

**SOUTHWEST LICKING COMMUNITY
WATER & SEWER DISTRICT**

BASIC FINANCIAL STATEMENTS

* * * * *

December 31, 2005 and 2004



**Auditor of State
Betty Montgomery**

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

We have reviewed the *Independent Auditors' Report* of the Southwest Licking Community Water and Sewer District, Licking County, prepared by Kennedy Cottrell & Associates, LLC, for the audit period January 1, 2004, through December 31, 2005. 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 cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

July 31, 2006

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

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Enterprise Fund of the Southwest Licking Community Water & Sewer District, Licking County, Ohio (the "District") as of and for the years ended December 31, 2005 and December 31, 2004, which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Enterprise Fund of the District as of December 31, 2005 and December 31, 2004 and the respective results of operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note U to the basic financial statements, effective January 1, 2004, the District implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Statement No. 40, *Deposit and Investment Risk Disclosures*.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2006 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Independent Auditor's Report
Page 2

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Kennedy, Cottrell + Associates LLC

Kennedy, Cottrell + Associates
Columbus, Ohio
May 30, 2006

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2005 AND 2004**

This discussion and analysis, along with the accompanying financial reports, of Southwest Licking Community Water and Sewer District (SLWSD 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 SLWSD exceeded liabilities on December 31, 2005 by \$15.8 million and on December 31, 2004 by \$16.3 million. The District's net assets decreased by \$515 thousand (-3.2%) in 2005 and increased by \$868 thousand (5.6%) in 2004.

The District's Operating Revenues increased by \$716 thousand (23.3%) in 2005 and by \$68 thousand (2.3%) in 2004. Operating Expenses (excluding depreciation and amortization expenses) increased \$196 thousand (10.0%) in 2005 and decreased by \$15 thousand (-.1%) in 2004. Depreciation and amortization expense increased \$12 thousand (0.4%) in 2005 and \$544 thousand (18.6%) in 2004. The District's Non-operating revenues decreased by \$1.7 million (-25.0%) in 2005 and increased by \$1.1 million (18.9%) in 2004.

The District issued an additional \$3.47 million of long term debt in 2005 and \$3.43 million in 2004.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

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

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

The **Statements of Revenues, Expenses and Changes in Net Assets** provide information on the District's operations over the past year 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 and financing activities.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2005 AND 2004**

STATEMENTS OF NET ASSETS

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

Table 1

	<u>2005</u>	<u>2004</u>	<u>Change Amount</u>	<u>As Revised 2003</u>	<u>Change Amount</u>
Current and Other Assets	\$ 21,989,512	\$ 23,754,195	\$ (1,764,683)	\$ 23,251,604	\$ 502,591
Restricted Assets	43,300	40,300	3,000	39,300	1,000
Capital Assets	<u>65,978,403</u>	<u>64,210,789</u>	<u>1,767,614</u>	<u>63,097,901</u>	<u>1,112,888</u>
Total Assets	88,011,215	88,005,284	5,931	86,388,805	\$1,616,479
Long Term Liabilities	70,084,399	69,597,793	486,606	68,580,937	1,016,856
Other Liabilities	<u>2,147,243</u>	<u>2,112,756</u>	<u>34,487</u>	<u>2,381,492</u>	<u>(268,736)</u>
Total Liabilities	72,231,642	71,710,549	521,093	70,962,429	748,120
Net Assets					
Invested in Capital Assets, Net of Related Debt	(1,597,008)	(2,616,034)	1,019,026	(2,715,557)	99,523
Restricted for Debt Service	43,300	40,300	3,000	39,300	1,000
Unrestricted	<u>17,333,281</u>	<u>18,870,469</u>	<u>(1,537,188)</u>	<u>18,102,633</u>	<u>767,836</u>
Total Net Assets	<u>\$ 15,779,573</u>	<u>\$ 16,294,735</u>	<u>\$ (515,162)</u>	<u>\$ 15,426,376</u>	<u>\$868,359</u>

The District's Net Assets decreased by \$515 thousand (-3.2%) in 2005 and increased by \$868 thousand (5.6%) in 2004. The decrease in 2005 is a result of several factors. Assets only increased slightly as increases in net capital assets of about \$1 million were offset by decreases in cash of about \$1.4 million and special assessments receivable of \$.5 million. Liabilities increased about \$.5 million primarily due to a net increase of debt. The increase in 2004 is a result of excess revenues over expenses of \$302 thousand and capital contributions of \$566 thousand.

Restricted net assets increased \$3 thousand (7.4%) in 2005 and increased \$1 thousand (2.5%) in 2004. Restricted net assets consist of cash deposits in escrow accounts for contractor bonds, or cash that is limited in use for debt retirement.

Unrestricted net assets decreased by \$1.5 million (-8.1%) in 2005 and increased by \$768 thousand (4.2%) in 2004. Unrestricted net assets may be used without constraints established by legal requirements. Cash and Cash equivalents decreased \$1.4 million (-21.3%) in 2005 and increased \$978 thousand (17.9%) in 2004.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2005 AND 2004**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

Table 2

	<u>2005</u>	<u>2004</u>	<u>Change</u>	<u>2003</u>	<u>Change</u>
Operating Revenues	\$3,786,809	\$3,070,536	\$716,273	\$3,002,841	\$67,695
Operating Expenses (Excluding Depreciation & Amortization)	2,151,682	1,956,130	195,552	1,971,330	(15,200)
Depreciation & Amortization	3,498,183	3,485,961	12,222	2,941,686	544,275
Total Operating Expenses	<u>5,649,865</u>	<u>5,442,091</u>	<u>207,774</u>	<u>4,913,016</u>	<u>529,075</u>
Operating Loss	(1,863,056)	(2,371,555)	508,499	(1,910,175)	(461,380)
Non-Operating Revenues	4,955,833	6,617,043	(1,661,210)	5,569,422	1,047,621
Non-Operating Expenses	3,939,162	3,943,255	(4,093)	3,760,987	182,268
Capital Contributions	331,223	566,126	(234,903)	604,150	(38,024)
Changes in Net Assets	(515,162)	868,359	(1,383,521)	502,410	365,949
Net Assets at Beginning of Year	<u>16,294,735</u>	<u>15,426,376</u>	<u>868,359</u>	<u>14,923,966</u>	<u>502,410</u>
Net Assets at End of Year	<u>\$15,779,573</u>	<u>\$16,294,735</u>	<u>(\$515,162)</u>	<u>\$15,426,376</u>	<u>\$ 868,359</u>

Operating Revenues increased \$716 thousand (23.3%) in 2005. The increase in 2005 was primarily the result of rate increases and additional customers. Non-Operating revenues decreased \$1.7 million (-25.0%) in 2005 which is primarily due to decreased tap fee income of \$1.5 million and decreased capacity fee income of \$197 thousand. Tap fees and capacity fees are the result of decreased building activity in the area and are subject to fluctuation depending on the economy and other factors. Capital Contributions decreased in 2005 (\$235 thousand) and 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 \$165 thousand (8.3%) in 2005. Basic wage increases and associated fringe benefits, increased health care expenses, increased chemicals and related supplies, increased general insurance costs and increases in repairs and maintenance expenses were partially offset by lower costs for workers' compensation, engineering fees, legal fees, biosolids processing and telephone expense.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2005 AND 2004**

Operating Revenues increased \$68 thousand (2.3%) in 2004. The increase in 2004 was primarily the result of rate increases. Non-Operating revenues increased \$1.1 million in 2004 which is primarily due to increased tap fee income of \$788 thousand and increased capacity fee income of \$147 thousand. Tap fees and capacity fees are the result of increased building activity in the area and are subject to fluctuation depending on the economy and other factors. Capital Contributions decreased slightly in 2004 (\$55 thousand) and 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 \$14 thousand (.1%) in 2004. Basic wage increases and associated fringe benefits, increased health care expenses, increased chemicals and related supplies and increases in utilities expenses were offset by lower costs for maintenance and repairs, sludge hauling and a reduction in general insurance costs. Depreciation expenses increased by \$514 thousand (18.5%) which is the result of several major capital improvement projects being placed into service during fiscal year 2004 as more fully described in the Capital Asset section.

CAPITAL ASSETS

The District had \$95.5 million invested in Capital Assets (before accumulated depreciation of \$29.53 million) at the end of 2005. This amount is an increase of \$5.25 million (5.8%) from the previous year. The District had several projects go into service during 2005 including the SCADA project and the York Water Treatment Clearwell project. The District also had several ongoing projects which were not completed during 2005 including Etna Corporate Park Elevated Water Tower, Refugee Road Interceptor – Phase I, and Mink Street Water and Sewer Lines. Additional information regarding capital assets can be found in Note G to the Basic Financial Statements.

The District had \$90.25 million invested in Capital Assets (before accumulated depreciation of \$26.04 million) at the end of 2004. This amount is an increase of \$4.58 million (5.4%) from the previous year. The District had several major capital improvements go into service during 2004 including Phase IB of the wastewater treatment plant improvements, the Gale Road Pump Station and associated improvements, and the Route 40 water and sewer line improvements. The District also had several smaller ongoing projects which were not completed during 2004 including Jardin Manor and the SCADA project. Additional information regarding capital assets can be found in Note G to the Basic Financial Statements.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2005 AND 2004**

Table 3

	2005	2004	Change Amount	2003	Change Amount
Capital Assets Not Being Depreciated:					
Land	\$716,964	\$628,136	\$88,828	\$628,136	\$0
Land Easements	331,455	223,933	107,522	158,866	65,067
Construction in Progress	5,139,055	1,710,671	3,428,384	9,718,254	(8,007,583)
Total Capital Assets Not Being Depreciated	<u>6,187,474</u>	<u>2,562,740</u>	<u>3,624,734</u>	<u>10,505,256</u>	<u>(7,942,516)</u>
Capital Assets Being Depreciated (Net of Accumulated Depreciation):					
Land Improvements	30,954	2,500	28,454	2,500	0
Facilities, Lines & Related Infrastructure	56,212,390	58,164,920	(1,952,530)	49,547,100	8,617,820
Donated Developer Lines	3,043,054	2,960,976	82,078	2,591,190	369,786
Vehicles	65,914	101,969	(36,055)	77,352	24,617
Office Furniture and Equipment	104,641	89,843	14,798	70,731	19,112
General Equipment	317,902	317,243	659	291,382	25,861
Safety Equipment	16,074	10,598	5,476	12,390	(1,792)
Total Capital Assets Being Depreciated (Net)	<u>59,790,929</u>	<u>61,648,049</u>	<u>(1,857,120)</u>	<u>52,592,645</u>	<u>9,055,404</u>
Net Capital Assets	<u>\$65,978,403</u>	<u>\$64,210,789</u>	<u>\$1,767,614</u>	<u>\$63,097,901</u>	<u>\$1,112,888</u>

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 I to the Basic Financial Statements.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2005 AND 2004**

Table 4

	<u>2005</u>	<u>2004</u>	<u>Change Amount</u>	<u>2003</u>	<u>Change Amount</u>
OWDA Loans	\$65,008,576	\$64,018,000	\$990,576	\$63,491,283	\$526,717
OPWC Loans	1,382,559	1,486,047	(103,488)	1,486,440	(393)
Rotary Commission Loans	346,941	346,941	0	346,941	0
Highland Hills Recoupment Agreement	225,835	225,835	0	225,835	0
Park National Bank Loan	611,500	750,000	(138,500)	238,910	511,090
Total Long Term Debt	67,575,411	66,826,823	748,588	65,789,409	1,037,414
Less: Current Maturities	1,740,575	1,411,299	329,276	1,145,478	265,821
Net Total Long Term Debt	<u>\$65,834,836</u>	<u>\$65,415,524</u>	<u>\$419,312</u>	<u>\$64,643,931</u>	<u>\$771,593</u>

CASH

Cash and cash equivalents on December 31, 2005 and 2004 were \$5.07 million and \$6.44 million, respectively. \$43 thousand of these funds in 2005 and \$40 thousand of these funds in 2004 are 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 Michael Frommer, General Manager, Southwest Licking Community Water and Sewer District, P.O. Box 215, Etna, Ohio 43018 or (740) 927-0410.

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

**STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2005 AND 2004**

	2005	2004
ASSETS		
Current Assets:		
Equity in pooled cash and investments	\$ 5,021,680	\$ 6,392,681
Petty cash	250	296
Postage fund	3,593	3,811
Accounts receivable - operating billings less allowance for doubtful accounts (\$150,000 in 2005 and \$197,000 in 2004)	442,672	360,797
Prepaid insurance	40,844	42,885
Meter inventory	20,471	20,350
Total current assets	5,529,510	6,820,820
Noncurrent assets:		
Restricted Assets:		
Cash in savings-contractor bonds	43,300	40,300
Total restricted assets	43,300	40,300
Capital Assets, net of Accumulated Depreciation	65,978,403	64,210,789
Other Assets:		
Loan fees, net of \$89,817 and \$82,811 accumulated amortization for 2005 and 2004 respectively	127,806	134,812
Jefferson water tap rights, net of \$94,844 and \$86,776 accumulated amortization for 2005 and 2004 respectively	80,301	88,368
Assessment receivables-water	7,399,513	7,580,776
Assessment receivables-sewer	8,852,382	9,129,419
Total other assets	16,460,002	16,933,375
Total Assets	\$ 88,011,215	\$ 88,005,284

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

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

**STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2005 AND 2004**

LIABILITIES	<u>2005</u>	<u>2004</u>
Current Liabilities:		
Accounts payable	\$ 266,704	\$ 561,785
Note payable - current portion	1,740,575	1,411,299
Deposits payable to developers	13,989	2,627
Contractor bonds payable	43,300	40,300
Contractor retainage payable	17,532	17,532
Accrued employee wages	17,656	20,999
Accrued interest payable	11,468	7,440
Payroll taxes accrued and withheld	36,019	50,774
Total current liabilities	<u>2,147,243</u>	<u>2,112,756</u>
Long Term Liabilities		
Compensated absences	138,978	107,067
Deferred revenue-special assessments	4,110,585	4,075,202
Notes and recoupment agreements payable	65,834,836	65,415,524
Total long term liabilities	<u>70,084,399</u>	<u>69,597,793</u>
Total Liabilities	<u>72,231,642</u>	<u>71,710,549</u>
Net Assets:		
Invested in capital assets, net of related debt	(1,597,008)	(2,616,034)
Restricted	43,300	40,300
Unrestricted	17,333,281	18,870,469
Total net assets	<u>\$ 15,779,573</u>	<u>\$ 16,294,735</u>

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

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

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
OPERATING REVENUES		
Service revenues	\$ 3,673,509	\$ 2,967,232
Late charges	113,300	103,304
Total Operating Revenues	<u>3,786,809</u>	<u>3,070,536</u>
OPERATING EXPENSES		
Salaries	842,607	782,373
Training	5,946	8,937
Medicare tax expense	12,008	10,947
P.E.R.S. expense	112,202	100,031
Workers compensation expense	9,982	24,560
Operations and testing	27,626	23,742
Chemicals and operating supplies	124,931	98,499
Biosolids Processing	46,735	51,130
Refuse	2,313	1,703
Equipment rental	4,348	2,257
Repairs and maintenance	271,524	200,278
Engineering	1,960	18,848
Legal	59,545	74,928
Accounting	34,418	7,584
Professional fees - software	6,999	5,275
Board designated expenses	1,312	-
Audit fees	685	12,095
Advertising and communications	16,405	4,762
Insurance:		
General	45,033	28,779
Health	150,622	128,191
Life	968	741
Telephone	29,432	38,712
Utilities	244,258	234,305
Office supplies	23,186	27,187
Cleaning	11,464	3,475
Postage	34,729	33,412
Real Estate Taxes	38	146
Security	1,624	463
Uniform rental	3,277	5,858
Small tools	1,618	1,320
Vehicle expense	522	3,612
Collection and bank fees	759	1,255
Dues and subscriptions	1,656	2,120
Licenses	20,950	18,605
Depreciation	3,483,110	3,470,888
Amortization	15,073	15,073
Total operating expenses	<u>5,649,865</u>	<u>5,442,091</u>
Operating loss	<u>(1,863,056)</u>	<u>(2,371,555)</u>
OTHER INCOME (EXPENSE)		
Debt service fee income	928,304	993,301
Inspection revenue	14,116	15,595
Tap fee income	2,593,976	4,052,075
Capacity fee revenue	207,900	404,450
Interest income	1,127,225	1,004,540
Miscellaneous income	84,312	147,082
Loss on disposal of assets	-	(49,678)
Interest expense	<u>(3,939,162)</u>	<u>(3,893,577)</u>
Total other income (expense)	<u>1,016,671</u>	<u>2,673,788</u>
Changes in net assets before capital contributions	(846,385)	302,233
Capital contributions - special assessments	91,086	43,084
Capital contributions - developers	<u>240,137</u>	<u>523,042</u>
Changes in net assets	(515,162)	868,359
Net assets, beginning of year	<u>16,294,735</u>	<u>15,426,376</u>
Net assets, end of year	<u>\$ 15,779,573</u>	<u>\$ 16,294,735</u>

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

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

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	2005	2004
Cash Flows from Operating Activities:		
Cash received from customers	\$ 3,704,934	\$ 3,067,691
Cash payments to suppliers for goods and services	(1,239,650)	(941,240)
Cash payments for employee services and benefits	(1,113,608)	(1,055,798)
Net cash provided by operating activities	1,351,676	1,070,653
Cash Flows from Non-capital Financing Activities:		
Interest income from savings	199,086	100,083
Cash Flows from Capital and Related Financing Activities:		
Payments for planning and construction, including capitalized interest	(4,781,570)	(4,027,234)
Purchase of land and land easements	(225,850)	(65,067)
Assessment principal payments received	584,769	607,218
Debt service fees collected	928,304	993,301
Increase (Decrease) in contractor retainage payable	-	(154,135)
Increase (Decrease) in developer deposits	14,362	(34,876)
Purchase of equipment and furniture	(80,939)	(163,242)
Construction loan proceeds	3,362,543	3,426,257
Principal repayments on loans	(2,613,955)	(2,388,843)
Interest repayments on loans	(3,935,134)	(3,885,131)
Principal payment on capital lease	-	(24,049)
Interest payment on capital lease	-	(1,006)
Assessment interest income	928,139	904,457
Inspection, tap fee and miscellaneous income	2,900,304	4,619,202
Net cash provided by capital and related financing activities	(2,919,027)	(193,148)
Net increase in cash and cash equivalents	(1,368,265)	977,588
Cash and cash equivalents at beginning of year	6,437,086	5,459,498
Cash and cash equivalents at end of year	\$ 5,068,821	\$ 6,437,086

(Continued on following page)

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

**STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	2005	2004
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:		
Operating loss	\$ (1,863,056)	\$ (2,371,555)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:		
Depreciation and amortization	3,498,183	3,485,961
Changes in Assets and Liabilities:		
(Increase) decrease in accounts receivable	(81,875)	(2,845)
(Increase) decrease in prepaid insurance	2,041	(19,737)
(Increase) decrease in meter inventory	(121)	55,569
(Decrease) in accounts payable (operating)	(217,309)	(67,044)
Increase (decrease) in accrued wages, benefits and payroll taxes	13,813	(9,696)
Total adjustments	3,214,732	3,442,208
Net cash provided by operating activities	\$ 1,351,676	\$ 1,070,653

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

SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2005 and 2004

NOTE A - NATURE OF ORGANIZATION

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

2. **Basis of Accounting**

The accounting records are maintained on the accrual basis of accounting for financial reporting purposes. The proprietary fund is accounted for on a flow of economic resources and all assets and liabilities associated with the operation are included on the balance sheet.

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.

SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2005 and 2004

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. **Accounts Receivable**

Accounts receivable are shown at their net realizable value. The water shut-off policy, implemented in full force on January 1, 1995, specifies the details of collections for both water and sewer delinquent accounts. Note that uncollectible sewer account balances are certified to the County Auditor after administrative collection efforts have been exhausted. SWLCWSD has set up an allowance for doubtful accounts for fiscal years 2005 and 2004. Amounts determined to potentially be uncollectible are set up as an allowance and a corresponding entry to an expense account is recorded during the year that the accounts are determined to be potentially uncollectible.

6. **Restricted Assets**

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

7. **Capital Assets**

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

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 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 2005 and 2004 was \$8,067 for both years. Effective January 1, 2000 loan costs are capitalized as part of the cost of each respective project.

Jefferson water tap rights are being amortized over twenty-five years. The actual contract term is twenty-five years, with an additional renewal of twenty-five years, unless SWLCWSD specifically requests to decline the renewal. Amortization is computed using the straight-line method for financial statement reporting purposes. Jefferson tap rights amortization expense charged to operations for 2005 and 2004 was \$7,006 for both years.

9. **Provision for Income Tax**

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

10. **Inventory of Materials and Supplies**

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

SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2005 and 2004

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

11. Cash and Cash Equivalents

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

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as non-negotiable certificates of deposits are reported at cost. In 2005 and 2004, SWLCWSD's investment consisted of a repurchase agreement.

12. Vacation, Sick Leave and Other Compensated Absences

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

13. Operating Revenues and Expenses

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

14. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction or improvements of those assets. Net assets are reported as restricted for cash held for contractor bonds. SWLCWSD applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

NOTE C - COMPLIANCE AND ACCOUNTABILITY

A. Encumbering Funds

For a portion of the year ended 2004 the district did not encumber funds as required by Ohio Revised Code 5705.41(D).

NOTE D - 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, 2005 and 2004 was \$43,300 and \$40,300, 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.

SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2005 and 2004

NOTE E - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) of this footnote and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio;
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 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.

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.

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.

SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2005 and 2004

NOTE E - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

Deposits - The SWLCWSD had cash on hand as of December 31, 2005 and 2004 of \$3,843 and \$4,107, respectively. The carrying amount of the SWLCWSD deposits as of December 31, 2005 and 2004 was (\$1,853,975) and \$400,336, and the bank balance was \$1,387,451 and \$516,421. Of the bank balance:

1. For December 31, 2005 and 2004, \$200,000 and \$200,000, respectively was covered by federal depository insurance; and
2. \$1,187,451 and \$316,421 for 2005 and 2004, respectively was uninsured and uncollateralized and exposed to custodial credit risk. Although all Ohio statutory requirements for the collateralization of deposits had been followed, non-compliance with federal requirements could potentially prevent the District from exercising a successful claim as a secured creditor against the FDIC and render them a general creditor for the uncollateralized amount.

The District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

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 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District’s name. Category 2 includes uninsured and unregistered investments which are held by the counterparty’s trust department or agent in the District’s name. 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.

	2005		2004	
	Fair Value	Weighted Average Maturity (Yrs.)	Fair Value	Weighted Average Maturity (Yrs.)
Repurchase Agreements	\$ 6,918,955	0	\$ 6,032,645	0
Total Fair Value	\$ 6,918,955		\$ 6,032,645	

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

Credit risk – The District limits their investments to repurchase agreements.

Concentration of credit risk – The District’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. The District has invested 100% in investments with no weighted maturity.

Custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District’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 the District’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*.

SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2005 and 2004

NOTE E - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

A reconciliation between the classifications of cash and cash equivalents and investments on the basic 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 & Cash Equivalents 12/31/2005</u>	<u>Investments 12/31/2005</u>	<u>Cash & Cash Equivalents 12/31/2004</u>	<u>Investments 12/31/2004</u>
GASB 9 Balance	\$ 5,068,823	\$ -	\$ 6,437,088	\$ -
Cash on Hand	(3,843)	-	(4,107)	-
Repurchase Agreements	<u>(6,918,955)</u>	<u>6,918,955</u>	<u>(6,032,645)</u>	<u>6,032,645</u>
GASB 3	<u>\$ (1,853,975)</u>	<u>\$ 6,918,955</u>	<u>\$ 400,336</u>	<u>\$ 6,032,645</u>

NOTE F - INTEREST INCOME

Interest income came from the following sources:

	<u>2005</u>	<u>2004</u>
Interest income from savings accounts	\$ 199,086	\$ 100,083
Interest income from assessments, accrued and collected	<u>928,139</u>	<u>904,457</u>
Total interest income	<u>\$ 1,127,225</u>	<u>\$ 1,004,540</u>

SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2005 and 2004

NOTE G – CAPITAL ASSETS

Capital assets activity for the fiscal year ended December 31, 2005 was as follows:

	Ending Balance 12/31/04	Additions	Deletions	Ending Balance 12/31/05
Capital Assets, Not Being Depreciated				
Land	\$628,136	\$88,828	\$0	\$716,964
Land Easements	223,933	107,522	0	331,455
Construction in Progress	1,710,671	4,877,100	(1,448,716)	5,139,055
Total Capital Assets, Not Being Depreciated	2,562,740	5,073,450	(1,448,716)	6,187,474
Capital Assets Being Depreciated				
Land Improvements	2,500	29,500	0	32,000
Facilities, Lines & Related Infrastructure	82,962,303	1,275,414	0	84,237,717
Donated Developer Lines	3,831,411	240,137	0	4,071,548
Vehicles	189,061	0	0	189,061
Office Furniture and Equipment	183,997	33,365	0	217,362
General Equipment	503,726	40,099	0	543,825
Safety Equipment	17,928	7,475	0	25,403
Total Capital Assets, Being Depreciated	87,690,926	1,625,990	0	89,316,916
Less Accumulated Depreciation:				
Land Improvements	0	(1,046)	0	(1,046)
Facilities, Lines & Related Infrastructure	(24,797,383)	(3,227,944)	0	(28,025,327)
Donated Developer Lines	(870,435)	(158,059)	0	(1,028,494)
Vehicles	(87,092)	(36,055)	0	(123,147)
Office Furniture and Equipment	(94,154)	(18,567)	0	(112,721)
General Equipment	(186,483)	(39,440)	0	(225,923)
Safety Equipment	(7,330)	(1,999)	0	(9,329)
Total Accumulated Depreciation	(26,042,877)	(3,483,110)	0	(29,525,987)
Total Capital Assets Being Depreciated, Net	61,648,049	(1,857,120)	0	59,790,929
Total Capital Assets	\$64,210,789	\$3,216,330	(\$1,448,716)	\$65,978,403

SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2005 and 2004

NOTE G – CAPITAL ASSETS (Continued)

Capital assets activity for the fiscal year ended December 31, 2004 was as follows:

	Ending Balance 12/31/03	Additions	Deletions	Ending Balance 12/31/04
Capital Assets, Not Being Depreciated				
Land	\$628,136	\$0	\$0	\$628,136
Land Easements	158,866	65,067	0	223,933
Construction in Progress	9,718,254	3,805,934	(11,813,517)	1,710,671
Total Capital Assets, Not Being Depreciated	10,505,256	3,871,001	(11,813,517)	2,562,740
Capital Assets Being Depreciated				
Land Improvements	2,500	0	0	2,500
Facilities, Lines & Related Infrastructure	71,122,294	11,840,009	0	82,962,303
Donated Developer Lines	3,308,369	523,042	0	3,831,411
Vehicles	128,389	60,672	0	189,061
Office Furniture and Equipment	146,404	37,593	0	183,997
General Equipment	438,750	64,976	0	503,726
Safety Equipment	17,928	0	0	17,928
Total Capital Assets, Being Depreciated	75,164,634	12,526,292	0	87,690,926
	0			
Less Accumulated Depreciation:				
Facilities, Lines & Related Infrastructure	(21,575,194)	(3,222,189)	0	(24,797,383)
Donated Developer Lines	(717,179)	(153,256)	0	(870,435)
Vehicles	(51,037)	(36,055)	0	(87,092)
Office Furniture and Equipment	(75,673)	(18,481)	0	(94,154)
General Equipment	(147,368)	(39,115)	0	(186,483)
Safety Equipment	(5,538)	(1,792)	0	(7,330)
Total Accumulated Depreciation	(22,571,989)	(3,470,888)	0	(26,042,877)
Total Capital Assets Being Depreciated, Net	52,592,645	9,055,404	0	61,648,049
Total Capital Assets	\$63,097,901	\$12,926,405	(\$11,813,517)	\$64,210,789

NOTE H - ACCOUNTS AND ASSESSMENTS RECEIVABLE

Account receivable balances at December 31, 2005 and 2004 for operating billings are as follows:

	2005	2004
Current	\$ 314,635	\$ 300,631
Over 30 days	104,169	91,494
Over 60 days	58,327	49,190
Over 90 days	115,541	116,482
Gross Receivables	592,672	557,797
Less: Allowance for Doubtful Accounts	(150,000)	(197,000)
Net Accounts Receivable	\$ 442,672	\$ 360,797

SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2005 and 2004

NOTE 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, 2005 and 2004, are deferred agricultural property assessments and the related accrued interest receivable. These amounts will be collected when the properties no longer qualify for agricultural property status, as defined in the Ohio Revised Code Chapter 929, and as certified by the County Auditor. These receivables are not recorded as revenue, but rather are offset by a liability account that is called deferred revenue. The time frame of collection is undeterminable. The negative county auditor's collection amounts result primarily in part due to these deferred collections. The assessment accounts receivable balances at December 31, 2005 are as follows:

<u>Project Name</u>	<u>Total Assessed</u>	<u>Prepaid Assessments</u>	<u>County Auditor and Deferred Assessments Paid</u>	<u>% Collected</u>
Beechwood Trails-S (8004)	\$ 3,773,810	\$ 1,411,145	\$ 727,438	56.67%
Summit Station Phase I-S (8005)	1,655,693	530,607	265,343	48.07%
Summit Stateion Phase I-W (8006)	1,792,334	621,931	335,002	53.39%
US 40 Etna-S (8008)	1,677,521	473,285	348,905	49.01%
Summit Station Phase II-S (8011)	910,264	398,382	93,567	54.04%
Summit Station Phase II-W (8016)	413,798	216,465	58,621	66.48%
US 40 Water Treatment-W (8017)	973,786	270,203	169,779	45.18%
Etna SR 40 Environs-W (8018)	1,237,781	532,621	250,724	63.29%
Etna SR 40 Environs-S (8019)	1,699,257	683,485	261,336	55.60%
Columbia Center-S (8020)	945,160	232,455	197,287	45.47%
York/Blacks/Outville Roads-W (8023A)	1,012,860	305,308	19,062	32.03%
York/Blacks/Outville Roads-W (8023B)	810,685	285,815	164,049	55.49%
Russell Heights-S (10033)	343,851	201,536	31,615	67.81%
New England/Russell/Mink-W (10034)	824,753	423,260	98,155	63.22%
Summit Rd and SR 40-W (10079)	1,003,390	225,070	190,219	41.39%
York Rd.-W (10119)	23,062	11,245	2,792	60.87%
Columbia Rd. and Refugee-S (10187)	188,545	48,071	48,985	51.48%
SR 310/Refugee/Smoke-W (10217)	444,505	124,407	44,733	38.05%
Havens Corners Rd.-W (10219)	67,765	10,793	(8,538)	3.33%
SR 16 Belmar to Summit-S (10221)	139,925	71,947	16,017	62.87%
SR 16 Belmar to Summit-W (10235)	125,519	76,367	8,482	67.60%
Watkins to I 70-W (10259)	62,439	13,586	17,111	49.16%
Blacks Outville Rd.-S (8013)	1,326,907	548,381	142,232	52.05%
SR 310 N. or US 40-S (10083)	120,113	34,743	7,481	35.15%
Fursville/Columbia Center-W (10139)	837,835	190,781	86,407	33.08%
Watkins N. from US 40-S (10218)	29,073	16,056	20,712	126.47%
SR 16/Charles/Daley-S (10220)	459,210	218,320	67,353	62.21%
Subtotal	<u>\$ 22,899,841</u>	<u>\$ 8,176,265</u>	<u>\$ 3,664,869</u>	

SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2005 and 2004

NOTE 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 (10233)	\$ 465,859	\$ 245,588	\$ 44,815	62.34%
Watkins and Blacks Rd. W (10234)	414,399	194,906	41,481	57.04%
SR 16/Charles and Daley W (10236)	414,872	159,103	69,683	55.15%
Happy Homes/Sunshine S (10279)	393,199	123,937	47,642	43.64%
Hillside Farm Estates S (10287)	243,283	143,461	16,391	65.71%
Ashcraft/Pine Oak/Indian Hills W (10310)	902,061	271,310	127,949	44.26%
Ashcraft/Pine Oak/Indian S (10317)	825,771	263,521	132,476	47.95%
York/US 40 to Refugee S (10319)	108,767	3,434	16,957	18.75%
Sunshine/Happy Homes W (10326)	472,450	124,467	62,527	39.58%
SR 310 and Tatman S (10375)	283,684	182,270	24,050	72.73%
Columbia Rd. S (10460)	93,464	71,068	4,559	80.92%
Columbia/Refugee Rds. W (10461)	69,486	43,550	5,294	70.29%
Lynns Road S (10549)	141,971	46,431	63,470	77.41%
Lynns Road W (10550)	95,610	32,900	8,091	42.87%
SR 310/US 40 to Refugee W (10551)	185,938	69,876	19,432	48.03%
Cleveland Rd. / Mink St. S (10222)	690,562	270,510	75,601	50.12%
Palmer Rd./W. Etna Twp. S (10231)	713,789	319,578	72,729	54.96%
Palmer Rd./W. Etna Twp. W (10232)	728,634	315,932	95,770	56.50%
Palmer Road Sant. Sewer Est. (11003)	224,200	116,269	15,252	58.66%
Palmer Road Water Line Est. (11004)	177,424	93,744	13,725	60.57%
Beaver Run Road	17,529	-	113	0.64%
Subtotal	<u>7,662,952</u>	<u>3,091,855</u>	<u>958,007</u>	
Subtotal from previous page	<u>22,899,841</u>	<u>8,176,265</u>	<u>3,664,869</u>	
Total	<u>\$ 30,562,793</u>	<u>\$ 11,268,120</u>	<u>\$ 4,622,876</u>	
Net assessment receivable 12/31/05	<u>\$ 16,251,895</u>			
Net assessment receivable 12/31/04	<u>\$ 16,710,195</u>			

The net assessment receivable includes accrued interest of \$1,580,098 and \$1,453,628 on the deferred assessments receivable at both December 31, 2005 and 2004, respectively.

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 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.

SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2005 and 2004

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

On December 29, 1998, the SWLCWSD received a loan from Park National Bank in the amount of \$1,501,019 to reimburse the SWLCWSD for water and sewer costs already paid by the District out of the District's funds. The term of the loan is five (5) years and interest is calculated at 7.40%. Ten (10) semiannual payments of \$189,822 of principal and interest began on January 1, 2000 and matured on July 1, 2004. This loan was paid off during fiscal year 2004. On July 1, 1999, the SWLCWSD received an additional loan from Park National Bank in the amount of \$550,000 to reimburse the SWLCWSD for water and sewer costs already paid by the SWLCWSD out of the SWLCWSD's funds. The term of the loan is five (5) years and interest is calculated at 8.40%. Ten (10) semiannual payments of \$68,487 (based upon the principal amount borrowed of \$550,000) of principal and interest began on January 1, 2000 and matured on July 1, 2004. This loan was paid off during fiscal year 2004. The District received an additional loan from Park National Bank in the amount of \$750,000 to assist in financing the SCADA project for the District. The term of the loan is three years at an interest rate of 3.95%.

SWLCWSD has six (6) interest free loans from the Ohio Public Works Commission. Each loan requires semiannual payments for a term of twenty (20) years. Loan CQ616 for \$481,332, used to finance the Columbia Center/Fursville sanitary sewer lines, began on January 1, 1995 and will mature January 1, 2015. Loan CQ808 for \$236,351, used to finance Blanches E. Broad Street Addition waterline improvements, commenced July 1, 1995 and will mature July 1, 2015. Loan CQ807 for \$290,364 was used to finance Happy Homes/Sunshine Park sanitary sewer improvements. The loan commenced July 1, 1996 and will mature July 1, 2016. The loan, CQ021, for \$248,600 was used to finance Cleveland Road/Mink Street sanitary sewer improvements. The loan commenced in 1999 and will mature July 1, 2020. The next loan, CQ23D, for \$500,000 was used to assist in the Phase I-A Wastewater Treatment Plant expansion. The loan commenced in 2002 and will mature July 1, 2022. The final loan, CQ24E, is in the amount of \$733,000 and was used to assist in the Phase I-B Wastewater Treatment Plant expansion. The loan commenced in 2004 and will mature July 1, 2024.

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

Long-term debt obligations and the related transactions for the years ending December 31, 2004 and 2005 are summarized below:

	Balance 12/31/2003	Additions	Reductions	Balance 12/31/2004
O.W.D.A	\$ 63,491,283	\$ 2,585,281	\$ 2,058,564	\$ 64,018,000
O.P.W.C	1,486,440	90,976	91,369	1,486,047
Rotary	346,941	-	-	346,941
Highland Hills Recoupment	225,835	-	-	225,835
Park National Bank	238,910	750,000	238,910	750,000
Compensated Absences	83,526	107,067	83,526	107,067
	\$ 65,872,935	\$ 3,533,324	\$ 2,472,369	\$ 66,933,890
	Balance 12/31/2004	Additions	Reductions	Balance 12/31/2005
O.W.D.A	\$ 64,018,000	\$ 3,362,543	\$ 2,371,967	\$ 65,008,576
O.P.W.C	1,486,047	-	103,488	1,382,559
Rotary	346,941	-	-	346,941
Highland Hills Recoupment	225,835	-	-	225,835
Park National Bank	750,000	-	138,500	611,500
Compensated Absences	107,067	138,978	107,067	138,978
	\$ 66,933,890	\$ 3,501,521	\$ 2,721,022	\$ 67,714,389

SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2005 and 2004

NOTE I - 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 2006</u>	<u>Principal Due after 2006</u>
1865	O.W.D.A.	7.54	1/1/1994	25 yrs.	\$ 40,742	\$ 1,618,211
1866	O.W.D.A.	6.24	1/1/1994	25 yrs.	4,426	160,893
1867	O.W.D.A.	7.45	1/1/1994	25 yrs.	46,150	1,821,733
1868	O.W.D.A.	6.61	1/1/1994	25 yrs.	7,948	296,271
1869	O.W.D.A.	6.61	1/1/1995	25 yrs.	81,645	3,418,671
3019	O.W.D.A.	6.85	1/1/1995	25 yrs.	73,016	3,112,310
3020	O.W.D.A.	6.02	1/1/1995	25 yrs.	6,023	241,462
3021	O.W.D.A.	5.77	1/1/1995	25 yrs.	3,873	152,420
3025	O.W.D.A.	6.75	7/1/1995	25 yrs.	58,905	2,551,154
3039	O.W.D.A.	6.51	7/1/1995	25 yrs.	24,075	1,024,787
3040	O.W.D.A.	5.77	7/1/1996	25 yrs.	4,064	181,847
3041	O.W.D.A.	6.51	7/1/1995	25 yrs.	32,868	1,399,066
3043	O.W.D.A.	6.24	7/1/1995	25 yrs.	50,620	2,113,020
3048	O.W.D.A.	6.24	7/1/1995	25 yrs.	1,273	53,120
3053	O.W.D.A.	6.16	7/1/1995	25 yrs.	2,131	88,440
3054	O.W.D.A.	6.16	7/1/1995	25 yrs.	7,131	295,958
3055	O.W.D.A.	6.16	7/1/1995	25 yrs.	21,312	884,547
3063	O.W.D.A.	6.16	1/1/1996	25 yrs.	16,057	724,539
3064	O.W.D.A.	6.16	1/1/1996	25 yrs.	7,213	128,509
3079	O.W.D.A.	6.02	1/1/1996	25 yrs.	40,781	1,819,846
3080	O.W.D.A.	6.02	1/1/1996	25 yrs.	19,826	884,699
3105	O.W.D.A.	5.77	1/1/1996	25 yrs.	6,843	299,369
3106	O.W.D.A.	5.77	1/1/1996	25 yrs.	4,922	215,310
2005	O.W.D.A.	5.90	7/1/1996	25 yrs.	25,185	1,138,314
2930	O.W.D.A.	5.90	7/1/1996	25 yrs.	13,806	624,006
2956	O.W.D.A.	6.64	1/1/1997	25 yrs.	2,769	144,331
2957	O.W.D.A.	6.64	1/1/1997	25 yrs.	9,087	473,730
2969	O.W.D.A.	6.72	1/1/1997	25 yrs.	16,521	867,229
2970	O.W.D.A.	6.72	1/1/1997	25 yrs.	64,232	3,371,812
2971	O.W.D.A.	6.36	1/1/1997	25 yrs.	6,176	314,300
2093	O.W.D.A.	6.87	7/1/1997	25 yrs.	65,837	3,566,791
2094	O.W.D.A.	6.87	7/1/1997	25 yrs.	68,508	3,711,476
2095	O.W.D.A.	6.36	1/1/1998	25 yrs.	21,110	1,187,562
2096	O.W.D.A.	6.36	1/1/1998	25 yrs.	10,565	594,328
2099	O.W.D.A.	6.32	7/1/1999	25 yrs.	9,980	625,919
2101	O.W.D.A.	6.11	7/1/1999	25 yrs.	22,200	1,364,421
Subtotal					<u>\$ 897,820</u>	<u>\$ 41,470,401</u>

SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2005 and 2004

NOTE I - 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 2006</u>	<u>Principal Due after 2006</u>
2103	O.W.D.A.	6.11	7/1/1999	25 yrs.	16,177	994,247
2174	O.W.D.A.	5.77	1/1/2002	25 yrs.	9,626	727,572
3279	O.W.D.A.	6.41	1/1/2002	25 yrs.	52,094	4,247,529
3682	O.W.D.A.	5.20	7/1/2004	25 yrs.	30,761	2,639,164
3683	O.W.D.A.	5.20	7/1/2004	25 yrs.	9,076	778,693
3756	O.W.D.A.	3.59	1/1/2005	20 yrs.	144,527	6,403,938
3760	O.W.D.A.	4.84	7/1/2004	15 yrs.	21,155	732,490
3912	O.W.D.A.	4.28	1/1/2005	25 yrs.	26,469	2,082,647
3944	O.W.D.A.	4.35	1/1/2005	25 yrs.	5,389	428,017
* 4314	O.W.D.A.	3.99	7/1/2006	25 yrs.	-	1,764,263
* 4315	O.W.D.A.	3.99	1/1/2007	25 yrs.	-	1,303,382
* 4316	O.W.D.A.	3.99	1/1/2007	20 yrs.	-	223,140
CQ021	O.P.W.C	0.00	1/1/2000	20 yrs.	6,215	161,590
CQ616	O.P.W.C	0.00	7/1/1995	20 yrs.	12,033	204,566
CQ807	O.P.W.C	0.00	1/1/1997	20 yrs.	6,799	135,982
CQ808	O.P.W.C	0.00	1/1/1996	20 yrs.	5,909	106,358
CQ23D	O.P.W.C	0.00	1/1/2003	20 yrs.	8,670	286,098
CQ24E	O.P.W.C	0.00	1/1/2005	20 yrs.	12,117	436,222
	Rotary	0.00		20 yrs.	-	106,351
	Rotary	0.00		20 yrs.	-	175,095
	Rotary	0.00		20 yrs.	-	65,495
Highland Hills Recoupment		9.25		5 yrs.	225,835	-
Park National Bank		3.95		5 yrs.	249,903	361,596
Subtotal of this page					842,755	24,364,435
Subtotal of previous page					897,820	41,470,401
Totals					<u>\$ 1,740,575</u>	<u>\$ 65,834,836</u>

SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2005 and 2004

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

Year Ending December 30,	OWDA Loans			OPWC Loans		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 1,190,493	\$ 1,883,445	\$ 3,073,938	\$ 51,743	\$ -	\$ 51,743
2007	2,492,848	3,655,028	6,147,876	103,487	-	103,487
2008	2,645,956	3,501,920	6,147,876	103,487	-	103,487
2009	2,808,744	3,339,133	6,147,877	103,487	-	103,487
2010	2,981,835	3,166,041	6,147,876	103,487	-	103,487
2011-2015	17,915,287	12,824,096	30,739,383	505,394	-	505,394
2016-2020	21,777,897	6,552,321	28,330,218	271,190	-	271,190
2021-2025	8,033,509	1,464,231	9,497,740	140,284	-	140,284
2026-2030	1,871,223	169,873	2,041,096	-	-	-
2030-2035	-	-	-	-	-	-
Total	\$ 61,717,792	\$ 36,556,088	\$ 98,273,880	\$ 1,382,559	\$ -	\$ 1,382,559

Year Ending December 30,	Park National Bank Loan			Total Debt		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 249,903	\$ -	\$ 249,903	\$ 1,492,139	\$ 1,883,445	\$ 3,375,584
2007	361,596	-	361,596	2,957,931	3,655,028	6,612,959
2008	-	-	-	2,749,443	3,501,920	6,251,363
2009	-	-	-	2,912,231	3,339,133	6,251,364
2010	-	-	-	3,085,322	3,166,041	6,251,363
2011-2015	-	-	-	18,420,681	12,824,096	31,244,777
2016-2020	-	-	-	22,049,087	6,552,321	28,601,408
2021-2025	-	-	-	8,173,793	1,464,231	9,638,024
2026-2030	-	-	-	1,871,223	169,873	2,041,096
2030-2035	-	-	-	-	-	-
Total	\$ 611,499	\$ -	\$ 611,499	\$ 63,711,850	\$ 36,556,088	\$ 100,267,938

Project loan agreements 4314, 4315, and 4316 have not been finalized with the OWDA; therefore, no amortization schedules have been created. As a result these loans are not shown on the above maturity schedule. The Highland Hills Recoupment is not shown on the above amortization schedule as there is no fixed repayment schedule for this outstanding loan. The Rotary Loans are also not shown on the above amortization schedule as there is no fixed repayment schedule for these outstanding loans.

SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2005 and 2004

NOTE J - CAPITAL LEASE OBLIGATIONS

The District entered into an agreement with Park National Bank on September 6, 2001 to lease five Chevrolet S10 trucks. The terms of the agreement provide for transfer of ownership at the end of the lease. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases," which defines a capital lease generally as one that transfers benefits and risks of ownership to the lessee. The District made one payment on this lease during fiscal year 2003 and one payment during fiscal year 2004 which completed the lease obligation. Payments of the principal amount on the lease were recorded as reductions of the capital lease obligation and payments of the interest amount on the lease were recorded as interest expense in the District's financial statements.

NOTE K - 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 thereon.
 - 3) The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by OPERS to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.
- B. OPERS provides retirement, disability, and survivor benefits as well as postretirement health care coverage to qualifying members of both 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 by state statute per Chapter 145 of the Ohio Revised Code.
- D. The Ohio Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.
- E. The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2005, member and employer contribution rates were consistent across all three plans. Separate divisions for law enforcement and public safety exist only within the Traditional Pension Plan.

The 2005 member contribution rates were 8.5% for members in classifications other than law enforcement and public safety. Members in the law enforcement classification, which consists generally of sheriffs, deputy sheriffs and township police, contributed at a rate of 10.1%. Public safety division members contributed at 9%.

The 2005 employer contribution rate for state employers was 13.31% of covered payroll. For local government employer units, the rate was 13.55% of covered payroll. For both the law enforcement and public safety divisions, the employer contribution rate for 2005 was 16.7%.

The District's contributions to OPERS for the years ended December 31, 2005, 2004, and 2003, were \$130,017, \$124,158, and \$109,192, respectively.

SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2005 and 2004

NOTE L - 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 provides retirement, disability, and survivor benefits as well as postretirement health care coverage to qualifying members of both the Traditional and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS is considered to be an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12.

A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. For local government employer units, the rate was 13.55% of covered payroll for both fiscal years 2005 and 2004; 4.0% was used to fund health care for the years 2005 and 2004.

- B. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.
- C. Summary of Assumptions:

Actuarial Review - The assumptions and calculations below were based on OPERS' latest Actuarial Reviews performed as of December 31, 2004.

Funding Method – An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

Assets Valuation Method – All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets annually.

Investment Return – The investment assumption rate for 2004 was 8.00%.

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

Health Care – Health care cost were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

- D. OPEBs are advance-funded on an actuarially determined basis. The following disclosures are required:
1. The number of active contributing participants in the Traditional Pension and Combined Plans totaled 376,109 for 2005 and 355,287 for 2004.

SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2005 and 2004

NOTE L - POSTEMPLOYMENT BENEFITS (Continued)

2. The employer contributions that were used to fund postemployment benefits were \$38,524 for 2005 and \$36,652 for 2004.
3. \$10.8 billion represents the actuarial value of OPERS' net assets available for OPEBs at December 31, 2003.
4. The Actuarial Valuation as of December 31, 2004 reported the actuarially accrued liability and the unfunded actuarial accrued liability for OPEB, based on the actuarial cost method used, at \$29.5 billion and \$18.7 billion, respectively.

E. OPERS Retirement Board adopts a Health Care Preservation Plan

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

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 2005 and 2004 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, 2005 and 2004.

NOTE O - CONTINGENT LIABILITIES

During the fiscal years ended December 31, 2005 and 2004, SWLCWSD was involved in several legal actions. Management does not believe that the financial impact, if any, of these legal actions would have a material effect on the financial statements of SWLCWSD.

SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2005 and 2004

NOTE P - DEBT SERVICE FEE

The District has a debt service fee which was \$12.95 per month per sewer customer during fiscal year 2005 and \$14.95 per month per sewer customer during fiscal year 2004. This fee was implemented to assist the District in meeting its debt service requirements. The proceeds of the fee are restricted to the payment of principal and interest on sewer debt. During fiscal years 2005 and 2004 the District collected \$928,304 and \$993,301 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 and lease with Park National Bank. Interest expense is detailed in the following schedule:

	2005	2004	
OWDA- Water	\$ 1,603,662	\$ 1,442,950	
OWDA- Sewer	2,289,342	2,424,900	
Park National Bank	46,158	25,727	
Total interest expense	\$ 3,939,162	\$ 3,893,577	

NOTE T - CONSTRUCTION COMMITMENTS OUTSTANDING

The District had several smaller projects in process as of December 31, 2004 and several larger projects in process as of December 31, 2005. There were smaller construction contracts outstanding as of December 31, 2004. Significant outstanding construction contracts as of December 31, 2005 are listed below:

<u>Name of Contractor</u>	<u>Contract Amount</u>	<u>Contract Amount Expended 12/31/05</u>	<u>Remaining Amount on Contract at 12/31/05</u>	<u>Contract Description</u>
Downing Construction Company	\$1,828,867	\$1,657,275	\$171,592	Elevated Water Storage Tank
Stillion Brothers Excavating	659,245	558,319	100,926	Mink Street and Broad Street Water Main Improvements
Stillion Brothers Excavating	584,173	148,815	435,358	Mink Street Sewer Construction
Underground Utilities	866,257	813,248	53,009	Refugee Road Interceptor – Phase I
Stillion Brothers Excavating	654,260	574,825	79,435	Refugee Road Watermain

SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS - Continued

December 31, 2005 and 2004

NOTE U - NEW ACCOUNTING PRONOUNCEMENT

For fiscal years 2004 and 2005, SWLCWSD has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures."

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. The implementation of this statement had no effect on the SWLCWSD's financial statements for fiscal year 2005.

GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* were adopted by the District effective January 1, 2004. GASB 34 creates new basic financial statements for reporting on the District's financial activities. The financial statements now include statements of net assets, statements of revenues, expenses and changes in net assets, and statements of cash flows all prepared on the accrual basis of accounting.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

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

We have audited the basic 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, 2005 and December 31, 2004 and have issued our report thereon dated May 30, 2006 wherein we noted the District implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2005-1.

We noted other matters that do not require inclusion in this report that we communicated to management in a separate letter dated May 30, 2006.

This report is intended solely for the information and use of the board of trustees, management, and the Auditor of State and is not intended to be and should not be used by anyone other than these specified parties.

Kennedy, Cottrell + Associates LLC

Kennedy, Cottrell + Associates
Columbus, Ohio
May 30, 2006

SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT
LICKING COUNTY

SCHEDULE OF AUDIT FINDINGS

DECEMBER 31, 2005 AND 2004

2005-1 NONCOMPLIANCE: PURCHASE ORDERS

Ohio Revised Code Section 5705.41 states, in part:

No subdivision or taxing unit shall: ...

(D)(1) Except as otherwise provided in division (D)(2) of this section and section 5705.44 of the Revised Code, make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation or, in the case of a continuing contract to be performed in whole or in part in an ensuing fiscal year, the amount required to meet the obligation in the fiscal year in which the contract is made, has been lawfully appropriated for such purpose and is in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every such contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

As a result of an audit finding from the prior audit, the District first implemented a purchase order process in 2004. During 2004, the District did not utilize purchase orders on a consistent basis. Thus, numerous expenditures were made during 2004 without the certification required by ORC 5705.41.

Although the District did utilize purchase orders consistently during 2005, we noted errors in our testing. Of the 30 expenditures we tested for 2005, 15 had invoice/obligation dates that preceded the certificate date on the purchase order, which is a violation of the above statute. Amounts of less \$3,000 may be paid by the fiscal officer without such affirmation of the taxing authority upon completion a "then and now" certificate permitted by Section 5705.41, provided that the expenditure is otherwise lawful; however, the District did not utilize "then and now" certificates during 2005.

We recommend that the district monitor its purchase order process more closely and ensure that purchase orders are dated prior to the invoice/obligation date. The District should also consider utilizing "then and now" certificates for circumstances when the purchase order cannot be completed prior to the invoice/obligation date.

Official's Response

The District proposes to remedy the noncompliance finding through modification of our current purchase order policy as follows:

1. Eliminate purchase orders with invoice/obligation dates that preceded the certificate for common vendors through expansion and utilization of our yearly blanket vendor purchase order process.
2. Eliminate purchase order with invoice/obligation dates that preceded the certificate date for uncommon vendors through increased utilization of the "then and now" certificate for minor purchases and increase planning of expenditures for major purchases.

SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT
LICKING COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS

DECEMBER 31, 2005 AND 2004

<u>Fiscal Year</u>	<u>Finding Number</u>	<u>Status</u>
2002 - 2003	2003-001	Partially Corrected.



**Auditor of State
Betty Montgomery**

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

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 15, 2006**