

**JEFFERSON COUNTY PUBLIC SERVICE DISTRICT**

FINANCIAL STATEMENTS

For the years ended June 30, 2012 and June 30, 2011



# CONTENTS

	<u>Page</u>
<b>INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION</b>	3-4
<b>MANAGEMENT'S DISCUSSION &amp; ANALYSIS</b>	5-9
<b>FINANCIAL STATEMENTS</b>	
Balance sheets	10-11
Statements of revenues, expenses and changes in net assets	12
Statements of cash flows	13
Notes to financial statements	14-37
<b>SUPPLEMENTAL INFORMATION</b>	
Budgetary comparison schedules - water department	39-40
Budgetary comparison schedules - sewer department	41-42
Schedules of operating expenses - water department	43
Schedules of operating expenses - sewer department	44
<b>REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <u>GOVERNMENT AUDITING STANDARDS</u></b>	
	45-46

201 E. Burke Street  
Martinsburg, WV 25401  
Phone 304.263.0891  
Toll Free 877.242.7278  
Fax 304.263.0997



## **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, 2012 and 2011, 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, 2012 and 2011, 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 November 5, 2012 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 through 9 and 39 through 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Jefferson County Public Service District's financial statements as a whole. The supplemental information presented on pages 43 and 44 is presented for purposes of additional analysis and is not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*CoxHollidaPrice LLP*

Martinsburg, West Virginia

November 5, 2012

Jefferson County Public Service District  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the fiscal year ended June 30, 2012

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, 2012. 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, 2012

**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 entity's 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>2012</u>	<u>2011</u>
Unrestricted cash	\$ 60,814	\$ 227,821
Restricted cash	755,473	2,143,333
Other Assets	1,828,139	1,810,446
Capital assets	<u>14,040,838</u>	<u>13,679,197</u>
Total assets	\$ <u>16,685,264</u>	\$ <u>17,860,797</u>
Current and other liabilities	\$ 586,915	\$ 568,600
Long-term liabilities	<u>5,450,525</u>	<u>6,371,905</u>
Total Liabilities	\$ <u>6,037,440</u>	\$ <u>6,940,505</u>
Invested in assets, net of debt	\$ 10,042,295	\$ 8,755,381
Restricted net assets	631,875	2,021,986
Unrestricted net assets	<u>(26,346)</u>	<u>142,925</u>
Total net assets	\$ <u>10,647,824</u>	\$ <u>10,920,292</u>

Jefferson County Public Service District  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the fiscal year ended June 30, 2012

	<u>2012</u>	<u>2011</u>
Revenues		
Sales to customers	\$ 2,025,777	\$ 2,193,300
Other	<u>164,678</u>	<u>189,459</u>
Total revenue	<u>2,190,455</u>	<u>2,382,759</u>
Expenses		
Operating	1,784,516	1,722,341
Dropped projects	2,783	54,095
Depreciation and amortization	467,720	454,787
Interest expense	<u>92,338</u>	<u>95,602</u>
Total expenses	<u>2,347,357</u>	<u>2,326,825</u>
Net loss before capital contributions	(156,902)	55,934
Capital contributions	<u>(115,566)</u>	<u>1,307,008</u>
Change in net assets	\$ <u>(272,468)</u>	\$ <u>1,362,942</u>

---

**Budgetary Highlights**

The District's total net assets were aided by Capacity Assurance Fee (CAF) payments in FY11. The CAFs are retained in a restricted account. The District's use of the CAFs is tied to a specific project and subject to approval of the WV PSC. Certain CAFs on deposit with the District in FY11 were tied to CAF agreement contracts waiting approval by the WV PSC at June 30, 2011. A \$1 million CAF was refunded to the Jefferson County Economic Development Authority and that refund was reflected in FY12 financial reporting.

The District invested approximately \$113,496 in the current year for a project total of \$826,690 to fund the planning, easement acquisition, engineering, accounting and regulatory costs associated with the Flowing Springs Wastewater Treatment Plant project. This investment was financed by the use of the District's operating cash account, plus debt financing and Capacity Improvement Fee account. It was anticipated that the District would be reimbursed the bulk of this investment on final regulatory approval and final financing of the project, but the Flowing Springs project was not approved in FY 2012 and will not move forward to bid and construction. As a result, the District is at significant risk that the upfront cash and borrowed capital outlay investments will not be covered by permanent project financing unless a substitute project can be developed that leverages the current investments. In FY 2012 the District paid off the

Jefferson County Public Service District  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the fiscal year ended June 30, 2012

\$750,000 BAN by borrowing \$44,062 from MVB Bank and utilizing the balance in our CIF account of \$705,870. The remaining \$68 came from operating funds. This eliminated the BAN debt. The District is now in negotiation with the WV PSC and interveners in the PSC Case # 12-0513-PSD-42T-PC to determine how the balance of approximately \$1.3 Million will be paid to the engineer for work on this project.

The District's operating revenue accounts were slowly increasing throughout FY 2011; however the debt refinancing of the BAN, easement acquisition, engineering and other costs associated with the Flowing Springs Project have caused the cash account balances to decrease significantly in FY 2012.

Over the course of the year, the District approved an amendment to the Sewer Department budget mid-year, as several accounts were over budget, and those additional expenditures were approved by the board. Overall, the District ended the Fiscal Year under budget by approximately \$41,000 and the actual operating expenses were comparable to the District's prior year.

### **Capital Assets and Debt Administration**

At the end of the current fiscal year, the District's Sewer Department had outstanding revenue bonds of \$5,690, 727.

The District took on additional long term debt during the current fiscal year to pay off the BAN. The District is currently involved in the above-mentioned PSC Case # 12-0513-PSD-42T-PC which, if approved, will result in additional debt to cover the cost of numerous operations related items and the engineering bill for the Flowing Springs Wastewater Treatment Plant Project.

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 116%

### **Economic Factors**

The District began to experience a slowdown in new service customer connections in 2008. Management attributes much of the decline to the overall national slump in the housing industry. The District expects that the residential sector will continue to slowly increase as the economy improves. Overall, the District expects growth in new service customer connections and equivalent domestic units (EDU). It is encouraging that many of the homes and businesses that were vacated during the last fiscal year (existing service connections but no active customer use or revenue) are now occupied and active. One new hotel came on line in FY 2012 and the District has received encouraging information from local developers that they are preparing to restart building homes in the very near future.

The District believes that the fundamentals of location and cost in Jefferson County remain favorable for economic development and expect that the District's commitment to



Jefferson County Public Service District  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the fiscal year ended June 30, 2012

providing readily available services will position the community for early economic recovery.

The long-term trend of increasing numbers of residences and businesses in Jefferson County has resulted in the increase in demand on the Charles Town wastewater facility which is used by the district to treat wastewater of District customers. The District is a bulk customer of Charles Town. In FY 2011 The District pursued funding for a new Chesapeake Bay compliant wastewater treatment plant, the Flowing Springs Wastewater Treatment Plant, planned to reduce the burden on the Charles Town Wastewater treatment plant generated by a significant portion of the District's customer base. The plans for this wastewater treatment plant were approved by West Virginia Department of Environmental Protection and a Certificate of Necessity and Convenience was granted by the West Virginia Public Service Commission. The District was forced to reopen the Certificate case due to changing circumstances related to the financing of the project and the resulting rate impact to District customers. A second public hearing was held and on August 12, 2011, shortly after FY 2011 ended, and the Certificate was subsequently denied. The District was directed to continue to utilize the wastewater treatment capacity provided and planned by the City of Charles Town.

The District is still faced with costly upgrades to its collection system and must develop a new project plan that addresses urgent collection system needs as well as the transmission capability to continue to send wastewater to Charles Town for treatment. The District has already obtained approximately 80% of the easements for the collection system project anticipated under the Flowing Springs WWTP initiative and these may still be used to upgrade the existing collection and transmission system in a future project plan.

The District will continue to operate under an interstate environmental compact that commits West Virginia to play a role restoring water quality in the Chesapeake Bay. The new operating environment will require that the District and our municipal partners in the City of Ranson and the City of Charles Town find and implement solutions for these emerging regulatory challenges. The District expects to see increased operating and capital costs in the future associated with regulatory compliance.

Jefferson County Public Service District

**BALANCE SHEETS**

June 30, 2012 and 2011

**ASSETS**

	<u>Water Department</u>	<u>Sewer Department</u>	<b><u>2012 Total</u></b>	2011 Memorandum Only <u>Total</u>
<b>CURRENT ASSETS</b>				
Cash	\$ 66,192	\$ (5,378)	\$ 60,814	\$ 227,821
Accounts receivable, net of allowance for doubtful accounts of \$10,000	(203)	60,898	60,695	72,991
Accounts receivable - other	-	3,681	3,681	4,733
Accrued utility revenue	4,555	172,085	176,640	179,806
Prepaid expenses and deposits	-	9,247	<u>9,247</u>	<u>9,247</u>
Total current assets	<u>70,544</u>	<u>240,533</u>	<u>311,077</u>	<u>494,598</u>
<b>RESTRICTED CASH</b>	<u>3,771</u>	<u>751,702</u>	<u>755,473</u>	<u>2,143,333</u>
<b>CAPITAL ASSETS</b>				
Land and land rights	2,066	917,885	919,951	919,951
Construction work in progress	-	1,659,433	1,659,433	1,549,643
Utility plant in service	194,502	16,548,053	16,742,555	16,112,316
Less accumulated depreciation	<u>(71,050)</u>	<u>(5,210,051)</u>	<u>(5,281,101)</u>	<u>(4,902,713)</u>
Net capital assets	<u>125,518</u>	<u>13,915,320</u>	<u>14,040,838</u>	<u>13,679,197</u>
<b>OTHER ASSETS</b>				
Unamortized debt issue expense, net of accumulated amortization of \$94,319 and \$81,731, respectively	-	208,394	208,394	218,143
Future utility plant preliminary survey and design charges	237,994	308,346	546,340	449,177
Due from other funds	-	27,701	27,701	12,482
Other assets - capacity upgrades, net of accumulated amortization of \$333,570 and \$265,149, respectively	<u>-</u>	<u>795,441</u>	<u>795,441</u>	<u>863,867</u>
Total other assets	<u>237,994</u>	<u>1,339,882</u>	<u>1,577,876</u>	<u>1,543,669</u>
Total assets	\$ <u>437,827</u>	\$ <u>16,247,437</u>	\$ <u>16,685,264</u>	\$ <u>17,860,797</u>

The accompanying notes are an integral part of this statement.

Jefferson County Public Service District

**BALANCE SHEETS (Continued)**

June 30, 2012 and 2011

	<b>LIABILITIES</b>			2011 Memorandum Only Total
	<u>Water Department</u>	<u>Sewer Department</u>	<b>2012 Total</b>	<u>Total</u>
<b>CURRENT LIABILITIES (payable from current assets)</b>				
Accounts payable	\$ 3,972	\$ 128,906	\$ <b>132,878</b>	\$ 104,368
Accrued taxes and expenses	<u>-</u>	<u>25,212</u>	<u><b>25,212</b></u>	<u>37,058</u>
Total current liabilities (payable from current assets)	<u>3,972</u>	<u>154,118</u>	<u><b>158,090</b></u>	<u>141,426</u>
<b>CURRENT LIABILITIES (payable from restricted cash)</b>				
Revenue bonds payable (due within one year)	-	287,361	<b>287,361</b>	287,362
Accrued interest payable	-	17,864	<b>17,864</b>	18,464
Customer deposits	2,403	121,197	<b>123,600</b>	120,221
Capital improvement fees	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,127</u>
Total current liabilities (payable from restricted cash)	<u>2,403</u>	<u>426,422</u>	<u><b>428,825</b></u>	<u>427,174</u>
<b>LONG-TERM LIABILITIES</b>				
Due to other funds	27,701	-	<b>27,701</b>	12,482
OPEB obligation	-	161,482	<b>161,482</b>	123,370
Revenue bonds payable	-	5,403,366	<b>5,403,366</b>	5,690,727
Notes payable	145,000	41,980	<b>186,980</b>	895,000
Original issue discount, net of accumulated amortization of \$1,163 and \$582, respectively	-	(9,455)	<b>(9,455)</b>	(10,036)
Deferred acquisition cost on bond refinancing, net of accumulated amortization of \$40,178 and \$20,089, respectively	<u>-</u>	<u>(319,549)</u>	<u><b>(319,549)</b></u>	<u>(339,638)</u>
Total long-term liabilities	<u>172,701</u>	<u>5,277,824</u>	<u><b>5,450,525</b></u>	<u>6,371,905</u>
Total liabilities	<u>179,076</u>	<u>5,858,364</u>	<u><b>6,037,440</b></u>	<u>6,940,505</u>
<b>NET ASSETS</b>				
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	218,512	9,823,783	<b>10,042,295</b>	8,755,381
Restricted for debt and construction	1,368	630,507	<b>631,875</b>	2,021,986
Unrestricted	<u>38,871</u>	<u>(65,217)</u>	<u><b>(26,346)</b></u>	<u>142,925</u>
Total net assets	<u>258,751</u>	<u>10,389,073</u>	<u><b>10,647,824</b></u>	<u>10,920,292</u>
Total liabilities and net assets	\$ <u>437,827</u>	\$ <u>16,247,437</u>	\$ <u><b>16,685,264</b></u>	\$ <u>17,860,797</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, 2012 and 2011

	<u>Water Department</u>	<u>Sewer Department</u>	<u>2012 Total</u>	2011 Memorandum Only <u>Total</u>
<b>OPERATING REVENUES</b>				
Sales to general customers	\$ 47,878	\$ 1,977,899	\$ 2,025,777	\$ 2,193,300
Customers' forfeited discounts and penalties	-	46,885	46,885	49,312
Income from bad debts recovered	944	-	944	1,044
Miscellaneous revenues	<u>297</u>	<u>83,708</u>	<u>84,005</u>	<u>73,612</u>
Total operating revenues	<u>49,119</u>	<u>2,108,492</u>	<u>2,157,611</u>	<u>2,317,268</u>
<b>OPERATING REVENUE DEDUCTIONS BEFORE DEPRECIATION</b>				
Operating expenses	<u>48,926</u>	<u>1,735,590</u>	<u>1,784,516</u>	<u>1,722,341</u>
Operating income before depreciation	193	372,902	373,095	594,927
<b>DEPRECIATION</b>	<u>6,593</u>	<u>379,541</u>	<u>386,134</u>	<u>373,214</u>
Operating income	<u>(6,400)</u>	<u>(6,639)</u>	<u>(13,039)</u>	<u>221,713</u>
<b>NON-OPERATING INCOME (EXPENSE)</b>				
Interest income	29	321	350	969
Grant revenue	-	-	-	25,389
Gain (loss) on disposal of assets	-	(8,918)	(8,918)	(2,279)
Interest expense	(5)	(92,333)	(92,338)	(95,602)
Amortization of debt issue expense and other assets - treatment plant upgrades	-	(81,586)	(81,586)	(81,573)
Loss due to dropped projects	-	(2,783)	(2,783)	(54,095)
Miscellaneous non-operating revenues	<u>-</u>	<u>41,412</u>	<u>41,412</u>	<u>41,412</u>
Total non-operating income (expense)	<u>24</u>	<u>(143,887)</u>	<u>(143,863)</u>	<u>(165,779)</u>
Increase (decrease) in net assets before capital contributions	<u>(6,376)</u>	<u>(150,526)</u>	<u>(156,902)</u>	<u>55,934</u>
<b>CAPITAL CONTRIBUTIONS</b>	<u>-</u>	<u>(115,566)</u>	<u>(115,566)</u>	<u>1,307,008</u>
Increase (decrease) in net assets	(6,376)	(266,092)	(272,468)	1,362,942
Net assets at beginning of year	<u>265,127</u>	<u>10,655,165</u>	<u>10,920,292</u>	<u>9,557,350</u>
Net assets at end of year	\$ <u>258,751</u>	\$ <u>10,389,073</u>	\$ <u>10,647,824</u>	\$ <u>10,920,292</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, 2012 and 2011

	<u>Water Department</u>	<u>Sewer Department</u>	<u>2012 Total</u>	2011 Memorandum Only <u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 50,580	\$ 2,108,331	\$ 2,158,911	\$ 2,336,944
Cash payments for goods and services	(30,336)	(1,075,140)	(1,105,476)	(1,254,850)
Cash payments for employee services	<u>-</u>	<u>(609,044)</u>	<u>(609,044)</u>	<u>(550,118)</u>
Net cash flows provided by operating activities	<u>20,244</u>	<u>424,147</u>	<u>444,391</u>	<u>531,976</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received	<u>29</u>	<u>321</u>	<u>350</u>	<u>969</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Expenditures for utility plant and other assets	(15,759)	(42,965)	(58,724)	(112,794)
Increase in customer deposits	(29)	3,408	3,379	4,101
Capital improvement fees collected	-	327,300	327,300	391,127
Capital improvement fees transferred to joint account	-	(30,429)	(30,429)	(88,627)
Capacity assurance fee collected	-	-	-	1,000,000
Capacity assurance fee refunded	-	(1,000,000)	(1,000,000)	-
Principal payment on debt - bond and notes	-	(995,382)	(995,382)	(207,365)
Credits on treatment upgrade bonds	-	41,412	41,412	41,412
Interest paid on bonds and notes	(5)	(72,844)	(72,849)	(57,048)
Proceeds from grant	-	-	-	25,389
Construction work in progress capital expenditures	-	(10,270)	(10,270)	(224,542)
Increase in preliminary surveys	<u>(80,512)</u>	<u>(123,533)</u>	<u>(204,045)</u>	<u>(12,756)</u>
Net cash (used in) capital and related financing activities	<u>(96,305)</u>	<u>(1,903,303)</u>	<u>(1,999,608)</u>	<u>758,897</u>
Net increase (decrease) in cash	<u>(76,032)</u>	<u>(1,478,835)</u>	<u>(1,554,867)</u>	<u>1,291,842</u>
<b>CASH AND CASH EQUIVALENTS BEGINNING OF YEAR</b>	<u>145,995</u>	<u>2,225,159</u>	<u>2,371,154</u>	<u>1,079,312</u>
<b>CASH AND CASH EQUIVALENTS END OF YEAR</b>	<u>\$ 69,963</u>	<u>\$ 746,324</u>	<u>\$ 816,287</u>	<u>\$ 2,371,154</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Operating income	\$ (6,400)	\$ (6,639)	\$ (13,039)	\$ 221,713
Depreciation	6,593	379,541	386,134	373,214
Adjustments for changes in operating assets and liabilities:				
(Increase) decrease in accounts and other receivables	1,461	(3,332)	(1,871)	19,070
(Increase) decrease in accrued utility revenue	-	3,171	3,171	604
Increase (decrease) in accounts payable	18,590	25,140	43,730	(87,873)
Increase (decrease) in accrued expenses	-	(11,846)	(11,846)	(39,272)
Increase in other employee benefit obligation	<u>-</u>	<u>38,112</u>	<u>38,112</u>	<u>44,520</u>
Net cash provided by operating activities	<u>\$ 20,244</u>	<u>\$ 424,147</u>	<u>\$ 444,391</u>	<u>\$ 531,976</u>

The accompanying notes are an integral part of this statement.

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2012 and 2011

**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).

**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.

**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.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

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

**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.

**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 services. 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, 2012 and 2011.

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.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

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

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

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, 2012 or 2011. 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.

Major classifications of utility plant of the District and their respective useful lives at June 30, 2012 and 2011, 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.



**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

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

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

**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 \$16,357 and \$14,471 at June 30, 2012 and 2011, 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.

**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.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

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

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

**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.

**CASH AND TEMPORARY INVESTMENTS**

Cash and temporary investments consisted of the following accounts and amounts at June 30, 2012 and 2011:

	<u>Water</u>	<u>Sewer</u>	<b><u>2012</u></b> <b><u>Total</u></b>	2011 <u>Memorandum</u> <u>Only Total</u>
Revenue	\$ -	\$ (6,565)	\$ <b>(6,565)</b>	\$ 75,787
Petty cash	-	700	<b>700</b>	700
Operations and maintenance	66,192	-	<b>66,192</b>	142,175
Future needs	<u>-</u>	<u>487</u>	<b><u>487</u></b>	<u>9,159</u>
Total	\$ <u>66,192</u>	\$ <u>(5,378)</u>	\$ <b><u>60,814</u></b>	\$ <u>227,821</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.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

**RESTRICTED CASH AND RESERVES**

Restricted cash and reserves consisted of the following accounts and amounts at June 30, 2012 and 2011:

		<u>Water</u>		<u>Sewer</u>		<b>2012</b>		2011
						<b>Total</b>		Memorandum
								<u>Only Total</u>
Debt service revenue	\$	-	\$	85,211	\$	<b>85,211</b>	\$	87,781
Debt service reserve		-		402,246		<b>402,246</b>		401,289
Cost of issuance for bonds		-		-		-		-
Renewal and replacement		-		45,971		<b>45,971</b>		25,713
Capacity improvement and assurance fee		-		95,604		<b>95,604</b>		1,504,471
Customer deposits		<u>3,771</u>		<u>122,670</u>		<b><u>126,441</u></b>		<u>124,079</u>
<b>Total</b>	<b>\$</b>	<b><u>3,771</u></b>	<b>\$</b>	<b><u>751,702</u></b>	<b>\$</b>	<b><u>755,473</u></b>	<b>\$</b>	<b><u>2,143,333</u></b>

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.

The District is required to collect Capacity Improvement Fees (CIF), by the orders of the Public Service Commission of West Virginia (PSC) dated March 2005 and modified January 2010, which are to be used for the purpose of improving the Charles Town treatment facilities or debt service of the Flowing Springs Waste Water Treatment Plant. The Allocation of the CIF collection is dependent on where the customer flow will be treated.

The District is required to remit CIF collections for new customers flows that will be treated at the Charles Town treatment plant by 30 days from collection without interest. The District maintains a liability on the books for fees collected but not yet transferred. The balance of the liability as of June 30, 2012 and 2011 was \$0 and \$1,127 respectively.

CIF collections in excess of amounts required to be remitted to Charles Town treatment facilities and amounts collected directly for new customer flows to be treated at the Flowing Springs Waste Water Treatment Plant can only be disbursed by the District with permission of the PSC.

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.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

**DEPOSITS AND INVESTMENTS**

At June 30, 2012, the District's cash and investment balances were as follows

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Standard Poor Rating</u>
Repurchase Agreements	Various	\$ 327,646	AAA
State Investment Pool	Average of 90 days	<u>487,457</u>	AA-1
Total investments		815,103	
Cash		<u>1,184</u>	
Total Cash and Investments		\$ <u>816,287</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.

**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 it's underlying securities being Federal Home Loan Bank and Fannie Mae mortgage loans of 43%, and investments in the state investment pool of 57% 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.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

**DEPOSITS AND INVESTMENTS (Continued)**

**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, 2012, \$120,514 of the District's bank balance of \$371,002 was exposed to custodial credit risk. \$250,488 of the bank balance was covered by Federal Deposit Insurance (FDIC) and \$120,514 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, 2012 and 2011, 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, 2012 and 2011.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

**CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2011 was as follows

**Sewer Department**

	Balance at July 01, 2010	Additions	Retirements	Balance at June 30, 2011
Capital assets not being depreciated:				
Land and land rights	\$ 917,885	\$ -	\$ -	\$ 917,885
Construction work in progress	<u>1,330,749</u>	<u>218,894</u>	<u>-</u>	<u>1,549,643</u>
Total capital assets not being depreciated - sewer	<u>2,248,634</u>	<u>218,894</u>	<u>-</u>	<u>2,467,528</u>
Capital assets being depreciated:				
Collection mains and services	10,819,526	-	-	10,819,526
Transmission mains	240,858	-	-	240,858
Gravity mains	64,865	-	-	64,865
Force mains	1,147,076	-	-	1,147,076
Electric pumping equipment	3,247,817	100,862	2,902	3,345,777
Transportation equipment	80,903	4,145	-	85,048
Communication equipment	22,873	-	1,530	21,343
Furniture and office equipment	<u>205,207</u>	<u>7,787</u>	<u>3,914</u>	<u>209,080</u>
Total capital assets being depreciated - sewer	<u>15,829,125</u>	<u>112,794</u>	<u>8,346</u>	<u>15,933,573</u>
<b>Less Accumulated Depreciation – Sewer Department</b>				
	Balance at July 01, 2010	Additions	Retirements	Balance at June 30, 2011
Collection mains and services	2,909,234	216,390	-	3,125,624
Transmission mains	98,179	4,816	-	102,995
Gravity mains	20,107	1,298	-	21,405
Force mains	453,248	22,941	-	476,189
Electric pumping equipment	846,494	89,806	783	935,517
Transportation equipment	61,482	7,235	-	68,717
Communication equipment	6,734	3,215	-	9,949
Furniture and office equipment	<u>82,222</u>	<u>20,922</u>	<u>5,285</u>	<u>97,859</u>
Total accumulated depreciation	<u>4,477,700</u>	<u>366,623</u>	<u>6,068</u>	<u>4,838,255</u>
Total capital assets being depreciated, net - sewer	<u>11,351,425</u>	<u>(253,829)</u>	<u>2,278</u>	<u>11,095,318</u>
Net capital assets - sewer	\$ <u>13,600,059</u>	\$ <u>(34,935)</u>	\$ <u>2,278</u>	\$ <u>13,562,846</u>

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

**CAPITAL ASSETS (Continued)****Water Department**

	Balance at <u>July 01, 2010</u>	<u>Additions</u>	<u>Retirements</u>	Balance at <u>June 30, 2011</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	74,282	-	-	74,282
Supply mains	1,240	-	-	1,240
Wells and springs	9,949	-	-	9,949
Pump equipment	18,235	-	-	18,235
Transmission and distribution lines	58,316	-	-	58,316
Services and meters	16,598	-	-	16,598
Hydrants	<u>122</u>	<u>-</u>	<u>-</u>	<u>122</u>
Total capital assets being depreciated - water	<u>178,742</u>	<u>-</u>	<u>-</u>	<u>178,742</u>

**Less Accumulated Depreciation – Water Department**

	Balance at <u>July 01, 2010</u>	<u>Additions</u>	<u>Retirements</u>	Balance at <u>June 30, 2011</u>
Structures and improvements	18,685	3,069	-	21,754
Supply mains	496	31	-	527
Wells and springs	637	255	-	892
Pump equipment	10,448	994	-	11,442
Transmission and distribution lines	21,696	1,736	-	23,432
Services and meters	5,834	502	-	6,336
Hydrants	<u>70</u>	<u>4</u>	<u>-</u>	<u>74</u>
Total accumulated depreciation	<u>57,866</u>	<u>6,591</u>	<u>-</u>	<u>64,457</u>
Total capital assets being depreciated, net - water	<u>120,876</u>	<u>(6,591)</u>	<u>-</u>	<u>114,285</u>
Net capital assets - water	\$ <u><u>122,942</u></u>	\$ <u><u>(6,591)</u></u>	\$ <u><u>-</u></u>	\$ <u><u>116,351</u></u>

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

**CAPITAL ASSETS (Continued)**

Capital assets activity for the year ended June 30, 2012 was as follows:

**Sewer Department**

	<u>Balance at July 01, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2012</u>
Capital assets not being depreciated:				
Land and land rights	\$ 917,885	\$ -	\$ -	\$ 917,885
Construction work in progress	<u>1,549,643</u>	<u>109,790</u>	<u>-</u>	<u>1,659,433</u>
Total capital assets not being depreciated - sewer	<u>2,467,528</u>	<u>109,790</u>	<u>-</u>	<u>2,577,318</u>
Capital assets being depreciated:				
Collection mains and services	10,819,526	425,518	-	11,245,044
Transmission mains	240,858	-	-	240,858
Gravity mains	64,865	-	-	64,865
Force mains	1,147,076	-	-	1,147,076
Electric pumping equipment	3,345,777	196,590	13,888	3,528,479
Transportation equipment	85,048	-	3,415	81,633
Communication equipment	21,343	-	-	21,343
Furniture and office equipment	<u>209,080</u>	<u>9,675</u>	<u>-</u>	<u>218,755</u>
Total capital assets being depreciated - sewer	<u>15,933,573</u>	<u>631,783</u>	<u>17,303</u>	<u>16,548,053</u>

**Less Accumulated Depreciation – Sewer Department**

	<u>Balance at July 01, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2012</u>
Collection mains and services	3,125,624	222,227	-	3,347,851
Transmission mains	102,995	4,817	-	107,812
Gravity mains	21,405	1,297	-	22,702
Force mains	476,189	22,943	-	499,132
Electric pumping equipment	935,517	96,219	4,330	1,027,406
Transportation equipment	68,717	7,960	3,415	73,262
Communication equipment	9,949	1,759	-	11,708
Furniture and office equipment	<u>97,859</u>	<u>22,319</u>	<u>-</u>	<u>120,178</u>
Total accumulated depreciation	<u>4,838,255</u>	<u>379,541</u>	<u>7,745</u>	<u>5,210,051</u>
Total capital assets being depreciated, net - sewer	<u>11,095,318</u>	<u>252,242</u>	<u>9,558</u>	<u>11,338,002</u>
Net capital assets - sewer	\$ <u>13,562,846</u>	\$ <u>362,032</u>	\$ <u>9,558</u>	\$ <u>13,915,320</u>



**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

**CAPITAL ASSETS (Continued)****Water Department**

	Balance at <u>July 01, 2011</u>	<u>Additions</u>	<u>Retirements</u>	Balance at <u>June 30, 2012</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	74,282	15,760	-	90,042
Supply mains	1,240	-	-	1,240
Wells and springs	9,949	-	-	9,949
Pump equipment	18,235	-	-	18,235
Transmission and distribution lines	58,316	-	-	58,316
Services and meters	16,598	-	-	16,598
Hydrants	<u>122</u>	<u>-</u>	<u>-</u>	<u>122</u>
Total capital assets being depreciated - water	<u>178,742</u>	<u>15,760</u>	<u>-</u>	<u>194,502</u>
<b>Less Accumulated Depreciation – Water Department</b>				
	Balance at <u>July 01, 2011</u>	<u>Additions</u>	<u>Retirements</u>	Balance at <u>June 30, 2012</u>
Structures and improvements	21,754	3,292	-	25,046
Supply mains	527	32	-	559
Wells and springs	892	255	-	1,147
Pump equipment	11,442	990	-	12,432
Transmission and distribution lines	23,432	1,680	-	25,112
Services and meters	6,336	340	-	6,676
Hydrants	<u>74</u>	<u>4</u>	<u>-</u>	<u>78</u>
Total accumulated depreciation	<u>64,457</u>	<u>6,593</u>	<u>-</u>	<u>71,050</u>
Total capital assets being depreciated, net - water	<u>114,285</u>	<u>9,167</u>	<u>-</u>	<u>123,452</u>
Net capital assets - water	\$ <u>116,351</u>	\$ <u>9,167</u>	\$ <u>-</u>	\$ <u>125,518</u>

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

**CONSTRUCTION WORK IN PROGRESS**

Construction work in progress is made up of the following at June 30, 2012:

Flowing Springs Sewer Treatment Plant	\$ 1,574,797
Norborne Glebe Project	9,689
Sheridan Project	8,403
Old Standard	34,311
Wormald/Beallair Project	16,324
Spruce Hill North Project	14,740
Jefferson Crossing II	<u>1,169</u>
	<u>\$ 1,659,433</u>

On August 12, 2011 the West Virginia Public Service Commission (WV PSC) denied the Certificate of Need and Convenience for the Flowing Springs Wastewater Treatment Plant project. In their final decision denying the plant, the WV PSC did mention the need for the upgrades to the District's collection system. If the Board chooses to use the information provided in the preliminary design for the Flowing Springs Wastewater Treatment Plant Project, much of the preliminary work for this collection system upgrade has already been completed, including acquisition of approximately eighty percent (80%) of the necessary easements.

The District currently has a contingent liability for engineering fees for the Flowing Springs Wastewater Treatment Plant. After the contingent engineering fees are known the District will review the Flowing Springs Sewer Treatment Plan cost to determine the amounts that have current value and write off the amounts deemed to have no further use. In Addition the \$1 million funding commitment from the Jefferson County Development Authority for the Flowing Springs Wastewater Treatment Plant was returned to them. With permission from the WV PSC, the \$750,000 BAN the District had used as a down-payment to the engineer was repaid with money which had accumulated in the District's capacity improvement fee account and a small bank loan of \$44,062.

In the fiscal year ended June 30, 2010, the District was awarded a \$60,069 grant from West Virginia Department of Health and Human Resources grant for engineering studies to identify the opportunities and feasibility present in the direct or indirect reuse of reclaimed wastewater effluent in order to preserve and protect groundwater and surface water resources. The District recognized grant revenue for expense reimbursement in the amount \$0 and \$25,389 as of June 30, 2012 and 2011 respectively.

The Norborne Glebe Project is an alternate main line extension that will service the Norborne Glebe subdivision. The project has been expanded from its original plan to serve 602 homes to serve approximately 1,000 residential units and 40 acres of commercial property. 71 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 2025 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 of which three of these agreements had expired by June 30, 2011. The agreements are; real estate purchase agreement, leaseback agreement, operation and maintenance agreement and an asset purchase agreement. The real estate purchase agreement and leaseback agreement stages have already taken place and the plant is currently constructed and serving the homes of Sheridan. It has not been turned over to the District from the developer as it does not yet have enough customers to be self-supporting, but the District owns the land upon which the plant is constructed. The homes in Sheridan are customers of the developer until they turn the plant over to the District.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

**CONSTRUCTION WORK IN PROGRESS (Continued)**

The Old Standard wastewater treatment plant is serving the customers from the Sheridan Development. Customers are now residing at the Sheridan development. The developer deeded approximately 2.5 acres to the District for a treatment plant in September 2004. This treatment plant is now constructed and eventually 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 Beallair Development by Wormald Developers is under an alternate mainline extension agreement. The project will service approximately 400 homes when fully built out. The developer originally purchased 49 capacity assurance fee agreements from the District. 27 of these have been utilized for homes that now have paying customers. The remaining 22 have reached the point where, per the agreement, the Developer is paying a flat rate each month until they have a paying customer to replace their commitment. The sewer system is being constructed by the Developer and will be turned over to the District for \$1 when completed. At that 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 District previously accepted one pump station and the lines for lots 1-49.

The Spruce Hill North Project is an alternate mainline extension that will service the Spruce Hill North subdivision. The project will service approximately 119 homes, of which 61 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 II project is a business area consisting of two (2) office buildings, two (2) strip malls, one (1) gas station, one (1) car wash and two (2) restaurants currently online, with possible expansion occurring in future years. (1) hotel came online in late 2011. Sewer Infrastructure of the project 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.

**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.

**Other Assets-Capacity Upgrades**

The District's contribution to the Charles Town wastewater treatment plant upgrade is being amortized over the remaining life (25 years) of the associated bonds. The carrying amount of this asset, net of amortization at June 30, 2012 and 2011 is \$795,441 and \$839,637 respectively. (See details on reclassification in Sewer Service Agreement note).

During fiscal year ending June 30, 2008 the District purchased capacity related to a pump station from the Municipality of Ranson in the amount of \$121,151. The District believes it will only need that capacity for about five years. The carrying amount of this asset, net of amortization at June 30, 2012 and 2011 was \$0 and \$24,230 respectively.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

**REVENUE BONDS PAYABLE**

The District was obligated under trust indentures with respect to the following sewer revenue bonds outstanding at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</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.	\$ 185,593	\$ 196,510
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.	72,822	121,370
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.	209,664	239,617
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.	662,039	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.	223,863	236,475
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% interest and concluding December 1, 2031.	750,672	789,168
Series - 2008 A sewer revenue bonds, original face value of \$2,005,000, payable in quarterly installments with principal beginning March 1, 2009 at \$16,709 at 0% interest and concluding December 1, 2038.	1,771,074	1,837,910
Series - 2010 A sewer revenue refunding bonds, original face value of \$1,895,000, payable in semi-annual installments with principal beginning October 1, 2010 at \$19,900 at 3% increasing to 4.375% interest and concluding on October 1, 2028.	<u>1,815,000</u>	<u>1,895,000</u>
Total revenue bonds payable	\$ <u>5,690,727</u>	\$ <u>5,978,089</u>

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

**REVENUE BONDS PAYABLE (Continued)**

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, 2012 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 287,361	70,256
2014	263,087	67,856
2015	243,813	65,168
2016	243,813	62,194
2017	248,813	59,131
2018-2022	1,305,559	261,020
2023-2027	1,416,449	154,865
2028-2032	1,024,636	28,366
2033-2037	518,883	6,790
2038-2039	138,313	238
	<u>\$ 5,690,727</u>	<u>\$ 775,884</u>

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

All sewer revenue bonds are on parity with each other.

Sewer revenue bond activity for the year ended June 30, 2011 was as follows:

	<u>Balance at July 01, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2011</u>
Series 1988 B	\$ 207,427	\$ -	\$ 10,917	\$ 196,510
Series 1993 A	169,918	-	48,548	121,370
Series 1998 B	269,573	-	29,956	239,617
Series 1998 C	662,039	-	-	662,039
Series 1999 A	249,087	-	12,612	236,475
Series 2000 A	827,664	-	38,496	789,168
Series 2008 A	1,904,746	-	66,836	1,837,910
Series 2010 A	<u>1,895,000</u>	<u>-</u>	<u>-</u>	<u>1,895,000</u>
Total sewer revenue bonds payable	\$ <u>6,185,454</u>	\$ <u>-</u>	\$ <u>207,365</u>	\$ 5,978,089
Less: Current portion due in upcoming year				<u>287,362</u>
Long-term sewer revenue bonds payable at June 30, 2011 (net of current portion)				\$ <u><u>5,690,727</u></u>

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

**REVENUE BONDS PAYABLE (Continued)**

Sewer revenue bond activity for the year ended June 30, 2012 was as follows:

	Balance at <u>July 01, 2011</u>	<u>Additions</u>	<u>Deductions</u>	Balance at <u>June 30, 2012</u>
Series 1988 B	\$ 196,510	\$ -	\$ 10,917	\$ 185,593
Series 1993 A	121,370	-	48,548	72,822
Series 1998 B	239,617	-	29,953	209,664
Series 1998 C	662,039	-	-	662,039
Series 1999 A	236,475	-	12,612	223,863
Series 2000 A	789,168	-	38,496	750,672
Series 2008 A	1,837,910	-	66,836	1,771,074
Series 2010 A	<u>1,895,000</u>	<u>-</u>	<u>80,000</u>	<u>1,815,000</u>
Total sewer revenue bond payable	\$ <u>5,978,089</u>	\$ <u>-</u>	\$ <u>287,362</u>	\$ 5,690,727
Less: Current portion due in upcoming year				<u>287,361</u>
Long-term sewer revenue bonds payable at June 30, 2012 (net of current portion)				\$ <u><u>5,403,366</u></u>

The covenants contained in the bond issues include a required debt service coverage ratio of 115%. As of June 30, 2012 and 2011, the District's debt service coverage ratio was 116%, and 173% 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, 2012 and 2011, the District fully funded the renewal and replacement reserve.

**Current Refunding**

The District on June 24, 2010, issued Series 2010 A Sewer revenue bonds to refund its Series 1998 A revenue refinancing bonds. As required by Generally Accepted Standards Board Statement No. 23, the District deferred the difference between the reacquisition price and the net carrying amount of the old debt to be amortized as a component of interest expense over the shorter of the remainder life of the old debt or the new debt.

Deferred requisition cost:	Original Amt.	Accum. Amort.	Net Amount
Series 1998 A bond issue costs	\$ 109,885	\$ 12,418	\$ 97,467
Deferred loss on 1998 A refinance	<u>249,842</u>	<u>27,760</u>	<u>222,082</u>
Deferred 2010 A reacquisition cost	\$ <u><u>359,727</u></u>	\$ <u><u>40,178</u></u>	\$ <u><u>319,549</u></u>

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

**REVENUE BONDS PAYABLE (Continued)**

**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 \$ 1,170,000 as of June 30, 2012.

**NOTES PAYABLE**

Notes payable consist of the following:

	<u>2012</u>	<u>2011</u>
<b>Sewer Department</b>		
Bond anticipation note payable to the bank in the amount of \$750,000 at the fixed rate of 3.25%, principal due for engineering and other cost associated with the planning of the new treatment plant.	\$ -	\$ 750,000
Note payable to the bank in the amount of \$44,062 at the fixed rate of 4.25%, principal and interest due in monthly installments beginning February 2012 and concluding in January 2017.	<u>41,980</u>	<u>-</u>
Total	<u>\$ 41,980</u>	<u>\$ 750,000</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 page 35 for the 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 TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

**NOTES PAYABLE (Continued)**

Principal amounts due over the life of the bond are as follows:

	2013	\$	8,476
	2014		8,843
	2015		9,227
	2016		9,627
	2017		5,807
Total		\$	<u>41,980</u>

**CAPACITY IMPROVEMENT FEES**

The District began collecting capacity improvement fees in March 2005 for all new connections to the District's system pursuant to a PSC order dated March 28, 2005. This order was modified by an order dated January 30, 2009, to increase the amount of the capacity improvement fee collected to \$7,500 from \$1,127 per equivalent dwelling unit.

As required by the previous order, new service connections that will be treated at the Charles Town waste water treatment plant, \$1,127 per equivalent dwelling unit will be maintained in a separate fund administered jointly by the District, City of Charles Town, and Corporation of Ranson and shall only be used for the purpose of improving the Charles Town treatment facilities.

Per the January 30, 2009 order, new sewer connections that will be treated at the District's Flowing Springs waste water treatment plant and the capacity improvement fees collected in excess of amounts required to be remitted to Charles Town, are required to be used to pay down debt service of the construction bonds.

Capacity improvement fee activity for the years ended June 30, 2012 and 2011:

<u>Charles Town WWTP</u>	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Capacity improvement fees collected	\$ 29,302	\$ 79,611
Capacity improvement fees remitted	30,429	84,119
Amount due to Charles Town WWTP beginning of year	1,127	5,635
Amount due to Charles Town WWTP end of year	\$ -	\$ 1,127
	<u>                    </u>	<u>                    </u>
<u>Flowing Springs WWTP</u>	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Capacity improvement fees collected, net of required payments to Charles Town WWTP	\$ 297,998	\$ 307,008
Capacity assurance fee (refunded)	(1,000,000)	1,000,000
Total	\$ (702,002)	\$ 1,307,008
	<u>                    </u>	<u>                    </u>

**MISCELLANEOUS OPERATING REVENUES**

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

	<u>2012</u>	<u>2011</u>
Transportation credits	\$ 34,379	\$ 35,944
System billing fees - water department	36,520	27,526
Sewer inspection fees	675	875
Disconnect/reconnect fees	3,120	-
Other miscellaneous revenue	9,014	8,997
Total	\$ 83,708	\$ 73,342
	<u>                    </u>	<u>                    </u>



**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

**LEASE**

In April 2008, the District entered into a (10) ten year facilities lease agreement with options to extend. The monthly lease payments start at \$5,782 for the first twelve months and escalate at a rate of 3% each year. The District expensed \$75,263 and \$73,071 in lease expense for fiscal years ended June 30, 2012 and 2011 respectively. Minimum future rental payments under non-cancelable operating lease are as follows:

2013	\$	77,331
2014		79,651
2015		82,041
2016		84,502
2017		87,037
There after		<u>127,594</u>

Total minimum future rental payments      \$      538,156

**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 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, 2012 and 2011 is \$795,441 and \$839,637 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 years ended June 30, 2012 and 2011, treatment expenses totaled \$558,751 and \$617,712 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, 2012 and 2011

### COMMITMENTS AND CONTINGENCIES

#### Retirement Contributions Payable

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. The three year average salary equals the average annual salary from the highest 36 consecutive months within the last 10 years of employment.

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 14.5%, 12.5% and 11% of its covered payroll for fiscal years ended June 30, 2012, 2011, and 2010. The District made 100% of the required contributions of \$64,383, \$48,401, and \$42,750 to the plan for the years ended June 30, 2012, 2011, and 2010 respectively. Information regarding this plan is available from the State of West Virginia.

#### OTHER POST EMPLOYMENT BENEFITS

*Plan Description.* The District is an active participant with the West Virginia Public Employees Insurance Agency (PEIA), a cost-sharing multiple-employer defined benefit postemployment healthcare plan. PEIA provides medical benefits to retired employees and former employees of participating and non-participating West Virginia government entities. West Virginia Code, Chapter 5, Article 16, assigns the authority to establish and amend benefit provisions to PEIA. PEIA annually issues a publically available financial report that includes financial statements and required supplementary information. That report may be obtained online from PEIA's website: [www.westvirginia.com/peia](http://www.westvirginia.com/peia).

*Funding Policy.* West Virginia Code, Chapter 5, Article 16 provides that contribution requirements of the plan and the participating employers are established and may be amended by PEIA. Plan members or beneficiaries receive benefits do not contribute to the plan.

Participating employers are contractually required to contribute at a rate assessed each year by PEIA. PEIA sets the employer contribution rate based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities of the plan over a period not to exceed thirty years.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

**OTHER POST EMPLOYMENT BENEFITS (Continued)**

	<u>Fiscal Years Ended June 30:</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Per participant per month:			
Contractually required Contributions	\$ <u>961</u>	\$ <u>903</u>	\$ <u>901</u>
District contributions to PEIA for pay as you go	\$ <u>167</u>	\$ <u>161</u>	\$ <u>140</u>
District's annual required contributions:			
Contractually required	\$ 50,941	\$ 54,374	\$ 61,839
District contributions to PEIA for pay as you go	<u>12,829</u>	<u>9,854</u>	<u>10,477</u>
Net OPEB obligation	\$ <u>38,112</u>	\$ <u>44,520</u>	\$ <u>51,362</u>
Percentage of required contributions paid	<u>25%</u>	<u>18%</u>	<u>17%</u>

The District recorded the total net OPEB obligation during fiscal year ended June 30, 2012 which consisted of the following:

Net OPEB obligation	
Fiscal year ended June 30:	
2012	\$ 38,112
2011	44,520
2010	51,362
2009	19,001
2008	<u>8,487</u>
	\$ <u>161,482</u>

**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, 2012 and 2011

**PUBLIC PRIVATE PARTNERSHIP**

The District joined a public private partnership with Jefferson Utilities, Inc. ("JUI"). JUI owns a water system serving approximately 400 customers which is currently known as Mountain Water Systems. It is estimated that approximately \$16 million of improvements to the system would be required to improve compliance with the state regulatory requirements and provide adequate water supply.

In this partnership, the District is considered the project sponsor and will apply for all public funding. The District will also be responsible for bidding and applying for all necessary permits for the construction of the project, except for the application to the Public Service Commission for a certificate of convenience and necessity and for the approval of this agreement and the request for the Bureau for Public Health for a permit, all of which shall be submitted jointly.

The project facilities will be owned by the District and a user fee will be charged to JUI at a level necessary for the District to fully satisfy its financial obligations on the project funding including, as necessary, principal and interest payments, reserve requirements, renewal and replacement funding requirements, coverage requirements, and any of the District's managements costs related to the Mountain Water Systems.

The agreement will terminate upon the earliest of the following: (1) closing on funding for the project has not occurred by December 31, 2012; (2) closing has occurred on the District's exercise of its JUI purchase option; or (3) project funding has been fully amortized. The District invested approximately \$53,801 through June 30, 2012 related to this partnership.

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Cash and cash equivalents consist of the following at June 30, 2012 and 2011

	<u>2012</u>		<u>2011</u>	
	<u>Water</u>	<u>Sewer</u>	<u>Water</u>	<u>Sewer</u>
Cash	\$ 66,192	\$ (5,865)	\$ 142,175	\$ 85,646
Restricted cash	<u>3,771</u>	<u>752,192</u>	<u>3,820</u>	<u>2,139,513</u>
Total	<u>\$ 69,963</u>	<u>\$ 746,327</u>	<u>\$ 145,995</u>	<u>\$ 2,225,159</u>

Schedule of Noncash Investing and Financing activities at June 30 2012 and 2011 - Sewer:

	<u>2012</u>	<u>2011</u>
Note financed BAN pay off	\$ <u>44,062</u>	\$ <u>-</u>
Loss on dropped projects	\$ <u>(2,224)</u>	\$ <u>(54,095)</u>

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

**SUBSEQUENT EVENTS**

**Flowing Springs Waste Water Treatment Plant**

During the fiscal year ended June 30, 2012, the District's application for a certificate of necessity for the construction of the proposed Flowing Springs waste water treatment plant and related collection system from the West Virginia Public Service Commission was denied and the District elected not to appeal. The District has accumulated and recorded in its records engineering, legal and planning cost associated with the project.

The District also believes there is a contingent liability for engineering fees associated with the design work of the Flowing Springs project. As of the date of these financial statements, this amount is unknown, the District currently lacks the ability to pay such fees in a lump sum, and any loan to pay such fees will require approval from the West Virginia Public Service Commission.

## **SUPPLEMENTAL INFORMATION**

**BUDGETARY COMPARISON SCHEDULE - WATER DEPARTMENT**

For the year ended June 30, 2012

	<u>Budgeted Amounts Original</u>	<u>Budgeted Amounts Final</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Budget to GAAP Differences Over (under)</u>	<u>Actual Amounts GAAP Basis</u>
<b>REVENUES</b>					
Operating revenues	\$ 50,000	\$ 50,000	\$ 47,878	(C)\$ 1,241	\$ 49,119
Non-operating revenues	(B) <u>500</u>	<u>500</u>	<u>24</u>	<u>(24)</u>	<u>-</u>
Total revenues	<u>50,500</u>	<u>50,500</u>	<u>47,902</u>	<u>1,217</u>	<u>49,119</u>
<b>REVENUE DEDUCTIONS BEFORE DEPRECIATION</b>					
Operating expenses	<u>43,600</u>	<u>43,600</u>	<u>48,926</u>	<u>-</u>	<u>48,926</u>
Income before depreciation	6,900	6,900	(1,024)	1,217	193
<b>DEPRECIATION</b>					
	(A) <u>-</u>	<u>-</u>	<u>-</u>	<u>6,593</u>	<u>6,593</u>
Income before non-operating expenses	<u>6,900</u>	<u>6,900</u>	<u>(1,024)</u>	<u>(5,376)</u>	<u>(6,400)</u>
<b>NON-OPERATING INCOME (EXPENSES)</b>					
Interest income	(B) <u>-</u>	<u>-</u>	<u>-</u>	<u>29</u>	<u>29</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>24</u>	<u>24</u>
Increase (decrease) net assets	6,900	6,900	(1,024)	(5,352)	(6,376)
Net assets at beginning of year	<u>265,127</u>	<u>265,127</u>	<u>265,127</u>	<u>-</u>	<u>265,127</u>
Net assets at end of year	\$ <u>272,027</u>	\$ <u>272,027</u>	\$ <u>264,103</u>	\$ <u>(5,352)</u>	\$ <u>258,751</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, 2011

	<b>Budgeted Amounts Original</b>	<b>Budgeted Amounts Final</b>	<b>Actual Amounts Budgetary Basis</b>	<b>Budget to GAAP Differences Over (under)</b>	<b>Actual Amounts GAAP Basis</b>
<b>REVENUES</b>					
Operating revenues	\$ 50,000	\$ 50,000	\$ 50,070 (C)	\$ 1,314	\$ 51,384
Non-operating revenues	(B) <u>500</u>	<u>500</u>	<u>62</u>	<u>(62)</u>	<u>-</u>
Total revenues	<u>50,500</u>	<u>50,500</u>	<u>50,132</u>	<u>1,252</u>	<u>51,384</u>
<b>REVENUE DEDUCTIONS BEFORE DEPRECIATION</b>					
Operating expenses	<u>43,600</u>	<u>43,600</u>	<u>37,456</u>	<u>-</u>	<u>37,456</u>
Income before depreciation	6,900	6,900	12,676	1,252	13,928
<b>DEPRECIATION</b>					
	(A) <u>-</u>	<u>-</u>	<u>-</u>	<u>6,591</u>	<u>6,591</u>
Income before non-operating expenses	<u>6,900</u>	<u>6,900</u>	<u>12,676</u>	<u>(5,339)</u>	<u>7,337</u>
<b>NON-OPERATING INCOME (EXPENSES)</b>					
Interest income	(B) <u>-</u>	<u>-</u>	<u>-</u>	<u>65</u>	<u>65</u>
Interest expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3)</u>	<u>(3)</u>
Total non-operating income (expenses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>62</u>	<u>62</u>
Increase (decrease) in net assets	6,900	6,900	12,676	(5,277)	7,399
Net assets at beginning of year	<u>257,728</u>	<u>257,728</u>	<u>257,728</u>	<u>-</u>	<u>257,728</u>
Net assets at end of year	\$ <u>264,628</u>	\$ <u>264,628</u>	\$ <u>270,404</u>	\$ <u>(5,277)</u>	\$ <u>265,127</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 - SEWER DEPARTMENT**

For the year ended June 30, 2012

	Budgeted Amounts <u>Original</u>	Budgeted Amounts <u>Final</u>	Actual Amounts Budgetary <u>Basis</u>	Budget to GAAP Differences <u>Over (under)</u>	Actual Amounts <u>GAAP Basis</u>
<b>REVENUES</b>					
Operating revenues	\$ 2,048,800	\$ 2,048,800	\$ 2,024,784 (F)	\$ 83,708	\$ 2,108,492
Non-operating revenues	(C) <u>165,000</u>	<u>165,000</u>	<u>41,412</u>	<u>(41,412)</u>	<u>-</u>
Total revenues	<u>2,213,800</u>	<u>2,213,800</u>	<u>2,066,196</u>	<u>42,296</u>	<u>2,108,492</u>
<b>REVENUE DEDUCTIONS BEFORE DEPRECIATION</b>					
Operating expenses	<u>1,770,202</u>	<u>1,746,932</u>	<u>1,685,284</u>	<u>50,306</u>	<u>1,735,590</u>
Income before depreciation	443,598	466,868	380,912	(8,010)	372,902
<b>DEPRECIATION</b>					
	(A) <u>-</u>	<u>-</u>	<u>-</u>	<u>379,541</u>	<u>379,541</u>
Income before non-operating expenses	<u>443,598</u>	<u>466,868</u>	<u>380,912</u>	<u>(387,551)</u>	<u>(6,639)</u>
<b>NON-OPERATING INCOME (EXPENSES)</b>					
Interest income	(C) -	-	-	321	321
Grant revenue	(C) -	-	-	-	-
Loss on disposal of assets	(A) -	-	-	(8,918)	(8,918)
Interest expense	(B) -	-	-	(92,333)	(92,333)
Amortization of debt issue expense and other assets - treatment plant upgrades	(A) -	-	-	(81,586)	(81,586)
Loss due to dropped projects	(A) -	-	-	(2,783)	(2,783)
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>(143,887)</u>	<u>(143,887)</u>
Increase (decrease) in net assets before capital contributions	<u>443,598</u>	<u>466,868</u>	<u>380,912</u>	<u>(531,438)</u>	<u>(150,526)</u>
<b>CAPITAL CONTRIBUTIONS</b>					
	(C) <u>-</u>	<u>-</u>	<u>-</u>	<u>(115,566)</u>	<u>(115,566)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Renewal and replacement funds	(55,345)	(55,345)	(53,881) (E)	53,881	-
Debt service	(D) <u>(465,700)</u>	<u>(465,000)</u>	<u>(995,382)</u> (E)	<u>995,382</u>	<u>-</u>
Total other financing (uses)	<u>(521,045)</u>	<u>(520,345)</u>	<u>(1,049,263)</u>	<u>1,049,263</u>	<u>-</u>
Decrease in net assets	(77,447)	(53,477)	(668,351)	402,259	(266,092)
Net assets at beginning of year	<u>10,655,165</u>	<u>10,655,165</u>	<u>10,655,165</u>	<u>-</u>	<u>10,655,165</u>
Net assets at end of year	\$ <u>10,577,718</u>	\$ <u>10,601,688</u>	\$ <u>9,986,814</u>	\$ <u>402,259</u>	\$ <u>10,389,073</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, grant revenues 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.

**BUDGETARY COMPARISON SCHEDULE - SEWER DEPARTMENT**

For the year ended June 30, 2011

	<b>Budgeted Amounts Original</b>	<b>Budgeted Amounts Final</b>	<b>Actual Amounts Budgetary Basis</b>	<b>Budget to GAAP Differences Over (under)</b>	<b>Actual Amounts GAAP Basis</b>
<b>REVENUES</b>					
Operating revenues	\$ 2,048,800	\$ 2,048,800	\$ 2,193,117 (F)	\$ 72,767	\$ 2,265,884
Non-operating revenues	(C) <u>165,000</u>	<u>316,000</u>	<u>141,047</u>	<u>(141,047)</u>	<u>-</u>
Total revenues	<u>2,213,800</u>	<u>2,364,800</u>	<u>2,334,164</u>	<u>(68,280)</u>	<u>2,265,884</u>
<b>REVENUE DEDUCTIONS BEFORE DEPRECIATION</b>					
Operating expenses	<u>1,770,202</u>	<u>1,786,095</u>	<u>1,684,885</u>	<u>-</u>	<u>1,684,885</u>
Income before depreciation	443,598	578,705	649,279	(68,280)	580,999
<b>DEPRECIATION</b>					
	(A) <u>-</u>	<u>-</u>	<u>-</u>	<u>366,623</u>	<u>366,623</u>
Income before non-operating expenses	<u>443,598</u>	<u>578,705</u>	<u>649,279</u>	<u>(434,903)</u>	<u>214,376</u>
<b>NON-OPERATING INCOME (EXPENSES)</b>					
Interest income	(C) -	-	-	904	904
Grant revenue	(C) -	-	-	25,389	25,389
Loss on disposal of assets	(A) -	-	-	(2,279)	(2,279)
Interest expense	(B) -	-	-	(95,599)	(95,599)
Amortization of debt issue expense and other assets - treatment plant upgrades	(A) -	-	-	(81,573)	(81,573)
Loss due to dropped projects	(A) -	-	-	(54,095)	(54,095)
Miscellaneous non-operating revenues	(A) -	-	-	41,412	41,412
Total non-operating income (expenses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(165,841)</u>	<u>(165,841)</u>
Increase (decrease) in net assets before capital contributions	<u>443,598</u>	<u>578,705</u>	<u>649,279</u>	<u>(600,744)</u>	<u>48,535</u>
<b>CAPITAL CONTRIBUTIONS</b>					
	(A) (C) <u>-</u>	<u>-</u>	<u>-</u>	<u>1,307,008</u>	<u>1,307,008</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Renewal and replacement funds	(55,345)	(59,120)	(59,426) (E)	59,426	-
Debt service	(D) <u>(465,700)</u>	<u>(405,700)</u>	<u>(264,411)</u> (E)	<u>264,411</u>	<u>-</u>
Total other financing (uses)	<u>(521,045)</u>	<u>(464,820)</u>	<u>(323,837)</u>	<u>323,837</u>	<u>-</u>
Decrease in net assets	(77,447)	113,885	325,442	1,030,101	1,355,543
Net assets at beginning of year	9,299,622	9,299,622	9,299,622	-	9,299,622
Prior period adjustment	-	-	-	-	-
Net assets at end of year	\$ <u>9,222,175</u>	\$ <u>9,413,507</u>	\$ <u>9,625,064</u>	\$ <u>1,030,101</u>	\$ <u>10,655,165</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.

Jefferson County Public Service District

**SCHEDULES OF OPERATING EXPENSES - WATER DEPARTMENT**

For the years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>SOURCE OF SUPPLY EXPENSES</b>		
Repairs and maintenance	\$ 1,387	\$ -
Operation supplies and expenses	<u>826</u>	<u>2,100</u>
Total	<u>2,213</u>	<u>2,100</u>
<b>PUMPING EXPENSES</b>		
Repairs and maintenance	2,953	1,613
Operation supplies and expenses	<u>4,488</u>	<u>4,448</u>
Total	<u>7,441</u>	<u>6,061</u>
<b>BILLING AND COLLECTING EXPENSES</b>		
Meter reading, accounting and collection	<u>482</u>	<u>11,786</u>
<b>ADMINISTRATIVE AND GENERAL EXPENSES</b>		
Professional fees	36,520	15,856
Miscellaneous expenses	<u>2,270</u>	<u>1,653</u>
Total	<u>38,790</u>	<u>17,509</u>
Total operating expenses	\$ <u>48,926</u>	\$ <u>37,456</u>

See independent auditors' report.

Jefferson County Public Service District

**SCHEDULES OF OPERATING EXPENSES - SEWER DEPARTMENT**

For the years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>COLLECTING EXPENSES</b>		
Operation labor	\$ 56,406	\$ 37,292
Supplies and expense	<u>2,704</u>	<u>8,042</u>
Total	<u>59,110</u>	<u>45,334</u>
<b>PUMPING SYSTEM</b>		
Operation labor	57,152	67,320
Power purchased for pumping	36,469	32,851
Pumping and supplies	37,145	33,190
Pumping maintenance	<u>31,272</u>	<u>30,998</u>
Total	<u>162,038</u>	<u>164,359</u>
<b>TREATMENT AND DISPOSAL SYSTEM EXPENSES</b>		
Operation labor	2,678	5,041
Supplies and expense	4,234	21,036
Treatment and disposal rent	<u>558,751</u>	<u>617,712</u>
Total	<u>565,663</u>	<u>643,789</u>
<b>BILLING AND COLLECTING EXPENSES</b>		
Meter reading, accounting and collection	<u>112,030</u>	<u>89,846</u>
<b>ADMINISTRATIVE AND GENERAL EXPENSES</b>		
General office salaries	217,985	189,042
Employee benefits	189,059	166,822
Office supplies and expense	76,081	77,155
Insurance	30,177	28,658
Professional fees	129,883	107,391
Miscellaneous general expense	38,588	33,746
Directors' fees	5,511	4,681
Rent	75,263	73,071
Regulatory commission expense and penalties	10,672	19,246
Transportation expense	5,158	3,130
Utilities	25,022	22,159
Bad debts	12,194	-
Repairs and maintenance	<u>21,156</u>	<u>16,456</u>
Total	<u>836,749</u>	<u>741,557</u>
Total operating expenses	\$ <u>1,735,590</u>	\$ <u>1,684,885</u>

See independent auditors' report.

201 E. Burke Street  
Martinsburg, WV 25401  
Phone 304.263.0891  
Toll Free 877.242.7278  
Fax 304.263.0997



**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, 2012 and 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 5, 2012. 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**

Management of the District is responsible for establishing and maintaining effective 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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.

*CoxHollidaPrice*

Martinsburg, West Virginia

November 5, 2012