

JEFFERSON COUNTY PUBLIC SERVICE DISTRICT

FINANCIAL STATEMENTS

For the years ended June 30, 2013 and June 30, 2012



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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

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

We have audited the accompanying financial statements of the business-type activities of Jefferson County Public Service District ("District") as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Jefferson County Public Service District, as of June 30, 2013, and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedules of operating expenses, for the water department and sewer department are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of operating expenses, for the water department and sewer department are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of operating expenses, for the water department and sewer department are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated, October 7, 2013, on our consideration of Jefferson County Public Service 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 the 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 internal control over financial reporting or on compliance. that report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

CoxHollidaPrice LLP

Martinsburg, West Virginia

October 7, 2013

Jefferson County Public Service District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the fiscal year ended June 30, 2013

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, 2013. 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 Position. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges.

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

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

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

Financial Analysis of the District as a Whole

One of the most important questions asked about the District's finances is "Is the District, as a whole, better off or worse off as a result of the year's activities?" The Balance Sheet, the Statement of Revenue, Expenses and Changes in Net Position 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 position- 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 position is 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 position 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:

	2013	2012
Unrestricted cash	\$ (2,301)	\$ 60,814
Restricted cash	1,613,314	755,473
Other Assets	1,598,722	1,828,139
Capital assets	12,295,140	14,040,838
Total assets	\$ 15,504,875	\$ 16,685,264
Current and other liabilities	\$ 634,356	\$ 586,915
Long-term liabilities	6,748,635	5,450,525
Total Liabilities	\$ 7,382,991	\$ 6,037,440
Invested in assets, net of debt	\$ 6,696,307	\$ 10,042,295
Restricted net position	1,484,597	631,875
Unrestricted net position	(59,020)	(26,346)
Total net position	\$ 8,121,884	\$ 10,647,824

Jefferson County Public Service District
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the fiscal year ended June 30, 201

	2013	2012
Revenues		
Sales to customers	\$ 2,089,942	\$ 2,025,777
Other	175,719	164,678
Total revenue	2,265,661	2,190,455
Expenses		
Operating	1,727,267	1,784,516
Dropped projects	2,835,178	2,783
Depreciation and amortization	449,945	467,720
Interest expense	92,557	92,338
Total expenses	5,104,947	2,347,357
Net loss before capital contributions	(2,839,286)	(156,902)
Capital contributions	313,346	(115,566)
Change in net position	\$ (2,525,940)	\$ (272,468)

During the current fiscal year the District experienced about a 3% increase in revenues. This increase was from growth in customer base and a 3% increase in rates that went into place April 2013.

In fiscal year ended June 30, 2013, the District invested approximately \$1,056,550 for a project total of \$2.8 million to fund the planning, easement acquisition, engineering, accounting and regulatory costs associated with the Flowing Springs Wastewater Treatment Plant project. This investment was financed by the use of the District's operating cash account, plus debt financing and Capacity Improvement Fee account. It was anticipated that the District would be reimbursed the bulk of this investment on final regulatory approval and final financing of the project, but the Flowing Springs project was not approved in FY 2012 and will not move forward to bid and construction. As a result, the District will not recover the upfront cash and borrowed capital outlay investments will not be covered by permanent project financing unless a substitute project can be developed that leverages the current investments. The District wrote off the project in the current fiscal year.

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

During the past few years of the District's attempt to build a new Flowing Springs Wastewater Treatment Plant, the PSC approved the Certificate of Need and Convenience twice before finally denying it in PSC case # 09-0347-PSD-PC-CN on August 12, 2011 due to changes in the national economy and customer concerns. In 2012 the District initiated Case # 12-0513-PSD-42T-PC at the PSC to request funds to borrow money to clear up the debt related to the denied Flowing Springs Wastewater project and to purchase needed items for District operation and maintenance, To start paying the \$1.3 million debt to the engineers, the District initiated a \$5,000 / month payment. To contribute toward resolution of the case, the engineers voluntary reduced their fee of \$1,310,012 owed to them to just \$1,075,000. The District paid Pentree \$60,000 from the operating account in monthly payments; which left the balance owed of \$1,015,000. In addition to this \$1,015,000 debt, the District also needed to fund the items for operation and maintenance of the sewer system. These items included a new truck, relining of a wet well and manhole, replacement of a pump station and a strategic plan which together totaled \$413,000.00.

The District closed on the 2013 bond on June 24, 2013 to pay for the Pentree debt and the \$413,000 (amount currently in restricted cash) for the above items. The total amount of this bond, including soft costs was \$1,660,000. In order to service the debt service, the District raised the customer rates by 3 % to \$13.09 / 1,000 gallons. Another result of this PSC case was the reduction of the District's Capacity Improvement Fee (CIF) from \$7,500 per Equivalent Dwelling Unit (EDU) to \$1,127 per EDU. Because we are a bulk sewer customer of the City of Charles Town and we must send \$1,127 per EDU to them for their wastewater treatment plans, the District will no longer have CIF proceeds to save for future facilities; but at the end of FY 2013 the account had a balance \$352,856.

Budgetary Highlights

Over the course of the year, the District approved an amendment to the Sewer Department budget mid-year, to adjust specific line items that were over-budget or under-budget overall, the District ended the Fiscal Year under budget by approximately \$64,000 and the actual operating expenses were comparable to the District's prior year.

Capital Assets and Debt Administration

At the end of the current fiscal year, the District's Sewer Department had outstanding revenue bonds of \$7,063,366.

The District took on additional long term debt during the current fiscal year, approved in PSC Case # 12-0513- PSD-42T-PC to pay off engineering costs from the denied Flowing Springs WWTP and necessary purchases for the operation and maintenance of the sewer system.

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 119%

Economic Factors

The District began to experience a slowdown in new service customer connections in 2008. Management attributes much of the decline to the overall national slump in the housing industry. The District expects that the residential sector will continue to slowly increase as the economy improves. Overall, the District expects growth in new service customer connections and equivalent domestic units (EDU). This year alone the District had 81 new connections which were 55 more than last year.

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

The long-term trend of increasing numbers of residences and businesses in Jefferson County has resulted in the increase in demand on the Charles Town wastewater facility which is used by the district to treat wastewater of District customers. The District is a bulk customer of Charles Town. The District is still faced with costly upgrades to its collection system and must develop a new project plan that addresses urgent collection system needs as well as the transmission capability to continue to send wastewater to Charles Town for treatment.

The District has already obtained approximately 80% of the easements for the collection system project anticipated under the Flowing Springs WWTP initiative and these may still be used to upgrade the existing collection and transmission system in a future project plan.

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

Jefferson County Public Service District

BALANCE SHEETS

June 30, 2013 and 2012

ASSETS

	<u>Water Department</u>	<u>Sewer Department</u>	<u>2013 Total</u>	2012 Memorandum Only <u>Total</u>
CURRENT ASSETS				
Cash	\$ 2,345	\$ (4,646)	\$ (2,301)	\$ 60,814
Accounts receivable, net of allowance for doubtful accounts of \$10,000	(794)	58,669	57,875	60,695
Accounts receivable - other	-	2,630	2,630	3,681
Accrued utility revenue	4,555	178,220	182,775	176,640
Prepaid expenses and deposits	-	9,247	9,247	9,247
Total current assets	<u>6,106</u>	<u>244,120</u>	<u>250,226</u>	<u>311,077</u>
RESTRICTED CASH	<u>4,103</u>	<u>1,609,211</u>	<u>1,613,314</u>	<u>755,473</u>
CAPITAL ASSETS				
Land and land rights	2,866	1,042,760	1,045,626	919,951
Construction work in progress	-	89,593	89,593	1,659,433
Utility plant in service	265,707	16,564,130	16,829,837	16,742,555
Less accumulated depreciation	<u>(78,365)</u>	<u>(5,591,551)</u>	<u>(5,669,916)</u>	<u>(5,281,101)</u>
Net capital assets	<u>190,208</u>	<u>12,104,932</u>	<u>12,295,140</u>	<u>14,040,838</u>
OTHER ASSETS				
Unamortized debt issue expense, net of accumulated amortization of \$106,902 and \$94,319, respectively	-	276,910	276,910	208,394
Future utility plant preliminary survey and design charges	272,932	32,621	305,553	546,340
Due from other funds	-	12,482	12,482	27,701
Other assets - capacity upgrades, net of accumulated amortization of \$353,532 and \$309,340, respectively	<u>-</u>	<u>751,250</u>	<u>751,250</u>	<u>795,441</u>
Total other assets	<u>272,932</u>	<u>1,073,263</u>	<u>1,346,195</u>	<u>1,577,876</u>
Total assets	\$ <u>473,349</u>	\$ <u>15,031,526</u>	\$ <u>15,504,875</u>	\$ <u>16,685,264</u>

The accompanying notes are an integral part of this statement.

Jefferson County Public Service District

BALANCE SHEETS (Continued)

June 30, 2013 and 2012

	LIABILITIES			2012 Memorandum Only Total
	<u>Water Department</u>	<u>Sewer Department</u>	2013 Total	<u>Total</u>
CURRENT LIABILITIES (payable from current assets)				
Accounts payable	\$ 5,240	\$ 87,383	\$ 92,623	\$ 132,878
Accrued taxes and expenses	<u>-</u>	<u>29,512</u>	<u>29,512</u>	<u>25,212</u>
Total current liabilities (payable from current assets)	<u>5,240</u>	<u>116,895</u>	<u>122,135</u>	<u>158,090</u>
CURRENT LIABILITIES (payable from restricted cash)				
Revenue bonds payable (due within one year)	-	353,087	353,087	287,361
Note payable (due within one year)	-	8,580	8,580	-
Accrued interest payable	-	19,583	19,583	17,864
Customer deposits	2,602	126,115	128,717	123,600
Capital improvement fees	<u>-</u>	<u>2,254</u>	<u>2,254</u>	<u>-</u>
Total current liabilities (payable from restricted cash)	<u>2,602</u>	<u>509,619</u>	<u>512,221</u>	<u>428,825</u>
LONG-TERM LIABILITIES				
Due to other funds	12,482	-	12,482	27,701
OPEB obligation	-	165,274	165,274	161,482
Revenue bonds payable	-	6,710,279	6,710,279	5,403,366
Notes payable	145,000	23,933	168,933	186,980
Original issue discount, net of accumulated amortization of \$1,745 and \$1,163, respectively	-	(8,873)	(8,873)	(9,455)
Deferred acquisition cost on bond refinancing, net of accumulated amortization of \$60,267 and \$40,178, respectively	<u>-</u>	<u>(299,460)</u>	<u>(299,460)</u>	<u>(319,549)</u>
Total long-term liabilities	<u>157,482</u>	<u>6,591,153</u>	<u>6,748,635</u>	<u>5,450,525</u>
Total liabilities	<u>165,324</u>	<u>7,217,667</u>	<u>7,382,991</u>	<u>6,037,440</u>
NET POSITION				
NET POSITION				
Invested in capital assets, net of related debt	318,140	6,378,167	6,696,307	10,042,295
Restricted for debt and construction	1,501	1,483,096	1,484,597	631,875
Unrestricted	<u>(11,616)</u>	<u>(47,404)</u>	<u>(59,020)</u>	<u>(26,346)</u>
Total net position	<u>308,025</u>	<u>7,813,860</u>	<u>8,121,885</u>	<u>10,647,824</u>
Total liabilities and net position	\$ <u>473,349</u>	\$ <u>15,031,526</u>	\$ <u>15,504,875</u>	\$ <u>16,685,264</u>

The accompanying notes are an integral part of this statement.

Jefferson County Public Service District

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the years ended June 30, 2013 and 2012

	<u>Water Department</u>	<u>Sewer Department</u>	<u>2013 Total</u>	2012 Memorandum Only <u>Total</u>
OPERATING REVENUES				
Sales to general customers	\$ 46,651	\$ 2,043,291	\$ 2,089,942	\$ 2,025,777
Customers' forfeited discounts and penalties	-	44,469	44,469	46,885
Income from bad debts recovered	848	-	848	944
Miscellaneous revenues	<u>100</u>	<u>110,436</u>	<u>110,536</u>	<u>84,005</u>
Total operating revenues	<u>47,599</u>	<u>2,198,196</u>	<u>2,245,795</u>	<u>2,157,611</u>
OPERATING REVENUE DEDUCTIONS BEFORE DEPRECIATION				
Operating expenses	<u>49,693</u>	<u>1,677,574</u>	<u>1,727,267</u>	<u>1,784,516</u>
Operating income before depreciation	(2,094)	520,622	518,528	373,095
DEPRECIATION				
	<u>7,315</u>	<u>385,274</u>	<u>392,589</u>	<u>386,134</u>
Operating income	<u>(9,409)</u>	<u>135,348</u>	<u>125,939</u>	<u>(13,039)</u>
NON-OPERATING INCOME (EXPENSE)				
Interest income	10	516	526	350
Loss on disposal of assets	-	(22,072)	(22,072)	(8,918)
Interest expense	(3)	(92,554)	(92,557)	(92,338)
Amortization of debt issue expense and other assets - treatment plant upgrades	-	(57,356)	(57,356)	(81,586)
Loss due to dropped projects	-	(2,835,178)	(2,835,178)	(2,783)
Miscellaneous non-operating revenues	<u>-</u>	<u>41,412</u>	<u>41,412</u>	<u>41,412</u>
Total non-operating income (expense)	<u>7</u>	<u>(2,965,232)</u>	<u>(2,965,225)</u>	<u>(143,863)</u>
Decrease in net position before capital contributions	<u>(9,402)</u>	<u>(2,829,884)</u>	<u>(2,839,286)</u>	<u>(156,902)</u>
CAPITAL CONTRIBUTIONS				
	<u>58,676</u>	<u>254,670</u>	<u>313,346</u>	<u>(115,566)</u>
Increase (decrease) in net position	49,274	(2,575,214)	(2,525,940)	(272,468)
Net position at beginning of year	<u>258,751</u>	<u>10,389,073</u>	<u>10,647,824</u>	<u>10,920,292</u>
Net position at end of year	\$ <u>308,025</u>	\$ <u>7,813,860</u>	\$ <u>8,121,885</u>	\$ <u>10,647,824</u>

The accompanying notes are an integral part of this statement.

Jefferson County Public Service District

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2013 and 2012

	<u>Water Department</u>	<u>Sewer Department</u>	<u>2013 Total</u>	2012 Memorandum Only <u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 48,190	\$ 2,195,341	\$ 2,243,531	\$ 2,158,911
Cash payments for employee services	(48,425)	(1,297,508)	(1,345,933)	(1,105,476)
Cash payments for goods and services	<u>-</u>	<u>(413,496)</u>	<u>(413,496)</u>	<u>(609,044)</u>
Net cash flows provided by operating activities	<u>(235)</u>	<u>484,337</u>	<u>484,102</u>	<u>444,391</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	<u>10</u>	<u>516</u>	<u>526</u>	<u>350</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Expenditures for utility plant and other assets	(13,329)	(1,156,410)	(1,169,739)	(68,994)
Increase in customer deposits	199	4,918	5,117	3,379
Capital improvement fees collected	-	347,334	347,334	327,300
Capital improvement fees transferred to joint account	-	(90,410)	(90,410)	(30,429)
Capacity assurance fee refunded	-	-	-	(1,000,000)
Principal payment on debt - bond and notes	-	(296,828)	(296,828)	(995,382)
Credits on treatment upgrade bonds	-	41,412	41,412	41,412
Interest paid on bonds and notes	(3)	(70,747)	(70,750)	(72,849)
Proceeds from bonds payable	-	1,626,800	1,626,800	-
Net (increase) decrease in due to other utility	(15,219)	15,219	-	-
Expenditures for debt issuance expenses	-	(47,900)	(47,900)	-
Increase in preliminary surveys	<u>(34,938)</u>	<u>-</u>	<u>(34,938)</u>	<u>(204,045)</u>
Net cash (used in) capital and related financing activities	<u>(63,290)</u>	<u>373,388</u>	<u>310,098</u>	<u>(1,999,608)</u>
Net increase (decrease) in cash	<u>(63,515)</u>	<u>858,241</u>	<u>794,726</u>	<u>(1,554,867)</u>
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	<u>69,963</u>	<u>746,324</u>	<u>816,287</u>	<u>2,371,154</u>
CASH AND CASH EQUIVALENTS END OF YEAR	<u>\$ 6,448</u>	<u>\$ 1,604,565</u>	<u>\$ 1,611,013</u>	<u>\$ 816,287</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES				
Operating income	\$ (9,409)	\$ 135,348	\$ 125,939	\$ (13,039)
Depreciation	7,315	385,274	392,589	386,134
Adjustments for changes in operating assets and liabilities:				
(Increase) decrease in accounts and other receivables	591	3,280	3,871	(1,871)
(Increase) decrease in accrued utility revenue	-	(6,135)	(6,135)	3,171
Increase (decrease) in accounts payable	1,268	(41,522)	(40,254)	43,730
Increase (decrease) in accrued expenses	-	4,300	4,300	(11,846)
Increase in other employee benefit obligation	<u>-</u>	<u>3,792</u>	<u>3,792</u>	<u>38,112</u>
Net cash provided by operating activities	<u>\$ (235)</u>	<u>\$ 484,337</u>	<u>\$ 484,102</u>	<u>\$ 444,391</u>

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

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.

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

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

Financial Reporting Entity

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

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

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 position (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 position.

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 Position

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, 2013 and 2012.

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position (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, 2013 or 2012. 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, 2013 and 2012, are summarized below:

Sewer Department

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

Water Department

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position (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 \$20,529 and \$16,357 at June 30, 2013 and 2012, 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 position 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 position-Consists of net position 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 position – All other net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Statement of Cash Flows

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

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position (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, 2013 and 2012:

	<u>Water</u>	<u>Sewer</u>	<u>2013</u> <u>Total</u>	2012 <u>Memorandum</u> <u>Only Total</u>
Revenue	\$ -	\$ (5,827)	\$ (5,827)	\$ (6,565)
Petty cash	-	700	700	700
Operations and maintenance	2,345	-	2,345	66,192
Future needs	<u>-</u>	<u>481</u>	<u>481</u>	<u>487</u>
Total	\$ <u>2,345</u>	\$ <u>(4,646)</u>	\$ <u>(2,301)</u>	\$ <u>60,814</u>

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

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

RESTRICTED CASH AND RESERVES

Restricted cash and reserves consisted of the following accounts and amounts at June 30, 2013 and 2012:

		<u>Water</u>	<u>Sewer</u>	<u>2013</u> <u>Total</u>	2012 Memorandum <u>Only Total</u>
Debt service revenue	\$	-	\$ 129,604	\$ 129,604	\$ 85,211
Debt service reserve		-	507,229	507,229	402,246
Bond proceeds account		-	417,880	417,880	-
Renewal and replacement		-	68,354	68,354	45,971
Capacity improvement and assurance fee		-	352,856	352,856	95,604
Customer deposits		<u>4,103</u>	<u>133,288</u>	<u>137,391</u>	<u>126,441</u>
Total	\$	<u>4,103</u>	\$ <u>1,609,211</u>	\$ <u>1,613,314</u>	\$ <u>755,473</u>

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

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

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

The District is required to remit CIF collections for new customers flows that will be treated at the Charles Town treatment plant by 30 days from collection without interest. The District maintains a liability on the books for fees collected but not yet transferred. The balance of the liability as of June 30, 2013 and 2012 was \$2,254 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

DEPOSITS AND INVESTMENTS

At June 30, 2013, the District's cash and investment balances were as follows:

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Standard Poor Rating</u>
Repurchase Agreements	Various	\$ 978,725	AA+
State Investment Pool	Average of 90 days	<u>636,833</u>	AA-1
Total investments		1,615,558	
Cash		<u>(4,545)</u>	
Total Cash and Investments		\$ <u>1,611,013</u>	

Interest Rate Risk

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

Credit Risk

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

Concentration Credit Risk

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

GAAP requires disclosure when any one issuer is 5% or more of the investment portfolio. The investment in the repurchase agreements, with it's underlying securities being Federal Home Loan Bank and Fannie Mae mortgage loans of 61%, and investments in the state investment pool of 39% of the investment portfolio. These types of investments are within state statutes as listed under credit risk, therefore, this is not viewed as an additional risk by the District.

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

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, 2013, \$783,832 of the District's bank balance of \$1,034,320 was exposed to custodial credit risk. \$250,488 of the bank balance was covered by Federal Deposit Insurance (FDIC) and \$783,832 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, 2013 and 2012, 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, 2013 and 2012.

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

CAPITAL ASSETS

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

Sewer Department

	Balance at <u>July 01, 2011</u>	<u>Additions</u>	<u>Retirements</u>	Balance at <u>June 30, 2012</u>
Capital assets not being depreciated:				
Land and land rights	\$ 917,885	\$ -	\$ -	\$ 917,885
Construction work in progress	<u>1,549,643</u>	<u>109,790</u>	<u>-</u>	<u>1,659,433</u>
Total capital assets not being depreciated - sewer	<u>2,467,528</u>	<u>109,790</u>	<u>-</u>	<u>2,577,318</u>
Capital assets being depreciated:				
Collection mains and services	10,819,526	425,518	-	11,245,044
Transmission mains	240,858	-	-	240,858
Gravity mains	64,865	-	-	64,865
Force mains	1,147,076	-	-	1,147,076
Electric pumping equipment	3,345,777	196,590	13,888	3,528,479
Transportation equipment	85,048	-	3,415	81,633
Communication equipment	21,343	-	-	21,343
Furniture and office equipment	<u>209,080</u>	<u>9,675</u>	<u>-</u>	<u>218,755</u>
Total capital assets being depreciated - sewer	<u>15,933,573</u>	<u>631,783</u>	<u>17,303</u>	<u>16,548,053</u>
Less Accumulated Depreciation – Sewer Department				
	Balance at <u>July 01, 2011</u>	<u>Additions</u>	<u>Retirements</u>	Balance at <u>June 30, 2012</u>
Collection mains and services	3,125,624	222,227	-	3,347,851
Transmission mains	102,995	4,817	-	107,812
Gravity mains	21,405	1,297	-	22,702
Force mains	476,189	22,943	-	499,132
Electric pumping equipment	935,517	96,219	4,330	1,027,406
Transportation equipment	68,717	7,960	3,415	73,262
Communication equipment	9,949	1,759	-	11,708
Furniture and office equipment	<u>97,859</u>	<u>22,319</u>	<u>-</u>	<u>120,178</u>
Total accumulated depreciation	<u>4,838,255</u>	<u>379,541</u>	<u>7,745</u>	<u>5,210,051</u>
Total capital assets being depreciated, net - sewer	<u>11,095,318</u>	<u>252,242</u>	<u>9,558</u>	<u>11,338,002</u>
Net capital assets - sewer	\$ <u>13,562,846</u>	\$ <u>362,032</u>	\$ <u>9,558</u>	\$ <u>13,915,320</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

CAPITAL ASSETS (Continued)**Water Department**

	Balance at <u>July 01, 2011</u>	<u>Additions</u>	<u>Retirements</u>	Balance at <u>June 30, 2012</u>
Capital assets not being depreciated:				
Land and land rights	\$ <u>2,066</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>2,066</u>
Capital assets being depreciated:				
Structures and improvements	74,282	15,760	-	90,042
Supply mains	1,240	-	-	1,240
Wells and springs	9,949	-	-	9,949
Pump equipment	18,235	-	-	18,235
Transmission and distribution lines	58,316	-	-	58,316
Services and meters	16,598	-	-	16,598
Hydrants	<u>122</u>	<u>-</u>	<u>-</u>	<u>122</u>
Total capital assets being depreciated - water	<u>178,742</u>	<u>15,760</u>	<u>-</u>	<u>194,502</u>
Less Accumulated Depreciation – Water Department				
	Balance at <u>July 01, 2011</u>	<u>Additions</u>	<u>Retirements</u>	Balance at <u>June 30, 2012</u>
Structures and improvements	21,754	3,292	-	25,046
Supply mains	527	32	-	559
Wells and springs	892	255	-	1,147
Pump equipment	11,442	990	-	12,432
Transmission and distribution lines	23,432	1,680	-	25,112
Services and meters	6,336	340	-	6,676
Hydrants	<u>74</u>	<u>4</u>	<u>-</u>	<u>78</u>
Total accumulated depreciation	<u>64,457</u>	<u>6,593</u>	<u>-</u>	<u>71,050</u>
Total capital assets being depreciated, net - water	<u>114,285</u>	<u>9,167</u>	<u>-</u>	<u>123,452</u>
Net capital assets - water	\$ <u><u>116,351</u></u>	\$ <u><u>9,167</u></u>	\$ <u><u>-</u></u>	\$ <u><u>125,518</u></u>

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

CAPITAL ASSETS (Continued)

Capital assets activity for the year ended June 30, 2013 was as follows:

Sewer Department

	<u>Balance at July 01, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2013</u>
Capital assets not being depreciated:				
Land and land rights	\$ 917,885	\$ 124,875	\$ -	\$ 1,042,760
Construction work in progress	<u>1,659,433</u>	<u>1,265,338</u>	<u>2,835,178</u>	<u>89,593</u>
Total capital assets not being depreciated - sewer	<u>2,577,318</u>	<u>1,390,213</u>	<u>2,835,178</u>	<u>1,132,353</u>
Capital assets being depreciated:				
Collection mains and services	11,245,044	-	-	11,245,044
Transmission mains	240,858	-	-	240,858
Gravity mains	64,865	-	-	64,865
Force mains	1,147,076	-	-	1,147,076
Electric pumping equipment	3,528,479	22,825	25,846	3,525,458
Transportation equipment	81,633	-	-	81,633
Communication equipment	21,343	1,050	-	22,393
Furniture and office equipment	<u>218,755</u>	<u>18,048</u>	<u>-</u>	<u>236,803</u>
Total capital assets being depreciated - sewer	<u>16,548,053</u>	<u>41,923</u>	<u>25,846</u>	<u>16,564,130</u>

Less Accumulated Depreciation – Sewer Department

	<u>Balance at July 01, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2013</u>
Collection mains and services	3,347,851	226,145	-	3,573,996
Transmission mains	107,812	4,817	-	112,629
Gravity mains	22,702	1,297	-	23,999
Force mains	499,132	22,940	-	522,072
Electric pumping equipment	1,027,406	101,435	3,771	1,125,070
Transportation equipment	73,262	5,724	-	78,986
Communication equipment	11,708	3,195	-	14,903
Furniture and office equipment	<u>120,178</u>	<u>19,718</u>	<u>-</u>	<u>139,896</u>
Total accumulated depreciation	<u>5,210,051</u>	<u>385,271</u>	<u>3,771</u>	<u>5,591,551</u>
Total capital assets being depreciated, net - sewer	<u>11,338,002</u>	<u>(343,348)</u>	<u>22,075</u>	<u>10,972,579</u>
Net capital assets - sewer	\$ <u>13,915,320</u>	\$ <u>1,046,865</u>	\$ <u>2,857,253</u>	\$ <u>12,104,932</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

CAPITAL ASSETS (Continued)

Water Department

	<u>Balance at July 01, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2013</u>
Capital assets not being depreciated:				
Land and land rights	\$ <u>2,066</u>	\$ <u>800</u>	\$ <u>-</u>	\$ <u>2,866</u>
Capital assets being depreciated:				
Structures and improvements	90,042		-	90,042
Supply mains	1,240	-	-	1,240
Wells and springs	9,949	71,205	-	81,154
Pump equipment	18,235	-	-	18,235
Transmission and distribution lines	58,316	-	-	58,316
Services and meters	16,598		-	16,598
Hydrants	<u>122</u>	<u>-</u>	<u>-</u>	<u>122</u>
Total capital assets being depreciated - water	<u>194,502</u>	<u>71,205</u>	<u>-</u>	<u>265,707</u>
Less Accumulated Depreciation – Water Department				
	<u>Balance at July 01, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2013</u>
Structures and improvements	25,046	3,856	-	28,902
Supply mains	559	31	-	590
Wells and springs	1,147	255	-	1,402
Pump equipment	12,432	988	-	13,420
Transmission and distribution lines	25,112	1,679	-	26,791
Services and meters	6,676	502	-	7,178
Hydrants	<u>78</u>	<u>4</u>	<u>-</u>	<u>82</u>
Total accumulated depreciation	<u>71,050</u>	<u>7,315</u>	<u>-</u>	<u>78,365</u>
Total capital assets being depreciated, net - water	<u>123,452</u>	<u>63,890</u>	<u>-</u>	<u>187,342</u>
Net capital assets - water	\$ <u>125,518</u>	\$ <u>64,690</u>	\$ <u>-</u>	\$ <u>190,208</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

CONSTRUCTION WORK IN PROGRESS

Construction work in progress is made up of the following at June 30, 2013:

Norborne Glebe Project	9,689
Sheridan Project	8,403
Old Standard	39,268
Wormald/Beallair Project	16,324
Spruce Hill North Project	14,740
Jefferson Crossing II	<u>1,169</u>
	\$ <u>89,593</u>

The Norborne Glebe Project is an alternate main line extension that will service the Norborne Glebe subdivision. The project has been expanded from its original plant to serve 602 homes to serve approximately 1,000 residential units and 40 acres of commercial property. 81 homes are currently on the billing system, and the developer has purchased 43 CIFs for new homes that will be completed in the next fiscal year.. This project is being built by the developer and upon phase completion will be turned over to the District, at which time the estimated total cost of the project will be recorded on the District's books as utility plant and capital contributions. Phase I was turned over to the District in September 2005. This is reflected in capital contributions and utility plant in the year ended June 30, 2006. The estimated date of completion for the remainder of the project is 2025 with an estimated total cost of \$500,000 (unaudited).

The District has an alternate main line extension agreement for the Sheridan Development and four separate agreements for the associated Old Standard wastewater treatment plant of which three of these agreements had expired by June 30, 2011. The agreements are; real estate purchase agreement, leaseback agreement, operation and maintenance agreement and an asset purchase agreement. The real estate purchase agreement and leaseback agreement stages have already taken place and the plant is currently constructed and serving the homes of Sheridan. It has not been turned over to the District from the developer as it does not yet have enough customers to be self-supporting, but the District owns the land upon which the plant is constructed. We have recently learned that there is a Mechanics Lien on the property. The developed is attempting to get the lien removed and move forward with the original plans to turn the plant and Sheridan Development to the District.

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

CONSTRUCTION WORK IN PROGRESS (Continued)

In 2004 the Developer of the Old Standard Wastewater Treatment Plant and the Sheridan development deeded approximately 2.5 acres to the District for a treatment plant. This treatment plant is constructed and serves homes in the Sheridan Development, 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).

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. 35 of these have been utilized for homes that now have paying customers. The remaining 14 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. In FY 2012-2013, the developer purchased 2 more CIFs and has numerous contracts which will require new ones in the next fiscal year. 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 76 are currently on the billing system. The developer has purchased an additional 13 EDUs that will be on billing within the next 6 months. The developer has already transferred Phase 1 to the District but due to a bankruptcy, the City of Charles Town is now preparing the project to be turned over to the District. This project is being built by the developer and upon completion will be turned over to the District, at which time the estimated total cost of the project will be recorded on the District's books as utility plant and capital contributions. The total estimated cost is approximately \$100,000 (unaudited).

The Jefferson Crossing II project is a business area consisting of two (2) office buildings, two (2) strip malls, one (1) gas station, one (1) car wash and two (2) restaurants and a hotel currently online, with possible expansion occurring in future years. An apartment complex is expected to come online in 2014. Sewer Infrastructure of the project will be turned over to the District in the future, at which time the estimated total cost of the project will be recorded on the District's books. The estimated cost is currently unavailable.

OTHER ASSETS

Future Utility Plant Preliminary Survey and Design Charges

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

Other Assets-Capacity Upgrades

The District's contribution to the Charles Town wastewater treatment plant upgrade is being amortized over the remaining life (25 years) of the associated bonds. The carrying amount of this asset, net of amortization at June 30, 2013 and 2012 is \$751,250 and \$795,441 respectively. (See details on reclassification in Sewer Service Agreement note).

Jefferson County Public Service District
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2013 and 2012

REVENUE BONDS PAYABLE

The District was obligated under trust indentures with respect to the following sewer revenue bonds outstanding at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Series - 1988 B sewer revenue bonds, original face value of \$425,767, payable in annual installments, with principal beginning in 1990 at \$10,917 at 0% interest and concluding October 10, 2028.	\$ 174,676	\$ 185,593
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.	24,274	72,822
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.	179,712	209,664
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.	211,251	223,863
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.	712,176	750,672
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.	1,704,238	1,771,074
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.	1,735,000	1,815,000
Series 2013 A Sewer Revenue Bonds, original face value of \$1,660,000, payable in semi-annual installments with principal beginning June 1, 2014, at 2.25% increasing to 4.0% interest and concluding on October 1, 2028.	<u>1,660,000</u>	<u>-</u>
Total revenue bonds payable	\$ <u>7,063,366</u>	\$ <u>5,690,727</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

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, 2013 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 353,087	120,039
2015	333,813	117,281
2016	338,813	112,281
2017	343,813	107,081
2018	353,813	100,994
2019-2023	1,863,371	425,048
2024-2028	2,098,127	204,630
2029-2033	824,375	17,196
2034-2038	520,737	4,936
2039	33,417	-
	<u>\$ 7,063,366</u>	<u>\$ 1,209,486</u>

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

All sewer revenue bonds are on parity with each other.

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

REVENUE BONDS PAYABLE (Continued)

Sewer revenue bond activity for the year ended June 30, 2013 was as follows:

	Balance at <u>July 01, 2012</u>	<u>Additions</u>	<u>Deductions</u>	Balance at <u>June 30, 2013</u>
Series 1988 B	\$ 185,593	\$ -	\$ 10,917	\$ 174,676
Series 1993 A	72,822	-	48,548	24,274
Series 1998 B	209,664	-	29,952	179,712
Series 1998 C	662,039	-	-	662,039
Series 1999 A	223,863	-	12,612	211,251
Series 2000 A	750,672	-	38,496	712,176
Series 2008 A	1,771,074	-	66,836	1,704,238
Series 2010 A	1,815,000	-	80,000	1,735,000
Series 2013 A	<u>-</u>	<u>1,660,000</u>	<u>-</u>	<u>1,660,000</u>
Total sewer revenue bond payable	\$ <u>5,690,727</u>	\$ <u>1,660,000</u>	\$ <u>287,361</u>	\$ <u>7,063,366</u>
Less: Current portion due in upcoming year				<u>353,087</u>
Long-term sewer revenue bonds payable at June 30, 2013 (net of current portion)				\$ <u><u>6,710,279</u></u>

The covenants contained in the bond issues include a required debt service coverage ratio of 115%. As of June 30, 2013 and 2012, the District's debt service coverage ratio was 119%, and 116% 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, 2013 and 2012, the District fully funded the renewal and replacement reserve.

Current Refunding

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

Deferred requisition cost:	Original Amt.	Accum. Amort.	Net Amount
Series 1998 A bond issue costs	\$ 109,885	\$ 18,626	\$ 91,259
Deferred loss on 1998 A refinance	<u>249,842</u>	<u>41,641</u>	<u>208,201</u>
Deferred 2010 A reacquisition cost	<u>\$ 359,727</u>	<u>\$ 60,267</u>	<u>\$ 299,460</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

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 defeased bonds were called as of June 30, 2013.

NOTES PAYABLE

Notes payable consist of the following:

	<u>2013</u>	<u>2012</u>
Sewer Department		
Note payable to the bank in the amount of \$44,062 at the fixed rate of 4.25%, principal and interest due in monthly installments beginning February 2012 and concluding in January 2017.	\$ <u>32,513</u>	\$ <u>41,980</u>
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.	\$ <u>145,000</u>	\$ <u>145,000</u>

Jefferson County Public Service District
NOTES TO FINANCIAL STATEMENTS (Continued)
 June 30, 2013 and 2012

NOTES PAYABLE (Continued)

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

	2014	\$	8,580	
	2015		8,953	
	2016		9,341	
	2017		5,639	
Total			32,513	

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. The January 30, 2009 order was changed by the March 20, 2013 order to reduce capacity improvement fees collected from \$7,500 to \$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. Per the March 20, 2013 order and the dropping of the Flowing Springs Wastewater Treatment Plant Project, no excess amounts will be used to pay down debt service.

Capacity improvement fee activity for the years ended June 30, 2013 and 2012:

<u>Charles Town WWTP</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Capacity improvement fees collected	\$ 92,414	\$ 29,302
Capacity improvement fees remitted	90,160	30,429
Amount due to Charles Town WWTP beginning of year	-	1,127
Amount due to Charles Town WWTP end of year	\$ 2,254	\$ -

<u>Flowing Springs WWTP</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Capacity improvement fees collected, net of required payments to Charles Town WWTP	\$ 254,920	\$ 297,998
Capacity assurance fee (refunded)	-	(1,000,000)
Total	\$ 254,920	\$ (702,002)

Jefferson County Public Service District
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2013 and 2012

MISCELLANEOUS OPERATING REVENUES

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

	<u>2013</u>	<u>2012</u>
Transportation credits	\$ 35,267	\$ 34,379
System billing fees - water department	34,390	36,520
Sewer inspection fees	1,425	675
Disconnect/reconnect fees	2,530	3,120
Other miscellaneous revenue	<u>35,600</u>	<u>9,014</u>
Total	\$ <u>109,212</u>	\$ <u>83,708</u>

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 \$77,494 and \$75,263 in lease expense for fiscal years ended June 30, 2013 and 2012 respectively. Minimum future rental payments under non-cancelable operating lease are as follows:

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

Total minimum future rental payments \$ 460,825

SEWER SERVICE AGREEMENT

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

As of July 1, 2005, the District's asset related to the Charles Town wastewater treatment plant upgrade was reclassified from utility plant in service to other assets on the balance sheet and is being amortized over the remaining life (25 years) of the associated bonds for the Charles Town wastewater treatment plant upgrades (Series 2000). The carrying amount of this asset, net of amortization at June 30, 2013 and 2012 is \$751,250 and \$795,441 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, 2013 and 2012, treatment expenses totaled \$580,333 and \$558,751 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.

Jefferson County Public Service District
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2013 and 2012

COMMITMENTS AND CONTINGENCIES

Retirement Contributions Payable

All full-time employees of the District are eligible and must participate in the state PERS. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. A member may retire after reaching the age of 60 and accumulating 5 years or more of credited service in force. Benefits generally vest in varying degrees once a member attains 5 or more years of credited service in force. Employees who retire at age 60 with 5 or more years of credited service in force are entitled to pension payments for the rest of their lives equal to 2% of their final, three year average salary times the number of years for which they were employed by a participant in the state PERS. The three year average salary equals the average annual salary from the highest 36 consecutive months within the last 10 years of employment.

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

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

Employees of the District are required to pay 4.5% of their gross earnings to the pension plan. The District is required to make annual contributions to the plan equal to 14.0%, 14.5% and 14.5% of its covered payroll for fiscal years ended June 30, 2013, 2012, and 2011. The District made 100% of the required contributions of \$65,554, \$64,383, and \$48,401 to the plan for the years ended June 30, 2013, 2012, and 2011 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.

Jefferson County Public Service District
NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

OTHER POST EMPLOYMENT BENEFITS (Continued)

	Fiscal Years Ended June 30:		
	2013	2012	2011
Per participant per month:			
Contractually required Contributions	\$ <u>178</u>	\$ <u>961</u>	\$ <u>903</u>
District contributions to PEIA for pay as you go	\$ <u>79</u>	\$ <u>167</u>	\$ <u>161</u>
District's annual required contributions:			
Contractually required	\$ 18,667	\$ 50,941	\$ 54,374
District contributions to PEIA for pay as you go	<u>14,875</u>	<u>12,829</u>	<u>9,854</u>
Net OPEB obligation	\$ <u>3,792</u>	\$ <u>38,112</u>	\$ <u>44,520</u>
Percentage of required contributions paid	<u>80%</u>	<u>25%</u>	<u>18%</u>

The District recorded the total net OPEB obligation during fiscal year ended June 30, 2013 which consisted of the following:

Net OPEB obligation

Fiscal year ended June 30:

2013	\$ 3,792
2012	38,112
2011	44,520
2010	51,362
2009	19,001
2008	<u>8,487</u>
	\$ <u>165,274</u>

Deferred Cost of System Design

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

As of June 30, 2001, the District's Board voted not to proceed with this project. According to the 1997 loan agreement, if on the 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash and cash equivalents consist of the following at June 30, 2013 and 2012:

	<u>2013</u>		<u>2012</u>	
	<u>Water</u>	<u>Sewer</u>	<u>Water</u>	<u>Sewer</u>
Cash	\$ 2,345	\$ (4,646)	\$ 66,192	\$ (5,378)
Restricted cash	<u>4,103</u>	<u>1,609,211</u>	<u>3,771</u>	<u>751,702</u>
Total	\$ <u>6,448</u>	\$ <u>1,604,565</u>	\$ <u>69,963</u>	\$ <u>746,324</u>

Schedule of Noncash Investing and Financing activities at June 30 2013 and 2012 - Sewer:

	<u>2013</u>	<u>2012</u>
Note financed BAN pay off	\$ <u>-</u>	\$ <u>44,062</u>
Loss on dropped projects	\$ <u>(2,835,178)</u>	\$ <u>(2,783)</u>
Debt Issuance Cost	\$ <u>33,200</u>	\$ <u>-</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

SUBSEQUENT EVENTS

Flowing Springs Waste Water Treatment Plant

During the fiscal year ended June 30, 2012, the District's application for a certificate of necessity for the construction of the proposed Flowing Springs wastewater treatment plant (FSWTP) and related collection system from the West Virginia Public Service Commission was denied and the District elected not to appeal.

On March 20, 2013, the District received an order from the West Virginia Public Service Commission for authorization to issue debt to mainly finance engineering cost associated with the FSWTP. At this time, the District valued all related cost associated with the FSWTP and determined only easements have value. The District wrote off \$2.8 million of planning, litigation, and design cost of the FSWTP.

Glen Haven and Cavaland Water Project

On September 11, 2013, the District received an order from the West Virginia Public Service Commission for a water project for the Glen Haven and Cavaland water systems. A certificate of convenience and necessity was granted to construct the proposed water project. The cost of the project is expected not to exceed \$2,147,700. Approval is contingent upon receipt of all necessary federal, state and local permits. The order also granted the rates to support the project.

The financing of the project, consisting of a West Virginia Infrastructure and Jobs Development Council grant in the amount of \$167,000; a Drinking Water Treatment Revolving Fund loan in the amount of \$985,350 at 0.5% interest and a 0.5% administrative fee for 30 years; a Drinking Water Treatment Revolving Fund forgiveness loan in the amount of \$985,350; and a contribution by the Utility in the amount of \$10,000.

SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE - WATER DEPARTMENT

For the year ended June 30, 2013

	<u>Budgeted Amounts Original</u>	<u>Budgeted Amounts Final</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Budget to GAAP Differences Over (under)</u>	<u>Actual Amounts GAAP Basis</u>
REVENUES					
Operating revenues	\$ 53,000	\$ 53,000	\$ 46,651	(C)\$ 948	\$ 47,599
Non-operating revenues	(B) <u>500</u>	<u>500</u>	<u>7</u>	<u>(7)</u>	<u>-</u>
Total revenues	<u>53,500</u>	<u>53,500</u>	<u>46,658</u>	<u>941</u>	<u>47,599</u>
REVENUE DEDUCTIONS BEFORE DEPRECIATION					
Operating expenses	<u>51,400</u>	<u>51,400</u>	<u>49,693</u>	<u>-</u>	<u>49,693</u>
Income before depreciation	2,100	2,100	(3,035)	941	(2,094)
DEPRECIATION	(A) <u>-</u>	<u>-</u>	<u>-</u>	<u>7,315</u>	<u>7,315</u>
Income before non-operating expenses	<u>2,100</u>	<u>2,100</u>	<u>(3,035)</u>	<u>(6,374)</u>	<u>(9,409)</u>
NON-OPERATING INCOME (EXPENSES)					
Interest income	(B) <u>-</u>	<u>-</u>	<u>-</u>	<u>10</u>	<u>10</u>
Interest expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3)</u>	<u>(3)</u>
Total non-operating income (expenses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>7</u>	<u>7</u>
Increase (decrease) net position	2,100	2,100	(3,035)	(6,367)	(9,402)
Net position at beginning of year	<u>258,751</u>	<u>258,751</u>	<u>258,751</u>	<u>-</u>	<u>258,751</u>
Net position at end of year	\$ <u>260,851</u>	\$ <u>260,851</u>	\$ <u>255,716</u>	\$ <u>(6,367)</u>	\$ <u>249,349</u>

NOTES:

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

BUDGETARY COMPARISON SCHEDULE - WATER DEPARTMENT

For the year ended June 30, 2012

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

NOTES:

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

Jefferson County Public Service District

BUDGETARY COMPARISON SCHEDULE - SEWER DEPARTMENT

For the year ended June 30, 2013

	Budgeted Amounts <u>Original</u>	Budgeted Amounts <u>Final</u>	Actual Amounts Budgetary <u>Basis</u>	Budget to GAAP Differences <u>Over (under)</u>	Actual Amounts <u>GAAP Basis</u>
REVENUES					
Operating revenues	\$ 2,048,800	\$ 2,208,149	\$ 2,087,760 (F)	\$ 110,436	\$ 2,198,196
Non-operating revenues	(C) <u>165,000</u>	<u>165,000</u>	<u>151,848</u>	<u>(151,848)</u>	<u>-</u>
Total revenues	<u>2,213,800</u>	<u>2,373,149</u>	<u>2,239,608</u>	<u>(41,412)</u>	<u>2,198,196</u>
REVENUE DEDUCTIONS BEFORE DEPRECIATION					
Operating expenses	(G) <u>1,746,932</u>	<u>1,948,523</u>	<u>1,671,725</u>	<u>5,849</u>	<u>1,677,574</u>
Income before depreciation	466,868	424,626	567,883	(47,261)	520,622
DEPRECIATION					
Income before non-operating expenses	(A) <u>-</u>	<u>-</u>	<u>-</u>	<u>385,274</u>	<u>385,274</u>
	<u>466,868</u>	<u>424,626</u>	<u>567,883</u>	<u>(432,535)</u>	<u>135,348</u>
NON-OPERATING INCOME (EXPENSES)					
Interest income	(C) -	-	-	516	516
Loss on disposal of assets	(A) -	-	-	(22,072)	(22,072)
Interest expense	(B) -	-	-	(92,554)	(92,554)
Amortization of debt issue expense and other assets - treatment plant upgrades	(A) -	-	-	(57,356)	(57,356)
Loss due to dropped projects	(A) -	-	-	(2,835,178)	(2,835,178)
Miscellaneous non-operating revenues	(A) <u>-</u>	<u>-</u>	<u>-</u>	<u>41,412</u>	<u>41,412</u>
Total non-operating income (expenses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,965,232)</u>	<u>(2,965,232)</u>
Increase (decrease) in net position before capital contributions	<u>466,868</u>	<u>424,626</u>	<u>567,883</u>	<u>(3,397,767)</u>	<u>(2,829,884)</u>
CAPITAL CONTRIBUTIONS					
	(C) <u>-</u>	<u>-</u>	<u>-</u>	<u>254,670</u>	<u>254,670</u>
OTHER FINANCING SOURCES (USES)					
Renewal and replacement funds	(55,345)	(59,329)	(53,881) (E)	53,881	-
Debt service	(D) <u>(465,700)</u>	<u>(368,000)</u>	<u>(995,382)</u> (E)	<u>995,382</u>	<u>-</u>
Total other financing (uses)	<u>(521,045)</u>	<u>(427,329)</u>	<u>(1,049,263)</u>	<u>1,049,263</u>	<u>-</u>
Decrease in net position	(54,177)	(2,703)	(481,380)	(2,093,834)	(2,575,214)
Net position at beginning of year	<u>10,389,073</u>	<u>10,389,073</u>	<u>10,389,073</u>	<u>-</u>	<u>10,389,073</u>
Net position at end of year	\$ <u>10,334,896</u>	\$ <u>10,386,370</u>	\$ <u>9,907,693</u>	\$ <u>(2,093,834)</u>	\$ <u>7,813,860</u>

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

See independent auditors' report.

BUDGETARY COMPARISON SCHEDULE - SEWER DEPARTMENT

For the year ended June 30, 2012

		<u>Budgeted Amounts Original</u>	<u>Budgeted Amounts Final</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Budget to GAAP Differences Over (under)</u>	<u>Actual Amounts GAAP Basis</u>
REVENUES						
Operating revenues		\$ 2,048,800	\$ 2,048,800	\$ 2,024,784 (F)	\$ 83,708	\$ 2,108,492
Non-operating revenues	(C)	<u>165,000</u>	<u>165,000</u>	<u>125,120</u>	<u>(125,120)</u>	<u>-</u>
Total revenues		<u>2,213,800</u>	<u>2,213,800</u>	<u>2,149,904</u>	<u>(41,412)</u>	<u>2,108,492</u>
REVENUE DEDUCTIONS BEFORE DEPRECIATION						
Operating expenses	(G)	<u>1,770,202</u>	<u>1,746,932</u>	<u>1,685,284</u>	<u>50,306</u>	<u>1,735,590</u>
Income before depreciation		443,598	466,868	464,620	(91,718)	372,902
DEPRECIATION						
	(A)	<u>-</u>	<u>-</u>	<u>-</u>	<u>379,541</u>	<u>379,541</u>
Income before non-operating expenses		<u>443,598</u>	<u>466,868</u>	<u>464,620</u>	<u>(471,259)</u>	<u>(6,639)</u>
NON-OPERATING INCOME (EXPENSES)						
Interest income	(C)	-	-	-	321	321
Grant revenue	(C)	-	-	-	-	-
Loss on disposal of assets	(A)	-	-	-	(8,918)	(8,918)
Interest expense	(B)	-	-	-	(92,333)	(92,333)
Amortization of debt issue expense on other assets - treatment plant upgrades	(A)	-	-	-	(81,586)	(81,586)
Loss due to dropped projects	(A)	-	-	-	(2,783)	(2,783)
Miscellaneous non-operating revenues	(A)	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,412</u>	<u>41,412</u>
Total non-operating income (expenses)		<u>-</u>	<u>-</u>	<u>-</u>	<u>(143,887)</u>	<u>(143,887)</u>
Increase (decrease) in net position before capital contributions		<u>443,598</u>	<u>466,868</u>	<u>464,620</u>	<u>(615,146)</u>	<u>(150,526)</u>
CAPITAL CONTRIBUTIONS	(A) (C)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(115,566)</u>	<u>(115,566)</u>
OTHER FINANCING SOURCES (USES)						
Renewal and replacement funds		(55,345)	(55,345)	(53,881) (E)	53,881	-
Debt service	(D)	<u>(465,700)</u>	<u>(465,000)</u>	<u>(995,382)</u> (E)	<u>995,382</u>	<u>-</u>
Total other financing (uses)		<u>(521,045)</u>	<u>(520,345)</u>	<u>(1,049,263)</u>	<u>1,049,263</u>	<u>-</u>
Decrease in net position		(77,447)	(53,477)	(584,643)	318,551	(266,092)
Net position at beginning of year		<u>10,655,165</u>	<u>10,655,165</u>	<u>10,655,165</u>	<u>-</u>	<u>10,655,165</u>
Net position at end of year		\$ <u>10,577,718</u>	\$ <u>10,601,688</u>	\$ <u>10,070,522</u>	\$ <u>318,551</u>	\$ <u>10,389,073</u>

NOTES:

- (A) Non-cash items are not included for budgetary purposes.
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- (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.
- (G) Budget operating expenses do not include bad debts or increase in OPEB liability.

See independent auditors' report.

Jefferson County Public Service District

SCHEDULES OF OPERATING EXPENSES - WATER DEPARTMENT

For the years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
SOURCE OF SUPPLY EXPENSES		
Repairs and maintenance	\$ 1,995	\$ 1,387
Operation supplies and expenses	<u>729</u>	<u>826</u>
Total	<u>2,724</u>	<u>2,213</u>
PUMPING EXPENSES		
Repairs and maintenance	4,005	2,953
Operation supplies and expenses	<u>4,664</u>	<u>4,488</u>
Total	<u>8,669</u>	<u>7,441</u>
BILLING AND COLLECTING EXPENSES		
Meter reading, accounting and collection	<u>77</u>	<u>482</u>
ADMINISTRATIVE AND GENERAL EXPENSES		
Professional fees	34,390	36,520
Miscellaneous expenses	<u>3,833</u>	<u>2,270</u>
Total	<u>38,223</u>	<u>38,790</u>
Total operating expenses	\$ <u>49,693</u>	\$ <u>48,926</u>

See independent auditors' report.

Jefferson County Public Service District

SCHEDULES OF OPERATING EXPENSES - SEWER DEPARTMENT

For the years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
COLLECTING EXPENSES		
Operation labor	\$ 47,970	\$ 56,406
Supplies and expense	<u>1,355</u>	<u>2,704</u>
Total	<u>49,325</u>	<u>59,110</u>
PUMPING SYSTEM		
Operation labor	64,695	57,152
Power purchased for pumping	38,647	36,469
Pumping and supplies	26,649	37,145
Pumping maintenance	<u>18,164</u>	<u>31,272</u>
Total	<u>148,155</u>	<u>162,038</u>
TREATMENT AND DISPOSAL SYSTEM EXPENSES		
Operation labor	3,639	2,678
Supplies and expense	4,011	4,234
Treatment and disposal rent	<u>580,333</u>	<u>558,751</u>
Total	<u>587,983</u>	<u>565,663</u>
BILLING AND COLLECTING EXPENSES		
Meter reading, accounting and collection	<u>129,022</u>	<u>112,030</u>
ADMINISTRATIVE AND GENERAL EXPENSES		
General office salaries	222,164	217,985
Employee benefits	168,951	189,059
Office supplies and expense	68,878	76,081
Insurance	21,426	30,177
Professional fees	95,315	129,883
Miscellaneous general expense	26,212	38,588
Directors' fees	6,158	5,511
Rent	77,494	75,263
Regulatory commission expense and penalties	16,115	10,672
Transportation expense	3,521	5,158
Utilities	25,631	25,022
Bad debts	9,767	12,194
Repairs and maintenance	<u>21,457</u>	<u>21,156</u>
Total	<u>763,089</u>	<u>836,749</u>
Total operating expenses	\$ <u>1,677,574</u>	\$ <u>1,735,590</u>

See independent auditors' report.

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**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, in accordance with the 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, the financial statements of the business-type activities of Jefferson County Public Service District ("District") as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 7, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CoxHollidaPrice

Martinsburg, West Virginia

October 7, 2013