

**SOUTHWEST LICKING COMMUNITY  
WATER AND SEWER DISTRICT  
LICKING COUNTY  
Regular Audit  
For the Years Ended December 31, 2013 and 2012**

***Perry & Associates***  
Certified Public Accountants, A.C.





# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Southwest Licking Community Water and Sewer District, Licking County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2012 through December 31, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Southwest Licking Community Water and Sewer District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

September 10, 2014

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

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Auditor’s Report .....	1
Management’s Discussion and Analysis .....	3
Basic Financial Statements:	
Statements of Net Position .....	8
Statements of Revenues, Expenses and Changes in Net Position .....	10
Statements of Cash Flows .....	11
Notes to the Basic Financial Statements.....	13
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	31

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## INDEPENDENT AUDITOR'S REPORT

August 20, 2014

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

To the Board of Trustees:

### *Report on the Financial Statements*

We have audited the accompanying financial statements of the **Southwest Licking Community Water and Sewer District**, Licking County, Ohio (the District), as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to opine on these financial statements based on our audits. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Southwest Licking Community Water and Sewer District, Licking County as of December 31, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2014, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



**Perry and Associates**  
Certified Public Accountants, A.C.  
Marietta, Ohio

Southwest Licking Community Water and Sewer District  
Licking County, Ohio  
Management's Discussion and Analysis  
For the Years Ended December 31, 2013 and 2012  
(Unaudited)

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

### **FINANCIAL HIGHLIGHTS**

The total assets of SWLCWSD exceeded liabilities and deferred inflows of resources on December 31, 2013 by \$8.0 million and on December 31, 2012 by \$7.2 million. The District's net position increased by \$785 thousand (10.9%) in 2013 and increased by \$323 thousand (4.7%) in 2012.

The District's operating revenues decreased by \$10 thousand (-0.1%) in 2013 and increased by \$445 thousand (6.7%) in 2012. Operating expenses (excluding depreciation and amortization expenses) increased \$47 thousand (2.0%) in 2013 and increased by \$37 thousand (1.6%) in 2012. Depreciation and amortization expense increased by \$28 thousand (0.7%) in 2013 and decreased by \$72 thousand (1.8%) in 2012. The District's non-operating revenues increased by \$229 thousand (9.6%) in 2013 and decreased by \$29 thousand (1.2%) in 2012. The District's non-operating expenses decreased by \$225 thousand (7.5%) in 2013 and \$240 thousand (7.4%) in 2012.

The District issued \$482,609 of additional long term debt in 2013 and \$99,974 of additional long term debt in 2012.

### **OVERVIEW OF BASIC FINANCIAL STATEMENTS**

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

The **Statements of Net Position** include all of the District's Assets, Liabilities and Deferred Inflows of Resources. These statements provide information about the nature and amounts of investments in resources (assets) owned by the District, and obligations owed by the District (liabilities) on December 31. The District's net position is the difference between assets and liabilities plus deferred inflows of resources.

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

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

Southwest Licking Community Water and Sewer District  
Licking County, Ohio  
Management's Discussion and Analysis  
For the Years Ended December 31, 2013 and 2012  
(Unaudited)

**STATEMENTS OF NET POSITION**

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

**Table 1**

	<u>2013</u>	<u>2012*</u>	<u>Change Amount</u>	<u>2011*</u>	<u>Change Amount</u>
Current and Other Assets	\$ 18,780,950	\$ 18,506,665	\$ 274,285	\$ 18,448,584	\$ 58,081
Restricted Assets	45,887	43,879	2,008	43,858	21
Capital Assets, Net	<u>42,478,440</u>	<u>44,793,109</u>	<u>(2,314,669)</u>	<u>48,392,422</u>	<u>(3,599,313)</u>
<b>Total Assets</b>	<u>61,305,277</u>	<u>63,343,653</u>	<u>(2,038,376)</u>	<u>66,884,864</u>	<u>(3,541,211)</u>
Long Term Liabilities	41,643,341	45,460,099	(3,816,758)	49,517,256	(4,057,157)
Current and Other Liabilities	<u>5,122,349</u>	<u>4,347,305</u>	<u>775,044</u>	<u>4,196,717</u>	<u>150,588</u>
<b>Total Liabilities</b>	<u>46,765,690</u>	<u>49,807,404</u>	<u>(3,041,714)</u>	<u>53,713,973</u>	<u>(3,906,569)</u>
Deferred Inflows of Resources	6,560,736	6,341,968	218,768	6,299,820	42,148
Net Investment in Capital Assets	(3,966,672)	(4,650,798)	684,126	(4,922,075)	271,277
Unrestricted	<u>11,945,523</u>	<u>11,844,879</u>	<u>100,644</u>	<u>11,793,146</u>	<u>51,733</u>
<b>Total Net Position</b>	<u>\$ 7,978,851</u>	<u>\$ 7,194,081</u>	<u>\$ 784,770</u>	<u>\$ 6,871,071</u>	<u>\$ 323,010</u>

\* As restated, see Note R

The District's net position increased by \$785 thousand (10.9%) in 2013 and increased by \$323 thousand (4.7%) in 2012.

The increase in 2013 is primarily due to the decrease in total liabilities of approximately \$3.0 million which was partially offset by an increase in deferred inflows of resources of \$.2 million and a decrease in total assets of approximately \$2.0 million. The decrease in total assets is mainly due to decreases in net capital assets and assessment receivables and was partially offset by an increase in cash. Cash increased due to cash receipts exceeding cash disbursements primarily due to increased tap fees in 2013. Net capital assets decreased primarily due to current year depreciation which was partially offset by capital asset additions. Assessment receivables decreased due to assessment payments received. The decrease in total liabilities is primarily due to the decrease in notes payable which was partially offset by an increase in contracts payable due to ongoing construction activity at year end.

The increase in 2012 is primarily due to the decrease in total assets of approximately \$3.5 million which was offset by a decrease in total liabilities of approximately \$3.9 million. The decrease in total assets is mainly due to decreases in net capital assets and assessment receivables and was partially offset by an increase in cash. Cash increased due to cash receipts exceeding cash disbursements primarily due to increased service revenues in 2012. Net capital assets decreased primarily due to current year depreciation. Assessment receivables decreased due to assessment payments received. The decrease in total liabilities is primarily due to the decrease in notes payable.

Unrestricted net assets increased by \$101 thousand (0.9%) in 2013 and increased by \$52 thousand (0.4%) in 2012. Unrestricted net assets may be used without constraints established by legal requirements. Cash and cash equivalents increased \$791 thousand (23%) in 2013 and increased \$694 thousand (25.3%) in 2012.

Southwest Licking Community Water and Sewer District  
Licking County, Ohio  
Management's Discussion and Analysis  
For the Years Ended December 31, 2013 and 2012  
(Unaudited)

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

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

**Table 2**

	<u>2013</u>	<u>2012*</u>	<u>Change</u>	<u>2011*</u>	<u>Change</u>
Operating Revenues	\$ 7,076,602	\$ 7,086,646	\$ (10,044)	\$ 6,641,245	\$ 445,401
Operating Expenses (Excluding Depreciation & Amortization)	2,385,247	2,338,435	46,812	2,301,001	37,434
Depreciation & Amortization	3,910,118	3,881,988	28,130	3,953,590	(71,602)
<b>Total Operating Expenses</b>	<b><u>6,295,365</u></b>	<b><u>6,220,423</u></b>	<b><u>74,942</u></b>	<b><u>6,254,591</u></b>	<b><u>(34,168)</u></b>
Operating Gain/(Loss)	781,237	866,223	(84,986)	386,654	479,569
Non-Operating Revenues	2,610,792	2,381,821	228,971	2,410,886	(29,065)
Non-Operating Expenses	2,768,277	2,993,350	(225,073)	3,233,083	(239,733)
Capital Contributions	161,018	68,316	92,702	212,165	(143,849)
<b>Changes in Net Position</b>	<b>784,770</b>	<b>323,010</b>	<b>461,760</b>	<b>(223,378)</b>	<b>546,388</b>
<b>Net Position at Beginning of Year *</b>	<b><u>7,194,081</u></b>	<b><u>6,871,071</u></b>	<b><u>323,010</u></b>	<b><u>7,094,449</u></b>	<b><u>(223,378)</u></b>
<b>Net Position at End of Year</b>	<b><u>\$ 7,978,851</u></b>	<b><u>\$ 7,194,081</u></b>	<b><u>\$ 784,770</u></b>	<b><u>\$ 6,871,071</u></b>	<b><u>\$ 323,010</u></b>

\* As restated, see Note R

Operating revenues decreased \$10 thousand (-0.1%) in 2013. The increase in tap fees is the result of an expansion of water lines in the area and is subject to fluctuation depending upon the necessity, economy, and other factors. The decrease in interest income is due to decreasing balances of special assessments receivable. There were capital contributions of \$161,018 in 2013 (an increase from \$68,316 in 2012). The increase was due to donated lines from developers in 2013. Capital contributions will fluctuate from year to year depending on developer construction activity and deferred agricultural special assessments being collected from property converted from agricultural use.

Operating revenues increased \$445 thousand (6.7%) in 2012. The increase in 2012 was primarily the result of a rate increase and an increase in customers. The increase in interest income is due to collections of several deferred agricultural special assessments during 2012. There were capital contributions of \$68,316 in 2012 (a decrease from \$212,165 in 2011). The decrease was due to no donated lines from developers in 2012. Capital contributions will fluctuate from year to year depending on developer construction activity and deferred agricultural special assessments being collected from property converted from agricultural use.

Operating expenses, excluding depreciation and amortization, increased \$47 thousand (2.0%) in 2013. This increase was primarily due to an increase in training, utilities, and repairs and maintenance. The increases were partially offset by decreases in salaries and wages due to the retirement and reduction of personnel and audit fees (audit is performed every other year).

Operating expenses, excluding depreciation and amortization, increased \$37 thousand (1.6%) in 2012. This increase was primarily due to an increase in audit fees (audit is performed every other year), chemicals and operating supplies and repairs and maintenance. The increases were partially offset by decreases in salaries and wages due to the retirement and reduction of personnel.

Southwest Licking Community Water and Sewer District  
Licking County, Ohio  
Management's Discussion and Analysis  
For the Years Ended December 31, 2013 and 2012  
(Unaudited)

**CAPITAL ASSETS**

The District had \$102.2 million invested in capital assets (before accumulated depreciation of \$59.7 million) at the end of 2013. This amount is an increase of \$1.5 million (1.5%) from the previous year. Additional information regarding capital assets can be found in Note F to the basic financial statements.

**Table 3**

	<b>2013</b>	<b>2012</b>	<b>Change Amount</b>	<b>2011</b>	<b>Change Amount</b>
<b>Capital Assets Not Being Depreciated:</b>					
Land	\$ 914,738	\$ 914,738	\$ -	\$ 914,738	\$ -
Land Easements	342,429	342,429	-	342,429	-
Construction in Progress	929,056	85,273	843,783	-	85,273
Total Capital Assets Not Being Depreciated	<u>2,186,223</u>	<u>1,342,440</u>	<u>843,783</u>	<u>1,257,167</u>	<u>85,273</u>
<b>Capital Assets Being Depreciated (Net of Accumulated Depreciation):</b>					
Land Improvements	14,722	16,750	(2,028)	18,780	(2,030)
Facilities, Lines & Related Infrastructure	37,685,349	40,816,637	(3,131,288)	44,294,799	(3,478,162)
Donated Developer Lines	2,322,402	2,350,131	(27,729)	2,532,437	(182,306)
Vehicles	29,979	10,768	19,211	15,254	(4,486)
Office Furniture and Equipment	30,256	35,316	(5,060)	50,427	(15,111)
General Equipment	205,896	216,208	(10,312)	217,376	(1,168)
Safety Equipment	3,613	4,859	(1,246)	6,182	(1,323)
Total Capital Assets Being Depreciated (Net)	<u>40,292,217</u>	<u>43,450,669</u>	<u>(3,158,452)</u>	<u>47,135,255</u>	<u>(3,684,586)</u>
<b>Net Capital Assets</b>	<u><b>\$ 42,478,440</b></u>	<u><b>\$ 44,793,109</b></u>	<u><b>\$ (2,314,669)</b></u>	<u><b>\$ 48,392,422</b></u>	<u><b>\$ (3,599,313)</b></u>

Southwest Licking Community Water and Sewer District  
Licking County, Ohio  
Management's Discussion and Analysis  
For the Years Ended December 31, 2013 and 2012  
(Unaudited)

**DEBT**

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

**Table 4**

	<b>2013</b>	<b>2012</b>	<b>Change Amount</b>	<b>2011</b>	<b>Change Amount</b>
OWDA Loans	\$ 43,676,553	\$ 47,632,296	\$ (3,955,743)	\$ 51,399,120	\$ (3,766,824)
OPWC Loans	1,586,363	1,238,835	347,528	1,342,601	(103,766)
Rotary Commission Loans	346,941	346,941	-	346,941	-
Highland Hills Recoupment Agreement	225,835	225,835	-	225,835	-
<b>Total Long Term Debt</b>	<b>45,835,692</b>	<b>49,443,907</b>	<b>(3,608,215)</b>	<b>53,314,497</b>	<b>(3,870,590)</b>
Less: Current Maturities	4,327,921	4,090,824	237,097	3,927,896	162,928
<b>Net Total Long Term Debt</b>	<b>\$ 41,507,771</b>	<b>\$ 45,353,083</b>	<b>\$ (3,845,312)</b>	<b>\$ 49,386,601</b>	<b>\$ (4,033,518)</b>

**CASH**

Cash and cash equivalents on December 31, 2013 and 2012 were \$4.2 million and \$3.4 million, respectively. \$46 thousand of these funds in 2013 and \$44 thousand of these funds in 2012 were restricted for specific use. These accounts are for escrowed contractor bonds.

**CONTACT INFORMATION**

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

Southwest Licking Community Water and Sewer District  
Licking County, Ohio

Statements of Net Position  
As of December 31, 2013 and 2012

	<b>2013</b>	<b>2012</b>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash	\$ 4,183,112	\$ 3,394,490
Petty cash	531	531
Intergovernmental Receivable	47,287	5,138
Accounts receivable - operating billings less allowance for doubtful accounts (\$150,000 in 2013 and \$150,000 in 2012)	819,766	787,691
Prepaid insurance	40,501	40,362
Meter inventory	24,586	21,639
Total current assets	5,115,783	4,249,851
<b>Noncurrent assets:</b>		
Restricted Assets:		
Cash in savings-contractor bonds	45,887	43,879
Total noncurrent assets	45,887	43,879
<b>Capital Assets:</b>		
Non-Depreciable Capital Assets	2,186,223	1,342,440
Depreciable Capital Assets, Net	40,292,217	43,450,669
Total Capital Assets, Net	42,478,440	44,793,109
<b>Other Assets:</b>		
Jefferson water tap rights, net of \$159,384 and \$151,317 accumulated amortization for 2013 and 2012, respectively	15,761	23,828
Assessment receivables-water	7,187,061	7,378,084
Assessment receivables-sewer	6,462,345	6,854,902
Total other assets	13,665,167	14,256,814
Total Assets	\$ 61,305,277	\$ 63,343,653

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

Southwest Licking Community Water and Sewer District  
Licking County, Ohio

Statements of Net Position - Continued  
As of December 31, 2013 and 2012

<b>LIABILITIES AND NET POSITION</b>	<b>2013</b>	<b>2012</b>
<b>Current Liabilities:</b>		
Accounts payable	\$ 38,948	\$ 105,013
Contracts payable	565,037	-
Deposits payable to developers	22,061	8,595
Contractor bonds payable	46,800	43,600
Contractor retainage payable	44,383	-
Accrued employee wages	38,530	32,699
Accrued interest payable	4,429	5,138
Note payable - current portion	4,327,921	4,090,824
Payroll taxes accrued and withheld	32,725	38,481
Compensated absences - current portion	1,515	23,155
Total current liabilities	<u>5,122,349</u>	<u>4,347,505</u>
<b>Long Term Liabilities:</b>		
Compensated absences	135,570	107,016
Notes and recoupment agreements payable	41,507,771	45,353,083
Total long term liabilities	<u>41,643,341</u>	<u>45,460,099</u>
<b>Total Liabilities</b>	<u>46,765,690</u>	<u>49,807,604</u>
<b>Deferred Inflows of Resources:</b>		
Unearned special assessments	6,560,736	6,341,968
Total Deferred Inflows of Resources	<u>6,560,736</u>	<u>6,341,968</u>
<b>Net Position:</b>		
Net investment in capital assets	(3,966,672)	(4,650,798)
Unrestricted	11,945,523	11,844,879
Total net position	<u>\$ 7,978,851</u>	<u>\$ 7,194,081</u>

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

Southwest Licking Community Water and Sewer District  
Licking County, Ohio

Statements of Revenues, Expenses and Changes in Net Position  
For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>OPERATING REVENUES</b>		
Service revenues	\$ 6,821,825	\$ 6,866,460
Late charges	254,777	220,186
Total operating revenues	<u>7,076,602</u>	<u>7,086,646</u>
<b>OPERATING EXPENSES</b>		
Salaries	865,438	880,717
Training	8,585	420
Medicare tax expense	11,442	12,428
P.E.R.S. expense	105,207	94,369
Workers compensation	10,746	12,922
Operations and testing	32,543	24,853
Chemicals and operating supplies	214,427	220,422
Biosolids processing	42,606	48,656
Refuse	3,612	3,287
Equipment rental	3,349	8,097
Repairs and maintenance	339,690	286,111
Engineering	-	8,145
Legal	33,724	29,816
Accounting	12,600	17,680
Board designated expenses	890	1,071
Audit fees	352	24,271
Advertising and communications	589	452
Insurance:		
General	43,962	44,313
Health	135,540	131,726
Life	1,115	1,935
Telephone	25,702	22,709
Utilities	378,116	364,564
Office supplies	22,139	18,394
Cleaning	1,700	-
Postage	38,762	40,295
Security	366	356
Uniform rental	4,624	1,357
Small tools	1,293	339
Vehicle expense	6,453	5,250
Collection and bank fees	330	169
Dues and subscriptions	3,463	1,116
Licenses	35,225	31,601
General manager discretionary	657	594
Depreciation	3,902,051	3,873,921
Amortization	8,067	8,067
Total operating expenses	<u>6,295,365</u>	<u>6,220,423</u>
Operating income	<u>781,237</u>	<u>866,223</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Debt service fee income	982,439	961,428
Inspection revenue	1,520	3,120
Tap fee income	1,008,017	725,140
Capacity fee revenue	13,630	-
Interest income	544,618	660,035
Intergovernmental	25,255	10,936
Miscellaneous income	26,815	21,162
Gain on sale of capital assets	8,498	-
Interest expense	(2,768,277)	(2,993,350)
Total non-operating revenues (expenses)	<u>(157,485)</u>	<u>(611,529)</u>
Changes in net assets before capital contributions	623,752	254,694
Capital contributions - special assessments	-	68,316
Capital contributions - developers	161,018	-
Changes in net position	<u>784,770</u>	<u>323,010</u>
Net position, beginning of year (As restated, See Note R)	<u>7,194,081</u>	<u>6,871,071</u>
Net position, end of year	<u>\$ 7,978,851</u>	<u>\$ 7,194,081</u>

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

Southwest Licking Community Water and Sewer District  
Licking County, Ohio

Statements of Cash Flows  
For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Cash Flows from Operating Activities:</b>		
Cash received from customers	\$ 7,044,527	\$ 7,049,596
Cash payments to suppliers for goods and services	(1,324,910)	(1,179,331)
Cash payments for employee services and benefits	(1,122,499)	(1,180,434)
Net cash provided by operating activities	<u>4,597,118</u>	<u>4,689,831</u>
<b>Cash Flows from Investing Activities:</b>		
Interest income from savings	<u>5,273</u>	<u>6,030</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Payments for planning and construction, including capitalized interest	(747,135)	(231,994)
Assessment principal payments received	802,348	760,896
Proceeds from sale of capital assets	8,498	-
Intergovernmental revenue	(16,894)	11,596
Debt service fees collected	982,439	961,428
Increase (Decrease) in contractor bonds payable	3,200	(258)
Increase (Decrease) in developer deposits	13,466	-
Purchase of equipment and furniture	(43,479)	(42,614)
Purchase of vehicle	(26,330)	-
Construction loan proceeds	482,609	99,974
Principal repayments on loans	(4,090,824)	(3,970,564)
Interest repayments on loans	(2,768,986)	(2,994,010)
Assessment interest income	539,345	654,005
Inspection, tap fee and miscellaneous income	1,049,982	749,422
Net cash used for capital and related financing activities	<u>(3,811,761)</u>	<u>(4,002,119)</u>
Net increase in cash and cash equivalents	790,630	693,742
Cash and cash equivalents at beginning of year	<u>3,438,900</u>	<u>2,745,158</u>
Cash and cash equivalents at end of year	<u>\$ 4,229,530</u>	<u>\$ 3,438,900</u>

(Continued on following page)

Southwest Licking Community Water and Sewer District  
Licking County, Ohio

Statements of Cash Flows - Continued  
For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>		
Operating income	\$ 781,237	\$ 866,223
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</b>		
Depreciation and amortization	3,910,118	3,881,988
<b>Changes in Assets and Liabilities:</b>		
(Increase) decrease in accounts receivable	(32,075)	(37,050)
(Increase) decrease in prepaid insurance	(139)	1,229
(Increase) decrease in meter inventory	(2,947)	12,302
Increase (Decrease) in accounts payable (operating)	(66,065)	11,476
Increase (Decrease) in compensated absences	6,914	(28,493)
Increase (decrease) in accrued wages, benefits and payroll taxes	75	(17,844)
Total adjustments	<u>3,815,881</u>	<u>3,823,608</u>
Net cash provided by operating activities	<u>\$ 4,597,118</u>	<u>\$ 4,689,831</u>
<b>Non-cash transaction:</b>		
Acquisition of capital assets through developer donation	<u>\$ 161,018</u>	<u>\$ -</u>

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

Southwest Licking Community Water and Sewer District  
Licking County, Ohio  
Notes to the Basic Financial Statements  
For the Years Ended December 31, 2013 and 2012

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**NOTE A - NATURE OF ORGANIZATION**

Southwest Licking Community Water & Sewer District (hereafter referred to as SWLCWSD or the District) 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.

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

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

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

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

The significant accounting policies followed in the preparation of these financial statements conform to generally accepted accounting principles for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. 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, deferred inflows of resources, net position, revenues, and expenses. This fund accounts for the resources allocated to it for the purpose of carrying on specific activities in accordance with laws, regulations or other restrictions. The fund type, which SWLCWSD uses, is described below:

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

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

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

2. **Basis of Accounting**

The accounting records are maintained on the accrual basis of accounting for financial reporting purposes. The proprietary fund is accounted for on a flow of economic resources basis and all assets, liabilities and deferred inflows of resources associated with the operation are included on the statements of net position.

3. **Budgetary Process**

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

4. **Revenue Recognition**

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

5. **Accounts Receivable**

Accounts receivable are shown at their net realizable value. The water shut-off policy, implemented in full force on January 1, 1995, specifies the details of collections for both water and sewer delinquent accounts. Note that uncollectible sewer account balances are certified to the County Auditor after administrative collection efforts have been exhausted. SWLCWSD has recorded an allowance for doubtful accounts for fiscal years 2013 and 2012. Amounts determined to potentially be uncollectible are set up as an allowance and a corresponding entry to revenues is recorded during the year that the accounts are determined to be potentially uncollectible.

6. **Restricted Assets**

A restricted savings account was established for contractor bonds as discussed in the footnote entitled "CASH IN SAVINGS". These assets are shown as restricted as they can not be used for general SWLCWSD purposes.

7. **Capital Assets**

Capital assets costs are stated at cost (except see next paragraph referring to donated developer lines) and are depreciated over the estimated useful lives of the assets from 7 years to 50 years depending upon the type of asset. In addition, interest costs incurred during the construction of the water and sewer system are capitalized and included in capital assets. Once construction is complete and a project is operational, depreciation begins on all planning costs, construction costs, and capitalized interest. In prior years, the District capitalized all assets. In more recent years, the District has maintained a capital asset threshold of \$1,000.

Donated developer lines are stated at fair value based on developer documentation, and are depreciated over 25 to 50 years. Depreciation is computed using the straight-line method for financial reporting purposes. Repairs and maintenance costs are charged to operations when incurred. Improvements and additions are capitalized. The planning costs for proposed projects consist of capitalized interest and the engineering, legal and administrative planning costs, which are not allocated to specific projects currently in construction. If the proposed project begins construction, the respective planning costs will be depreciated. If the proposed project does not enter construction, respective planning costs will be expensed. General administrative, legal, engineering, and other costs, which cannot be directly allocated to specific projects, are proportionately allocated to operations and planning/construction for projects serviced during that time frame.

8. **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**9. Amortization**

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 2013 and 2012 was \$8,067 for both years.

**10. 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).

**11. Inventory of Materials and Supplies**

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

**12. Cash and Cash Equivalents**

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

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as non-negotiable certificates of deposits are reported at cost. In 2013 and 2012, SWLCWSD's investment consisted of a repurchase agreement.

**13. 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.

**14. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For SWLCWSD, these revenues are service revenues and late charges for water and sewer services provided. Operating expenses are necessary costs incurred to provide the goods and/or service that is the primary activity of the fund. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**15. Net Position**

Net position represents the difference between assets and liabilities plus deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction or improvements of those assets.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available. The District did not have restricted net position for 2013 or 2012.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**16. Deferred Inflows of Resources**

The District reports a deferred inflow of resources which represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenues) until that time. For the District these amounts consisted of special assessments which are recognized as a receivable; however, they are not recognized as revenue since these properties are in an agricultural deferred status and the revenue cannot be collected until the properties are converted to a non-agricultural use.

**NOTE C - CASH IN SAVINGS**

A separate escrow savings account was established to maintain the contractor bonds' balance due on the construction of the water and sewer lines. The account is a non-interest bearing account; therefore, interest is not due to the contractor. The balance at December 31, 2013 and 2012 was \$45,887 and \$43,879, respectively.

**NOTE D - DEPOSITS AND INVESTMENTS**

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

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

Interim deposits are deposits of interim monies. Interim deposits shall be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including, but not limited to, pass book accounts. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

Interim monies may be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;

Southwest Licking Community Water and Sewer District  
Licking County, Ohio  
Notes to the Basic Financial Statements - Continued  
For the Years Ended December 31, 2013 and 2012

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**NOTE D - DEPOSITS AND INVESTMENTS (Continued)**

6. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) of this footnote and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio; and
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's average portfolio.

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the SWLCWSD, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**Deposits**

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

As of December 31, 2013, SWLCWSD's bank balance of \$963,698 is either covered by FDIC or collateralized by the financial institutions public entity deposit pools in the manner described above. As of December 31, 2012, SWLCWSD's bank balance of \$967,738 is either covered by FDIC or collateralized by the financial institutions public entity deposit pools in the manner described above. At fiscal year-end 2013 and 2012, the carrying amount of the District's deposits was \$817,542 and \$878,624, exclusive of the repurchase agreement.

Southwest Licking Community Water and Sewer District  
Licking County, Ohio  
Notes to the Basic Financial Statements - Continued  
For the Years Ended December 31, 2013 and 2012

**NOTE D - DEPOSITS AND INVESTMENTS (Continued)**

Investments

As of December 31, 2013 and December 31, 2012, SWLCWSD had the following investments and maturities:

	2013		2012	
	Fair Value	Weighted Average Maturity (Yrs.)	Fair Value	Weighted Average Maturity (Yrs.)
Repurchase Agreements	\$ 3,411,457	0	\$ 2,559,745	0
Total Fair Value	\$ 3,411,457		\$ 2,559,745	

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

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

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

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

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

**NOTE E - INTEREST INCOME**

Interest income came from the following sources:

	2013	2012
Interest income from repurchase agreements and savings accounts	\$ 5,273	\$ 6,030
Interest income from assessments, accrued and collected	539,345	654,005
Total interest income	\$ 544,618	\$ 660,035

Southwest Licking Community Water and Sewer District  
Licking County, Ohio  
Notes to the Basic Financial Statements - Continued  
For the Years Ended December 31, 2013 and 2012

**NOTE F – CAPITAL ASSETS**

Capital assets activity for the fiscal year ended December 31, 2013 was as follows:

	Ending Balance 12/31/12	Additions	Deletions	Ending Balance 12/31/13
<b>Capital Assets, Not Being Depreciated</b>				
Land	\$ 914,738	\$ -	\$ -	\$ 914,738
Land Easements	342,429	-	-	342,429
Construction in Progress	85,273	1,113,783	(270,000)	929,056
<b>Total Capital Assets, Not Being Depreciated</b>	<b>1,342,440</b>	<b>1,113,783</b>	<b>(270,000)</b>	<b>2,186,223</b>
<b>Capital Assets Being Depreciated</b>				
Land Improvements	32,000	-	-	32,000
Facilities, Lines & Related Infrastructure	93,522,007	512,772	-	94,034,779
Donated Developer Lines	4,557,666	161,018	-	4,718,684
Vehicles	210,746	26,330	(49,632)	187,444
Office Furniture and Equipment	239,254	11,168	-	250,422
General Equipment	705,060	32,311	-	737,371
Safety Equipment	30,387	-	-	30,387
<b>Total Capital Assets, Being Depreciated</b>	<b>99,297,120</b>	<b>743,599</b>	<b>(49,632)</b>	<b>99,991,087</b>
<b>Less Accumulated Depreciation:</b>				
Land Improvements	(15,250)	(2,028)	-	(17,278)
Facilities, Lines & Related Infrastructure	(52,705,370)	(3,644,060)	-	(56,349,430)
Donated Developer Lines	(2,207,535)	(188,747)	-	(2,396,282)
Vehicles	(199,978)	(7,119)	49,632	(157,465)
Office Furniture and Equipment	(203,938)	(16,228)	-	(220,166)
General Equipment	(488,852)	(42,623)	-	(531,475)
Safety Equipment	(25,528)	(1,246)	-	(26,774)
<b>Total Accumulated Depreciation</b>	<b>(55,846,451)</b>	<b>(3,902,051)</b>	<b>49,632</b>	<b>(59,698,870)</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>43,450,669</b>	<b>(3,158,452)</b>	<b>-</b>	<b>40,292,217</b>
<b>Total Capital Assets</b>	<b>\$ 44,793,109</b>	<b>\$ (2,044,669)</b>	<b>\$ (270,000)</b>	<b>\$ 42,478,440</b>

Southwest Licking Community Water and Sewer District  
Licking County, Ohio  
Notes to the Basic Financial Statements - Continued  
For the Years Ended December 31, 2013 and 2012

**NOTE F – CAPITAL ASSETS (Continued)**

Capital assets activity for the fiscal year ended December 31, 2012 was as follows:

	Ending Balance 12/31/11	Additions	Deletions	Ending Balance 12/31/12
<b>Capital Assets, Not Being Depreciated</b>				
Land	\$ 914,738	\$ -	\$ -	\$ 914,738
Land Easements	342,429	-	-	342,429
Construction in Progress	-	85,273	-	85,273
<b>Total Capital Assets, Not Being Depreciated</b>	<b>1,257,167</b>	<b>85,273</b>	<b>-</b>	<b>1,342,440</b>
<b>Capital Assets Being Depreciated</b>				
Land Improvements	32,000	-	-	32,000
Facilities, Lines & Related Infrastructure	93,375,286	146,721	-	93,522,007
Donated Developer Lines	4,557,666	-	-	4,557,666
Vehicles	210,746	-	-	210,746
Office Furniture and Equipment	239,254	-	-	239,254
General Equipment	662,446	42,614	-	705,060
Safety Equipment	30,387	-	-	30,387
<b>Total Capital Assets, Being Depreciated</b>	<b>99,107,785</b>	<b>189,335</b>	<b>-</b>	<b>99,297,120</b>
<b>Less Accumulated Depreciation:</b>				
Land Improvements	(13,220)	(2,030)	-	(15,250)
Facilities, Lines & Related Infrastructure	(49,080,487)	(3,624,883)	-	(52,705,370)
Donated Developer Lines	(2,025,229)	(182,306)	-	(2,207,535)
Vehicles	(195,492)	(4,486)	-	(199,978)
Office Furniture and Equipment	(188,827)	(15,111)	-	(203,938)
General Equipment	(445,070)	(43,782)	-	(488,852)
Safety Equipment	(24,205)	(1,323)	-	(25,528)
<b>Total Accumulated Depreciation</b>	<b>(51,972,530)</b>	<b>(3,873,921)</b>	<b>-</b>	<b>(55,846,451)</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>47,135,255</b>	<b>(3,684,586)</b>	<b>-</b>	<b>43,450,669</b>
<b>Total Capital Assets</b>	<b>\$ 48,392,422</b>	<b>\$ (3,599,313)</b>	<b>\$ -</b>	<b>\$ 44,793,109</b>

**NOTE G - ACCOUNTS AND ASSESSMENTS RECEIVABLE**

Account receivable balances at December 31, 2013 and 2012 for operating billings are as follows:

	<u>2013</u>	<u>2012</u>
Current	\$ 794,681	\$ 861,426
Over 30 days	31,232	40,552
Over 60 days	26,072	14,204
Over 90 days	117,781	21,509
Gross Receivables	969,766	937,691
Less: Allowance for Doubtful Accounts	(150,000)	(150,000)
Net Accounts Receivable	<u>\$ 819,766</u>	<u>\$ 787,691</u>

Southwest Licking Community Water and Sewer District  
Licking County, Ohio  
Notes to the Basic Financial Statements - Continued  
For the Years Ended December 31, 2013 and 2012

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**NOTE G - ACCOUNTS AND ASSESSMENTS RECEIVABLE (Continued)**

Assessment accounts receivable are from completed construction projects and the issuance of final assessments to residents to cover those costs. The receivables are guaranteed through property tax billing. Included in the balances at December 31, 2013 and 2012, 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 unearned special assessments. The time frame of collection is undeterminable. The assessment accounts receivable balances at December 31, 2013 and December 31, 2012 are \$13,649,406 and \$14,232,986, respectively.

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

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

SWLCWSD has nine (9) interest free loans from the Ohio Public Works Commission. Each loan requires semiannual payments for a term of twenty (20) years. Loan CQ616 for \$481,332, used to finance the Columbia Center/Fursville sanitary sewer lines, began on January 1, 1995 and will mature January 1, 2015. Loan CQ808 for \$236,351, used to finance Blanches E. Broad Street Addition waterline improvements, commenced July 1, 1995 and will mature July 1, 2015. Loan CQ807 for \$290,364 was used to finance Happy Homes/Sunshine Park sanitary sewer improvements. The loan commenced July 1, 1996 and will mature July 1, 2016. Loan CQ021 for \$248,600 was used to finance Cleveland Road/Mink Street sanitary sewer improvements. The loan commenced in 1999 and will mature July 1, 2020. Loan CQ23D for \$500,000 was used to assist in the Phase I-A Wastewater Treatment Plant expansion. The loan commenced in 2002 and will mature July 1, 2022. Loan CQ24E is in the amount of \$733,000 and was used to assist in the Phase I-B Wastewater Treatment Plant expansion. The loan commenced in 2004 and will mature July 1, 2024. Loan CQ06M for \$529,142 was used to finance the York Road/Refugee Road Pump Station Upgrade. The loan commenced in 2010 and will mature January 1, 2031. Loan CQ25N for \$39,481 was used to finance the Columbia Road Pump Station Elimination Project, began in 2012 and will mature July 1, 2032. Loan CQ32P for \$479,445 was used to rehabilitate the Annette/Summit Road Pump Station. This project began in 2013; however, it is uncompleted and no payments have been made toward this loan.

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

Southwest Licking Community Water and Sewer District  
 Licking County, Ohio  
 Notes to the Basic Financial Statements - Continued  
 For the Years Ended December 31, 2013 and 2012

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

Long-term debt obligations and the related transactions for the years ended December 31, 2012 and 2013 are summarized below:

	Balance 12/31/2012	Additions	Reductions	Balance 12/31/2013	Amount Due Within One Year
O.W.D.A	\$ 47,632,296	\$ 3,164	\$ 3,958,907	\$ 43,676,553	\$ 4,196,003
O.P.W.C	1,238,835	479,445	131,917	1,586,363	131,918
Rotary	346,941	-	-	346,941	-
Highland Hills Recoupment	225,835	-	-	225,835	-
Compensated Absences	130,171	102,440	95,526	137,085	1,515
	<u>\$ 49,574,078</u>	<u>\$ 585,049</u>	<u>\$ 4,186,350</u>	<u>\$ 45,972,777</u>	<u>\$ 4,329,436</u>

	Balance 12/31/2011	Additions	Reductions	Balance 12/31/2012	Amount Due Within One Year
O.W.D.A	\$ 51,399,120	\$ 73,796	\$ 3,840,620	\$ 47,632,296	\$ 3,958,907
O.P.W.C	1,342,601	26,178	129,944	1,238,835	131,917
Rotary	346,941	-	-	346,941	-
Highland Hills Recoupment	225,835	-	-	225,835	-
Compensated Absences	158,664	67,033	95,526	130,171	23,155
	<u>\$ 53,473,161</u>	<u>\$ 167,007</u>	<u>\$ 4,066,090</u>	<u>\$ 49,574,078</u>	<u>\$ 4,113,979</u>

Southwest Licking Community Water and Sewer District  
Licking County, Ohio  
Notes to the Basic Financial Statements - Continued  
For the Years Ended December 31, 2013 and 2012

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

<u>Loan #</u>	<u>Payable To</u>	<u>Interest Rate</u>	<u>First Payment</u>	<u>Principal Term</u>	<u>Principal Due in 2014</u>	<u>Principal Due after 2014</u>
1865	O.W.D.A.	7.54	1/1/1994	25 yrs.	151,254	623,112
1866	O.W.D.A.	6.24	1/1/1994	25 yrs.	14,815	59,372
1867	O.W.D.A.	7.45	1/1/1994	25 yrs.	170,113	699,454
1868	O.W.D.A.	6.61	1/1/1994	25 yrs.	27,403	110,686
1869	O.W.D.A.	6.61	1/1/1995	25 yrs.	281,491	1,512,256
3019	O.W.D.A.	6.85	1/1/1995	25 yrs.	256,607	1,387,493
3020	O.W.D.A.	6.02	1/1/1995	25 yrs.	19,807	104,778
3021	O.W.D.A.	5.77	1/1/1995	25 yrs.	12,482	65,591
3025	O.W.D.A.	6.75	7/1/1995	25 yrs.	198,667	1,213,512
3039	O.W.D.A.	6.51	7/1/1995	25 yrs.	79,748	483,740
3040	O.W.D.A.	5.77	7/1/1996	25 yrs.	12,732	93,393
3041	O.W.D.A.	6.51	7/1/1995	25 yrs.	108,874	660,414
3043	O.W.D.A.	6.24	7/1/1995	25 yrs.	164,306	988,651
3048	O.W.D.A.	6.24	7/1/1995	25 yrs.	4,131	24,854
3053	O.W.D.A.	6.16	7/1/1995	25 yrs.	6,875	41,273
3054	O.W.D.A.	6.16	7/1/1995	25 yrs.	23,006	138,118
3055	O.W.D.A.	6.16	7/1/1995	25 yrs.	68,761	412,801
3063	O.W.D.A.	6.16	1/1/1996	25 yrs.	53,402	357,671
3064	O.W.D.A.	6.16	1/1/1996	25 yrs.	9,786	65,547
3079	O.W.D.A.	6.02	1/1/1996	25 yrs.	134,114	894,352
3080	O.W.D.A.	6.02	1/1/1996	25 yrs.	65,200	434,765
3105	O.W.D.A.	5.77	1/1/1996	25 yrs.	22,057	145,928
3106	O.W.D.A.	5.77	1/1/1996	25 yrs.	15,864	104,953
2005	O.W.D.A.	5.90	7/1/1996	25 yrs.	79,677	587,081
2930	O.W.D.A.	5.90	7/1/1996	25 yrs.	43,678	321,828
2956	O.W.D.A.	6.64	1/1/1997	25 yrs.	9,568	79,592
2957	O.W.D.A.	6.64	1/1/1997	25 yrs.	31,404	261,243
2969	O.W.D.A.	6.72	1/1/1997	25 yrs.	57,462	479,407
2970	O.W.D.A.	6.72	1/1/1997	25 yrs.	223,410	1,863,987
2971	O.W.D.A.	6.36	1/1/1997	25 yrs.	20,871	171,826
2093	O.W.D.A.	6.87	7/1/1997	25 yrs.	224,051	2,063,935
2094	O.W.D.A.	6.87	7/1/1997	25 yrs.	233,140	2,147,657
2095	O.W.D.A.	6.36	1/1/1998	25 yrs.	71,341	700,560
2096	O.W.D.A.	6.36	1/1/1998	25 yrs.	35,703	350,604
2099	O.W.D.A.	6.32	7/1/1999	25 yrs.	32,589	403,474
2101	O.W.D.A.	6.11	7/1/1999	25 yrs.	71,357	874,072
Subtotal					\$ 3,035,746	\$ 20,927,980

Southwest Licking Community Water and Sewer District  
 Licking County, Ohio  
 Notes to the Basic Financial Statements - Continued  
 For the Years Ended December 31, 2013 and 2012

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

Loan #	Payable To	Interest Rate	First Payment	Principal Term	Principal Due in 2014	Principal Due after 2014
2103	O.W.D.A.	6.11	7/1/1999	25 yrs.	51,998	636,930
2174	O.W.D.A.	5.77	1/1/2002	25 yrs.	30,784	514,138
3279	O.W.D.A.	6.41	1/1/2002	25 yrs.	175,361	3,057,062
3682	O.W.D.A.	5.20	7/1/2004	25 yrs.	93,971	1,975,115
3683	O.W.D.A.	5.20	7/1/2004	25 yrs.	27,726	582,763
3756	O.W.D.A.	3.59	1/1/2005	20 yrs.	393,672	3,503,392
3760	O.W.D.A.	4.84	7/1/2004	15 yrs.	62,782	283,424
3912	O.W.D.A.	4.28	1/1/2005	25 yrs.	75,078	1,535,284
3944	O.W.D.A.	4.35	1/1/2005	25 yrs.	15,373	316,205
4314	O.W.D.A.	3.99	7/1/2006	25 yrs.	63,628	1,448,066
4315	O.W.D.A.	3.99	1/1/2007	25 yrs.	48,354	1,147,309
4316	O.W.D.A.	3.99	1/1/2007	20 yrs.	34,189	507,599
4437	O.W.D.A.	3.99	7/1/2006	25 yrs.	10,668	242,790
5008	O.W.D.A.	4.79	7/1/2010	25 yrs.	40,151	1,369,739
5009	O.W.D.A.	4.79	7/1/2010	25 yrs.	36,522	1,245,941
5392	O.W.D.A.	0.00	N/A	20 yrs.	-	115,812
5902	O.W.D.A.	0.00	N/A	N/A	-	71,000
CQ021	O.P.W.C.	0.00	1/1/2000	20 yrs.	12,430	62,150
CQ616	O.P.W.C.	0.00	7/1/1995	20 yrs.	24,067	12,034
CQ807	O.P.W.C.	0.00	1/1/1997	20 yrs.	13,598	27,196
CQ808	O.P.W.C.	0.00	1/1/1996	20 yrs.	11,818	11,818
CQ23D	O.P.W.C.	0.00	1/1/2003	20 yrs.	17,339	147,382
CQ24E	O.P.W.C.	0.00	1/1/2005	20 yrs.	24,235	242,346
CQ06M	O.P.W.C.	0.00	7/1/2011	20 yrs.	26,457	436,542
CQ25N	O.P.W.C.	0.00	1/1/2013	20 yrs.	1,974	35,533
CQ32P	O.P.W.C.	0.00	N/A	N/A	-	479,445
Rotary		0.00		20 yrs.	-	106,351
Rotary		0.00		20 yrs.	-	175,095
Rotary		0.00		20 yrs.	-	65,495
Highland Hills Recoupment		9.25		Indefinite	-	225,835
Subtotal for this page					1,292,175	20,579,791
Subtotal from previous page					3,035,746	20,927,980
Total					\$ 4,327,921	\$ 41,507,771

N/A – These loans were not finalized as of December 31, 2013.

Southwest Licking Community Water and Sewer District  
Licking County, Ohio  
Notes to the Basic Financial Statements - Continued  
For the Years Ended December 31, 2013 and 2012

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

Year Ending December 31,	OWDA Loans			OPWC Loans		
	Principal	Interest	Total	Principal	Interest	Total
2014	4,196,003	2,522,444	6,718,447	131,918	-	131,918
2015	4,453,948	2,264,500	6,718,448	119,884	-	119,884
2016	4,727,754	1,990,695	6,718,449	96,033	-	96,033
2017	5,019,572	1,698,877	6,718,449	82,435	-	82,435
2018	5,079,008	1,389,184	6,468,192	82,435	-	82,435
2019-2023	13,686,704	3,280,610	16,967,314	353,784	-	353,784
2024-2028	4,685,936	939,778	5,625,714	166,390	-	166,390
2029-2033	1,443,214	193,797	1,637,011	74,039	-	74,039
2034	197,602	7,127	204,729	-	-	-
Total	<u>\$ 43,489,741</u>	<u>\$ 14,287,012</u>	<u>\$ 57,776,753</u>	<u>\$ 1,106,918</u>	<u>\$ -</u>	<u>\$ 1,106,918</u>

Year Ending December 31,	Total		
	Principal	Interest	Total
2014	\$ 4,327,921	\$ 2,522,444	\$ 6,850,365
2015	4,573,832	2,264,500	6,838,332
2016	4,823,787	1,990,695	6,814,482
2017	5,102,007	1,698,877	6,800,884
2018	5,161,443	1,389,184	6,550,627
2019-2023	14,040,488	3,280,610	17,321,098
2024-2028	4,852,326	939,778	5,792,104
2029-2033	1,517,253	193,797	1,711,050
2034	197,602	7,127	204,729
Total	<u>\$ 44,596,659</u>	<u>\$ 14,287,012</u>	<u>\$ 58,883,671</u>

Project loan agreements 5902 and 5392 in the total amount of \$186,812 have not been finalized with the OWDA; therefore, no amortization schedules have been created. Additionally, loan CQ32P totaling \$479,445 at the end of 2013 has not been fully disbursed or finalized with OPWC and no amortization schedule has been created. As a result these loans are not shown on the above maturity schedule. The Highland Hills Recoupment is not shown on the above amortization schedule as there is no fixed repayment schedule for this outstanding loan. The Rotary Loans are also not shown on the above amortization schedule as there is no fixed repayment schedule for these outstanding loans.

In connection with the OWDA loans listed above, the District has pledged future customer revenues, net of specified operating expenses, to repay this debt. Pledged revenues of a given year may also include specified portions of cash balances carried over from the prior year. The loans are payable, through their final maturities as listed above, solely from net revenues. Total interest and principal remaining to be paid on these loans is \$58,883,671 at December 31, 2013 and \$65,731,039 at December 31, 2012. For the year ended December 31, 2013 net revenue available, principal and interest paid and the coverage ratio is as follows: \$4,682,747, \$6,727,893, and 0.70, respectively. For the year ended December 31, 2012 net revenue available, principal and interest paid and the coverage ratio is as follows: \$4,748,211, \$6,834,630, and 0.69, respectively.

**NOTE I - DEFINED BENEFIT RETIREMENT PLAN**

- A. The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described below:
- 1) The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan.
  - 2) The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
  - 3) The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.
- B. OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.
- C. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.
- D. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.
- E. The Ohio Revised Code provides statutory authority for member and employer contributions. For 2012, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan.

The member contribution rates were 10.0% for 2013, 2012, and 2011 for the SWLCWSD.

The employer contribution rates were 14.0% for 2013, 2012, and 2011 of covered payroll for the SWLCWSD.

SWLCWSD's contributions to OPERS for the years ended December 31, 2013, 2012, and 2011, were \$110,533, \$97,602, and \$139,928, respectively. For fiscal year 2013, 85% of the required contributions had been made and for fiscal years 2012 and 2011, 100% of the required contributions had been made.

**NOTE J - POSTEMPLOYMENT BENEFITS**

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

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

In order to qualify for post-retirement healthcare coverage, age and service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care

Southwest Licking Community Water and Sewer District  
Licking County, Ohio  
Notes to the Basic Financial Statements - Continued  
For the Years Ended December 31, 2013 and 2012

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**NOTE J - POSTEMPLOYMENT BENEFITS(Continued)**

coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 45.

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

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

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

Employer's contributions are expressed as a percentage of the covered payroll of active members. In 2013, the County contributed at 14.0% of covered payroll for local government employer units and 18.1% for public safety and law enforcement. The Ohio Revised Code currently limits the employer contribution rate not to exceed 14.0% of covered payroll for state and local employer units and 18.1% of covered payroll for law and public safety employer units. Active members do not make contributions to the OPEB Plan.

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

The portion of employer contributions allocated to health care for members in the Traditional Plan was 1.0% during calendar year 2013. The portion of employer contributions allocated to health care for members in the Combined Plan was 1.0% during calendar year 2013. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0% during calendar years 2012 and 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar years 2012 and 2011. Effective January 1, 2014, the portion of employer contributions allocated to healthcare was raised to 2 percent for both plans, as recommended by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

- C. The employer contributions that were used to fund post-employment benefits were \$7,892 for 2013, \$27,885 for 2012, and \$39,977 for 2011, which were equal to the required contributions for those years.
- D. Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

**NOTE K - RISK MANAGEMENT**

The SWLCWSD is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the years ended December 31, 2013 and 2012 the SWLCWSD contracted for the following insurance coverage:

Southwest Licking Community Water and Sewer District  
Licking County, Ohio  
Notes to the Basic Financial Statements - Continued  
For the Years Ended December 31, 2013 and 2012

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**NOTE K - RISK MANAGEMENT (Continued)**

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

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

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

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

**NOTE L - RELATED PARTY TRANSACTIONS**

No related party transactions existed at December 31, 2013 and 2012.

**NOTE M - CONTINGENT LIABILITIES**

During the years ended December 31, 2013 and 2012 SWLCWSD was not involved in any litigation.

**NOTE N - DEBT SERVICE FEE**

The SWLCWSD has a debt service fee which was \$11.95 per month per sewer customer during both 2013 and 2012. 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 2013 and 2012 the SWLCWSD collected \$982,439 and \$961,428 in debt service fees and expended more than \$4.1 million in 2013 and \$4 million in 2012 in principal and interest payments on sewer related debt.

**NOTE O - INSPECTION INCOME**

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

**NOTE P - MISCELLANEOUS INCOME**

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

Southwest Licking Community Water and Sewer District  
 Licking County, Ohio  
 Notes to the Basic Financial Statements - Continued  
 For the Years Ended December 31, 2013 and 2012

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**NOTE Q - INTEREST EXPENSE**

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

	<b>2013</b>	<b>2012</b>
OWDA- Water	\$ 1,051,352	\$ 1,145,470
OWDA- Sewer	1,716,925	1,847,880
Total interest expense	\$ 2,768,277	\$ 2,993,350

**NOTE R – CHANGE IN ACCOUNTING PRINCIPLES**

For 2013 and 2012, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,” GASB Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,” GASB Statement No. 65, “Items Previously Reported as Assets and Liabilities”, GASB Statement No. 66, “Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62,” GASB Statement No. 69, “Government Combinations and Disposals of Government Operations,” and GASB Statement No. 70, “Accounting and Financial Reporting for Nonexchange Financial Guarantees.”

Statement No. 62 incorporated into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure issued on or before November 30, 1989 which does not conflict with or contradict GASB pronouncements.

Statement No. 63 identifies net position, rather than net assets, as the residual of all other elements presented in a statement of financial position. This change was incorporated in the District’s 2012 and 2011 financial statements; however, there was no effect on beginning net position.

Statement No. 65 provides guidance on how to properly classify items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources. In addition, guidance is provided on recognizing certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues).

Statement No. 66 resolves conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity’s risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*.

This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively.

Southwest Licking Community Water and Sewer District  
Licking County, Ohio  
Notes to the Basic Financial Statements - Continued  
For the Years Ended December 31, 2013 and 2012

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**NOTE R – CHANGE IN ACCOUNTING PRINCIPLES (Continued)**

Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, and transfers of operations.

Statement No. 70 improves accounting and financial reporting by state and local governments that extend and receive non exchange financial guarantees. This statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee.

The implementation of GASB Statements No. 62, 66, 69, and 70 had no effect on the financial statements. The implementation of GASB Statement No. 65 had the following effect on beginning net position, and did result in certain financial statement terminology and classification changes.

Beginning net position decreased from \$6,956,842 as of December 31, 2011 to \$6,871,071 as of January 1, 2012. The \$85,771 restatement is due to the removal of the remaining amount of loan fees that had not yet been amortized.

**NOTE S – CONTRACTUAL COMMITMENT**

The District had one major contractual commitment outstanding as of December 31, 2013 which related to the contract for the Annette and Summit Pumping Station replacement.

<u>Contractor</u>	<u>Total Contract Amount</u>	<u>Expended *</u>	<u>Remaining Balance</u>
Winelco Inc.	\$1,109,565	\$809,865	\$299,700

\*Includes retainage payable of \$44,383 and contracts payable of \$451,001 as of December 31, 2013.

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

August 20, 2014

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

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the **Southwest Licking Community Water and Sewer District**, Licking County (the District) as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 20, 2014.

***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

***Compliance and Other Matters***

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

We did note a certain matter not requiring inclusion in this report that we reported to the District's management in a separate letter dated August 20, 2014.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**Perry and Associates**  
Certified Public Accountants, A.C.  
Marietta, Ohio

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# Dave Yost • Auditor of State

**SOUTHWEST LICKING COMMUNITY WATER AND SEWER DISTRICT**

**LICKING COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
SEPTEMBER 23, 2014**