SOUTHWEST LICKING COMMUNITY WATER & SEWER DISTRICT

BASIC FINANCIAL STATEMENTS

* * * * * * *

December 31, 2007 and 2006

Mary Taylor, CPA
Auditor of State

Board of Trustees
Southwest Licking Community Water & Sewer District
PO Box 215
Etna, Ohio 43018

We have reviewed the *Independent Auditor's Report* of the Southwest Licking Community Water & Sewer District, Licking County, prepared by Kennedy Cottrell Richards LLC, for the audit period January 1, 2006 through December 31, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 19, 2008

This Page is Intentionally Left Blank.

SOUTHWEST LICKING COMMUNITY WATER AND SEWER DISTRICT
LICKING COUNTY

TABLE OF CONTENTS

This Page is Intentionally Left Blank.

383 North Front Street
Columbus, Ohio 43215

Kennedy Cottrell Richards

Phone: 614.358.4682
Fax: 614.888.8634
www.kcr-cpa.com

INDEPENDENT AUDITOR'S 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 Southwest Licking Community Water & Sewer District, Licking County, Ohio (the "District") as of and for the years ended December 31, 2007 and December 31, 2006, 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 District as of December 31, 2007 and December 31, 2006 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2008 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.

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 Richards LLC

Kennedy Cottrell Richards LLC
April 28, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2007 AND 2006
UNAUDITED

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

FINANCIAL HIGHLIGHTS

The total assets of SWLCWSD exceeded liabilities on December 31, 2007 by $12.3 million and on December 31, 2006 by $14.4 million. The District's net assets decreased by $2.1 million (-14.7%) in 2007 and by $1.4 million (-9.0%) in 2006.

The District's Operating Revenues increased by $401 thousand (10.1%) in 2007 and by $184 thousand (4.9%) in 2006. Operating Expenses (excluding depreciation and amortization expenses) increased $23 thousand (1.0%) in 2007 and by $30 thousand (1.4%) in 2006. Depreciation and amortization expense increased $141 thousand (3.9%) in 2007 and by $127 thousand (3.6%) in 2006. The District's Non-operating revenues decreased by $1.1 million (-24.5%) in 2007 and by $551 thousand (-11.1%) in 2006.

The District issued an additional $.42 million of long term debt in 2007 and $.96 million in 2006.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

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

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

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

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

STATEMENTS OF NET ASSETS

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

Table 1

	2007	2006	Change Amount	2005	Change Amount
Current and Other Assets	$ 19,306,526	$ 20,911,044	$ (1,604,518)	$ 21,989,512	$(1,078,468)
Restricted Assets	45,800	45,800	-	43,300	2,500
Capital Assets	60,940,882	63,991,791	(3,050,909)	65,978,403	(1,986,612)
Total Assets	80,293,208	84,948,635	(4,655,427)	88,011,215	$(3,062,580)
Long Term Liabilities	66,275,327	68,928,822	(2,653,495)	70,084,399	(1,155,577)
Current and Other Liabilities	1,764,723	1,660,325	104,398	2,147,243	(486,918)
Total Liabilities	68,040,050	70,589,147	(2,549,097)	72,231,642	(1,642,495)
Net Assets					
Invested in Capital Assets, Net of Related Debt	(2,341,095)	(1,886,556)	(454,539)	(1,597,008)	(289,548)
Restricted	45,800	45,800	-	43,300	2,500
Unrestricted	14,548,453	16,200,244	(1,651,791)	17,333,281	(1,133,037)
Total Net Assets	$ 12,253,158	$ 14,359,488	$ (2,106,330)	$ 15,779,573	($1,420,085)

The District's Net Assets decreased by $2.1 million (-14.7%) in 2007 and by $1.4 million (-9.0%) in 2006.

The decrease in 2007 is primarily due to the decrease in total assets of approximately $4.7 million which was partially offset by a decrease in total liabilities of approximately $2.5 million. The decrease in total assets is mainly due to a decrease in cash and net capital assets. The decrease in liabilities is primarily due to the decrease in notes payable which was partially offset by an increase in deferred revenue-special assessments.

The decrease in 2006 is primarily due to the decrease in total assets of approximately $3 million which was partially offset by a decrease in total liabilities of approximately $1.6 million. The decrease in total assets is mainly due to a decrease in cash and net capital assets. The decrease in liabilities is primarily due to decreases in accounts payable and notes payable which were partially offset by an increase in deferred revenue-special assessments.

Restricted net assets remained the same in 2007 and increased $2,500 (5.8%) in 2006. Restricted net assets consist of cash deposits in escrow accounts for contractor bonds.

Unrestricted net assets decreased by $1.7 million (-10.3%) in 2007 and by $1.1 million (-6.5%) in 2006. Unrestricted net assets may be used without constraints established by legal requirements. Cash and Cash equivalents decreased $1.1 million (-27.0%) in 2007 and by $.9 million (-18.7%) in 2006.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

Table 2

	2007	2006	Change	2005	Change
Operating Revenues	$4,372,114	$3,970,636	$401,478	$3,786,809	$183,827
Operating Expenses (Excluding Depreciation & Amortization	2,204,995	2,182,146	22,849	2,151,682	30,464
Depreciation & Amortization	3,766,666	3,625,618	141,048	3,498,183	127,435
Total Operating Expenses	**5,971,661**	**5,807,764**	**163,897**	**5,649,865**	157,899
Operating Loss	(1,599,547)	(1,837,128)	237,581	(1,863,056)	25,928
Non-Operating Revenues	3,327,274	4,404,655	(1,077,381)	4,955,833	(551,178)
Non-Operating Expenses	3,835,239	3,987,612	(152,373)	3,939,162	48,450
Capital Contributions	1,182	-	1,182	331,223	(331,223)
Changes in Net Assets	**(2,106,330)**	**(1,420,085)**	**(686,245)**	**(515,162)**	**(904,923)**
Net Assets at Beginning of Year	**14,359,488**	**15,779,573**	**(1,420,085)**	**16,294,735**	**(515,162)**
Net Assets at End of Year	**$12,253,158**	**$14,359,488**	**($2,106,330)**	**$15,779,573**	**$ (1,420,085)**

Operating Revenues increased $401 thousand (10.1%) in 2007. The increase in 2007 was primarily the result of rate increases and additional customers. Non-Operating revenues decreased $1.1 million (-24.5%) in 2007 which is primarily due to decreased tap fee income of $1.2 million which was partially offset by the gain on the sale of capital assets of $161 thousand. Tap fees are the result of decreased building activity in the area and are subject to fluctuation depending on the economy and other factors. There were capital contributions of $1,182 in 2007 (an increase from $0 in 2006). 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 $23 thousand (1.0%) in 2007. Basic wage increases and associated fringe benefits, increased expenses for chemicals and operating supplies and increased depreciation expenses were partially offset by lower costs for repairs and maintenance, legal fees, and audit costs (associated with the audit which occurs every two years), as well as other less significant changes.

Operating Revenues increased $184 thousand (4.9%) in 2006. The increase in 2006 was primarily the result of rate increases and additional customers. Non-Operating revenues decreased $551 thousand (-11.1%) in 2006 which is primarily due to decreased tap fee income of $236 thousand, decreased capacity fee income of $182 thousand, and decreased interest income of $87 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. There were no capital contributions in 2006 (a decrease of $331 thousand from 2005) and 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 $30 thousand (1.4%) in 2006. Basic wage increases and associated fringe benefits, increased health care expenses, audit costs (associated with the audit which occurs every two years), increased utility expenses, and increased depreciation expenses were partially offset by lower costs for legal fees, accounting fees, and advertising and communications expense.

CAPITAL ASSETS

The District had $97.8 million invested in Capital Assets (before accumulated depreciation of $36.9 million) at the end of 2007. This amount is an increase of $0.7 million (0.7%) from the previous year. The District had several projects go into service during 2007 including Smoke Road and State Route 310 sanitary sewers and Mink Street and Broad Street water lines. Additional information regarding capital assets can be found in Note F to the Basic Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2007 AND 2006
UNAUDITED

Table 3

	2007	2006	Change Amount	2005	Change Amount
Capital Assets Not Being Depreciated:					
Land	$914,738	$1,008,464	($93,726)	$716,964	$291,500
Land Easements	333,272	333,272	0	331,455	1,817
Construction in Progress	666,771	701,684	(34,913)	5,139,055	(4,437,371)
Total Capital Assets Not Being Depreciated	1,914,781	2,043,420	(128,639)	6,187,474	(4,144,054)
Capital Assets Being Depreciated (Net of Accumulated Depreciation):					
Land Improvements	26,896	28,925	(2,029)	30,954	(2,029)
Facilities, Lines & Related Infrastructure	55,842,622	58,590,142	(2,747,520)	56,212,390	2,377,752
Donated Developer Lines	2,726,935	2,884,995	(158,060)	3,043,054	(158,059)
Vehicles	16,968	37,580	(20,612)	65,914	(28,334)
Office Furniture and Equipment	105,525	104,313	1,212	104,641	(328)
General Equipment	295,858	288,731	7,127	317,902	(29,171)
Safety Equipment	11,297	13,685	(2,388)	16,074	(2,389)
Total Capital Assets Being Depreciated (Net)	59,026,101	61,948,371	(2,922,270)	59,790,929	2,157,442
Net Capital Assets	**$60,940,882**	**$63,991,791**	**($3,050,909)**	**$65,978,403**	**($1,986,612)**

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2007 AND 2006
UNAUDITED

Table 4	2007	2006	Change Amount	2005	Change Amount
OWDA Loans	$ 61,215,765	$ 63,559,023	$(2,343,258)	$ 65,008,576	$(1,449,553)
OPWC Loans	1,175,588	1,279,074	(103,486)	1,382,559	(103,485)
Rotary Commission Loans	346,941	346,941	-	346,941	-
Highland Hills Recoupment Agreement	225,835	225,835	-	225,835	-
Park National Bank Loan	317,849	467,474	(149,625)	611,500	(144,026)
Total Long Term Debt	63,281,978	65,878,347	(2,596,369)	67,575,411	(1,697,064)
Less: Current Maturities	1,637,515	1,517,621	119,894	1,740,575	(222,954)
Net Total Long Term Debt	$ 61,644,463	$ 64,360,726	$(2,716,263)	$ 65,834,836	$(1,474,110)

CASH

Cash and cash equivalents on December 31, 2007 and 2006 were $3.0 million and $4.13 million, respectively. $46 thousand of these funds in 2007 and 2006 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 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 & SEWER DISTRICT
LICKING COUNTY

STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2007 AND 2006

	2007	2006
ASSETS		
Current Assets:		
Cash in checking	$ 2,983,830	$ 4,086,057
Petty cash	250	250
Intergovernmental Receivable	8,008	-
Accounts receivable - operating billings less allowance for doubtful accounts ($150,000 in 2007 and $150,000 in 2006)	538,156	521,762
Prepaid insurance	38,739	38,572
Meter inventory	12,532	24,437
Total current assets	3,581,515	4,671,078
Noncurrent assets:		
Restricted Assets:		
Cash in savings-contractor bonds	45,800	45,800
Total restricted assets	45,800	45,800
Capital Assets, net of Accumulated Depreciation	60,940,882	63,991,791
Other Assets:		
Loan fees, net of $103,829 and $96,823 accumulated amortization for 2007 and 2006 respectively	113,794	120,800
Jefferson water tap rights, net of $110,979 and $102,912 accumulated amortization for 2007 and 2006 respectively	64,166	72,233
Assessment receivables-water	7,166,758	7,289,811
Assessment receivables-sewer	8,380,293	8,757,122
Total other assets	15,725,011	16,239,966
Total Assets	$ 80,293,208	$ 84,948,635

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, 2007 AND 2006

LIABILITIES	2007	2006
Current Liabilities:		
Accounts payable	$ 32,237	$ 37,376
Note payable - current portion	1,637,515	1,517,621
Deposits payable to developers	3,230	6,060
Contractor bonds payable	43,800	43,300
Accrued employee wages	24,309	17,707
Accrued interest payable	8,008	9,079
Payroll taxes accrued and withheld	15,624	29,182
Total current liabilities	1,764,723	1,660,325
Long Term Liabilities		
Compensated absences	140,020	136,895
Deferred revenue-special assessments	4,490,844	4,431,201
Notes and recoupment agreements payable	61,644,463	64,360,726
Total long term liabilities	66,275,327	68,928,822
Total Liabilities	68,040,050	70,589,147
Net Assets:		
Invested in capital assets, net of related debt	(2,341,096)	(1,886,556)
Restricted	45,800	45,800
Unrestricted	14,548,454	16,200,244
Total net assets	$ 12,253,158	$ 14,359,488

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, 2007 AND 2006

	2007	2006
OPERATING REVENUES		
Service revenues	$ 4,229,118	$ 3,853,808
Late charges	142,996	116,828
Total Operating Revenues	4,372,114	3,970,636
OPERATING EXPENSES		
Salaries	912,847	858,559
Training	3,910	5,176
Medicare tax expense	13,117	12,193
P.E.R.S. expense	125,434	131,429
Workers compensation expense	13,050	10,178
Operations and testing	28,080	25,808
Chemicals and operating supplies	143,991	123,714
Biosolids Processing	42,430	42,119
Refuse	3,007	3,155
Equipment rental	1,969	3,172
Repairs and maintenance	261,362	275,675
Engineering	1,511	-
Legal	15,267	33,934
Accounting	10,927	18,267
Professional fees - software	720	-
Board designated expenses	1,257	1,257
Audit fees	-	16,109
Advertising and communications	2,428	373
Insurance:		
General	40,734	42,963
Health	173,638	176,225
Life	3,303	2,122
Telephone	30,405	28,818
Utilities	270,841	268,762
Office supplies	21,104	28,146
Cleaning	2,800	6,467
Postage	38,716	35,379
Real Estate Taxes	4,109	3,323
Security	331	492
Uniform rental	1,493	2,554
Small tools	1,658	639
Vehicle expense	566	76
Collection and bank fees	1,241	225
Dues and subscriptions	1,378	672
Licenses	30,555	23,476
General manager discretionary	816	689
Depreciation	3,751,593	3,610,545
Amortization	15,073	15,073
Total operating expenses	5,971,661	5,807,764
Operating loss	(1,599,547)	(1,837,128)
NON-OPERATING REVENUES AND EXPENSES		
Debt service fee income	917,927	930,862
Inspection revenue	2,430	7,730
Tap fee income	1,164,659	2,357,580
Capacity fee revenue	-	25,800
Interest income	1,016,393	1,040,502
Intergovernmental	16,477	-
Miscellaneous income	48,113	42,181
Gain on sale of capital assets	161,275	-
Interest expense	(3,835,239)	(3,987,612)
Total non-operating revenues and expenses	(507,965)	417,043
Changes in net assets before capital contributions	(2,107,512)	(1,420,085)
Capital contributions - special assessments	1,182	-
Changes in net assets	(2,106,330)	(1,420,085)
Net assets, beginning of year	14,359,488	15,779,573
Net assets, end of year	$ 12,253,158	$ 14,359,488

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, 2007 AND 2006

	2007	2006
Cash Flows from Operating Activities:		
Cash received from customers	$ 4,355,720	$ 3,891,546
Cash payments to suppliers for goods and services	(960,310)	(1,115,296)
Cash payments for employee services and benefits	(1,241,917)	(1,197,453)
Net cash provided by operating activities	2,153,493	1,578,797
Cash Flows from Investing Activities:		
Interest income from savings	213,168	227,657
Cash Flows from Capital and Related Financing Activities:		
Payments for planning and construction, including capitalized interest	(720,796)	(1,407,533)
Purchase of land and land easements	-	(293,317)
Assessment principal payments received	561,208	525,582
Proceeds from sale of capital assets	255,000	-
Intergovernmental revenue	8,469	-
Debt service fees collected	917,927	930,862
Increase (Decrease) in contractor retainage payable	-	(17,532)
(Decrease) in developer deposits	(2,830)	(7,929)
Purchase of equipment and furniture	(73,614)	(32,372)
Construction loan proceeds	422,147	955,931
Principal repayments on loans	(3,018,516)	(2,652,995)
Interest repayments on loans	(3,836,310)	(3,990,001)
Assessment interest income	803,225	812,845
Inspection, tap fee and miscellaneous income	1,215,202	2,433,291
Net cash provided by capital and related financing activities	(3,468,888)	(2,743,168)
Net decrease in cash and cash equivalents	(1,102,227)	(936,714)
Cash and cash equivalents at beginning of year	4,132,107	5,068,821
Cash and cash equivalents at end of year	$ 3,029,880	$ 4,132,107

(Continued on following page)

SOUTHWEST LICKING COMMUNITY WATER AND SEWER DISTRICT
LICKING COUNTY

STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:		
Operating loss	$ (1,599,547)	$ (1,837,128)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:		
Depreciation and amortization	3,766,666	3,625,618
Changes in Assets and Liabilities:		
(Increase) decrease in accounts receivable	(16,394)	(79,090)
(Increase) decrease in prepaid insurance	(167)	2,272
(Increase) decrease in meter inventory	11,905	(3,966)
(Decrease) in accounts payable (operating)	(5,139)	(120,040)
Increase (Decrease) in compensated absences	3,125	(2,083)
Increase (decrease) in accrued wages, benefits and payroll taxes	(6,956)	(6,786)
Total adjustments	3,753,040	3,415,925
Net cash provided by operating activities	$ 2,153,493	$ 1,578,797

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

NOTE A - NATURE OF ORGANIZATION

Southwest Licking Community Water & Sewer District (hereafter referred to as SWLCWSD) was created, during late 1989, by the Court of Common Pleas of Licking County to provide water and sewer services to the residents of Licking County in accordance with the provisions of Section 6119.et.seq of the Revised Code. SWLCWSD is managed by a Board consisting of three (3) appointed trustees.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. **Basis of Presentation - Fund Accounting**
   The accounts of SWLCWSD are organized on the basis of funds, to report on its financial position and the results of its operations, each of which is considered a separate accounting entity. SWLCWSD has created a single type of fund and a single fund within that fund type. The fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, 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.

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 2007 and 2006. Amounts determined to potentially be uncollectible are set up as an allowance and a corresponding entry to an revenue 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 2007 and 2006 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 2007 and 2006 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.

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 2007 and 2006, 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. Of SWLCWSD's $45,800 and $45,800 in restricted net assets as of December 31, 2007 and December 31, 2006, none were restricted by enabling legislation.

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, 2007 and 2006 was $45,800 and $45,800, 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.

NOTE D – DEPOSITS 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; 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 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.

NOTE D – DEPOSITS AND INVESTMENTS (Continued)

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, 2007, SW LCWDS's bank balance of $1,413,713 is either covered by FDIC or collateralized by the financial institutions public entity deposit pools in the manner described above. As of December 31, 2006, SWLCWDS's bank balance of $1,337,594 is either covered by FDIC or collateralized by the financial institutions public entity deposit pools in the manner described above.

Investments

As of December 31, 2007 and December 31, 2006, SWLCWSD had the following investments and maturities:

	2007		2006	
	Fair Value	Weighted Average Maturity (Yrs.)	Fair Value	Weighted Average Maturity (Yrs.)
Repurchase Agreements	$ 5,029,732	0	$ 2,854,917	0
Total Fair Value	$ 5,029,732		$ 2,854,917	

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:

	2007	2006
Interest income from repurchase agreements and savings accounts	$ 213,168	$ 227,657
Interest income from assessments, accrued and collected	803,225	812,845
Total interest income	$ 1,016,393	$ 1,040,502

NOTE F – CAPITAL ASSETS

Capital assets activity for the fiscal year ended December 31, 2007 was as follows:

	Ending Balance 12/31/06	Additions	Deletions	Ending Balance 12/31/07
Capital Assets, Not Being Depreciated				
Land	$1,008,464	$0	($93,726)	$914,738
Land Easements	333,272	0	0	333,272
Construction in Progress	701,684	506,892	(541,805)	666,771
Total Capital Assets, Not Being Depreciated	2,043,420	506,892	(635,531)	1,914,781
Capital Assets Being Depreciated				
Land Improvements	32,000	0	0	32,000
Facilities, Lines & Related Infrastructure	89,973,332	755,709	0	90,729,041
Donated Developer Lines	4,071,548	0	0	4,071,548
Vehicles	189,061	0	0	189,061
Office Furniture and Equipment	237,874	23,991	0	261,865
General Equipment	555,685	49,623	0	605,308
Safety Equipment	25,403	0	0	25,403
Total Capital Assets, Being Depreciated	95,084,903	829,323	0	95,914,226
Less Accumulated Depreciation:				
Land Improvements	(3,075)	(2,029)	0	(5,104)
Facilities, Lines & Related Infrastructure	(31,383,190)	(3,503,229)	0	(34,886,419)
Donated Developer Lines	(1,186,553)	(158,060)	0	(1,344,613)
Vehicles	(151,480)	(20,613)	0	(172,093)
Office Furniture and Equipment	(133,561)	(22,779)	0	(156,340)
General Equipment	(266,955)	(42,495)	0	(309,450)
Safety Equipment	(11,718)	(2,388)	0	(14,106)
Total Accumulated Depreciation	(33,136,532)	(3,751,593)	0	(36,888,125)
Total Capital Assets Being Depreciated, Net	61,948,371	(2,922,270)	0	59,026,101
Total Capital Assets	$63,991,791	($2,415,378)	($635,531)	$60,940,882

NOTE F – CAPITAL ASSETS (Continued)

Capital assets activity for the fiscal year ended December 31, 2006 was as follows:

	Ending Balance 12/31/05	Additions	Deletions	Ending Balance 12/31/06
Capital Assets, Not Being Depreciated				
Land	$716,964	$291,500	$0	$1,008,464
Land Easements	331,455	1,817	0	333,272
Construction in Progress	5,139,055	1,298,244	(5,735,615)	701,684
Total Capital Assets, Not Being Depreciated	6,187,474	1,591,561	(5,735,615)	2,043,420
Capital Assets Being Depreciated				
Land Improvements	32,000	0	0	32,000
Facilities, Lines & Related Infrastructure	84,237,717	5,735,615	0	89,973,332
Donated Developer Lines	4,071,548	0	0	4,071,548
Vehicles	189,061	0	0	189,061
Office Furniture and Equipment	217,362	20,512	0	237,874
General Equipment	543,825	11,860	0	555,685
Safety Equipment	25,403	0	0	25,403
Total Capital Assets, Being Depreciated	89,316,916	5,767,987	0	95,084,903
Less Accumulated Depreciation:				
Land Improvements	(1,046)	(2,029)	0	(3,075)
Facilities, Lines & Related Infrastructure	(28,025,327)	(3,357,863)	0	(31,383,190)
Donated Developer Lines	(1,028,494)	(158,059)	0	(1,186,553)
Vehicles	(123,147)	(28,333)	0	(151,480)
Office Furniture and Equipment	(112,721)	(20,840)	0	(133,561)
General Equipment	(225,923)	(41,032)	0	(266,955)
Safety Equipment	(9,329)	(2,389)	0	(11,718)
Total Accumulated Depreciation	(29,525,987)	(3,610,545)	0	(33,136,532)
Total Capital Assets Being Depreciated, Net	59,790,929	2,157,442	0	61,948,371
Total Capital Assets	$65,978,403	$3,749,003	($5,735,615)	$63,991,791

NOTE G - ACCOUNTS AND ASSESSMENTS RECEIVABLE

Account receivable balances at December 31, 2007 and 2006 for operating billings are as follows:

	2007	2006
Current	$ 384,757	$ 403,788
Over 30 days	113,371	94,832
Over 60 days	53,623	34,903
Over 90 days	136,405	138,239
Gross Receivables	688,156	671,762
Less: Allowance for Doubtful Accounts	(150,000)	(150,000)
Net Accounts Receivable	$ 538,156	$ 521,762

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, 2007 and 2006, 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, 2007 are as follows:

Project Name	Total Assessed	Prepaid Assessments	County Auditor and Deferred Assessments Paid	% Collected
Beechwood Trails-S (8004)	$ 3,773,810	$ 1,411,145	$ 906,078	61.40%
Summit Station Phase I-S (8005)	1,655,693	530,607	332,750	52.14%
Summit Stateion Phase I-W (8006)	1,792,334	621,931	411,973	57.68%
US 40 Etna-S (8008)	1,677,521	473,285	420,064	53.25%
Summit Station Phase II-S (8011)	910,264	398,382	114,205	56.31%
Summit Station Phase II-W (8016)	413,798	216,465	70,976	69.46%
US 40 Water Treatment-W (8017)	973,786	270,203	206,325	48.94%
Etna SR 40 Environs-W (8018)	1,237,781	532,621	289,266	66.40%
Etna SR 40 Environs-S (8019)	1,699,257	683,485	320,918	59.11%
Columbia Center-S (8020)	945,160	232,455	251,774	51.23%
York/Blacks/Outville Roads-W (8023A)	1,012,860	305,308	25,583	32.67%
York/Blacks/Outville Roads-W (8023B)	810,685	285,815	203,891	60.41%
Russell Heights-S (10033)	343,851	201,536	40,283	70.33%
New England/Russell/Mink-W (10034)	824,753	423,260	127,287	66.75%
Summit Rd and SR 40-W (10079)	1,003,390	225,070	229,234	45.28%
York Rd.-W (10119)	23,062	11,245	3,583	64.30%
Columbia Rd. and Refugee-S (10187)	188,545	48,071	51,207	52.65%
SR 310/Refugee/Smoke-W (10217)	444,505	124,407	55,355	40.44%
Havens Corners Rd.-W (10219)	67,765	10,793	(10,383)	0.61%
SR 16 Belmar to Summit-S (10221)	139,925	71,947	21,709	66.93%
SR 16 Belmar to Summit-W (10235)	125,519	76,367	12,165	70.53%
Watkins to I 70-W (10259)	62,439	13,586	17,758	50.20%
Blacks Outville Rd.-S (8013)	1,326,907	548,381	174,913	54.51%
SR 310 N. or US 40-S (10083)	120,113	34,743	10,355	37.55%
Fursville/Columbia Center-W (10139)	837,835	190,781	122,828	37.43%
Watkins N. from US 40-S (10218)	29,073	16,056	19,293	121.59%
SR 16/Charles/Daley-S (10220)	459,210	218,320	78,217	64.58%
Subtotal	$ 22,899,841	$ 8,176,265	$ 4,507,607	

NOTE G - ACCOUNTS AND ASSESSMENTS RECEIVABLE (Continued)

Project Name	Total Assessed	Prepaid Assessments	County Auditor and Deferred Assessments Paid	% Collected
Watkins and Blacks Rds. S	$ 465,859	$ 245,588	$ 58,929	65.37%
Watkins and Blacks Rd. W	414,399	194,906	53,744	60.00%
SR 16/Charles and Daley W	414,872	159,103	81,464	57.99%
Happy Homes/Sunshine S	393,199	123,937	62,596	47.44%
Hillside Farm Estates S	243,283	143,461	21,844	67.95%
Ashcraft/Pine Oak/Indian Hills W	902,061	271,310	140,110	45.61%
Ashcraft/Pine Oak/Indian S	825,771	263,521	141,767	49.08%
York/US 40 to Refugee S	108,767	3,434	19,871	21.43%
Sunshine/Happy Homes W	472,450	124,467	81,062	43.50%
SR 310 and Tatman S	283,684	182,270	30,093	74.86%
Columbia Rd. S	93,464	71,068	5,957	82.41%
Columbia/Refugee Rds. W	69,486	43,550	6,912	72.62%
Lynns Road S	141,971	46,431	62,731	76.89%
Lynns Road W	95,610	32,900	10,079	44.95%
SR 310/US 40 to Refugee W	185,938	69,876	20,477	48.59%
Cleveland Rd. / Mink St. S	690,562	270,510	95,246	52.96%
Palmer Rd./W. Etna Twp. S	713,789	319,578	94,848	58.06%
Palmer Rd./W. Etna Twp. W	728,634	315,932	111,673	58.69%
Palmer Road Sant. Sewer Est.	224,200	116,269	20,606	61.05%
Palmer Road Water Line Est.	177,424	93,744	18,832	63.45%
Beaver Water Line	16,413	-	1,258	7.66%
Subtotal	7,661,836	3,091,855	1,140,099	
Subtotal from previous page	22,899,841	8,176,265	4,507,607	
Total	$ 30,561,677	$ 11,268,120	$ 5,647,706	
Net assessment receivable 12/31/07	$ 15,547,051			
Net assessment receivable 12/31/06	$ 16,046,943			

The net assessment receivable includes accrued interest of $1,901,200 and $1,842,059 on the deferred assessments receivable at both December 31, 2007 and 2006, 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.), 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. The Board is currently evaluating whether to extend the agreement or have the debt forgiven.

The District received a 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 five 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.

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

Long-term debt obligations and the related transactions for the years ending December 31, 2006 and 2007 are summarized below:

	Balance 12/31/2005	Additions	Reductions	Balance 12/31/2006	Amount Due Within One Year
O.W.D.A	$ 65,008,576	$ 955,931	$ 2,405,484	$ 63,559,023	$ 1,264,158
O.P.W.C	1,382,559	-	103,485	1,279,074	103,487
Rotary	346,941	-	-	346,941	-
Highland Hills Recoupment	225,835	-	-	225,835	-
Park National Bank	611,500	-	144,026	467,474	149,976
Compensated Absences	138,978	136,895	138,978	136,895	-
	$ 67,714,389	$ 1,092,826	$ 2,791,973	$ 66,015,242	$ 1,517,621

	Balance 12/31/2006	Additions	Reductions	Balance 12/31/2007	Amount Due Within One Year
O.W.D.A	$ 63,559,023	$ 422,147	$ 2,765,405	$ 61,215,765	$ 1,377,870
O.P.W.C	1,279,074	-	103,486	1,175,588	103,487
Rotary	346,941	-	-	346,941	-
Highland Hills Recoupment	225,835	-	-	225,835	-
Park National Bank	467,474	-	149,625	317,849	156,158
Compensated Absences	136,895	140,020	136,895	140,020	-
	$ 66,015,242	$ 562,167	$ 3,155,411	$ 63,421,998	$ 1,637,515

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

Loan #	Payable To	Interest Rate	First Payment	Principal Term	Principal Due in 2008	Principal Due after 2008
1865	O.W.D.A.	7.54	1/1/1994	25 yrs.	$ 47,118	$ 1,436,347
1866	O.W.D.A.	6.24	1/1/1994	25 yrs.	4,996	141,497
1867	O.W.D.A.	7.45	1/1/1994	25 yrs.	53,283	1,615,991
1868	O.W.D.A.	6.61	1/1/1994	25 yrs.	9,033	261,257
1869	O.W.D.A.	6.61	1/1/1995	25 yrs.	92,795	3,058,998
3019	O.W.D.A.	6.85	1/1/1995	25 yrs.	83,362	2,789,552
3020	O.W.D.A.	6.02	1/1/1995	25 yrs.	6,770	215,152
3021	O.W.D.A.	5.77	1/1/1995	25 yrs.	4,332	135,563
3025	O.W.D.A.	6.75	7/1/1995	25 yrs.	67,126	2,299,360
3039	O.W.D.A.	6.51	7/1/1995	25 yrs.	27,312	922,116
3040	O.W.D.A.	5.77	7/1/1996	25 yrs.	4,547	164,639
3041	O.W.D.A.	6.51	7/1/1995	25 yrs.	37,286	1,258,897
3043	O.W.D.A.	6.24	7/1/1995	25 yrs.	57,134	1,897,710
3048	O.W.D.A.	6.24	7/1/1995	25 yrs.	1,436	47,707
3053	O.W.D.A.	6.16	7/1/1995	25 yrs.	2,401	79,383
3054	O.W.D.A.	6.16	7/1/1995	25 yrs.	8,036	265,651
3055	O.W.D.A.	6.16	7/1/1995	25 yrs.	24,018	793,967
3063	O.W.D.A.	6.16	1/1/1996	25 yrs.	18,096	654,255
3064	O.W.D.A.	6.16	1/1/1996	25 yrs.	3,316	119,898
3079	O.W.D.A.	6.02	1/1/1996	25 yrs.	45,839	1,641,695
3080	O.W.D.A.	6.02	1/1/1996	25 yrs.	22,285	798,089
3105	O.W.D.A.	5.77	1/1/1996	25 yrs.	7,656	269,581
3106	O.W.D.A.	5.77	1/1/1996	25 yrs.	5,506	193,886
2005	O.W.D.A.	5.90	7/1/1996	25 yrs.	28,244	1,031,545
2930	O.W.D.A.	5.90	7/1/1996	25 yrs.	15,483	565,477
2956	O.W.D.A.	6.64	1/1/1997	25 yrs.	3,148	132,130
2957	O.W.D.A.	6.64	1/1/1997	25 yrs.	10,334	433,682
2969	O.W.D.A.	6.72	1/1/1997	25 yrs.	18,816	794,334
2970	O.W.D.A.	6.72	1/1/1997	25 yrs.	73,155	3,088,404
2971	O.W.D.A.	6.36	1/1/1997	25 yrs.	6,986	287,190
2093	O.W.D.A.	6.87	7/1/1997	25 yrs.	75,194	3,285,040
2094	O.W.D.A.	6.87	7/1/1997	25 yrs.	78,244	3,418,296
2095	O.W.D.A.	6.36	1/1/1998	25 yrs.	23,881	1,094,895
2096	O.W.D.A.	6.36	1/1/1998	25 yrs.	11,951	547,952
2099	O.W.D.A.	6.32	7/1/1999	25 yrs.	11,281	583,436
2101	O.W.D.A.	6.11	7/1/1999	25 yrs.	24,996	1,270,111
Subtotal					$ 1,015,396	$ 37,593,683

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

Loan #	To	Rate	Payment	Term	Due in 2008	Due after 2008
2103	O.W.D.A.	6.11	7/1/1999	25 yrs.	18,215	925,524
2174	O.W.D.A.	5.77	1/1/2002	25 yrs.	10,786	686,210
3279	O.W.D.A.	6.41	1/1/2002	25 yrs.	59,100	4,021,913
3682	O.W.D.A.	5.20	7/1/2004	25 yrs.	34,087	2,507,913
3683	O.W.D.A.	5.20	7/1/2004	25 yrs.	10,057	739,967
3756	O.W.D.A.	3.59	1/1/2005	20 yrs.	172,258	5,782,351
3760	O.W.D.A.	4.84	7/1/2004	15 yrs.	23,279	642,623
3912	O.W.D.A.	4.28	1/1/2005	25 yrs.	28,808	1,970,986
3944	O.W.D.A.	4.35	1/1/2005	25 yrs.	5,874	405,262
4314	O.W.D.A.	3.99	7/1/2006	25 yrs.	-	1,834,795
4315	O.W.D.A.	3.99	1/1/2007	25 yrs.	-	1,444,681
4316	O.W.D.A.	3.99	1/1/2007	20 yrs.	-	720,838
4437	O.W.D.A.	3.99	7/1/2006	25 yrs.	-	305,679
4699	O.W.D.A.	3.67	1/1/2008	5 yrs.	-	255,478
CQ021	O.P.W.C	0.00	1/1/2000	20 yrs.	12,430	130,515
CQ616	O.P.W.C	0.00	7/1/1995	20 yrs.	24,067	144,402
CQ807	O.P.W.C	0.00	1/1/1997	20 yrs.	13,598	101,986
CQ808	O.P.W.C	0.00	1/1/1996	20 yrs.	11,818	76,815
CQ23D	O.P.W.C	0.00	1/1/2003	20 yrs.	17,339	242,746
CQ24E	O.P.W.C	0.00	1/1/2005	20 yrs.	24,235	375,639
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	7/1/1999	5 yrs.	156,168	161,681
Subtotal of this page					622,119	24,050,780
Subtotal of previous page					1,015,396	37,593,683
Totals					$ 1,637,515	$ 61,644,463

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

Year Ending	OWDA Loans			OPWC Loans		
December 30,	Principal	Interest	Total	Principal	Interest	Total
2008	$ 1,377,861	$ 1,731,477	$ 3,109,338	$ 103,487	$ -	$ 103,487
2009	2,884,237	3,334,438	6,218,675	103,487	-	103,487
2010	3,060,063	3,158,612	6,218,675	103,487	-	103,487
2011	3,246,957	2,971,718	6,218,675	103,487	-	103,487
2012	3,445,633	2,773,042	6,218,675	103,487	-	103,487
2013-2017	20,676,636	10,416,739	31,093,375	395,291	-	395,291
2018-2022	17,579,482	3,764,369	21,343,851	226,515	-	226,515
2023-2027	3,685,711	667,224	4,352,935	36,347	-	36,347
2028-2031	697,714	37,173	734,887	-	-	-
Total	$ 56,654,294	$ 28,854,792	$ 85,509,086	$ 1,175,588	$ -	$ 1,175,588

Year Ending	Park National Bank			Total		
December 30,	Principal	Interest	Total	Principal	Interest	Total
2008	$ 156,168	$ 11,014	$ 167,182	$ 1,637,516	$ 1,742,491	$ 3,380,007
2009	161,681	4,785	166,466	3,149,405	3,339,223	6,488,628
2010	-	-	-	3,163,550	3,158,612	6,322,162
2011	-	-	-	3,350,444	2,971,718	6,322,162
2012	-	-	-	3,549,120	2,773,042	6,322,162
2013-2017	-	-	-	21,071,927	10,416,739	31,488,666
2018-2022	-	-	-	17,805,997	3,764,369	21,570,366
2023-2027	-	-	-	3,722,058	667,224	4,389,282
2028-2031	-	-	-	697,714	37,173	734,887
Total	$ 317,849	$ 15,799	$ 333,648	$ 58,147,731	$ 28,870,591	$ 87,018,322

Project loans 4314, 4315, 4316, 4437, and 4699 in the total amount of $4,561,471 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 in the amount of $225,835 is not shown on the above amortization schedule as there is no fixed repayment schedule for this outstanding loan. The Rotary Loans in the total amount of $346,941 are also not shown on the above amortization schedule as there is no fixed repayment schedule for these outstanding loans.

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 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, survivor and death benefits and annual cost-of-living adjustments 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) 222-5601 or 1-800-222-7377.

E. The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2007 and 2006, 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 2007 and 2006 member contribution rates were 9.5 % and 9.0% 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% for both fiscal years. Public safety division members contributed at 9.75% and 9.0% for 2007 and 2006, respectively..

The 2007 and 2006 employer contribution rates for state employers were 13.77% and 13.54% of covered payroll. For local government employer units, the rates were 13.85% and 13.70% of covered payroll for 2007 and 2006. For both the law enforcement and public safety divisions, the employer contribution rates for 2007 and 2006 were 17.17% and 16.93%.

SWLCWSD's contributions to OPERS for the years ended December 31, 2007, 2006, and 2005, were $130,505. $131,429, and $130,017, respectively.

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 provides retirement, disability, and survivor benefits as well as post-retirement 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 post-employment 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 Post-employment 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 13.85% and 13.70% of covered payroll for fiscal years 2007 and 2006, respectively; 5.0% was used to fund health care for the period January 1 to June 30, 2007, 6.0% was used to fund health care for the period July 1, 2007 to December 31, 2007, and 4.5% was used to fund health care for the year 2006.

B. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement 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, 2006.

Funding Method – An individual entry age 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 deprecation on investment assets annually, not to exceed a 12% corridor.

Investment Return – The investment assumption rate for 2006 (the latest year available) was 6.50%.

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 .50% to 5% 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 374,979 for 2006 and 369,214 for 2006. The number of active contributing participants for both plans used in the December 31, 2006, actuarial valuation was 362,130.

NOTE J - POSTEMPLOYMENT BENEFITS (Continued)

2. The employer contributions that were used to fund post-employment benefits were $51,823 for 2007, $48,274 for 2006.

3. $12.0 billion represents the actuarial value of OPERS' net assets available for OPEBs at December 31, 2006.

4. The Actuarial Valuation as of December 31, 2006 reported the actuarially accrued liability and the unfunded actuarial accrued liability for OPEB, based on the actuarial cost method used, at $30.7 billion and $18.7 billion, respectively.

E. OPERS Retirement Board Implements its Health Care Preservation Plan:

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

NOTE K - RISK MANAGEMENT

The SWLCWSD is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal years 2007 and 2006 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 L - RELATED PARTY TRANSACTIONS

No related party transactions existed at December 31, 2007 and 2006.

NOTE M - CONTINGENT LIABILITIES

During the fiscal years ended December 31, 2007 and 2006, SWLCWSD was not involved in any legal actions.

NOTE N - DEBT SERVICE FEE

The District has a debt service fee which was $12.95 per month per sewer customer during fiscal years 2007 and 2006. 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 2007 and 2006 the District collected $917,927 and $930,862 in debt service fees and expended more than $3 million both years in principal and interest payments on sewer related debt.

NOTE O - INSPECTION INCOME

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

NOTE P - MISCELLANEOUS INCOME

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

NOTE Q - INTEREST EXPENSE

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

	2007	2006
OWDA- Water	$ 1,252,891	$ 1,341,895
OWDA- Sewer	2,565,132	2,613,666
Park National Bank	17,216	32,051
Total interest expense	$ 3,835,239	$ 3,987,612

383 North Front Street
Columbus, Ohio 43215

Kennedy Cottrell Richards

Phone: 614.358.4682
Fax: 614.888.8634
www.kcr-cpa.com

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 accompanying financial statements of the Southwest Licking Community Water & Sewer District, Licking County, Ohio (the "District") as of and for the years ended December 31, 2007 and December 31, 2006 and have issued our report thereon dated April 28, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing standards.*

We noted certain other matters that we reported to management of the District in a separate letter dated April 28, 2008.

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

Kennedy Cottrell Richards LLC

Kennedy Cottrell Richards LLC
April 28, 2008

SOUTHWEST LICKING COMMUNITY WATER AND SEWER DISTRICT

LICKING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JULY 1, 2008

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us