



FINANCIAL STATEMENTS

For the years ended June 30, 2012 and 2011



## CONTENTS

	<u>Page</u>
<b>INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION</b>	3-4
<b>MANAGEMENT'S DISCUSSION &amp; ANALYSIS</b>	5-10
<b>FINANCIAL STATEMENTS</b>	
Balance sheets	11-12
Statements of revenues, expenses and changes in net assets	13
Statements of cash flows	14
Notes to financial statements	15-33
<b>REQUIRED SUPPLEMENTAL INFORMATION</b>	
Schedule of funding progress	35
Budgetary comparison schedules	36-37
<b>SUPPLEMENTAL INFORMATION</b>	
Schedules of operating expenses	39
<b>REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS</b>	40-41
<b>SCHEDULE OF REPORTABLE FINDINGS AND RESPONSES</b>	42

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

The Members of the Public Service Board  
Berkeley County Public Service Water District

We have audited the accompanying financial statements of the business-type activities of Berkeley County Public Service Water District ("District") as of and for the years ended June 30, 2012 and 2011 which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Berkeley County Public Service Water District as of June 30, 2012 and 2011, and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 4, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, OPEB, and budgetary comparison information on pages 5 through 10 and 35 through 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Berkeley County Public Service Water District's financial statements as a whole. The supplemental schedules of operating expenses on page 39 is presented for purposes of additional analysis and is not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*CoxHollidaPrice LLP*

Martinsburg, WV

October 4, 2012

**BERKELEY COUNTY PUBLIC SERVICE WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Our discussion and analysis of the Berkeley County Public Service Water District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the Independent Auditor's Report on pages 3 and 4 and the District's financial statements that begin on page 11.

**HIGHLIGHTS**

**Financial highlights**

- The District's net assets decreased by \$.51 million, or .86% as a result of this year's operations.
- Total operating revenues decreased to \$9.79 million or 3.1% in FY2012 and operating expenses increased 1.3%.
- The District's capital contributions increased by \$302,786 to \$1.67 million, a 22.2% increase from last year.

**District highlights**

- The following projects remain as work-in-progress.
  - *Large Diameter Water Mains*
  - *Architectural Design of an Operations Center*
  - *Potomac Station Well Pumps & Raw Water Main*
- The District completed \$2.08 million of water capital improvement projects including Water Well Exploration and Reimbursement to Upsize Water Mains.
- There were 1.19 miles of water mains added to the water distribution system of the District during the year. 0.77 miles were installed by developers (estimated cost \$0.35 million) who subsequently transferred ownership to the District.
- The number of metered customers served by the District increased from 19,961 to 20,053 or an increase of .5%. Although at a slower pace than in the recent past, growth continues to create a need for additional resources to efficiently maintain the water system.

**USING THIS ANNUAL REPORT**

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.

**Required 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 rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the District's operations over the past year and can be used to determine 1) whether the District has successfully recovered all its costs through its user fees and other charges, 2) profitability, and 3) credit worthiness. 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?"

## 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 and the Statement of Revenues, Expenses and Changes in Net Assets report information about the District's activities in a way that will help answer this question. These two statements report the net assets of the District and changes in them. You can think of the District's net assets (the difference between assets and liabilities) as one way to measure financial health or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, population growth, and new or changed legislation.

The District's total net assets decreased by \$.51 million from last year. Our analysis below focuses on the District's net assets (Table 1) and changes in net assets (Table 2) during the year.

**Table 1**

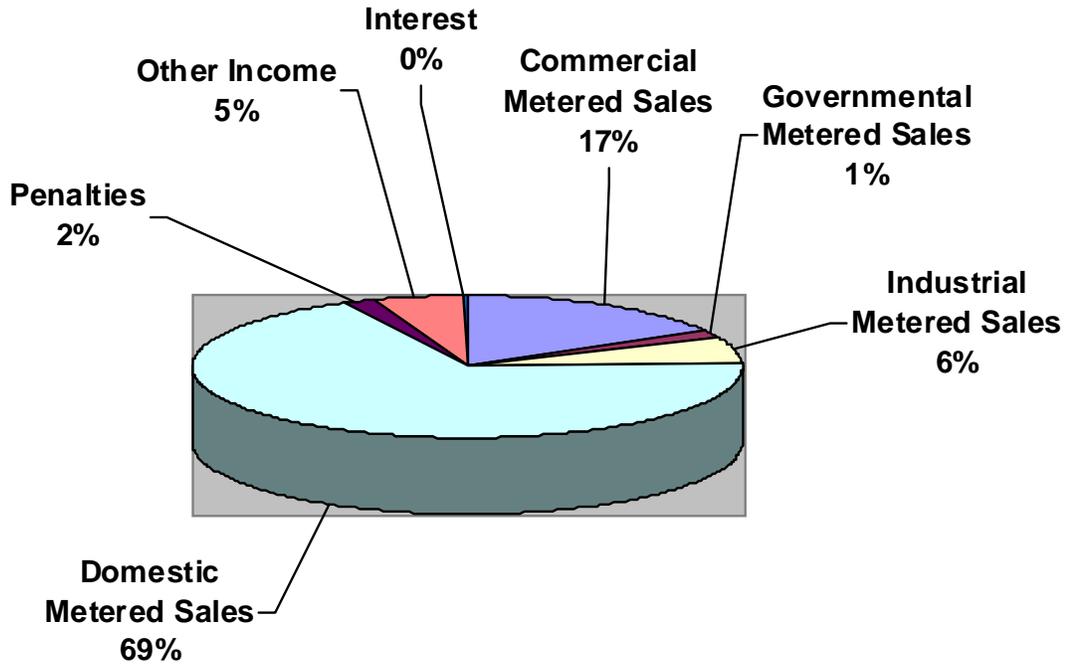
	<u>2012</u>	2011 <u>Restated</u>
Capital assets	\$108,108,749	\$ 109,541,343
Current and other assets	<u>15,370,144</u>	<u>18,366,222</u>
Total assets	<u>123,478,893</u>	<u>127,907,565</u>
Long-term debt outstanding	62,168,787	66,431,134
Other liabilities	<u>2,929,226</u>	<u>2,587,006</u>
Total liabilities	<u>65,098,013</u>	<u>69,018,140</u>
Net assets:		
Invested in capital assets, net of debt	46,009,780	43,179,286
Restricted	11,092,355	13,822,015
Unrestricted	<u>1,278,745</u>	<u>1,888,122</u>
Total net assets	\$ <u>58,380,880</u>	\$ <u>58,889,423</u>

Changes in the District's net assets can be determined by reviewing the following condensed Statement of Revenue, Expenses and Changes in Net Assets for the year.

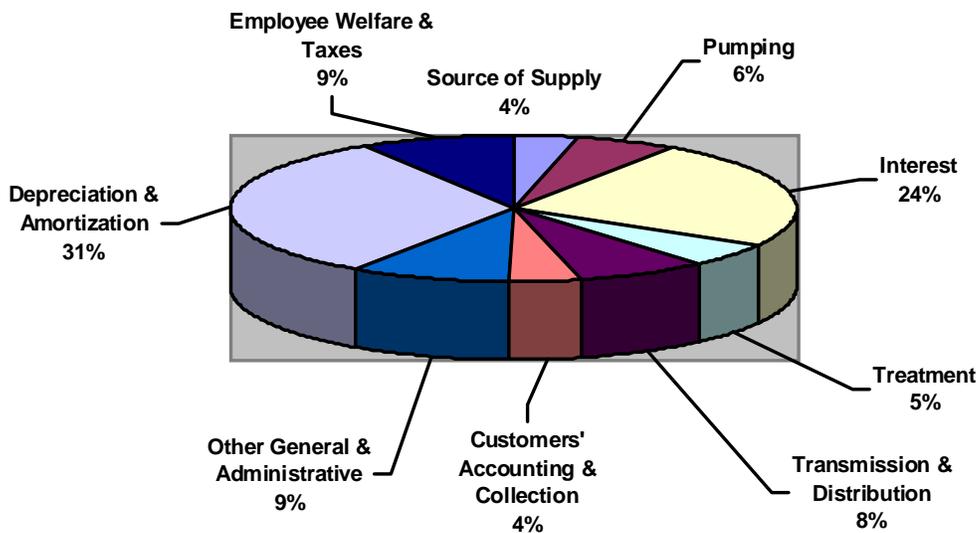
**Table 2**

	<u>2012</u>	<u>2011</u> <u>Restated</u>
Net operating revenues	\$ 9,790,750	\$ 10,100,941
Interest income	<u>39,369</u>	<u>75,695</u>
Total revenues	<u>9,830,119</u>	<u>10,176,636</u>
Operating expenses	5,340,489	5,272,926
Interest expense	2,874,989	2,954,156
Other (income) expenses	128,380	120,497
Depreciation	<u>3,663,101</u>	<u>3,608,074</u>
Total expenses	<u>12,006,959</u>	<u>11,955,653</u>
Excess of revenues over expenses	(2,176,840)	(1,779,018)
Capital contributions	<u>1,668,297</u>	<u>1,365,511</u>
Change in net assets	(508,543)	(413,507)
Net assets at beginning of year	<u>58,889,423</u>	<u>59,302,932</u>
Net assets at end of year	\$ <u>58,380,880</u>	\$ <u>58,889,423</u>

**2012 Revenues by Source**



**2012 Expenses by Function**



Total operating revenues reflect a 3.1 % decrease in 2012 compared to 2011 due mainly to a decrease in water consumption by District customers. Interest income was less in 2012 because the District had fewer funds to invest compared to the year before as well as a decline in interest rates from the previous year.

Operating expenses increased by approximately 1.3 % in 2012 compared to 2011 due primarily to increase in costs such as fuel, electricity and water treatment chemicals.

## **THE DISTRICT'S CASH FUNDS**

The District is operated as a proprietary or enterprise fund venture. As such the District operates **seven** primary cash fund types. The **General Cash Fund** has been established since the District's inception to report charges to water customers and for services provided to them. The **Renewal and Replacement (R & R) Cash Fund** is required by bond documents and is used to provide replacements of capital equipment and vehicles and for major repairs to water production and storage equipment. The **Construction Cash Fund** is used for the orderly disbursement of bond monies to complete approved projects. The **Security Deposit Cash Fund** is used strictly as an escrow depository for customer security deposits. The **Tank Maintenance Cash Fund** provides for the systematic completion of required maintenance of the District's water storage tanks. The **Membrane Replacement Fund** provides for the replacement of the membrane filtration units at the Potomac River Water Filtration Plant. The **Capacity Improvement Fee Fund** provides for capital improvements as authorized by the West Virginia Public Service Commission.

### **Budgetary highlights**

The District's Board of Directors adopted the Operating Budget of \$10,740,700 for FY 2011/2012 on May 9, 2011. Major differences between budgeted and actual amounts per budgetary basis on the Budgetary Comparison Schedule on page 36 are as follows: Income from metered water sales of all classes of customers did not meet projections. There are more than three percent of residential properties served by the District that are currently vacant. In addition, due to the slow economy, we have seen an increased emphasis in conserving water in all other classes of customers. Interest Income was less than anticipated. Capacity Improvement Fees were greater than the budgeted amount due to an increase in the number of new housing starts. Lastly, the amount of funds expended on Capital Improvements was greater than the budget primarily due to the installation of an additional raw water pump at the Potomac River Intake Pumping Station.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital assets**

At the end of the 2012 Fiscal Year, the District had \$108.1 million invested in a broad range of capital assets, including water treatment plants, water transmission and distribution mains, water storage facilities, pump stations and pressure reducing stations. This amount represents a net decrease (including additions and deductions) of \$1.4 million, or 1.3 % over last year. These changes are presented in detail in the notes to the financial statements.

The following table summarizes the District's capital assets, net of accumulated depreciation, for the years ended June 30, 2012 and 2011.

**Table 3**

	<u>2012</u>	<u>2011</u> <u>Restated</u>
Land and Land Improvements	\$ 1,452,909	\$ 1,454,414
Utility Plant and equipment	47,872,716	47,941,578
Water lines, meters and hydrants	54,576,255	54,859,916
Office equipment and furniture	133,400	124,848
Vehicles	1,662,202	1,685,792
Shop and garage equipment	514,603	407,393
Construction work in progress	<u>1,896,664</u>	<u>3,067,402</u>
Net utility plant	<u>\$108,108,749</u>	<u>\$109,541,343</u>

This year's major additions included:

- Water distribution system upgrades \$ .34 million
- Potomac River Intake Pumping Station \$ .19 million
- Other capital construction projects \$ .07 million
- Purchase of equipment, vehicles, meters and computers \$ .23 million

The District awarded professional design contracts for the following projects:

in FY 2011

- None

in FY 2012

- None

The District's 2013 capital budget plans for investing \$0.71 million in capital additions and equipment, including the following:

New water plants and equipment  
Service connections and meters  
Main line extensions and fire hydrants  
Water storage facilities  
Vehicles  
Tools and equipment  
Computers and equipment

Berkeley County Public Service Water District

**BALANCE SHEETS**

June 30, 2012 and 2011

**ASSETS**

	<u>2012</u>	2011 <u>Restated</u>
<b>CURRENT ASSETS</b>		
Cash and temporary investments	\$ 289,825	\$ 341,851
Accounts receivable - customers (net of allowance of \$45,000 and \$75,000, respectively)	1,479,244	1,480,370
Inventory	171,268	321,336
Other current assets	<u>113,480</u>	<u>108,989</u>
Total current assets	<u>2,053,817</u>	<u>2,252,546</u>
<b>RESTRICTED ASSETS</b>		
Debt service funds	1,860,035	1,943,994
Debt service reserve funds	3,838,416	3,838,205
Construction funds	3,746,116	3,796,229
Renewal and replacement funds	1,061,975	1,217,679
Customer deposits	433,888	436,012
Capacity improvement fees	<u>578,318</u>	<u>3,011,646</u>
Total restricted assets	<u>11,518,748</u>	<u>14,243,766</u>
Total current and restricted assets	<u>13,572,565</u>	<u>16,496,312</u>
<b>UTILITY PLANT</b>		
Utility plant in service	142,442,472	139,183,986
Construction in progress	1,896,664	3,067,402
Less accumulated depreciation	<u>(36,230,387)</u>	<u>(32,710,045)</u>
Net utility plant	<u>108,108,749</u>	<u>109,541,343</u>
<b>OTHER ASSETS</b>		
Unamortized debt issue expense	<u>1,797,579</u>	<u>1,869,910</u>
Total assets	<u>\$ 123,478,893</u>	<u>\$ 127,907,565</u>

The accompanying notes are an integral part of this statement.



Berkeley County Public Service Water District

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

For the years ended June 30, 2012 and 2011

	<u>2012</u>	2011 <u>Restated</u>
<b>OPERATING REVENUES</b>		
Metered water sales		
- domestic	\$ 6,708,347	\$ 6,942,793
- commercial	1,632,728	1,639,866
- industrial	622,693	659,048
- governmental	131,278	147,968
Customers' forfeited discounts and penalties	207,747	201,429
Other operating income	<u>487,957</u>	<u>509,837</u>
Total operating revenues	<b>9,790,750</b>	10,100,940
<b>OPERATING EXPENSES</b>	<u>5,340,489</u>	<u>5,272,926</u>
Operating income before depreciation	4,450,261	4,828,014
<b>DEPRECIATION</b>	<u>3,663,101</u>	<u>3,608,074</u>
Operating income	<u>787,160</u>	<u>1,219,940</u>
<b>NON-OPERATING INCOME (EXPENSE)</b>		
Interest income	39,369	75,695
Gain on disposal of utility plant	5,877	13,760
Interest expense	(2,874,989)	(2,954,156)
Amortization	<u>(134,257)</u>	<u>(134,257)</u>
Total non-operating expense	<u>(2,964,000)</u>	<u>(2,998,958)</u>
Decrease in net assets before capital contributions	<u>(2,176,840)</u>	<u>(1,779,018)</u>
<b>CAPITAL CONTRIBUTIONS</b>	<u>1,668,297</u>	<u>1,365,511</u>
Decrease in net assets	(508,543)	(413,507)
Net assets at beginning of year	<u>58,889,423</u>	<u>59,302,930</u>
Net assets at end of year	\$ <u>58,380,880</u>	\$ <u>58,889,423</u>

The accompanying notes are an integral part of this statement.

**STATEMENTS OF CASH FLOWS**

For the years ended June 30, 2012 and 2011

	<u>2012</u>	2011 <u>Restated</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 9,796,522	\$ 9,959,096
Cash payments for goods and services	(2,029,321)	(2,340,916)
Cash payments for employee services	<u>(3,015,940)</u>	<u>(2,850,895)</u>
Net cash provided by operating activities	<u>4,751,261</u>	<u>4,767,285</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	39,369	75,695
Maturities, redemptions and purchases of certificates of deposit (net)	<u>741,972</u>	<u>(96,544)</u>
Net cash used in investing activities	<u>781,341</u>	<u>(20,849)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from line of credit	261,000	-
Proceeds from utility plant disposal	7,055	13,900
Principal payments on revenue bonds payable	(1,261,137)	(1,212,973)
Principal payments on bond anticipation notes	(3,000,000)	-
Principal payments on capital lease payable	(23,778)	(22,606)
Interest paid	(2,922,547)	(2,947,997)
Payments made for advances for construction-developers	(2,952)	2,000
Payments made for issuance costs	(61,923)	-
Acquisition and construction of capital assets	(1,448,007)	(632,426)
Payments received for service connections	9,900	6,300
Payments received for capital improvement fees	<u>874,714</u>	<u>716,244</u>
Net cash used in capital and related financing activities	<u>(7,567,675)</u>	<u>(4,077,558)</u>
Net increase (decrease) in cash and cash equivalents	<u>(2,035,073)</u>	668,878
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>12,548,667</u>	<u>11,879,789</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 10,513,594</u>	<u>\$ 12,548,667</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Operating income	\$ 787,160	\$ 1,219,940
Depreciation	3,663,101	3,608,074
Adjustments for changes in operating assets and liabilities:		
Receivables, net	1,126	(138,144)
Inventories	150,068	(3,370)
Other operating assets	(4,490)	(50,158)
Accounts payable	(1,513)	100,063
Payroll taxes payable	48,680	(15,353)
OPEB payable	57,147	54,395
Accrued expenses	45,335	(4,460)
Other operating liabilities	<u>4,646</u>	<u>(3,704)</u>
Net cash provided by operating activities	<u>\$ 4,751,260</u>	<u>\$ 4,767,283</u>
<b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Main line extensions contributed by developers	<u>\$ 783,679</u>	<u>\$ 642,966</u>

The accompanying notes are an integral part of this statement.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

### GENERAL

The Berkeley County Public Service Water District ("District") is a public corporation created under the laws of the State of West Virginia on December 12, 1954, for the purpose of operating a water utility and providing water services to customers in its franchise area within Berkeley County. On July 1, 2001, the former Opequon Public Service District and the former Hedgesville Public Service District merged into the Berkeley County Public Service District pursuant to an order made by the Berkeley County Commission and approved by the Public Service Commission of West Virginia. The Berkeley County Public Service District conducts business under the name of the Berkeley County Public Service Water District.

#### 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.

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and the presentation of the financial report of the District have been designed to conform to generally accepted accounting principles as applicable to governmental entities, in accordance with the Governmental Accounting Standards Board (GASB). GASB embodies the official pronouncements previously issued by the National Council on Governmental Accounting (NCGA).

#### 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 these criteria, there are no component units to include in the District's financial statements.

#### Basis of Presentation

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

#### Measurement Focus and Basis of Accounting

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

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

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

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

**Measurement Focus and Basis of Accounting (Continued)**

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.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* 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 charged to customers for sales and service. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**Assets, Liabilities and Net Assets**

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.

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

Inventory is stated at the lower of cost or market using the first in, first out method.

Utility plant is stated at cost at the date of acquisition. Donated assets, principally water lines, 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 5 to 50 years and charged to operations. Interest paid on loans obtained for construction of plant facilities is capitalized when material. Capitalized interest for the years ended June 30, 2012 and 2011 was \$65,746 and \$151,008, respectively. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. When items of property or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

Major classifications of utility plant of the District and their respective useful lives at June 30, 2012 and 2011, are summarized below:

<u>Classification</u>	<u>Useful Lives</u>
Utility plant and equipment	10-50 years
Water lines, meters and hydrants	10-50 years
Office equipment and furniture	5-20 years
Vehicles	5-10 years
Shop and garage equipment	5-25 years

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

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

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

Construction work in progress represents costs accumulated for the replacement of sections of the District's transmission and distribution systems, plant expansions and rehabilitation, and other projects that were not completed at year end.

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 leave upon termination or retirement. The District accrues a liability for leave 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 \$74,085 and \$56,169 at June 30, 2012 and 2011, respectively.

**Long-term Obligations**

Long-term debt and other long-term obligations are reported as liabilities in the District's balance sheets. Bond issuance costs are reported as "other assets" and amortized over the term of the related debt or on a weighted average of outstanding debt during the year.

**Net Asset Classifications**

Net assets are classified and displayed in three components:

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

**Budget**

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

**Use of Estimates**

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

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

**CASH AND TEMPORARY INVESTMENTS**

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

	<u>2012</u>	<u>2011</u>
Operation and maintenance	\$ 13,627	\$ 18,127
Other cash	2,131	4,898
Revenue fund – checking	143,391	191,220
Revenue fund – certificates of deposit	<u>130,676</u>	<u>127,607</u>
Total	<u>\$ 289,825</u>	<u>\$ 341,851</u>

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

**RESTRICTED ASSETS**

The debt service funds represent funds on deposit with the West Virginia Municipal Bond Commission as trustee under the various bond resolutions. These funds are to be used to pay bond interest and principal.

The debt service reserve funds represent funds on deposit with the West Virginia Municipal Bond Commission. The District is required to maintain these accounts over the life of the outstanding bond issues.

The construction funds represents funds on deposit with a financial institution and the West Virginia Municipal Bond Commission. These funds are to be used to pay the costs of the District's construction projects.

The renewal and replacement fund represents funds on deposit with several financial institutions for the purpose of meeting unforeseen emergencies or renewal and replacement work.

Customer deposits represent funds on deposit with several financial institutions for the purpose of securing payment for services in the event customer accounts become delinquent.

Capacity improvement fees represent funds on deposit with a financial institution. These fees are collected from all new service connections to the District's water system and are to be used only for upgrades to or construction of the system as stated in the Joint Stipulation approved by the Public Service Commission of West Virginia.

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

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

**DEPOSITS AND INVESTMENTS**

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

<u>Investment Type</u>	<u>Maturities</u>	<u>Standard and Poor Credit Rating</u>	<u>Fair Value</u>
Repurchase Agreements	Daily		\$ 58,781
State Investment Pool	Average of 90 days	<b>AA-</b>	<u>5,698,451</u>
Total investments			5,757,232
Cash and Certificates of Deposit			<u>6,050,112</u>
Total Cash, Certificates of Deposit, and Investments			\$ <u><u>11,807,344</u></u>

**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 deed of trusts 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.

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

Custodial credit risk is the risk that in the event of a bank or counter party failure, the District will not be able to recover the value of its deposits, investments or collateral securities that are in possession of an outside party. The District does not have a formal deposit policy for custodial credit risk. As of June 30, 2012, \$1,299,485 of the District's bank balance of \$2,199,047 was exposed to custodial credit risk. Of the bank balance, \$992,189 was covered by Federal Deposit Insurance (FDIC). Of the remaining balance of \$1,206,858, \$1,148,078 was collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name, and \$58,781 was invested in overnight repurchase agreements with securities held by the pledging financial institution's trust department or agent, not maintained separately in the District's name.

**Interest Rate Risk**

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

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

**DAILY CASH INVESTMENT REPURCHASE AGREEMENT**

The District has a repurchase agreement with a local financial institution for the investment of excess funds in one of the District's bank accounts. 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. Investments are backed by securities that are direct obligations of, or are fully guaranteed as to principal and interest by the United States of America or any agency thereof. The market value of the investments approximates cost at June 30, 2012 and 2011.

**CAPITAL ASSETS**

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

	Balance at <u>July 01, 2010</u>	<u>Additions</u>	<u>Retirements</u>	Balance at <u>June 30, 2011</u>
Capital assets not being depreciated:				
Land	\$ <u>1,392,490</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,392,490</u>
Other capital assets:				
Land improvements	140,919	-	-	140,919
Utility plant and equipment	45,335,795	18,820,792	23,495	64,133,092
Water lines, meters and hydrants	68,351,704	713,030	17,950	69,046,784
Office equipment and furniture	362,043	85,277	2,332	444,988
Vehicles	2,676,498	75,028	54,210	2,697,316
Shop and garage equipment	1,340,306	19,238	31,147	1,328,397
Construction work in progress	<u>21,600,520</u>	<u>274,279</u>	<u>18,807,397</u>	<u>3,067,402</u>
Total other capital assets	\$ <u>139,807,785</u>	\$ <u>19,987,644</u>	\$ <u>18,936,531</u>	\$ <u>140,858,898</u>
Less accumulated depreciation:				
Land improvements	\$ 78,671	\$ 324	\$ -	\$ 78,995
Utility plant and equipment	14,124,907	2,090,102	23,495	16,191,514
Water lines, meters and hydrants	12,807,820	1,396,998	17,950	14,186,868
Office equipment and furniture	312,192	10,280	2,332	320,140
Vehicles	976,485	89,260	54,221	1,011,524
Shop and garage equipment	<u>930,890</u>	<u>21,110</u>	<u>30,996</u>	<u>921,004</u>
Total accumulated depreciation	\$ <u>29,230,965</u>	\$ <u>3,608,074</u>	\$ <u>128,994</u>	\$ <u>32,710,045</u>
Net capital assets	\$ <u>111,969,310</u>	\$ <u>16,379,570</u>	\$ <u>18,807,537</u>	\$ <u>109,541,343</u>

Berkeley County Public Service Water District

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

**CAPITAL ASSETS (Continued)**

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

	Balance at <u>July 01, 2011</u>	<u>Additions</u>	<u>Retirements</u>	Balance at <u>June 30, 2012</u>
Capital assets not being depreciated:				
Land	\$ <u>1,392,490</u>	\$ <u>1,600</u>	\$ <u>-</u>	\$ <u>1,394,090</u>
Other capital assets:				
Land improvements	\$ 140,919	\$ -	\$ -	\$ 140,919
Utility plant and equipment	64,133,092	1,324,520	16,465	65,441,147
Water lines, meters and hydrants	69,046,784	1,810,216	11,956	70,845,044
Office equipment and furniture	444,988	28,212	50,726	422,474
Vehicles	2,697,316	88,078	56,845	2,728,549
Shop, garage, and other equipment	1,328,397	150,386	8,534	1,470,249
Construction work in progress	<u>3,067,402</u>	<u>358,361</u>	<u>1,529,099</u>	<u>1,896,664</u>
Total capital assets	\$ <u>140,858,898</u>	\$ <u>3,759,773</u>	\$ <u>1,673,625</u>	\$ <u>142,945,046</u>
Less accumulated depreciation:				
Land improvements	\$ 78,995	\$ 3,109	\$ -	\$ 82,104
Utility plant and equipment	16,191,514	1,392,202	15,286	17,568,430
Water lines, meters and hydrants	14,186,868	2,093,877	11,956	16,268,789
Office equipment and furniture	320,140	19,660	50,726	289,074
Vehicles	1,011,524	111,641	56,818	1,066,347
Shop and garage equipment	<u>921,004</u>	<u>42,585</u>	<u>7,946</u>	<u>955,643</u>
Total accumulated depreciation	\$ <u>32,710,045</u>	\$ <u>3,663,074</u>	\$ <u>142,732</u>	\$ <u>36,230,387</u>
Net capital assets	\$ <u><u>109,541,343</u></u>	\$ <u><u>98,299</u></u>	\$ <u><u>1,530,893</u></u>	\$ <u><u>108,108,749</u></u>

**REVENUE BONDS PAYABLE**

The District is obligated under certain bond resolutions with respect to the following revenue bonds outstanding as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Series B 1993 water revenue bonds in the original amount of \$528,871, payable in annual installments, with increasing principal and interest beginning October 1, 1993 at \$2,359 and concluding October 1, 2031 at \$40,229 including 7.75% interest;	\$ <b>433,616</b>	\$ 442,656
Series C 1993 water revenue bonds in the original amount of \$17,629, payable in annual installments, beginning October 1, 1993 and concluding October 1, 2031 at \$452 with no interest;	<b>9,040</b>	9,492

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

**REVENUE BONDS PAYABLE (Continued)**

	<u>2012</u>	<u>2011</u>
Series D 1993 water revenue bonds in the original amount of \$10,257,957, total annual installments of principal and interest at \$751,218; principal payable in annual installments beginning October 1, 1995 and concluding April 1, 2033 with interest payable in semi-annual installments at 6.75%;	\$ 8,484,498	\$ 8,651,725
Series 1996 water revenue bonds in the original amount of \$677,158, payable in annual installments, with increasing principal and interest beginning October 1, 1997 at \$4,392 and concluding October 1, 2035 at \$43,966 including 6.25% interest;	572,972	583,234
Series 2001 water revenue bonds in the original amount of \$2,010,000, payable in annual installments with varying principal and interest beginning October 1, 2002 at \$15,502 and concluding October 1, 2039 at \$124,841 including 5.8% interest;	1,807,581	1,833,330
Series B 2003 water revenue refunding bonds in the original amount of \$2,030,000, payable in annual installments with varying principal and interest beginning September 2003 at \$50,000 including 2% interest and concluding September 2019 at \$160,000 including 4.4% interest;	1,140,000	1,265,000
Series C 2003 water revenue bonds in the original amount of \$2,430,000, payable in annual installments with varying principal and interest beginning October 2004 at \$73,490 and concluding October 2023 at \$185,704 including 5% interest;	1,728,241	1,831,648

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

**REVENUE BONDS PAYABLE (Continued)**

	<u>2012</u>	<u>2011</u>
Series 2004 water revenue bonds in the original amount of \$10,000,000, principal payable in annual installments at varying amounts and semi-annual interest at varying rates averaging 3.96%; interest payments beginning June 2005 and principal payments beginning December 2007 and concluding December 2024 including 4.3% interest;	\$ 7,840,000	\$ 8,300,000
Series 2006 water revenue bonds in the original amount of \$10,000,000, principal payable in annual installments at varying amounts and semi-annual interest payments beginning June 2007 at 3.5% and principal payments beginning December 2009 and concluding December 2036 including 4.3% interest;	9,735,000	9,805,000
Series 2007 water revenue bonds in the original amount of \$2,300,000, principal payable in annual installments at varying amounts and semi-annual interest payments at varying rates averaging 4.20%; interest payments beginning June 2008 and principal payments beginning December 2013 and concluding December 2025 including 4.25% interest;	2,300,000	2,300,000
Series 2008 water revenue bonds in the original amount of \$9,500,000, principal payable in annual installments at varying amounts and semi-annual interest payments at varying rates averaging 4.19%; interest payments beginning June 2008 and principal payments beginning December 2025 and concluding December 2037 including 4.25% interest;	9,500,000	9,500,000
Series 2009 water revenue bonds in the original amount of \$7,510,000, principal payable in annual installments at varying amounts and semi-annual interest payments at varying rates averaging 4.00%; interest payments beginning June 2009 and principal payments beginning December 2010 and concluding December 2028 including 4.40% interest.	<u>6,940,000</u>	<u>8,230,000</u>
	\$ <u>50,490,948</u>	\$ <u>52,752,085</u>

Berkeley County Public Service Water District

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

**REVENUE BONDS PAYABLE (Continued)**

Maturities of revenue bonds payable and interest payments for each of the next five years and in subsequent five year increments succeeding June 30, 2012 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 1,305,430	\$ 2,325,482
2014	1,365,926	2,272,823
2015	1,422,698	2,215,801
2016	1,485,829	2,154,034
2017	1,585,404	2,087,204
2018-2022	9,012,988	9,248,269
2023-2027	11,119,772	6,955,236
2028-2032	9,997,284	4,270,909
2033-2037	11,411,251	1,704,367
2038-2040	1,784,366	61,989
	<u>\$ 50,490,948</u>	<u>\$ 33,296,114</u>

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

	<u>Balance at July 01, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2011</u>
Water revenue bonds:				
Series B 1993	\$ 451,045	\$ -	\$ 8,390	\$ 442,656
Series C 1993	9,945	-	453	9,492
Series D 1993	8,808,377	-	156,652	8,651,725
Series 1996	592,893	-	9,659	583,234
Series 2001	1,857,667	-	24,337	1,833,330
Series B 2003	1,385,000	-	120,000	1,265,000
Series C 2003	1,930,130	-	98,482	1,831,648
Series 2004	8,745,000	-	445,000	8,300,000
Series 2006	9,875,000	-	70,000	9,805,000
Series 2007	2,300,000	-	-	2,300,000
Series 2008	9,500,000	-	-	9,500,000
Series 2009	7,510,000	-	280,000	7,230,000
Total water revenue bonds payable	\$ <u>52,965,057</u>	\$ <u>-</u>	\$ <u>1,212,973</u>	\$ 51,752,085
Less: Current portion due in upcoming year:				<u>1,261,136</u>
Long-term water revenue bonds payable at June 30, 2011 (net of current portion)				<u>\$ 50,490,949</u>

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

**REVENUE BONDS PAYABLE (Continued)**

	<u>Balance at</u> <u>July 01, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at</u> <u>June 30, 2012</u>
Water revenue bonds:				
Series B 1993	\$ 442,656	\$ -	\$ 9,041	\$ 433,615
Series C 1993	9,492	-	452	9,041
Series D 1993	8,651,725	-	167,227	8,484,498
Series 1996	583,234	-	10,262	572,972
Series 2001	1,833,330	-	25,749	1,807,581
Series B 2003	1,265,000	-	125,000	1,140,000
Series C 2003	1,831,648	-	103,407	1,728,241
Series 2004	8,300,000	-	460,000	7,840,000
Series 2006	9,805,000	-	70,000	9,735,000
Series 2007	2,300,000	-	-	2,300,000
Series 2008	9,500,000	-	-	9,500,000
Series 2009	<u>7,230,000</u>	<u>-</u>	<u>290,000</u>	<u>6,940,000</u>
Total water revenue bonds payable	\$ <u>51,752,085</u>	\$ <u>-</u>	\$ <u>1,261,138</u>	\$ <u>50,490,948</u>
Less: Current portion due in upcoming year:				<u>1,305,430</u>
Long-term water revenue bonds payable at June 30, 2012 (net of current portion)				\$ <u>49,185,518</u>

The significant covenants contained in the bond issues are as follows:

	<u>2012</u>	<u>2011</u>
Actual coverage ratio	115%	127%
Required coverage ratio	120%	120%
Required annual additions to renewal and replacement fund	\$ 240,036	\$ 244,854
Required future debt service reserve	\$ 4,825,402	\$ 4,825,402

The above actual coverage ratio excludes the debt service associated with the 2007 bond anticipation note. This issue is not secured by the net revenues of the system. Pursuant to a bond counsel opinion dated October 22, 2011, debt service reserve fund amounts have been applied towards their respective issues' final payment of principal and interest in the calculation of coverage and consistent with the Districts' offering documents. As of June 30, 2012 the District is not in compliance with revenue bond required debt service coverage ratios. At June 30, 2011 the District was in compliance with revenue bond required debt service coverage ratios.

**BOND ANTICIPATION NOTE PAYABLE**

The District is obligated under certain bond resolutions with respect to the following revenue bonds outstanding as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Series 2007 bond anticipation note in the original amount of \$20,000,000 with semi-annual interest beginning August 2007 at 4.25% and total principal payable February 2014 including 4.25% interest.	\$ <b>12,000,000</b>	\$ 15,000,000

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

**BOND ANTICIPATION NOTE PAYABLE (Continued)**

Maturities of bond anticipation note payable and interest payments for each of the next two years succeeding June 30, 2012 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ -	\$ 510,000
2014	<u>12,000,000</u>	<u>255,000</u>
	\$ <u>12,000,000</u>	\$ <u>765,000</u>

The bond anticipation note issue is secured by a first lien on the Capacity Improvement Fees and Surplus Revenues derived from the System, and the proceeds of bonds to be hereafter issued to provide permanent financing for the Project.

	<u>Balance at July 01, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2011</u>
Long-term bond anticipation note payable:				
Series 2007	\$ <u>15,000,000</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>15,000,000</u>

	<u>Balance at July 01, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2012</u>
Long-term bond anticipation note payable:				
Series 2007	\$ <u>15,000,000</u>	\$ <u>-</u>	\$ <u>3,000,000</u>	\$ <u>12,000,000</u>

The significant covenants contained in the bond issue are as follows:

	<u>2012</u>	<u>2011</u>
Actual coverage ratio	102%	109%
Required coverage ratio	100%	100%
Required annual additions to renewal and replacement fund	\$ 240,036	\$ 244,854
Required debt service reserve	\$ 1,000,000	\$ 1,000,000

The above actual coverage ratio excludes the 2007 bond anticipation note principal. This issue is not secured by the net revenues of the system. Pursuant to a bond counsel opinion dated October 22, 2011, debt service reserve fund amounts have been applied towards their respective issues' final payment of principal and interest in the calculation of coverage and consistent with the Districts' offering documents. As of June 30, 2012 and 2011, the District is in compliance with bond anticipation note required debt service coverage ratios.

**LINE OF CREDIT PAYABLE**

The District has a \$1,000,000 unsecured line of credit, used to finance short term cash requirements. The District pays interest only on a monthly basis and the principal is due on demand. The interest rate to be applied to the unpaid principal balance varies based on the Prime Rate as published in the Wall Street Journal. The balance outstanding at June 30, 2012 and 2011 was \$261,000 and \$0, respectively. The District did not use the line of credit in the fiscal year ended June 30 2011.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

**CAPITAL LEASE PAYABLE**

The former Hedgesville Public Service District entered into an agreement to lease a water distribution main from the City of Martinsburg, West Virginia ("City"). Under the agreement, the District pays the City monthly lease payments beginning in 2001 over a thirty-year term. At the end of the lease, ownership of the leased property is transferred to the District.

Minimum future lease payments under capital leases as of June 30, 2012, for each of the next five years and in the aggregate, are:

2013	\$	63,984
2014		63,984
2015		63,984
2016		63,984
2017		63,934
2018-2022		319,643
2023-2027		319,643
2028-2032		<u>260,509</u>
Total minimum lease payments	\$	1,219,665
Less: amount representing interest		<u>438,438</u>
Present value of net minimum lease payments	\$	<u>781,227</u>

In addition to leasing the water distribution main, the District committed to pay a minimum of approximately \$29,000 annually for purchased water from the City once the water distribution main is put in service. The water distribution main was placed in service in 2003.

**CAPITAL COMMITMENTS MADE WITH OTHER UTILITY PROVIDERS**

On May 17, 2000, the former Berkeley County Public Service District entered into an agreement with the City of Martinsburg, West Virginia ("City"), for the sale and purchase of water. The District has committed to pay a minimum of approximately \$200,000 annually for purchased water from a City owned treatment plant. The District also agreed to pay a monthly fee to the City for allocated capacity, cost of funding required reserves, and renewal and replacements. This monthly fee will be based on an approximate \$850,000 capital base at an estimated 5.8% interest rate in effect over the term of this agreement (40 years).

**OPERATING LEASES**

The District entered into an operating lease for administrative space on October 1, 2001, and signed addendums for additional space on February 1, 2007 and June 14, 2010. The original lease period expired November 30, 2004, with an option for six additional consecutive one year renewal periods, which the latest addendum has extended for three additional renewal periods, expiring May 31, 2013. The District has elected to exercise these annual options to continue the lease. The monthly rental rates for the extension periods ended January 31, 2010 and June 30, 2010 were \$2,920 and \$3,249, respectively. The monthly rental rates for the current extension periods ending November 30, 2011 and May 31, 2013 (including the addendums for additional space) are \$3,945 and \$4,045, respectively, per month. Rental expense charged to income for the years ended June 30, 2012 and 2011 was \$48,140 and \$47,664, respectively.

The District also entered into an operating lease for shop facilities on August 26, 2011. Rental payments under the lease agreement are \$2,963 per month. The original lease term expires April 30, 2014. The lease automatically becomes a month-to-month rental agreement at the same amount at expiration of the original lease term. Rental expense for the years ended June 30, 2012 and 2011 was \$34,167 and \$27,500, respectively .

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

**OPERATING LEASES (Continued)**

The District has entered into operating lease agreements with six telecommunications providers which allows the attachment of cell phone towers/antenna to the District's water tanks . These agreements are for various term lengths with the longest extending through October 2026, if all renewal periods are elected. Monthly rents related to these agreements range from \$275 - \$2,185. Non-operating rental income for the years ended June 30, 2012 and 2011 was \$138,076 and \$139,528, respectively.

**ADVANCES FOR CONSTRUCTION - DEVELOPERS**

These advances represent the unreimbursed cost of line additions constructed by developers and titled to the District. The District is obligated to reimburse the developers based on the revenue derived from customers connected to the lines. The reimbursements are payable for up to a ten year period from the date of completion of the lines and are based on service connections made during a year. In no case is the reimbursement to the developers to exceed the total cost of the line additions. It is estimated that no advances will mature in the year ended June 30, 2012. Also included in this account is are advanced payments received by the District of \$156,256 for payment for lines to be installed in the future for two developments. This is not expected to be completed during the next fiscal year ending June 30, 2013.

**RETIREMENT PLAN**

All full-time employees of the District are covered by the WV Public Employees Retirement System, a cost-sharing multi-employer PERS.

All full-time employees 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 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 Average Salary (FAS) times the number of years for which they were employed as a participant in the State PERS. FAS refers to the average annual salary from the highest 36 consecutive months within the last 10 years of employment.

Pension provisions include deferred allowances 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. The District's covered payroll amounted to \$2,088,564, \$2,044,948 and \$1,953,026 for the years ended June 30, 2012, June 30, 2011 and 2010, respectively.

Employees of the District are required to pay 4.5% of their gross earnings to the pension plan. The District was required to make annual contributions to the plan equal to 14.5% (12.5 and 11% during fiscal years ended June 30, 2011 and 2010, respectively) of its covered payroll. Total contributions made during the fiscal years ended June 30, 2010 through 2012 amounted to \$396,824, \$321,080, and \$302,719, respectively, of which \$93,985, \$96,324, and \$87,887 was made by employees. The above contributions represent 100% of the required contributions to the plan. The Information regarding the plan is available from the state of West Virginia.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

**CONSTRUCTION IN PROGRESS**

At June 30, 2012, construction in progress consisted of various water upgrade projects and studies

Project 938 relates to water system capital improvements, namely a raw water source. As of June 30, 2012, expenditures totaling \$57,556 had been incurred on this project, which is expected to cost approximately \$102,600 upon completion.

Project 948 relates to water system capital improvements, namely easement acquisition for a water transmission main. As of June 30, 2012, expenditures totaling \$11,208 had been incurred on this project, which is expected to cost approximately \$111,000 upon completion.

Project 951 relates to water system capital improvements, namely the installation of water transmission mains. As of June 30, 2012, expenditures totaling \$1,012,632 had been incurred on this project, which is expected to cost approximately \$1,317,000 upon completion.

Project 957 relates to water system capital improvements, namely the installation of the Grubbs Corner tank. As of June 30, 2012, expenditures totaling \$140,724 had been incurred on this project, which is expected to cost approximately \$2,920,000 upon completion.

Project 958 relates to architectural building design. As of June 30, 2012, expenditures totaling \$663,289 had been incurred on this project, which is expected to cost approximately \$690,000 upon completion.

Project 962 relates to Potomac Station well pumps and raw water main. As of June 30, 2012, expenditures totaling \$3,050 had been incurred on this project, which is expected to cost approximately \$100,000 upon completion.

Project 803 relates to Bunker Hill townhomes 16" water main. As of June 30, 2012, expenditures totaling \$7,617 had been incurred on this project, which is expected to cost approximately \$223,000 upon completion.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

**MAINLINE EXTENSIONS**

Included in the accompanying statements of revenues, expenses, and changes in net assets are capital contributions, which represent management's estimate of the value of mainline extensions contributed to the District by developers. Mainline extensions constructed by developers are titled to the District upon their completion. Their estimated costs and offsetting capital contributions are recorded in the District's books and totaled \$785,694 and \$642,966 for the years ended June 30, 2012 and 2011, respectively. Total capital contributions in the income statement consist of the following:

	<u>2012</u>	<u>2011</u>
Mainline extensions, hydrants, and services	\$ 785,694	\$ 642,966
Service connection fees	9,900	6,300
Capacity improvement fees	<u>872,703</u>	<u>716,245</u>
Total capital contributions	\$ <u>1,668,297</u>	\$ <u>1,365,511</u>

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

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

	<u>2012</u>	<u>2011</u>
Operation and maintenance	\$ 15,775	\$ 23,025
Revenue fund	143,391	191,220
Debt service funds	1,860,035	1,943,994
Debt service reserve funds	3,838,416	3,838,205
Construction fund	3,746,116	3,796,229
Renewal and replacement fund	307,461	257,458
Security deposit funds	24,082	23,019
Capacity improvement fees	<u>578,318</u>	<u>2,475,517</u>
Total	\$ <u>10,513,594</u>	\$ <u>12,548,667</u>

The change in cash and cash equivalents by unrestricted and restricted designations consists of the following at June 30, 2012 and 2011:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
June 30, 2011	\$ 214,245	\$ 12,334,422	\$ 12,548,667
June 30, 2012	<u>159,149</u>	<u>10,354,445</u>	<u>10,513,594</u>
Increase (decrease) in cash and cash equivalents	\$ <u>(55,096)</u>	\$ <u>(1,979,977)</u>	\$ <u>(2,035,073)</u>

**OTHER POST-EMPLOYMENT BENEFITS**

Effective July 1, 2010, the District adopted the provisions of GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions". In addition to the relevant disclosures within this note related to the implementation of GASB Statement No. 45, the financial statements reflect long-term liabilities and related expenses of \$164,848 and \$61,791, \$107,701 and \$ 61,791, and \$52,934 and \$61,791 at June 30, 2012, 2011 and 2010, respectively, resulting from the adoption.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

**OTHER POST-EMPLOYMENT BENEFITS (Continued)**

Plan Description. The District is deemed a non-participating entity with eligible retirees, which means that the District does not currently participate in a group medical or prescription drug coverage plan through PEIA; however, the District has qualifying retirees who are eligible to participate in a retiree plan due to prior service. As a result of being a non-participating entity, the District does not have covered payroll associated with its liability.

The financial activities of PEIA's OPEB plan are accounted for by the West Virginia Retiree Health Benefit Trust (RHBT). The plan provides retiree group medical and prescription drug coverage. The RHBT issues a publically available financial report that includes financial statements and required supplementary information for RHBT. That report and details regarding this plan can be obtained by contacting Public Employees Insurance Agency, 601 57th Street Southeast, Suite 2, Charleston, West Virginia 25304-2345 or by calling 1-888-680-7342.

*Funding Policy.* GASB Statement 45 does not mandate the prefunding of postemployment benefits liability. The District currently funds these benefits on a pay-as-you-go basis. No assets have been segregated and restricted to provide postemployment benefits.

The District's OPEB cost is a calculated annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded liabilities over a period of thirty (30) years. As of July 1, 2010, the most recent actuarial date, the Plan was not funded. The following tables illustrate the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, changes in the net OPEB obligation, and funding progress. For the fiscal years ended June 30:

	<u>2012</u>	<u>2011</u>
Normal cost	\$ 7,686	\$ 7,686
Amortization of unfunded	53,875	53,875
Interest	230	230
Annual required contribution	<u>\$ 61,791</u>	<u>\$ 61,791</u>
Annual required contribution	\$ 61,791	\$ 61,791
Interest on net OPEB obligation	-	-
Adjustment to annual required contribution	-	-
Annual OPEB cost	61,791	61,791
Contributions made	<u>(4,644)</u>	<u>(7,024)</u>
Increase in net OPEB obligation	57,147	54,767
Net OPEB obligation - beginning of year	107,701	52,934
Net OPEB obligation - end of year	<u>\$ 164,848</u>	<u>\$ 107,701</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2012 thru 2010:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation- End of year</u>
2012	\$ 61,791	7.52%	\$ 164,848
2011	\$ 61,791	11.37%	\$ 107,701
2010	\$ 61,791	14.33%	\$ 52,934

The requirements of GASB State No. 45 have been implemented prospectively. Because this was the year of transition, the previous illustration does not contain similar information for the two preceding years.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

**OTHER POST-EMPLOYMENT BENEFITS (Continued)**

Actuarial valuations of an ongoing plan involves estimates of the value of reported amounts and assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, is meant to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. However, because June 30, 2011 was the year of transition and the requirements of GASB Statement No. 45 have been implemented prospectively, the schedule of funding progress does not contain information for the two preceding years.

Projection of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefits costs between the District and plan members at that point. The actuarial methods and assumptions used included techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Significant methods and assumptions were as follows:

Actuarial valuation date	July 1, 2010
Actuarial cost method	Projected unit credit method
Amortization method	Level dollar
Remaining amortization period	30 years
Actuarial assumptions:	
Investment rate of return	3%
Projected salary increases	Not applicable
Healthcare inflation rate	1.5% - 7.0%

**RECLASSIFICATIONS**

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

**RESTATEMENT**

During the fiscal year ended June 30, 2012, the District discovered it had not reflected in it's records inventory that had been capitalized and recorded as construction in progress during the fiscal year ended June 30, 2011. The net assets for the year ended June 30, 2011 have been restated to correct the error and to reflect the correct inventory asset and operating expense. The effect of this restatement was to decrease inventory at June 30, 2011 and increase operating expense for the fiscal year ended June 30, 2011 by \$51,409. The net asset balance previously reported was \$58,940,834 and was restated to \$58,889,423.

The following financial statement line items were restated as of June 30, 2011:

	Amount Previously <u>Reported</u>	Amount As <u>Restated</u>	<u>Adjustments</u>
Balance sheet			
Inventory	\$ 372,744	\$ 321,336	\$ <u>(51,408)</u>
Statement of revenues, expenses, and changes in net assets			
Operating expenses	5,221,518	5,272,926	<u>51,408</u>
Total adjustment to net assets at June 30, 2011			\$ <u>(51,408)</u>

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2012 and 2011

**SUBSEQUENT EVENTS**

During August 2012, the PSC ruled that the District was no longer allowed to continue to collect CIF's after May 30, 2012, and that CIF's collected from May 31, 2012 through present were to be refunded. The District collected \$242,618 in CIF's after May 30, 2012. These funds were held in a separate account, and were refunded to the respective customers prior to August 31, 2012.

**REQUIRED SUPPLEMENTAL INFORMATION**

Berkeley County Public Service Water District

**SCHEDULE OF FUNDING PROGRESS**

For the year ended June 30, 2012

**POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS**

**Schedule of Funding Progress - Other Post Employment Benefits**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b) - (a)</u>	<u>Funded Ratio (a)/(b)</u>	<u>Covered Payroll</u>	<u>UAAL as Percentage of Covered Payroll</u>
07/01/09	\$ -	\$ 108,394	\$ 108,394	N/A	N/A	N/A

**Schedule of Employer Contributions - Other Post Employment Benefits**

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>
2012	\$ 61,791	7.52%
2011	\$ 61,791	11.37%
2010	\$ 61,791	14.33%

Because last was the year of transition and the requirements of GASB State No. 45 have been implemented prospectively, the schedule of funding progress and the schedule of employer contributions for other post employment benefits do not contain similar information for the two proceeding years.

The District has not prefunded the postemployment benefit liability. No assets have been segregated and restricted to provide post employment benefits. Additionally, because the District is considered a "non-participating" employer, the schedule of funding progress does not contain amounts for covered payroll or UAAL as a percentage of covered payroll.

See independent auditors' report.

Berkeley County Public Service Water District

**BUDGETARY COMPARISON SCHEDULE**

For the year ended June 30, 2012

	<u>Budgeted Amounts (Original)</u>	<u>Budgeted Amounts (Final)</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Budget to GAAP Differences Over (under)</u>	<u>Actual Amounts GAAP Basis</u>
<b>OPERATING REVENUES</b>					
Metered water sales - domestic	\$ 7,132,400	\$ 7,132,400	\$ 6,708,347	\$ -	\$ 6,708,347
- commercial	1,724,000	1,724,000	1,632,728	-	1,632,728
- industrial	686,000	686,000	622,693	-	622,693
- governmental	152,000	152,000	131,278	-	131,278
Customers' forfeited discounts and penalties	202,600	202,600	207,747	-	207,747
Other operating income	477,400	477,400	487,957	-	487,957
Refunds and reimbursements	<u>361,000</u>	<u>361,000</u>	<u>55,789</u>	(F) <u>(55,789)</u>	<u>-</u>
Total operating revenues	10,735,400	10,735,400	9,846,539	(55,789)	9,790,750
<b>OPERATING EXPENSES</b>					
Operating income before depreciation	<u>5,296,000</u>	<u>5,296,000</u>	<u>5,340,489</u>	<u>-</u>	<u>5,340,489</u>
Operating income before depreciation	5,439,400	5,439,400	4,506,050	(55,789)	4,450,261
<b>DEPRECIATION</b>					
Operating income	<u>-</u> (A)	<u>-</u>	<u>-</u>	<u>3,663,101</u>	<u>3,663,101</u>
Operating income	5,439,400	5,439,400	4,506,050	(3,718,890)	787,160
<b>NON-OPERATING INCOME (EXPENSE)</b>					
Interest income	29,300	29,300	5,331 (G)	34,038	39,369
Interest expense	- (B)	-	-	(2,874,989)	(2,874,989)
Amortization	- (A)	-	-	(134,257)	(134,257)
Gain on disposal of utility plant	<u>-</u> (A)	<u>-</u>	<u>-</u>	<u>5,877</u>	<u>5,877</u>
Total non-operating income (expenses)	<u>29,300</u>	<u>29,300</u>	<u>5,331</u>	<u>(2,969,331)</u>	<u>(2,964,000)</u>
Increase in net assets before capital contributions	<u>5,468,700</u>	<u>5,468,700</u>	<u>4,511,381</u>	<u>(6,688,221)</u>	<u>(2,176,840)</u>
<b>CAPITAL CONTRIBUTIONS</b>					
Capital contributions	<u>640,000</u> (H)	<u>640,000</u>	<u>874,714</u>	<u>793,583</u> (A)	<u>1,668,297</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Renewal and replacement funds	473,040 (C)	473,040	240,037 (F)	(240,037)	-
Debt service	(4,213,100) (D)	(4,213,100)	(7,183,684) (F)	7,183,684	-
Capital improvements	<u>(1,137,040)</u> (E)	<u>(1,137,040)</u>	<u>(1,448,007)</u> (F)	<u>1,448,007</u>	<u>-</u>
Total other financing sources (uses)	<u>(4,877,100)</u>	<u>(4,877,100)</u>	<u>(8,391,654)</u>	<u>8,391,654</u>	<u>-</u>
Increase in net assets	1,231,600	1,231,600	(3,005,559)	2,497,016	(508,543)
Net assets at beginning of year	<u>58,478,491</u>	<u>59,811,082</u>	<u>60,472,465</u>	<u>-</u>	<u>58,889,423</u>
Net assets at end of year	\$ <u>59,710,091</u>	\$ <u>61,042,682</u>	\$ <u>57,466,906</u>	\$ <u>2,497,016</u>	\$ <u>58,380,880</u>

NOTES

- (A) Non-cash items are not included for budgetary purposes.
- (B) Interest expense is included in Debt Service for budgetary purposes.
- (C) Tank maintenance fund transfers are also included for budgetary purposes.
- (D) Includes principal, interest, and funding of debt service and reserve funds. Also includes other debt payments, renewal and replacement funding, tank maintenance funding and developer refunds.
- (E) Amounts exclusive of improvements financed with bond proceeds which were not included for budgetary purposes.
- (F) Balance sheet transactions are excluded from revenues and expenses under GAAP.
- (G) Interest earned on debt service funds or other restricted assets are not included for budgetary purposes.
- (H) Capacity improvement fees only.

See independent auditors' report.

Berkeley County Public Service Water District

**BUDGETARY COMPARISON SCHEDULE**

For the year ended June 30, 2011

	<b>Budgeted Amounts (Original)</b>	<b>Budgeted Amounts (Final)</b>	<b>Actual Amounts Budgetary Basis Restated</b>	<b>Budget to GAAP Differences Over (under)</b>	<b>Actual Amounts GAAP Basis Restated</b>
<b>OPERATING REVENUES</b>					
Metered water sales - domestic	\$ 7,365,600	\$ 7,365,600	\$ 6,942,793	\$ -	\$ 6,942,793
- commercial	1,824,300	1,824,300	1,639,866	-	1,639,866
- industrial	655,800	655,800	659,048	-	659,048
- governmental	142,300	142,300	147,968	-	147,968
Customers' forfeited discounts and penalties	200,600	200,600	201,429	-	201,429
Other operating income	435,900	440,900	509,837	-	509,837
Refunds and reimbursements	<u>30,000</u>	<u>25,000</u>	<u>10,441</u>	(F) <u>(10,441)</u>	<u>-</u>
Total operating revenues	10,654,500	10,654,500	10,111,381	(10,441)	10,100,941
<b>OPERATING EXPENSES</b>					
Operating income before depreciation	<u>5,346,700</u>	<u>5,346,700</u>	<u>5,272,928</u>	<u>-</u>	<u>5,272,928</u>
Operating income before depreciation	5,307,800	5,307,800	4,838,452	(10,441)	4,828,013
<b>DEPRECIATION</b>					
Operating income	<u>-</u> (A)	<u>-</u>	<u>-</u>	<u>3,608,074</u>	<u>3,608,074</u>
Operating income	5,307,800	5,307,800	4,838,452	(3,618,515)	1,219,939
<b>NON-OPERATING INCOME (EXPENSE)</b>					
Interest income	37,500	37,500	4,912	(G) 70,783	75,695
Interest expense	- (B)	-	-	(2,954,156)	(2,954,156)
Amortization	- (A)	-	-	(134,257)	(134,257)
Gain on disposal of utility plant	<u>-</u> (A)	<u>-</u>	<u>-</u>	<u>13,760</u>	<u>13,760</u>
Total non-operating income (expenses)	<u>37,500</u>	<u>37,500</u>	<u>4,912</u>	<u>(3,003,870)</u>	<u>(2,998,958)</u>
Increase in net assets before capital contributions	<u>5,345,300</u>	<u>5,345,300</u>	<u>4,843,364</u>	<u>(6,622,385)</u>	<u>(1,779,019)</u>
<b>CAPITAL CONTRIBUTIONS</b>	<u>890,000</u> (H)	<u>890,000</u>	<u>874,714</u>	<u>490,797</u> (A)	<u>1,365,511</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Renewal and replacement funds	266,000 (C)	266,000	244,851	(F) (244,851)	-
Debt service	(4,311,000) (D)	(4,311,000)	(4,160,970)	(F) 4,160,970	-
Capital improvements	<u>(1,682,150)</u> (E)	<u>(1,682,150)</u>	<u>(632,426)</u> (F)	<u>632,426</u>	<u>-</u>
Total other financing sources (uses)	<u>(5,727,150)</u>	<u>(5,727,150)</u>	<u>(4,548,545)</u>	<u>4,548,545</u>	<u>-</u>
Increase in net assets	508,150	508,150	1,169,533	(1,583,043)	(413,508)
Net assets at beginning of year	<u>57,970,341</u>	<u>59,302,932</u>	<u>59,302,932</u>	<u>-</u>	<u>59,302,931</u>
Net assets at end of year	\$ <u>58,478,491</u>	\$ <u>59,811,082</u>	\$ <u>60,472,465</u>	\$ <u>(1,583,043)</u>	\$ <u>58,889,423</u>

NOTES

- (A) Non-cash items are not included for budgetary purposes.
- (B) Interest expense is included in Debt Service for budgetary purposes.
- (C) Tank maintenance fund transfers are also included for budgetary purposes.
- (D) Includes principal, interest, and funding of debt service and reserve funds. Also includes other debt payments, renewal and replacement funding, tank maintenance funding and developer refunds.
- (E) Amounts exclusive of improvements financed with bond proceeds which were not included for budgetary purposes.
- (F) Balance sheet transactions are excluded from revenues and expenses under GAAP.
- (G) Interest earned on debt service funds or other restricted assets are not included for budgetary purposes.
- (H) Capacity improvement fees only.

See independent auditors' report.

## **SUPPLEMENTAL INFORMATION**

Berkeley County Public Service Water District

**SCHEDULES OF OPERATING EXPENSES**

For the years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Source of supply expenses		
Maintenance of sources of supply	\$ 27,860	\$ 39,233
Operation supervision and labor	23,780	17,243
Water purchased	295,659	292,227
Miscellaneous expenses	76,214	152,515
Rents	7,796	8,290
Total	<u>431,309</u>	<u>509,509</u>
Pumping system expenses		
Power purchased	430,145	429,691
Pumping supervision and labor	265,244	273,033
Maintenance of pumping system	154	15
Total	<u>695,543</u>	<u>702,739</u>
Treatment expenses		
Operation supervision and labor	203,060	192,598
Chemical treatment	216,222	193,559
Miscellaneous expenses	112,308	47,050
Maintenance of treatment system	90,475	73,649
Total	<u>622,065</u>	<u>506,857</u>
Transmission and distribution expenses		
Miscellaneous expenses	92,473	95,788
Maintenance of distribution mains	774,739	803,940
Rent - building and equipment	34,667	27,500
Rent - railroad right of way	5,200	4,050
Total	<u>907,079</u>	<u>931,279</u>
Customers' accounting and collection expenses		
Meter reading	54,651	56,453
Accounting and collection	465,187	421,475
Total	<u>519,838</u>	<u>477,929</u>
General and administrative expenses		
Salaries and wages	632,055	597,356
Office and general supplies	18,118	39,215
Outside services	94,506	98,234
Employee welfare	914,789	899,171
Regulatory commission expense	27,590	29,749
Insurance	145,840	142,666
Miscellaneous expenses	134,487	133,702
Maintenance of equipment	41,229	41,496
Payroll taxes	156,041	163,025
Total	<u>2,164,655</u>	<u>2,144,615</u>
Total operating expenses	<u>\$ 5,340,489</u>	<u>\$ 5,272,926</u>

See independent auditors' report.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Members of the Public Service Board  
Berkeley County Public Service Water District

We have audited the financial statements of the business-type activities of the Berkeley County Public Service Water District ("District") as of and for the years ended June 30, 2012 and 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 4, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, described as 2012-1 in the accompanying Schedule of Findings and Response.

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

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

*CoxHollidaPrice LLP*

Martinsburg, WV

October 4, 2012

Berkeley County Public Service Water District

**SCHEDULE OF FINDINGS AND RESPONSES**

For the year ended June 30, 2012

**Compliance**

During the testing of compliance with laws, regulations and agreements, we noted the following:

2012-1 Condition: District did not maintain rates established at a sufficient level to enable a bond coverage ratio of 120% for revenue bonds. The June 30, 2012 revenue bond coverage ratio is 115%.

Criteria: Revenue bond covenants require a minimum coverage ratio of 120% of amount required to pay the highest succeeding fiscal year debt service (principal and interest) on all revenue bonds outstanding after payment of operating expenses.

Effect: Coverage ratio is less than mandated by bond covenants.

Recommendation: We recommend that the District maintain rates established at a level sufficient to provide a minimum coverage ratio of 120%.

Response: We concur with the recommendation. The District has established procedures to calculate this requirement on a quarterly basis. Calculations prepared for the six months ended December 31, 2011 and the nine months ended March 31, 2012 demonstrated compliance with this requirement. An unexpected decline in water usage during the fourth quarter of the fiscal year resulted in violation of this covenant. The District plans to file a Rule 42 Exhibit with the Public Service Commission of West Virginia to request a rate increase sufficient to provide a minimum coverage ratio of 120% within sixty days of the receipt of the audit report.