

**JEFFERSON COUNTY PUBLIC SERVICE DISTRICT**

FINANCIAL STATEMENTS

For the years ended June 30, 2007 and 2006

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## **INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION**

The Members of the Public Service Board  
Jefferson County Public Service District

We have audited the accompanying financial statements of the business-type activities of the Jefferson County Public Service District ("District"), as of and for the years ended June 30, 2007 and 2006, which collectively comprise the District's 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 audits.

We conducted our audits 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 audits 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 audits provide 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 business-type activities of the Jefferson County Public Service District as of June 30, 2007 and 2006, and the respective changes in financial position and cash flows for the years 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 December 3, 2007 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 on pages 5 through 9 and the budgetary comparison schedules on pages 41 through 44 are not a required part of the basic financial statements, but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods and measurement and presentation of required supplemental information. However we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Jefferson County Public Service District's basic financial statements. The supplemental information presented on pages 45 and 46 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*CoxHollida LLP*

December 3, 2007

Jefferson County Public Service District  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the fiscal year ended June 30, 2007

The management of Jefferson County Public Service District provides the following information as an introduction, overview and analysis of the District's financial statements for the year ended June 30, 2007. Readers should also review the basic financial statements that begin on page 10 to further enhance their understanding of the District's financial performance.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. This annual report consists of three parts: Management's Discussion and Analysis, Financial Statements and Required Supplementary Information. The Financial Statements also include notes that explain in more detail some of the information in the financial statements.

**Financial statements**

The Financial Statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities.

The Balance Sheet includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for computing the rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges.

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing, and capital and non capital financing activities and provides answers to such questions as "from where did cash come?", "for what was cash used?", and "what was the change in cash balance during the reporting period?"

The notes to the basic financial statements provide additional and explanatory data. They are an integral part of the basic financial statements.

Jefferson County Public Service District  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the fiscal year ended June 30, 2007

**Financial Analysis of the District as a Whole**

One of the most important questions asked about the District's finances is "Is the District, as a whole, better off or worse off as a result of the year's activities?" The Balance Sheet, the Statement of Revenue, Expenses and Changes in Net Assets and the Statement of Cash Flows report information about the District's activities in a way that will help answer this question. These statements report the net assets of the District and changes in them. You can think of the District's net assets- the difference between assets and liabilities- as one way to measure financial health or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, population growth, political leaders, and new or changed legislation.

The net assets may serve over time as a useful indicator of an entities financial position. In the case of the District, at various times, the District receives infrastructure improvements from a developer and in return takes over these assets and maintains them. The District either puts in or has a developer put in the infrastructure, and pays for it through a developer contribution, current operations or by an issuance of a bond. These assets are reflected as an asset on the District's books and are depreciated over the estimated life of the assets.

Below are highlights of the financial statements:

|                                 | <u>2007</u>         | <u>2006</u>         |
|---------------------------------|---------------------|---------------------|
| Unrestricted cash               | \$ 653,230          | \$ 575,038          |
| Restricted cash                 | 766,060             | 784,744             |
| Other assets                    | 2,055,636           | 2,146,156           |
| Capital assets                  | <u>11,534,233</u>   | <u>11,465,537</u>   |
| Total assets                    | <u>15,009,159</u>   | <u>14,971,475</u>   |
| Current and other liabilities   | 704,611             | 916,972             |
| Long-term liabilities           | <u>5,464,831</u>    | <u>5,652,239</u>    |
| Total liabilities               | <u>6,169,442</u>    | <u>6,569,211</u>    |
| Net assets:                     | <u>\$ 8,839,717</u> | <u>\$ 8,402,264</u> |
| Invested in assets, net of debt | \$ 7,638,531        | \$ 7,382,441        |
| Restricted net assets           | 646,041             | 688,749             |
| Unrestricted net assets         | <u>555,145</u>      | <u>331,074</u>      |
| Total net assets                | <u>\$ 8,839,717</u> | <u>\$ 8,402,264</u> |

Jefferson County Public Service District  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the fiscal year ended June 30, 2007

|   | <u>2007</u>       | <u>2006</u>        |
|---|-------------------|--------------------|
| Revenues                                |                   |                    |
| Sales to customers                      | \$ 1,827,831      | \$ 1,711,721       |
| Other                                   | <u>226,031</u>    | <u>440,965</u>     |
| Total revenue                           | <u>2,053,862</u>  | <u>2,152,686</u>   |
| Expenses                                |                   |                    |
| Operating                               | 1,409,744         | 1,248,816          |
| Dropped projects                        | 1,670             | 20,474             |
| Loss on equipment abandonment/transfer  | -                 | 90,724             |
| Depreciation & Amortization             | 360,904           | 364,031            |
| Interest expense                        | <u>120,341</u>    | <u>153,343</u>     |
| Total expenses                          | <u>1,892,659</u>  | <u>1,877,388</u>   |
| Net income before capital contributions | 161,203           | 275,298            |
| Capital contributions                   | <u>276,250</u>    | <u>1,899,939</u>   |
| Change in net assets                    | <u>\$ 437,453</u> | <u>\$2,175,237</u> |

Over 95% of the revenues and assets are from the Sewer department. Also, the Public Service Commission of West Virginia has requested that the District remove itself from water distribution and the District has, in principle, determined to dispose of the water department, therefore a discussion of the water system is not particularly meaningful. The financial statements provide adequate explanations of the water department transactions. The observations below highlight the wastewater treatment activities for the year.

The District has become a bulk rate customer for waste being treated at the Charles Town treatment plant under a PSC final order. The PSD's customers' rates have increased as a result of this change. Charles Town has upgraded their plant increasing the amount of available capacity for waste to be treated. The Charles Town assets purchased by the District have been moved from Utility plant in service to Other Assets. The bulk rate paid to Charles Town increased the operating expenses of the District. This increase was offset by the rate increase (recorded under Sales to Customers) and credits to Charles Town (recorded under Other Revenue).

The results of the current year are comparable with the prior year. Both reflect the increase in rates and the credits to Charles Town. The sales to customers increased over the prior year of approximately 7%.

Jefferson County Public Service District  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the fiscal year ended June 30, 2007

In the prior year the District finalized the settlement agreement transferring customers of the Huntfield subdivision to the City of Charles Town. The City agreed to reimburse the District for its costs and foregone revenue for a one time cash payment of \$150,000. The costs occurred in both the current and prior years; however the cash payment was reflected under other revenue in prior year.

During the current year pumping maintenance increased by \$45,000, the majority of this increase was due to a failure of a pump station which required pumping of the wet well over many days by an outside contractor's vacuum truck, to prevent damage to a customer's house until repaired.

Treatment and disposal rent expenses increased during the year mainly due to increase in gallons treated and an additional \$6.10 fee per month for every new customer that goes to the Charles Town wastewater treatment plant. See the SEWER SERVICE AGREEMENT notes to the financial statements.

The District is operating under an interstate environmental compact that commits West Virginia to play a role restoring water quality in the Chesapeake Bay, and in an unprecedented period of growth of service demand from new residential and commercial development. The new operating environment has required that the District find and implement unconventional solutions for emerging issues. The District has requested a Capital Assurance Fee (To assure capacity) and a Capital Improvement Fee (To pay for capacity just before construction) from the PSC, but has not received a decision to date.

The District has increased the number of customers by about 9%. A number of new District customers are businesses that represent one customer but a larger revenue source.

### **Budgetary Highlights**

Over the course of the year, the District approved one amendment mid year increasing expenses by \$47,400. Several accounts were over budget, and those expenditures were approved by the board. Overall, the operating expenses were within approximately 2% of the budget.

### **Capital Assets and debt Administration**

As noted in the financial analysis, the developers have made infrastructure improvements in recent years that have been turned over to the District. In the past, the District has had infrastructure constructed by developers and the District is obligated to reimburse the developers for their costs consistent with negotiated facility extension agreements approved by the PSC. The District has used its funds to partially reimburse one developer, but must refinance some of its existing debt to payoff the developer



Jefferson County Public Service District  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the fiscal year ended June 30, 2007

improvements and the loan from WVHDF that was used to pay off other development debt related to these Alternate Mainline Agreements.

At the end of the current fiscal year, the District had outstanding debt of \$5,939,360. The District's debt has decreased by \$196,289 during the current year, which was the result of principal payments.

Many debt obligations require debt coverage (revenues over operating expenses) to be more than 115% of the debt obligation. For the current fiscal year debt coverage was 206%.

### **Economic Factors**

The increase in residences and businesses in Jefferson County has resulted in the increase in demand on the Charles Town wastewater facility which is used by the customers of the District. The District is a bulk customer of Charles Town. The District has submitted and has received preliminary approval through the West Virginia Infrastructure and Jobs Development Council a bond for the construction of a Flowing Springs wastewater treatment plant which will remove some of the burden on the Charles Town Wastewater Treatment Plant.

Jefferson County watersheds all drain directly into either the Potomac or the Shenandoah rivers and are part of the headwaters of the Chesapeake Bay. Emerging requirements for protecting and recovering water quality in the Bay will require all sources of nutrients to reduce contributions of nitrogen and phosphorus by 30-40% and to maintain a cap load allocation for the future. These environmental clean up obligations will increase capital and operational costs to utilities and ultimately to rate payers. The District is already planning for compliance with Chesapeake Bay standards and all new facilities currently planned will meet or exceed projected water quality requirements.

Jefferson County Public Service District

**BALANCE SHEETS**

June 30, 2007 and 2006

**ASSETS**

|   | <u>Water<br/>Department</u> | <u>Sewer<br/>Department</u> | <b><u>2007<br/>Total</u></b> | 2006<br>Memorandum<br>Only<br><u>Total</u> |
|---|-----------------------------|-----------------------------|------------------------------|--|
| <b>CURRENT ASSETS</b>   |                             |                             |                              |  |
| Cash  | \$ 154,582                  | \$ 498,648                  | \$ <b>653,230</b>            | \$ 575,038                                 |
| Accounts receivable, net of allowance<br>for doubtful accounts of \$10,000 and<br>\$10,000 respectively               | 1,126                       | 81,701                      | <b>82,827</b>                | 88,140                                     |
| Accounts receivable - other   | -                           | 15,125                      | <b>15,125</b>                | 112,656                                    |
| Accrued utility revenue   | 4,555                       | 158,642                     | <b>163,197</b>               | 154,577                                    |
| Prepaid expenses and deposits   | <u>-</u>                    | <u>3,465</u>                | <b><u>3,465</u></b>          | <u>4,187</u>                               |
| Total current assets  | <u>160,263</u>              | <u>757,581</u>              | <b><u>917,844</u></b>        | <u>934,598</u>                             |
| <b>RESTRICTED CASH</b>  | <u>3,631</u>                | <u>762,429</u>              | <b><u>766,060</u></b>        | <u>784,744</u>                             |
| <b>CAPITAL ASSETS</b>   |                             |                             |                              |  |
| Land and land rights  | 2,066                       | 917,885                     | <b>919,951</b>               | 919,951                                    |
| Construction work in progress   | -                           | 98,390                      | <b>98,390</b>                | 74,404                                     |
| Utility plant in service  | 126,194                     | 13,985,837                  | <b>14,112,031</b>            | 13,773,505                                 |
| Less accumulated depreciation   | <u>(41,648)</u>             | <u>(3,554,491)</u>          | <b><u>(3,596,139)</u></b>    | <u>(3,302,323)</u>                         |
| Net capital assets  | <u>86,612</u>               | <u>11,447,621</u>           | <b><u>11,534,233</u></b>     | <u>11,465,537</u>                          |
| <b>OTHER ASSETS</b>   |                             |                             |                              |  |
| Unamortized debt issue expense, net of<br>accumulated amortization of \$135,597<br>and \$122,809, respectively        | -                           | 256,257                     | <b>256,257</b>               | 245,045                                    |
| Future utility plant preliminary survey and<br>design charges   | 157,482                     | 348,398                     | <b>505,880</b>               | 468,474                                    |
| Due from other funds  | -                           | 12,482                      | <b>12,482</b>                | 12,482                                     |
| Other assets - treatment plant upgrades, net of<br>accumulated amortization of \$88,383<br>and \$44,191, respectively | <u>-</u>                    | <u>1,016,403</u>            | <b><u>1,016,403</u></b>      | <u>1,060,595</u>                           |
| Total other assets  | <u>157,482</u>              | <u>1,633,540</u>            | <b><u>1,791,022</u></b>      | <u>1,786,596</u>                           |
| Total assets  | \$ <u>407,988</u>           | \$ <u>14,601,171</u>        | \$ <b><u>15,009,159</u></b>  | \$ <u>14,971,475</u>                       |

The accompanying notes are an integral part of this statement.

Jefferson County Public Service District

**BALANCE SHEETS (Continued)**

June 30, 2007 and 2006

**LIABILITIES**

|   | <u>Water<br/>Department</u> | <u>Sewer<br/>Department</u> | <b><u>2007<br/>Total</u></b> | 2006<br>Memorandum<br>Only<br><u>Total</u> |
|---|-----------------------------|-----------------------------|------------------------------|--|
| <b>CURRENT LIABILITIES (payable from current assets)</b>  |                             |                             |                              |  |
| Accounts payable  | \$ 437                      | \$ 83,533                   | \$ <b>83,970</b>             | \$ 122,792                                 |
| Accounts payable - developer  | -                           | 256,828                     | <b>256,828</b>               | 366,704                                    |
| Accounts payable - other entities   | -                           | -                           | -                            | 92,046                                     |
| Accrued taxes and expenses  | <u>-</u>                    | <u>21,901</u>               | <b><u>21,901</u></b>         | <u>21,982</u>                              |
| Total current liabilities (payable from current assets)   | <u>437</u>                  | <u>362,262</u>              | <b><u>362,699</u></b>        | <u>603,524</u>                             |
| <b>CURRENT LIABILITIES (payable from restricted cash)</b>   |                             |                             |                              |  |
| Revenue bonds payable (due within one year)   | -                           | 195,529                     | <b>195,529</b>               | 190,529                                    |
| Accrued interest payable  |                             | 26,364                      | <b>26,364</b>                | 26,924                                     |
| Customer deposits   | 2,696                       | 115,069                     | <b>117,765</b>               | 93,741                                     |
| Capital improvement fees  | <u>-</u>                    | <u>2,254</u>                | <b><u>2,254</u></b>          | <u>2,254</u>                               |
| Total current liabilities (payable from restricted cash)  | <u>2,696</u>                | <u>339,216</u>              | <b><u>341,912</u></b>        | <u>313,448</u>                             |
| <b>LONG-TERM LIABILITIES</b>  |                             |                             |                              |  |
| Due to other funds  | 12,482                      | -                           | <b>12,482</b>                | 12,482                                     |
| Revenue bonds payable   | -                           | 4,666,766                   | <b>4,666,766</b>             | 4,862,295                                  |
| Notes payable   | 145,000                     | 932,065                     | <b>1,077,065</b>             | 1,082,825                                  |
| Deferred loss on bond refinancing, net of accumulated amortization of \$124,922 and \$111,041, respectively | <u>-</u>                    | <u>(291,482)</u>            | <b><u>(291,482)</u></b>      | <u>(305,363)</u>                           |
| Total long-term liabilities   | <u>157,482</u>              | <u>5,307,349</u>            | <b><u>5,464,831</u></b>      | <u>5,652,239</u>                           |
| Total liabilities   | <u>160,615</u>              | <u>6,008,827</u>            | <b><u>6,169,442</u></b>      | <u>6,569,211</u>                           |
| <b>NET ASSETS</b>   |                             |                             |                              |  |
| <b>NET ASSETS</b>   |                             |                             |                              |  |
| Invested in capital assets, net of related debt   | 99,094                      | 7,539,437                   | <b>7,638,531</b>             | 7,382,441                                  |
| Restricted for debt and construction  | 935                         | 645,106                     | <b>646,041</b>               | 688,749                                    |
| Unrestricted  | <u>147,344</u>              | <u>407,801</u>              | <b><u>555,145</u></b>        | <u>331,074</u>                             |
| Total net assets  | <u>247,373</u>              | <u>8,592,344</u>            | <b><u>8,839,717</u></b>      | <u>8,402,264</u>                           |
| Total liabilities and net assets  | \$ <u>407,988</u>           | \$ <u>14,601,171</u>        | \$ <b><u>15,009,159</u></b>  | \$ <u>14,971,475</u>                       |

The accompanying notes are an integral part of this statement.

Jefferson County Public Service District

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

For the years ended June 30, 2007 and 2006

|   | <u>Water<br/>Department</u> | <u>Sewer<br/>Department</u> | <b>2007<br/>Total</b> | 2006<br>Memorandum<br>Only<br>Total |
|---|-----------------------------|-----------------------------|-----------------------|-------------------------------------|
| <b>OPERATING REVENUES</b>   |                             |                             |                       |                                     |
| Sales to general customers  | \$ 51,008                   | \$ 1,776,823                | \$ 1,827,831          | \$ 1,711,721                        |
| Customers' forfeited discounts<br>and penalties                                   | 1,028                       | 50,567                      | 51,595                | 49,318                              |
| Income from bad debts recovered   | 151                         | 92                          | 243                   | -                                   |
| Miscellaneous revenues  | <u>80</u>                   | <u>76,434</u>               | <u>76,514</u>         | <u>230,965</u>                      |
| Total operating revenues  | <u>52,267</u>               | <u>1,903,916</u>            | <u>1,956,183</u>      | <u>1,992,004</u>                    |
| <b>OPERATING REVENUE DEDUCTIONS<br/>BEFORE DEPRECIATION</b>                       |                             |                             |                       |                                     |
| Operating expenses  | <u>32,507</u>               | <u>1,377,237</u>            | <u>1,409,744</u>      | <u>1,248,816</u>                    |
| Operating income before depreciation  | 19,760                      | 526,679                     | 546,439               | 743,188                             |
| <b>DEPRECIATION</b>   | <u>4,181</u>                | <u>299,744</u>              | <u>303,925</u>        | <u>307,052</u>                      |
| Operating income  | <u>15,579</u>               | <u>226,935</u>              | <u>242,514</u>        | <u>436,136</u>                      |
| <b>NON-OPERATING INCOME (EXPENSE)</b>   |                             |                             |                       |                                     |
| Interest income   | 5,211                       | 52,303                      | 57,514                | 47,928                              |
| Gain (loss) on disposal of assets   | -                           | (1,247)                     | (1,247)               | (2,617)                             |
| Developer guaranteed minimum payment  | -                           | -                           | -                     | 40,832                              |
| Interest expense  | (6)                         | (120,335)                   | (120,341)             | (153,343)                           |
| Amortization of debt issue expense and other<br>assets - treatment plant upgrades | -                           | (56,979)                    | (56,979)              | (56,979)                            |
| Loss due to dropped projects  | -                           | (1,670)                     | (1,670)               | (20,474)                            |
| Loss on transfer of facilities  | -                           | -                           | -                     | (90,724)                            |
| Elimination of potential liabilities  | -                           | -                           | -                     | 33,127                              |
| Miscellaneous non-operating revenues  | <u>-</u>                    | <u>41,412</u>               | <u>41,412</u>         | <u>41,412</u>                       |
| Total non-operating income (expense)  | <u>5,205</u>                | <u>(86,516)</u>             | <u>(81,311)</u>       | <u>(160,838)</u>                    |
| Increase (decrease) in net assets<br>before capital contributions                 | <u>20,784</u>               | <u>140,419</u>              | <u>161,203</u>        | <u>275,298</u>                      |
| <b>CAPITAL CONTRIBUTIONS</b>  | <u>-</u>                    | <u>276,250</u>              | <u>276,250</u>        | <u>1,899,939</u>                    |
| Increase (decrease) in net assets   | 20,784                      | 416,669                     | 437,453               | 2,175,237                           |
| Net assets at beginning of year   | <u>226,589</u>              | <u>8,175,675</u>            | <u>8,402,264</u>      | <u>6,227,027</u>                    |
| Net assets at end of year   | \$ <u>247,373</u>           | \$ <u>8,592,344</u>         | \$ <u>8,839,717</u>   | \$ <u>8,402,264</u>                 |

The accompanying notes are an integral part of this statement.

Jefferson County Public Service District

**STATEMENTS OF CASH FLOWS**

For the years ended June 30, 2007 and 2006

|   | <u>Water<br/>Department</u> | <u>Sewer<br/>Department</u> | <b>2007<br/>Total</b> | 2006<br>Memorandum<br>Only<br>Total |
|---|-----------------------------|-----------------------------|-----------------------|-------------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                             |                             |                       |                                     |
| Cash received from customers  | \$ 53,152                   | \$ 1,997,254                | \$ 2,050,406          | \$ 1,927,938                        |
| Cash payments for goods and services  | (32,374)                    | (1,203,787)                 | (1,236,161)           | (799,011)                           |
| Cash payments for employee services   | <u>-</u>                    | <u>(413,682)</u>            | <u>(413,682)</u>      | <u>(373,268)</u>                    |
| Net cash flows provided by operating activities                                       | <u>20,778</u>               | <u>379,785</u>              | <u>400,563</u>        | <u>755,659</u>                      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                             |                             |                       |                                     |
| Interest received   | <u>5,211</u>                | <u>52,303</u>               | <u>57,514</u>         | <u>47,929</u>                       |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>                       |                             |                             |                       |                                     |
| Expenditures for utility plant and other assets                                       | (4,569)                     | (70,314)                    | (74,883)              | (187,384)                           |
| Proceeds from sale of utility plant   | -                           | -                           | -                     | 67,694                              |
| Increase in customer deposits   | 488                         | 23,536                      | 24,024                | 17,943                              |
| Capital improvement fees collected  | -                           | 109,329                     | 109,329               | 450,160                             |
| Capital improvement fees transferred to joint account                                 | -                           | (109,329)                   | (109,329)             | (525,746)                           |
| Principal payment on debt - bond  | -                           | (190,529)                   | (190,529)             | (190,529)                           |
| Principal payment on debt - notes   | -                           | (5,760)                     | (5,760)               | (5,760)                             |
| Credits on treatment upgrade bonds  | -                           | 41,412                      | 41,412                | 41,412                              |
| Proceeds from developer for bonds payable   | -                           | -                           | -                     | 40,832                              |
| Proceeds from capital contributions   | -                           | 1,249                       | 1,249                 | 1,500                               |
| Interest paid on bonds and notes  | (6)                         | (107,014)                   | (107,020)             | (146,090)                           |
| Transfer funds to escrow  | -                           | -                           | -                     | (175,099)                           |
| Construction work in progress capital expenditures                                    | -                           | (13,890)                    | (13,890)              | (50,701)                            |
| Increase in preliminary surveys   | -                           | (49,172)                    | (49,172)              | (25,644)                            |
| Payment of anticipated bond issuance costs  | <u>-</u>                    | <u>(24,000)</u>             | <u>(24,000)</u>       | <u>(5,000)</u>                      |
| Net cash (used in) capital and related financing activities                           | <u>(4,087)</u>              | <u>(394,482)</u>            | <u>(398,569)</u>      | <u>(692,412)</u>                    |
| Net increase in cash  | <u>21,902</u>               | <u>37,606</u>               | <u>59,508</u>         | <u>111,176</u>                      |
| <b>CASH AND CASH EQUIVALENTS BEGINNING OF YEAR</b>                                    | <u>136,311</u>              | <u>1,223,471</u>            | <u>1,359,782</u>      | <u>1,248,606</u>                    |
| <b>CASH AND CASH EQUIVALENTS END OF YEAR</b>  | <u>\$ 158,213</u>           | <u>\$ 1,261,077</u>         | <u>\$ 1,419,290</u>   | <u>\$ 1,359,782</u>                 |
| <b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b> |                             |                             |                       |                                     |
| Operating income  | \$ 15,579                   | \$ 226,935                  | \$ 242,514            | \$ 436,136                          |
| Depreciation  | 4,181                       | 299,744                     | 303,925               | 307,052                             |
| Adjustments for changes in operating assets and liabilities                           |                             |                             |                       |                                     |
| Increase in operating assets  | 885                         | 94,060                      | 94,945                | (62,951)                            |
| Increase (decrease) in operating liabilities  | <u>133</u>                  | <u>(240,954)</u>            | <u>(240,821)</u>      | <u>75,422</u>                       |
| Net cash provided by operating activities   | <u>\$ 20,778</u>            | <u>\$ 379,785</u>           | <u>\$ 400,563</u>     | <u>\$ 755,659</u>                   |

The accompanying notes are an integral part of this statement.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

### GENERAL

Jefferson County Public Service District ("District") is a public corporation created by the Jefferson County Commission on December 1, 1983, for the purpose of operating a public utility by providing water and sewer services to customers in its franchise area in Jefferson County. The District is governed by a board of directors who are appointed by the Jefferson County Commission.

The territory embraced by the District consists of all land within the boundaries of Jefferson County, excluding sewage authorities within incorporated municipalities and any other public service districts properly authorized and existing within the county.

#### Reporting Entity

For financial reporting purposes, the District is considered an independent reporting entity. The basic criteria for defining the District as an independent reporting entity is the District's financial independence, accountability for fiscal matters, significant influence on operations and ability to designate management.

For purposes of regulation by the West Virginia Public Service Commission and as required by its revenue bond issues, water and sewer departments are maintained as separate entities with separate books of account.

The District purchased two private water systems, Glen Haven Utilities, Inc. and Cavaland South Water Service in 1994 for \$5,010. The assets were recorded by Jefferson County Public Service District at net book value since fair market value was not available. Financial data of these water systems are shown in the financial statements under the columnar heading of water department.

The District is also showing the potential Blue Ridge Water Project under the columnar heading of water department. (See more details in the note payable and deferred cost of system design notes). Account balances related to this project have been previously reflected in the sewer department. Reclassification has been done in fiscal year ended June 30, 2006 to properly reflect in the water department. This reclassification has no effect on the District's prior years combined net assets.

### SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

The financial statements of the District are prepared in accordance with Generally Accepted Accounting Principles (GAAP). As a proprietary fund type, the District applies all Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails.

During the year ended June 30, 2005 the District adopted GASB Statement No. 40, *"Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)"*. The adoption of Statement No. 40 required the District to include a presentation of Deposit and Investment Risk Disclosures. The adoption of Statement No. 40 did not have an impact on the District's financial statements.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2007 and 2006

**SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)**

The District also adopted the provisions of GASB Statement No. 34 *“Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments”* for the fiscal year ended June 30, 2004. Statement 34 established standards for external financial reporting for all state and local governmental entities which includes a management’s discussion and analysis section, a statement of net assets, a statement of activities and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components: invested in capital assets, net of related debt; restricted; and unrestricted.

In June 2001, GASB issued Statement No. 37 *“Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments: Omnibus”* which amends Statement No. 34. The amendments clarify certain provisions that, in retrospect, may not be sufficiently clear for consistent application and modifies other provisions that GASB believes may have unintended consequences in some circumstances.

Also in June 2001, GASB issued Statement No. 38 *“Certain Financial Statement Note Disclosures.”* Statement No. 38 modifies, establishes and rescinds certain financial statement disclosure requirements. Existing disclosures that are modified include interfund balances, debt service requirements, short-term debt activity, lease disclosures and expanded definitions and activity descriptions. Additional note disclosures established include certain interest rate disclosures, major components of receivables and payables and descriptions of interfund transfers. As the effective date for Statements No. 37 and No. 38 coincides with that of Statement 34, the District has elected to adopt their provisions for the June 30, 2004 financial statement presentation.

The adoption of GASB statement No. 34 had no effect on the basic financial statements except for the classification of net assets, the reflection of capital contributions as a change in net assets and the inclusion of a Management’s Discussion and Analysis (MD&A) section providing an analysis of the District’s overall financial position and results of operations. The adoption of Statements 37 and 38 had no effect on the basic financial statements except for expanded disclosures.

**Financial Reporting Entity**

The District complies with GASB Statement No. 14, *“The Financial Reporting Entity.”* This statement establishes standards for defining and reporting on the financial reporting entity. It defines component units as legally separate organizations for which the officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. Based on the criteria, there are no component units to include in the District’s financial statements.

**Basis of Presentation**

Accounts of the District are organized on the basis of fund accounting under one fund, an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2007 and 2006

**SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)**

**Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus applied.

The proprietary funds utilize an “*economic resources*” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported. Proprietary fund equity is classified as net assets.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, except for the immaterial modification concerning inventories listed in the notes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges to customers for sales and service. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Assets, Liabilities and Net Assets**

The reserve method is used to provide for possible losses in the collection of customer's accounts receivable.

The District bills customers each month for the prior month's usage. Therefore, accrued utility revenue represents one month's revenues earned but not billed at June 30, 2007 and 2006.

Inventory of materials and supplies are not recorded on the balance sheet. Materials and supplies are expensed when purchased.

Restricted cash held in trust under trust indentures is stated at cost.

It is the District's policy to first use restricted assets when available and then use general revenues to finance projects and expenses.

Utility plant purchased is stated at cost at the date of acquisition. Donated assets, principally sewer lines and land, are recorded at an amount which approximates the donor's cost and are recorded as capital contributions. Depreciation is provided on the straight-line method at various rates calculated to allocate the costs of the respective items over their estimated useful lives ranging from 3 to 50 years. Interest paid on loans obtained for construction of plant facilities is capitalized when material. There was no capitalized interest for the years ended June 30, 2007 or 2006. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. When items of property or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in income.



**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2007 and 2006

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Assets, Liabilities and Net Assets (Continued)**

Major classifications of utility plant of the District and their respective useful lives at June 30, 2007 and 2006, are summarized below:

Sewer Department

| <u>Classification</u>          | <u>Useful Lives</u> |
|--------------------------------|---------------------|
| Collection mains and services  | 50 years            |
| Transmission mains             | 50 years            |
| Gravity mains                  | 50 years            |
| Force mains                    | 50 years            |
| Flow meters                    | 50 years            |
| Electric pumping equipment     | 20-50 years         |
| Transportation equipment       | 5 years             |
| Communication equipment        | 5 - 7 years         |
| Furniture and office equipment | 3 - 7 years         |

Water Department

| <u>Classification</u>               | <u>Useful Lives</u> |
|-------------------------------------|---------------------|
| Structures and improvements         | 20-40 years         |
| Supply mains                        | 40 years            |
| Pump equipment                      | 10-40 years         |
| Transmission and distribution lines | 10-40 years         |
| Services and meters                 | 10-40 years         |
| Hydrants                            | 30 years            |

Construction work in progress represents costs for projects that were not completed at year end.

**Compensated Absences**

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Employees may, depending on level and length of service, be paid for various amounts of their total accrued vacation upon termination or retirement. Accrued sick pay is not paid upon termination. The District accrues a liability for unused vacation hours that meets the criteria for payment at the eligible employees' current rates of pay plus retirement benefits and employment taxes. The accrual for compensated absences was \$8,529 and \$5,905 at June 30, 2007 and 2006, respectively.

**Long-term Obligations**

Long-term debt and other long-term obligations are reported as liabilities in the District's balance sheet. Debt issuance expense is reported as "other assets" and amortized over the term of the related bond issues using the straight line method.

Amortization of the deferred loss on bond refinancing is calculated by the straight-line method over the terms of the Series 1998A Revenue Bond and is reflected as an increase to interest expense.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2007 and 2006

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Assets, Liabilities and Net Assets (Continued)**

**Equity Classifications**

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt-Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted net assets-Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

**Statement of Cash Flows**

For purposes of the statement of cash flows, the District considers all highly liquid investments, including restricted assets, with a maturity of three months or less when purchased to be cash equivalents.

**Budget**

In accordance with West Virginia Code, Management shall prepare and submit to the Board a tentative budget. Such tentative budget shall be considered by the Board and, subject to any revisions or amendments that may be determined by the Board, shall be adopted as the budget for the ensuing fiscal year. No expenditures for operation and maintenance expenses in excess of the budget shall be made during such fiscal year unless unanimously authorized and directed by the Board.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2007 and 2006

**CASH AND TEMPORARY INVESTMENTS**

Cash and temporary investments consisted of the following accounts and amounts at June 30, 2007 and 2006:

|                            | <u>Water</u>      | <u>Sewer</u>      | <b><u>2007</u></b><br><b><u>Total</u></b> | 2006<br>Memorandum<br><u>Only Total</u> |
|----------------------------|-------------------|-------------------|---|---|
| Revenue                    | \$ -              | \$ 430,897        | \$ <b>430,897</b>                         | \$ 397,087                              |
| Petty cash                 | -                 | 700               | <b>700</b>                                | 700                                     |
| Operations and maintenance | 154,582           | -                 | <b>154,582</b>                            | 133,174                                 |
| Reserve                    | -                 | -                 | -   | 4,135                                   |
| Future needs               | <u>-</u>          | <u>67,051</u>     | <b><u>67,051</u></b>                      | <u>39,942</u>                           |
| Total                      | \$ <u>154,582</u> | \$ <u>498,648</u> | \$ <b><u>653,230</u></b>                  | \$ <u>575,038</u>                       |

The revenue fund is a restricted account in accordance with provisions of the revenue bond resolutions; however, these funds are generally available for the operations of the District.

**RESTRICTED CASH AND RESERVES**

Restricted cash and reserves consisted of the following accounts and amounts at June 30, 2007 and 2006:

|                         | <u>Water</u>    | <u>Sewer</u>      | <b><u>2007</u></b><br><b><u>Total</u></b> | 2006<br>Memorandum<br><u>Only Total</u> |
|-------------------------|-----------------|-------------------|---|---|
| Debt service revenue    | \$ -            | \$ 146,267        | \$ <b>146,267</b>                         | \$ 209,140                              |
| Debt service reserve    | -               | 338,900           | <b>338,900</b>                            | 327,133                                 |
| Renewal and Replacement | -               | 144,382           | <b>144,382</b>                            | 138,996                                 |
| Capital Improvement Fee | -               | 10,762            | <b>10,762</b>                             | 10,394                                  |
| Customer Deposits       | <u>3,631</u>    | <u>122,118</u>    | <b><u>125,749</u></b>                     | <u>99,081</u>                           |
| Total                   | \$ <u>3,631</u> | \$ <u>762,429</u> | \$ <b><u>766,060</u></b>                  | \$ <u>784,744</u>                       |

The debt service revenue and related reserve includes funds on deposit with the West Virginia Municipal Bond Commission as trustee under the various revenue bond indentures and proceeds from bond issues. The Trust indentures require the trustee to establish various special purpose trust fund accounts, make periodic transfers to and between funds, maintain them at a specified level and/or disburse funds from them in accordance with the specific terms of the indentures.

The renewal and replacement funds are under the control and custody of the District as trustee in accordance with provisions of the revenue bond indentures. The renewal and replacement fund represents funds on deposit for the purpose of making repairs and replacements.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2007 and 2006

**RESTRICTED CASH AND RESERVES (Continued)**

The capital improvement fee funds, by order of the Public Service Commission of West Virginia dated March 28, 2005, are to be used only for the purpose of improving the Charles Town treatment facilities and are to be held in a joint account by the District, the City of Ranson, and the City of Charles Town. All three governments are to share in the responsibility of establishing the account and collecting the appropriate fees. As of June 30, 2006, a joint account had been established and the District was depositing capital improvement fees collected into the joint account within the required period of (30) Thirty days from collection without interest. The balance in the District's cash account at June 30, 2007 and 2006, respectively is the interest earned on the account and the fees collected but not yet transferred to the joint account.

The District also has a liability on the books for capital improvement fees collected but not yet transferred to the joint account. The balance left as of June 30, 2007 and 2006 respectively were transferred after June 30, 2007 and 2006 respectively. This amount is reflected in the balance sheet as a current liability payable from restricted cash.

The customer deposits fund represents funds on deposit with a financial institution as required by the Public Service Commission of West Virginia. These funds are returned to customers upon twelve consecutive timely service payments or upon termination of service.

**DEPOSITS AND INVESTMENTS**

At June 30, 2007, the District's cash and investment balances were as follows:

| <u>Investment Type</u>     | <u>Maturities</u>  | <u>Fair Value</u>   |
|----------------------------|--------------------|---------------------|
| Repurchase Agreements      | Various            | \$ 864,859          |
| State Investment Pool      | Average of 90 days | <u>485,167</u>      |
| Total investments          |                    | 1,350,026           |
| Cash                       |                    | <u>69,264</u>       |
| Total Cash and Investments |                    | \$ <u>1,419,290</u> |

**Interest Rate Risk**

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value changes arising from changing interest rates.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2007 and 2006

**DEPOSITS AND INVESTMENTS (Continued)**

**Credit Risk**

State statutes authorize the government to invest in the State Investment Pool or the Municipal Bond Commission or to invest such funds in the following classes of securities: Obligations of the United States or any agency thereof, certificates of deposit (which mature in less than one year), general and direct obligations of the state of West Virginia, obligations of the federal mortgage association, indebtedness secured by first lien deeds of trust for property situated within this state if the payment is substantially insured or guaranteed by the federal government, pooled mortgage trusts (subject to limitations), indebtedness of any private corporation that is properly graded as in the top two or three highest rating grades, interest earning deposits which are fully insured or collateralized, and mutual funds registered with S.E.C. which have fund assets over three hundred million dollars. The District has no investment policy that would further limit its investment choices.

**Concentration Credit Risk**

The District does not have a formal investment policy that limits its investments in any one issuer.

GAAP requires disclosure when any one issuer is 5% or more of the investment portfolio. The investment in the repurchase agreements, with its underlying securities being Federal Home loan bank (26%) and Fannie Mae mortgage loans (38%), is 64%, and investments in the state investment pool is 36% of the investment portfolio. These types of investments are within state statutes as listed under credit risk, therefore, this is not viewed as an additional risk by the District.

**Custodial Credit Risk-Deposits and Investments (excluding investments at the West Virginia Municipal Bond Commission)**

Custodial credit risk is the risk that in the event of a bank or counter party failure, the District will not be able to recover the value of its deposits, investments or collateral securities that are in possession of an outside party. The District does not have a formal deposit policy for custodial credit risk. As of June 30, 2007, \$762,690 of the District's bank balance of \$931,253 was exposed to custodial credit risk. \$168,564 of the bank balance was covered by Federal Deposit Insurance (FDIC) and \$762,690 was collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

In fiscal years ended June 30, 2007 and 2006, the District has a repurchase agreement with a local financial institution for the investment of excess funds in all of the District's accounts held at that institution. Under the repurchase agreement, all collected balances in the account at the end of each day are automatically withdrawn and used to purchase an investment under the repurchase agreement. The repurchase agreement states that the securities purchased will be U.S. Government or Agency Securities or Mortgage Backed Securities. The securities will not be identified as the District's specific property, nor will they be delivered to the District and during any trading day, the District's securities are commingled with the bank's own securities, and may be subject to liens granted by the bank to third parties. The repurchase agreement also states that the purchased interest in underlying securities is not considered a deposit and therefore not insured by the FDIC, the United States Government or Agency thereof, or any other. The market value of the investments approximates cost at June 30, 2007 and 2006.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2007 and 2006

**CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2006 was as follows:

**Sewer Department**

|  | <u>Balance at<br/>July 1, 2005</u> | <u>Additions</u>    | <u>Retirements</u>  | <u>Balance at<br/>June 30, 2006</u> |
|--|------------------------------------|---------------------|---------------------|-------------------------------------|
| Capital assets not being depreciated:              |                                    |                     |                     |                                     |
| Land and land rights, restated                     | \$ 326,725                         | \$ 591,160          | \$ -                | \$ 917,885                          |
| Construction work in progress                      | 43,945                             | 58,074              | 27,615              | 74,404                              |
| Total capital assets not being depreciated - sewer | <u>370,670</u>                     | <u>649,234</u>      | <u>27,615</u>       | <u>992,289</u>                      |
| Capital assets being depreciated:                  |                                    |                     |                     |                                     |
| Collection mains and services                      | 11,294,787                         | 1,308,386           | 2,398,756           | 10,204,417                          |
| Transmission mains                                 | 240,858                            | -                   | -                   | 240,858                             |
| Gravity mains                                      | 64,865                             | -                   | -                   | 64,865                              |
| Force mains  | 1,066,676                          | 51,750              | -                   | 1,118,426                           |
| Flow meters  | 73,369                             | 13,187              | 73,369              | 13,187                              |
| Electric pumping equipment                         | 1,754,042                          | 53,192              | 17,852              | 1,789,382                           |
| Transportation equipment                           | 106,366                            | -                   | -                   | 106,366                             |
| Communication equipment                            | 4,542                              | -                   | -                   | 4,542                               |
| Furniture and office equipment                     | 107,751                            | 5,455               | 3,368               | 109,838                             |
| Total capital assets being depreciated - sewer     | <u>\$ 14,713,256</u>               | <u>\$ 1,431,970</u> | <u>\$ 2,493,345</u> | <u>\$ 13,651,881</u>                |

**Less Accumulated Depreciation – Sewer Department**

|   | <u>Balance at<br/>July 1, 2005</u> | <u>Additions</u>    | <u>Retirements</u>  | <u>Balance at<br/>June 30, 2006</u> |
|---|------------------------------------|---------------------|---------------------|-------------------------------------|
| Collection mains and services                       | \$ 2,015,743                       | \$ 201,586          | \$ 157,267          | \$ 2,060,062                        |
| Transmission mains                                  | 74,093                             | 4,817               | -                   | 78,910                              |
| Gravity mains                                       | 13,621                             | 1,297               | -                   | 14,918                              |
| Force mains   | 340,776                            | 22,283              | -                   | 363,059                             |
| Flow meters   | 1,589                              | 4,610               | 3,057               | 3,142                               |
| Electric pumping equipment                          | 542,516                            | 38,958              | 1,568               | 579,906                             |
| Transportation equipment                            | 56,113                             | 15,812              | -                   | 71,925                              |
| Communication equipment                             | 1,222                              | 612                 | -                   | 1,834                               |
| Furniture and office equipment                      | 78,595                             | 15,873              | 3,368               | 91,100                              |
| Total accumulated depreciation                      | <u>3,124,268</u>                   | <u>305,848</u>      | <u>165,260</u>      | <u>3,264,856</u>                    |
| Total capital assets being depreciated, net - sewer | <u>11,588,988</u>                  | <u>1,126,122</u>    | <u>2,328,085</u>    | <u>10,387,025</u>                   |
| Net capital assets - sewer                          | <u>\$ 11,959,658</u>               | <u>\$ 1,775,356</u> | <u>\$ 2,355,700</u> | <u>\$ 11,379,314</u>                |

Jefferson County Public Service District

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2007 and 2006

**CAPITAL ASSETS (Continued)**

**Water Department**

|   | <u>Balance at<br/>July 1, 2005</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance at<br/>June 30, 2006</u> |
|---|------------------------------------|------------------|--------------------|-------------------------------------|
| Capital assets not being depreciated:             |                                    |                  |                    |                                     |
| Land and land rights                              | \$ <u>2,066</u>                    | \$ <u>-</u>      | \$ <u>-</u>        | \$ <u>2,066</u>                     |
| Capital assets being depreciated:                 |                                    |                  |                    |                                     |
| Structures and improvements                       | 33,445                             | -                | -                  | 33,445                              |
| Supply mains                                      | 1,240                              | -                | -                  | 1,240                               |
| Wells and springs                                 | 4,856                              | -                | -                  | 4,856                               |
| Pump equipment                                    | 14,968                             | -                | -                  | 14,968                              |
| Transmission and distribution lines               | 54,361                             | 3,956            | -                  | 58,317                              |
| Services and meters                               | 8,676                              | -                | -                  | 8,676                               |
| Hydrants  | <u>122</u>                         | <u>-</u>         | <u>-</u>           | <u>122</u>                          |
| Total capital assets being<br>depreciated - water | \$ <u>117,668</u>                  | \$ <u>3,956</u>  | \$ <u>-</u>        | \$ <u>121,624</u>                   |

**Less Accumulated Depreciation – Water Department**

|  | <u>Balance at<br/>July 1, 2005</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance at<br/>June 30, 2006</u> |
|--|------------------------------------|------------------|--------------------|-------------------------------------|
| Structures and improvements                            | \$ 10,555                          | \$ 1,026         | \$ -               | \$ 11,581                           |
| Supply mains   | 341                                | 31               | -                  | 372                                 |
| Pump equipment   | 4,878                              | 1,188            | -                  | 6,066                               |
| Transmission and distribution lines                    | 13,051                             | 1,650            | -                  | 14,701                              |
| Services and meters                                    | 4,510                              | 184              | -                  | 4,694                               |
| Hydrants   | <u>49</u>                          | <u>4</u>         | <u>-</u>           | <u>53</u>                           |
| Total accumulated depreciation                         | <u>33,384</u>                      | <u>4,083</u>     | <u>-</u>           | <u>37,467</u>                       |
| Total capital assets being<br>depreciated, net - water | <u>84,284</u>                      | <u>(127)</u>     | <u>-</u>           | <u>84,157</u>                       |
| Net capital assets - water                             | \$ <u>86,350</u>                   | \$ <u>(127)</u>  | \$ <u>-</u>        | \$ <u>86,223</u>                    |

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2007 and 2006

**CAPITAL ASSETS (Continued)**

Capital assets activity for the year ended June 30, 2007 was as follows:

**Sewer Department**

|  | <u>Balance at<br/>July 1, 2006</u> | <u>Additions</u>  | <u>Retirements</u> | <u>Balance at<br/>June 30, 2007</u> |
|--|------------------------------------|-------------------|--------------------|-------------------------------------|
| Capital assets not being depreciated:              |                                    |                   |                    |                                     |
| Land and land rights                               | \$ 917,885                         | \$ -              | \$ -               | \$ 917,885                          |
| Construction work in progress                      | <u>74,404</u>                      | <u>23,986</u>     | <u>-</u>           | <u>98,390</u>                       |
| Total capital assets not being depreciated - sewer | <u>992,289</u>                     | <u>23,986</u>     | <u>-</u>           | <u>1,016,275</u>                    |
| Capital assets being depreciated:                  |                                    |                   |                    |                                     |
| Collection mains and services                      | 10,204,417                         | 155,048           | -                  | 10,359,465                          |
| Transmission mains                                 | 240,858                            | -                 | -                  | 240,858                             |
| Gravity mains                                      | 64,865                             | -                 | -                  | 64,865                              |
| Force mains  | 1,118,426                          | -                 | -                  | 1,118,426                           |
| Flow meters  | 13,187                             | -                 | -                  | 13,187                              |
| Electric pumping equipment                         | 1,789,382                          | 184,492           | -                  | 1,973,874                           |
| Transportation equipment                           | 106,366                            | -                 | -                  | 106,366                             |
| Communication equipment                            | 4,542                              | -                 | -                  | 4,542                               |
| Furniture and office equipment                     | <u>109,838</u>                     | <u>5,835</u>      | <u>11,419</u>      | <u>104,254</u>                      |
| Total capital assets being depreciated - sewer     | \$ <u>13,651,881</u>               | \$ <u>345,375</u> | \$ <u>11,419</u>   | \$ <u>13,985,837</u>                |

**Less Accumulated Depreciation – Sewer Department**

|   | <u>Balance at<br/>July 1, 2006</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance at<br/>June 30, 2007</u> |
|---|------------------------------------|------------------|--------------------|-------------------------------------|
| Collection mains and services                       | \$ 2,060,062                       | \$ 209,133       | \$ -               | \$ 2,269,195                        |
| Transmission mains                                  | 78,910                             | 4,817            | -                  | 83,727                              |
| Gravity mains                                       | 14,918                             | 1,297            | -                  | 16,215                              |
| Force mains   | 363,059                            | 22,369           | -                  | 385,428                             |
| Flow meters   | 3,142                              | 264              | -                  | 3,406                               |
| Electric pumping equipment                          | 579,906                            | 42,050           | -                  | 621,956                             |
| Transportation equipment                            | 71,925                             | 14,685           | -                  | 86,610                              |
| Communication equipment                             | 1,834                              | 612              | -                  | 2,446                               |
| Furniture and office equipment                      | <u>91,100</u>                      | <u>4,517</u>     | <u>10,109</u>      | <u>85,508</u>                       |
| Total accumulated depreciation                      | <u>3,264,856</u>                   | <u>299,744</u>   | <u>10,109</u>      | <u>3,554,491</u>                    |
| Total capital assets being depreciated, net - sewer | <u>10,387,025</u>                  | <u>45,631</u>    | <u>1,310</u>       | <u>10,431,346</u>                   |
| Net capital assets - sewer                          | \$ <u>11,379,314</u>               | \$ <u>69,617</u> | \$ <u>1,310</u>    | \$ <u>11,447,621</u>                |



**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2007 and 2006

**CAPITAL ASSETS (Continued)**

**Water Department**

|   | <u>Balance at<br/>July 1, 2006</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance at<br/>June 30, 2007</u> |
|---|------------------------------------|------------------|--------------------|-------------------------------------|
| Capital assets not being depreciated:                   |                                    |                  |                    |                                     |
| Land and land rights                                    | \$ 2,066                           | \$ -             | \$ -               | \$ 2,066                            |
| Capital assets being depreciated:                       |                                    |                  |                    |                                     |
| Structures and improvements                             | 33,445                             | 2,508            | -                  | 35,953                              |
| Supply mains  | 1,240                              | -                | -                  | 1,240                               |
| Wells and springs                                       | 4,856                              | -                | -                  | 4,856                               |
| Pump equipment  | 14,968                             | 2,062            | -                  | 17,030                              |
| Transmission and distribution lines                     | 58,317                             | -                | -                  | 58,317                              |
| Services and meters                                     | 8,676                              | -                | -                  | 8,676                               |
| Hydrants  | 122                                | -                | -                  | 122                                 |
| Total capital assets being<br>depreciated - water       | \$ 121,624                         | \$ 4,570         | \$ -               | \$ 126,194                          |
| <b>Less Accumulated Depreciation – Water Department</b> |                                    |                  |                    |                                     |
|   | <u>Balance at<br/>July 1, 2006</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance at<br/>June 30, 2007</u> |
| Structures and improvements                             | \$ 11,581                          | \$ 1,089         | \$ -               | \$ 12,670                           |
| Supply mains  | 372                                | 31               | -                  | 403                                 |
| Pump equipment  | 6,066                              | 1,124            | -                  | 7,190                               |
| Transmission and distribution lines                     | 14,701                             | 1,749            | -                  | 16,450                              |
| Services and meters                                     | 4,694                              | 184              | -                  | 4,878                               |
| Hydrants  | 53                                 | 4                | -                  | 57                                  |
| Total accumulated depreciation                          | 37,467                             | 4,181            | -                  | 41,648                              |
| Total capital assets being<br>depreciated, net - water  | 84,157                             | 389              | -                  | 84,546                              |
| Net capital assets - water                              | \$ 86,223                          | \$ 389           | \$ -               | \$ 86,612                           |

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2007 and 2006

**CONSTRUCTION WORK IN PROGRESS**

Construction work in progress is made up of the following at June 30, 2007:

|                                       |    |               |
|---------------------------------------|----|---------------|
| Norborne Glebe Project                | \$ | 8,587         |
| Sheridan Project                      |    | 8,403         |
| Thornhill Project                     |    | 2,448         |
| Harvest Hill Project                  |    | 2,591         |
| Wormald/Beallair Project              |    | 15,006        |
| Spruce Hill North Project             |    | 14,740        |
| Jefferson Crossing II                 |    | 1,169         |
| Breckenridge Pump Station             |    | 1,704         |
| Evitts Run Wastewater Treatment Plant |    | 19,094        |
| Old Standard Treatment Plant          |    | <u>24,648</u> |
|                                       | \$ | <u>98,390</u> |

The Walnut Grove Project is an alternate main line extension that will serve the Walnut Grove, Briar Run, Cambridge, and Breckenridge subdivisions. The project will eliminate six pump stations and be replaced by two new pump stations. The Walnut Grove portion of the project was placed in service and transferred to utility plant in the year 2000. The Breckenridge portion of the project and a phase of Cambridge were placed in service and transferred to utility plant in the fiscal year ended June 30, 2005. Certain phases of Briar Run and Cambridge that have been completed have been placed in service and transferred to utility plant. The estimated date of completion for the rest of the project is 2008 with an estimated remaining cost of \$553,868 (unaudited) for the Briar Run and Cambridge phases not yet complete and will not be recorded in the District's books until completion.

The Norborne Glebe Project is an alternate main line extension that will service the Norborne Glebe subdivision. The project will service approximately 602 homes, of which 60 homes are currently on the billing system. This project is being built by the developer and upon completion will be turned over to the District, at which time the estimated total cost of the project will be recorded on the District's books as utility plant and capital contributions. Phase I was turned over to the District in September 2005. This is reflected in capital contributions and utility plant in the year ended June 30, 2006. The estimated date of completion for the remainder of the project is 2009 with an estimated total cost of \$500,000 (unaudited).

The District has an alternate main line extension agreement for the Sheridan development and four separate agreements for the associated Old Standard Wastewater Treatment Plant. The agreements are; real estate purchase agreement, leaseback agreement, o & m agreement and an asset purchase agreement. The real estate purchase agreement and leaseback agreement stages have already taken place and the plant is currently under construction on the site.

The Breckenridge pump station is an upgrade with two new pumps, controls, power supply and back up pump. The estimated cost of the project is \$170,000 (unaudited).

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2007 and 2006

**CONSTRUCTION WORK IN PROGRESS (Continued)**

The Old Standard Wastewater Treatment Plant will serve the customers from the Sheridan development. Customers are now residing at the Sheridan development but since the wastewater plant is not yet on line, a pump and haul is in effect. The developer deeded approximately 2.5 acres to the District for a treatment plant in September 2004. Fiscal year ended June 30, 2005 was retroactively restated to reflect this as a prior period adjustment in capital contributions and utility plant. This treatment plant is being built by the developer and upon completion will be turned over to the District for \$1, at which time the estimated total cost of the plant will be recorded on the District's books as utility plant and capital contributions. The total estimated cost is approximately \$1,500,000 (unaudited), but in the future the total cost is estimated to be approximately \$4,500,000 (unaudited) as customers come on line.

The District has an alternate main line extension agreement for the Thornhill development and four separate agreements for the associated Highland Farms Wastewater Treatment Plant (also known as Evitts Run Wastewater Treatment Plant). The agreements are; real estate purchase agreement, leaseback agreement, o & m agreement and an asset purchase agreement. The real estate purchase agreement and leaseback agreement stages have already taken place and the plant is about to be constructed on the site. The developer deeded approximately 5.7 acres to the District for a treatment plant in May 2006. This is reflected in capital contributions and utility plant in year ended June 30, 2006. This will service the Thornhill subdivision. The project will service approximately 697 homes, of which none are currently on the billing system.

Upon completion of the subdivision, the District will purchase the treatment plant from the developer for \$1, at which time the estimated total cost will be recorded on the District's books as utility plant and capital contributions. The total estimated cost is approximately \$1,500,000 (unaudited), but in the future the total cost is estimated to be approximately \$4,500,000 (unaudited) as customers come on line .

The Harvest Hill Project is an alternate mainline extension that will service the Harvest Hill subdivision. The project will service approximately 416 homes, of which none are currently on the billing system. This project is being built by the developer and upon completion will be turned over to the District, at which time the estimated total cost of the project will be recorded on the District's books as utility plant and capital contributions. The total estimated cost is approximately \$100,000 (unaudited).

The Wormald/Beallair Project is an alternate mainline extension that will service the Wormald/Beallair subdivision. The project will service approximately 400 homes, of which 2 are currently online; however, homes in which a commitment letter has not been executed timely, a flat monthly rate is being billed. This project is being built by the developer and upon completion will be turned over to the District for \$1, at which time the estimated total cost of the project will be recorded on the District's books as utility plant and capital contributions. The estimated cost is currently unavailable.

The Spruce Hill North Project is an alternate mainline extension that will service the Spruce Hill North subdivision. The project will service approximately 130 homes, of which 5 are currently on the billing system. This project is being built by the developer and upon completion will be turned over to the District, at which time the estimated total cost of the project will be recorded on the District's books as utility plant and capital contributions. The total estimated cost is approximately \$100,000 (unaudited).

The Jefferson Crossing project is a business area consisting of two (2) strip malls, one (1) gas station, and one (1) restaurant currently online, with possible expansion occurring in future years. This will be turned over to the District in the future, at which time the estimated total cost of the project will be recorded on the District's books. The estimated cost is currently unavailable.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2007 and 2006

**OTHER ASSETS**

**Future Utility Plant Preliminary Survey and Design Charges**

These charges represent engineering, legal, accounting and other incidental costs incurred for the acquisition and or development of future sewer and water systems.

In June 2004, the District committed to pay one-third of the design fee for an effluent line to the Potomac River. The District's share was approximately \$67,000 and was accrued at June 30, 2004 and included in preliminary surveys. Subsequent to June 30, 2004, management decided not to construct the project; however, the District will be reimbursed for these fees. The District received partial payment during the year ended June 30, 2006. A receivable for the remaining \$32,200 is included in the June 30, 2006 balance sheet under accounts receivable - other.

**Other Assets-Treatment Plant Upgrades**

As of July 1, 2005, the District's asset related to the Charles Town wastewater treatment plant upgrade was reclassified from utility plant in service to other assets on the balance sheet and is being amortized over the remaining life (25 years) of the associated bonds for the Charles Town wastewater treatment plant upgrades (Series 2000). The carrying amount of this asset, net of amortization at June 30, 2007 and 2006 is \$1,016,403 and \$1,060,595, respectively. (See details on reclassification in Sewer Service Agreement note).

**REVENUE BONDS PAYABLE**

The District was obligated under trust indentures with respect to the following sewer revenue bonds outstanding at June 30, 2007 and 2006:

|  | <u>2007</u> | <u>2006</u> |
|--|-------------|-------------|
| Series - 1988 B sewer revenue bonds, original face value of \$425,767, payable in annual installments, with principal beginning in 1990 at \$10,917 at 0% interest and concluding October 10, 2028.  | \$ 240,178  | \$ 251,095  |
| Series - 1993 A sewer revenue bonds, original face value of \$971,000, payable in quarterly installments, with principal beginning March 1, 1994 at \$12,138 at 0% interest and concluding December 1, 2013.                                     | 315,562     | 364,110     |
| Series - 1998 A sewer revenue refinancing bonds, original face value of \$2,430,000, payable in annual installments, with principal and interest beginning October 1, 1998 at 4.15% increasing to 5.25% interest and concluding October 1, 2028. | 2,055,000   | 2,105,000   |

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2007 and 2006

| <b>REVENUE BONDS PAYABLE (Continued)</b>  | <u><b>2007</b></u>         | <u>2006</u>                |
|---|----------------------------|----------------------------|
| Series - 1998 B sewer revenue bonds, original face value of \$599,089, payable in quarterly installments, with principal beginning September 1, 1999 at \$7,489 at 0% interest and concluding June 1, 2019.                       | <b>359,441</b>             | 389,397                    |
| Series - 1998 C sewer revenue bond, Infrastructure fund, original face value of \$662,039, payable in quarterly installments, with principal and interest beginning September 1, 2019 at 1% interest and concluding June 1, 2038. | <b>662,039</b>             | 662,039                    |
| Series - 1999 A sewer revenue bond, original face value of \$378,363, payable in quarterly installments, with principal beginning June 1, 2000 at \$3,154 at 0% interest and concluding March 1, 2030.                            | <b>286,923</b>             | 299,535                    |
| Series - 2000 A sewer revenue bonds, original face value of \$1,154,889, payable in quarterly installments with principal beginning March 1, 2002 at \$9,625 at 0% and concluding December 1, 2031.                               | <u><b>943,152</b></u>      | <u>981,648</u>             |
| Total revenue bonds payable   | <b>\$ <u>4,862,295</u></b> | <b>\$ <u>5,052,824</u></b> |

Maturities of sewer revenue bonds payable and interest payments for each of the next five years and in subsequent five-year increments succeeding June 30, 2007 are as follows:

| <u><b>Year Ending June 30</b></u> | <u><b>Principal</b></u>    | <u><b>Interest</b></u>     |
|-----------------------------------|----------------------------|----------------------------|
| 2008                              | 195,529                    | 105,744                    |
| 2009                              | 195,529                    | 103,269                    |
| 2010                              | 200,529                    | 100,794                    |
| 2011                              | 200,529                    | 97,794                     |
| 2012                              | 205,526                    | 94,794                     |
| 2013-2017                         | 902,707                    | 422,688                    |
| 2018-2022                         | 946,393                    | 334,783                    |
| 2023-2027                         | 1,092,289                  | 202,587                    |
| 2028-2032                         | 700,476                    | 39,151                     |
| 2033-2037                         | 184,723                    | 6,790                      |
| 2038                              | 38,065                     | 238                        |
|                                   | <u><b>\$ 4,862,295</b></u> | <u><b>\$ 1,508,632</b></u> |

The bond issues are secured by a first lien on the revenues derived from the system and a statutory mortgage

All sewer revenue bonds are on parity with each other.

Jefferson County Public Service District

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2007 and 2006

**REVENUE BONDS PAYABLE (Continued)**

Sewer revenue bond activity for the year ended June 30, 2006 was as follows:

|   | <u>Balance at<br/>July 1, 2005</u> | <u>Additions</u> | <u>Deductions</u>       | <u>Balance at<br/>June 30, 2006</u> |
|---|------------------------------------|------------------|-------------------------|-------------------------------------|
| Series 1988 B   | \$ 262,012                         | \$ -             | \$ 10,917               | \$ 251,095                          |
| Series 1993 A   | 412,658                            | -                | 48,548                  | 364,110                             |
| Series 1998 A   | 2,155,000                          | -                | 50,000                  | 2,105,000                           |
| Series 1998 B   | 419,353                            | -                | 29,956                  | 389,397                             |
| Series 1998 C   | 662,039                            | -                | -                       | 662,039                             |
| Series 1999 A   | 312,147                            | -                | 12,612                  | 299,535                             |
| Series 2000 A   | 1,020,144                          | -                | 38,496                  | 981,648                             |
| Series 2003 A   | 1,445,000                          | -                | 1,445,000               | -                                   |
| Series 2003 B   | <u>15,000</u>                      | <u>-</u>         | <u>15,000</u>           | <u>-</u>                            |
| <br>Total sewer revenue<br>bonds payable  | <br>\$ <u>6,703,353</u>            | <br>\$ <u>-</u>  | <br>\$ <u>1,650,529</u> | <br>\$ 5,052,824                    |
| <br>Less: Current portion<br>due in upcoming year                                   |                                    |                  |                         | <br><u>190,529</u>                  |
| <br>Long-term sewer revenue bonds payable at June 30, 2006 (net of current portion) |                                    |                  |                         | <br>\$ <u><u>4,862,295</u></u>      |

Sewer revenue bond activity for the year ended June 30, 2007 was as follows:

|   | <u>Balance at<br/>July 1, 2006</u> | <u>Additions</u> | <u>Deductions</u>     | <u>Balance at<br/>June 30, 2007</u> |
|---|------------------------------------|------------------|-----------------------|-------------------------------------|
| Series 1988 B   | \$ 251,095                         | \$ -             | \$ 10,917             | \$ 240,178                          |
| Series 1993 A   | 364,110                            | -                | 48,548                | 315,562                             |
| Series 1998 A   | 2,105,000                          | -                | 50,000                | 2,055,000                           |
| Series 1998 B   | 389,397                            | -                | 29,956                | 359,441                             |
| Series 1998 C   | 662,039                            | -                | -                     | 662,039                             |
| Series 1999 A   | 299,535                            | -                | 12,612                | 286,923                             |
| Series 2000 A   | <u>981,648</u>                     | <u>-</u>         | <u>38,496</u>         | <u>943,152</u>                      |
| <br>Total sewer revenue<br>bond payable   | <br>\$ <u>5,052,824</u>            | <br>\$ <u>-</u>  | <br>\$ <u>190,529</u> | <br>\$ 4,862,295                    |
| <br>Less: Current portion<br>due in upcoming year                                   |                                    |                  |                       | <br><u>195,529</u>                  |
| <br>Long-term sewer revenue bonds payable at June 30, 2007 (net of current portion) |                                    |                  |                       | <br>\$ <u><u>4,666,766</u></u>      |

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2007 and 2006

**REVENUE BONDS PAYABLE (Continued)**

The covenants contained in the bond issues include a required debt service coverage ratio of 115%. As of June 30, 2007 and 2006, the District's debt service coverage ratio was 206%, and 252% respectively. Each of the bond issues also requires monthly deposits to the renewal and replacement fund equal to 2 1/2% of monthly gross revenues less reserve funding requirements. For the years ended June 30, 2007 and 2006, the District's reserve funding was approximately \$800 over and, \$800 over its required funding amount, respectively.

**Legal Defeasance of Bonds**

On January 19, 2006, the City of Charles Town issued Combined Waterworks and Sewage System revenue bonds Series 2006 A to advance refund the District's 2003 A and 2003 B Series bonds. The remaining balance of the District's Series 2003 A and 2003 B Series bonds were defeased as part of the transfer of the District's Huntfield assets and customers to the City of Charles Town per West Virginia Public Service Commission (PSC) order dated July 28, 2005. Net proceeds from the issuance of Charles Town's bonds, along with funds in the District's Debt Service and Debt Service Reserve funds for the 2003 A and 2003 B bonds were deposited into an irrevocable trust with an escrow agent to provide debt service payments on the 2003 series bonds until final maturity, June 2006 for Series B bonds and June 2014 for Series A bonds.

Legal defeasance occurs when debt is legally satisfied based on certain provisions in the debt instrument even though the debt is not actually paid. The advance refunding of the 2003 A and 2003 B bonds was a legal defeasance per the settlement agreement, and the escrowed amounts and bonds payable have been removed from the District's balance sheet for the year ended June 30, 2006. The amount of unpaid debt at the date of refunding was \$1,460,000. As a result of the advance refunding, the District reduced its total annual debt service requirement by approximately \$110,000. A net loss of \$90,724 was recognized on the transfer of the assets and defeasance of the debt. The outstanding principal of the defeased bonds are \$1,385,000 as of June 30, 2007. (See loss on transfer of facilities note for more detail.)

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2007 and 2006

**NOTES PAYABLE**

Notes payable consist of the following:

|  | <u>2007</u>       | <u>2006</u>       |
|--|-------------------|-------------------|
| <b>Sewer Department</b>  |                   |                   |
| Note payable to West Virginia Housing Development Fund, issued on a revolving basis, principal outstanding not to exceed \$950,000, for temporary financing of the Walnut Grove project, non-interest bearing, outstanding principal due in full June 2008, secured by proceeds of any subsequent permanent financing, surplus operating revenues and letters of credit from developers. | \$ <u>932,065</u> | \$ <u>937,825</u> |

|  | <u>2007</u>       | <u>2006</u>       |
|--|-------------------|-------------------|
| <b>Water Department</b>  |                   |                   |
| Note payable to the West Virginia Water Development Authority in the original amount of \$145,000 for the temporary financing of the preliminary design of the Blue Ridge Water Project, non-interest bearing, principal deferred (see terms in Deferred Cost of System Design Note), secured by the proceeds of any grants received, proceeds of any bonds, and surplus operating revenues. | \$ <u>145,000</u> | \$ <u>145,000</u> |

Notes payable maturities are as follows:

| <u>Year ending June 30</u> | <u>Sewer</u>      | <u>Water</u>      | <u>2007<br/>Total</u> |
|----------------------------|-------------------|-------------------|-----------------------|
| 2008                       | \$ 932,065        | \$ -              | \$ 932,065            |
| 2009                       | -                 | -                 | -                     |
| 2010                       | -                 | -                 | -                     |
| 2011                       | -                 | -                 | -                     |
| 2012                       | <u>-</u>          | <u>145,000</u>    | <u>145,000</u>        |
| Total                      | \$ <u>932,065</u> | \$ <u>145,000</u> | \$ <u>1,077,065</u>   |



**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2007 and 2006

**CAPITAL IMPROVEMENT FEES**

The District began collecting capital improvement fees in March 2005 for all new connections to the District's system pursuant to a PSC order dated March 28, 2005. Per order, the District is obligated to collect a capital improvement fee in the amount of \$1,127 per equivalent dwelling unit for new service connections to the District's system which will have its flows treated at the Charles Town wastewater treatment plant as reflected in its tariff. The tariff states that the funds collected should be maintained in a separate fund administered jointly by the District, the City of Charles Town, and the Corporation of Ranson and shall be used only for the purpose of improving Charles Town treatment facilities.

The District has thirty (30) days from the date of collection to forward these fees, without interest, to the joint account as required per the Memorandum of Understanding approved with this PSC order between the three entities. As of June 30, 2006, all fees collected are being directly deposited into the joint account. The District collected \$ 109,329 and \$450,160 in fiscal years ended June 30, 2007 and 2006, respectively. The District remitted \$109,329 and \$525,746 to the joint account as of June 30, 2007 and 2006, respectively. The balance of \$2,254 is reflected in the District's balance sheet as a current liability payable from restricted cash as of June 30, 2007 and 2006.

**NEW SEWER SERVICE RATES**

The District was approved for a two-phase increase in sewer rates to offset an increase in the rates for purchased sewage treatment provided by the City of Charles Town. On May 18, 2005, the Public Service Commission of West Virginia (PSC) issued an interim tariff ruling. On June 24, 2005, the PSC issued the final ruling on Phase I of the new tariff effective for service rendered on or after June 23, 2005. The interim rates were included in the July 2005 billing for June 2005 usage. The final rates were included beginning in the August 2005 billing for July 2005 usage. On March 29, 2006, the PSC issued the order authorizing an additional rate increase effective for service rendered on or after February 28, 2006. These new rates were included beginning in the May 2006 billing for April 2006 usage.

**MISCELLANEOUS OPERATING REVENUES**

Miscellaneous operating revenues - sewer department- consist of the following items:

|  | <u>2007</u>             | <u>2006</u>              |
|--|-------------------------|--------------------------|
| Reimbursement for Huntfield expenses<br>and loss of short term revenue due to<br>loss of customers | \$ -                    | \$ 150,000               |
| Transportation credits   | <b>39,328</b>           | 40,306                   |
| System billing fees - water department   | <b>26,347</b>           | 23,202                   |
| Sewer inspection fees  | <b>2,998</b>            | 7,920                    |
| Disconnect/reconnect fees  | <b>1,820</b>            | 3,770                    |
| Other miscellaneous revenue  | <b>5,941</b>            | 5,602                    |
| Total  | <b>\$ <u>76,434</u></b> | <b>\$ <u>230,800</u></b> |

## **NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2007 and 2006

### **LEASE**

The District leases an office building on an annual lease with the option to renew each year. The annual option was exercised at monthly rental of \$935 for the lease years August 31, 2006 and 2005. For lease year August 31, 2007, option was exercised at monthly rental of \$1,000.

### **SEWER SERVICE AGREEMENT**

Effective for service rendered on and after May 1, 2005, by order of the Public Service Commission of West Virginia (PSC), the District is considered a bulk rate customer to the City of Charles Town, therefore, the specific formula used to calculate the amount charged for these sewer services in prior years was changed to include actual usage at a resale rate as stated in the City of Charles Town's sewer tariff, less a resale and transportation credits, applicable only to the District. The bulk rate is reflected at gross in the supplemental schedule of operating expenses - sewer department under treatment and disposal rent. The credits are reflected as income in the District's financial statements. The resale credit, which is for the debt incurred by the District as part of the 2000 Charles Town treatment plant upgrade, is reflected as miscellaneous non-operating revenues.

As of July 1, 2005, the District's asset related to the Charles Town wastewater treatment plant upgrade was reclassified from utility plant in service to other assets on the balance sheet and is being amortized over the remaining life (25 years) of the associated bonds for the Charles Town wastewater treatment plant upgrades (Series 2000). The carrying amount of this asset, net of amortization at June 30, 2007 and 2006 is \$1,016,403 and \$1,060,595, respectively. The transportation credits are for reimbursement of fixed debt associated with lift stations to transport Charles Town's sewage from the former Sanitary Associates service area, and for flows from the former Sanitary Associates area. These credits are included in miscellaneous operating revenues. During the year ended June 30, 2007 and 2006, treatment expenses totaled \$541,496 and \$460,058, respectively.

Effective December 2005, per the Amendment to Sewer Service Agreement, the District must also remit to Charles Town, on a monthly basis, \$6.10 per equivalent dwelling unit for all new sewer service customers that connect to the sewer system on or after December 2005.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2007 and 2006

**LOSS ON TRANSFER OF FACILITIES**

On April 28, 2005, The District entered into a settlement agreement with Huntfield, L.C. (Huntfield), Greenvest, L.C. (Greenvest) and the City of Charles Town (City) to seek from the Public Service Commission of West Virginia (PSC) approval to transfer to the City on-site and offsite plant and equipment owned by the District and used in rendering service to the Huntfield subdivision, and abandon its customers located within the subdivision and transfer the responsibility for said customers to the City. The City agreed to assume full responsibility of all obligations under the 2003 bonds (which were issued in support of the Huntfield project), without recourse to the District, by the issuance of refunding bonds which will be used to defease the 2003 bonds and establish a sinking fund sufficient to retire the bonds in full without any other District funds. The City also agreed to pay the District a one time cash payment of \$150,000 to reimburse the District for various administrative costs and short term forgone revenue due to the loss of the Huntfield customers.

On July 28, 2005, the PSC issued a final ruling ordering the approval of the settlement agreement, the approval of the transfer agreement, and permission for the District to transfer its facilities and customers in the Huntfield subdivision to the City of Charles Town under the terms and conditions in the transfer agreement, and that the City of Charles Town and the District file verification demonstrating that the bond indebtedness for the facilities has been transferred to Charles Town.

**LOSS ON TRANSFER OF FACILITIES (Continued)**

The closing of the transfer of facilities, customers, and bonds was completed January 19, 2006. The District recognized a net loss of \$90,724 on the transfer of the facilities and legal defeasance of the related debt. This net loss is comprised of the following for the year ended June 30, 2007 and 2006:

|  | <u><b>2006</b></u>      |
|--|-------------------------|
| Disposal of Huntfield facilities, lines,<br>equipment, etc.                | <b>\$ (1,245,032)</b>   |
| Write off of remaining unamortized bond<br>issue costs (2003 A and 2003 B) | <b>(130,593)</b>        |
| Advance refunding of 2003 A and B bonds                                    | <b>1,460,000</b>        |
| Transfer of debt service and debt service<br>reserve funds to escrow       | <u><b>(175,099)</b></u> |
| Loss on transfer of facilities   | <u><b>(90,724)</b></u>  |

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2007 and 2006

**COMMITMENTS AND CONTINGENCIES**

**Retirement Contributions Payable**

During the years 1986 through 1995 and part of 1996, the District was not a member of the West Virginia Public Employees Retirement System, which is a multi-employer PERS. In 1996, the West Virginia Retirement System accepted the District into the plan retroactive to April 1986. Based upon the District's gross payroll for these years, the retirement system has estimated the District must fund the employees' accounts \$112,514. This figure includes both the employer and employee portions of the required contributions as well as a provision for interest that would have been earned on the accounts through 1995. At June 30, 2007 and 2006, \$0 is recorded as a liability. As of fiscal year ended June 30, 2006, the District determined that the liability balance still due of \$24,621 as of June 30, 2005 was no longer a liability. This is included in the statement of revenues, expenses and changes in net assets as part of elimination of potential liabilities in June 30, 2006.

All full-time employees of the District are eligible and must participate in the state PERS. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. A member may retire after reaching the age of 60 and accumulating 5 years or more of credited service in force. Benefits generally vest in varying degrees once a member attains 5 or more years of credited service in force. Employees who retire at age 60 with 5 or more years of credited service in force are entitled to pension payments for the rest of their lives equal to 2% of their final, three year average salary times the number of years for which they were employed by a participant in the state PERS.

Pension provisions include deferred allowance whereby an employee may terminate his or her employment with the District after accumulating 5 or more years of credited service in force, but before reaching the age of 60. If the employee does not withdraw his or her accumulated contributions, the employee is entitled to certain pension benefits in accordance with the West Virginia Public Employees Retirement Act.

Pension provisions include annuity options to provide benefits to a member's nominated beneficiary if so elected. In addition, disability retirement is provided for members who meet certain requirements as specified in the act.

Employees of the District are required to pay 4.5% of their gross earnings to the pension plan. The District is required to make annual contributions to the plan equal to 10.5% of its covered payroll. The District made \$32,671 and \$27,240 of employer contributions to the plan for the years ended June 30, 2007 and 2006, respectively. Information regarding this plan is available from the State of West Virginia.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2007 and 2006

**COMMITMENTS AND CONTINGENCIES (Continued)**

**Social Security and Medicare Taxes Payable**

The District's employees must elect to participate in the Social Security System since it is a governmental subdivision under the laws of West Virginia and obtain coverage through the state's retirement system. The District withheld and remitted social security and Medicare taxes during a ten-year period from 1986 to 1996. Prior to November 1996, the employees had not held the election. On November 25, 1996, the employees voted not to participate in the Social Security System. On March 20, 1998 the employees voted to once again participate in the Social Security System. This vote went into effect January 1, 1999.

Also, as a result of the employee election, the District owed current and former employees for social security taxes withheld for the period 1986 through June 30, 1996. The original liability for withholdings totaled \$ 44,642, of which \$ 36,135 has been paid and \$8,507 has been written off as determined to no longer be a liability of the District as of fiscal year ended June 30, 2006. This is included in the statement of revenues, expenses and changes in net assets as part of elimination of potential liabilities. Amount outstanding at June 30, 2007 and 2006 was \$0 and \$0, respectively.

**Deferred Cost of System Design**

The District entered into a contract for preconstruction engineering services for design of extensions and improvements to existing water systems in the Blue Ridge Mountain area of Jefferson County. A portion of the cost of these services was paid through a 1997 loan from the West Virginia Infrastructure Council.

As of June 30, 2001, the District's Board voted not to proceed with this project. According to the 1997 loan agreement, if on the 20<sup>th</sup> anniversary of the issuance of the note the District has not received any grants, other than Infrastructure Fund grants, has not issued obligations to repay the notes and has not constructed any improvements to its system, then the notes will convert to a grant and cancel the note. The District asked the Infrastructure Council to convert this note to a grant. The request was denied. The Infrastructure Council purported to modify the terms of the loan unilaterally, and requested repayment from the District under a unilaterally established repayment schedule. The District has never agreed to the revised terms. Further, before the District could commence making payment to the Infrastructure Council under their proposed revised terms, the District would need to obtain the approval of such revised terms from the Public Service Commission.

The District has neither sought nor obtained such approval from the Public Service Commission; therefore the District is prohibited from making any payments on this loan.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2007 and 2006

**CAPITAL CONTRIBUTIONS**

Included in the accompanying statements of revenues, expenses, and changes in net assets are capital contributions, which represent the estimated value of mainline extensions, pump stations, or land contributed to the District by developers. Mainline extensions and pump stations constructed by developers are transferred to the District upon their completion. Their estimated costs and offsetting capital contributions are recorded in the District's books and totaled \$275,000 and \$1,307,279 for the years ended June 30, 2007 and 2006, respectively. Land deeded to the District at its estimated value and offsetting capital contributions are recorded in the District's books and totaled \$0 and \$591,160 for the years ended June 30, 2007 and 2006, respectively. Total capital contributions consist of the following:

|                               | <u>2007</u>  |                   | <u>2006</u>  |                     |
|-------------------------------|--------------|-------------------|--------------|---------------------|
|                               | <u>Water</u> | <u>Sewer</u>      | <u>Water</u> | <u>Sewer</u>        |
| Tap fees                      | \$ -         | \$ 1,250          | \$ -         | \$ 1,500            |
| Contributions from developers | <u>-</u>     | <u>275,000</u>    | <u>-</u>     | <u>1,898,439</u>    |
| Total                         | \$ <u>-</u>  | \$ <u>276,250</u> | \$ <u>-</u>  | \$ <u>1,899,939</u> |

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Cash and cash equivalents consist of the following at June 30, 2007 and 2006:

|                 | <u>2007</u>       |                     | <u>2006</u>       |                     |
|-----------------|-------------------|---------------------|-------------------|---------------------|
|                 | <u>Water</u>      | <u>Sewer</u>        | <u>Water</u>      | <u>Sewer</u>        |
| Cash            | \$ 154,582        | \$ 498,648          | \$ 133,174        | \$ 441,864          |
| Restricted cash | <u>3,631</u>      | <u>762,429</u>      | <u>3,137</u>      | <u>781,607</u>      |
| Total           | \$ <u>158,213</u> | \$ <u>1,261,077</u> | \$ <u>136,311</u> | \$ <u>1,223,471</u> |

Schedule of Noncash Investing and Financing activities at June 30, 2007 and 2006 - Sewer:

|  | <u>2007</u>       | <u>2006</u>           |
|--|-------------------|-----------------------|
| Mainline extensions and land contributed by developers               | \$ <u>275,000</u> | \$ <u>1,898,439</u>   |
| Transfer utility plant to other assets not in service                | \$ <u>-</u>       | \$ <u>(1,100,805)</u> |
| Transfer other assets not in service to utility plant                | \$ <u>-</u>       | \$ <u>13,186</u>      |
| Transfer Huntfield facilities, lines, equipment, etc.                | \$ <u>-</u>       | \$ <u>(1,245,032)</u> |
| Write off remaining unamortized bond issue costs (2003 A and 2003 B) | \$ <u>-</u>       | \$ <u>(130,593)</u>   |
| Advance refunding of 2003 A and 2003 B bonds                         | \$ <u>-</u>       | \$ <u>1,460,000</u>   |
| Loss on dropped projects   | \$ <u>(1,670)</u> | \$ <u>(20,429)</u>    |
| Transfer construction work in progress to utility plant in service   | \$ <u>-</u>       | \$ <u>20,197</u>      |
| Write off of old liabilities   | \$ <u>-</u>       | \$ <u>(33,127)</u>    |

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2007 and 2006

**WEST VIRGINIA HOUSING DEVELOPMENT FUND NOTE ANTICIPATED REFINANCE**

On June 15, 2006, the District submitted an amended application to the West Virginia Infrastructure and Jobs Development Council to obtain permanent financing to replace their interim West Virginia Housing Development Fund (WV HDF) loan which is due in 2008, as well as funds to pay outstanding reimbursement obligations to developers for construction of on-site and off-site facilities, and funds to upgrade two pump stations. The total amount of state funding (CWSRF) requested is approximately \$2,300,000. This funding has been preliminarily approved and is awaiting West Virginia Public Service Commission approval.

**FLOWING SPRINGS WASTEWATER TREATMENT PLANT ANTICIPATED FUNDING**

The District is in the planning phase for expansion of a developer donated, state-of-the-art wastewater treatment plant in the Flowing Springs watershed, also known as the Flowing Springs wastewater treatment plant, at an estimated cost of \$21.6 million. The District has received a long-term financing commitment for \$18,205,263 at 0% interest with 1/2% annual administration fee for 30 years from the State Revolving Fund Program. The remainder of the project will be financed through developer contributions.

August 31, 2007 the District received a 18 month loan from the bank at the fixed rate of 3.75% to be used for engineering and other costs associated with the treatment plant. The District plans to repay the loan with permanent financing.

## **SUPPLEMENTAL INFORMATION**



**BUDGETARY COMPARISON SCHEDULE - WATER DEPARTMENT**

For the year ended June 30, 2007

|   | <u>Budgeted<br/>Amounts<br/>Original</u> | <u>Budgeted<br/>Amounts<br/>Final</u> | <u>Actual<br/>Amounts<br/>Budgetary<br/>Basis</u> | <u>Budget<br/>to GAAP<br/>Differences<br/>Over (under)</u> | <u>Actual<br/>Amounts<br/>GAAP Basis</u> |
|---|--|---------------------------------------|---|--|--|
| <b>REVENUES</b>                                   |  |                                       |   |  |  |
| Operating revenues                                | \$ 58,000                                | \$ 58,000                             | \$ 52,187 (C)                                     | \$ 80  | \$ 52,267                                |
| Non-operating revenues                            | (B) <u>2,000</u>                         | <u>2,000</u>                          | <u>5,211</u>                                      | <u>(5,211)</u>   | <u>-</u>                                 |
| Total revenues                                    | <u>60,000</u>                            | <u>60,000</u>                         | <u>57,398</u>                                     | <u>(5,131)</u>   | <u>52,267</u>                            |
| <b>REVENUE DEDUCTIONS<br/>BEFORE DEPRECIATION</b> |  |                                       |   |  |  |
| Operating expenses                                | <u>43,800</u>                            | <u>43,800</u>                         | <u>32,507</u>                                     | <u>-</u>   | <u>32,507</u>                            |
| Income before depreciation                        | 16,200                                   | 16,200                                | 24,891  | (5,131)  | 19,760                                   |
| <b>DEPRECIATION</b>                               |  |                                       |   |  |  |
| (A) <u>-</u>                                      | <u>-</u>                                 | <u>-</u>                              | <u>-</u>  | <u>4,181</u>   | <u>4,181</u>                             |
| Income before non-operating expenses              | <u>16,200</u>                            | <u>16,200</u>                         | <u>24,891</u>                                     | <u>(9,312)</u>   | <u>15,579</u>                            |
| <b>NON-OPERATING INCOME (EXPENSES)</b>            |  |                                       |   |  |  |
| Interest income                                   | (B) -                                    | -                                     | -   | 5,211  | 5,211                                    |
| Interest expense                                  | <u>-</u>                                 | <u>-</u>                              | <u>-</u>  | <u>(6)</u>   | <u>(6)</u>                               |
| Total non-operating income (expenses)             | <u>-</u>                                 | <u>-</u>                              | <u>-</u>  | <u>5,205</u>   | <u>5,205</u>                             |
| Increase (decrease) in net assets                 | 16,200                                   | 16,200                                | 24,891  | (4,107)  | 20,784                                   |
| Net assets at beginning of year                   | <u>226,589</u>                           | <u>226,589</u>                        | <u>226,589</u>                                    | <u>-</u>   | <u>226,589</u>                           |
| Net assets at end of year                         | \$ <u>242,789</u>                        | \$ <u>242,789</u>                     | \$ <u>251,480</u>                                 | \$ <u>(4,107)</u>  | \$ <u>247,373</u>                        |

NOTES:

- (A) Non-cash items are not included for budgetary purposes.
- (B) For budgetary purposes, includes interest earned.
- (C) Miscellaneous revenues included in non-operating revenues for budgetary purposes.

**BUDGETARY COMPARISON SCHEDULE - WATER DEPARTMENT**

For the year ended June 30, 2006

|   | <u>Budgeted<br/>Amounts<br/>Original</u> | <u>Budgeted<br/>Amounts<br/>Final</u> | <u>Actual<br/>Amounts<br/>Budgetary<br/>Basis</u> | <u>Budget<br/>to GAAP<br/>Differences<br/>Over (under)</u> | <u>Actual<br/>Amounts<br/>GAAP Basis</u> |
|---|--|---------------------------------------|---|--|--|
| <b>REVENUES</b>                                   |  |                                       |   |  |  |
| Operating revenues                                | \$ 54,000                                | \$ 54,000                             | \$ 50,630 (C)                                     | \$ 165   | \$ 50,795                                |
| Non-operating revenues                            | (B) <u>1,200</u>                         | <u>1,200</u>                          | <u>3,251</u>                                      | <u>(3,251)</u>   | <u>-</u>                                 |
| Total revenues                                    | <u>55,200</u>                            | <u>55,200</u>                         | <u>53,881</u>                                     | <u>(3,086)</u>   | <u>50,795</u>                            |
| <b>REVENUE DEDUCTIONS<br/>BEFORE DEPRECIATION</b> |  |                                       |   |  |  |
| Operating expenses                                | <u>42,400</u>                            | <u>42,400</u>                         | <u>31,725</u>                                     | <u>-</u>   | <u>31,725</u>                            |
| Income before depreciation                        | 12,800                                   | 12,800                                | 22,156  | (3,086)  | 19,070                                   |
| <b>DEPRECIATION</b>                               |  |                                       |   |  |  |
| (A) <u>-</u>                                      | <u>-</u>                                 | <u>-</u>                              | <u>-</u>  | <u>4,083</u>   | <u>4,083</u>                             |
| Income before non-operating expenses              | <u>12,800</u>                            | <u>12,800</u>                         | <u>22,156</u>                                     | <u>(7,169)</u>   | <u>14,987</u>                            |
| <b>NON-OPERATING INCOME (EXPENSES)</b>            |  |                                       |   |  |  |
| Interest income                                   | (B) <u>-</u>                             | <u>-</u>                              | <u>-</u>  | <u>3,251</u>   | <u>3,251</u>                             |
| Interest expense                                  | <u>-</u>                                 | <u>-</u>                              | <u>-</u>  | <u>(5)</u>   | <u>(5)</u>                               |
| Total non-operating income (expenses)             | <u>-</u>                                 | <u>-</u>                              | <u>-</u>  | <u>3,246</u>   | <u>3,246</u>                             |
| Increase (decrease) in net assets                 | 12,800                                   | 12,800                                | 22,156  | (3,923)  | 18,233                                   |
| Net assets at beginning of year                   | <u>208,356</u>                           | <u>208,356</u>                        | <u>208,356</u>                                    | <u>-</u>   | <u>208,356</u>                           |
| Net assets at end of year                         | \$ <u>221,156</u>                        | \$ <u>221,156</u>                     | \$ <u>230,512</u>                                 | \$ <u>(3,923)</u>  | \$ <u>226,589</u>                        |

NOTES:

- (A) Non-cash items are not included for budgetary purposes.
- (B) For budgetary purposes, includes interest earned.
- (C) Miscellaneous revenues included in non-operating revenues for budgetary purposes.

Jefferson County Public Service District

**BUDGETARY COMPARISON SCHEDULE - SEWER DEPARTMENT**

For the year ended June 30, 2007

|  | <b>Budgeted<br/>Amounts<br/>Original</b> | <b>Budgeted<br/>Amounts<br/>Final</b> | <b>Actual<br/>Amounts<br/>Budgetary<br/>Basis</b> | <b>Budget<br/>to GAAP<br/>Differences<br/>Over (under)</b> | <b>Actual<br/>Amounts<br/>GAAP Basis</b> |
|--|--|---------------------------------------|---|--|--|
| <b>REVENUES</b>  |  |                                       |   |  |  |
| Operating revenues   | \$ 1,820,000                             | \$ 1,820,000                          | \$ 1,818,770 (F)                                  | \$ 85,146  | \$ 1,903,916                             |
| Non-operating revenues   | (C) <u>70,000</u>                        | <u>70,000</u>                         | <u>164,739</u>                                    | <u>(164,739)</u>   | <u>-</u>                                 |
| Total revenues   | <u>1,890,000</u>                         | <u>1,890,000</u>                      | <u>1,983,509</u>                                  | <u>(79,593)</u>  | <u>1,903,916</u>                         |
| <b>REVENUE DEDUCTIONS<br/>BEFORE DEPRECIATION</b>                              |  |                                       |   |  |  |
| Operating expenses   | <u>1,303,225</u>                         | <u>1,350,625</u>                      | <u>1,377,237</u>                                  | <u>-</u>   | <u>1,377,237</u>                         |
| Income before depreciation   | 586,775                                  | 539,375                               | 606,272   | (79,593)   | 526,679                                  |
| <b>DEPRECIATION</b>  |  |                                       |   |  |  |
|  | (A) <u>-</u>                             | <u>-</u>                              | <u>-</u>  | <u>299,744</u>   | <u>299,744</u>                           |
| Income before non-operating expenses   | <u>586,775</u>                           | <u>539,375</u>                        | <u>606,272</u>                                    | <u>(379,337)</u>   | <u>226,935</u>                           |
| <b>NON-OPERATING INCOME (EXPENSES)</b>   |  |                                       |   |  |  |
| Interest income  | (C) -                                    | -                                     | -   | 52,303   | 52,303                                   |
| Loss on disposal of assets   | (A) -                                    | -                                     | -   | (1,247)  | (1,247)                                  |
| Interest expense   | (B) -                                    | -                                     | -   | (120,335)  | (120,335)                                |
| Amortization of debt issue expense and other assets - treatment plant upgrades | (A) -                                    | -                                     | -   | (56,979)   | (56,979)                                 |
| Loss due to dropped projects   | (A) -                                    | -                                     | -   | (1,670)  | (1,670)                                  |
| Miscellaneous non-operating revenues   | (A) <u>-</u>                             | <u>-</u>                              | <u>-</u>  | <u>41,412</u>  | <u>41,412</u>                            |
| Total non-operating income (expenses)  | <u>-</u>                                 | <u>-</u>                              | <u>-</u>  | <u>(86,516)</u>  | <u>(86,516)</u>                          |
| Increase (decrease) in net assets before capital contributions                 | <u>586,775</u>                           | <u>539,375</u>                        | <u>606,272</u>                                    | <u>(465,853)</u>   | <u>140,419</u>                           |
| <b>CAPITAL CONTRIBUTIONS</b>   |  |                                       |   |  |  |
|  | (A) (C) <u>-</u>                         | <u>-</u>                              | <u>-</u>  | <u>276,250</u>   | <u>276,250</u>                           |
| <b>OTHER FINANCING SOURCES (USES)</b>  |  |                                       |   |  |  |
| Renewal and replacement funds  | (47,250)                                 | (47,250)                              | (43,960) (E)                                      | 43,960   | -  |
| Debt service   | (D) <u>(429,000)</u>                     | <u>(309,000)</u>                      | <u>(230,730)</u> (E)                              | <u>230,730</u>   | <u>-</u>                                 |
| Total other financing (uses)   | <u>(476,250)</u>                         | <u>(356,250)</u>                      | <u>(274,690)</u>                                  | <u>274,690</u>   | <u>-</u>                                 |
| Increase (decrease) in net assets  | 110,525                                  | 183,125                               | 331,582   | 85,087   | 416,669                                  |
| Net assets at beginning of year  | <u>8,175,675</u>                         | <u>8,175,675</u>                      | <u>8,175,675</u>                                  | <u>-</u>   | <u>8,175,675</u>                         |
| Net assets at end of year  | \$ <u>8,286,200</u>                      | \$ <u>8,358,800</u>                   | \$ <u>8,507,257</u>                               | \$ <u>85,087</u>   | \$ <u>8,592,344</u>                      |

NOTES:

- (A) Non-cash items are not included for budgetary purposes.
- (B) Interest expense is included in Debt Service for budgetary purposes.
- (C) For budgetary purposes, includes interest earned on debt service and other funds, capital contributions, developer guaranteed minimum payments and miscellaneous operating revenues.
- (D) Budget includes principal, interest, and funding of debt service and reserve funds.
- (E) Balance sheet transactions are excluded from revenues and expenses under GAAP.
- (F) Miscellaneous revenues included in non-operating revenues for budgetary purposes.

See independent auditors' report.

Jefferson County Public Service District

**BUDGETARY COMPARISON SCHEDULE - SEWER DEPARTMENT**

For the year ended June 30, 2006

|  | <u>Budgeted<br/>Amounts<br/>Original</u> | <u>Budgeted<br/>Amounts<br/>Final</u> | <u>Actual<br/>Amounts<br/>Budgetary<br/>Basis</u> | <u>Budget<br/>to GAAP<br/>Differences<br/>Over (under)</u> | <u>Actual<br/>Amounts<br/>GAAP Basis</u> |
|--|--|---------------------------------------|---|--|--|
| <b>REVENUES</b>  |  |                                       |   |  |  |
| Operating revenues   | \$ 1,617,866                             | \$ 1,617,866                          | \$ 1,710,409 (F)                                  | 230,800  | \$ 1,941,209                             |
| Non-operating revenues   | (C) <u>130,000</u>                       | <u>130,000</u>                        | <u>2,057,370</u>                                  | <u>(2,057,370)</u>   | <u>-</u>                                 |
| Total revenues   | <u>1,747,866</u>                         | <u>1,747,866</u>                      | <u>3,767,779</u>                                  | <u>(1,826,570)</u>   | <u>1,941,209</u>                         |
| <b>REVENUE DEDUCTIONS<br/>BEFORE DEPRECIATION</b>                                  |  |                                       |   |  |  |
| Operating expenses   | <u>1,174,719</u>                         | <u>1,177,819</u>                      | <u>1,217,091</u>                                  | <u>-</u>   | <u>1,217,091</u>                         |
| Income before depreciation   | 573,147                                  | 570,047                               | 2,550,688   | (1,826,570)  | 724,118                                  |
| <b>DEPRECIATION</b>  |  |                                       |   |  |  |
| (A) <u>-</u>   | <u>-</u>                                 | <u>-</u>                              | <u>-</u>  | <u>302,969</u>   | <u>302,969</u>                           |
| Income before non-operating expenses   | <u>573,147</u>                           | <u>570,047</u>                        | <u>2,550,688</u>                                  | <u>(2,129,539)</u>   | <u>421,149</u>                           |
| <b>NON-OPERATING INCOME (EXPENSES)</b>   |  |                                       |   |  |  |
| Interest income (C)  | -  | -                                     | -   | 44,677   | 44,677                                   |
| Loss on disposal of assets (A)   | -  | -                                     | -   | (2,617)  | (2,617)                                  |
| Developer guaranteed minimum payment (C)   | -  | -                                     | -   | 40,832   | 40,832                                   |
| Interest expense (B)   | -  | -                                     | -   | (153,338)  | (153,338)                                |
| Amortization of debt issue expense and other assets - treatment plant upgrades (A) | -  | -                                     | -   | (56,979)   | (56,979)                                 |
| Loss due to dropped projects (A)   | -  | -                                     | -   | (20,474)   | (20,474)                                 |
| Loss on transfer of facilities (A)   | -  | -                                     | -   | (90,724)   | (90,724)                                 |
| Elimination of potential liabilities (A)   | -  | -                                     | -   | 33,127   | 33,127                                   |
| Miscellaneous non-operating revenues (A)   | <u>-</u>                                 | <u>-</u>                              | <u>-</u>  | <u>41,412</u>  | <u>41,412</u>                            |
| Total non-operating income (expenses)  | <u>-</u>                                 | <u>-</u>                              | <u>-</u>  | <u>(164,084)</u>   | <u>(164,084)</u>                         |
| Increase (decrease) in net assets before capital contributions                     | <u>573,147</u>                           | <u>570,047</u>                        | <u>2,550,688</u>                                  | <u>(2,293,623)</u>   | <u>257,065</u>                           |
| <b>CAPITAL CONTRIBUTIONS</b>   |  |                                       |   |  |  |
| (A) (C) <u>-</u>   | <u>-</u>                                 | <u>-</u>                              | <u>-</u>  | <u>1,899,939</u>   | <u>1,899,939</u>                         |
| <b>OTHER FINANCING SOURCES (USES)</b>  |  |                                       |   |  |  |
| Renewal and replacement funds  | <u>(40,206)</u>                          | <u>(40,206)</u>                       | <u>(28,256)</u> (E)                               | <u>28,256</u>  | <u>-</u>                                 |
| Debt service (D)   | <u>(447,000)</u>                         | <u>(447,000)</u>                      | <u>(205,529)</u> (E)                              | <u>205,529</u>   | <u>-</u>                                 |
| Total other financing (uses)   | <u>(487,206)</u>                         | <u>(487,206)</u>                      | <u>(233,785)</u>                                  | <u>233,785</u>   | <u>-</u>                                 |
| Increase (decrease) in net assets  | 85,941                                   | 82,841                                | 2,316,903   | (159,899)  | 2,157,004                                |
| Net assets at beginning of year, restated  | <u>6,018,671</u>                         | <u>6,018,671</u>                      | <u>6,018,671</u>                                  | <u>-</u>   | <u>6,018,671</u>                         |
| Net assets at end of year  | \$ <u>6,104,612</u>                      | \$ <u>6,101,512</u>                   | \$ <u>8,335,574</u>                               | \$ <u>(159,899)</u>  | \$ <u>8,175,675</u>                      |

NOTES:

- (A) Non-cash items are not included for budgetary purposes.
- (B) Interest expense is included in Debt Service for budgetary purposes.
- (C) For budgetary purposes, includes interest earned on debt service and other funds, capital contributions, developer guaranteed minimum payments and miscellaneous operating revenues.
- (D) Budget includes principal, interest, and funding of debt service and reserve funds.
- (E) Balance sheet transactions are excluded from revenues and expenses under GAAP.
- (F) Miscellaneous revenues included in non-operating revenues for budgetary purposes.

See independent auditors' report.

Jefferson County Public Service District

**SCHEDULES OF OPERATING EXPENSES - WATER DEPARTMENT**

For the years ended June 30, 2007 and 2006

|  | <u>2007</u>      | <u>2006</u>      |
|--|------------------|------------------|
| <b>SOURCE OF SUPPLY EXPENSES</b>           |                  |                  |
| Repairs and maintenance                    | \$ -             | \$ 2,058         |
| Operation supplies and expenses            | <u>2,067</u>     | <u>1,616</u>     |
| Total                                      | <u>2,067</u>     | <u>3,674</u>     |
| <b>PUMPING EXPENSES</b>                    |                  |                  |
| Repairs and maintenance                    | 1,030            | 1,858            |
| Operation supplies and expenses            | <u>2,348</u>     | <u>2,295</u>     |
| Total                                      | <u>3,378</u>     | <u>4,153</u>     |
| <b>BILLING AND COLLECTING EXPENSES</b>     |                  |                  |
| Meter reading, accounting and collection   | <u>26,670</u>    | <u>23,424</u>    |
| <b>ADMINISTRATIVE AND GENERAL EXPENSES</b> |                  |                  |
| Miscellaneous expenses                     | <u>392</u>       | <u>474</u>       |
| Total operating expenses                   | \$ <u>32,507</u> | \$ <u>31,725</u> |

See independent auditors' report.

Jefferson County Public Service District

**SCHEDULES OF OPERATING EXPENSES - SEWER DEPARTMENT**

For the years ended June 30, 2007 and 2006

|   | <u>2007</u>         | <u>2006</u>         |
|---|---------------------|---------------------|
| <b>COLLECTING EXPENSES</b>                    |                     |                     |
| Operation labor                               | \$ 39,231           | \$ 37,699           |
| Supplies and expense                          | <u>5,304</u>        | <u>3,607</u>        |
| Total   | <u>44,535</u>       | <u>41,306</u>       |
| <b>PUMPING SYSTEM</b>                         |                     |                     |
| Operation labor                               | 49,850              | 48,555              |
| Power purchased for pumping                   | 33,768              | 28,336              |
| Pumping and supplies                          | 13,200              | 11,341              |
| Pumping maintenance                           | <u>96,745</u>       | <u>51,088</u>       |
| Total   | <u>193,563</u>      | <u>139,320</u>      |
| <b>TREATMENT AND DISPOSAL SYSTEM EXPENSES</b> |                     |                     |
| Operation labor                               | 2,840               | 1,202               |
| Supplies and expense                          | 4,568               | 237                 |
| Treatment and disposal rent                   | <u>541,496</u>      | <u>460,058</u>      |
| Total   | <u>548,904</u>      | <u>461,497</u>      |
| <b>BILLING AND COLLECTING EXPENSES</b>        |                     |                     |
| Meter reading, accounting and collection      | <u>70,564</u>       | <u>62,912</u>       |
| <b>ADMINISTRATIVE AND GENERAL EXPENSES</b>    |                     |                     |
| General office salaries                       | 155,544             | 139,787             |
| Employee benefits                             | 95,482              | 83,114              |
| Office supplies and expense                   | 56,781              | 67,280              |
| Insurance                                     | 21,276              | 15,808              |
| Professional fees                             | 97,963              | 121,231             |
| Miscellaneous general expense                 | 16,520              | 17,065              |
| Directors' fees                               | 4,459               | 5,077               |
| Rent  | 11,870              | 11,220              |
| Regulatory commission expense and penalties   | 13,515              | 12,838              |
| Transportation expense                        | 4,879               | 5,150               |
| Utilities                                     | 13,645              | 14,242              |
| Bad debts                                     | 19,017              | 10,737              |
| Repairs and maintenance                       | <u>8,720</u>        | <u>8,507</u>        |
| Total   | <u>519,671</u>      | <u>512,056</u>      |
| Total operating expenses                      | \$ <u>1,377,237</u> | \$ <u>1,217,091</u> |

See independent auditors' report.



**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**

The Members of the Public Service Board  
Jefferson County Public Service District

We have audited the accompanying financial statements of the business-type activities of the Jefferson County Public Service ("District") as of and for the years ended June 30, 2007 and 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 3, 2007. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below we identified certain deficiency in internal control over financial reporting that we consider to be significant deficiency.

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 District'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 District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency 2007-1 described in the accompanying schedule of findings and responses to be significant deficiency in internal control over financial reporting.

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 District's internal control.

Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

### 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 matters that we reported to management of the District in a separate letter dated December 3, 2007.

The District's responses to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the District's responses and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the District and its various regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

*CoxHollida LLP*

December 3, 2007



**SCHEDULE OF FINDINGS AND RESPONSES**

For the year ended June 30, 2007

**Internal Control**

2007-1

**Condition:**

Current capital contributions from developers are not reflected in the District's un-audited financial statements. Historically contributions would be recorded during the audit, however current standards considers this approach as an deficiency in internal control.

**Effect:**

Contributed capital from developers are not reflected in the District's financial statements timely.

**Cause:**

Current contributed capital not recorded in the District's books timely.

**Recommendation:**

The District should record in its books contributed capital from developers when the property is legally transferred to the District.

**Audited Agency's Response:**

The District agrees with the above recommendation and will adopt a policy to record contributed capital when transferred to the District.