

**JEFFERSON COUNTY PUBLIC SERVICE DISTRICT**

FINANCIAL STATEMENTS

For the years ended June 30, 2014 and June 30, 2013



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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, 2014 and 2013, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

### **Opinion**

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, 2014, and 2013, 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.

### **Emphasis Of A Matter**

#### **Change in Accounting Principle**

As discussed in the notes to the financial statements, in 2014 the District adopted new accounting guidance, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

## **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 5-10 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, November 3, 2014, 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.

*Cox Hollida & Professionals PLLC*

Martinsburg, West Virginia

November 3, 2014

Jefferson County Public Service District  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the fiscal year ended June 30, 2014

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, 2014. 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, 2014

**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:

	2014	2013 (Restated)
Unrestricted cash	\$ 146,598	\$ (2,301)
Restricted cash	1,102,534	1,613,314
Other assets	1,378,529	1,321,812
Deferred outflows	279,371	299,460
Capital assets	12,575,025	12,295,140
Total assets	\$15,482,057	\$15,527,425
Current and other liabilities	\$ 753,288	\$ 634,356
Long-term liabilities	6,782,623	7,048,095
Total Liabilities	7,535,911	7,682,451
Invested in assets, net of debt	6,962,038	6,419,398
Restricted net position	954,747	1,484,597
Unrestricted net position	29,361	(59,021)
Total net position	\$ 7,946,146	\$ 7,844,974

Jefferson County Public Service District  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the fiscal year ended June 30, 2014

Revenues	2014	2013 (Restated)
Sales to customers	\$ 2,416,833	\$ 2,089,942
Grant revenue	166,800	0
Other	<u>177,608</u>	<u>175,719</u>
Total revenue	2,761,241	2,265,661
<b>Expenses</b>		
Operating	2,052,595	1,727,267
Dropped projects	4,760	2,835,178
Depreciation and amortization	437,892	437,362
Interest expense	141,674	92,557
Bond issue costs	<u>35,397</u>	<u>81,100</u>
Total expenses	<u>2,672,318</u>	<u>5,104,947</u>
Net loss before capital contributions	88,925	(2,907,803)
Capital contributions	<u>12,250</u>	<u>313,346</u>
Change in net position	\$ <u>101,173</u>	\$ <u>(2,594,457)</u>

The City of Charles Town completed its' Treatment Plant upgrades for compliance of the Chesapeake Bay discharge requirements. With these improvements, the District experienced a significant increase in treatment cost during the current fiscal year. The cost to treat was increased to \$6.13 from \$3.71 per thousand gallons.

The West Virginia Public Service Commission ("PSC") prepared a 30B rate increase study for the District and raised rates to \$15.38 from \$13.09 per thousand gallons. The District's rate increase was \$0.13 per thousand gallons less than the pass-through rate increase of \$2.42 per thousand gallons.

The unrestricted cash increased almost by \$149K from last year. The West Virginia Public Service Commission allowed the District to pay treatment cost to the City of Charles Town in the amount \$199,865 from restricted cash. This allowed the District buffer the timing between the pass-through increase of treatment cost and the increased billings to pay for the treatment costs.

Restricted cash is lower in the current year by about \$510K. \$199,865 of restricted cash was used to pay Charles Town Utility Board as mentioned above. Additional amounts were used to pay for pump station upgrades and other capital projects approved by the PSC. These additions are also reflected in the net capital assets along with the start of the water system improvement project.

Jefferson County Public Service District  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the fiscal year ended June 30, 2014

The total net position remained comparable between 2014 and 2013. However the invested in assets, net of debt and the restricted positions changes are related to the items noted above concerning the restricted cash and projects.

Revenues increased about \$327K from the 30b rate increase mentioned above. The operating expenses increased by \$325K mainly from the related increase of treatment expenses from the City of Charles Town.

The District's water department received a forgiveness of loan grant in the amount of \$145,000 that was from a mountain water design project. The water department also received a \$21,800 project grant to assist with the planning stages of the water construction project of Cava-Land and Glen Haven.

With the closing of the Flowing Springs Waste Water Treatment Plant Project last year, the District expensed \$2.8 million of engineering, legal, accounting and management costs. These costs may have a future value. The District will consider in recording any of these expenses in relation to a future project.

In relation to the 30B rate case mentioned above, the District stop collecting Capacity Improvement Fees associated with the Flowing Springs Waste Water Treatment Plant. The prior year collections consist of about nine months of collections. There were no collections during the current fiscal year.

**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 and the actual operating expenses were higher from treatment cost comparable to the District's prior year.

**Capital Assets and Debt Administration**

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 115%.

Debt Service Exhibit	<u>June 30,</u>			
	2011	2012	2013	2014
Gross revenues	\$ 2,308,202	\$ 2,150,225	\$ 2,240,124	\$ 2,547,526
Operating expenses	( 1,684,855)	( 1,735,560)	( 1,677,574)	( 2,015,149)
Available for debt				
Service	623,347	414,665	582,550	523,377
Highest debt service	360,021	360,021	473,130	462,933
Debt service coverage	173%	115%	119%	115%
Amounts available to repair				
Replace the system	\$ 263,326	\$ 54,644	\$ 89,420	\$ 69,444



Jefferson County Public Service District  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the fiscal year ended June 30, 2014

At the end of the current fiscal year, the District's Sewer Department had outstanding revenue bonds of \$6,710,279.

The district implemented GASB 65 in the current fiscal year. The provisions of this implementation require retroactively restating their financial statements. Please see financial statements notes on page 33 for more details.

**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 72 new connections.

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 facilities which are used by the district to treat wastewater of District customers. In FY 2014 Charles Town completed the Phase I upgrades to its Tuscahill Wastewater Treatment Plant and a new "scavenger" pump station that moves flows between the Charles Town Wastewater Treatment Plant on Evitts Run and the Tuscahill Wastewater Treatment Plant between Route 51 and Summit Point Roads. Since the District is a bulk customer of Charles Town, when substantial completion of the Tuscahill Wastewater Treatment Plant had occurred, Charles Town increased the bulk rate to the District

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.

The District is also 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. On June 9, 2014, the District filed an application to the West Virginia Infrastructure and Jobs Development Council (IJDC), Application # 2014-S-1538, for a sewer collection and transmission project to address the needs to meet our obligation of service to the public. As of the time of the writing of this document, the District is still in the modification phase of this project and will resubmit when we have addressed the comments of the funding agencies. The District has already obtained approximately 80% of the easements for the collection system project anticipated under the Flowing Springs VVWTP initiative and these will still be used to upgrade the existing collection and transmission system in this project.

Jefferson County Public Service District  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the fiscal year ended June 30, 2014

In addition to a sewer collection system, the District also has one small wastewater treatment plant that serves the residents of Deerfield, a development of about 48 lots located in the North East area of Jefferson County.

The District currently serves potable water to two small developments in Jefferson County, Cavaland, with about 40 customers and Glen Haven, with about 74 customers. These water systems were "given" to the District about 25 years ago and were installed by developer's who's main goal in constructing them, was to provide water service so they could sell homes. Unfortunately since these installations were not their main priority, they didn't use the best of materials or standardized practices in installation. After about five years of attempts, the District attained about 50% loan and 50% grants to replace these systems through our IJDC application #2012-W-1331. This project cost is about \$2,000,000 and is currently under construction. Substantial completion is expected in January of 2015 and at that time our customers in these developments will have their water rates increased approximately 40%.

On June 9, 2014, the District filed IJDC application # 2014-W-1537 to purchase Jefferson Utilities and upgrade their Mountain water systems that serve Blue Ridge Acres, Keyes Ferry Acres and Westridge Hills. These three developments have been in a moratorium for many years due to lack of sufficient public water infrastructure. The District has been in negotiations with Mr. Lee B. Snyder, owner of Jefferson Utilities for many years to reach this point. At the time of the writing of this document, the District is still modifying the project to meet the constraints of funding options and Jefferson Utilities customer base's ability to absorb the costs of the acquisition. The District and Jefferson Utilities are determined that there will be no monthly increase to these customers due to the project or acquisition.

Jefferson County Public Service District

**BALANCE SHEETS**

June 30, 2014 and 2013

**ASSETS**

	<u>Water Department</u>	<u>Sewer Department</u>	<b><u>2014 Total</u></b>	Restated 2013 Memorandum <u>Only Total</u>
<b>CURRENT ASSETS</b>				
Cash	\$ 30,111	\$ 116,535	\$ 146,646	\$ (2,301)
Accounts receivable, net of allowance for doubtful accounts of \$10,000	(1,426)	54,298	52,872	57,875
Accounts receivable - other	-	2,553	2,553	2,630
Accrued utility revenue	4,555	220,091	224,646	182,775
Prepaid expenses and deposits	<u>-</u>	<u>9,247</u>	<u>9,247</u>	<u>9,247</u>
Total current assets	<u>33,240</u>	<u>402,724</u>	<u>435,964</u>	<u>250,226</u>
<b>RESTRICTED CASH</b>	<u>4,230</u>	<u>1,098,254</u>	<u>1,102,484</u>	<u>1,613,314</u>
<b>CAPITAL ASSETS</b>				
Land and land rights	2,866	1,055,010	1,057,876	1,045,626
Construction work in progress	277,830	60,245	338,075	89,593
Utility plant in service	265,686	16,955,142	17,220,828	16,829,837
Less accumulated depreciation	<u>(87,419)</u>	<u>(5,954,334)</u>	<u>(6,041,753)</u>	<u>(5,669,916)</u>
Net capital assets	<u>458,963</u>	<u>12,116,063</u>	<u>12,575,026</u>	<u>12,295,140</u>
<b>OTHER ASSETS</b>				
Future utility plant preliminary survey and design charges	221,923	147,744	369,667	305,553
Due from other funds	-	12,482	12,482	12,482
Other assets - capacity upgrades, net of accumulated amortization of \$397,723 and \$353,532, respectively	<u>-</u>	<u>707,063</u>	<u>707,063</u>	<u>751,250</u>
Total other assets	<u>221,923</u>	<u>867,289</u>	<u>1,089,212</u>	<u>1,069,285</u>
Total assets	<u>718,356</u>	<u>14,484,330</u>	<u>15,202,686</u>	<u>15,227,965</u>
<b>DEFERRED OUTFLOWS</b>				
Deferred loss on bond refinancing, net of accumulated amortization of \$80,355 and \$60,267, respectively	<u>-</u>	<u>279,371</u>	<u>279,371</u>	<u>299,460</u>
Total assets and deferred outflows	\$ <u>718,356</u>	\$ <u>14,763,701</u>	\$ <u>15,482,057</u>	\$ <u>15,527,425</u>

The accompanying notes are an integral part of this statement.

Jefferson County Public Service District

**BALANCE SHEETS (Continued)**

June 30, 2014 and 2013

**LIABILITIES**

	<u>Water Department</u>	<u>Sewer Department</u>	<b>2014 Total</b>	Restated 2013 Memorandum Only Total
<b>CURRENT LIABILITIES (payable from current assets)</b>				
Accounts payable	\$ 19,075	\$ 168,013	\$ <b>187,088</b>	\$ 92,623
Accrued taxes and expenses	<u>-</u>	<u>28,674</u>	<u><b>28,674</b></u>	<u>29,512</u>
Total current liabilities (payable from current assets)	<u>19,075</u>	<u>196,687</u>	<u><b>215,762</b></u>	<u>122,135</u>
<b>CURRENT LIABILITIES (payable from restricted cash)</b>				
Revenue bonds payable (due within one year)	25,966	333,813	<b>359,779</b>	353,087
Note payable (due within one year)	-	8,953	<b>8,953</b>	8,580
Accrued interest payable	-	21,007	<b>21,007</b>	19,583
Customer deposits	2,898	144,889	<b>147,787</b>	128,717
Capital improvement fees	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,254</u>
Total current liabilities (payable from restricted cash)	<u>28,864</u>	<u>508,662</u>	<u><b>537,526</b></u>	<u>512,221</u>
<b>LONG-TERM LIABILITIES</b>				
Due to other funds	12,482	-	<b>12,482</b>	12,482
OPEB obligation	-	169,786	<b>169,786</b>	165,274
Revenue bonds payable	218,417	6,376,466	<b>6,594,883</b>	6,710,279
Notes payable	-	13,763	<b>13,763</b>	168,933
Original issue discount, net of accumulated amortization of \$2,327 and \$1,745, respectively	<u>-</u>	<u>(8,291)</u>	<u><b>(8,291)</b></u>	<u>(8,873)</u>
Total long-term liabilities	<u>230,899</u>	<u>6,551,724</u>	<u><b>6,782,623</b></u>	<u>7,048,095</u>
Total liabilities	<u>278,838</u>	<u>7,257,073</u>	<u><b>7,535,911</b></u>	<u>7,682,451</u>
<b>NET POSITION</b>				
<b>NET POSITION</b>				
Invested in capital assets, net of related debt	436,502	6,525,536	<b>6,962,038</b>	6,419,398
Restricted for debt and construction	1,332	953,415	<b>954,747</b>	1,484,597
Unrestricted	<u>1,684</u>	<u>27,677</u>	<u><b>29,361</b></u>	<u>(59,021)</u>
Total net position	<u>439,518</u>	<u>7,506,628</u>	<u><b>7,946,146</b></u>	<u>7,844,974</u>
Total liabilities and net position	\$ <u>718,356</u>	\$ <u>14,763,701</u>	\$ <u><b>15,482,057</b></u>	\$ <u>15,527,425</u>

The accompanying notes are an integral part of this statement.

Jefferson County Public Service District

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

For the years ended June 30, 2014 and 2013

	<u>Water Department</u>	<u>Sewer Department</u>	<b><u>2014 Total</u></b>	Restated 2013 Memorandum Only Total
<b>OPERATING REVENUES</b>				
Sales to general customers	\$ 45,656	\$ 2,371,177	\$ <b>2,416,833</b>	\$ 2,089,942
Customers' forfeited discounts and penalties	-	50,322	<b>50,322</b>	44,469
Income from bad debts recovered	792	-	<b>792</b>	848
Miscellaneous revenues	<u>120</u>	<u>85,247</u>	<b><u>85,367</u></b>	<u>110,536</u>
Total operating revenues	<u>46,568</u>	<u>2,506,746</u>	<b><u>2,553,314</u></b>	<u>2,245,795</u>
<b>OPERATING REVENUE DEDUCTIONS BEFORE DEPRECIATION</b>				
Operating expenses	<u>37,427</u>	<u>2,015,168</u>	<b><u>2,052,595</u></b>	<u>1,727,267</u>
Operating income before depreciation	9,141	491,578	<b>500,719</b>	518,528
<b>DEPRECIATION</b>				
	<u>9,054</u>	<u>384,065</u>	<b><u>393,119</u></b>	<u>392,589</u>
Operating income	<u>87</u>	<u>107,513</u>	<b><u>107,600</u></b>	<u>125,939</u>
<b>NON-OPERATING INCOME (EXPENSE)</b>				
Interest income	4	223	<b>227</b>	526
Grant revenue	166,800	-	<b>166,800</b>	-
Loss on disposal of assets	-	349	<b>349</b>	(22,072)
Interest expense	(1)	(141,673)	<b>(141,674)</b>	(92,557)
Amortization of and other assets- treatment plant upgrades	-	(44,773)	<b>(44,773)</b>	(44,773)
Bond issuance costs	(35,397)	-	<b>(35,397)</b>	(81,100)
Loss due to dropped projects	-	(4,760)	<b>(4,760)</b>	(2,835,178)
Miscellaneous non-operating revenues	<u>-</u>	<u>40,551</u>	<b><u>40,551</u></b>	<u>41,412</u>
Total non-operating income (expense)	<u>131,406</u>	<u>(150,083)</u>	<b><u>(18,677)</u></b>	<u>(3,033,742)</u>
Decrease in net position before capital contributions	<u>131,493</u>	<u>(42,570)</u>	<b><u>88,923</u></b>	<u>(2,907,803)</u>
<b>CAPITAL CONTRIBUTIONS</b>				
	<u>-</u>	<u>12,250</u>	<b><u>12,250</u></b>	<u>313,346</u>
Increase (decrease) in net position	<u>131,493</u>	<u>(30,320)</u>	<b><u>101,173</u></b>	<u>(2,594,457)</u>
Net position at beginning of year, as previously stated at July 1, 2012	-	-	-	10,647,824
Less: debt issuance expense with the implementation of GASB 65	<u>-</u>	<u>-</u>	<b><u>-</u></b>	<u>208,394</u>
Net position at beginning of year, as restated at July 1, 2012	<u>308,025</u>	<u>7,536,948</u>	<b><u>7,844,973</u></b>	<u>10,439,430</u>
Net position at end of year	\$ <u>439,518</u>	\$ <u>7,506,628</u>	\$ <b><u>7,946,146</u></b>	\$ <u>7,844,973</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, 2014 and 2013

	<u>Water Department</u>	<u>Sewer Department</u>	<b>2014 Total</b>	Restated 2013 Memorandum <u>Only Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 47,200	\$ 2,469,329	\$ 2,516,529	\$ 2,243,531
Cash payments for employee services		(1,592,809)	(1,592,809)	(1,345,933)
Cash payments for goods and services	<u>(23,594)</u>	<u>(338,065)</u>	<u>(361,659)</u>	<u>(413,496)</u>
Net cash flows provided by operating activities	<u>23,606</u>	<u>538,455</u>	<u>562,061</u>	<u>484,102</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received	<u>4</u>	<u>223</u>	<u>227</u>	<u>526</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Expenditures for utility plant and other assets	(204,998)	(89,228)	(294,226)	(1,169,739)
Expenditures for preliminary surveys	-	(413,254)	(413,254)	(34,938)
Increase in customer deposits	296	18,774	19,070	5,117
Capital improvement fees collected	-	100,424	100,424	347,334
Capital improvement fees transferred to joint account	-	(102,678)	(102,678)	(90,410)
Principal payment on debt - bond	-	(353,087)	(353,087)	(296,828)
Principal payment on debt - notes	-	(9,797)	(9,797)	-
Proceeds from debt - notes	244,383	-	244,383	1,626,800
Credits on treatment upgrade bonds	-	40,551	40,551	41,412
Interest paid on bonds and notes	(1)	(120,159)	(120,160)	(70,750)
Expenditures for debt issuance expenses	(35,397)	-	(35,397)	(47,900)
Payment of bond issuance costs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash (used in) capital and related financing activities	<u>4,283</u>	<u>(928,454)</u>	<u>(924,171)</u>	<u>310,098</u>
Net increase (decrease) in cash	<u>27,893</u>	<u>(389,776)</u>	<u>(361,883)</u>	<u>794,726</u>
<b>CASH AND CASH EQUIVALENTS BEGINNING OF YEAR</b>	<u>6,448</u>	<u>1,604,565</u>	<u>1,611,013</u>	<u>816,287</u>
<b>CASH AND CASH EQUIVALENTS END OF YEAR</b>	\$ <u>34,341</u>	\$ <u>1,214,789</u>	\$ <u>1,249,130</u>	\$ <u>1,611,013</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Operating income	\$ 87	\$ 107,513	\$ 107,600	\$ 125,939
Depreciation	9,054	384,065	393,119	392,589
Adjustments for changes in operating assets and liabilities:				
(Increase) decrease in accounts and other receivables	632	4,448	5,080	3,871
(Increase) decrease in accrued utility revenue	-	(41,871)	(41,871)	(6,135)
Increase (decrease) in accounts payable	13,833	80,629	94,462	(40,254)
Increase (decrease) in accrued expenses	-	(841)	(841)	4,300
Increase in other employee benefit obligation	<u>-</u>	<u>4,512</u>	<u>4,512</u>	<u>3,792</u>
Net cash provided by operating activities	\$ <u>23,606</u>	\$ <u>538,455</u>	\$ <u>562,061</u>	\$ <u>484,102</u>

The accompanying notes are an integral part of this statement.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

### 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.

#### Implementation of New Accounting Principle

Effective July 1, 2012 the District implemented GASB Statement No. 65, Items Previously Reported as Assets and Liabilities to be in conformity with Generally Accepted Accounting Principles. The Statement reclassified certain existing assets to new categories resulting in a restatement of the Districts' beginning net position of \$208,394 (Prior period adjustment- GASB 65 implementation). This amount represents bond issuance costs net of amortization as of July 1, 2012, that no longer meet the definition of an asset.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2014 and 2013

**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, Deferred Outflows, 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, 2014 and 2013.

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, 2014 and 2013

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

**Assets, Deferred Outflows, 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, 2014 or 2013. 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, 2014 and 2013, 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, 2014 and 2013

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

**Assets, Deferred Outflows, Liabilities and Net Position (Continued)**

**Deferred Outflows of Resources**

Deferred Bond-Refunding Costs: Deferred bond-refunding costs represent the difference between the acquisition prices and the net carrying amounts of old debt in current and advance refunding; these refunding result in defeasances of old debt. These deferred costs are amortized as a component of interest expense on the straight-line method over the remaining lives of the old or new debt, whichever are shorter.

**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 \$17,300 and \$20,529 at June 30, 2014, and 2013, respectively.

**Long-term Obligations**

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the lives of the related bonds. Bond insurance is deferred as a prepaid expense and amortized over the lives of the bonds. Other issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Amortization of the deferred loss on bond refinancing is calculated by the straight-line method over the terms of the Series 2010A 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, 2014 and 2013

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

**Assets, Deferred Outflows, 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, 2014 and 2013:

	<u>Water</u>	<u>Sewer</u>	<b>2014 <u>Total</u></b>	2013 Memorandum <u>Only Total</u>
Revenue	\$ -	\$ 114,887	\$ <b>114,887</b>	\$ (5,827)
Petty cash	-	700	<b>700</b>	700
Operations and maintenance	30,111	-	<b>30,111</b>	2,345
Future needs	<u>-</u>	<u>948</u>	<u><b>948</b></u>	<u>481</u>
Total	\$ <u>30,111</u>	\$ <u>116,535</u>	\$ <u><b>146,646</b></u>	\$ <u>(2,301)</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.

Jefferson County Public Service District

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2014 and 2013

**RESTRICTED CASH AND RESERVES**

Restricted cash and reserves consisted of the following accounts and amounts at June 30, 2014 and 2013

		<u>Water</u>		<u>Sewer</u>	<b>2014</b>		2013	
					<b>Total</b>		Memorandum	
							<u>Only Total</u>	
Debt service revenue	\$	-	\$	140,552	\$	<b>140,552</b>	\$	129,604
Debt service reserve		-		505,132		<b>505,132</b>		507,229
Bond proceeds account		-		69,100		<b>69,100</b>		417,880
Renewal and replacement		-		84,226		<b>84,226</b>		68,354
Capacity improvement and assurance fee		-		150,800		<b>150,800</b>		352,856
Customer deposits		<u>4,230</u>		<u>148,444</u>		<b><u>152,674</u></b>		<u>137,391</u>
<b>Total</b>	<b>\$</b>	<b><u>4,230</u></b>	<b>\$</b>	<b><u>1,098,254</u></b>	<b>\$</b>	<b><u>1,102,484</u></b>	<b>\$</b>	<b><u>1,613,314</u></b>

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

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

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

The District is required to remit CIF collections for new customer 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, 2014, and 2013, was \$0 and \$2,254 respectively.

CIF collections in excess of amounts to be remitted to Charles Town treatment facilities and amounts collected directly for new customer flows were 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, 2014 and 2013

**DEPOSITS AND INVESTMENTS**

At June 30, 2014, 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	\$ 580,428	AA+
State Investment Pool	Average of 90 days	<u>645,684</u>	AA-1
Total investments		1,226,112	
Cash		<u>23,018</u>	
Total Cash and Investments		\$ <u>1,249,130</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 46%, and investments in the state investment pool of 52% 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, 2014 and 2013

**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, 2014, \$331,842 of the District's bank balance of \$582,790 was exposed to custodial credit risk. \$250,948 of the bank balance was covered by Federal Deposit Insurance (FDIC) and \$331,842 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, 2014 and 2013, 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, 2014 and 2013.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2014 and 2013

**CAPITAL ASSETS**

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

**Sewer Department**

	Balance at <u>July 01, 2012</u>	<u>Additions</u>	<u>Retirements</u>	Balance at <u>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>
<b>Less Accumulated Depreciation – Sewer Department</b>				
	Balance at <u>July 01, 2012</u>	<u>Additions</u>	<u>Retirements</u>	Balance at <u>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>

Jefferson County Public Service District

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2014 and 2013

**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><u>125,518</u></u>	\$ <u><u>64,690</u></u>	\$ <u><u>-</u></u>	\$ <u><u>190,208</u></u>



**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2014 and 2013

**CAPITAL ASSETS (Continued)**

Capital assets activity for the year ended June 30, 2014 was as follows:

**Sewer Department**

	<u>Balance at July 01, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2014</u>
Capital assets not being depreciated:				
Land and land rights	\$ 1,042,760	\$ 12,250	\$ -	\$ 1,055,010
Construction work in progress	<u>89,593</u>	<u>-</u>	<u>29,348</u>	<u>60,245</u>
Total capital assets not being depreciated - sewer	<u>1,132,353</u>	<u>12,250</u>	<u>29,348</u>	<u>1,115,255</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	1,226	-	1,148,302
Electric pumping equipment	3,525,458	364,681	-	3,890,139
Transportation equipment	81,633	41,089	21,282	101,440
Communication equipment	22,393	-	-	22,393
Furniture and office equipment	<u>236,803</u>	<u>5,298</u>	<u>-</u>	<u>242,101</u>
Total capital assets being depreciated - sewer	<u>16,564,130</u>	<u>412,294</u>	<u>21,282</u>	<u>16,955,142</u>

**Less Accumulated Depreciation – Sewer Department**

	<u>Balance at July 01, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2014</u>
Collection mains and services	3,573,996	224,902	-	3,798,898
Transmission mains	112,629	4,818	-	117,447
Gravity mains	23,999	1,298	-	25,297
Force mains	522,072	22,943	-	545,015
Electric pumping equipment	1,125,070	101,895	-	1,226,965
Transportation equipment	78,986	8,205	21,282	65,909
Communication equipment	14,903	3,217	-	18,120
Furniture and office equipment	<u>139,896</u>	<u>16,787</u>	<u>-</u>	<u>156,683</u>
Total accumulated depreciation	<u>5,591,551</u>	<u>384,065</u>	<u>21,282</u>	<u>5,954,334</u>
Total capital assets being depreciated, net - sewer	<u>10,972,579</u>	<u>28,229</u>	<u>-</u>	<u>11,000,808</u>
Net capital assets - sewer	\$ <u>12,104,932</u>	\$ <u>40,479</u>	\$ <u>29,348</u>	\$ <u>12,116,063</u>

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2014 and 2013

**CAPITAL ASSETS (Continued)**

**Water Department**

	<u>Balance at July 01, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2014</u>
Capital assets not being depreciated:				
Land and land rights	\$ 2,866	\$ -	\$ -	\$ 2,866
Construction work in progress	<u>-</u>	<u>277,830</u>	<u>-</u>	<u>277,830</u>
Total capital assets not being depreciated - water	<u>2,866</u>	<u>277,830</u>	<u>-</u>	<u>280,696</u>
Capital assets being depreciated:				
Structures and improvements	90,042	-	-	90,042
Supply mains	1,240	-	-	1,240
Wells and springs	81,154	-	-	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>21</u>	<u>101</u>
Total capital assets being depreciated - water	<u>265,707</u>	<u>-</u>	<u>21</u>	<u>265,686</u>

**Less Accumulated Depreciation – Water Department**

	<u>Balance at July 01, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2014</u>
Structures and improvements	28,902	3,815	-	32,717
Supply mains	590	31	-	621
Wells and springs	1,402	2,035	-	3,437
Pump equipment	13,420	989	-	14,409
Transmission and distribution lines	26,791	1,680	-	28,471
Services and meters	7,178	500	-	7,678
Hydrants	<u>82</u>	<u>4</u>	<u>-</u>	<u>86</u>
Total accumulated depreciation	<u>78,365</u>	<u>9,054</u>	<u>-</u>	<u>87,419</u>
Total capital assets being depreciated, net - water	<u>187,342</u>	<u>(9,054)</u>	<u>-</u>	<u>178,267</u>
Net capital assets - water	\$ <u>190,208</u>	\$ <u>268,776</u>	\$ <u>-</u>	\$ <u>458,963</u>

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2014 and 2013

**CONSTRUCTION WORK IN PROGRESS**

Construction work in progress is made up of the following at June 30, 2014:

Norborne Glebe Project - Sewer	\$	11,575
Sheridan Project - Sewer		8,403
Wormald/Beallair Project - Sewer		16,324
Spruce Hill North Project - Sewer		14,740
Aspen Green - Sewer		9,203
Glen Haven and Cavaland Water Project - Water		<u>277,830</u>
	\$	<u>338,075</u>

**Sewer**

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, who was known as Old Standard LLC. Because of an old Mechanic's Lien which the District learned about last year, the property was sold at auction in the 2013 fiscal year. The Developer changed his business name for the plant to East Jefferson Sewer Services LLC, and purchased the plant and land at the auction. In response the District filed a complaint case at the WV Public Service Commission, #14-0264-S-CN, to attempt to void the sale because, it is our understanding that utilities need to seek PSC approval before selling assets. In response to our claim at the PSC, East Jefferson Sewer Services LLC filed a civil suit asking the Judge to verify the new ownership of the plant and land.

The Beallair Development by Wormald Developers is under an alternate mainline extension agreement. The project will service approximately 400 homes when fully built out. Currently there are 52 metered customers and 6 flat rate customers. 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.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2014 and 2013

**CONSTRUCTION WORK IN PROGRESS (Continued)**

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 107 are currently on the billing system. The developer has purchased an additional 6 EDUs that will be on billing within the next 6 months. 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).

**Water**

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.

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.

**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, 2014 and 2013 is \$707,063 and \$751,250 respectively. (See details on reclassification in Sewer Service Agreement note).

**REVENUE BONDS PAYABLE**

The District was obligated under trust indentures with respect to the following sewer and water revenue bonds outstanding at June 30, 2014 and 2013:

**Water**

2014

2013

Series 2014 A Water Revenue Bonds, original face value of \$985,350, payable in quarterly installments with principal beginning December 1, 2014, at 0.5% interest and concluding on September 1, 2045.

	<b>\$ 244,383</b>	<b>\$ -</b>
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Jefferson County Public Service District  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2014 and 2013

**REVENUE BONDS PAYABLE (Continued)**

**Sewer**

	<u>2014</u>	<u>2013</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.	\$ 163,759	\$ 174,676
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
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.	149,760	179,712
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.	198,639	211,251
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.	673,680	712,176
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.	1,637,402	1,704,238
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.	1,655,000	1,735,000
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>1,570,000</u>	<u>1,660,000</u>
Total sewer revenue bonds payable	\$ <u>6,710,279</u>	\$ <u>7,063,366</u>

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2014 and 2013

**REVENUE BONDS PAYABLE (Continued)**

Maturities of sewer and water revenue bonds payable and interest payments for each of the next five years and in subsequent five-year increments succeeding June 30, 2014 are as follows:

<u>Year Ending June 30</u>	<u>Sewer</u>		<u>Water</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 333,813	\$ 117,281	\$ -	\$ -
2016	338,813	112,281	25,966	578
2017	343,813	107,081	34,364	1,028
2018	353,813	100,994	34,536	856
2019	353,811	94,550	34,709	683
2020-2024	1,906,514	392,217	114,808	1,024
2025-2029	2,009,826	149,594	-	-
2030-2034	619,128	12,242	-	-
2035-2039	450,748	3,207	-	-
	<u>\$ 6,710,279</u>	<u>\$ 1,089,447</u>	<u>\$ 244,383</u>	<u>\$ 4,169</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, 2013 was as follows:

	<u>Balance at July 01, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at 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	-	1,660,000	-	1,660,000
Total sewer revenue bonds 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>\$ 6,710,279</u>

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2014 and 2013

**REVENUE BONDS PAYABLE (Continued)**

Sewer revenue bond activity for the year ended June 30, 2014 was as follows:

	Balance at <u>July 01, 2013</u>	<u>Additions</u>	<u>Deductions</u>	Balance at <u>June 30, 2014</u>
Series 1988 B	\$ 174,676	\$ -	\$ 10,917	\$ 163,759
Series 1993 A	24,274	-	24,274	-
Series 1998 B	179,712	-	29,952	149,760
Series 1998 C	662,039	-	-	662,039
Series 1999 A	211,251	-	12,612	198,639
Series 2000 A	712,176	-	38,496	673,680
Series 2008 A	1,704,238	-	66,836	1,637,402
Series 2010 A	1,735,000	-	80,000	1,655,000
Series 2013 A	<u>1,660,000</u>	<u>-</u>	<u>90,000</u>	<u>1,570,000</u>
Total sewer revenue bond payable	\$ <u>7,063,366</u>	\$ <u>-</u>	\$ <u>353,087</u>	\$ 6,710,279
Less: Current portion due in upcoming year				<u>333,813</u>
Long-term sewer revenue bonds payable at June 30, 2014 (net of current portion)				\$ <u>6,376,466</u>

Water revenue bond activity for the year ended June 30, 2014 was as follows:

	Balance at <u>July 01, 2013</u>	<u>Additions</u>	<u>Deductions</u>	Balance at <u>June 30, 2014</u>
Series 2014 A	<u>-</u>	\$ <u>244,383</u>	<u>-</u>	\$ 244,383
Less: Current portion due in upcoming year				<u>25,966</u>
Long-term sewer revenue bonds payable at June 30, 2014 (net of current portion)				\$ <u>218,417</u>

The covenants contained in each of the bond issues include the following ratios and deposit requirements:

	Sewer		Water	
	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Debt service coverage ratio				
Requirement 115%	115%	119%	N/A	N/A
Funding of renewal and replacement fund	Yes	Yes	N/A	N/A
Funding of Debt Service fund	Yes	Yes	N/A	N/A

The water bond was issued in current year to construction of water improvements to Cavaland and Glen Haven. The loan has not been fully drawn and the renewal and replacement fund and debt service fund is not required.

**Current Refunding - Deferred Outflows**

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.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2014 and 2013

**REVENUE BONDS PAYABLE (Continued)**

**Current Refunding - Deferred Outflows (Continued)**

Deferred requisition cost:	<u>Original Amt.</u>	<u>Accum. Amort.</u>	<u>Net Amount</u>
Series 1998 A bond issue costs	\$ 109,885	\$ 24,835	\$ 85,050
refinance	<u>249,842</u>	<u>55,521</u>	<u>194,321</u>
Deferred 2010 A reacquisition cost	\$ <u>359,727</u>	\$ <u>80,356</u>	\$ <u>279,371</u>

**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>2014</u>	<u>2013</u>
<b>Sewer Department</b>		
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>22,716</u>	\$ <u>32,513</u>
<b>Water Department</b>		
Note payable to the West Virginia Water Development Authority in the original amount of \$145,000 for the temporary financing of the preliminary design of the Blue Ridge Water Project, non-interest bearing, principal deferred. (Loan was forgiven as a grant part of the water replacement project).	\$ <u>-</u>	\$ <u>145,000</u>



**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2014 and 2013

**NOTES PAYABLE (Continued)**

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

	2015	\$	8,953
	2016		9,341
	2017		<u>4,422</u>
Total		\$	<u><u>22,716</u></u>

**CAPACITY IMPROVEMENT FEES**

The District began collecting capacity improvement fees in March 2005 for all new connections to the District's system pursuant to a PSC order dated March 28, 2005. This order was modified by an order dated January 30, 2009, to increase the amount of the capacity improvement fee collected to \$7,500 from \$1,127 per equivalent dwelling unit. 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, 2014 and 2013:

<u>Charles Town WWTP</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Capacity improvement fees collected	\$ <b>100,424</b>	\$ 92,414
Capacity improvement fees remitted	<b>102,678</b>	90,160
Amount due to Charles Town WWTP beginning of year	<b>2,254</b>	-
Amount due to Charles Town WWTP end of year	\$ <u><u>-</u></u>	\$ <u><u>2,254</u></u>
<u>Flowing Springs WWTP</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Capacity improvement fees collected, net of required payments to Charles Town WWTP	\$ <u><u>-</u></u>	\$ <u><u>254,920</u></u>

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2014 and 2013

**MISCELLANEOUS OPERATING REVENUES**

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

	<u>2014</u>	<u>2013</u>
Transportation credits	\$ 33,911	\$ 35,267
System billing fees - water department	45,702	34,390
Sewer inspection fees	-	1,425
Disconnect/reconnect fees	1,910	2,530
Other miscellaneous revenue	<u>3,724</u>	<u>35,600</u>
Total	<u>\$ 85,247</u>	<u>\$ 109,212</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 \$79,791 and \$77,494 in lease expense for fiscal years ended June 30, 2014 and 2013 respectively. Minimum future rental payments under non-cancelable operating lease are as follows:

2015	82,041
2016	84,502
2017	87,037
2018	89,648
2019	<u>37,946</u>

Total minimum future rental payments \$ 381,174

**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, 2014 and 2013 is \$707,063 and \$751,250 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, 2014 and 2013, treatment expenses totaled \$783,523 and \$580,333 respectively.

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

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2014 and 2013

**COMMITMENTS AND CONTINGENCIES**

**Retirement Contributions Payable**

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

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

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

Employees of the District are required to pay 4.5% of their gross earnings to the pension plan. The District is required to make annual contributions to the plan equal to 14.5%, 14.0%, and 14.5% of its covered payroll for fiscal years ended June 30, 2014, 2013, and 2012. The District made 100% of the required contributions of \$69,108, \$65,554, and \$64,383 to the plan for the years ended June 30, 2014, 2013, and 2012 respectively. Information regarding this plan is available from the State of West Virginia.

**OTHER POST EMPLOYMENT BENEFITS**

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

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

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

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2014 and 2013

**OTHER POST EMPLOYMENT BENEFITS (Continued)**

	<u>Fiscal Years Ended June 30:</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Per participant per month:			
Contractually required Contributions	\$ <u>176</u>	\$ <u>178</u>	\$ <u>961</u>
District contributions to PEIA pay as you go	\$ <u>94</u>	\$ <u>79</u>	\$ <u>167</u>
District's annual required contributions:			
Contractually required	\$ 19,296	\$ 18,667	\$ 50,941
District contributions to PEIA pay as you go	<u>14,784</u>	<u>14,875</u>	<u>12,829</u>
Net OPEB obligation	\$ <u>4,512</u>	\$ <u>3,792</u>	\$ <u>38,112</u>
Percentage of required contributions paid	<u>77%</u>	<u>80%</u>	<u>25%</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:	
2014	\$ 4,512
2013	3,792
2012	38,112
2011	44,520
2010	51,362
2009	19,001
2008	<u>8,487</u>
	\$ <u>169,786</u>

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2014 and 2013

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Cash and cash equivalents consist of the following at June 30, 2014 and 2013:

	<u>2014</u>		<u>2013</u>	
	<u>Water</u>	<u>Sewer</u>	<u>Water</u>	<u>Sewer</u>
Cash	\$ 30,111	\$ 116,535	\$ 2,345	\$ (4,646)
Restricted cash	<u>4,230</u>	<u>1,098,254</u>	<u>4,103</u>	<u>1,609,211</u>
Total	\$ <u>34,341</u>	\$ <u>1,214,789</u>	\$ <u>6,448</u>	\$ <u>1,604,565</u>

Schedule of Noncash Investing and Financing activities at June 30, 2014 and 2013 - Sewer:

	<u>2014</u>	<u>2013</u>
Loss on dropped projects	\$ <u>(4,760)</u>	\$ <u>(2,835,178)</u>
Debt Issuance Cost	\$ <u>-</u>	\$ <u>33,200</u>
Grant Revenue for:		
Forgiveness of loan	\$ 145,000	\$ -
Water project	<u>21,800</u>	<u>-</u>
	\$ <u>166,800</u>	\$ <u>-</u>
Contribution of Land	\$ <u>12,250</u>	\$ <u>-</u>

**GASB 65 Implementation**

Per GASB 65, accounting changes adopted to conform to its provisions are to be applied retroactively by restating financial statements for all periods presented. Debt issuance costs were expensed when incurred resulting in prior period adjustments. In addition, deferred amounts on advance refundings were reclassified to deferred outflows of resources. The following summarizes the effect of the prior period adjustments on the financial statements at June 30, 2013 due to the implementation of GASB 65.

	<u>2013</u>		
	<u>As Previously Reported</u>	<u>Restated</u>	<u>Change</u>
<b>Restatement from GASB 65 implementation:</b>			
Noncurrent Assets:			
Bonds/loans issuance costs	\$ 276,910	\$ -	\$ (276,910)
Non-operating expenses:			
Bond issue cost	-	81,100	81,100
Amortization of bond issuance costs	12,582	-	(12,582)
<b>Cumulative impact of restatements on Net Position:</b>			
Net position:			
Net investment in capital assets	\$ 6,696,308	\$ 6,419,398	\$ (276,910)

## **SUPPLEMENTAL INFORMATION**

**BUDGETARY COMPARISON SCHEDULE - WATER DEPARTMENT**

For the year ended June 30, 2014

	<b>Budgeted Amounts Original</b>	<b>Budgeted Amounts Final</b>	<b>Actual Amounts Budgetary Basis</b>	<b>Budget to GAAP Differences Over (under)</b>	<b>Actual Amounts GAAP Basis</b>
<b>REVENUES</b>					
Operating revenues	\$ 49,200	\$ 49,200	\$ 45,656 (C)	\$ 912	\$ 46,568
Non-operating revenues	(B) <u>300</u>	<u>300</u>	<u>5</u>	<u>(5)</u>	<u>-</u>
Total revenues	<u>49,500</u>	<u>49,500</u>	<u>45,661</u>	<u>907</u>	<u>46,568</u>
<b>REVENUE DEDUCTIONS BEFORE DEPRECIATION</b>					
Operating expenses	<u>48,700</u>	<u>48,700</u>	<u>37,427</u>	<u>-</u>	<u>37,427</u>
Income before depreciation	800	800	8,234	907	9,141
<b>DEPRECIATION</b>	(A) <u>-</u>	<u>-</u>	<u>-</u>	<u>9,054</u>	<u>9,054</u>
Income before non-operating expenses	<u>800</u>	<u>800</u>	<u>8,234</u>	<u>(8,147)</u>	<u>87</u>
<b>NON-OPERATING INCOME (EXPENSES)</b>					
Interest income	(B) -	-	-	4	4
Interest expense	-	-	-	(1)	(1)
Bond issue costs	-	-	-	(35,397)	(35,397)
Grant revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>166,800</u>	<u>(166,800)</u>
Total non-operating income (expenses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>131,406</u>	<u>131,406</u>
Increase (decrease) net position	800	800	8,234	123,259	131,493
Net position at beginning of year	<u>308,025</u>	<u>308,025</u>	<u>308,025</u>	<u>-</u>	<u>308,025</u>
Net position at end of year	\$ <u>308,825</u>	\$ <u>308,825</u>	\$ <u>316,259</u>	\$ <u>123,259</u>	\$ <u>439,518</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.

See independent auditors' report.

Jefferson County Public Service District

**BUDGETARY COMPARISON SCHEDULE - WATER DEPARTMENT**

For the year ended June 30, 2013

	<b>Budgeted Amounts Original</b>	<b>Budgeted Amounts Final</b>	<b>Actual Amounts Budgetary Basis</b>	<b>Budget to GAAP Differences Over (under)</b>	<b>Actual Amounts GAAP Basis</b>
<b>REVENUES</b>					
Operating revenues	\$ 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>
<b>REVENUE DEDUCTIONS BEFORE DEPRECIATION</b>					
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)
<b>DEPRECIATION</b>	(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>
<b>NON-OPERATING INCOME (EXPENSES)</b>					
Interest income	(B) -	-	-	10	10
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) in 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.

See independent auditors' report.



**BUDGETARY COMPARISON SCHEDULE - SEWER DEPARTMENT**

For the year ended June 30, 2014

	<b>Budgeted Amounts Original</b>	<b>Budgeted Amounts Final</b>	<b>Actual Amounts Budgetary Basis</b>	<b>Budget to GAAP Differences Over (under)</b>	<b>Actual Amounts GAAP Basis</b>
<b>REVENUES</b>					
Operating revenues	\$ 2,238,288	\$ 2,405,267	\$ 2,421,499 (F)	\$ 85,247	\$ 2,506,746
Non-operating revenues	(C) <u>165,000</u>	<u>142,000</u>	<u>126,021</u>	<u>(126,021)</u>	<u>-</u>
Total revenues	<u>2,403,288</u>	<u>2,547,267</u>	<u>2,547,520</u>	<u>(40,774)</u>	<u>2,506,746</u>
<b>REVENUE DEDUCTIONS BEFORE DEPRECIATION</b>					
Operating expenses	(G) <u>1,805,598</u>	<u>2,003,134</u>	<u>1,997,986</u>	<u>17,182</u>	<u>2,015,168</u>
Income before depreciation	597,690	544,133	549,534	(57,956)	491,578
<b>DEPRECIATION</b>					
	(A) <u>-</u>	<u>-</u>	<u>-</u>	<u>384,065</u>	<u>384,065</u>
Income before non-operating expenses	<u>597,690</u>	<u>544,133</u>	<u>549,534</u>	<u>(442,021)</u>	<u>107,513</u>
<b>NON-OPERATING INCOME (EXPENSES)</b>					
Interest income	(C) -	-	-	223	223
Loss on disposal of asset	(A) -	-	-	349	349
Interest expense	(B) -	-	-	(141,673)	(141,673)
Amortization of treatment plant upgrades	(A) -	-	-	(44,773)	(44,773)
Loss due to dropped projects	(A) -	-	-	(4,760)	(4,760)
Miscellaneous non-operating revenues	(A) <u>-</u>	<u>-</u>	<u>-</u>	<u>40,551</u>	<u>40,551</u>
Total non-operating income (expenses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(150,083)</u>	<u>(150,083)</u>
Increase (decrease) in net position before capital contributions	<u>597,690</u>	<u>544,133</u>	<u>549,534</u>	<u>(592,104)</u>	<u>(42,570)</u>
<b>CAPITAL CONTRIBUTIONS</b>					
	(C) <u>-</u>	<u>-</u>	<u>-</u>	<u>12,250</u>	<u>12,250</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Renewal and replacement funds	(60,082)	(63,682)	(62,870) (E)	62,870	-
Debt service	(D) <u>(485,943)</u>	<u>(473,124)</u>	<u>(473,126)</u> (E)	<u>473,126</u>	<u>-</u>
Total other financing (uses)	<u>(546,025)</u>	<u>(536,806)</u>	<u>(535,996)</u>	<u>535,996</u>	<u>-</u>
Decrease in net position	51,665	7,327	13,538	(43,858)	(30,320)
Net position at beginning of year	<u>7,536,948</u>	<u>7,536,948</u>	<u>7,536,948</u>	<u>-</u>	<u>7,536,948</u>
Net position at end of year	\$ <u>7,588,613</u>	\$ <u>7,544,275</u>	\$ <u>7,550,486</u>	\$ <u>(43,858)</u>	\$ <u>7,506,628</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.

**BUDGETARY COMPARISON SCHEDULE - SEWER 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>
<b>REVENUES</b>					
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>
<b>REVENUE DEDUCTIONS BEFORE DEPRECIATION</b>					
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
<b>DEPRECIATION</b>					
	(A) <u>-</u>	<u>-</u>	<u>-</u>	<u>385,274</u>	<u>385,274</u>
Income before non-operating expenses	<u>466,868</u>	<u>424,626</u>	<u>567,883</u>	<u>(432,535)</u>	<u>135,348</u>
<b>NON-OPERATING INCOME (EXPENSES)</b>					
Interest income	(C) -	-	-	516	516
Grant revenue	(C) -	-	-	-	-
Loss on disposal of assets	(A) -	-	-	(22,072)	(22,072)
Interest expense	(B) -	-	-	(92,554)	(92,554)
Amortization of treatment plant upgrades	(A) -	-	-	(44,773)	(44,773)
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>(2,952,649)</u>	<u>(2,952,649)</u>
Increase (decrease) in net position before capital contributions	<u>466,868</u>	<u>424,626</u>	<u>567,883</u>	<u>(3,385,184)</u>	<u>(2,817,301)</u>
<b>CAPITAL CONTRIBUTIONS</b>					
	(A) (C) <u>-</u>	<u>-</u>	<u>-</u>	<u>254,670</u>	<u>254,670</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
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)	(2,081,251)	(2,562,631)
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>(2,081,251)</u>	\$ <u>7,826,442</u>

## NOTES:

- (A) Non-cash items are not included for budgetary purposes.  
(B) Interest expense is included in debt service for budgetary purposes.  
(C) For budgetary purposes, includes interest earned on debt service and other funds, capital contributions, developer guaranteed minimum payments and miscellaneous operating revenues.  
(D) Budget includes principal, interest, and funding of debt service and reserve funds.  
(E) Balance sheet transactions are excluded from revenues and expenses under GAAP.  
(F) Miscellaneous revenues included in non-operating revenues for budgetary purposes.  
(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, 2014 and 2013

	<u>2014</u>	Restated <u>2013</u>
<b>SOURCE OF SUPPLY EXPENSES</b>		
Repairs and maintenance	\$ -	\$ 1,995
Operation supplies and expenses	<u>502</u>	<u>729</u>
Total	<u>502</u>	<u>2,724</u>
<b>PUMPING EXPENSES</b>		
Repairs and maintenance	2,555	4,005
Operation supplies and expenses	<u>4,264</u>	<u>4,664</u>
Total	<u>6,819</u>	<u>8,669</u>
<b>BILLING AND COLLECTING EXPENSES</b>		
Meter reading, accounting and collection	<u>-</u>	<u>77</u>
<b>ADMINISTRATIVE AND GENERAL EXPENSES</b>		
Professional fees	26,233	34,390
Miscellaneous expenses	<u>3,873</u>	<u>3,833</u>
Total	<u>30,106</u>	<u>38,223</u>
Total operating expenses	\$ <u>37,427</u>	\$ <u>49,693</u>

See independent auditors' report.

Jefferson County Public Service District

**SCHEDULES OF OPERATING EXPENSES - SEWER DEPARTMENT**

For the years ended June 30, 2014 and 2013

	<u>2014</u>	Restated <u>2013</u>
<b>COLLECTING EXPENSES</b>		
Operation labor	\$ 39,167	\$ 47,970
Supplies and expense	<u>1,921</u>	<u>1,355</u>
Total	<u>41,088</u>	<u>49,325</u>
<b>PUMPING SYSTEM</b>		
Operation labor	80,609	64,695
Power purchased for pumping	45,131	38,647
Pumping and supplies	59,528	26,649
Pumping maintenance	<u>55,444</u>	<u>18,164</u>
Total	<u>240,712</u>	<u>148,155</u>
<b>TREATMENT AND DISPOSAL SYSTEM EXPENSES</b>		
Operation labor	1,837	3,639
Supplies and expense	4,037	4,011
Treatment and disposal rent	<u>783,523</u>	<u>580,333</u>
Total	<u>789,397</u>	<u>587,983</u>
<b>BILLING AND COLLECTING EXPENSES</b>		
Meter reading, accounting and collection	<u>127,221</u>	<u>129,022</u>
<b>ADMINISTRATIVE AND GENERAL EXPENSES</b>		
General office salaries	221,694	222,164
Employee benefits	176,368	168,951
Office supplies and expense	74,254	68,878
Insurance	17,966	21,426
Professional fees	138,983	95,315
Miscellaneous general expense	20,027	26,212
Directors' fees	8,837	6,158
Rent	79,791	77,494
Regulatory commission expense and penalties	18,763	16,115
Transportation expense	4,483	3,521
Utilities	24,212	25,631
Bad debts	12,670	9,767
Repairs and maintenance	<u>18,702</u>	<u>21,457</u>
Total	<u>816,750</u>	<u>763,089</u>
Total operating expenses	\$ <u>2,015,168</u>	\$ <u>1,677,574</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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 3, 2014.

**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.

*Cox Hollida & Professionals PLLC*

Martinsburg, West Virginia

November 3, 2014