



FINANCIAL STATEMENTS

For the years ended June 30, 2013 and 2012



CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION	3-4
MANAGEMENT'S DISCUSSION & ANALYSIS	5-10
FINANCIAL STATEMENTS	
Balance sheets	11-12
Statements of revenues, expenses and changes in net position	13
Statements of cash flows	14
Notes to financial statements	15-32
REQUIRED SUPPLEMENTAL INFORMATION	
Schedule of funding progress	34
Budgetary comparison schedules	35-36
SUPPLEMENTAL INFORMATION	
Schedules of operating expenses	38
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	39-40
SCHEDULE OF REPORTABLE FINDINGS AND RESPONSES	41
SCHEDULE OF PRIOR REPORTABLE FINDINGS AND RESPONSES	42

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



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, 2013, and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, OPEB, and budgetary comparison information on pages 5-10 and 35-37 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.

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 supplemental schedules of operating expense on page 39 are presented for purposes of additional analysis and is not a required part of the financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedules of operating expenses 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 combining and individual nonmajor fund financial statements are fairly stated, in all

CoxHollidaPrice LLP

Martinsburg, WV

September 24, 2013

**BERKELEY COUNTY PUBLIC SERVICE WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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, 2013. 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 position decreased by \$1.54 million, or 2.64% as a result of this year's operations.
- Total operating revenues increased to \$9.95 million or 1.61% in FY2013 and operating expenses decreased 0.60%.
- The District's capital contributions decreased by \$1.2 million to \$0.47 million, a 72.05% decrease from last year.

District highlights

- The following projects remain as work-in-progress.
 - *Large Diameter Water Mains*
 - *Operations Center Construction*
 - *Potomac Station Well Pumps & Raw Water Main*
- The District completed \$0.86 million of water capital improvement projects including Architectural Design of Buildings and Cotta Lane water main extension.
- There were 0.92 miles of water mains added to the water distribution system of the District during the year. 0.80 miles were installed by developers (estimated cost \$0.25 million) who subsequently transferred ownership to the District.
- The number of metered customers served by the District increased from 20,053 to 20,579 or an increase of 2.6%. 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 position decreased by \$1.54 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

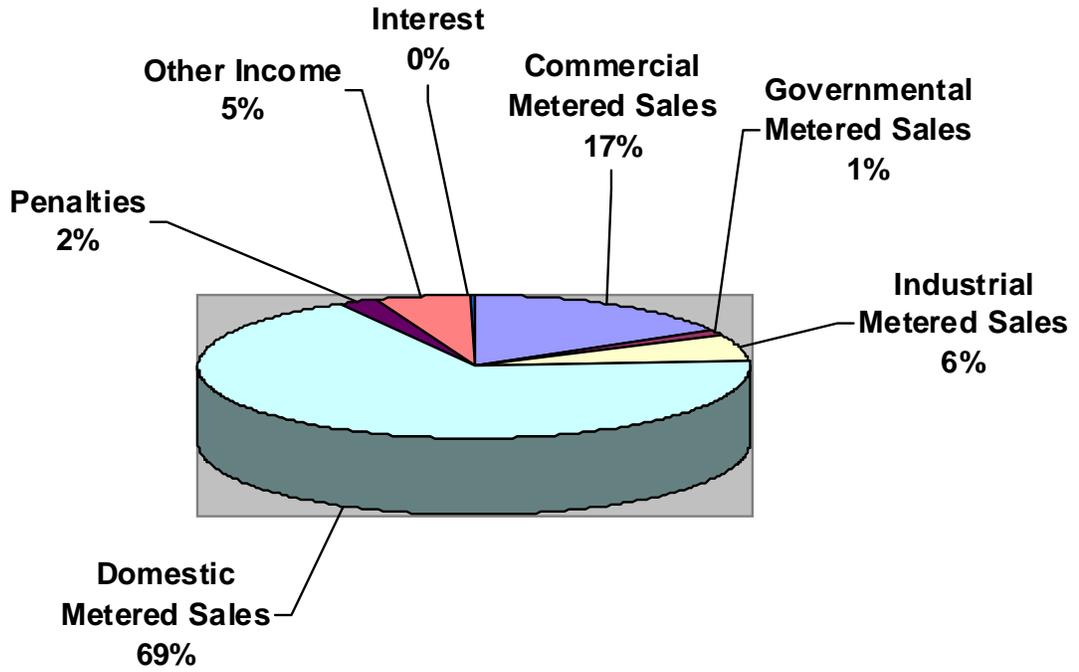
	<u>2013</u>	<u>2012</u>
Capital assets	\$110,064,169	\$ 108,108,749
Current and other assets	<u>19,337,479</u>	<u>15,370,144</u>
Total assets	<u>129,401,648</u>	<u>123,478,893</u>
Long-term debt outstanding	56,748,128	62,168,785
Other liabilities	<u>15,811,063</u>	<u>2,929,226</u>
Total liabilities	<u>72,559,191</u>	<u>65,098,011</u>
Net position:		
Invested in capital assets, net of debt	41,322,215	46,009,783
Restricted	13,502,404	11,092,355
Unrestricted	<u>2,017,838</u>	<u>1,278,745</u>
Total net position	\$ <u>56,842,457</u>	\$ <u>58,380,882</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.

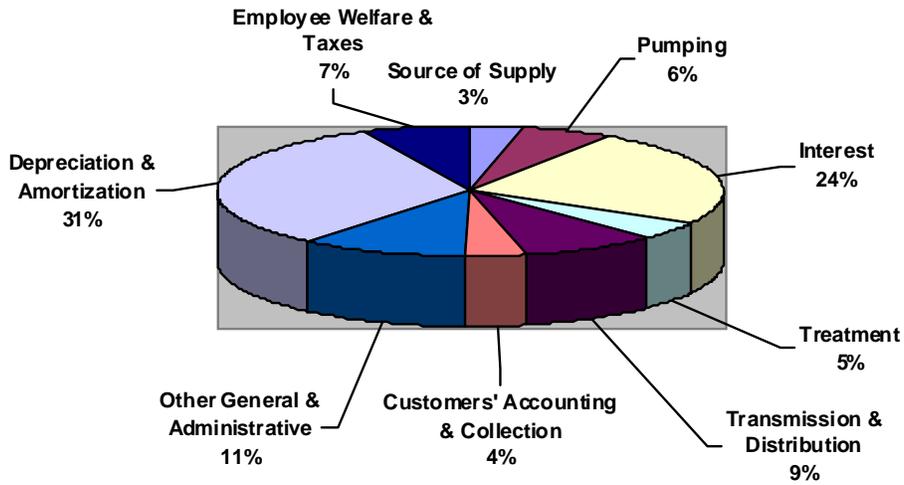
Table 2

	<u>2013</u>	<u>2012</u>
Net operating revenues	\$ 9,948,659	\$ 9,790,750
Interest income	<u>35,207</u>	<u>39,369</u>
Total revenues	<u>9,983,866</u>	<u>9,830,119</u>
Operating expenses	5,308,497	5,340,489
Interest expense	2,848,586	2,874,989
Other (income) expenses	134,781	128,380
Depreciation	<u>3,696,664</u>	<u>3,663,101</u>
Total expenses	<u>11,988,528</u>	<u>12,006,959</u>
Excess of revenues over expenses	(2,004,662)	(2,176,840)
Capital contributions	<u>466,239</u>	<u>1,668,297</u>
Change in net assets	(1,538,423)	(508,543)
Net position at beginning of year	<u>58,380,880</u>	<u>58,889,423</u>
Net position at end of year	\$ <u>56,842,457</u>	\$ <u>58,380,880</u>

2013 Revenues by Source



2013 Expenses by Function



Total operating revenues reflect a 1.61 % increase in 2013 compared to 2012 due mainly to the increase in water consumption by growth in the number of Residential (Domestic) customers. Interest income was less in 2013 because the District had fewer funds to invest compared to the year before as well as a continued decline in interest rates.

Operating expenses decreased by approximately 0.60 % in 2013 compared to 20112 due primarily to tight budget controls.

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 \$11,354,400 for FY 2012/2013 on May 29, 2012. 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 except Public Authority did not meet projections. There are more than three percent of residential properties served by the District that are currently vacant. As other water utilities have experienced nationally we have seen an increased emphasis in conserving water. Interest Income was less than anticipated. Lastly, the amount of funds expended on Capital Improvements was greater than the budget due to the completion of architectural and engineering designs on several proposed capital projects.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

At the end of the 2013 Fiscal Year, the District had \$110 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 increase (including additions and deductions) of \$1.96 million, or 1.81 % 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, 2013 and 2012.

Table 3

	<u>2013</u>	<u>2012</u>
Land and Land Improvements	\$ 1,449,610	\$ 1,452,909
Utility Plant and equipment	47,135,539	47,872,716
Water lines, meters and hydrants	53,400,645	54,576,255
Office equipment and furniture	128,166	133,400
Vehicles	1,588,916	1,662,202
Shop and garage equipment	547,942	515,603
Construction work in progress	<u>5,813,351</u>	<u>1,896,664</u>
Net utility plant	<u>\$110,064,169</u>	<u>\$108,108,749</u>

This year's major additions included:

- Water distribution system upgrades \$.10 million
- Water plant Improvements \$.06 million
- Other capital construction projects \$.08 million
- Purchase of equipment, vehicles, meters and computers \$.22 million

The District awarded professional design contracts for the following projects:

in FY 2012

- None

in FY 2013

- None

The District's 2014 capital budget plans for investing \$0.87 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, 2013 and 2012

ASSETS

	<u>2013</u>	<u>2012</u>
CURRENT ASSETS		
Cash and temporary investments	\$ 514,403	\$ 289,825
Accounts receivable - customers (net of allowance of \$42,000 and \$45,000, respectively)	1,600,259	1,479,244
Inventory	165,495	171,268
Other current assets	<u>140,726</u>	<u>113,480</u>
Total current assets	<u>2,420,883</u>	<u>2,053,817</u>
RESTRICTED ASSETS		
Debt service funds	1,958,475	1,860,035
Debt service reserve funds	4,540,886	3,838,416
Construction funds	5,984,435	3,746,116
Renewal and replacement funds	1,838,500	1,061,975
Customer deposits	460,323	433,888
Capacity improvement fees	<u>112,702</u>	<u>578,318</u>
Total restricted assets	<u>14,895,321</u>	<u>11,518,748</u>
Total current and restricted assets	<u>17,316,204</u>	<u>13,572,565</u>
UTILITY PLANT		
Utility plant in service	143,496,060	142,442,472
Construction in progress	5,813,351	1,896,664
Less accumulated depreciation	<u>(39,245,242)</u>	<u>(36,230,387)</u>
Net utility plant	<u>110,064,169</u>	<u>108,108,749</u>
OTHER ASSETS		
Unamortized debt issue expense	<u>2,021,275</u>	<u>1,797,579</u>
Total assets	<u>\$ 129,401,648</u>	<u>\$ 123,478,891</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 POSITION

For the years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES		
Metered water sales		
- domestic	\$ 6,807,245	\$ 6,708,347
- commercial	1,625,262	1,632,728
- industrial	613,455	622,693
- governmental	141,395	131,278
Customers' forfeited discounts and penalties	214,200	207,747
Other operating income	<u>547,102</u>	<u>487,957</u>
Total operating revenues	9,948,659	9,790,750
OPERATING EXPENSES	<u>5,308,497</u>	<u>5,340,489</u>
Operating income before depreciation	4,640,162	4,450,261
DEPRECIATION	<u>3,696,664</u>	<u>3,663,101</u>
Operating income	<u>943,498</u>	<u>787,160</u>
NON-OPERATING INCOME (EXPENSE)		
Interest income	35,207	39,369
Gain on disposal of utility plant	-	5,877
Interest expense	(2,848,586)	(2,874,989)
Amortization	<u>(134,781)</u>	<u>(134,257)</u>
Total non-operating expense	<u>(2,948,160)</u>	<u>(2,964,000)</u>
Decrease in net position before capital contributions	<u>(2,004,662)</u>	<u>(2,176,840)</u>
CAPITAL CONTRIBUTIONS	<u>466,239</u>	<u>1,668,297</u>
Decrease in net position	(1,538,423)	(508,543)
Net position at beginning of year	<u>58,380,880</u>	<u>58,889,423</u>
Net position at end of year	\$ <u>56,842,457</u>	\$ <u>58,380,880</u>

The accompanying notes are an integral part of this statement.

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 9,848,060	\$ 9,796,522
Cash payments for goods and services	(2,336,952)	(2,029,321)
Cash payments for employee services	<u>(3,104,043)</u>	<u>(3,015,940)</u>
Net cash provided by operating activities	<u>4,407,065</u>	<u>4,751,261</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	35,207	39,369
Maturities, redemptions and (purchases) of certificates of deposit (net)	<u>(204,782)</u>	<u>741,972</u>
Net cash used in investing activities	<u>(169,575)</u>	<u>781,341</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from revenue bonds payable	7,800,000	-
(Payments on) proceeds from line of credit (net)	(261,000)	261,000
Proceeds from utility plant disposal	-	7,055
Principal payments on revenue bonds payable	(1,447,997)	(1,261,137)
Principal payments on bond anticipation notes	-	(3,000,000)
Proceeds from capital lease payable	90,722	-
Principal payments on capital lease payable	(32,304)	(23,778)
Interest paid	(2,818,483)	(2,922,547)
Proceeds from (payments for) advances for construction-developers	426,157	(2,952)
Payments made for issuance costs	(358,477)	(61,923)
Acquisition and construction of capital assets	(4,092,406)	(1,448,007)
Payments received for service connections	21,150	9,900
Payments (made for) received for capital improvement fees	<u>(168,480)</u>	<u>874,714</u>
Net cash used in capital and related financing activities	<u>(841,118)</u>	<u>(7,567,675)</u>
Net increase (decrease) in cash and cash equivalents	<u>3,396,372</u>	<u>(2,035,073)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>10,513,594</u>	<u>12,548,667</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 13,909,966</u>	<u>\$ 10,513,594</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	\$ 943,498	\$ 787,160
Depreciation	3,696,664	3,663,101
Adjustments for changes in operating assets and liabilities:		
Receivables, net	(121,015)	1,126
Inventories	5,773	150,068
Other operating assets	(27,246)	(4,490)
Payables including trade and payroll	(69,723)	47,167
OPEB payable	(82,508)	57,147
Accrued expenses and other operating liabilities	<u>61,622</u>	<u>49,982</u>
Net cash provided by operating activities	<u>\$ 4,407,065</u>	<u>\$ 4,751,261</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Main line extensions contributed by developers	\$ <u>613,569</u>	\$ <u>783,679</u>
Revenue bonds refinanced	\$ <u>7,425,000</u>	\$ <u>-</u>

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

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 position (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 position.

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

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 Position

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, 2013 and 2012 was \$93,254 and \$65,746, 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, 2013 and 2012, 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, 2013 and 2012

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position (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 \$59,570 and \$74,085 at June 30, 2013 and 2012, respectively.

Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the District's balance 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 Position Classifications

Net position 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 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."

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, 2013 and 2012

CASH AND TEMPORARY INVESTMENTS

Cash and temporary investments consist of the following accounts and amounts at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Operation and maintenance	\$ 14,968	\$ 13,627
Other cash	900	2,131
Revenue fund – checking	268,131	143,391
Revenue fund – certificates of deposit	<u>230,404</u>	<u>130,676</u>
Total	<u>\$ 514,403</u>	<u>\$ 289,825</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 (WV PSC). Per order of the WV PSC, the District no longer collects these fees, but is still restricted in regard to use of previously collected fees still held on deposit.

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

DEPOSITS AND INVESTMENTS

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

<u>Investment Type</u>	<u>Maturities</u>	<u>Standard and Poor Credit Rating</u>	<u>Fair Value</u>
Repurchase Agreements	Daily		\$ 139,325
State Investment Pool	Average of 90 days	AA-	12,512,779
Total investments			12,652,104
Cash and Certificates of Deposit			<u>2,757,620</u>
Total Cash, Certificates of Deposit, and Investments			<u>\$ 15,409,724</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

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, 2013, \$923,199 of the District's bank balance of \$2,877,420 was exposed to custodial credit risk. Of the bank balance, \$1,429,885 was covered by Federal Deposit Insurance (FDIC). Of the remaining balance of \$1,447,535, \$862,457 was collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name, and 139,325 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.

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, 2013 and 2012.

Berkeley County Public Service Water District

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

CAPITAL ASSETS

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

	<u>Balance at</u> <u>July 01, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at</u> <u>June 30, 2012</u>
Capital assets not being depreciated:				
Construction work in progress	\$ 3,067,402	\$ 358,361	\$ 1,529,099	\$ 1,896,664
Land	<u>1,392,490</u>	<u>1,600</u>	<u>-</u>	<u>1,394,090</u>
Total not being depreciated	\$ <u>4,459,892</u>	\$ <u>359,961</u>	\$ <u>1,529,099</u>	\$ <u>3,290,754</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 and garage equipment	<u>1,328,397</u>	<u>150,386</u>	<u>8,534</u>	<u>1,470,249</u>
Total other capital assets	\$ <u>137,791,496</u>	\$ <u>3,401,412</u>	\$ <u>144,526</u>	\$ <u>141,048,382</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>

Berkeley County Public Service Water District

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

CAPITAL ASSETS (Continued)

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

	<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:				
Construction work in progress	\$ 1,896,664	\$ 4,663,338	\$ 746,651	\$ 5,813,351
Land	<u>1,394,090</u>	<u>-</u>	<u>-</u>	<u>1,394,090</u>
Total not being depreciated	\$ <u>3,290,754</u>	\$ <u>4,663,338</u>	\$ <u>746,651</u>	\$ <u>7,207,441</u>
Other capital assets:				
Land improvements	\$ 140,919	\$ -	\$ -	\$ 140,919
Utility plant and equipment	65,441,147	671,936	48,069	66,065,014
Water lines, meters and hydrants	70,845,044	941,423	582,078	71,204,389
Office equipment and furniture	422,474	15,888	41,157	397,205
Vehicles	2,728,549	26,633	-	2,755,182
Shop, garage, and other equipment	<u>1,470,249</u>	<u>79,517</u>	<u>10,505</u>	<u>1,539,261</u>
Total other capital assets	\$ <u>141,048,382</u>	\$ <u>1,735,397</u>	\$ <u>681,809</u>	\$ <u>142,101,970</u>
Less accumulated depreciation:				
Land improvements	\$ 82,104	\$ 3,295	\$ -	\$ 85,399
Utility plant and equipment	17,568,430	1,409,114	48,069	18,929,475
Water lines, meters and hydrants	16,268,789	2,117,033	582,078	17,803,744
Office equipment and furniture	289,074	21,122	41,157	269,039
Vehicles	1,066,347	99,919	-	1,166,266
Shop and garage equipment	<u>955,643</u>	<u>46,181</u>	<u>10,505</u>	<u>991,319</u>
Total accumulated depreciation	\$ <u>36,230,387</u>	\$ <u>3,696,664</u>	\$ <u>681,809</u>	\$ <u>39,245,242</u>
Net capital assets	\$ <u><u>108,108,749</u></u>	\$ <u><u>2,702,071</u></u>	\$ <u><u>746,651</u></u>	\$ <u><u>110,064,169</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, 2013 and 2012:

	<u>2013</u>	<u>2012</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;	\$ 423,874	\$ 433,616
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;	8,588	9,040

Berkeley County Public Service Water District

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

REVENUE BONDS PAYABLE (Continued)

	<u>2013</u>	<u>2012</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%;	\$ 8,305,985	\$ 8,484,498
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;	562,069	572,972
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;	1,780,339	1,807,581
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;	1,015,000	1,140,000
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;	1,619,663	1,728,241
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
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;	9,660,000	9,735,000

Berkeley County Public Service Water District

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

REVENUE BONDS PAYABLE (Continued)

	<u>2013</u>	<u>2012</u>
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.	6,645,000	6,940,000
Series 2012A water revenue bonds in the original amount of \$7,425,000, principal payable in annual installments at varying amounts and semi-annual interest at varying rates averaging 2.07%; interest payments beginning June 2013 at 1.00% and principal payments beginning December 2013 and concluding December 2024 including 2.38% interest;	7,425,000	-
Series 2012B water revenue bonds in the original amount of \$7,800,000, principal payable in annual installments at varying amounts and semi-annual interest at varying rates averaging 3.12%; interest payments beginning June 2013 at 1.00% and principal payments beginning December 2013 and concluding December 2032 including 3.25% interest;	<u>7,800,000</u>	<u>-</u>
	\$ <u>57,045,518</u>	\$ <u>50,490,948</u>

Berkeley County Public Service Water District

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

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, 2013 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 1,485,926	\$ 2,357,067
2015	1,532,698	2,311,405
2016	1,580,829	2,261,587
2017	1,635,404	2,207,144
2018	1,696,518	2,147,037
2019-2023	9,605,241	9,688,057
2024-2028	12,622,376	7,418,804
2029-2033	16,339,632	4,318,496
2034-2038	10,304,057	1,157,371
2039-2041	<u>242,837</u>	<u>14,282</u>
	\$ <u>57,045,518</u>	\$ <u>33,881,250</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, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at 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>

Berkeley County Public Service Water District

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

REVENUE BONDS PAYABLE (Continued)

	<u>Balance at</u> <u>July 01, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at</u> <u>June 30, 2013</u>
Water revenue bonds:				
Series B 1993	\$ 433,615	\$ -	\$ 9,742	\$ 423,873
Series C 1993	9,041	-	452	8,589
Series D 1993	8,484,498	-	178,513	8,305,985
Series 1996	572,972	-	10,903	562,069
Series 2001	1,807,581	-	27,242	1,780,339
Series B 2003	1,140,000	-	125,000	1,015,000
Series C 2003	1,728,241	-	108,578	1,619,663
Series 2004	7,840,000	-	7,840,000	-
Series 2006	9,735,000	-	75,000	9,660,000
Series 2007	2,300,000	-	-	2,300,000
Series 2008	9,500,000	-	-	9,500,000
Series 2009	6,940,000	-	295,000	6,645,000
Series 2012 A	-	7,425,000	-	7,425,000
Series 2012 B	-	7,800,000	-	7,800,000
Total water revenue bonds payable	\$ <u>50,490,948</u>	\$ <u>15,225,000</u>	\$ <u>8,670,430</u>	\$ 57,045,518
Less: Current portion due in upcoming year:				<u>1,485,926</u>
Long-term water revenue bonds payable at June 30, 2013 (net of current portion)				\$ <u>55,559,592</u>

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

	<u>2013</u>	<u>2012</u>
Actual coverage ratio	122%	115%
Required coverage ratio	120%	120%
Required annual additions to renewal and replacement fund	\$ 236,080	\$ 240,036
Required future debt service reserve	\$ 5,526,619	\$ 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, 2013 the District is in compliance with revenue bond required debt service coverage ratios. At June 30, 2012 the District was not in compliance with revenue bond required debt service coverage ratios.

During the fiscal year ended June 30, 2013, the District issued Series 2012A bonds to refinance the Series 2004 bonds. The District recognized a \$202,568 loss in relation to the refinance, to be amortized over the life of the new bonds issued.

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

BOND ANTICIPATION NOTE PAYABLE

The District is obligated under certain bond resolutions with respect to the following revenue bonds outstanding as of June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</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.	\$ 12,000,000	\$ 12,000,000

Maturities of bond anticipation note payable and interest payments for the year ending June 30, 2013 are \$12,000,000 and \$255,000, respectively.

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, 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>

	<u>Balance at July 01, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2013</u>
Long-term bond anticipation note payable:				
Series 2007	\$ <u>12,000,000</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>12,000,000</u>

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

	<u>2013</u>	<u>2012</u>
Actual coverage ratio	107%	102%
Required coverage ratio	100%	100%
Required annual additions to renewal and replacement fund	\$ 236,080	\$ 240,036
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, 2013 and 2012, 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, 2013 and 2012 was \$0 and \$261,000, respectively.

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

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.

On February 20, 2013, the District entered into a capital lease financing agreement with Branch Banking & Trust (BB&T). The amount financed was \$90,722, at an annual interest rate of 1.94%. Under the agreement, the District pays BB&T monthly principal and interest payments beginning March 20, 2013, and ending four years later on February 20, 2017. At the end of the lease, ownership of the leased equipment is transferred to the District for the sum of \$10.

Minimum future lease payments under capital leases as of June 30, 2013, for each of the next five years and in the aggregate, are:

2014	\$	81,020
2015		81,020
2016		81,020
2017		73,157
2018		57,430
2019-2023		287,151
2024-2028		287,151
2029-2032		<u>177,077</u>
Total minimum lease payments	\$	1,125,026
Less: amount representing interest		<u>285,381</u>
Present value of net minimum lease payments	\$	<u>839,645</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 four additional renewal periods, expiring April 30, 2014. The District has elected to exercise these annual options to continue the lease. The monthly rental rates for the current extension periods ending November 30, 2011 and April 30, 2014 (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, 2013 and 2012 was \$48,966 and \$45,388, respectively.

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

OPERATING LEASES (Continued)

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, 2013 and 2012 was \$35,556 and \$34,167, respectively .

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 2040, 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, 2013 and 2012 was \$147,439 and \$138,076, 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, 2014. Also included in this account are advanced payments received by the District of \$582,422 for payment for lines to be installed in developments. This is not expected to be completed during the next fiscal year ending June 30, 2014.

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 \$2,102,296, \$2,088,564, and \$2,044,948 for the years ended June 30, 2013, June 30, 2012 and 2011, 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 during fiscal year ended June 30, 2011) of its covered payroll. Total contributions made during the fiscal years ended June 30, 2011 through 2013 amounted to \$321,080, \$302,719, and \$388,835 respectively, of which \$96,324, \$87,887, and \$94,513 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, 2013 and 2012

CONSTRUCTION IN PROGRESS

At June 30, 2013, 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, 2013, 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, 2013, 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, 2013, expenditures totaling \$1,054,782 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, 2013, expenditures totaling \$140,874 had been incurred on this project, which is expected to cost approximately \$2,920,000 upon completion.

Project 962 relates to Potomac Station well pumps and raw water main. As of June 30, 2013, expenditures totaling \$1,188,536 had been incurred on this project, which is expected to cost approximately \$1,640,600 upon completion.

Project 963 relates to construction of an Operations Center to accommodate Distribution and Administrative personnel. As of June 30, 2013, expenditures totaling \$1,677,640 had been incurred on this project, which is expected to cost approximately \$5,317,400 upon completion.

Project 964 relates to water system capital improvements, namely the installation of 16" and 24" transmission mains. As of June 30, 2013, expenditures totaling \$1,672,027 had been incurred on this project, which is expected to cost approximately \$2,300,100 upon completion.

Project 803 relates to Bunker Hill townhomes 16" water main. As of June 30, 2013, expenditures totaling \$10,367 had been incurred on this project, which is expected to cost approximately \$223,000 upon completion.

Project 805 relates to water system capital improvements, namely the installation of 8" distribution mains per a West Virginia Public Service Commission Rule 5.5 agreement with DAR, LLC. As of June 30, 2013, expenditures totaling \$361 had been incurred on this project, which is expected to cost approximately \$423,000 upon completion.

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

MAINLINE EXTENSIONS

Included in the accompanying statements of revenues, expenses, and changes in net position 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 \$613,569 and \$785,694 for the years ended June 30, 2013 and 2012, respectively. Total capital contributions in the income statement consist of the following:

	<u>2013</u>	<u>2012</u>
Mainline extensions, hydrants, and services	\$ 613,569	\$ 785,694
Service connection fees	21,150	9,900
Capacity improvement fees (refunded)/collected	<u>(168,480)</u>	<u>872,703</u>
Total capital contributions	<u>\$ 466,239</u>	<u>\$ 1,668,297</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

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

	<u>2013</u>	<u>2012</u>
Operation and maintenance	\$ 15,868	\$ 15,775
Revenue fund	498,535	143,391
Debt service funds	1,958,475	1,860,035
Debt service reserve funds	4,540,886	3,838,416
Construction fund	5,984,435	3,746,116
Renewal and replacement fund	755,164	307,461
Security deposit funds	43,899	24,082
Capacity improvement fees	<u>112,702</u>	<u>578,318</u>
Total	<u>\$ 13,909,964</u>	<u>\$ 10,513,594</u>

The change in cash and cash equivalents by unrestricted and restricted designations consists of the following at June 30, 2013 and 2012:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
June 30, 2012	\$ 159,149	\$ 10,354,445	\$ 10,513,594
June 30, 2013	<u>283,999</u>	<u>13,625,965</u>	<u>13,909,964</u>
Increase (decrease) in cash and cash equivalents	<u>\$ 124,850</u>	<u>\$ 3,271,520</u>	<u>\$ 3,396,370</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 resulting from the adoption as follows:

<u>Fiscal Year</u>	<u>Long-term Liabilities</u>	<u>Related Expenses</u>
2013	\$ 82,340	\$ (82,508)
2012	164,848	61,791
2011	107,701	61,791

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

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, 2012, 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>2013</u>	<u>2012</u>
Normal cost	\$ 6,124	\$ 7,686
Amortization of unfunded	14,532	53,875
Interest	436	230
Annual required contribution	<u>\$ 21,092</u>	<u>\$ 61,791</u>
Annual required contribution	\$ 21,092	\$ 61,791
Interest on net OPEB obligation	2,078	-
Adjustment to annual required contribution	<u>(3,431)</u>	<u>-</u>
Annual OPEB cost	19,739	61,791
Contributions made	<u>(3,846)</u>	<u>(4,644)</u>
Increase in net OPEB obligation	15,893	57,147
Net OPEB obligation - beginning of year	164,848	107,701
Adjustment pursuant to current actuarial estimate	<u>(98,401)</u>	<u>-</u>
Net OPEB obligation - end of year	<u>\$ 82,340</u>	<u>\$ 164,848</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, 2013 thru 2011:

<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>
2013	\$ 21,092	18.23%	\$ 82,340
2012	61,791	7.52%	164,848
2011	61,791	11.37%	107,701

The requirements of GASB State No. 45 have been implemented prospectively.

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

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.

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, 2012
Actuarial cost method	Alternative measurement 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.

REQUIRED SUPPLEMENTAL INFORMATION

Berkeley County Public Service Water District

SCHEDULE OF FUNDING PROGRESS

For the year ended June 30, 2013

POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Schedule of Funding Progress - Other Post Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll	UAAL as Percentage of Covered Payroll
07/01/12	\$ -	\$ 293,372	\$ 293,372	N/A	N/A	N/A
07/01/09	-	108,394	108,394	N/A	N/A	N/A

Schedule of Employer Contributions - Other Post Employment Benefits

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed
2013	\$ 21,092	18.23%
2012	\$ 61,791	7.52%
2011	\$ 61,791	11.37%
2010	\$ 61,791	14.33%

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, 2013

	Budgeted Amounts (Original)	Budgeted Amounts (Final)	Actual Amounts Budgetary Basis	Budget to GAAP Differences Over (under)	Actual Amounts GAAP Basis
OPERATING REVENUES					
Metered water sales - domestic	\$ 7,132,400	\$ 7,132,400	\$ 6,807,245	\$ -	\$ 6,807,245
- commercial	1,756,000	1,756,000	1,625,262	-	1,625,262
- industrial	654,000	654,000	613,455	-	613,455
- governmental	137,200	137,200	141,395	-	141,395
Customers' forfeited discounts and penalties	206,000	206,000	214,200	-	214,200
Other operating income	475,400	475,400	547,102	-	547,102
Refunds and reimbursements	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	(F) <u>(5,000)</u>	<u>-</u>
Total operating revenues	10,366,000	10,366,000	9,953,659	(5,000)	9,948,659
OPERATING EXPENSES	<u>5,547,000</u>	<u>5,547,000</u>	<u>5,308,497</u>	<u>-</u>	<u>5,308,497</u>
Operating income before depreciation	4,819,000	4,819,000	4,645,162	(5,000)	4,640,162
DEPRECIATION	<u>-</u> (A)	<u>-</u>	<u>-</u>	<u>3,696,664</u>	<u>3,696,664</u>
Operating income	4,819,000	4,819,000	4,645,162	(3,701,664)	943,498
NON-OPERATING INCOME (EXPENSE)					
Interest income	16,400	16,400	2,587	(G) 32,620	35,207
Interest expense	-	-	-	(2,848,586)	(2,848,586)
Amortization	<u>-</u> (A)	<u>-</u>	<u>-</u>	<u>(134,781)</u>	<u>(134,781)</u>
Total non-operating income (expenses)	<u>16,400</u>	<u>16,400</u>	<u>2,587</u>	<u>(2,950,747)</u>	<u>(2,948,160)</u>
Increase in net position before capital contributions	<u>4,835,400</u>	<u>4,835,400</u>	<u>4,647,749</u>	<u>(6,652,411)</u>	<u>(2,004,662)</u>
CAPITAL CONTRIBUTIONS	<u>7,700</u> (H)	<u>7,700</u>	<u>(168,480)</u>	<u>634,719</u> (A)	<u>466,239</u>
OTHER FINANCING SOURCES (USES)					
Renewal and replacement funds	260,000	(C) 260,000	240,037	(F) (240,037)	-
Debt service	(4,717,000)	(D) (4,717,000)	(7,266,480)	(F) 7,266,480	-
Capital improvements	<u>(391,300)</u> (E)	<u>(391,300)</u>	<u>(4,092,406)</u> (F)	<u>4,092,406</u>	<u>-</u>
Total other financing sources (uses)	<u>(4,848,300)</u>	<u>(4,848,300)</u>	<u>(11,118,849)</u>	<u>11,118,849</u>	<u>-</u>
Increase in net position	(5,200)	(5,200)	(6,639,580)	5,101,157	(1,538,423)
Net position at beginning of year	<u>58,380,880</u>	<u>58,380,880</u>	<u>58,380,880</u>	<u>-</u>	<u>58,380,880</u>
Net position at end of year	\$ <u>58,375,680</u>	\$ <u>58,375,680</u>	\$ <u>51,741,300</u>	\$ <u>5,101,157</u>	\$ <u>56,842,457</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, 2012

	Budgeted Amounts (Original)	Budgeted Amounts (Final)	Actual Amounts Budgetary Basis Restated	Budget to GAAP Differences Over (under)	Actual Amounts GAAP Basis Restated
OPERATING REVENUES					
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
OPERATING EXPENSES					
	<u>5,296,000</u>	<u>5,296,000</u>	<u>5,340,489</u>	-	<u>5,340,489</u>
Operating income before depreciation	5,439,400	5,439,400	4,506,050	(55,789)	4,450,261
DEPRECIATION					
	<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
NON-OPERATING INCOME (EXPENSE)					
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 position 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>
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>
OTHER FINANCING SOURCES (USES)					
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 position	1,231,600	1,231,600	(3,005,559)	2,497,016	(508,543)
Net position at beginning of year	<u>58,889,423</u>	<u>58,889,423</u>	<u>58,889,423</u>	<u>-</u>	<u>58,889,423</u>
Net position at end of year	\$ <u>60,121,023</u>	\$ <u>60,121,023</u>	\$ <u>55,883,864</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.

SUPPLEMENTAL INFORMATION

Berkeley County Public Service Water District

SCHEDULES OF OPERATING EXPENSES

For the years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Source of supply expenses		
Maintenance of sources of supply	\$ 29,514	\$ 27,860
Operation supervision and labor	10,356	23,780
Water purchased	289,030	295,659
Miscellaneous expenses	81,687	76,214
Rents	<u>1,560</u>	<u>7,796</u>
Total	<u>412,147</u>	<u>431,309</u>
Pumping system expenses		
Power purchased	426,774	430,145
Pumping supervision and labor	246,849	265,244
Maintenance of pumping system	<u>13,163</u>	<u>154</u>
Total	<u>686,786</u>	<u>695,543</u>
Treatment expenses		
Operation supervision and labor	213,127	203,060
Chemical treatment	199,769	216,222
Miscellaneous expenses	108,027	112,308
Maintenance of treatment system	<u>46,817</u>	<u>90,475</u>
Total	<u>567,740</u>	<u>622,065</u>
Transmission and distribution expenses		
Operation supervision and labor	672,701	-
Miscellaneous expenses	129,880	92,473
Maintenance of distribution mains	180,870	774,739
Rent - building and equipment	48,966	34,667
Rent - railroad right of way	<u>4,025</u>	<u>5,200</u>
Total	<u>1,036,442</u>	<u>907,079</u>
Customers' accounting and collection expenses		
Meter reading	47,498	54,651
Accounting and collection	<u>419,813</u>	<u>465,187</u>
Total	<u>467,311</u>	<u>519,838</u>
General and administrative expenses		
Salaries and wages	645,968	632,055
Office and general supplies	39,219	18,118
Outside services	113,901	94,506
Employee welfare	807,457	914,789
Regulatory commission expense	31,272	27,590
Insurance	217,069	145,840
Miscellaneous expenses	106,356	134,487
Maintenance of equipment	5,295	41,229
Payroll taxes	<u>171,534</u>	<u>156,041</u>
Total	<u>2,138,071</u>	<u>2,164,655</u>
Total operating expenses	\$ <u>5,308,497</u>	\$ <u>5,340,489</u>

See independent auditors' report.

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



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

The Members of the Public Service Board
Berkeley County Public Service Water 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 Berkeley County Public Service Water District ("District"), as of and for the years ended June 30, 2013, and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 24, 2013.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Cox-Hollida-Price LLP

Martinsburg, WV

September 24, 2013

Berkeley County Public Service Water District

SCHEDULE OF FINDINGS AND RESPONSES

For the year ended June 30, 2013

Internal Control and Compliance

None noted

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 Corrected