SOUTHWEST LICKING COMMUNITY
WATER & SEWER DISTRICT

BASIC FINANCIAL STATEMENTS

****

December 31, 2011 and 2010

Dave Yost • Auditor of State

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

We have reviewed the *Independent Accountants' Report* of the Southwest Licking Community Water and Sewer District, Licking County, prepared by Kennedy Cottrell Richards LLC, for the audit period January 1, 2010 through December 31, 2011. 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.

Dave Yost
Auditor of State

August 3, 2012

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Southwest Licking Community Water and Sewer District
Licking County, Ohio
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For the Years Ended December 31, 2010 and 2011

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INDEPENDENT ACCOUNTANTS' REPORT

Southwest Licking Community Water and Sewer District
69 Zellers Lane
Pataskala, Ohio 43062

To the Board of Trustees:

We have audited the accompanying financial statements of the business-type activities of the Southwest Licking Community Water and Sewer District, Licking County, Ohio (the "District"), as of and for the years ended December 31, 2011 and December 31, 2010, which collectively comprise the District's basic financial statements 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 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 respective financial position of the business-type activities of the Southwest Licking Community Water and Sewer District, Licking County, Ohio as of December 31, 2011 and December 31, 2010, and the respective changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

Kennedy Cottrell Richards LLC

Kennedy Cottrell Richards LLC
June 18, 2012

This discussion and analysis, along with the accompanying financial reports, of Southwest Licking Community Water and Sewer District (SWLCWSD or "the District") is designed to provide our customers, creditors and other interested parties with a general overview of the District and its financial activities.

FINANCIAL HIGHLIGHTS

The total assets of SWLCWSD exceeded liabilities on December 31, 2011 by $7.0 million and on December 31, 2010 by $7.1 million. The District's net assets decreased by $138 thousand (0%) in 2011 and by $600 thousand (-7.8%) in 2010.

The District's operating revenues increased by $695 thousand (11.7%) in 2011 and by $652 thousand (12.3%) in 2010. Operating expenses (excluding depreciation and amortization expenses) decreased $69 thousand (-2.9%) in 2011 and decreased $2,188 (-0.1%) in 2010. Depreciation and amortization expense increased by $64 thousand (1.7%) in 2011 and increased by $43 thousand (1.1%) in 2010. The District's non-operating revenues increased by $202 thousand (9.1%) in 2011 and decreased by $84 thousand (3.7%) in 2010.

The District issued $13,707 of additional long term debt in 2011 and $2.8 million of long term debt in 2010.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

The District is a single enterprise fund using proprietary fund accounting, similar to private sector business. The Basic Financial Statements are presented using the accrual basis of accounting.

The **Statements of Net Assets** includes all of the District's Assets and Liabilities. These statements provide information about the nature and amounts of investments in resources (assets) owned by the District, and obligations owed by the District (liabilities) on December 31. The District's net assets are the difference between assets and liabilities.

The **Statements of Revenues, Expenses and Changes in Net Assets** provide information on the District's operations over the past two years and the success of recovering all its costs through user fees, charges, special assessments, and other income. Revenues are reported when earned and expenses are reported when incurred.

The **Statements of Cash Flows** provide information about the District's cash receipts and cash disbursements. It summarizes the net changes in cash resulting from operating, investing, capital and non-capital financing activities.

STATEMENTS OF NET ASSETS

Table 1 summarizes the net assets of the District. Capital assets are reported less accumulated depreciation. "Invested in Capital, Net of Related Debt", are capital assets less outstanding debt that was used to acquire those assets.

Table 1

	2011	2010	Change Amount	2009 *	Change Amount
Current and Other Assets	$ 18,534,355	$ 18,717,010	$ (182,655)	$ 16,615,159	$ 2,101,851
Restricted Assets	43,858	43,836	22	43,810	26
Invested in Capital Assets					
Net of Related Debt	48,392,422	51,849,706	(3,457,284)	54,075,892	(2,226,186)
Total Assets	66,970,635	70,610,552	(3,639,917)	70,734,861	(124,309)
Long Term Liabilities	55,817,076	59,545,533	(3,728,457)	59,541,144	4,389
Current and Other Liabilities	4,196,717	3,970,570	226,147	3,499,233	471,337
Total Liabilities	60,013,793	63,516,103	(3,502,310)	63,040,377	475,726
Net Assets					
Invested in Capital Assets, Net					
of Related Debt	(4,922,075)	(5,222,393)	300,318	(3,875,309)	(1,347,084)
Unrestricted	11,878,917	12,316,842	(437,925)	11,569,793	747,049
Total Net Assets	$ 6,956,842	$ 7,094,449	$ (137,607)	$ 7,694,484	$ (600,035)

* As Restated

The District's net assets decreased by $138 thousand (-1.9%) in 2011 and by $600 thousand (-7.8%) in 2010.

The decrease in 2011 is primarily due to the decrease in total assets of approximately $3.6 million which was partially offset by a decrease in total liabilities of approximately $3.5 million. The decrease in total assets is mainly due to decreases in net capital assets and assessment receivables and was partially offset by an increase in cash. Cash increased due to cash receipts exceeding cash disbursements primarily due to increased service revenues in 2011. Net capital assets decreased primarily due to depreciation expense which was partially offset by capital asset additions. Assessment receivables decreased due to assessment payments received. The decrease in total liabilities is primarily due to the decrease in notes payable.

The decrease in 2010 is primarily due to the decrease in total assets of approximately $.1 million and an increase in total liabilities of approximately $476 thousand. Cash increased due to cash receipts exceeding cash disbursements primarily due to increased service revenues and loan proceeds in 2010. Net capital assets decreased primarily due to depreciation expense which was partially offset by capital asset additions.

Unrestricted net assets decreased by $438 thousand (-3.6%) and increased by $747 thousand (6.5%) in 2010. Unrestricted net assets may be used without constraints established by legal requirements. Cash and cash equivalents increased $300 thousand (10.22%) in 2011 and increased $1.3 million (118.6%) in 2010.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Table 2 below summarizes the changes in Revenues and Expenses and Net Assets.

Table 2

	2011	2010	Change	2009 *	Change
Operating Revenues	$ 6,641,245	$ 5,946,449	$ 694,796	$ 5,294,765	$ 651,684
Operating Expenses (Excluding Depreciation & Amortization)	2,301,001	2,369,886	(68,885)	2,372,074	(2,188)
Depreciation & Amortization	3,867,819	3,804,051	63,768	3,760,869	43,182
Total Operating Expenses	**6,168,820**	**6,173,937**	**(5,117)**	**6,132,943**	40,994
Operating Loss	472,425	(227,488)	699,913	(838,178)	610,690
Non-Operating Revenues	2,410,886	2,209,231	201,655	2,293,550	(84,319)
Non-Operating Expenses	3,233,083	3,421,557	(188,474)	3,445,360	(23,803)
Capital Contributions	212,165	839,779	(627,614)	55,159	784,620
Changes in Net Assets	**(137,607)**	**(600,035)**	**462,428**	**(1,934,829)**	**1,334,794**
Net Assets at Beginning of Year *	**7,094,449**	**7,694,484**	**(600,035)**	**9,629,313**	**(1,934,829)**
Net Assets at End of Year	**$ 6,956,842**	**$ 7,094,449**	**$ (137,607)**	**$ 7,694,484**	**$ (600,035)**

* - Restated

Operating revenues increased $695 thousand (11.7%) in 2011. The increase in 2011 was primarily the result of a rate increase and an increase in customers. The increase in tap fees is the result of increased building activity in the area and is subject to fluctuation depending on the economy and other factors. The decrease in interest income is due to decreasing balances of special assessments receivable. There were capital contributions of $212,165 in 2011 (a decrease from $839,779 in 2010). The decrease was due to no donated lines from developers in 2011. Capital contributions will fluctuate from year to year depending on developer construction activity and deferred agricultural special assessments being collected from property converted from agricultural use.

Operating revenues increased $652 thousand (12.3%) in 2010. The increase in 2010 was primarily the result of a rate increase and an increase in customers. The increase in intergovernmental revenue was mainly due to ARRA forgiveness on OWDA notes payable. The decrease in tap fees is the result of decreased building activity in the area and is subject to fluctuation depending on the economy and other factors. The decrease in interest income is due to decreasing balances of special assessments receivable. There were capital contributions of $839,779 in 2010 (an increase from $55,159 in 2009). The increase was due to an ARRA loan forgiveness grant, an Ohio Public Works Commission grant and donated lines from developers. Capital contributions will fluctuate from year to year depending on developer construction activity and deferred agricultural special assessments being collected from property converted from agricultural use.

Operating expenses, excluding depreciation and amortization, decreased $69 thousand (-2.9%) in 2011. This decrease was primarily a result of decreases in salaries, due to a reduction in staff and retirements, and legal fees. These decreases were partially offset by an increase in utilities costs.

Operating expenses, excluding depreciation and amortization, decreased $2 thousand (-0.1%) in 2010. This decrease was primarily a result of decreases in repairs and maintenance and legal fees which was due to the settlement of certain litigation matters. These decreases were partially offset by increases in salaries, audit fees, and health insurance costs. The increase in salaries was due to salary level increases and the participation of certain employees in an annual buyback policy whereby employees are eligible to receive a payment in lieu of vacation and an increase in overtime wages. The increase in audit fees was due to the audit which occurs every two years.

CAPITAL ASSETS

The District had $100.0 million invested in capital assets (before accumulated depreciation of $52 million) at the end of 2011. This amount is an increase of $0.4 million (0.4%) from the previous year. Additional information regarding capital assets can be found in Note F to the basic financial statements.

Table 3

	2011	2010	Change Amount	2009	Change Amount
Capital Assets Not Being Depreciated:					
Land	$ 914,738	$ 914,738	$ -	$ 914,738	$ -
Land Easements	342,429	342,217	212	337,217	5,000
Construction in Progress	-	-	-	1,017,443	(1,017,443)
Total Capital Assets Not Being Depreciated	1,257,167	1,256,955	212	2,269,398	(1,012,443)
Capital Assets Being Depreciated (Net of Accumulated Depreciation):					
Land Improvements	18,780	20,809	(2,029)	22,838	(2,029)
Facilities, Lines & Related Infrastructure	44,294,799	47,548,597	(3,253,798)	49,064,878	(1,516,281)
Donated Developer Lines	2,532,437	2,714,744	(182,307)	2,401,211	313,533
Vehicles	15,254	19,740	(4,486)	372	19,368
Office Furniture and Equipment	50,427	65,747	(15,320)	79,896	(14,149)
General Equipment	217,376	213,659	3,717	230,633	(16,974)
Safety Equipment	6,182	9,455	(3,273)	6,666	2,789
Total Capital Assets Being Depreciated (Net)	47,135,255	50,592,751	(3,457,496)	51,806,494	(1,213,743)
Net Capital Assets	**$ 48,392,422**	**$ 51,849,706**	**$ (3,457,284)**	**$ 54,075,892**	**$ (2,226,186)**

DEBT

The District issues long term debt to finance most of its construction. In prior years, the District would levy special assessments on the benefiting property owners and then obtain Ohio Water Development Authority Loans (OWDA) to assist in financing various water and sewer line projects. The special assessment collections are generally received over a twenty five year period and such collections are used to pay the debt service on the OWDA loans. The District also issued OWDA and Ohio Public Works Commission debt to assist in the construction of water and wastewater treatment facilities as well as other infrastructure of the District. The District uses tap fees and capacity fees to assist in paying off these debt issues. The District also has a debt service fee charged to sewer customers to assist in paying off any sewer related debt. Additional information regarding debt can be found in Note H to the Basic Financial Statements.

Table 4	**2011**	**2010**	**Change Amount**	**2009**	**Change Amount**
OWDA Loans	$ 51,399,120	$ 55,053,309	$ (3,654,189)	$ 56,358,067	$ (1,304,758)
OPWC Loans	1,342,601	1,446,014	(103,413)	1,020,358	425,656
Rotary Commission Loans	346,941	346,941	-	346,941	-
Highland Hills Recoupment Agreement	225,835	225,835	-	225,835	-
Total Long Term Debt	53,314,497	57,072,099	(3,757,602)	57,951,201	(879,102)
Less: Current Maturities	3,927,896	3,777,775	150,121	3,282,362	495,413
Net Total Long Term Debt	$ 49,386,601	$ 53,294,324	$ (3,907,723)	$ 54,668,839	$ (1,374,515)

CASH

Cash and cash equivalents on December 31, 2011 and 2010 were $2.7 million and $2.5 million, respectively. $44 thousand of these funds in both 2011 and 2010 were restricted for specific use. These accounts are for escrowed contractor bonds.

CONTACT INFORMATION

Questions regarding this report and requests for additional information should be forwarded to Donald S. Rector, P.E., General Manager, Southwest Licking Community Water and Sewer District, P.O. Box 215, Etna, Ohio 43018 or (740) 927-0410.

Southwest Licking Community Water and Sewer District
Licking County, Ohio

Statements of Net Assets
As of December 31, 2011 and 2010

	2011	2010
ASSETS		
Current Assets:		
Cash	$ 2,700,869	$ 2,411,827
Petty cash	431	331
Intergovernmental Receivable	5,798	6,412
Accounts receivable - operating billings less allowance for doubtful accounts ($150,000 in 2011 and $150,000 in 2010)	750,641	694,148
Prepaid insurance	41,591	38,435
Meter inventory	33,941	31,784
Total current assets	3,533,271	3,182,937
Noncurrent assets:		
Restricted Assets:		
Cash in savings-contractor bonds	43,858	43,836
Total restricted assets	43,858	43,836
Capital Assets:		
Non-Depreciable Capital Assets	1,257,167	1,256,955
Depreciable Capital Assets	47,135,255	50,592,751
Total Capital Assets, Net	48,392,422	51,849,706
Other Assets:		
Loan fees, net of $131,852 and $124,846 accumulated amortization for 2011 and 2010, respectively	85,771	92,777
Jefferson water tap rights, net of $143,249 and $135,182 accumulated amortization for 2011 and 2010, respectively	31,896	39,963
Assessment receivables-water	7,602,237	7,773,860
Assessment receivables-sewer	7,281,180	7,627,473
Total other assets	15,001,084	15,534,073
Total Assets	$ 66,970,635	$ 70,610,552

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

Southwest Licking Community Water and Sewer District
Licking County, Ohio

Statements of Net Assets - Continued
As of December 31, 2011 and 2010

LIABILITIES	2011	2010
Current Liabilities:		
Accounts payable	$ 93,537	$ 29,439
Note payable - current portion	3,927,896	3,777,775
Deposits payable to developers	8,595	8,595
Contractor bonds payable	43,858	43,836
Accrued employee wages	33,946	38,241
Accrued interest payable	5,798	6,412
Payroll taxes accrued and withheld	55,078	52,272
Compensated absences - current portion	28,009	14,000
Total current liabilities	4,196,717	3,970,570
Long Term Liabilities:		
Compensated absences	130,655	152,494
Deferred revenue-special assessments	6,299,820	6,098,715
Notes and recoupment agreements payable	49,386,601	53,294,324
Total long term liabilities	55,817,076	59,545,533
Total Liabilities	60,013,793	63,516,103
Net Assets:		
Invested in capital assets, net of related debt	(4,922,075)	(5,222,393)
Unrestricted	11,878,917	12,316,842
Total net assets	$ 6,956,842	$ 7,094,449

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

Southwest Licking Community Water and Sewer District
Licking County, Ohio

Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended December 31, 2011 and 2010

	2011	2010
OPERATING REVENUES		
Service revenues	$ 6,409,221	$ 5,734,242
Late charges	232,024	212,207
Total operating revenues	6,641,245	5,946,449
OPERATING EXPENSES		
Salaries	946,629	1,002,821
Training	1,075	4,187
Medicare tax expense	13,490	13,873
P.E.R.S. expense	147,165	190,915
Workers compensation	13,582	18,087
Operations and testing	21,373	28,922
Chemicals and operating supplies	177,400	153,372
Biosolids processing	46,265	45,850
Refuse	3,072	2,736
Equipment rental	2,862	2,252
Repairs and maintenance	208,967	203,208
Legal	20,514	61,690
Accounting	17,680	17,680
Board designated expenses	1,198	423
Audit fees	-	19,192
Advertising and communications	915	1,132
Insurance:		
General	41,035	43,248
Health	132,472	150,167
Life	2,367	1,747
Telephone	23,055	24,299
Utilities	371,146	294,375
Office supplies	20,093	11,157
Postage	38,234	41,565
Security	3,168	356
Uniform rental	2,005	1,442
Small tools	1,098	835
Vehicle expense	6,692	4,085
Collection and bank fees	237	304
Dues and subscriptions	1,520	670
Licenses	35,033	28,594
General manager discretionary	659	702
Depreciation	3,852,746	3,788,978
Amortization	15,073	15,073
Total operating expenses	6,168,820	6,173,937
Operating income (loss)	472,425	(227,488)
NON-OPERATING REVENUES (EXPENSES)		
Debt service fee income	940,899	937,807
Inspection revenue	620	480
Tap fee income	805,871	491,911
Capacity fee revenue	5,560	1,390
Interest income	628,004	710,997
Intergovernmental	12,410	13,395
Miscellaneous income	17,522	53,251
Loss on sale of capital assets	(15,895)	-
Interest expense	(3,217,188)	(3,421,557)
Total non-operating revenues (expenses)	(822,197)	(1,212,326)
Changes in net assets before capital contributions	(349,772)	(1,439,814)
Capital contributions - special assessments	-	27,789
Capital contributions - intergovernmental	212,165	325,872
Capital contributions - developers	-	486,118
Changes in net assets	(137,607)	(600,035)
Net assets, beginning of year - as restated	7,094,449	7,694,484
Net assets, end of year	$ 6,956,842	$ 7,094,449

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

Southwest Licking Community Water and Sewer District
Licking County, Ohio

Statements of Cash Flows
For the Years Ended December 31, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities:		
Cash received from customers	$ 6,584,752	$ 5,935,042
Cash payments to suppliers for goods and services	(986,511)	(1,086,653)
Cash payments for employee services and benefits	(1,265,024)	(1,317,434)
Net cash provided by operating activities	4,333,217	3,530,955
Cash Flows from Investing Activities:		
Interest income from savings	3,611	4,814
Cash Flows from Capital and Related Financing Activities:		
Payments for planning and construction, including capitalized interest	(373,169)	(1,031,405)
Assessment principal payments received	719,021	643,840
Intergovernmental revenue	225,189	339,838
Debt service fees collected	940,899	937,807
Increase (Decrease) in contractor bonds payable	22	26
Purchase of equipment and furniture	(37,976)	(18,584)
Purchase of vehicle	-	(21,685)
Purchase of land easements	(212)	(5,000)
Construction loan proceeds	13,707	2,841,359
Principal repayments on loans	(3,771,309)	(3,720,461)
Interest repayments on loans	(3,217,802)	(3,422,128)
Assessment interest income	624,393	706,183
Inspection, tap fee and miscellaneous income	829,573	547,032
Net cash provided by capital and related financing activities	(4,047,664)	(2,203,178)
Net increase in cash and cash equivalents	289,164	1,332,591
Cash and cash equivalents at beginning of year	2,455,994	1,123,403
Cash and cash equivalents at end of year	$ 2,745,158	$ 2,455,994

(Continued on following page)

Statements of Cash Flows - Continued
For the Years Ended December 31, 2011 and 2010

	2011	2010
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating income (loss)	$ 472,425	$ (227,488)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation and amortization	3,867,819	3,804,051
Changes in Assets and Liabilities:		
(Increase) decrease in accounts receivable	(56,493)	(11,407)
(Increase) decrease in prepaid insurance	(3,156)	1,786
(Increase) decrease in meter inventory	(2,157)	(18,083)
Increase (Decrease) in accounts payable (operating)	64,098	(78,080)
Increase (Decrease) in compensated absences	(7,830)	19,627
Increase (decrease) in accrued wages, benefits and payroll taxes	(1,489)	40,549
Total adjustments	3,860,792	3,758,443
Net cash provided by operating activities	$ 4,333,217	$ 3,530,955
Non-cash transaction:		
Acquisition of capital assets through developer donation	$ -	$ 486,118

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

NOTE A - 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.et.seq of the Revised Code. SWLCWSD is managed by a Board consisting of three (3) appointed trustees.

In accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, and GASB Statement No. 39, Determining Whether Certain Organizations are Component Units (an amendment of GASB Statement No. 14), the accompanying financial statements include only the accounts and transactions of the District. Under the criteria specified in these GASB Statements, the District has no component units nor is it considered a component unit of the State of Ohio. The District is considered, however, a political subdivision of the State of Ohio. These conclusions regarding the financial reporting entity are based on the concept of financial accountability. The District is not financially accountable for any other organizations. This is evidenced by the fact that the District is a legally and fiscally separate and distinct organization. The District is solely responsible for its finances. The District is empowered to issue debt payable solely from District receipts.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if it appoints a voting majority of the organization's governing board and (1) is able to significantly influence the programs or services performed or provided by the organization; or (2) is legally entitled to or can otherwise access the organization's resources; is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or is obligated for the debt of the organization. Based upon the application of these criteria, the District has no component units.

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

NOTE B - 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. 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, net assets, revenues, and expenses. This fund accounts for the 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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 basis and all assets and liabilities associated with the operation are included on the statements of net assets.

3. **Budgetary Process**
Annually, the SWLCWSD adopts an operating budget (prepared in accordance with accounting principles generally accepted in the United States of America) which does not include capital acquisition and related depreciation expense.

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 recorded an allowance for doubtful accounts for fiscal years 2011 and 2010. 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". These assets are shown as restricted as they can not be used for general SWLCWSD purposes.

7. **Capital Assets**
Capital assets 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 50 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 capital assets. Once construction is complete and a project is operational, depreciation begins on all planning costs, construction costs, and capitalized interest. In prior years, the District capitalized all assets. In more recent years, the District has maintained a capital asset threshold of $1,000.

Donated developer lines are stated at fair value based on developer documentation, and are depreciated over 25 to 50 years. 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 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 expensed. 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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2011 and 2010 was $8,067 for both years. 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 2011 and 2010 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. **Inventory of Materials and Supplies**

Inventories of materials and supplies are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

11. **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 2011 and 2010, SWLCWSD's investment consisted of a repurchase agreement.

12. **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.

13. **Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For SWLCWSD, these revenues are service revenues and late charges for water and sewer services provided. Operating expenses are necessary costs incurred to provide the goods and/or service that is the primary activity of the fund.

14. **Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction or improvements of those assets.

NOTE C - CASH IN SAVINGS

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, 2011 and 2010 was $43,858 and $43,836, respectively.

NOTE D - DEPOSITS 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 five-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.

Interim deposits are deposits of interim monies. Interim deposits shall be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including, but not limited to, pass book accounts. 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;

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 of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;

5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;

6. 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;

7. The State Treasurer's investment pool (STAR Ohio);

8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;

9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio; and

10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's average portfolio.

NOTE D - DEPOSITS AND INVESTMENTS (Continued)

Protection of the SWLCWSD'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.

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 SWLCWSD, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

Custodial credit risk is the risk that in the event of the failure of the counterparty, SWLCWSD's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. SWLCWSD's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateralization of public funds.

As of December 31, 2011, SWLCWDS's bank balance of $1,016,989 is either covered by FDIC or collateralized by the financial institutions public entity deposit pools in the manner described above. As of December 31, 2010, SWLCWDS's bank balance of $1,007,955 is either covered by FDIC or collateralized by the financial institutions public entity deposit pools in the manner described above. At fiscal year-end 2011 and 2010, the carrying amount of the District's deposits was $910,122 and negative $2,520,294, exclusive of the repurchase agreement. The negative carrying amount of deposits does not result in an actual overdraft due to the repurchase agreement.

Investments

As of December 31, 2011 and December 31, 2010, SWLCWSD had the following investments and maturities:

	2011		2010	
	Fair Value	Weighted Average Maturity (Yrs.)	Fair Value	Weighted Average Maturity (Yrs.)
Repurchase Agreements	$ 1,835,036	0	$ 4,976,288	0
Total Fair Value	$ 1,835,036		$ 4,976,288	

Interest rate risk – In accordance with the investment policy, SWLCWSD manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. SWLCWSD limits their investments to repurchase agreements.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. SWLCWSD's investment policy allows investments in Repurchase Agreements, Certificates of Deposit or within financial institutions within the State of Ohio as designated by the Federal Reserve Board. SWLCWSD has invested 100% in investments with no weighted maturity.

NOTE D - DEPOSITS AND INVESTMENTS (Continued)

Custodial credit risk – Custodial credit risk is the risk that in the event of the failure of the counterparty, the SWLCWSD will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The SWLCWSD's repurchase agreements are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in SWLCWSD's name.

The classification of cash and cash equivalents, and investments on the basic 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.*

NOTE E - INTEREST INCOME

Interest income came from the following sources:

	2011	2010
Interest income from repurchase agreements and savings accounts	$ 3,611	$ 4,814
Interest income from assessments, accrued and collected	624,393	706,183
Total interest income	$ 628,004	$ 710,997

NOTE F – CAPITAL ASSETS

Capital assets activity for the fiscal year ended December 31, 2011 was as follows:

	Ending Balance 12/31/10	Additions	Deletions	Ending Balance 12/31/11
Capital Assets, Not Being Depreciated				
Land	$ 914,738	$ -	$ -	$ 914,738
Land Easements	342,217	212	-	342,429
Total Capital Assets, Not Being Depreciated	1,256,955	212	-	1,257,167
Capital Assets Being Depreciated				
Land Improvements	32,000	-	-	32,000
Facilities, Lines & Related Infrastructure	93,048,858	373,169	(46,741)	93,375,286
Donated Developer Lines	4,557,666	-	-	4,557,666
Vehicles	210,746	-	-	210,746
Office Furniture and Equipment	239,254	-	-	239,254
General Equipment	624,470	37,976	-	662,446
Safety Equipment	30,387	-	-	30,387
Total Capital Assets, Being Depreciated	98,743,381	411,145	(46,741)	99,107,785
Less Accumulated Depreciation:				
Land Improvements	(11,191)	(2,029)	-	(13,220)
Facilities, Lines & Related Infrastructure	(45,500,261)	(3,611,072)	30,846	(49,080,487)
Donated Developer Lines	(1,842,922)	(182,307)	-	(2,025,229)
Vehicles	(191,006)	(4,486)	-	(195,492)
Office Furniture and Equipment	(173,507)	(15,320)	-	(188,827)
General Equipment	(410,811)	(34,259)	-	(445,070)
Safety Equipment	(20,932)	(3,273)	-	(24,205)
Total Accumulated Depreciation	(48,150,630)	(3,852,746)	30,846	(51,972,530)
Total Capital Assets Being Depreciated, Net	50,592,751	(3,441,601)	(15,895)	47,135,255
Total Capital Assets	$ 51,849,706	$ (3,441,389)	$ (15,895)	$ 48,392,422

NOTE F – CAPITAL ASSETS (Continued)

Capital assets activity for the fiscal year ended December 31, 2010 was as follows:

	Ending Balance 12/31/09	Additions	Deletions	Ending Balance 12/31/10
Capital Assets, Not Being Depreciated				
Land	$ 914,738	$ -	$ -	$ 914,738
Land Easements	337,217	5,000	-	342,217
Construction in Progress	1,017,443	-	(1,017,443)	-
Total Capital Assets, Not Being Depreciated	2,269,398	5,000	(1,017,443)	1,256,955
Capital Assets Being Depreciated				
Land Improvements	32,000	-	-	32,000
Facilities, Lines & Related Infrastructure	91,000,010	2,048,848	-	93,048,858
Donated Developer Lines	4,071,548	486,118	-	4,557,666
Vehicles	189,061	21,685	-	210,746
Office Furniture and Equipment	239,254	-	-	239,254
General Equipment	610,870	13,600	-	624,470
Safety Equipment	25,403	4,984	-	30,387
Total Capital Assets, Being Depreciated	96,168,146	2,575,235	-	98,743,381
Less Accumulated Depreciation:				
Land Improvements	(9,162)	(2,029)	-	(11,191)
Facilities, Lines & Related Infrastructure	(41,935,132)	(3,565,129)	-	(45,500,261)
Donated Developer Lines	(1,670,337)	(172,585)	-	(1,842,922)
Vehicles	(188,689)	(2,317)	-	(191,006)
Office Furniture and Equipment	(159,358)	(14,149)	-	(173,507)
General Equipment	(380,237)	(30,574)	-	(410,811)
Safety Equipment	(18,737)	(2,195)	-	(20,932)
Total Accumulated Depreciation	(44,361,652)	(3,788,978)	-	(48,150,630)
Total Capital Assets Being Depreciated, Net	51,806,494	(1,213,743)	-	50,592,751
Total Capital Assets	$ 54,075,892	$ (1,208,743)	$ (1,017,443)	$ 51,849,706

NOTE G - ACCOUNTS AND ASSESSMENTS RECEIVABLE

Account receivable balances at December 31, 2011 and 2010 for operating billings are as follows:

	2011	2010
Current	$ 610,678	$ 547,209
Over 30 days	133,703	122,243
Over 60 days	26,653	50,567
Over 90 days	129,607	124,129
Gross Receivables	900,641	844,148
Less: Allowance for Doubtful Accounts	(150,000)	(150,000)
Net Accounts Receivable	$ 750,641	$ 694,148

NOTE G - 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, 2011 and 2010, 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 assessment accounts receivable balances at December 31, 2011 and December 31, 2010 are $14,883,417 and $15,401,333, respectively.

NOTE H - 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.), and the Rotary Commission. 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. In 2006, the agreement was extended indefinitely.

SWLCWSD has eight (8) 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. 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. 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. Loan CQ24E is in the amount of $733,000 and was used to assist in the Phase I-B Wastewater Treatment Plant expansion. The loan commenced in 2004 and will mature July 1, 2024. Loan CQ06M for $529,142 was used to finance the York Road/Refugee Road Pump Station Upgrade. The loan commenced in 2010 and will mature January 1, 2031. Loan CQ25N commenced in 2011; however, the project was still in progress at year end and the loan had not been finalized. Therefore no loan amortization schedule is provided for this loan.

The SWLCWSD 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.

NOTE H - CURRENT AND LONG-TERM DEBT – PLANNING AND CONSTRUCTION LOANS (Continued)

Long-term debt obligations and the related transactions for the years ended December 31, 2010 and 2011 are summarized below:

	Balance 12/31/2010	Additions	Reductions	Balance 12/31/2011	Amount Due Within One Year
O.W.D.A	$ 55,053,309	$ 405	$ 3,654,594	$ 51,399,120	$ 3,797,952
O.P.W.C	1,446,014	13,302	116,715	1,342,601	129,944
Rotary	346,941	-	-	346,941	-
Highland Hills Recoupment	225,835	-	-	225,835	-
Compensated Absences	166,494	87,696	95,526	158,664	28,009
	$ 57,238,593	$ 101,403	$ 3,866,835	$ 53,473,161	$ 3,955,905

	Balance 12/31/2009	Additions	Reductions	Balance 12/31/2010	Amount Due Within One Year
O.W.D.A	$ 56,358,067	$ 2,312,217	$ 3,616,975	$ 55,053,309	$ 3,647,831
O.P.W.C	1,020,358	529,142	103,486	1,446,014	129,944
Rotary	346,941	-	-	346,941	-
Highland Hills Recoupment	225,835	-	-	225,835	-
Compensated Absences	146,867	100,153	80,526	166,494	14,000
	$ 58,098,068	$ 2,941,512	$ 3,800,987	$ 57,238,593	$ 3,791,775

NOTE H - CURRENT AND LONG-TERM DEBT – PLANNING AND CONSTRUCTION LOANS (Continued)

Loan #	Payable To	Interest Rate	First Payment	Principal Term	Principal Due in 2012	Principal Due after 2012
1865	O.W.D.A.	7.54	1/1/1994	25 yrs.	$ 130,788	$ 915,018
1866	O.W.D.A.	6.24	1/1/1994	25 yrs.	13,126	88,132
1867	O.W.D.A.	7.45	1/1/1994	25 yrs.	147,341	1,027,885
1868	O.W.D.A.	6.61	1/1/1994	25 yrs.	24,110	163,792
1869	O.W.D.A.	6.61	1/1/1995	25 yrs.	247,667	2,057,785
3019	O.W.D.A.	6.85	1/1/1995	25 yrs.	224,760	1,884,257
3020	O.W.D.A.	6.02	1/1/1995	25 yrs.	17,621	143,268
3021	O.W.D.A.	5.77	1/1/1995	25 yrs.	11,157	89,873
3025	O.W.D.A.	6.75	7/1/1995	25 yrs.	174,337	1,598,284
3039	O.W.D.A.	6.51	7/1/1995	25 yrs.	70,297	638,361
3040	O.W.D.A.	5.77	7/1/1996	25 yrs.	11,381	118,162
3041	O.W.D.A.	6.51	7/1/1995	25 yrs.	95,972	871,507
3043	O.W.D.A.	6.24	7/1/1995	25 yrs.	145,572	1,307,612
3048	O.W.D.A.	6.24	7/1/1995	25 yrs.	3,660	32,872
3053	O.W.D.A.	6.16	7/1/1995	25 yrs.	6,100	54,624
3054	O.W.D.A.	6.16	7/1/1995	25 yrs.	20,414	182,796
3055	O.W.D.A.	6.16	7/1/1995	25 yrs.	61,012	546,332
3063	O.W.D.A.	6.16	1/1/1996	25 yrs.	47,384	461,376
3064	O.W.D.A.	6.16	1/1/1996	25 yrs.	8,684	84,551
3079	O.W.D.A.	6.02	1/1/1996	25 yrs.	119,316	1,154,965
3080	O.W.D.A.	6.02	1/1/1996	25 yrs.	58,006	561,463
3105	O.W.D.A.	5.77	1/1/1996	25 yrs.	19,716	188,839
3106	O.W.D.A.	5.77	1/1/1996	25 yrs.	14,180	135,815
2005	O.W.D.A.	5.90	7/1/1996	25 yrs.	71,046	741,996
2930	O.W.D.A.	5.90	7/1/1996	25 yrs.	38,946	406,750
2956	O.W.D.A.	6.64	1/1/1997	25 yrs.	8,414	98,133
2957	O.W.D.A.	6.64	1/1/1997	25 yrs.	27,615	322,096
2969	O.W.D.A.	6.72	1/1/1997	25 yrs.	50,454	590,714
2970	O.W.D.A.	6.72	1/1/1997	25 yrs.	196,161	2,296,740
2971	O.W.D.A.	6.36	1/1/1997	25 yrs.	18,450	212,320
2093	O.W.D.A.	6.87	7/1/1997	25 yrs.	196,171	2,497,634
2094	O.W.D.A.	6.87	7/1/1997	25 yrs.	204,129	2,598,949
2095	O.W.D.A.	6.36	1/1/1998	25 yrs.	63,064	838,977
2096	O.W.D.A.	6.36	1/1/1998	25 yrs.	31,561	419,875
2099	O.W.D.A.	6.32	7/1/1999	25 yrs.	28,830	466,716
2101	O.W.D.A.	6.11	7/1/1999	25 yrs.	63,376	1,012,677
Subtotal					$ 2,670,818	$ 26,811,146

NOTE H - CURRENT AND LONG-TERM DEBT – PLANNING AND CONSTRUCTION LOANS (Continued)

Loan #	Payable To	Interest Rate	First Payment	Principal Term	Principal Due in 2012	Principal Due after 2012
2103	O.W.D.A.	6.11	7/1/1999	25 yrs.	46,182	737,933
2174	O.W.D.A.	5.77	1/1/2002	25 yrs.	27,474	574,003
3279	O.W.D.A.	6.41	1/1/2002	25 yrs.	154,572	3,397,062
3682	O.W.D.A.	5.20	7/1/2004	25 yrs.	84,802	2,158,355
3683	O.W.D.A.	5.20	7/1/2004	25 yrs.	25,021	636,829
3756	O.W.D.A.	3.59	1/1/2005	20 yrs.	360,747	4,271,509
3760	O.W.D.A.	4.84	7/1/2004	15 yrs.	57,055	406,056
3912	O.W.D.A.	4.28	1/1/2005	25 yrs.	68,981	1,682,328
3944	O.W.D.A.	4.35	1/1/2005	25 yrs.	14,106	346,304
4314	O.W.D.A.	3.99	7/1/2006	25 yrs.	58,794	1,572,858
4315	O.W.D.A.	3.99	1/1/2007	25 yrs.	44,680	1,242,143
4316	O.W.D.A.	3.99	1/1/2007	20 yrs.	31,592	574,653
4437	O.W.D.A.	3.99	7/1/2006	25 yrs.	9,858	263,714
4699	O.W.D.A.	3.67	1/1/2008	5 yrs.	30,933	-
4821	O.W.D.A.	4.61	7/1/2008	5 yrs.	75,813	-
5008	O.W.D.A.	4.79	7/1/2010	25 yrs.	36,524	1,448,183
5009	O.W.D.A.	4.79	N/A	25 yrs.	-	1,348,864
5392	O.W.D.A.	0.00	N/A	20 yrs.	-	128,823
5902	O.W.D.A.	0.00	N/A	N/A	-	405
CQ021	O.P.W.C	0.00	1/1/2000	20 yrs.	12,430	87,010
CQ616	O.P.W.C	0.00	7/1/1995	20 yrs.	24,067	60,166
CQ807	O.P.W.C	0.00	1/1/1997	20 yrs.	13,598	54,393
CQ808	O.P.W.C	0.00	1/1/1996	20 yrs.	11,818	35,452
CQ23D	O.P.W.C	0.00	1/1/2003	20 yrs.	17,339	182,063
CQ24E	O.P.W.C	0.00	1/1/2005	20 yrs.	24,235	290,814
CQ06M	O.P.W.C	0.00	7/1/2011	20 yrs.	26,457	489,457
CQ25N	O.P.W.C	N/A	N/A	N/A	-	13,302
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		Indefinite	-	225,835
Subtotal of this page					1,257,078	22,575,455
Subtotal of previous page					2,670,818	26,811,146
Totals					$ 3,927,896	$ 49,386,601

N/A – These loans were not finalized as of December 31, 2011.

NOTE H - CURRENT AND LONG-TERM DEBT – PLANNING AND CONSTRUCTION LOANS (Continued)

Year Ending	OWDA Loans			OPWC Loans		
December 30,	Principal	Interest	Total	Principal	Interest	Total
2012	$ 3,797,952	$ 2,932,921	$ 6,730,873	$ 129,944	$ -	$ 129,944
2013	3,918,476	2,702,453	6,620,929	129,944	-	129,944
2014	4,159,470	2,461,460	6,620,930	129,944	-	129,944
2015	4,415,641	2,205,288	6,620,929	117,907	-	117,907
2016	4,687,589	1,933,339	6,620,928	94,060	-	94,060
2017-2021	20,725,267	5,311,709	26,036,976	377,446	-	377,446
2022-2026	5,700,862	1,310,858	7,011,720	230,997	-	230,997
2027-2031	2,219,470	273,717	2,493,187	119,057	-	119,057
2032-2034	296,301	25,327	321,628	-	-	-
Total	$ 49,921,028	$ 19,157,072	$ 69,078,100	$ 1,329,299	$ -	$ 1,329,299

Year Ending	Total		
December 30,	Principal	Interest	Total
2012	$ 3,927,896	$ 2,932,921	$ 6,860,817
2013	4,048,420	2,702,453	6,750,873
2014	4,289,414	2,461,460	6,750,874
2015	4,533,548	2,205,288	6,738,836
2016	4,781,649	1,933,339	6,714,988
2017-2021	21,102,713	5,311,709	26,414,422
2022-2026	5,931,859	1,310,858	7,242,717
2027-2031	2,338,527	273,717	2,612,244
2032-2034	296,301	25,327	321,628
Total	$ 51,250,327	$ 19,157,072	$ 70,407,399

Project loan agreements 5009, 5902 and 5392 in the total amount of $1,478,092 have not been finalized with the OWDA, and OPWC loan CQ25N has not been finalized in the total amount of $13,302; therefore, no amortization schedules have been created. As a result these loans are not shown on the above maturity schedule. The Highland Hills Recoupment is not shown on the above amortization schedule as there is no fixed repayment schedule for this outstanding loan. The Rotary Loans are also not shown on the above amortization schedule as there is no fixed repayment schedule for these outstanding loans.

In connection with the OWDA loans listed above, the District has pledged future customer revenues, net of specified operating expenses, to repay this debt. Pledged revenues of a given year may also include specified portions of cash balances carried over from the prior year. The loans are payable, through their final maturities as listed above, solely from net revenues. Total interest and principal remaining to be paid on these loans is $72,471,569 at December 31, 2011and $75,535,009 at December 31, 2010. For the year ended December 31, 2011 net revenue available, principal and interest paid and the coverage ratio is as follows: $4,108,221, $6,937,365, and 0.59, respectively. For the year ended December 31, 2010, net revenue available, principal and interest paid and the coverage ratio is as follows: $3,576,563, $7,039,103, and 0.51, respectively.

NOTE I - DEFINED BENEFIT RETIREMENT PLAN

A. The Ohio Public Employees Retirement System (OPERS) 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.
3) The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension 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. OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

C. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

D. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting https://www.opers.org/investments/cafr.shtml, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

E. The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan.

The member contribution rates were 10.0% for 2011, 2010 and 2009 for the SWLCWSD.

The employer contribution rates were 14.0% for 2011, 2010 and 2009 of covered payroll for the SWLCWSD.

SWLCWSD's contributions to OPERS for the years ended December 31, 2011, 2010, and 2009, were $139,928, $190,915, and $152,008, respectively. For fiscal year 2011, 82% of the required contributions had been made and for fiscal years 2010 and 2009, 100% of the required contributions had been made.

NOTE J - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System (OPERS) 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.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement, to qualifying members of both the TP and the CO Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment healthcare coverage.

In order to qualify for post-retirement healthcare coverage, age and service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 45.

NOTE J - POSTEMPLOYMENT BENEFITS(Continued)

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting https://www.opers.org/investments/cafr.shtml, writing OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

B. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement healthcare benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, 2010 and 2009, the SWLCWSD contributed at 14% of covered payroll. The Ohio Revised Code currently limits the employer contribution rate not to exceed 14% of covered payroll. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Healthcare plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment healthcare benefits.

For 2011, the employer contribution allocated to the health care plan for members in the Traditional Plan was 4% and 6.05% for the Combined Plan. For 2010, the employer contribution allocated to the health care plan for members in the Traditional Plan was 5.5% from January through February and 5.0% from March through December. The employer contribution allocated to the health care plan for members in the Combined Plan was 4.73% from January through February and 4.23% from March through December. For 2009, the employer contribution allocated to the health care plan was 7.0% from January through March and 5.5% from April through December. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the healthcare benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

C. The employer contributions that were used to fund post-employment benefits were $39,977 for 2011, $69,735 for 2010, and $63,789 for 2009, which were equal to the required contributions for those years.

D. The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective on January 1, 2007. Member and employer contribution rates increased as of January 1 of each year from 2006 to 2008, which allowed additional funds to be allocated to the healthcare plan.

NOTE K - 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 years ended December 31, 2011 and 2010 the SWLCWSD contracted for the following insurance coverage:

General Liability	$2,000,000
Public Officials	1,000,000
Commercial Umbrella	5,000,000
Automobile	1,000,000
Employee Benefits Liability	1,000,000
Employee Benefits Aggregate	2,000,000

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

NOTE K - RISK MANAGEMENT(Continued)

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.

NOTE L - RELATED PARTY TRANSACTIONS

No related party transactions existed at December 31, 2011 and 2010.

NOTE M - CONTINGENT LIABILITIES

During the year ended December 31, 2011 SWLCWSD was not involved in any litigation. During the year ended December 31, 2010, SWLCWSD was involved in several legal actions. The cases were settled as of December 31, 2010 and did not result in any additional liabilities for the District.

NOTE N - DEBT SERVICE FEE

The SWLCWSD has a debt service fee which was $11.95 per month per sewer customer during both 2011 and 2010. This fee was implemented to assist the SWLCWSD in meeting its debt service requirements. The proceeds of the fee are restricted to the payment of principal and interest on sewer debt. During 2011 and 2010 the SWLCWSD collected $940,899 and $937,807 in debt service fees and expended more than $4 million both years in principal and interest payments on sewer related debt.

NOTE O - 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.

NOTE P - MISCELLANEOUS INCOME

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

NOTE Q - 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. Interest expense is detailed in the following schedule:

	2011	2010
OWDA- Water	$ 1,236,501	$ 1,321,861
OWDA- Sewer	1,980,687	2,099,696
Total interest expense	$ 3,217,188	$ 3,421,557

NOTE R – RESTATEMENT OF PRIOR YEAR NET ASSETS

The District determined that there were some errors in the calculations of deferred agricultural assessments and the District restated beginning net assets as follows:

Net Assets, January 1, 2010	$7,663,880
Correction of Error	30,604
Restated Net Assets, January 1, 2010	$7,694,484

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

Southwest Licking Community Water and Sewer District
69 Zellers Lane
Pataskala, Ohio 43062

To the Board of Trustees:

We have audited the financial statements of the business-type activities of the Southwest Licking Community Water and Sewer District, Licking County, (the "District") as of and for the years ended December 31, 2011 and December 31, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 18, 2012. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of management and the Board of Trustees and others within the District. We intend it for no one other than these specified parties.

Kennedy Cottrell Richards LLC

Kennedy Cottrell Richards LLC
June 18, 2012

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Dave Yost • Auditor of State

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
AUGUST 16, 2012