

Southwest Licking Community Water & Sewer District

Licking County

Regular Audit

January 1 , 2000 Through December 31, 2001

**BALESTRA & COMPANY**

CERTIFIED PUBLIC ACCOUNTANTS

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Member American Institute of Certified Public Accountants  
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STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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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 Balestra & Company, for the audit period January 1, 2000 through December 31, 2001. 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.

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO  
Auditor of State

June 28, 2002

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SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT  
LICKING COUNTY

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**Independent Auditor's Report**

We have audited the accompanying general-purpose financial statements of the Southwest Licking Community Water & Sewer District, Licking County, as of and for the years ended December 31, 2001 and 2000. 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of Southwest Licking Community Water & Sewer District, as of December 31, 2001 and 2000, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2002 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note U to the general-purpose financial statements, the Southwest Licking Community Water & Sewer District implemented Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, and Governmental Accounting Standards Board Statement No. 36, *Recipient Reporting for Certain Shared Non-exchange Revenues* (an amendment of GASB Statement No. 33).

*Balestra & Company*  
Balestra & Company

May 31, 2002

SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT  
LICKING COUNTY

BALANCE SHEET  
AS OF DECEMBER 31, 2001 AND 2000

ASSETS

	2001	2000
Current Assets:		
Cash in checking	\$113,565	\$1,022,721
Petty cash	140	140
Board designated cash fund	266	35
General manager discretionary	223	0
Postage fund	3,940	170
Accounts receivable - operating billings less allowance for doubtful accounts (\$330,000 in 2001 and \$130,000 in 2000)	465,943	496,071
Accounts receivable - other	0	4,564
Notes receivable - promissory note	0	14,753
Meter inventory	14,415	12,235
Total current assets	598,492	1,550,689
Restricted Assets:		
Cash in savings-contractor bonds	34,800	35,300
Cash in savings	2,958,472	1,641,146
Assessment receivables-water	8,135,920	8,255,993
Assessment receivables-sewer	9,849,135	10,080,402
Total restricted assets	20,978,327	20,012,841
Property, Plant, and Equipment, net of Accumulated Depreciation	55,776,006	54,069,436
Other Assets:		
Prepaid insurance	34,378	13,707
Loan fees, net of \$60,732 and \$52,665 accumulated amortization for 2001 and 2000 respectively	156,891	164,958
Jefferson water tap rights, net of \$63,636 and \$56,630 accumulated amortization for 2001 and 2000 respectively	111,509	118,515
Total other assets	302,778	297,180
Total Assets	\$77,655,603	\$75,930,146

See Accompanying Notes to the General-Purpose Financial Statements

SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT  
LICKING COUNTY

BALANCE SHEET  
AS OF DECEMBER 31, 2001 AND 2000

LIABILITIES AND FUND EQUITY

	2001	2000
Current Liabilities:		
Accounts payable	\$312,333	\$177,810
Note payable - current portion	1,071,500	938,838
Deposits payable to developers	174,070	152,118
Contractor bonds payable	34,800	35,300
Contractor retainage payable	210,495	210,495
Accrued employee benefits	56,303	58,852
Accrued employee wages	2,162	7,880
Obligations under capital lease - current portion	21,397	0
Payroll taxes accrued and withheld	50,063	48,851
Total current liabilities	1,933,123	1,630,144
Long Term Liabilities		
Obligations under capital leases	46,324	0
Deferred revenue-special assessments	3,798,441	3,769,925
Notes and recoupment agreements payable	57,940,410	56,537,248
Total long term liabilities	61,785,175	60,307,173
Fund Equity:		
Contributed capital:		
Grants	324,590	324,590
Water assessments	11,137,567	11,137,567
Sewer assessments	16,008,490	16,008,490
Donated developer lines	2,844,480	2,844,480
Retained fund deficit	(16,377,822)	(16,322,298)
Total fund equity	13,937,305	13,992,829
Total liabilities and fund equity	\$77,655,603	\$75,930,146

SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT  
LICKING COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN ACCUMULATED DEFICIT  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	2000
<b>OPERATING REVENUES</b>		
Service revenues	\$2,092,150	\$1,850,244
Late charges	510,652	201,113
Total Operating Expenses	2,602,802	2,051,357
<b>OPERATING EXPENSES</b>		
Salaries	481,297	425,325
Contract labor	0	36,874
Training	722	754
Medicare tax expense	6,749	5,315
P.E.R.S. expense	69,855	49,657
Workers compensation expense	7,731	12,184
Operations and testing	34,857	34,092
Chemicals and operating supplies	70,764	57,725
Sludge hauling	69,630	59,990
Equipment rental	13,603	11,848
Repairs and maintenance	228,963	170,885
Engineering	30	1,519
Legal	66,944	40,454
Accounting	24,450	60,914
Professional fees - software	2,404	26,978
Board designated expenses	0	219
Audit fees	0	5,920
Advertising and communications	692	0
Insurance:		
General	22,339	13,991
Health	23,934	13,998
Life	705	627
Telephone	49,376	42,772
Utilities	103,614	134,803
Office supplies	17,690	15,172
Cleaning	2,878	2,800
Postage	19,218	21,673
Security	650	725
Uniform rental	2,678	3,000
Small tools	2,378	4,161
Vehicle expense	16,726	23,813
Collection and bank fees	285	380
Dues and subscriptions	1,179	816
Licenses	7,701	6,300
Bad debt expense	200,000	130,000
Depreciation	2,621,822	2,682,208
Amortization	15,073	14,976
Total operating expenses	4,186,937	4,112,868
Operating loss	(1,584,135)	(2,061,511)
<b>OTHER INCOME AND EXPENSES</b>		
Assesments Revenue	114,692	0
Debt service fee income	1,133,851	878,049
Inspection revenue	33,928	34,090
Tap fee income	2,577,175	4,010,324
Capacity fee revenue	284,000	967,000
Interest income	1,196,029	1,099,167
Miscellaneous income	22,172	10,298
Interest expense	(3,833,236)	(4,159,745)
Total other income and expenses	1,528,611	2,839,183
NET INCOME (Loss)	(55,524)	777,672
Accumulated Deficit, Beginning of the Year	(16,322,298)	(17,099,970)
Accumulated Deficit, End of Year	(\$16,377,822)	(\$16,322,298)

See Accompanying Notes to the General-Purpose Financial Statements.

SOUTHWEST LICKING COMMUNITY WATER AND SEWER DISTRICT  
LICKING COUNTY

STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	2000
Cash Flows from Operating Activities:		
Cash received from customers	\$ 2,632,930	\$ 1,709,213
Cash payments to suppliers for goods and services	(837,879)	(676,233)
Cash payments for employee services and benefits	(582,511)	(489,782)
Net cash provided by operating activities	1,212,540	543,198
Cash Flows from Non-capital Financing Activities:		
Interest income from savings	160,864	97,912
Cash Flows from Capital and Related Financing Activities:		
Payments for planning and construction, including capitalized interest	(3,988,143)	(2,825,334)
Purchase of land and land easements	(218,135)	(4,804)
Additional loan fees	0	(22,181)
Assessment principal payments received	494,547	420,951
Debt service fees collected	1,133,851	878,049
Increase in contractor retainage payable	0	145,038
Decrease in recoupment agreement payable	(34,500)	(30,421)
Purchase of equipment and furniture	(42,882)	(34,333)
Construction loan proceeds	3,572,665	2,733,836
Principal repayments on loans	(1,998,117)	(1,822,042)
Interest repayments on loans	(3,833,236)	(4,013,316)
Acquisition of vehicles through capital lease	(67,721)	0
Proceeds from capital lease obligation	67,721	0
Assessment interest income	1,035,165	1,001,255
Inspection, tap fee and miscellaneous income	2,917,275	5,021,712
Net cash provided by capital and related financing activities	(961,510)	1,448,410
Net increase in cash and cash equivalents	411,894	2,089,520
Cash and cash equivalents at beginning of year	2,699,512	609,992
Cash and cash equivalents at end of year	\$3,111,406	\$2,699,512
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:		
Operating loss	(\$1,584,135)	(\$2,061,511)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:		
Depreciation and amortization	2,636,895	2,697,184
Bad debt expense	200,000	130,000
Changes in Assets and Liabilities:		
(Increase) in accounts receivable	(169,872)	(342,144)
(Increase) in prepaid insurance	(20,671)	(1,745)
Decrease in accounts receivable-other	4,564	0
Decrease in notes receivable	14,753	0
(Increase) Decrease in meter inventory	(2,180)	12,911
Increase in accounts payable	134,523	91,806
Increase (decrease) in payroll taxes and benefits	(1,337)	16,697
Total adjustments	2,796,675	2,604,709
Net cash provided by operating activities	\$1,212,540	\$543,198

See Accompanying Notes to the General-Purpose Financial Statements.

# SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

## NOTES TO FINANCIAL STATEMENTS

December 31, 2001 and 2000

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### **NOTE A - NATURE OF ORGANIZATION**

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

### **NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies followed in the preparation of these financial statements conform to accounting principles generally accepted in the United States of America 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, 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 District 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 of 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**

NOTES TO FINANCIAL STATEMENTS

December 31, 2001 and 2000

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**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**3. Budgetary Process**

Annually, the SWLCWSD adopts an operating budget. The SWLCWSD also adopts annual appropriations which are limited by estimated resources. Budgetary activity has been prepared on the cash (non-GAAP) basis of accounting. A summary of 2001 and 2000 budgetary activity appears in Note P.

**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. The District has set up an allowance for doubtful accounts for fiscal years 2001 and 2000. 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 uncollectible.

**6. Restricted Assets**

A restricted savings account was established for contractor bonds as discussed in Note D.

After resolutions are passed to accept completed construction projects and respective assessment schedules, water and sewer assessments are issued to the property owners within the project. All monies received as advance assessment payments have been designated by the Board as restricted funds to be utilized to pay corresponding principal and interest, inspection fees, and final construction costs that are not submitted to incur additional debt. Refer to Note H for prepaid amounts collected by project.

**7. Property, Plant and Equipment**

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

**SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT**

NOTES TO FINANCIAL STATEMENTS

December 31, 2001 and 2000

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**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**7. Property, Plant and Equipment, continued**

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 K - 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 begins construction, respective planning costs will be amortized. General administrative, legal, engineering, and other costs, which cannot be directly allocated to specific projects are proportionately allocated to operations and planning/construction for projects serviced during that time frame.

**8. Amortization**

Prior to fiscal year 2000, loan costs were being amortized over the life of each loan beginning on the first date of each loan. Amortization is computed using the straight-line method for financial statement reporting purposes. Loan cost amortization expense charged to operations for 2001 and 2000 was \$8,067 and \$7,970. 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 2001 and 2000 was \$7,006 for both years.

**9. Provision for Income Tax**

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

Except for nonparticipating investments 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 2001, SWLCWSD's investment consisted of a repurchase agreement. The SWLCWSD had no investments in 2000.

**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.

**SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT**

NOTES TO FINANCIAL STATEMENTS

December 31, 2001 and 2000

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**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**12. Board Designated Cash Fund**

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

**NOTE C – OTHER REQUIRED DISCLOSURES**

The accumulated deficits for the SWLCWSD were \$16,377,822 and \$16,322,298 at December 31, 2001 and 2000, respectively.

**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, 2001 was \$2,958,472, of which \$1,493,395 was the water portion and \$1,465,077 the sewer portion. The balance in the savings account at December 31, 2000 was \$1,641,146 of which \$656,338 was the water portion and \$984,808 was the sewer portion. Included in the savings account is the contractor retainage balance. Upon deposit into the account of retainage payable, interest is calculated on each deposit until the retainage is paid to the contractor. At that time, all interest earned on the retainage is due to the contractor along with the retainage money.

A separate escrow savings account was established to maintain the contractor bonds' balance due on the construction of the water and sewer lines. The account is a non-interest bearing account; therefore, interest is not due to the contractor. The balance at December 31, 2001 and 2000 was \$34,800 and \$35,300, respectively.

**NOTE E – EQUITY IN POOLED CASH AND INVESTMENTS**

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

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

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

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;

**SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT**

NOTES TO FINANCIAL STATEMENTS

December 31, 2001 and 2000

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**NOTE E – EQUITY IN POOLED CASH AND INVESTMENTS - Continued**

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 footnote and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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

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

**Deposits:** The SWLCWSD had cash on hand as of December 31, 2001 and 2000 of \$4,569 and \$345, respectively. The carrying amount of the SWLCWSD deposits as of December 31, 2001 and 2000 was \$516,457 and \$2,699,167, and the bank balance was \$555,029 and \$2,797,963. Of the bank balance:

1. For December 31, 2001 and 2000, \$100,000 was covered by federal depository insurance; and
2. \$455,029 and \$2,697,963 for 2001 and 2000, respectively was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the SWLCWSD held to a successful claim by the FDIC.

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

**SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT**

NOTES TO FINANCIAL STATEMENTS

December 31, 2001 and 2000

**NOTE E – EQUITY IN POOLED CASH AND INVESTMENTS - Continued**

	Category 3	Carrying Amount	Fair Value
<b>Investments :</b>			
<b>December 31, 2001</b>			
Repurchase			
Agreements	<u>\$2,590,380</u>	<u>\$2,590,380</u>	<u>\$2,590,380</u>
Total			
Investments	<u>\$2,590,380</u>	<u>\$2,590,380</u>	<u>\$2,590,380</u>

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

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

GASB 3 to GASB 9 Reconciliation

<u>GASB 9 Balances</u>	<u>Cash &amp; Cash Equivalents December 31, 2001:</u>	<u>Investments December 31, 2001:</u>
GASB 9 Balance	\$3,106,837	0
Cash on Hand	4,569	0
Repurchase Agreements	<u>(2,590,380)</u>	<u>2,590,380</u>
GASB 3	<u>\$ 521,026</u>	<u>\$2,590,380</u>

**NOTE F – INTEREST INCOME**

	<u>2001</u>	<u>2000</u>
Interest income from savings accounts	\$ 218,149	\$ 97,912
Interest income from assessments, accrued and collected	<u>\$ 977,880</u>	<u>\$ 1,001,255</u>
Total interest income	<u>\$ 1,196,029</u>	<u>\$ 1,099,167</u>

**SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT**

NOTES TO FINANCIAL STATEMENTS

December 31, 2001 and 2000

**NOTE G – PROPERTY, PLANT AND EQUIPMENT**

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

	<u>2001</u>	<u>2000</u>
Land	\$ 628,136	\$ 410,001
Land easements	153,466	153,466
Land improvements	2,500	2,500
Planning and construction in progress - Water	21,783,559	21,678,680
Planning and construction in progress - Sewer	46,747,986	42,853,211
Developer lines	2,844,480	2,844,480
Office equipment and furniture	79,332	79,133
Equipment:		
General	247,048	214,108
Safety	9,451	9,204
Truck	<u>86,746</u>	<u>9,529</u>
	72,582,704	68,254,312
Less: Accumulated depreciation	<u>(16,806,698)</u>	<u>(14,184,876)</u>
NET PROPERTY AND EQUIPMENT	<u>\$ 55,776,006</u>	<u>\$54,069,436</u>

As of December 31, 2001 there was \$5,993,817 in outstanding construction projects that were included in the above category "Planning and Construction in progress – Sewer" that were not completed; therefore, no depreciation expense was charged on these projects during fiscal year 2001.

**NOTE H – ACCOUNTS AND ASSESSMENTS RECEIVABLE**

Account receivable balances at December 31, 2001 and 2000 for operating billings are as follows:

	<u>2001</u>	<u>2000</u>
Current	\$ 272,376	\$ 272,283
Over 30 days	101,157	83,952
Over 60 days	34,426	5,008
Over 90 days	<u>387,984</u>	<u>264,828</u>
Gross Receivables	795,943	626,071
Less: Allowance for Doubtful Accounts	<u>(330,000)</u>	<u>(130,000)</u>
Net Accounts Receivable	<u>\$ 465,943</u>	<u>\$ 496,071</u>

**SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT**

NOTES TO FINANCIAL STATEMENTS

December 31, 2001 and 2000

**H. 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, 2001 and 2000, are deferred agricultural property assessments and the related accrued interest receivable. These amounts will be collected when the properties no longer qualify for agricultural property status, as defined in the Ohio Revised Code Chapter 929, and as certified by the County Auditor. These receivables are not recorded as revenue, but rather are offset by a liability account that is called deferred revenue. The time frame of collection is undeterminable. The negative county auditor's collection amounts result mostly in part due to these deferred collections. The assessment accounts receivable balances at December 31, 2001 are as follows:

<u>Project Name</u>	<u>Total Assessed</u>	<u>Prepaid Assessments</u>	<u>County Auditor and Deferred Assessments Paid</u>	<u>Percent Collected</u>
Beechwood Trails S	\$ 3,773,810	\$ 1,411,145	\$ 421,287	48.56%
Summit Station Phase I S	1,655,693	530,607	144,479	40.77%
Summit Stateion Phase I W	1,792,334	621,931	227,224	47.38%
US 40 Etna S	1,677,521	473,285	198,348	40.04%
Summit Station Phase II S	910,264	398,382	43,210	48.51%
Summit Station Phase II W	413,798	216,465	29,043	59.33%
US 40 Water Treatment	973,786	270,203	83,465	36.32%
Etna SR 40 Environs W	1,237,781	532,621	86,875	50.05%
Etna SR 40 Environs S	1,699,257	683,485	125,812	47.63%
Columbia Center S	945,160	232,455	86,663	33.76%
York/Blacks/Outville Roads W	1,012,860	305,308	255,282	55.35%
York/Blacks/Outville Roads W	810,685	285,815	(178,323)	13.26%
Russell Heights S	343,851	201,536	15,732	63.19%
New England/Russell/Mink W	824,753	423,260	54,358	57.91%
Summit Rd and SR 40 W	1,003,390	225,070	107,860	33.18%
York Rd. W. v	23,062	11,245	1,468	55.13%
Columbia Rd. and Refugee S	188,545	48,071	34,217	43.64%
SR 310/Refugee/Smoke W	444,505	124,407	20,794	32.67%
Havens Corners Rd. W. v	67,765	10,793	(4,043)	9.96%
SR 16 Belmar to Summit S	139,925	71,947	8,546	57.53%
SR 16 Belmar to Summit W	125,519	76,367	4,249	64.23%
Watkins to I 70 W	62,439	13,586	1,679	24.45%
Blacks Outville Rd. S	1,326,907	548,381	73,178	46.84%
SR 310 N. or US 40 S	120,113	34,743	4,326	32.53%
Fursville/Columbia Center W	837,835	190,781	22,545	25.46%
Watkins N. from US 40 S	29,073	16,056	23,833	137.20%
SR 16/Charles/Daley S	459,210	218,320	20,566	52.02%
Subtotal	<u>\$ 22,899,841</u>	<u>\$ 8,176,265</u>	<u>\$ 1,912,673</u>	

**SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT**

NOTES TO FINANCIAL STATEMENTS

December 31, 2001 and 2000

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

<u>Project Name</u>	<u>Total Assessed</u>	<u>Prepaid Assessments</u>	<u>County Auditor and Deferred Assessments Paid</u>	<u>% Collected</u>
Watkins and Blacks Rds. S	\$ 465,859	\$ 245,588	\$ 15,808	56.11%
Watkins and Blacks Rd. W	414,399	194,906	13,093	50.19%
SR 16/Charles and Daley W	414,872	159,103	22,675	43.82%
Happy Homes/Sunshine S	393,199	123,937	20,142	36.64%
Hillside Farm Estates S	243,283	143,461	7,104	61.89%
Ashcraft/Pine Oak/Indian Hills W	902,061	271,310	30,400	33.45%
Ashcraft/Pine Oak/Indian S	825,771	263,521	63,628	39.62%
York/US 40 to Refugee S	108,767	3,434	8,180	10.68%
Sunshine/Happy Homes W	472,450	124,467	26,823	32.02%
SR 310 and Tatman S	283,684	182,270	9,036	67.44%
Columbia Rd. S	93,464	71,068	2,232	78.43%
Columbia/Refugee Rds. W	69,486	43,550	2,367	66.08%
Lynns Road S	141,971	46,431	66,311	79.41%
Lynns Road W	95,610	32,900	4,416	39.03%
SR 310/US 40 to Refugee W	185,938	69,876	18,535	47.55%
Cleveland Rd. / Mink St. S	690,562	270,510	18,006	41.78%
Palmer Rd./W. Etna Twp. S	713,789	319,578	16,121	47.03%
Palmer Rd./W. Etna Twp. W	728,634	315,932	11,906	44.99%
Palmer Road Sant. Sewer Est.	224,200	116,269	12,264	57.33%
Palmer Road Water Line Est.	<u>177,424</u>	<u>93,744</u>	<u>2,657</u>	54.33%
Subtotal	7,645,423	3,091,855	371,704	
Subtotal from previous page	<u>22,899,841</u>	<u>8,176,265</u>	<u>1,912,673</u>	
Total	<u>\$30,545,264</u>	<u>\$11,268,120</u>	<u>\$2,284,377</u>	

Net assessment receivable 12/31/01                    \$ 17,985,055 #

Net assessment receivable 12/31/00                    \$ 18,336,395 \*

# - Includes \$992,288 in accrued interest from deferred assessments receivable

\* - Includes \$849,081 in accrued interest from deferred assessments receivable

**NOTE I – CURRENT AND LONG-TERM DEBT – PLANNING AND CONSTRUCTION LOANS**

The current and long-term debt listed are planning and construction loans with Ohio Public Works Commission (O.P.W.C.) (Issue II), Ohio Water Development Authority (O.W.D.A.), the Rotary Commission, and Park National Bank (PNB). In addition, recoupment agreements have been established with one developer for the oversizing portion of donated lines, of which costs are considered the responsibility of the SWLCWSD. The recoupment agreements are payable in monthly increments of \$2,300 for each tap fee received by the 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.

**SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT**

NOTES TO FINANCIAL STATEMENTS

December 31, 2001 and 2000

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**NOTE I – CURRENT AND LONG-TERM DEBT – PLANNING AND CONSTRUCTION LOANS –**

**Continued**

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

The SWLCWSD has six (6) interest free loans from the Ohio Public Works Commission. Each loan requires semiannual payments for a term of twenty (20) years. Loan CQ616 for \$481,332, used to finance the Columbia Center/Fursville sanitary sewer lines, began on January 1, 1995 and will mature January 1, 2015. Loan CQ808 for \$236,351, used to finance Blanches E. Broad Street Addition waterline improvements, commenced July 1, 1995 and will mature July 1, 2015. Loan CQ807 for \$290,364 was used to finance Happy Homes/Sunshine Park sanitary sewer improvements. The loan commenced July 1, 1996 and will mature July 1, 2016. The loan, CQ021, for \$248,600 was used to finance Cleveland Road/Mink Street sanitary sewer improvements. The loan commenced in 1999 and will mature July 1, 2020. The next loan, CQ23D, is for \$500,000 is being used to assist in the Phase I-A Wastewater Treatment Plant expansion. The outstanding loan balance at December 31, 2001 was \$335,707. 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 final loan, CQ24E, is in the amount of \$733,000 and is going to be used to assist in the Phase I-B Wastewater Treatment Plant expansion. As of December 31, 2001 there were no expenditures related to this loan and no outstanding loan balance.

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 as of December 31, 2001 of \$106,351; \$65,495; and \$186,984 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.

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.

**SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2001 and 2000

**NOTE I – CURRENT AND LONG-TERM DEBT – PLANNING AND CONSTRUCTION LOANS –Continued**

Current and long-term debt at December 31, 2001 are as follows:

Loan #	Payable To	Interest Rate	First Payment	Principal Term	Principal Due in 2002	Principal Due after 2002
1865	O.W.D.A.	8	34,335	25 yrs.	30,462	1,911,445
1866	O.W.D.A.	6	34,335	25 yrs.	3,474	193,304
1867	O.W.D.A.	7	34,335	25 yrs.	34,621	2,154,280
1868	O.W.D.A.	7	34,335	25 yrs.	6,152	354,182
1869	O.W.D.A.	7	34,700	25 yrs.	63,203	4,013,558
3019	O.W.D.A.	7	34,700	25 yrs.	56,017	3,642,628
3020	O.W.D.A.	6	34,700	25 yrs.	4,767	285,695
3021	O.W.D.A.	6	34,700	25 yrs.	3,094	180,956
3025	O.W.D.A.	7	34,881	25 yrs.	45,360	2,966,008
3039	O.W.D.A.	7	34,881	25 yrs.	18,707	1,195,070
3040	O.W.D.A.	6	35,247	25 yrs.	3,247	210,977
3041	O.W.D.A.	7	34,881	25 yrs.	25,539	1,631,540
3043	O.W.D.A.	6	34,881	25 yrs.	39,734	2,472,790
3048	O.W.D.A.	6	34,881	25 yrs.	998	62,164
3053	O.W.D.A.	6	34,881	25 yrs.	1,677	103,606
3054	O.W.D.A.	6	34,881	25 yrs.	5,614	346,711
5022	O.W.D.A.	6	34,881	25 yrs.	16,799	1,036,236
3063	O.W.D.A.	6	35,065	25 yrs.	12,642	842,240
3064	O.W.D.A.	6	35,065	25 yrs.	2,316	154,349
3079	O.W.D.A.	6	35,065	25 yrs.	32,278	2,119,347
3080	O.W.D.A.	6	34,335	25 yrs.	15,692	1,030,303
3105	O.W.D.A.	7	34,335	25 yrs.	5,467	349,797
3106	O.W.D.A.	7	34,335	25 yrs.	3,932	251,579
2005	O.W.D.A.	7	34,700	25 yrs.	20,023	1,318,409
2930	O.W.D.A.	7	34,700	25 yrs.	10,976	722,732
2956	O.W.D.A.	6	34,700	25 yrs.	2,140	164,495
2957	O.W.D.A.	6	34,700	25 yrs.	7,026	539,913
2969	O.W.D.A.	7	34,881	25 yrs.	12,736	987,428
2970	O.W.D.A.	7	34,881	25 yrs.	49,518	3,839,141
2971	O.W.D.A.	6	35,247	25 yrs.	4,825	359,449
2093	O.W.D.A.	7	34,881	25 yrs.	50,471	4,029,477
2094	O.W.D.A.	6	34,881	25 yrs.	65,078	4,041,307
2095	O.W.D.A.	6	34,881	25 yrs.	16,495	1,341,889
2096	O.W.D.A.	6	34,881	25 yrs.	8,255	671,563
2097	O.W.D.A.	6	34,881	25 yrs.	0	44,477
2098	O.W.D.A.	6	34,881	25 yrs.	0	164,686
Subtotal					679,335	45,733,731

**SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT**

NOTES TO FINANCIAL STATEMENTS

December 31, 2001 and 2000

**NOTE I – CURRENT AND LONG-TERM DEBT – PLANNING AND CONSTRUCTION LOANS – Continued**

Loan #	Payable To	Interest Rate	First Payment	Principal Term	Principal Due in 2002	Principal Due after 2002
2099	O.W.D.A.	6.16	01/01/96	25 yrs.	8,438	712,750
2100	O.W.D.A.	6.16	01/01/96	25 yrs.	0	(6,051)
2101	O.W.D.A.	6.02	01/01/96	25 yrs.	18,553	1,613,153
2102	O.W.D.A.	6.02	01/01/96	25 yrs.	0	(55,814)
2103	O.W.D.A.	5.77	01/01/96	25 yrs.	13,180	1,145,254
2104	O.W.D.A.	5.77	01/01/96	25 yrs.	0	(9,428)
2174	O.W.D.A.	5.90	7/1/96	25 yrs.	8,254	796,042
3279	O.W.D.A.	5.90	07/01/96	25 yrs.	47,105	4,484,098
CQ021	O.W.D.A.	6.64	01/01/97	25 yrs.	6,215	211,310
CQ616	O.W.D.A.	6.64	01/01/97	25 yrs.	12,033	300,832
CQ807	O.W.D.A.	6.72	01/01/97	25 yrs.	6,799	190,375
CQ808	O.W.D.A.	6.72	01/01/97	25 yrs.	5,908	153,628
CQ23D	O.W.D.A.	6.72	01/01/97	25 yrs.	0	335,707
2497	O.W.D.A.	6.87	07/01/97	25 yrs.	10,975	57,568
2498	O.W.D.A.	6.87	07/01/97	25 yrs.	30,634	4,564
3344	O.W.D.A.	6.36	01/01/98	25 yrs.	0	764,075
3420	O.W.D.A.	6.36	01/01/98	25 yrs.	0	406
3421	O.W.D.A.	6.32	07/01/02	25 yrs.	0	738
	Rotary	0.00		20 yrs.	0	106,351
	Rotary	0.00		20 yrs.	0	186,984
	Rotary	0.00		20 yrs.	0	65,495
	Highland Hills Recoupment	9.25		5 yrs.	0	225,834
	Park National Bank	7.40	01/01/00	5 yrs.	168,318	619,621
	Park National Bank	8.40			<u>55,753</u>	<u>303,187</u>
	Subtotal of this page				392,165	12,206,679
	Subtotal of previous page				<u>679,335</u>	<u>45,733,731</u>
	Totals				<u>\$1,071,500</u>	<u>\$57,940,410</u>

**SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2001 and 2000

**NOTE I – CURRENT AND LONG-TERM DEBT – PLANNING AND CONSTRUCTION LOANS – Continued**

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

Loan #	2002	2003	2004	2005	2006	2007 & after
1865	104,821	209,642	209,642	209,642	209,642	2,515,700
1866	9,722	19,445	19,445	19,445	19,445	233,335
1867	117,448	234,896	234,896	234,896	234,896	2,818,747
1868	18,265	36,530	36,530	36,530	36,530	438,361
1869	200,029	400,058	400,058	400,058	400,058	5,200,749
3019	184,614	369,228	369,228	369,228	369,228	4,799,966
3020	13,654	27,307	27,307	27,307	27,307	354,991
3021	8,493	16,987	16,987	16,987	16,987	220,825
3025	146,995	293,989	293,989	293,989	293,989	3,968,853
3039	58,215	116,431	116,431	116,431	116,431	1,571,817
3040	9,428	18,855	18,855	18,855	18,855	273,399
3041	79,477	158,954	158,954	158,954	158,954	2,145,885
3043	118,125	236,250	236,250	236,250	236,250	3,189,378
3048	2,970	5,939	5,939	5,939	5,939	80,178
3053	4,920	9,841	9,841	9,841	9,841	132,851
3054	16,466	32,932	32,932	32,932	32,932	444,577
3055	49,212	98,425	98,425	98,425	98,425	1,328,724
3063	39,362	78,724	78,724	78,724	78,724	1,102,131
3064	7,213	14,427	14,427	14,427	14,427	201,976
3079	98,014	196,028	196,028	196,028	196,028	2,744,387
3080	47,649	95,298	95,298	95,298	95,298	1,334,174
3105	15,875	31,750	31,750	31,750	31,750	444,502
3106	11,418	22,835	22,835	22,835	22,835	319,692
2005	59,508	119,016	119,016	119,016	119,016	1,725,732
2930	32,621	65,243	65,243	65,243	65,243	946,017
2956	7,744	15,488	15,488	15,488	15,488	232,324
2957	25,418	50,836	50,836	50,836	50,836	762,542
2969	46,770	93,540	93,540	93,540	93,540	1,403,101
2970	181,842	363,683	363,683	363,683	363,683	5,455,251
2971	16,563	33,127	33,127	33,127	33,127	496,901
2093	190,618	381,236	381,236	381,236	381,236	5,909,155
2095	60,217	120,434	120,434	120,434	120,434	1,926,945
2096	30,136	60,273	60,273	60,273	60,273	964,360
2101	68,402	136,804	136,804	136,804	136,804	2,394,076
2103	48,570	97,141	97,141	97,141	97,141	1,699,965
CQ021	6,215	12,430	12,430	12,430	12,430	155,375
CQ616	12,033	24,066	24,066	24,066	24,066	192,535
CQ807	6,799	13,598	13,598	13,598	13,598	129,184
CQ808	5,909	11,818	11,818	11,818	11,818	100,447
2497	12,072	24,144	24,144	12,072	0	0
PNB	258,309	516,618	455,758	0	0	0
	<u>\$2,432,131</u>	<u>\$4,864,266</u>	<u>\$4,803,406</u>	<u>\$4,335,576</u>	<u>\$4,323,504</u>	<u>\$60,359,108</u>

Project loan agreements 2094, 2097, 2098, 2099, 2174, 3279, 3344, 2498, and CQ23D have not been finalized with the OWDA or the Ohio Public Works Commission; therefore, no amortization schedules have been created. As a result these loans are not shown on the above maturity schedule.

Loan agreements 2100, 2102, and 2104 also were not shown on the above maturity schedule. These loans currently have a negative balance because more money has been repaid by SWLCWSD based on the original repayment schedule than has been distributed by the loan agreements with OWDA. These loans will be closed during the fiscal year 2002.

**SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT**

NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2001 and 2000

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**NOTE J - CAPITAL LEASE OBLIGATIONS**

The District entered into one agreement with Park National Bank on September 6, 2001 to lease five Chevrolet S-10 trucks. The terms of the agreement provide for transfer of ownership at the end of the lease. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases," which defines a capital lease generally as one that transfers benefits and risks of ownership to the lessee. The total amount of the capital lease obligation in the amount of \$67,721 was recorded as a liability. The first lease payment is due September 6, 2002 with two additional payments required on September 6, 2003 and September 6, 2004. Payments of the principal amount on the lease will be recorded as reductions of the capital lease obligation and payments of the interest amount on the lease will be recorded as interest expense in the District's financial statements.

The District's future minimum lease payments under capital lease obligations as of December 31, 2001 are as follows:

<u>Fiscal Year</u>	<u>Capital Leases</u>
2002	\$25,054
2003	25,054
2004	<u>25,055</u>
Total minimum lease payments	\$75,163
Less: amount representing interest	<u>7,442</u>
Present value of minimum lease payments	<u>\$67,721</u>

**NOTE K - CONTRIBUTED CAPITAL**

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

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

Contributed capital for water and sewer projects is cumulative of total final assessments, less a 2% discount given for assessment prepayment and less deferred assessments which will not be collected until property is sold or converted to non-agricultural use. The deferred assessments are recorded as a liability in the deferred revenue account. When the property is taken out of deferred status and the assessment is paid, the liability will be removed from the account and prior to 2001, contributed capital would be recorded. In 2001 and in future years, assessment revenue will be recorded. 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 the SWLCWSD once a resolution has been passed to accept the lines as operational, and for use and hookup.

## SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

### NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2001 and 2000

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#### **NOTE L – PENSION PLANS AND POST-EMPLOYMENT BENEFITS**

All the SWLCWSD full-time employees participate in the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer public employee retirement system created by the State of Ohio. 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 the state statute per Chapter 145 of the Ohio Revised Code. The Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS (7377).

The 2001 employer and employee contribution rates were 13.55% and 8.5% of covered payroll, respectively. The SWLCWSD's contributions to PERS for the years ended December 31, 2001 and 2000, were \$80,509 and \$64,971. PERS also provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the System is set-aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The rate was 13.55% of covered payroll; 4.3% was the portion that was used to fund health care for 2001.

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

The assumptions and calculations below were based on the System's latest actuarial review performed as of December 31, 2000. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2000 was 7.75%. An annual increase of 4.75% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.75% base increase, were assumed to range from 0.54% to 5.1%. Health care costs were assumed to increase 4.75% annually.

OPEBs are advance-funded on an actuarially determined basis. The number of active contributing participants was 411,076. The District contributions actually made to fund postemployment benefits during fiscal years 2001 and 2000 were \$25,545 and \$22,810, respectively. \$11,735.9 million represents the actuarial value of the retirement system's net assets available for OPEB at December 31, 2000 (the most recent data available). The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$14,364.6 million and \$2,628.7 million, respectively.

PERS elected to return to an actuarially pre-funded type of disclosure because they believe it is a better presentation of PERS's actual funding methodology.

# SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

## NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2001 and 2000

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### **NOTE M – RISK MANAGEMENT**

The SWLCWSD is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal years 2000 and 2001 the SWLCWSD contracted for the following insurance coverage:

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

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

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

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

### **NOTE N – RELATED PARTY TRANSACTIONS**

No related party transactions existed at December 31, 2001 and 2000.

### **NOTE O – CONTINGENT LIABILITIES**

During the fiscal years ended December 31, 2001 and 2000, the District was involved in several legal actions. Management does not believe that the financial impact, if any, of these legal actions would have a material effect on the financial statements of the SWLCWSD.

### **NOTE P – BUDGETARY PROCESS**

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

#### Appropriations

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

#### Estimated Resources

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

**SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT**

NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2001 and 2000

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**NOTE P – BUDGETARY PROCESS - Continued**

Budgetary Activity

Budgetary activity for the years ending December 31, 2001 and 2000 was as follows:

2001 Budgeted VS. Actual Receipts

<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance Favorable/ (Unfavorable)</u>
\$15,839,566	\$11,087,622	(\$4,751,944)

2001 Budgeted VS. Actual Budgetary Basis Expenditures

<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance Favorable/ (Unfavorable)</u>
\$0	\$11,300,903	(\$11,300,903)

2000 Budgeted VS. Actual Receipts

<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance Favorable/ (Unfavorable)</u>
\$18,082,700	\$11,343,722	(\$6,738,978)

2000 Budgeted VS. Actual Budgetary Basis Expenditures

<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance Favorable/ (Unfavorable)</u>
\$15,874,655	\$9,584,237	\$6,290,418

In 2001 the District had disbursements exceeding appropriations of \$11,300,903. This is in violation of Ohio Revised Code Section 5705.41 (B), which prohibits the expenditure of funds unless they have been properly appropriated.

**SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT**

NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2001 and 2000

**NOTE Q – DEBT SERVICE FEE**

Effective in April 2000, the SWLCWSD implemented a debt service fee in the amount of \$20.70 per month per sewer customer. 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 fiscal years 2001 and 2000 the SWLCWSD collected \$1,133,851 and \$878,049 in debt service fees and expended more than \$3 million both years in principal and interest payments on sewer related debt.

**NOTE Q – 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 R – MISCELLANEOUS INCOME**

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

**NOTE S – INTEREST EXPENSE**

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

	<u>2001</u>	<u>2000</u>
OWDA- Water	\$ 1,240,861	\$ 1,449,406
OWDA- Sewer	2,480,707	2,570,077
Park Nationl Bank	<u>111,668</u>	<u>140,262</u>
 Total interest expense	 <u>\$ 3,833,236</u>	 <u>\$ 4,159,745</u>

**NOTE T – CONSTRUCTION COMMITMENTS OUTSTANDING**

As disclosed in the fixed asset section, the SWLCWSD had several major projects in process as of 12/31/01. The WWTP Phase I-A project was almost completed at year end, but was not finally approved until fiscal year 2002. The WWTP Phase I-B project only had the planning and engineering contract costs outstanding at year-end. The construction phase of the project will be bid and awarded during fiscal year 2002. Outstanding contracts are listed below:

<u>Name of Contractor</u>	<u>Outstanding Contract Amount</u>	<u>Contract Description</u>
Dow Construction Co.	\$42,704	WWTP Phase I-A
RD Zande & Associates	80,483	WWTP Phase I-B

**SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT**

NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2001 and 2000

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**NOTE U – CHANGE IN ACCOUNTING PRINCIPLES**

For the year 2001, the SWLCWSD has implemented Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and GASB Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*. The implementation of GASB Statement No. 33 and 36 had no effect on retained earnings at December 31, 2000.

**BALESTRA & COMPANY**  
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Ohio Society of Certified Public Accountants

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

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

We have audited the general-purpose financial statements of Southwest Licking Community Water & Sewer District, Licking County (the SWLCWSD), as of and for the years ended December 31, 2001 and 2000, in which we indicated the SWLCWSD had changed its method of accounting for non-exchange transactions, and have issued our report thereon dated May 31, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

*Compliance*

As part of obtaining reasonable assurance about whether the SWLCWSD'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 two instances of noncompliance that are required to be reported under *Government Auditing Standards*. Those two reportable citations are described in the accompanying Schedule of Findings as items 2001-01 and 2001-02.

*Internal Control Over Financial Reporting*

In planning and performing our audit, we considered the SWLCWSD's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control 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 amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the SWLCWSD in a separate letter dated May 31, 2002.

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

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

Page 2

This report is intended 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.

*Balestra & Company*  
Balestra & Company

May 31, 2002

SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT  
 LICKING COUNTY  
 JANUARY 1, 2000 THROUGH DECEMBER 31, 2001

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

Finding Number: 2001-01	<p><u>Annual Appropriation Measure</u></p> <p>Ohio Revised Code section 5705.38 states that on or about the first day of each fiscal year, an appropriation measure must be passed. For the year 2001, the District did not adopt an annual appropriation measure. Expenditures in 2001 amounted to \$11,300,903.</p>
Finding Number: 2001-02	<p><u>Appropriations vs. Disbursements</u></p> <p>Ohio Revised Code section 5705.41(B), prohibits any subdivision from making any expenditure without it being properly appropriated. Expenditures exceeded appropriations by \$11,300,903 for 2001.</p>

**CORRECTIVE ACTION PLAN:**

FINDING NUMBER:	PLANNED CORRECTIVE ACTION:	ANTICIPATED COMPLETION DATE:	RESPONSIBLE CONTACT PERSON:
2001-02	The Board will monitor budgetary activity more closely during the next fiscal year.	12/31/02	Kathy Shaffer, Office Manager
2001-02	The Board will monitor budgetary activity more closely during the next fiscal year.	12/31/02	Kathy Shaffer, Office Manager



STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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**SOUTHWEST LICKING COMMUNITY WATER AND SEWER DISTRICT**

**LICKING COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JULY 30, 2002**