are required:

1. The number of active contributing participants was 364,881 for 2003 and 402,041 for 2002.
2. The employer contributions that were used to fund postemployment benefits were \$40,292 for 2003, \$29,674 for 2002 and \$25,545 for 2001.

# **SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS - Continued**

December 31, 2003 and 2002

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### **15. POSTEMPLOYMENT BENEFITS – Continued**

3. \$10.0 billion and \$11.6 billion represent the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2002 and 2001.
4. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion for 2002 and \$14.4 billion and \$2.6 billion for 2001, respectively.

### **16. RISK MANAGEMENT**

The SWLCWSD is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal years 2003 and 2002 the SWLCWSD contracted for the following insurance coverage:

- General Liability
- Public Officials
- Inland Marine
- Automobile
- Faithful Performance and Employee Bond
- Health

Vehicle policies include liability coverage for bodily injury and property damage.

Worker's compensation benefits are provided through the State Bureau of Workers' Compensation. The SWLCWSD pays all elected officials' bonds.

The SWLCWSD has not incurred significant reductions to insurance coverage from coverage in the prior years by major category of risk. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

### **17. RELATED PARTY TRANSACTIONS**

No related party transactions existed at December 31, 2003 and 2002.

### **18. CONTINGENT LIABILITIES**

During the fiscal years ended December 31, 2003 and 2002, SWLCWSD was involved in several legal actions. Management does not believe that the financial impact, if any, of these legal actions would have a material effect on the financial statements of SWLCWSD.

# SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

## NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2003 and 2002

### **19. BUDGETARY PROCESS**

The Ohio Revised Code requires that the District adopt an operating budget annually.

#### Appropriations

Budgetary expenditures (that is, disbursements) may not exceed appropriations at the fund level of control, and appropriations may not exceed estimated resources. The District must annually approve appropriation measures and subsequent amendments.

#### Estimated Resources

Estimated resources included estimates of cash to be received (budgeted receipts).

#### Budgetary Activity

Budgetary activity for the years ended December 31, 2003 and 2002 was as follows:

<u>2003 Budgeted VS. Actual Budgetary Basis Expenditures</u>				
<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Budgetary Expenditures</u>	<u>Budgetary Expenditures</u>	<u>Variance Favorable/ (Unfavorable)</u>
\$ 8,247,213		\$ 7,666,843		\$ 580,370

<u>2003 Budgeted VS. Actual Receipts</u>				
<u>Budgeted Receipts</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Actual Receipts</u>	<u>Variance Favorable/ (Unfavorable)</u>
\$ 9,009,890		\$ 9,161,128		\$ 151,238

**SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT**

NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2003 and 2002

**20. BUDGETARY PROCESS – Continued**

<u>2002 Budgeted VS. Actual Budgetary Basis Expenditures</u>			
			Variance
Appropriation		Budgetary	Favorable/
Authority		Expenditures	(Unfavorable)
\$ 7,941,281		\$ 7,323,658	\$ 617,623
<u>2002 Budgeted VS. Actual Receipts</u>			
			Variance
Budgeted		Actual	Favorable/
Receipts		Receipts	(Unfavorable)
\$ 8,400,236		\$ 9,652,668	\$ 1,252,432

**21. DEBT SERVICE FEE**

The District has a debt service fee which was \$16.95 per month per sewer customer during fiscal year 2003 and \$19.00 per month per sewer customer during fiscal year 2002. This fee was implemented to assist the District in meeting its debt service requirements. The proceeds of the fee are restricted to the payment of principal and interest on sewer debt. During fiscal years 2003 and 2002 the District collected \$993,878 and \$1,056,389 in debt service fees and expended more than \$3 million both years in principal and interest payments on sewer related debt.

**22. INSPECTION INCOME**

Inspection income represents amounts charged to construction costs of projects for inspections performed by SWLCWSD employees. The income offsets operation expenses, including gross wages, payroll taxes, PERS expenses, and mileage.

**23. MISCELLANEOUS INCOME**

Miscellaneous income includes water hauling, contractor licenses, and other miscellaneous revenue.

**SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT**

NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2003 and 2002

**24. INTEREST EXPENSE**

Interest expense for the water and sewer divisions represent the interest portion of construction loan payments to the Ohio Water Development Authority for water and sewer and the loan and lease with Park National Bank. Interest expense is detailed in the following schedule:

		<u>2003</u>	<u>2002</u>
OWDA- Water		1,183,487.00	\$ 1,217,613
OWDA- Sewer		2,481,989	2,142,678
Park National Bank		<u>95,511</u>	<u>143,807</u>
Total interest expense		<u>\$ 3,760,987</u>	<u>\$ 3,504,098</u>

**25. CONSTRUCTION COMMITMENTS OUTSTANDING**

As disclosed previously in these footnotes, the District had several major projects in process as of December 31, 2003 and 2002. The WWTP Phase I-A project was completed during fiscal year 2002. The WWTP Phase I-B project, the Gale Road Pump Station project, the Route 40 Water and Sewer Line Construction projects, and the Route 40 Force Main Upgrade project had construction contracts outstanding at year-end. Significant outstanding construction contracts as of December 31, 2003 are listed below:

<u>Name of Contractor</u>	<u>Outstanding Contract Amount</u>	<u>Contract Description</u>
Shook Heavy Environmental Group	\$1,350,841	WWTP Phase I-B
Shook Heavy Environmental Group	\$606,564	Gale Road Pump Station
Stillion Brothers Excavating	\$416,102	Route 40 Sanitary Sewer Lines
Stillion Brothers Excavating	\$78,765	Route 40 Water Lines
Stillion Brothers Excavating	\$206,914	Route 40 Force Main Upgrade.

**BALESTRA, HARR & SCHERER  
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Ohio Society of Certified Public Accountants

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

Board of Trustees  
Southwest Licking Community Water & Sewer District  
69 Zellers Lane  
Pataskala, Ohio 43062

We have audited the accompanying financial statements of the Southwest Licking Community Water & Sewer District, Licking County, Ohio (the District), as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated July 15, 2004. 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 *Governmental 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 one instance of noncompliance that is required to be reported under *Governmental Auditing Standards*. This reportable citation is described in the accompanying Schedule of Findings as item 2003-1. We also noted certain immaterial instances of noncompliance, which we have reported to management of the District in a separate letter dated July 15, 2004.

**Internal Control Over Financial Reporting**

In planning and performing our audit, 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. 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. 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 in a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to the management of the District in a separate letter dated July 15, 2004.

Southwest Licking Community Water & Sewer District

Licking County

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in  
Accordance With *Government Auditing Standards*

Page 2

This report is intended solely for the information and use of management and members of Council and is not intended to be and  
should not be used by anyone other than these specified parties.

Balestra, Harr & Scherer

Balestra, Harr & Scherer

July 15, 2004



**SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT  
LICKING COUNTY  
DECEMBER 31, 2003 & 2002**

**SCHEDULE OF FINDINGS**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

Finding Number	2003-001
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**Annual Appropriation Measure**

Sections 5705.41(D), Ohio Revised Code, states that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. The district did not use purchase orders for fifty-six out of fifty-seven high dollar transactions examined.

**CORRECTIVE ACTION PLAN**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2003-001	The District plans to implement a purchase order system for 2004.	12/31/2004	Kathy Killen, District Accountant

**SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT  
LICKING COUNTY  
DECEMBER 31, 2003 & 2002**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS**

Finding Number	Finding Summary	Fully Corrected	Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Findings No Longer Valid; <i>Explain:</i>
2001-001	ORC, Section 5705.38	No	Not corrected for 2002. Corrected for 2003.
2001-002	5705.41(B)	Yes	



**Auditor of State  
Betty Montgomery**

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**SOUTHWEST LICKING COMMUNITY WATER AND SEWER DISTRICT  
LICKING 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  
JANUARY 11, 2005**