

Southwest Licking Community Water & Sewer District

Licking County

Regular Audit

January 1, 1998 Through December 31, 1999

Fiscal Years Audited Under GAGAS: 1998 & 1999

MICHAEL A. BALESTRA, CPA, INC.
CERTIFIED PUBLIC ACCOUNTANTS
528 SOUTH WEST STREET, P.O. BOX 687
PIKETON, OHIO 45661



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

35 North Fourth Street, 1st Floor
Columbus, Ohio 43215
Telephone 614-466-4514
800-282-0370
Facsimile 614-728-7398

Board of Trustees
Southwest Licking Community Water & Sewer District
8821 York Road
Etna, Ohio 43018

We have reviewed the Independent Auditor's Report of the Southwest Licking Community Water & Sewer District, Licking County, prepared by Michael Balestra, CPA, Inc., for the audit period January 1, 1998 to December 31, 1999. 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 & Sewer District is responsible for compliance with these laws and regulations.

JIM PETRO
Auditor of State

November 9, 2000

SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT
LICKING COUNTY

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Independent Auditors' Report	1
General Purpose Financial Statements:	
Balance Sheet	2-3
Statement of Revenues, Expenses and Changes in Retained Earnings	4
Statement of Cash Flows	5
Notes to General Purpose Financial Statements	6-18
Report on Compliance and on Internal Control over Financial Reporting based on an Audit of Financial Statements Performed in accordance with Government Auditing Standards	19-20

MICHAEL A. BALESTRA, CPA, INC.

CERTIFIED PUBLIC ACCOUNTANTS
528 SOUTH WEST STREET, P.O. BOX 687
PIKETON, OHIO 45661

TELEPHONE (740) 289-4131

FAX (740) 289-3639

E-MAIL mbalcpa@bright.net

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
8821 York Road
Etna, Ohio 43018

We have audited the accompanying general purpose financial statements of Southwest Licking Community Water & Sewer District, Licking County, as of and for the years ended December 31, 1998 and 1999. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of Southwest Licking Community Water & Sewer District, Licking County, as of December 31, 1998 and 1999 and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have issued our report dated September 22, 2000 on our consideration of the District's internal control over financial reporting and our test of 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.

Michael A. Balestra, CPA Inc.

Michael A. Balestra, CPA Inc.

September 22, 2000

SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT
LICKING COUNTY

BALANCE SHEET
AS OF DECEMBER 31, 1998 AND 1999

Assets

	1998	1999
Current Assets:		
Cash in checking	\$ 63,510	\$ 5,000
Petty cash	70	140
Board designated cash fund	133	0
Postage fund	287	368
Account receivables - operating billings	248,776	283,927
Note receivable - promissory note	694	3,282
Account receivables - other	8,467	4,564
Meters inventory	24,065	25,146
Total current assets	346,002	322,427
Restricted Assets:		
Cash in savings-contractor bonds	\$ 28,800	\$ 29,300
Cash in savings	796,478	575,552
Assessment receivables-water	8,266,956	8,311,576
Assessment receivables-sewer	10,318,695	10,236,079
	19,410,929	19,152,507
Property, Plant, and Equipment, net of Accumulated Depreciation:	55,683,463	53,743,917
Long-Term Assets:		
Note receivable - promissory note	4,262	11,241
Other Assets:		
Prepaid insurance	11,632	11,962
Loan fees		
-net of \$36,723 and \$44,694 accumulated amortization for 1998 & 1999 respectfully	175,538	172,929
Jefferson water tap rights		
-net of \$42,619 and \$49,624 accumulated amortization for 1998 & 1999 respectfully	132,526	125,520
	319,696	310,411
	\$ 75,764,352	\$ 73,540,503

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, 1998 AND 1999

LIABILITIES AND FUND EQUITY

	1998	1999
Current Liabilities:		
Accounts payable	\$ 292,284	\$ 86,004
Note payable - current portion	627,510	857,231
Deposits payable to developers	78,189	131,309
Contractor bonds payable	32,300	33,800
Contractor retainage payable	137,236	65,457
Accrued employee benefits	55,024	50,967
Accrued employee wages	6,866	7,880
Payroll taxes accrued and withheld	39,826	40,039
Deferred Revenue	3,579,238	3,545,911
Total current liabilities	4,848,473	4,818,598
Notes Payable:		
Notes and recoupment agreements payable	56,116,661	55,550,509
Fund Equity:		
Contributed capital:		
Grants	\$ 324,590	\$ 324,590
Water assessments	11,605,750	11,846,534
Sewer assessments	15,407,113	15,597,078
Donated developer lines	2,330,151	2,503,164
Retained fund deficit	(14,868,386)	(17,099,970)
	14,799,218	13,171,396
	\$ 75,764,352	\$ 73,540,503

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 RETAINED FUND BALANCE
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1999

	1998	1999
Service fee income	\$ 1,353,651	\$ 1,581,569
Late fee income	93,723	111,988
Total revenues	1,447,374	1,693,557
Operating Expenses:		
Salaries	404,595	463,899
Spot labor	3,280	2,058
Training	1,220	473
Operations and testing	45,115	32,512
Medicare tax	5,867	6,623
P.E.R.S. expense	54,832	61,777
Workers compensation	13,446	9,067
Chemicals and operating supplies	32,217	30,997
Engineering supplies	2,795	1,407
Sludge hauling	100,522	66,826
Repairs and maintenance	140,445	93,916
Engineering	40,334	728
Equipment rental	3,716	6,404
Legal	79,671	92,811
Accounting	46,909	58,120
Audit fees	6,275	1,460
Professional fees and software	0	40,691
Insurance	10,998	12,711
Health insurance	7,645	10,163
Life insurance	467	808
Telephone	43,333	43,608
Electricity	112,845	119,836
Refuse	439	705
Advertising and communications	20,379	11,582
Office supplies	9,017	8,680
Postage	11,492	12,955
Collection/bank/payment plan fees	693	437
Small Tools	576	1,532
Dues and subscriptions	1,074	543
Uniform rental	4,124	2,934
Vehicle expenses	29,130	29,333
Cleaning and security	4,740	5,202
Licenses	7,466	12,727
Total operating expenses	1,245,657	1,243,525
Operating income(loss)	\$ 201,717	\$ 450,032
Other Income (Expenses):		
Inspection income	18,735	37,460
Tap fee income	1,201,877	2,374,446
Miscellaneous income	46,235	30,659
Interest income	1,177,674	1,260,942
Depreciation	(2,406,900)	(2,537,845)
Amortization	(14,822)	(14,976)
Interest expense	(3,499,710)	(3,832,302)
Net Income (Loss) For the Year	(3,275,194)	(2,231,584)
Retained Deficit - Beginning of the Year (Restated See Note R)	(11,593,192)	(14,868,386)
Retained Deficit - End of the Year	\$ (14,868,386)	\$ (17,099,970)

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

SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT
LICKING COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1999

	1998	1999
Cash Flows from Operating Activities:		
Income from operations	\$ 201,717	\$ 450,032
Adjustments to reconcile net operating loss to net cash provided by operating activities:		
Increase (Decrease) in account receivables-billings	\$ (52,797)	\$ (35,150)
Increase (Decrease) in accounts payable-operations	2,632	(206,279)
Increase in accrued payroll & benefits	27,344	(3,044)
Increase in payroll taxes & PERS payable	4,831	213
Total adjustments	(17,990)	(244,260)
Net cash provided by operating activities	183,727	205,772
Cash Flows from Noncapital Financing Activities:		
Interest income from assessments and savings	37,202	62,695
Cash Flows from Capital and Related Financing Activities:		
Payments for planning and construction, including capitalized interest	(3,726,355)	(379,765)
Purchase of land easements	(22,506)	0
Purchase of land	0	(650)
Additional loan fees	(5,730)	(5,362)
Increase in acct receivables-contractors	(3,098)	0
Increase in assessments receivable	(987,978)	37,995
Increase in meter inventory	(8,268)	(1,081)
Increase in accounts payable - construction	197,025	0
Increase in deposits payable	32,903	53,120
Increase in contractor bonds payable	4,000	1,500
Decrease in contractor retainage payable	(29,574)	(71,779)
Increase in recoupment agreement payable	3,065	(18,260)
Purchase of equipment and furniture	(45,907)	(44,871)
Construction loan proceeds	4,922,353	1,069,463
Principal repayments on loans	(946,003)	(1,387,634)
Interest repayments on loans	(3,499,710)	(3,832,302)
New promissory note agreement	(4,956)	(10,261)
Assessment interest income	1,140,472	0
Inspection, tap fee and miscellaneous income	1,266,847	2,442,566
Contributed capital assessments	2,112,060	1,599,568
Net cash used for capital and related financing activities	398,640	(547,753)
Net Increase in Cash	619,569	(279,286)
Cash and cash equivalents - beginning of year	269,709	889,278
Cash and cash equivalents - end of year	\$ 889,278	\$ 609,992

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

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

Notes to Financial Statements
For the Years then Ended December 31, 1998 & 1999

Note A - Description of the Entity:

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 Harrison, Etna and the former Lima Townships 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.

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 and other recognized authoritative sources. Under the guidelines of GASB 20, the 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 the 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 the 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
LICKING COUNTY**

Notes to Financial Statements
For the years then Ended December 31, 1998 & 1999
(Continued)

Note B - Summary of Significant Accounting Policies: (Continued)

3. Budgetary Process

The SWLCWSD did not adopt an operating budget for the year ended December 31, 1999. Ohio Attorney General Opinion No. 99-020, dated March, 1999, has clarified that the budget process described in Ohio Revised Code Chapter 5705, applies to the SWLCWSD, effective January 1, 2000, regardless of whether the SWLCWSD levies property taxes. The Ohio Revised Code requires that each fund be budgeted annually. The SWLCWSD has adopted a budget for the year ended December 31, 2000, has adopted and passed annual appropriations and resolutions, and filed the necessary paperwork with the Allen County Auditor. Note that the SWLCWSD was not required to administer the following requirement until January 1, 2000.

Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The SWLCWSD must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year-end.

Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

Encumbrances

The Ohio Revised Code requires the SWLCWSD to reserve (encumber) appropriations when commitments are made.

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 sewer services. The principal portion of notes receivable is recognized in the year when the service is provided. 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. Uncollectible sewer account balances are certified to the County Auditor after administrative collection efforts have been exhausted.

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

Notes to Financial Statements
For the years then Ended December 31, 1998 & 1999
(Continued)

Note B - Summary of Significant Accounting Policies: (Continued)

6. Restricted Assets

Refer to Note D; a restricted savings account was established for contractor bonds.

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 debt, inspection fees, and final construction costs that are not submitted to incur additional debt. Refer to Note F for prepaid amounts collected by project.

7. Property, Plant and Equipment

Property, plant and equipment costs are stated at cost (except donated developer lines as noted in the following paragraph) 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 Note J - Contributed capital from donated developer lines.

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 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

Loan costs are 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 1999 was \$7,970.67.

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

Notes to Financial Statements
For the years then Ended December 31, 1998 & 1999
(Continued)

Note B - Summary of Significant Accounting Policies: (Continued)

8. Amortization (Continued)

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 1999 was \$7,005.80.

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.

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. Accrued and Withheld Public Employee's Retirement System (PERS)

SWLCWSD withholds 8.5% of each employee's gross wages and remits the funds to PERS each month. PERS is administered by the State and Funding Policy. SWLCWSD contributes an additional 13.55% of total gross wages to PERS. This is in compliance with state regulations.

13. Board Designated Cash Fund

During 1997, the Board of Trustees set up a \$1,000.00 cash fund, via resolution, for expenditures to be designated by the Trustees. This procedure is in accordance with the Ohio Revised Code. At December 31, 1999, the fund had not been replenished.

Note C - Other Required Fund Disclosures:

The accumulated deficit for SWLCWSD was \$17,099,970.14 at December 31, 1999.

Note D - Cash in Savings:

The 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, 1998 and 1999 was \$ 796,349 and \$575,552, of which \$740,348 and \$417,850 was the water portion and \$56,129 and \$157,702 the sewer portion.

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

Notes to Financial Statements
For the years then Ended December 31, 1998 & 1999
(Continued)

Note D - Cash in Savings: (Continued)

Included in the savings account is the contractor retainage balance. Upon deposit of the retainage into the account, 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 in the account at December 31, 1998 and 1999 was \$28,800 and \$29,300.

Note E - Deposits with Financial Institutions - Legal Requirements:

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the SWLCWSD 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.

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;
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 section and repurchase agreements secured by such obligations, provided that investments in securities described are made only through eligible institutions;

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

Notes to Financial Statements
For the years then Ended December 31, 1998 & 1999
(Continued)

Note E - Deposits with Financial Institutions - Legal Requirements: (Continued)

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

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 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.

SWLCWSD utilizes written repurchase agreements to obtain potential optimum interest rates. As of December 31, 1999, no agreements were in effect.

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.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Presented below are the carrying amounts of deposits and their classifications:

	<u>1998</u>	<u>1999</u>
SWLCWSD Carrying Amount of Deposits	\$ 888,788	\$ 609,852
Petty Cash and Postage Deposits	<u>490</u>	<u>508</u>
Bank Carrying Amount of Deposits	\$3,254,497	\$3,167,645
Insured by the FDIC	<u>\$ 100,000</u>	<u>\$ 100,000</u>
Collateralized by third party trustees in single institution collateral pools, securing all public funds on deposit with specific depository institutions	\$3,154,497	3,067,645
Bank Carrying Amount of Deposits	<u>\$3,254,497</u>	<u>\$3,167,645</u>

GASB Statement No. 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" requires that local governments disclose the carrying amounts and market value of investments classified by risk. The SWLCWSD did not hold any investments as of December 31, 1999.

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

Notes to Financial Statements
For the years then Ended December 31, 1998 & 1999
(Continued)

Note F - Accounts and Assessments Receivable:

Account receivable balances at December 31 for operating billings are as follows:

	1998	1999
Current	\$ 103,642	\$ 127,612
Over 30 days	57,197	53,447
Over 60 days	20,469	22,786
Over 90 days	67,468	80,082
	\$ 248,776	\$ 283,927

Other account receivables for 1998 and 1999 total \$8,467 and \$4,564. This total is for amounts paid by SWLCWSD, and to be collected from project contractors. It also includes a certified amount to the county auditor for a settlement dispute regarding a resident's noncompliance with proper hookup procedures. Most of the other receivables are over 90 days. Collection efforts are underway.

Assessment account receivables 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, 1999 and 1998 are deferred agricultural property assessments. These amounts will be collected as 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. The time frame of collection is undeterminable. The negative county auditor's collection amounts result in part due to these deferred collections.

The assessment account receivable balances at December 31, 1999 are as follows:

Project Name	Total Assessed	Prepaid Assessments	County Auditor	% Coll.
Beechwood Trails S	\$ 3,773,810	1,411,145	273,838	44.78
Summit Station Phase I S	1,655,693	530,607	74,898	36.57
Summit Station Phase I W	1,792,334	621,931	136,345	42.31
US 40 Etna S	1,677,521	473,285	24,647	29.38
Summit Station Phase II S	910,264	398,382	(9,211)	42.75
Summit Station Phase II W	413,798	216,465	22,236	57.69
US 40 Water Treatment	973,786	270,203	50,593	32.94
Etna SR 40 Environs W	1,237,781	532,621	38,551	46.14
Etna SR 40 Environs S	1,699,257	683,485	57,581	43.61
Columbia Center S	945,160	232,455	12,998	25.97
York/Blacks/Outville Roads W	1,012,860	305,308	(37,777)	26.41
York/Blacks/Outville Roads W	810,685	285,815	3,561	35.70
Russell Heights S	343,851	201,536	9,794	61.46
New England/Russell/Mink W	824,753	423,260	31,448	55.13
Summit Rd. and SR 40 W	1,003,390	225,070	(31,651)	19.28
York Rd. W	23,062	11,245	917	52.73
Columbia Rd. and Refugee S	188,545	48,071	8,162	29.82
SR 310/Refugee/Smoke W	444,505	124,407	(30,315)	21.17
Havens Corners Rd. W	67,765	10,793	(5,001)	7.38
SR 16 Belmar to Summit S	139,925	71,947	5,484	55.34
SR 16 Belmar to Summit W	125,519	76,367	2,630	62.94
Watkins to I 70 W	62,439	13,586	(7,662)	9.49
Blacks Outville Rd. S	1,326,907	548,381	13,542	42.35
SR 310 N. Of US 40 S	120,114	34,743	(5,508)	24.34
Fursville/Columbia Center W	837,835	190,781	(595)	22.70
Watkins N. from US 40 S	29,073	16,056	549	57.11
SR 16/Charles/Daley S	459,210	218,320	7,254	49.12
Watkins & Blacks Rds. S	465,859	245,588	(1,745)	52.34
Watkins & Blacks Rds. W	414,399	194,906	(6,704)	45.42

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

Notes to Financial Statements
For the years then Ended December 31, 1998 & 1999
(Continued)

Note F - Accounts and Assessments Receivable: (Continued)

Project Name	Total Assessed	Prepaid Assessments	County Auditor	% Coll.
SR 16/Charles & Daley W	414,872	159,103	7,217	40.09
Happy Homes/Sunshine S	393,199	123,937	2,871	32.25
Hillside Farm Estates S	243,283	143,461	3,320	60.33
Ashcraft/Pine Oak/Indian Hills W	902,061	271,310	(23,987)	27.41
Ashcraft/Pine Oak/Indian S	825,771	263,521	5,197	32.54
York/US 40 to Refugee S	108,767	3,434	(203)	2.97
Sunshine/Happy Homes W	472,450	124,467	2,458	26.87
SR 310 & Tatman S	283,684	182,270	4,301	65.77
Columbia Rd. S	93,464	71,068	1,235	77.30
Columbia/Refugee Rds. W	69,486	43,550	1,446	64.76
Lynns Road S	141,971	46,431	68,922	81.25
Lynns Road W	95,610	32,900	(2,298)	32.01
SR 310/US 40 to Refugee W	185,938	69,876	7,685	41.71
Cleveland Rd./Mink St. S	690,562	270,510	2,455	39.53
Palmer Rd./W. Etna Twp. S	713,788	319,578	2,936	45.18
Palmer Rd./W. Etna Twp. W	728,634	315,932	(3,021)	42.94
Palmer Rd. Sant. Sewer Ext.	224,200	116,269	10,093	56.36
Palmer Rd. Water Line Ext.	177,424	93,744	0	52.83
	<u>\$30,545,263</u>	<u>11,268,121</u>	<u>729,486</u>	
Net Assessments	<u>\$18,547,655</u>			

The amount of net assessments at December 31, 1998 are \$18,585,651.

The note receivable - promissory note balance represents several agreements between the SWLCWSD and residents who signed a voluntary assessment but could not pay the full amount at the time of signing the assessment. Therefore, the residents agreed to pay the principal sum with a payment of one sixth down together with simple interest on the principal amount at the rate of 7.5% per annum in five yearly installments.

Note G - Property, Plant, and Equipment:

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

	1998	1999
Land	\$ 409,142	\$ 409,792
Land Easements	148,871	148,871
Land Improvements	2,500	2,500
Planning & Construction costs:		
Water lines	21,022,015	21,085,371
Sewer lines	40,161,520	40,477,930
Donated Developer Lines	2,671,466	2,844,480
Office equipment and furniture	63,614	77,452
Equipment:		
General	152,030	181,554
Safety	7,598	9,106
Truck	9,529	9,529
	<u>64,648,285</u>	<u>65,246,585</u>
Less accumulated depreciation	(8,964,822)	(11,502,668)
	<u>\$55,683,463</u>	<u>\$53,743,917</u>

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

Notes to Financial Statements
For the years then Ended December 31, 1998 & 1999
(Continued)

Note H - Interest Income:

	<u>1998</u>	<u>1999</u>
Interest income from savings accounts	\$ 37,202	\$ 62,695
Interest income from assessments, accrued & collected	<u>1,140,472</u>	<u>1,198,247</u>
Total interest income	<u><u>\$1,177,674</u></u>	<u><u>\$1,260,942</u></u>

Note I - Current and Long-term Debt - Planning and Construction Loans:

The current and long-term debts 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 \$2,300.00 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 is considered paid in full on August 31, 2001 (even if outstanding debt exists).

On December 29, 1998, the SWLCWSD received a loan from Park National Bank in the amount of \$1,501,019.25 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 7.40%. Ten (10) semiannual payments of \$189,821.94 of principal and interest are to begin 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 \$550,000.00 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 \$68,486.84 (based upon the current principal amount borrowed of \$550,000) of principal and interest are to begin January 1, 2000 and mature on July 1, 2004. The note is secured by a pledge of water and sewer revenues.

The SWLCWSD has four (4) interest free loans from the Ohio Public Works Commission. Each loan requires semiannual payments for a term of twenty (20) years. Loan CQ616 for \$481,332.00, used to finance the Columbia Center/Fursville sanitary sewer lines, began on January 1, 1995 and will mature January 1, 2015. Loan CQ808 for \$236,351.00, used to finance Blanches E. Broad Street Addition waterline improvements, commenced July 1, 1995 and will mature July 1, 2015. Loan CQ807 for \$290,364.00, of which only \$271,964.75 has been disbursed, was used to finance Happy Homes/Sunshine Park sanitary sewer improvements. The loan commenced July 1, 1996 and will mature July 1, 2016. The most recent loan, CQ021, for \$248,600.00, of which only \$42,535.20 has been disbursed, is being used to finance Cleveland Road/Mink Street sanitary sewer improvements. A payment schedule has yet to be determined for this loan, as the project is not yet complete. Upon completion of the project, an amortization schedule will be calculated.

The SWLCWSD currently 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 on these loans as of December 31, 1999 are \$106,320.73, \$65,495.04 and \$187,416.54, respectively and 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
LICKING COUNTY**

Notes to Financial Statements
For the Year Ended December 31, 1999
(Continued)

Note I - Current and Long-term Debt - Planning and Construction Loans: (Continued)

Current and long-term debt at December 31, 1999 are as follows:

Loan #	Payable To	Interest Rate	First Payment	Principal Term	Principal Due in 2000	Principal Due after 2000
2084	O.W.D.A.	7.54	1/1/94	25 yrs.	26,341	2,029,023
2084S	O.W.D.A.	6.24	1/1/94	25 yrs.	3,078	206,792
2098	O.W.D.A.	7.45	1/1/94	25 yrs.	29,987	2,288,023
2144	O.W.D.A.	6.61	1/1/94	25 yrs.	5,413	386,781
2145	O.W.D.A.	6.61	1/1/95	25 yrs.	55,609	4,260,096
4011	O.W.D.A.	6.85	1/1/95	25 yrs.	49,065	3,859,513
4011S	O.W.D.A.	6.02	1/1/95	25 yrs.	4,241	304,222
4011S2	O.W.D.A.	5.77	1/1/95	25 yrs.	2,766	192,995
4015	O.W.D.A.	6.75	7/1/95	25 yrs.	39,801	3,136,307
5007	O.W.D.A.	6.51	7/1/95	25 yrs.	16,481	1,265,694
5007S	O.W.D.A.	5.77	7/1/96	25 yrs.	2,903	223,267
5008	O.W.D.A.	6.51	7/1/95	25 yrs.	22,429	1,730,209
5010	O.W.D.A.	6.24	7/1/95	25 yrs.	35,034	2,628,148
5015	O.W.D.A.	6.24	7/1/95	25 yrs.	879	66,132
5020	O.W.D.A.	6.16	7/1/95	25 yrs.	1,456	111,019
5021	O.W.D.A.	6.16	7/1/95	25 yrs.	4,906	370,420
5022	O.W.D.A.	6.16	7/1/95	25 yrs.	14,845	1,100,976
5027	O.W.D.A.	6.16	1/1/96	25 yrs.	11,218	893,747
5028	O.W.D.A.	6.16	1/1/96	25 yrs.	2,056	163,559
6003	O.W.D.A.	6.02	1/1/96	25 yrs.	28,717	2,251,961
6004	O.W.D.A.	6.02	1/1/96	25 yrs.	13,961	1,123,638
7010	O.W.D.A.	5.77	1/1/96	25 yrs.	4,888	374,076
7011	O.W.D.A.	5.77	1/1/96	25 yrs.	3,515	266,880
3002	O.W.D.A.	5.90	7/1/96	25 yrs.	17,452	1,371,715
3002S	O.W.D.A.				0	43,989
3003	O.W.D.A.	5.90	7/1/96	25 yrs.	9,788	764,227
3028	O.W.D.A.	6.64	1/1/97	25 yrs.	1,882	172,791
3029	O.W.D.A.	6.64	1/1/97	25 yrs.	6,179	567,143
3037	O.W.D.A.	6.72	1/1/97	25 yrs.	11,183	1,039,450
3038	O.W.D.A.	6.72	1/1/97	25 yrs.	43,479	3,950,186
3038S	O.W.D.A.	6.72	1/1/97	25 yrs.	4,266	464,731
8002	O.W.D.A.	6.87	7/1/97	25 yrs.	42,311	4,275,213
8003	O.W.D.A.	6.87	7/1/97	25 yrs.	60,895	4,296,357
8017	O.W.D.A.	6.36	1/1/98	25 yrs.	14,582	1,434,855
8018	O.W.D.A.	6.36	1/1/98	25 yrs.	7,298	710,683
8083	O.W.D.A.	6.32	7/1/02	25 yrs.	0	41,050
8084	O.W.D.A.	6.32	7/1/02	25 yrs.	0	151,544
8085	O.W.D.A.	6.32	7/1/99	25 yrs.	7,944	745,894
8085S	O.W.D.A.	5.66	7/1/99	25 yrs.	1,010	-2,921
8091	O.W.D.A.	6.11	7/1/99	25 yrs.	17,986	1,475,583
8091S	O.W.D.A.	5.66	7/1/99	25 yrs.	4,588	151,999
8093	O.W.D.A.	6.11	7/1/99	25 yrs.	11,705	1,194,983
8093S	O.W.D.A.			25 yrs.	1,994	-3,188
9036	O.W.D.A.			25 yrs.	0	63,662
CQ021	O.P.W.C	0.00	Not complete	20 yrs.	6,214	236,170
CQ616	O.P.W.C	0.00	7/1/95	20 yrs.	12,033	348,966
CQ807	O.P.W.C	0.00	1/1/97	20 yrs.	6,799	217,572
CQ808	O.P.W.C	0.00	1/1/96	20 yrs.	5,908	177,263
	Rotary	0.00		20 yrs.	0	65,494
	Rotary	0.00		20 yrs.	0	106,320
	Rotary	0.00		20 yrs.	0	187,417
Licking County		0.00		5 yrs.	0	31,090
Highland Hills Recoupment		9.25		5 yrs.	0	290,756
Park National Bank		7.40	1/1/00	5 yrs.	182,146	1,746,037
					<u>857,231</u>	<u>55,550,509</u>

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

Notes to Financial Statements
For the Year Ended December 31, 1998 & 1999
(Continued)

Note I - Current and Long-term Debt - Planning and Construction Loans: (Continued)

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

Loan #	2000	2001	2002	2003	2004	2005 & after
2084	\$104,821	\$209,642	\$209,642	\$209,642	\$209,642	\$2,934,984
2084S	9,722	19,445	19,445	19,445	19,445	272,224
2098	117,448	234,896	234,896	234,896	234,896	3,288,539
2144	18,265	36,530	36,530	36,530	36,530	511,422
2145	200,029	400,058	400,058	400,058	400,058	6,000,864
4011	184,614	369,228	369,228	369,228	369,228	5,538,422
4011S	13,654	27,307	27,307	27,307	27,307	409,605
4011S2	8,493	16,987	16,987	16,987	16,987	254,799
4015	146,995	293,989	293,989	293,989	293,989	4,556,832
5007	58,215	116,431	116,431	116,431	116,431	1,804,679
5007S	9,428	18,855	18,855	18,855	18,855	311,109
5008	79,477	158,954	158,954	158,954	158,954	2,463,794
5010	118,125	236,250	236,250	236,250	236,250	3,661,878
5015	2,970	5,939	5,939	5,939	5,939	92,057
5020	4,920	9,841	9,841	9,841	9,841	152,532
5021	16,466	32,932	32,932	32,932	32,932	510,440
5022	49,212	98,425	98,425	98,425	98,425	1,525,583
5027	39,362	78,724	78,724	78,724	78,724	1,259,579
5028	7,213	14,427	14,427	14,427	14,427	230,830
6003	98,014	196,028	196,028	196,028	196,028	3,136,442
6004	47,649	95,298	95,298	95,298	95,298	1,524,770
7010	15,875	31,750	31,750	31,750	31,750	508,002
7011	11,418	22,835	22,835	22,835	22,835	365,362
3002	59,508	119,016	119,016	119,016	119,016	1,963,756
3002S	1,910	3,820	3,820	3,820	3,820	68,762
3003	32,621	65,243	65,243	65,243	65,243	1,076,502
3028	7,744	15,488	15,488	15,488	15,488	263,300
3029	25,418	50,836	50,836	50,836	50,836	864,215
3037	46,770	93,540	93,540	93,540	93,540	1,590,181
3038	181,842	363,683	363,683	363,683	363,683	6,182,618
3038S	16,563	33,127	33,127	33,127	33,127	563,154
8002	190,618	381,236	381,236	381,236	381,236	6,671,626
8003	262,670	525,340	525,340	525,340	525,340	9,193,449
8017	60,217	120,434	120,434	120,434	120,434	2,167,813
8018	30,136	60,273	60,273	60,273	60,273	1,084,906
8083	0	0	3,225	6,450	6,450	145,118
8084	0	0	8,062	16,124	16,124	362,795
8085	34,576	69,153	69,153	69,153	69,153	1,348,481
8085S	3,786	7,572	7,572	7,572	7,572	147,650
8091	68,402	136,804	136,804	136,804	136,804	2,667,685
8091S	17,198	34,397	34,397	34,397	34,397	670,733
8093	48,570	97,141	97,141	97,141	97,141	1,894,247
8093S	7,880	15,759	15,759	15,759	15,759	315,182
CQ021	6,215	12,430	12,430	12,430	12,430	186,450
CQ616	12,033	24,067	24,067	24,067	24,067	252,699
CQ807	6,799	13,598	13,598	13,598	13,598	163,179
CQ808	5,909	11,818	11,818	11,818	11,818	129,993
PNB	258,309	516,618	516,618	516,618	516,618	0
	<u>\$2,489,771</u>	<u>\$5,496,160</u>	<u>\$5,507,447</u>	<u>\$5,518,734</u>	<u>\$5,518,734</u>	<u>\$81,289,242</u>

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

Notes to Financial Statements
For the years then Ended December 31, 1998 & 1999
(Continued)

Note J - Contributed Capital:

Capital grant-planning costs - In 1989, a \$24,000.00 capital grant was received to fund start-up planning costs.

Capital grant-construction in progress - In 1992, a \$74,970.00 capital grant was received to fund construction costs of the Oak Meadows improvements project.

During 1996, the Ohio Public Works Commission disbursed \$135,063.00 on behalf of SWLCWSD for a credit enhancement grant. The grant was utilized to pay Ohio Water Development Authority for \$74,672.07 capitalized interest and \$60,390.93 of the first year's interest expense for the Russell Heights sewer project.

During 1997, the Ohio Public Works Commission disbursed \$90,557.00 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 are cumulative of total final assessments, less a 2% discount given for assessment prepayment.

Contributed capital from donated developer lines 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 SWLCWSD once a resolution has been passed to accept the lines as operational, and for use and hookup. The only developer lines not representing contributed capital are for a recoupment agreement.

Note K - Pension Plans and Post-employment Benefits:

SWLCWSD participates in the Public Employees Retirement System of Ohio ("PERS"), a cost-sharing multi-employer defined benefit pension plan operated by the State. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by statute per Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4462 or by calling (614) 466-2085.

The Ohio Revised Code provides statutory authority for employees and employer's contributions. The employees' contribution rate effective for 1999 was 8.5% for employees and the 1999 employer's contribution rate was 13.55% of covered payroll; 8.5% was the portion used to fund pension obligations.

SWLCWSD's total current payroll (not taking accrued payroll or benefits into consideration) for December 31, 1999 was \$485,218.64 and the employer's contributions to PERS totaled \$65,748.15 for 1999.

Note L - Related Party Transactions:

No related party transactions existed at December 31, 1999 and 1998.

Note M - 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.

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

Notes to Financial Statements
For the years then Ended December 31, 1998 & 1999
(Continued)

Note N - Miscellaneous Income:

Miscellaneous income includes water hauling, contractor licenses, a refund for Workers Compensation premiums, and other miscellaneous revenue.

Note O - Interest Expense:

Interest expense for the water and sewer divisions represent the interest portion of construction loan payments to the Ohio Water Development Authority in the amounts of \$1,271,757 and \$2,425,073 for water and sewer, respectively; and \$135,473 for the recoupment agreement with Highland Hills.

Note P - Risk Management:

The District 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 1998 and 1999 the District 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 District pays all elected officials' bonds.

The District 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 Q - Contingent Liabilities:

On December 27, 1999, the SWLCWSD received service of a complaint filed by a property owner against the SWLCWSD relative to special assessments placed on the plaintiff's property by the SWLCWSD in 1995. The damages claimed are in excess of \$25,000. The SWLCWSD's insurance company has indicated it will provide coverage and has appointed Doug Holthus, Reminger and Reminger, to defend the claim. The SWLCWSD intends to vigorously defend the action; however, because the claim has just been filed, it is not possible to predict the likely outcome of the case at this time.

Note R - Restated Fund Equity:

Correction of accounting errors in the prior year required that certain adjustments be recorded to the January 1, 1998 fund retained earnings as previously reported. The restatements to the opening fund retained earnings are as follows:

	Retained Deficit At 12/31/97	Prior Period Adjustments	Restated Retained Deficit At 1/1/98
	<hr/>	<hr/>	<hr/>
To record net adjustments to 1997	\$(10,953,803)	\$(639,389)	\$ (11,593,192)

MICHAEL A. BALESTRA, CPA, INC.

**CERTIFIED PUBLIC ACCOUNTANTS
528 SOUTH WEST STREET, P.O. BOX 687
PIKETON, OHIO 45661**

TELEPHONE (740) 289-4131

FAX (740) 289-3639

E-MAIL mbalcpa@bright.net

Member American Institute of Certified Public Accountants 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 GAS**

Board of Trustees
Southwest Licking Community Water & Sewer District
8821 York Road
Etna, Ohio 43018

We have audited the general purpose financial statements of Southwest Licking Community Water & Sewer District, Licking County, as of and for the years ended December 31, 1998 and 1999, and have issued our report thereon dated September 22, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our 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 general purpose 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 over financial reporting that might 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 amount that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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 that do not require inclusion in this report, that we have reported to management of Southwest Licking Community Water & Sewer District in a separate letter dated September 22, 2000.

Board of Trustees
Southwest Licking Community Water & Sewer District
Etna, Ohio 43018
Page 2

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

Michael A. Balestra, CPA, Inc.

Michael A. Balestra, CPA Inc.

September 22, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

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
NOVEMBER 28, 2000**