JEFFERSON COUNTY PUBLIC SERVICE DISTRICT

FINANCIAL STATEMENTS

For the years ended June 30, 2010 and June 30, 2009

CoxHollidaPrice LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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CoxHollidaPrice LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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, 2010 and 2009, 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, 2010 and 2009, and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 6, 2010 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 5 through 9 and the budgetary comparison schedules on pages 39 through 42 are not a required part of the basic financial statements, but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods and measurement and presentation of required supplemental information. However we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Jefferson County Public Service District's basic financial statements. The supplemental information presented on pages 43 and 44 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

CoxHollidaPrice LLP

Martinsburg, WV

December 6, 2010

Jefferson County Public Service District

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the fiscal year ended June 30, 2010

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, 2010. 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 cashed 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.

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:

	2010	2009
Unrestricted cash	$ 198,579	$ 510,583
Restricted cash	880,733	780,459
Other assets	1,946,832	2,004,318
Capital assets, restated for 2009	13,723,001	13,774,155
Total assets, restated for 2009	16,749,145	17,069,515
Current and other liabilities	597,719	581,359
Long-term liabilities	6,594,076	6,819,214
Total liabilities	7,191,795	7,400,573
Net assets	$ 9,557,350	$ 9,668,942
Invested in assets, net of debt, restated for 2009	$ 8,660,757	$ 8,412,411
Restricted net assets	758,978	670,992
Unrestricted net assets	137,615	585,539
Total net assets, restated for 2009	$ 9,557,350	$ 9,668,942

	2010	2009
Revenues		
Sales to customers	$ 1,906,466	$ 1,850,714
Other	185,612	179,760
Total revenue	2,092,078	2,030,474
Expenses		
Operating	1,832,559	1,619,879
Dropped projects	533	878
Depreciation & amortization	448,002	418,214
Interest expense	113,766	116,196
Total expenses	2,394,860	2,155,167
Net loss before capital contributions	(302,782)	(124,693)
Capital contributions	191,190	13,246
Change in net assets	$(111,592)	$ (111,447)

The District did not receive any contributed capital assets such as utility plant, lines, land or land rights from developers for the current fiscal year. However, the District did receive $191,190 of capital improvement fees net of amounts required to be remitted to Charles Town WWTP from new customers.

The District invested approximately $205,000, in the current year for the planning of the Flowing Springs waste water treatment plant, and obtaining easements. The District also invested about $100,000 in pump station improvements during the current fiscal year. These investments were as financed by the use of the District’s unrestricted operating cash.

As require by Governmental Accounting Standards Board (GASB), the District recognized a liability in the current year for Other Post Employment Benefits (OPEB). District is a participant in the West Virginia Public Employers Insurance Agency which is a cost-sharing multiple-employer defined benefit post employment healthcare plan. The District recognized additional $78,850 of contractually required contributions that were not funded over the past three years.

The District began to experience a slowdown in new customer connections since 2008 which has continued into 2010 into the current year. Management attributes this decline to the overall national slump in the housing industry. The District has experienced an increase usage, and expects that the conventional residential sector will continue to slowly increase. In addition, the District expects continued sustained commercial and institutional sector growth. Overall, the District expects growth in new customer growth and equivalent domestic units (EDU) to continue.

The District believes that the fundamentals of location and cost in Jefferson County remain favorable, for economic development and expect that the District's plans for readily available services will position the community for early economic recovery,

The District entered into a Bond Anticipation Note (BAN) to help pay for the professional fees related to the Flowing Springs Waste Water Treatment Plant. This note was to be paid off when permanent financing is secured for the project which did not occur before the BAN expired. For this reason the District was granted an additional 6 month extension on the BAN.

The District's operating revenue accounts are slowly increasing. A rate increase was approved this year, and the change was reflected on the April 2010 billing. During the year, the Charles Town Water Department discovered a meter reading error with one of our commercial customers, Uniwest. The District had over charged Uniwest $97,500 because of the incorrect readings provided by the water dept. The Charles Town Sewer Department refunded the District $31,350 for the gallons for billings of sewerage that was not processed by the Charles Town WWTP. The District paid Uniwest the $31,350, and entered into an agreement to repay the remaining $66,150 in monthly payments of $3,307.

The District is operating under an interstate environmental compact that commits West Virginia to play a role restoring water quality in the Chesapeake Bay. The new operating environment has required that the District find and implement unconventional solutions for emerging issues. We have been pursuing solutions to meet this need.

The District has increased the number of customers by less than 1%.

Budgetary Highlights

Over the course of the year, the District approved one amendment to the Sewer Department mid-year increasing revenue to reflect the new rate by $140,000 and an increase in expenses mainly due to the expense caused by the Uniwest billing issue. Several accounts were over budget, and those expenditures were approved by the Board. Overall, the actual expenses were comparable to the District's prior year except for the Uniwest & OPEB expenses.

Capital Assets and Debt Administration

During the current year the District reduced its current long term debt by $157,365 to $ 7,035,454 at June 30, 2010 compared to $7,192,819 last fiscal year.

As a result of the favorable bond market, the District refinanced its Series 1998 A bond with Series 2010 A bond in June 2010. This refinancing reduced the District's interest rates and provides debt service savings to the District's rate payers over the next 18 years. .

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 only 66% mainly due to the increase of expenses such as Uniwest, and OPEB discussed earlier. In addition, the District's current year revenues only include two months of billings at the new tariff.

Economic Factors

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 customers of the District. The District is a bulk customer of Charles Town. The District is pursuing funding for a new Chesapeake Bay compliant wastewater treatment plant, the Flowing Springs wastewater treatment plant, which will remove some of the burden on the Charles Town Wastewater treatment plant. The plans for this wastewater treatment plant have been approved by West Virginia Department of Environmental Protection. We are now awaiting approval by the West Virginia Public Service Commission and are in the process of obtaining easements for the project.

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

BALANCE SHEETS

June 30, 2010 and 2009

ASSETS

		Water Department		Sewer Department		**2010 Total**		2009 Memorandum Only Total Restated
CURRENT ASSETS								
Cash	$	131,284	$	67,295	**$**	**198,579**	$	510,583
Accounts receivable, net of allowance for doubtful accounts of $10,000		1,457		92,996		**94,453**		88,697
Accounts receivable - other		-		2,363		**2,363**		392
Accrued utility revenue		4,555		175,860		**180,415**		157,821
Prepaid expenses and deposits		-		9,247		**9,247**		9,247
Total current assets		137,296		347,761		**485,057**		766,740
RESTRICTED CASH		3,628		877,105		**880,733**		780,459
CAPITAL ASSETS								
Land and land rights		2,066		917,885		**919,951**		919,951
Construction work in progress		-		1,330,749		**1,330,749**		1,114,762
Utility plant in service		178,742		15,829,125		**16,007,867**		15,949,606
Less accumulated depreciation		(57,866)		(4,477,700)		**(4,535,566)**		(4,210,164)
Net capital assets		122,942		13,600,059		**13,723,001**		13,774,155
OTHER ASSETS								
Unamortized debt issue expense, net of accumulated amortization of $69,153 and $131,342, respectively		-		230,714		**230,714**		270,736
Future utility plant preliminary survey and design charges		157,482		327,387		**484,869**		464,232
Due from other funds		-		12,482		**12,482**		12,482
Other assets - capacity upgrades, net of accumulated amortization of $225,226 and $156,804, respectively		-		932,289		**932,289**		1,000,711
Total other assets		157,482		1,502,872		**1,660,354**		1,748,161
Total assets	$	421,348	$	16,327,797	**$**	**16,749,145**	$	17,069,515

The accompanying notes are an integral part of this statement.

Jefferson County Public Service District

BALANCE SHEETS (Continued)

June 30, 2010 and 2009

LIABILITIES

		Water Department		Sewer Department		2010 Total		2009 Memorandum Only Total Restated
CURRENT LIABILITIES (payable from current assets)								
Accounts payable	$	3,834	$	188,432	**$**	**192,266**	$	167,408
Accrued taxes and expenses		-		76,333		**76,333**		11,373
Total current liabilities (payable from current assets)		3,834		264,765		**268,599**		178,781
CURRENT LIABILITIES (payable from restricted cash)								
Revenue bonds payable (due within one year)		-		207,365		**207,365**		267,365
Accrued interest payable		-		-		**-**		25,746
Customer deposits		2,304		113,816		**116,120**		109,467
Capital improvement fees		-		5,635		**5,635**		-
Total current liabilities (payable from restricted cash)		2,304		326,816		**329,120**		402,578
LONG-TERM LIABILITIES								
Due to other funds		12,482		-		**12,482**		12,482
OPEB obligation		-		78,850		**78,850**		-
Revenue bonds payable		-		5,978,089		**5,978,089**		6,175,454
Notes payable		145,000		750,000		**895,000**		895,000
Original issue discount, net of accumulated amortization of $0		-		(10,618)		**(10,618)**		-
Deferred acquisition cost on bond refinancing, net of accumulated amortization of $0 and $152,681, respectively		-		(359,727)		**(359,727)**		(263,722)
Total long-term liabilities		157,482		6,436,594		**6,594,076**		6,819,214
Total liabilities		163,620		7,028,175		**7,191,795**		7,400,573

NET ASSETS

		Water Department		Sewer Department		2010 Total		2009 Memorandum Only Total Restated
NET ASSETS								
Invested in capital assets, net of related debt		135,424		8,525,333		**8,660,757**		8,412,411
Restricted for debt and construction		1,324		757,654		**758,978**		670,992
Unrestricted		120,980		16,635		**137,615**		585,539
Total net assets		257,728		9,299,622		**9,557,350**		9,668,942
Total liabilities and net assets	$	421,348	$	16,327,797	**$**	**16,749,145**	$	17,069,515

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, 2010 and 2009

	Water Department	Sewer Department	**2010 Total**	2009 Memorandum Only Total Restated
OPERATING REVENUES				
Sales to general customers	$ 48,062	$ 1,858,404	**$ 1,906,466**	$ 1,850,714
Customers' forfeited discounts and penalties	1,019	50,757	**51,776**	50,472
Miscellaneous revenues	204	72,767	**72,971**	76,670
Total operating revenues	49,285	1,981,928	**2,031,213**	1,977,856
OPERATING REVENUE DEDUCTIONS BEFORE DEPRECIATION				
Operating expenses	45,436	1,787,123	**1,832,559**	1,619,879
Operating income before depreciation	3,849	194,805	**198,654**	357,977
DEPRECIATION	6,481	358,913	**365,394**	335,606
Operating income	(2,632)	(164,108)	**(166,740)**	22,371
NON-OPERATING INCOME (EXPENSE)				
Interest income	54	801	**855**	11,181
Grant revenue		34,680	**34,680**	-
Gain (loss) on disposal of assets	-	(16,082)	**(16,082)**	25
Interest expense	(6)	(113,760)	**(113,766)**	(116,196)
Amortization of debt issue expense and other assets - treatment plant upgrades	-	(82,608)	**(82,608)**	(82,608)
Loss due to dropped projects	-	(533)	**(533)**	(878)
Miscellaneous non-operating revenues	-	41,412	**41,412**	41,412
Total non-operating income (expense)	48	(136,090)	**(136,042)**	(147,064)
Decrease in net assets before capital contributions	(2,584)	(300,198)	**(302,782)**	(124,693)
CAPITAL CONTRIBUTIONS	-	191,190	**191,190**	13,246
Decrease in net assets	(2,584)	(109,008)	**(111,592)**	(111,447)
Net assets at beginning of year, restated	260,312	9,408,630	**9,668,942**	9,780,389
Net assets at end of year	$ 257,728	$ 9,299,622	**$ 9,557,350**	$ 9,668,942

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, 2010 and 2009

	Water Department	Sewer Department	**2010 Total**	2009 Memorandum Only Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	$ 49,908	$ 1,951,006	**$ 2,000,914**	$ 1,969,658
Cash payments for goods and services	(42,714)	(1,163,345)	**(1,206,059)**	(1,128,470)
Cash payments for employee services	-	(457,865)	**(457,865)**	(513,938)
Net cash flows provided by operating activities	7,194	329,796	**336,990**	327,250
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	54	801	**855**	11,181
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Expenditures for utility plant and other assets	(4,097)	(110,228)	**(114,325)**	(402,078)
Increase (decrease) in customer deposits	(50)	6,703	**6,653**	(8,470)
Capital improvement fees collected	-	239,651	**239,651**	50,437
Capital improvement fees transferred to joint account	-	(42,826)	**(42,826)**	(42,826)
Principal payment on debt - bond	-	(267,365)	**(267,365)**	(228,947)
Credits on treatment upgrade bonds	-	41,412	**41,412**	41,412
Proceeds from notes payable	-	-	**-**	750,000
Interest paid on bonds and notes	(6)	(125,626)	**(125,632)**	(102,316)
Proceeds from grant	-	34,680	**34,680**	-
Construction work in progress capital expenditures	-	(204,538)	**(204,538)**	(772,011)
Increase in preliminary surveys	-	(32,619)	**(32,619)**	(172,091)
Payment of bond issuance costs	-	(84,666)	**(84,666)**	-
Net cash (used in) capital and related financing activities	(4,153)	(545,422)	**(549,575)**	(886,890)
Net increase (decrease) in cash	3,095	(214,825)	**(211,730)**	(548,459)
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	131,817	1,159,225	**1,291,042**	1,839,501
CASH AND CASH EQUIVALENTS END OF YEAR	$ 134,912	$ 944,400	**$ 1,079,312**	$ 1,291,042
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES				
Operating income	$ (2,632)	$ (164,108)	**$ (166,740)**	$ 22,371
Depreciation	6,480	358,913	**365,393**	335,606
Adjustments for changes in operating assets and liabilities:				
Increase (decrease) in accounts and other receivables	623	(8,328)	**(7,705)**	2,694
Increase in accrued utility revenue	-	(22,594)	**(22,594)**	(10,411)
Increase (decrease) in accounts payable	2,747	22,103	**24,850**	(5,076)
Increase (decrease) in accrued expenses	(24)	64,960	**64,936**	(17,934)
Increase in other employee benefit obligation	-	78,850	**78,850**	-
Net cash provided by operating activities	$ 7,194	$ 329,796	**$ 336,990**	$ 327,250

The accompanying notes are an integral part of this statement.

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.

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, 2010 and 2009.

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.

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, 2010 or 2009. 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, 2010 and 2009, are summarized below:

Sewer Department

Classification	Useful Lives
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

Classification	Useful Lives
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.

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 $15,690 and $11,371 at June 30, 2010 and 2009, 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.

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, 2010 and 2009:

	Water	Sewer	**2010 Total**	2009 Memorandum Only Total
Revenue	$ -	$ 13,395	**$ 13,395**	$ 244,734
Petty cash	-	700	**700**	700
Operations and maintenance	131,284	-	**131,284**	128,143
Future needs	-	53,200	**53,200**	137,006
Total	$ 131,284	$ 67,295	**$ 198,579**	$ 510,583

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

RESTRICTED CASH AND RESERVES

Restricted cash and reserves consisted of the following accounts and amounts at June 30, 2010 and 2009:

	Water	Sewer	**2010 Total**	2009 Memorandum Only Total
Debt service revenue	$ -	$ 47,753	**$ 47,753**	$ 145,765
Debt service reserve	-	455,987	**455,987**	442,505
Cost of issuance for bonds	-	36,674	**36,674**	-
Renewal and replacement	-	22,370	**22,370**	55,335
Capacity improvement fee	-	196,940	**196,940**	21,630
Customer deposits	3,628	117,381	**121,009**	115,224
Total	$ 3,628	$ 877,105	**$** 880,733	$ 780,459

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 2009, 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, 2010 and 2009 was $5,635 and $0 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.

DEPOSITS AND INVESTMENTS

At June 30, 2010, the District's cash and investment balances were as follows:

Investment Type	Maturities		Fair Value	Standard Poor Rating
Repurchase Agreements	Various	$	574,260	AAA
State Investment Pool	Average of 90 days		449,552	AA-1
Total investments			1,023,812	
Cash			55,500	
Total Cash and Investments		$	1,079,312	

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 53%, and investments in the state investment pool of 42% 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.

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, 2010, $377,853 of the District's bank balance of $681,054 was exposed to custodial credit risk. $303,201 of the bank balance was covered by Federal Deposit Insurance (FDIC) and $377,853 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, 2010 and 2009, 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, 2010 and 2009.

CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2009 was as follows:

Sewer Department

	Balance at July 01, 2008 Restated	Additions Restated	Retirements	Balance at June 30, 2009 Restated
Capital assets not being depreciated:				
Land and land rights, restated	$ 917,885	$ -	$ -	$ 917,885
Construction work in progress	71,035	1,043,727	-	1,114,762
Total capital assets not being depreciated - sewer	988,920	1,043,727	-	2,032,647
Capital assets being depreciated:				
Collection mains and services	10,806,841	13,605	-	10,820,446
Transmission mains	240,858	-	-	240,858
Gravity mains	64,865	-	-	64,865
Force mains	1,118,426	28,650	-	1,147,076
Flow meters	13,187	-	-	13,187
Electric pumping equipment	2,952,242	192,580	-	3,144,822
Transportation equipment	80,580	22,430	22,800	80,210
Communication equipment	5,070	21,343	3,540	22,873
Furniture and office equipment	104,004	138,510	1,888	240,626
Total capital assets being depreciated - sewer	15,386,073	417,118	28,228	15,774,963

Less Accumulated Depreciation – Sewer Department

	Balance at July 01, 2008 Restated	Additions Restated	Retirements	Balance at June 30, 2009 Restated
Collection mains and services	2,476,558	216,284	-	2,692,842
Transmission mains	88,544	4,817	-	93,361
Gravity mains	17,512	1,297	-	18,809
Force mains	407,797	22,511	-	430,308
Flow meters	3,670	264	-	3,934
Electric pumping equipment	685,729	77,675	-	763,404
Transportation equipment	65,446	11,804	22,800	54,450
Communication equipment	3,360	3,083	2,844	3,599
Furniture and office equipment	88,303	11,474	1,706	98,071
Total accumulated depreciation	3,836,919	349,209	27,350	4,158,778
Total capital assets being depreciated, net - sewer	11,549,154	67,909	878	11,616,185
Net capital assets - sewer	$ 12,538,074	$ 1,111,636	$ 878	$ 13,648,832

CAPITAL ASSETS (Continued)

Water Department

	Balance at July 01, 2008	Additions	Retirements	Balance at June 30, 2009
Capital assets not being depreciated:				
Land and land rights	$ 2,066	$ -	$ -	$ 2,066
Capital assets being depreciated:				
Structures and improvements	35,953	38,329	-	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	58,317	-	-	58,317
Services and meters	11,940	558	-	12,498
Hydrants	122	-	-	122
Total capital assets being depreciated - water	135,756	38,887	-	174,643

Less Accumulated Depreciation – Water Department

	Balance at July 01, 2008	Additions	Retirements	Balance at June 30, 2009
Structures and improvements	13,822	1,795	-	15,617
Supply mains	434	31	-	465
Wells and springs	127	255	-	382
Pump equipment	8,443	1,016	-	9,459
Transmission and distribution lines	18,199	1,749	-	19,948
Services and meters	5,127	322	-	5,449
Hydrants	62	4	-	66
Total accumulated depreciation	46,214	5,172	-	51,386
Total capital assets being depreciated, net - water	89,542	33,715	-	123,257
Net capital assets - water	$ 91,608	$ 33,715	$ -	$ 125,323

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2010 and 2009

CAPITAL ASSETS (Continued)

Capital assets activity for the year ended June 30, 2010 was as follows:

Sewer Department

	Balance at July 01, 2009	Additions	Retirements	Balance at June 30, 2010
Capital assets not being depreciated:				
Land and land rights	$ 917,885	$ -	$ -	$ 917,885
Construction work in progress	1,114,762	215,987	-	1,330,749
Total capital assets not being depreciated - sewer	2,032,647	215,987	-	- 2,248,634
Capital assets being depreciated:				
Collection mains and services	10,820,446	-	920	10,819,526
Transmission mains	240,858	-	-	240,858
Gravity mains	64,865	-	-	64,865
Force mains	1,147,076	-	-	1,147,076
Flow meters	13,187	-	13,187	-
Electric pumping equipment	3,144,822	102,995	-	3,247,817
Transportation equipment	80,210	920	227	80,903
Communication equipment	22,873	-	-	22,873
Furniture and office equipment	240,626	7,240	42,659	205,207
Total capital assets being depreciated - sewer	15,774,963	111,155	56,993	15,829,125

Less Accumulated Depreciation – Sewer Department

	Balance at July 01, 2009	Additions	Retirements	Balance at June 30, 2010
Collection mains and services	2,692,842	216,392	-	2,909,234
Transmission mains	93,361	4,818	-	98,179
Gravity mains	18,809	1,298	-	20,107
Force mains	430,308	22,940	-	453,248
Flow meters	3,934	264	4,198	-
Electric pumping equipment	763,404	83,090	-	846,494
Transportation equipment	54,450	7,259	227	61,482
Communication equipment	3,599	3,135	-	6,734
Furniture and office equipment	98,071	19,717	35,566	82,222
Total accumulated depreciation	4,158,778	358,913	39,991	4,477,700
Total capital assets being depreciated, net - sewer	11,616,185	(247,758)	17,002	11,351,425
Net capital assets - sewer	$ 13,648,832	$ (31,771)	$ 17,002	$ 13,600,059

CAPITAL ASSETS (Continued)

Water Department

	Balance at July 01, 2009	Additions	Retirements	Balance at June 30, 2010
Capital assets not being depreciated:				
Land and land rights	$ 2,066	$ -	$ -	$ 2,066
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	12,498	4,100	-	16,598
Hydrants	122	-	-	122
Total capital assets being depreciated - water	174,642	4,100	-	178,742

Less Accumulated Depreciation – Water Department

	Balance at July 01, 2009	Additions	Retirements	Balance at June 30, 2010
Structures and improvements	15,617	3,068	-	18,685
Supply mains	465	31	-	496
Wells and springs	382	255	-	637
Pump equipment	9,459	989	-	10,448
Transmission and distribution lines	19,947	1,749	-	21,696
Services and meters	5,449	385	-	5,834
Hydrants	66	4	-	70
Total accumulated depreciation	51,385	6,481	-	57,866
Total capital assets being depreciated, net - water	123,257	(2,381)	-	120,876
Net capital assets - water	$ 125,323	$ (2,381)	$ -	$ 122,942

CONSTRUCTION WORK IN PROGRESS

Construction work in progress is made up of the following at June 30, 2010:

Flowing Springs Sewer Treatment Plant	$	1,208,138
Reuse of Reclaimed Waste Water Project		34,680
Norborne Glebe Project		9,689
Sheridan Project		8,403
Old Standard		28,178
Wormald/Beallair Project		16,109
Spruce Hill North Project		14,740
Arcadia/Harvest Hills		5,649
Jefferson County Elementary School		3,994
Jefferson Crossing II		1,169
	$	1,330,749

The District is in the planning phase of construction of the Flowing Springs waste water treatment plant and collection system. The District estimated the cost of the 1 million gallons a day treatment plant and collection system to be approximately $26 million. Financing has not yet been secured but the District is working with the West Virginia Department of Environmental Protection to create a favorable funding package. The District also received a $1 million funding commitment from the Jefferson County Development Authority. Through fiscal year ended June 30, 2010 the District has invested $1,242,818 in engineering fees and other professional services that were financed through a Bond Anticipation Note payable of $750,000 and operations.

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 $34,680 as of June 30, 2010.

The Norborne Glebe Project is an alternate main line extension that will service the Norborne Glebe subdivision. The project will service approximately 602 homes, of which 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 2015 with an estimated total cost of $500,000 (unaudited).

The District has an alternate main line extension agreement for the Sheridan Development and four separate agreements for the associated Old Standard wastewater treatment plant. The agreements are; real estate purchase agreement, leaseback agreement, o & m agreement and an asset purchase agreement. The real estate purchase agreement and leaseback agreement stages have already taken place and the plant is currently 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. The homes in Sheridan are customers of the developer until they turn the plant over to the District.

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. Fiscal year ended June 30, 2005 was retroactively restated to reflect this as a prior period adjustment in capital contributions and utility plant. This treatment plant is 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 44 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, (1) car wash and two (2) restaurants currently online, with possible expansion occurring in future years. This will be turned over to the District in the future, at which time the estimated total cost of the project will be recorded on the District's books. The estimated cost is currently unavailable.

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, 2010 and 2009 is $883,829 and $928,020, 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, 2010 and 2009 was $48,460 and $72,691, respectively.

REVENUE BONDS PAYABLE

The District was obligated under trust indentures with respect to the following sewer revenue bonds outstanding at June 30, 2010 and 2009:

	2010	2009
Series - 1988 B sewer revenue bonds, original face value of $425,767, payable in annual installments, with principal beginning in 1990 at $10,917 at 0% interest and concluding October 10, 2028.	**$ 207,427**	$ 218,344
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.	**169,918**	218,466
Series - 1998 A sewer revenue refinancing bonds, original face value of $2,430,000, payable in annual installments, with principal and interest beginning October 1, 1998 at 4.15% increasing to 5.25% interest. Refinanced into Series 2010 A in June 2010.	**-**	1,945,000
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.	**269,573**	299,529
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.	**249,087**	261,699
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.	**827,664**	866,160
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.	**1,904,746**	1,971,582
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 $3% increasing to 4.375% interest and concluding on October 1, 2028.	**1,895,000**	-
Total revenue bonds payable	**$ 6,185,454**	$ 6,442,819

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, 2010 are as follows:

Year Ending June 30	Principal	Interest
2011	$ 207,365	$ 56,828
2012	287,362	72,656
2013	287,361	70,256
2014	263,087	67,856
2015	243,813	65,168
2016-2020	1,260,908	284,964
2021-2025	1,368,143	206,977
2026-2030	1,347,467	68,374
2031-2035	572,973	10,443
2036-2040	346,975	1,847
	$ 6,185,454	$ 905,369

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, 2009 was as follows:

	Balance at July 01, 2008	Additions	Deductions	Balance at June 30, 2009
Series 1988 B	$ 229,261	$ -	$ 10,917	$ 218,344
Series 1993 A	267,014	-	48,548	218,466
Series 1998 A	2,000,000	-	55,000	1,945,000
Series 1998 B	329,485	-	29,956	299,529
Series 1998 C	662,039	-	-	662,039
Series 1999 A	274,311	-	12,612	261,699
Series 2000 A	904,656	-	38,496	866,160
Series 2008 A	2,005,000	-	33,418	1,971,582
Total sewer revenue bonds payable	$ 6,671,766	$ -	$ 228,947	$ 6,442,819
Less: Current portion due in upcoming year				267,365
Long-term sewer revenue bonds payable at June 30, 2009 (net of current portion)				$ 6,175,454

REVENUE BONDS PAYABLE (Continued)

Sewer revenue bond activity for the year ended June 30, 2010 was as follows:

	Balance at July 01, 2009	Additions	Deductions	Balance at June 30, 2010
Series 1988 B	$ 218,344	$ -	$ 10,917	$ 207,427
Series 1993 A	218,466	-	48,548	169,918
Series 1998 A	1,945,000	-	1,945,000	-
Series 1998 B	299,529	-	29,956	269,573
Series 1998 C	662,039	-	-	662,039
Series 1999 A	261,699	-	12,612	249,087
Series 2000 A	866,160	-	38,496	827,664
Series 2008 A	1,971,582	-	66,836	1,904,746
Series 2010 A	-	1,895,000	-	1,895,000
Total sewer revenue bond payable	$ 6,442,819	$ 1,895,000	$ 2,152,365	$ 6,185,454
Less: Current portion due in upcoming year				207,365
Long-term sewer revenue bonds payable at June 30, 2010 (net of current portion)				$ 5,978,089

The covenants contained in the bond issues include a required debt service coverage ratio of 115%. As of June 30, 2010 and 2009, the District's debt service coverage ratio was 66%, and 109% 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, 2010 and 2009, 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:		
Series 1998 A bond issue costs	$	109,885
Deferred loss on 1998 A refinance		249,842
Deferred 2010 A reacquisition cost	$	359,727

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 $ 1,260,000 as of June 30, 2010. (See loss on transfer of facilities note for more detail.)

NOTES PAYABLE

Notes payable consist of the following:

	2010	2009
Sewer Department		
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**	$ 750,000
Water Department		
Note payable to the West Virginia Water Development Authority in the original amount of $145,000 for the temporary financing of the preliminary design of the Blue Ridge Water Project, non-interest bearing, principal deferred (see page 35 for the terms in Deferred Cost of System Design Note), secured by the proceeds of any grants received, proceeds of any bonds, and surplus operating revenues.	**$ 145,000**	$ 145,000

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, 2010 and 2009:

Charles Town WWTP	June 30, 2010	June 30, 2009
Capacity improvement fees	$ **47,334**	$ 37,191
Capacity improvement fees	**41,699**	42,826
Amount due to Charles Town	$ **5,635**	$ -

Flowing Springs WWTP	June 30, 2010	June 30, 2009
Capital improvement fees collected, net of required payments to Charles Town WWTP	$ **191,190**	$ 12,746

MISCELLANEOUS OPERATING REVENUES

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

	2010	2009
Transportation credits	**$ 35,832**	$ 37,498
System billing fees - water department	**32,390**	30,755
Sewer inspection fees	**605**	475
Disconnect/reconnect fees	**2,850**	1,190
Other miscellaneous revenue	**1,090**	6,578
Total	**$ 72,767**	$ 76,496

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 $70,942 and $57,336 in lease expense for fiscal years ended June 30, 2010 and 2009 respectively. Minimum future rental payments under non-cancelable operating lease are as follows:

2011	$	72,892
2012		75,079
2013		77,331
2014		79,651
2015		82,041
There after		299,135
Total minimum future rental payments	$	686,129

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 reclassed 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, 2010 and 2009 is $883,829 and $928,020, 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, 2010 and 2009, treatment expenses totaled $560,326 and $574,015, 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.

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 11%,10.5% and 10.5% of its covered payroll for fiscal years ended June 30, 2010, 2009, and 2008. The District made 100% of the required contributions of $42,750, $40,618 and 37,482 to the plan for the years ended June 30, 2010, 2009, and 2008 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.

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.

OTHER POST EMPLOYMENT BENEFITS (Continued)

	Fiscal Years Ended June 30: 2010	2009	2008
Per participant per month:			
Contractually required Contributions	$ 901	$ 388	$ 461
District contributions to PEIA for pay as you go	$ 140	$ 165	$ 151
District's annual required contributions:			
Contractually required	$ 61,839	$ 32,340	$ 14,759
District contributions to PEIA for pay as you go	10,477	13,339	6,272
Net OPEB obligation	$ 51,362	$ 19,001	$ 8,487
Percentage of required contributions paid	17%	41%	42%

The requirements of GASB Statement No. 45 have been implemented prospectively. Because this was the year of transition, the District recorded the total net OPEB obligation during fiscal year ended June 30, 2010 which consisted of the following:

Net OPEB obligation	
Fiscal year ended June 30:	
2010	$ 51,362
2009	19,001
2008	8,487
	$ 78,850

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 20th 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.

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 biding 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, 2011; (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 $52,600 through June 30, 2010 related to this partnership.

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash and cash equivalents consist of the following at June 30, 2010 and 2009:

	2010		2009	
	Water	**Sewer**	Water	Sewer
Cash	**$ 131,284**	**$ 67,295**	$ 128,143	$ 382,440
Restricted cash	**3,628**	**877,105**	3,674	776,785
Total	**$ 134,912**	**$ 944,400**	$ 131,817	$ 1,159,225

Schedule of Noncash Investing and Financing activities at June 30, 2010 and 2009 - Sewer:

	2010	2009
Issuance of 2010 A Bonds	**$ 1,884,382**	$ -
Bond financed note pay off	**$ (1,907,819)**	$ -
Underwriting and original issue discounts	**$ (57,993)**	$ -
Loss on dropped projects	**$ (533)**	$ (878)

FLOWING SPRINGS WASTEWATER TREATMENT PLANT ANTICIPATED FUNDING

The District is in the planning phase for expansion of a developer donated, state-of-the-art wastewater treatment plant in the Flowing Springs watershed, also known as the Flowing Springs wastewater treatment plant, at an estimated cost of $27.5 million. The District expects to finance the project for $26.5 million at 0% interest with 1/2% annual administration fee for 40 years from the State Revolving Fund Program. The remainder of the project will be financed through developer contributions.

PRIOR PERIOD ADJUSTMENTS

During the fiscal year ended June 30, 2010, the District discovered it had not reflected in its records a non cash contribution of $938,740 of infrastructure assets from a developer that occurred on September 17, 2007. The accompanying financial statement net assets were restated to reflect the contribution at the date of transfer net of $33,638 of accumulated deprecation and had no effect on the decrease in net assets in the current year.

Net assets-invested in capital assets, net of related debt, previously stated	$	7,507,309
Prior period adjustment - infrastructure assets net of accumulated depreciation		905,102
Net assets-invested in capital assets, net of related debt, restated June 30, 2008	$	8,412,411

SUPPLEMENTAL INFORMATION

Jefferson County Public Service District

BUDGETARY COMPARISON SCHEDULE - WATER DEPARTMENT

For the year ended June 30, 2010

		Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis		Budget to GAAP Differences Over (under)	Actual Amounts GAAP Basis
REVENUES							
Operating revenues		$ 50,500	$ 50,500	$ 49,081	(C)	$ 204	$ 49,285
Non-operating revenues	(B)	1,200	1,200	54		(54)	-
Total revenues		51,700	51,700	49,135		150	49,285
REVENUE DEDUCTIONS BEFORE DEPRECIATION							
Operating expenses		42,100	42,100	45,436		-	45,436
Income before depreciation		9,600	9,600	3,699		150	3,849
DEPRECIATION	(A)	-	-	-		6,481	6,481
Income before non-operating expenses		9,600	9,600	3,699		(6,331)	(2,632)
NON-OPERATING INCOME (EXPENSES)							
Interest income	(B)	-	-	-		54	54
Interest expense		-	-	-		(6)	(6)
Total non-operating income (expenses)		-	-	-		48	48
Increase (decrease) in net assets		9,600	9,600	3,699		(6,283)	(2,584)
Net assets at beginning of year		260,312	260,312	260,312		-	260,312
Net assets at end of year		$ 269,912	$ 269,912	$ 264,011		$ (6,283)	$ 257,728

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.

See independent auditors' report.

Jefferson County Public Service District

BUDGETARY COMPARISON SCHEDULE - WATER DEPARTMENT

For the year ended June 30, 2009

		Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis	Budget to GAAP Differences Over (under)	Actual Amounts GAAP Basis
REVENUES						
Operating revenues		$ 50,500	$ 50,500	$ 50,198	(C)$ 174	$ 50,372
Non-operating revenues	(B)	4,300	4,300	826	(826)	-
Total revenues		54,800	54,800	51,024	(652)	50,372
REVENUE DEDUCTIONS BEFORE DEPRECIATION						
Operating expenses		39,700	39,700	41,639	-	41,639
Income before depreciation		15,100	15,100	9,385	(652)	8,733
DEPRECIATION	(A)	-	-	-	5,172	5,172
Income before non-operating expenses		15,100	15,100	9,385	(5,824)	3,561
NON-OPERATING INCOME (EXPENSES)						
Interest income	(B)	-	-	-	826	826
Interest expense		-	-	-	(9)	(9)
Total non-operating income (expenses)		-	-	-	817	817
Increase (decrease) in net assets		15,100	15,100	9,385	(5,007)	4,378
Net assets at beginning of year		255,934	255,934	255,934	-	255,934
Net assets at end of year		$ 271,034	$ 271,034	$ 265,319	$ (5,007)	$ 260,312

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.

See independent auditors' report.

Jefferson County Public Service District

BUDGETARY COMPARISON SCHEDULE - SEWER DEPARTMENT

For the year ended June 30, 2010

		Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis		Budget to GAAP Differences Over (under)	Actual Amounts GAAP Basis
REVENUES							
Operating revenues		$ 1,927,000	$ 1,830,000	$ 1,909,161	(F)	$ 72,767	$ 1,981,928
Non-operating revenues	(C)	142,000	162,000	150,871		(150,871)	-
Total revenues		2,069,000	1,992,000	2,060,032		(78,104)	1,981,928
REVENUE DEDUCTIONS BEFORE DEPRECIATION							
Operating expenses		1,647,780	1,636,063	1,641,072		146,051	1,787,123
Income before depreciation		421,220	355,937	418,960		(224,155)	194,805
DEPRECIATION	(A)	-	-	-		358,913	358,913
Income before non-operating expenses		421,220	355,937	418,960		(583,068)	(164,108)
NON-OPERATING INCOME (EXPENSES)							
Interest income	(C)	-	-	-		801	801
Grant revenue	(C)	-	-	-		34,680	34,680
Loss on disposal of assets	(A)	-	-	-		(16,082)	(16,082)
Interest expense	(B)	-	-	-		(113,760)	(113,760)
Amortization of debt issue expense and other assets - treatment plant upgrades	(A)	-	-	-		(82,608)	(82,608)
Loss due to dropped projects	(A)	-	-	-		(533)	(533)
Miscellaneous non-operating revenues	(A)	-	-	-		41,412	41,412
Total non-operating income (expenses)		-	-	-		(136,090)	(136,090)
Increase (decrease) in net assets before capital contributions		421,220	355,937	418,960		(719,158)	(300,198)
CAPITAL CONTRIBUTIONS	(C)	-	-	-		191,190	191,190
OTHER FINANCING SOURCES (USES)							
Renewal and replacement funds		(51,725)	(49,800)	(49,464)	(E)	49,464	-
Debt service	(D)	(396,000)	(403,200)	(403,162)	(E)	403,162	-
Total other financing (uses)		(447,725)	(453,000)	(452,626)		452,626	-
Decrease in net assets		(26,505)	(97,063)	(33,666)		(75,342)	(109,008)
Net assets at beginning of year		8,503,528	8,503,528	8,503,528		-	8,503,528
Prior period adjustment		-	-	-		905,108	905,108
Net assets at end of year		$ 8,477,023	$ 8,406,465	$ 8,469,862		$ 829,766	$ 9,299,628

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.

Jefferson County Public Service District

BUDGETARY COMPARISON SCHEDULE - SEWER DEPARTMENT

For the year ended June 30, 2009

		Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis		Budget to GAAP Differences Over (under)	Actual Amounts GAAP Basis
REVENUES							
Operating revenues		$ 2,027,000	$ 1,927,000	$ 1,840,095	(F)	$ 87,389	$ 1,927,484
Non-operating revenues	(C)	170,000	142,000	128,435		(128,435)	-
Total revenues		2,197,000	2,069,000	1,968,530		(41,046)	1,927,484
REVENUE DEDUCTIONS BEFORE DEPRECIATION							
Operating expenses		1,637,885	1,587,885	1,578,240		-	1,578,240
Income before depreciation		559,115	481,115	390,290		(41,046)	349,244
DEPRECIATION	(A)	-	-	-		330,434	330,434
Income before non-operating expenses		559,115	481,115	390,290		(371,480)	18,810
NON-OPERATING INCOME (EXPENSES)							
Interest income	(C)	-	-	-		10,355	10,355
Loss on disposal of assets	(A)	-	-	-		25	25
Interest expense	(B)	-	-	-		(116,187)	(116,187)
Amortization of debt issue expense and other assets - treatment plant upgrades	(A)	-	-	-		(82,608)	(82,608)
Loss due to dropped projects	(A)	-	-	-		(878)	(878)
Miscellaneous non-operating revenues	(A)	-	-	-		41,412	41,412
Total non-operating income (expenses)		-	-	-		(147,881)	(147,881)
Increase (decrease) in net assets before capital contributions		559,115	481,115	390,290		(519,361)	(129,071)
CAPITAL CONTRIBUTIONS (A)	(C)	-	-	-		13,246	13,246
OTHER FINANCING SOURCES (USES)							
Renewal and replacement funds		(54,925)	(51,725)	(49,254)	(E)	49,254	-
Debt service	(D)	(308,974)	(393,000)	(341,004)	(E)	341,004	-
Total other financing (uses)		(363,899)	(444,725)	(390,258)		390,258	-
Increase (decrease) in net assets		195,216	36,390	32		(115,857)	(115,825)
Net assets at beginning of year, restated		8,619,353	8,619,353	8,619,353		-	8,619,353
Net assets at end of year		$ 8,814,569	$ 8,655,743	$ 8,619,385		$ (115,857)	$ 8,503,528

NOTES:

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

See independent auditors' report.

Jefferson County Public Service District

SCHEDULES OF OPERATING EXPENSES - WATER DEPARTMENT

For the years ended June 30, 2010 and 2009

	2010	2009
SOURCE OF SUPPLY EXPENSES		
Repairs and maintenance	**$ 971**	$ 2,766
Operation supplies and expenses	**2,288**	1,658
Total	**3,259**	4,424
PUMPING EXPENSES		
Repairs and maintenance	**2,468**	2,752
Power gas and electric	**-**	16,131
Operation supplies and expenses	**4,138**	3,003
Total	**6,606**	21,886
BILLING AND COLLECTING EXPENSES		
Meter reading, accounting and collection	**14,639**	14,734
ADMINISTRATIVE AND GENERAL EXPENSES		
Professional fees	**19,403**	-
Miscellaneous expenses	**1,529**	595
Total	**20,932**	595
Total operating expenses	**$ 45,436**	$ 41,639

See independent auditors' report.

Jefferson County Public Service District

SCHEDULES OF OPERATING EXPENSES - SEWER DEPARTMENT

For the years ended June 30, 2010 and 2009

	2010	2009
COLLECTING EXPENSES		
Operation labor	$ 41,870	$ 34,261
Supplies and expense	6,769	7,635
Total	48,639	41,896
PUMPING SYSTEM		
Operation labor	68,932	58,584
Power purchased for pumping	41,244	35,542
Pumping and supplies	17,612	23,508
Pumping maintenance	88,131	69,086
Total	215,919	186,720
TREATMENT AND DISPOSAL SYSTEM EXPENSES		
Operation labor	4,330	3,888
Supplies and expense	72,375	5,189
Treatment and disposal rent	560,326	574,015
Total	637,031	583,092
BILLING AND COLLECTING EXPENSES		
Meter reading, accounting and collection	75,866	74,588
ADMINISTRATIVE AND GENERAL EXPENSES		
General office salaries	206,372	195,014
Employee benefits	204,305	129,669
Office supplies and expense	63,782	73,243
Insurance	41,059	32,007
Professional fees	122,962	110,992
Miscellaneous general expense	19,531	21,536
Directors' fees	6,387	5,050
Rent	70,943	57,336
Regulatory commission expense and penalties	18,978	16,158
Transportation expense	2,838	4,022
Utilities	18,719	16,614
Bad debts	19,143	14,515
Repairs and maintenance	14,649	15,788
Total	809,668	691,944
Total operating expenses	$ 1,787,123	$ 1,578,240

See independent auditors' report.

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CoxHollidaPrice LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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, 2010 and 2009, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 6, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of the internal control was for the limited purposes described in the proceeding paragraph and was not designed to identify all deficiencies in the internal control that might be significant deficiencies or material weakness and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weakness have been identified. However, as discussed below, we identified a certain deficiency in internal control that we considered to be a material weakness.

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 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. We consider item 2010-1 in the accompanying schedule of findings and responses to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and responses as item 2010-2.

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

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

CoxHollidaPrice

Martinsburg, WV

December 6, 2010

SCHEDULE OF FINDINGS AND RESPONSES

For the year ended June 30, 2010

Internal Control

2010-1 **Condition:**

The District did not recognize the developers contribution or the related capital assets in a timely fashion. Governmental Accounting Principles require the District to record the fair value of contributions of assets when received and accepted by the District.

Effect:

Developer contributions and related capital assets were not timely recorded in the District's books

Recommendation:

The District should ensure that they follow their extension agreements and copies of the formal documentation should be provided to finance staff in a timely manner to be properly included in financial statement information.

Audited Agency's Response:

Our staff properly inspected and confirmed completion of the development before we accepted the responsibility for them. The District has implemented additional procedures to ensure that financial staff is provided with adequate and timely information concerning acceptance of non cash contributions.

Compliance

2010-2 **Condition:**

District did not maintain rates established at a sufficient level to enable a bond coverage ratio of 115% for revenue bonds. The June 30, 2010 revenue bond coverage ratio was 66%.

Criteria:

Revenue bond covenants require a minim coverage ratio of 115% of amount required to pay the highest succeeding fiscal year debt service (principal and interest) on all revenue bonds outstanding after payment of operations.

Effect:

Coverage ratio is less than mandated by bond covenants.

Recommendation:

We recommend that the District maintain rates established at a level sufficient to provide a minimum coverage ratio of 115%.

Audited Agency's Response:

We concur with the recommendation. The District was successful in receiving approval from the Public Service Commission of West Virginia to increase rates as of April 2010. The District's current coverage ratio of 66% reflects only two months of the approved rates.

Jefferson County Public Service District

SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES

For the year ended June 30, 2010

Internal Control

2009-1 **Condition:**
Timesheets were not available for testing. Corrected.

Compliance

2009-2 **Condition:**
The District did not maintain the required minimum debt service coverage. Repeated.