

***Berkeley County
Public Service District***

FINANCIAL STATEMENTS

June 30, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

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

We have audited the accompanying financial statements of the business-type activities, of Berkeley County Public Service District ("District"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. The District's financial statements for the year ended June 30, 2013 were audited by other auditors whose report dated September 24, 2013 expressed an unqualified opinion.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 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. 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 opinion.

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 District as of June 30, 2014 and 2013, and the changes in financial position and cash flows 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, schedule of funding progress and budgetary comparison information on pages 5-11 and 34-36 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 an opinion on the financial statements that collectively comprise the Berkeley County Public Service District's basic financial statements. The supplemental information on page 38 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplemental schedules of operating expenses are 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, 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, this supplemental information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2014, on our consideration of the Berkeley County Public Service 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 in considering the District's internal control over financial reporting and compliance.

Decker & Company PLLC

September 16, 2014

Berkeley County Public Service District
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED

June 30, 2014

This discussion and analysis of the Berkeley County Public Service District's ("District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the Independent Auditor's Report on page 3 and 4 and the District's financial statements that begin on page 12.

HIGHLIGHTS

Financial highlights

The District's net position decreased by \$0.27 million, or 0.47%, as a result of this year's operations.

Operating revenues increased to \$11.02 million, or 10.73% in FY2014 and operating expenses increased 5.99%.

The District's capital contributions increased by \$0.61 million to \$1.08 million, a 130.81% increase from last year.

District highlights

The District completed a \$9.07 million of capital improvement projects, including the construction of an Operations Center, construction of 1.47 miles of large diameter water mains, and commissioning new groundwater well pumps and transmission main.

There were 4.05 miles of water mains added to the water distribution system during the year, of which 1.49 miles (estimated cost of \$0.70 million) were installed by developers who transferred ownership to the District.

The number of metered customers served by the District increased from 20,579 to 21,071, an increase of 2.39%. Steady growth continues to create a need for additional resources to efficiently maintain the water system.

The District issued \$12,775,000 in new revenue bonds to refinance the 2007 bond anticipation note. A rate increase of approximately 15.5% was approved by the West Virginia Public Service Commission to finance the Series 2013 revenue bonds. Although the District was not in compliance with its revenue bond required debt service coverage ratio as of June 30, 2014, the District believes that the rate increase will provide sufficient revenue to achieve compliance for the fiscal year ending June 30, 2015.

USING THIS ANNUAL REPORT

This annual report consists of three parts: Management's Discussions and Analysis, Financial Statements, and Required Supplemental Information. The Financial Statements also include notes that explain in more detail some of the information in the financial statements.

Berkeley County Public Service District

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED

June 30, 2014

USING THIS ANNUAL REPORT (continued)

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 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 **Statements of Revenues, Expenses, and Changes in Net Position**. This statement measures the success of the District's operations over the past year and can be used to determine 1) whether the District has successfully recovered all its costs through its user fees and other charges, 2) profitability, and 3) credit worthiness.

The Statements of Cash Flows provides information about the District's cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and noncapital financing activities. It also 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 year?".

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

One of the most important questions 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 Change in Net Position report information about the District's activities in a way that will help answer this question. These two statements report the net position of the District and changes in it. You can think of the District's net position (the difference between assets and liabilities) as one way to measure financial health or financial position. Over time, increases and decreases in the District's net position 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 \$0.27 million from last year. Our analysis below focuses on the District's net position (Table 1) and changes in net position (Table 2) during the year.

Berkeley County Public Service District
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED

June 30, 2014

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

<u>Table 1</u>	<u>2014</u>	<u>2013</u>
Capital assets (net)	\$ 112,608,258	\$ 110,064,169
Current and other assets	<u>14,564,667</u>	<u>19,273,062</u>
Total Assets	<u>\$ 127,172,925</u>	<u>\$ 129,337,231</u>
Long-term debt outstanding	\$ 67,391,442	\$ 56,748,128
Other liabilities	<u>3,270,582</u>	<u>15,811,063</u>
Total liabilities	<u>\$ 70,662,024</u>	<u>\$ 72,559,191</u>
Net Assets:		
Invested in capital assets, net of debt	\$ 45,123,718	\$ 41,322,215
Restricted	9,083,024	13,502,404
Unrestricted	<u>2,304,159</u>	<u>1,953,421</u>
Total net position	<u>\$ 56,510,901</u>	<u>\$ 56,778,040</u>

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

<u>Table 2</u>	<u>2014</u>	<u>2013</u>
Net operating revenues	\$ 11,016,247	\$ 9,948,659
Interest and other income	<u>31,299</u>	<u>35,207</u>
Total Revenues	<u>11,047,546</u>	<u>9,983,866</u>
Operating expenses	5,626,322	5,308,497
Interest expense	2,758,465	2,848,586
Other (income) expenses	177,855	134,781
Depreciation	<u>3,828,214</u>	<u>3,696,664</u>
Total expenses	<u>12,390,856</u>	<u>11,988,528</u>
Excess of revenues over expenses	(1,343,310)	(2,004,662)
Capital contributions	<u>1,076,171</u>	<u>466,239</u>
Change in net position	<u>(267,139)</u>	<u>(1,538,423)</u>
Net position at beginning of year	<u>56,778,040</u>	<u>58,316,463</u>
Net position at end of year	<u>\$ 56,510,901</u>	<u>\$ 56,778,040</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED**

June 30, 2014

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Total Operating Revenues reflect a 10.73% increase in 2014 compared to 2013 due mainly to the rate increase that became effective during the past year. Water sales also increased as a result of growth in the number of customer connections. Interest income was less in 2014 because the District had fewer funds to invest compared to the year before.

Operating expenses increased by approximately 5.99% in 2014 compared to 2013 due primarily to higher costs for power, chemicals, purchased water, maintenance, wages, and health insurance.

THE DISTRICT'S FUNDS

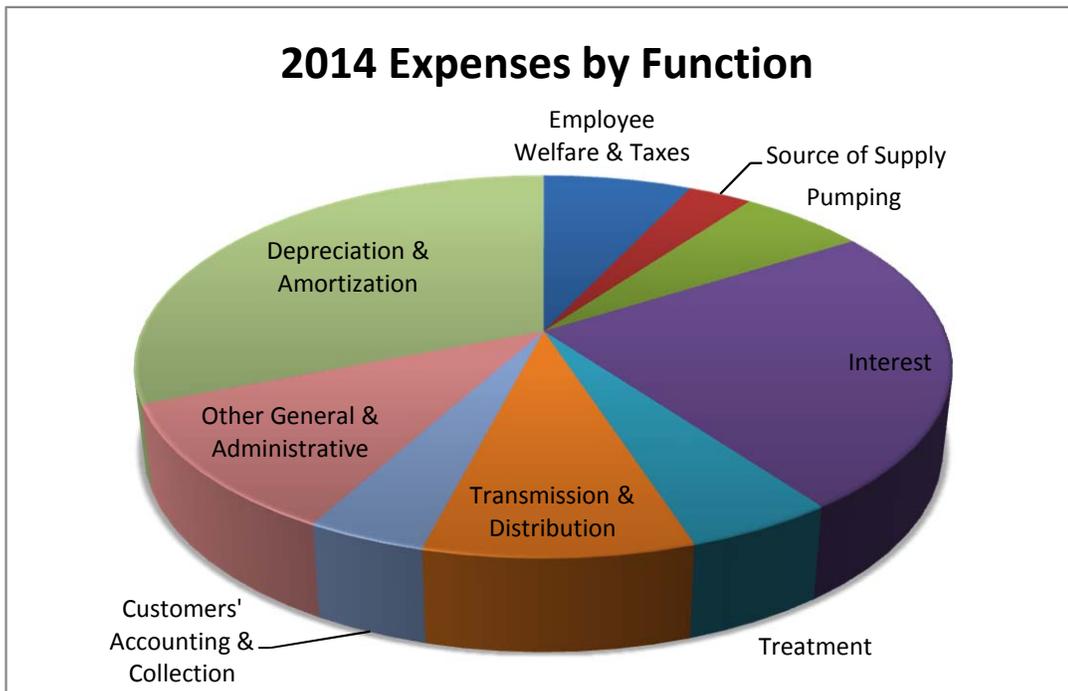
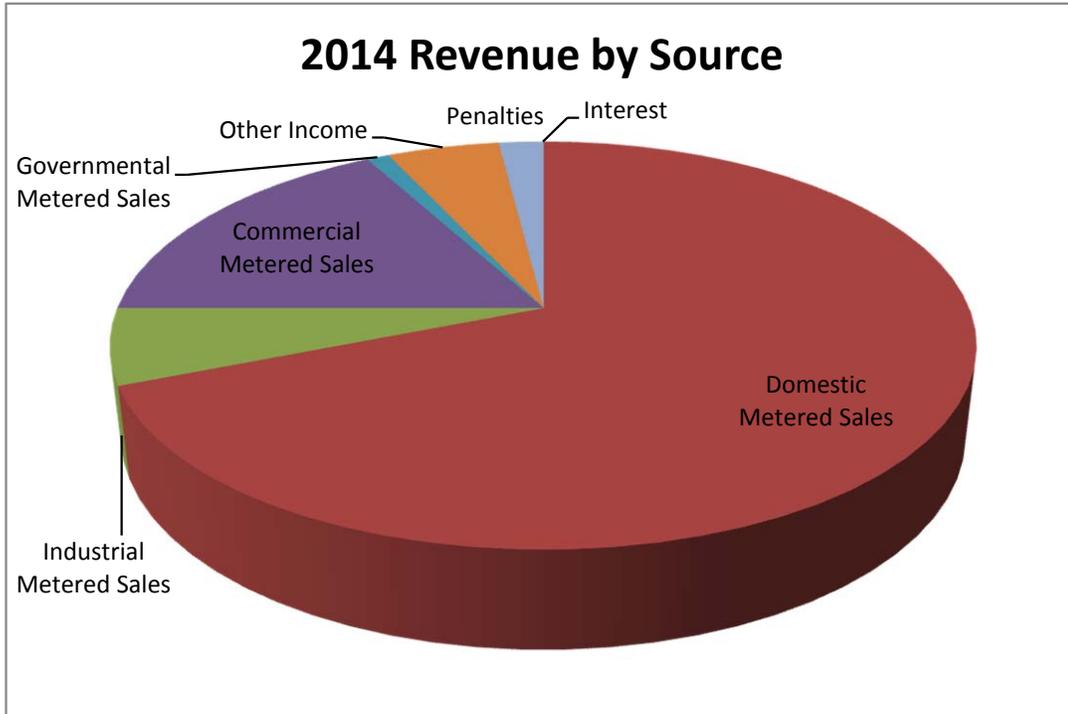
The District is operated as a proprietary or enterprise fund venture. As such the District operates **six** primary cash fund types. The **General Cash Fund** has been established since the District's inception to report charges to water customers and for services provided to them. The **Renewal and 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.

Budgetary highlights

The District's Board of Directors adopted the Operating Budget of \$11,746,300 for FY 2013/2014 on May 29, 2013. Major differences between budgeted and actual amounts per budgetary basis on the Budgetary Comparison Schedule on page 35 are as follows: Income from metered water sales of all customer categories except Industrial exceeded budget, resulting from the rate increase that went into effect earlier in the fiscal year than was anticipated; the refund from the West Virginia Municipal Bond Commission was greater than anticipated; with the higher revenue, the District had no need to borrow funds for daily operations; electricity and chemical costs for water treatment were greater than budgeted; less water was purchased than anticipated; the District moved into the new Operations Center earlier than expected, reducing rent expenses; and capital expenditures fell below budget because a planned water main project was postponed.

Berkeley County Public Service District
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED

June 30, 2014



Berkeley County Public Service District
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED

June 30, 2014

CAPTIAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2014 Fiscal Year, the District had \$112 million invested in a broad range of capital assets, including water treatment plants water transmission and distributions mains, water storage facilities, pump stations and pressure reducing stations. This amount represents a net increase (including additions and deductions) of \$2.53 million, or 2.30% over the 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, 2014 and 2013.

<u>Table 3</u>	<u>2014</u>	<u>2013</u>
Land	\$ 1,392,463	\$ 1,392,463
Source of supply & pumping plant	9,428,413	8,103,227
Water treatment plant	20,931,328	21,598,729
Transmission and distribution plant	73,546,849	71,348,923
General plant and equipment	6,960,971	1,807,472
Construction work in progress	<u>348,234</u>	<u>5,813,351</u>
 Net utility plant	 <u>\$ 112,608,258</u>	 <u>\$ 110,064,165</u>

This year's major additions included:

Source of supply & pumping plant	\$ 1.68 million
Water treatment plant	\$.00 million
Transmission and distribution plant	\$ 4.77 million
General plant and equipment	\$ 5.37 million

The District awarded professional design contracts for the following projects:

- FY 2013
- None
- FY 2014
- None

Berkeley County Public Service District
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED

June 30, 2014

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

The District's 2015 capital budget plans for investing \$0.87 million in capital additions and equipment, including the following:

- New equipment at water plants
- Service connections and meters
- Main line extensions and fire hydrants
- Water main and service line replacement
- Transportation equipment
- Tools and equipment
- Office furniture and equipment

Berkeley County Public Service District

Balance Sheets

June 30, 2014 and 2013

ASSETS

	<u>2014</u>	<u>2013</u>
CURRENT ASSETS		
Cash and temporary investments	\$ 543,201	\$ 514,403
Accounts receivable - customers (net of allowance for doubtful accounts of \$42,000 and \$42,000 respectively)	1,931,661	1,600,259
Inventory	234,659	165,495
Other current assets	<u>77,225</u>	<u>76,309</u>
Total current assets	<u>2,786,746</u>	<u>2,356,466</u>
RESTRICTED ASSETS		
Debt service funds	2,104,220	1,958,475
Debt service reserve funds	4,736,879	4,540,886
Construction funds	512,269	5,984,435
Renewal and replacement funds	1,715,530	1,838,500
Customer deposits	476,442	460,323
Capacity improvement fees	<u>-</u>	<u>112,702</u>
Total restricted assets	<u>9,545,340</u>	<u>14,895,321</u>
Total current and restricted assets	<u>12,332,086</u>	<u>17,251,787</u>
UTILITY PLANT		
Utility plant in service	154,673,875	143,496,060
Construction in progress	348,234	5,813,351
Less accumulated depreciation	<u>(42,413,851)</u>	<u>(39,245,242)</u>
Net utility plant	<u>112,608,258</u>	<u>110,064,169</u>
OTHER ASSETS		
Unamortized debt issue expense	<u>2,232,581</u>	<u>2,021,275</u>
Total assets	\$ <u>127,172,925</u>	\$ <u>129,337,231</u>

See accompanying notes and independent auditors' report.

Berkeley County Public Service District

BALANCE SHEETS (Continued)

June 30, 2014 and 2013

LIABILITIES

	<u>2014</u>	<u>2013</u>
CURRENT LIABILITIES (payable from current assets)		
Leases payable (due within one year)	\$ 51,987	\$ 51,553
Accounts payable	265,746	153,292
Accrued expenses	111,108	164,549
Accrued payroll taxes	<u>2,856</u>	<u>2,863</u>
 Total current liabilities (payable from current assets)	 <u>431,697</u>	 <u>372,257</u>
CURRENT LIABILITIES (payable from restricted assets)		
Advances for construction - developers	27,972	-
Revenue bonds payable (due within one year)	1,972,697	1,485,926
Bond anticipation notes payable (due within one year)	-	12,000,000
Accrued interest expense	375,900	559,962
Construction payables	-	946,108
Customer deposits	<u>462,316</u>	<u>446,810</u>
 Total current liabilities (payable from restricted assets)	 <u>2,838,885</u>	 <u>15,438,806</u>
 Total current liabilities	 <u>3,270,582</u>	 <u>15,811,063</u>
LONG-TERM LIABILITIES		
Advances for construction - developers	449,510	582,422
Leases payable	734,993	788,092
Net OPEB obligation	102,877	82,340
Revenue bonds payable	66,361,896	55,559,592
Less: unamortized deferred loss	<u>(257,834)</u>	<u>(264,318)</u>
 Total long-term liabilities	 <u>67,391,442</u>	 <u>56,748,128</u>
 Total liabilities	 <u>70,662,024</u>	 <u>72,559,191</u>
NET POSITION		
NET POSITION		
Invested in capital assets, net of related debt	45,123,718	41,322,215
Restricted for debt and construction	9,083,024	13,502,404
Unrestricted	<u>2,304,159</u>	<u>1,953,421</u>
 Total net position	 <u>56,510,901</u>	 <u>56,778,040</u>
 Total liabilities and net position	 \$ <u>127,172,925</u>	 \$ <u>129,337,231</u>

See accompanying notes and independent auditors' report.

Berkeley County Public Service District

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Metered water sales		
Domestic	\$ 7,656,378	\$ 6,807,245
Commercial	1,802,091	1,625,262
Industrial	608,609	613,455
Governmental	159,020	141,395
Customers' forfeited discounts and penalties	236,162	214,200
Other operating income	<u>553,987</u>	<u>547,102</u>
Total operating revenues	<u>11,016,247</u>	<u>9,948,659</u>
OPERATING EXPENSES	<u>5,626,322</u>	<u>5,308,497</u>
Operating income before depreciation	<u>5,389,925</u>	<u>4,640,162</u>
DEPRECIATION	<u>3,828,214</u>	<u>3,696,664</u>
Operating income	<u>1,561,711</u>	<u>943,498</u>
NON-OPERATING INCOME (EXPENSES)		
Interest earned	24,819	35,207
Gain on disposal of utility plant	6,480	-
Miscellaneous non-utility expense	(57,556)	-
Interest expense	(2,758,465)	(2,848,586)
Amortization	<u>(120,299)</u>	<u>(134,781)</u>
Total non-operating income (expense)	<u>(2,905,021)</u>	<u>(2,948,160)</u>
Decrease in net position before capital contributions	<u>(1,343,310)</u>	<u>(2,004,662)</u>
CAPITAL CONTRIBUTIONS	<u>1,076,171</u>	<u>466,239</u>
Decrease in net position	(267,139)	(1,538,423)
Net position at beginning of year as previously reported	56,778,040	58,380,880
Prior period adjustment - error in prepaid expenses	<u>-</u>	<u>(64,417)</u>
Net position at end of year	\$ <u>56,510,901</u>	\$ <u>56,778,040</u>

See accompanying notes and independent auditors' report.

Berkeley County Public Service District

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 10,700,351	\$ 9,848,060
Cash payments for goods and services	(2,712,362)	(2,336,952)
Cash payments for employee services	<u>(2,966,256)</u>	<u>(3,104,043)</u>
Net cash provided by operating activities	<u>5,021,733</u>	<u>4,407,065</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	24,819	35,207
Maturities, redemptions and (purchases) of certificates of deposit (net)	<u>(54,535)</u>	<u>(204,782)</u>
Net cash used in investing activities	<u>(29,716)</u>	<u>(169,575)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from revenue bond payable	12,775,000	7,800,000
(Payments on) proceeds from line of credit (net)	-	(261,000)
Proceeds from utility plant disposal	6,480	-
Principal payments on revenue bonds payable	(1,485,925)	(1,447,997)
Principal payments on bond anticipation notes	(12,000,000)	-
Proceeds from capital lease payable	-	90,722
Principal payments on capital lease payable	(52,665)	(32,304)
Interest paid	(2,943,373)	(2,818,483)
Proceeds from (payments for) advances for construction-developers	(104,940)	426,157
Payments on construction payable	(946,108)	-
Payments made for issuance cost	(331,605)	(358,477)
Acquisition and construction of capital assets	(5,304,851)	(4,092,406)
Payments received for service connections	20,250	21,150
Payments (made for) received for capital improvement fees	-	(168,480)
Net cash used in capital and related financing activities	<u>(10,367,737)</u>	<u>(841,118)</u>
Net increase in cash and cash equivalents	<u>(5,375,720)</u>	3,396,372
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>13,909,966</u>	<u>10,513,594</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 8,534,246</u>	<u>\$ 13,909,966</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	\$ 1,561,711	\$ 943,498
Depreciation	3,828,214	3,696,664
Adjustments for changes in operating assets and liabilities:		
Receivables, net	(331,402)	(121,015)
Inventories	(69,164)	5,773
Other operating assets	(916)	(27,246)
Payables including trade and payroll	50,688	(69,723)
OPEB payable	20,537	(82,508)
Accrued expenses and other operating liabilities	<u>(37,935)</u>	<u>61,622</u>
Net cash provided by operating activities	<u>\$ 5,021,733</u>	<u>\$ 4,407,065</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Main line extensions contributed by developers	\$ <u>1,055,921</u>	\$ <u>613,569</u>
Revenue bonds/bond anticipation note refinanced	\$ <u>12,000,000</u>	\$ <u>7,425,000</u>

See accompanying notes and independent auditors' report.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

GENERAL

The Berkeley County Public Service District ("District") is a public corporation created under the law 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 designated 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.

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.

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2014 and 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

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 principle ongoing operations. The principle 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 revenue 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 average cost 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 a straight-line method at various rates calculated to allocate the cost 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, 2014 and 2013 was \$132,370 and \$93,254, 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 estimated useful lives at June 30, 2014 and 2013, 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
Vehicle	5-10 years
Shop and garage equipment	5-25 years

Construction work in progress represents costs accumulated for the replacement of sections of the District's transmission and distribution systems, plan 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 vacation leave upon termination or retirement. The District accrues 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 \$53,677 and \$59,570 at June 30, 2014 and 2013, respectively.

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2014 and 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 of outstanding debt during the year.

Net Position Classifications

Net position is 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.

CASH AND TEMPORARY INVESTMENTS

Cash and temporary investments consists of the following accounts and amounts at June 30, 2014 and 2013:

	<u>2014</u>		<u>2013</u>
Operation and maintenance	\$ 5,583	\$	14,968
Other cash	900		900
Revenue fund - cash	334,705		268,131
Revenue fund - certificates of deposit	<u>202,013</u>		<u>230,404</u>
Total	<u>\$ 543,201</u>	\$	<u>514,403</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.

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2014 and 2013

RESTRICTED ASSETS

The debt service 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, 2014, 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		\$ 233,393
State Investment Pool	Average of 90 Days	AA-	<u>7,337,275</u>
Total investments			7,570,668
Cash and Certificates of Deposit			<u>2,517,873</u>
Total Cash, Certificates of Deposit, and Investments			\$ <u>10,088,541</u>

Credit Risk

State statues authorize the government to invest in the State Investment Pool or the Municipal Commissions or to invest such funds in the following classes of securities: Obligations of the United States or any agency thereof, certificates of deposit (which mature in less than one year), general and direct obligations of the state of West Virginia; obligations of the federal mortgage association; indebtedness secured by first lien deeds of trust for property situated within this state if the payment is substantially insured or guaranteed by the federal government; pooled mortgage trusts (subject to limitations); indebtedness of any private corporation that is properly graded as in the top two or three highest rating grades; interest earning deposits which are fully insured or collateralized; and mutual funds registered with the 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2014 and 2013

DEPOSITS AND INVESTMENTS (continued)

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

Custodial credit risk is the risk that in the event of a bank or counter party failure, the District will not be able to recover the value of its deposits, investments or collateral securities that are in possession of an outside party. The District does not have a formal deposit policy for custodial credit risk. As of June 30, 2014, \$1,788,200 of the District's bank balance of \$2,804,274 was exposed to custodial credit risk. Of the bank balance, \$1,201,920 was covered by Federal Deposit Insurance (FDIC). Of the remaining balance of \$1,602,354, \$1,368,961 was collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name, and \$233,393 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, 2014 and 2013.

Berkeley County Public Service District

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2014 and 2013

CAPITAL ASSETS

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

	<u>Balance at July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2013</u>
Capital assets not being depreciated:				
Construction 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, garage, and other 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>108,108,749</u>	 \$ <u>2,702,071</u>	 \$ <u>746,651</u>	 \$ <u>110,064,169</u>

Berkeley County Public Service District

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2014 and 2013

CAPITAL ASSETS (Continued)

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

	<u>Balance at July 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2014</u>
Capital assets not being depreciated:				
Construction in progress	\$ 5,813,351	\$ 4,904,594	\$ 10,369,711	\$ 348,234
Land	<u>1,392,463</u>	<u>-</u>	<u>-</u>	<u>1,392,463</u>
Total not being depreciated	<u>7,205,814</u>	<u>4,904,594</u>	<u>10,369,711</u>	<u>1,740,697</u>
Other capital assets:				
IP Organization	599	-	599	-
Source of supply & pumping plant	17,290,510	1,685,601	13,145	18,962,966
Water treatment plant	25,701,038	2,402	5,796	25,697,644
Transmission and distribution plant	95,141,971	4,769,443	426,521	99,484,893
General plant and equipment	<u>3,969,475</u>	<u>5,379,978</u>	<u>213,544</u>	<u>9,135,909</u>
Total other capital assets	<u>142,103,593</u>	<u>11,837,424</u>	<u>659,605</u>	<u>153,281,412</u>
Less accumulated depreciation:				
Source of supply & pumping plant	9,187,283	360,415	13,145	9,534,553
Water treatment plant	4,102,309	669,803	5,796	4,766,316
Transmission and distribution plant	23,793,048	2,571,517	426,521	25,938,044
General plant and equipment	<u>2,162,602</u>	<u>226,479</u>	<u>214,143</u>	<u>2,174,938</u>
Total accumulated depreciation	<u>39,245,242</u>	<u>3,828,214</u>	<u>659,605</u>	<u>42,413,851</u>
Net capital assets	\$ <u>110,064,165</u>	\$ <u>12,913,804</u>	\$ <u>10,369,711</u>	\$ <u>112,608,258</u>

REVENUE BONDS PAYABLE

The District is obligated under certain bond resolutions with respect to the following revenue bonds outstanding as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</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;	\$ 413,378	\$ 423,874
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;	8,136	8,588
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%;	8,115,421	8,305,985

Berkeley County Public Service District

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2014 and 2013

REVENUE BONDS PAYABLE (Continued)

	<u>2014</u>	<u>2013</u>
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%;	\$ 550,485	\$ 562,069
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;	1,751,516	1,780,339
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;	885,000	1,015,000
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;	1,505,657	1,619,663
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;	9,575,000	9,660,000
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;	2,245,000	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%;	9,500,000	9,500,000

Berkeley County Public Service District

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2014 and 2013

REVENUE BONDS PAYABLE (Continued)

	<u>2014</u>	<u>2013</u>
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%;	\$ 6,395,000	\$ 6,645,000
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;	6,840,000	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;	7,775,000	7,800,000
Series 2013A water revenue bonds in the original amount of \$9,900,000, principal payable in annual installments at varying amounts and semi-annual interest at varying rates averaging 3.95%; interest payments beginning June 2014 at 2.00% and principal payments beginning December 2014 and concluding December 2033 including 4.5% interest;	9,900,000	-
Series 2013B water revenue bonds in the original amount of \$2,875,000, principal payable in annual installments at varying amounts and semi-annual interest at varying rates averaging 3.04%; interest payments beginning June 2014 at 1.4% and principal payments beginning December 2014 and concluding December 2020 including 3.95% interest;	<u>2,875,000</u>	<u>-</u>
	\$ <u>68,334,593</u>	\$ <u>57,045,518</u>

Berkeley County Public Service District

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2014 and 2013

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, 2014 are as follows:

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,972,697	\$ 2,752,928	\$ 4,725,625
2016	2,030,829	2,696,060	4,726,889
2017	2,095,405	2,632,901	4,728,306
2018	2,166,518	2,561,789	4,728,307
2019	2,244,262	2,481,892	4,726,154
2020-2024	13,247,369	11,033,116	24,280,485
2025-2029	17,037,146	8,048,683	25,085,829
2030-2034	19,031,429	4,035,933	23,067,362
2035-2039	8,384,097	749,733	9,133,830
2040	<u>124,841</u>	<u>3,620</u>	<u>128,461</u>
Total	\$ <u>68,334,593</u>	\$ <u>36,996,655</u>	\$ <u>105,331,248</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 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2013</u>
Sewer 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	-	<u>7,800,000</u>	-	<u>7,800,000</u>
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>

Berkeley County Public Service District

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2014 and 2013

REVENUE BONDS PAYABLE (Continued)

	<u>Balance at July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2014</u>
Sewer revenue bonds:				
Series B 1993	\$ 423,873	\$ -	\$ 10,495	\$ 413,378
Series C 1993	8,589	-	453	8,136
Series D 1993	8,305,985	-	190,564	8,115,421
Series 1996	562,069	-	11,584	550,485
Series 2001	1,780,339	-	28,823	1,751,516
Series B 2003	1,015,000	-	130,000	885,000
Series C 2003	1,619,663	-	114,006	1,505,657
Series 2006	9,660,000	-	85,000	9,575,000
Series 2007	2,300,000	-	55,000	2,245,000
Series 2008	9,500,000	-	-	9,500,000
Series 2009	6,645,000	-	250,000	6,395,000
Series 2012 A	7,425,000	-	585,000	6,840,000
Series 2012 B	7,800,000	-	25,000	7,775,000
Series 2013 A	-	9,900,000	-	9,900,000
Series 2013 B	-	<u>2,875,000</u>	-	<u>2,875,000</u>
Total water revenue bonds payable	\$ <u>57,045,518</u>	\$ <u>12,775,000</u>	\$ <u>1,485,925</u>	\$ 68,334,593
Less: Current portion due in upcoming year:				<u>1,972,697</u>
Long-term water revenue bonds payable at June 30, 2014 (net of current portion)				\$ <u>66,361,896</u>

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

	<u>2014</u>	<u>2013</u>
Actual coverage ratio	115%	122%
Required coverage ratio	120%	120%
Required annual additions to renewal and replacement fund	\$ 275,375	\$ 236,080
Required future debt service reserve	\$ 4,729,626	\$ 5,526,619

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, 2014 the District is not in compliance with its revenue bond required debt service coverage ratio. However, with its recent rate increase of approximately 15.5%, the District anticipates being compliant with its required debt service coverage ratio starting in the fiscal year that ends June 30, 2015. At June 30, 2013 the District was in compliance with its revenue bond required debt service coverage ratio.

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. During the fiscal year ended June 30, 2014, the District issued Series 2013A and 2013B bonds to refinance the Series 2007 bond anticipation note. The District recognized a \$26,664 loss in relation to the refinance, to be amortized over the life of the new bonds issued.

Berkeley County Public Service District

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2014 and 2013

BOND ANTICIPATION NOTE PAYABLE

The District was obligated under certain bond resolutions with respect to the following revenue bonds outstanding as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</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. Refinanced with the 2013A and 2013B bonds.	\$ -	\$ 12,000,000

The bond anticipation note issue was 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 1, 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>

	<u>Balance at July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2014</u>
Long-term bond anticipation note payable:				
Series 2007	\$ <u>12,000,000</u>	\$ <u>-</u>	\$ <u>12,000,000</u>	\$ <u>-</u>

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

	<u>2013</u>
Actual coverage ratio	107%
Required coverage ratio	100%
Required annual additions to renewal and replacement fund	\$ 236,080
Required future debt service reserve	\$ 1,000,000

The above actual coverage ratio excludes the 2007 bond anticipation note principal. This issue was 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 was 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, 2014 and 2013 was \$0 and \$0, respectively.

Berkeley County Public Service District

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2014 and 2013

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, 2014, for each of the next five years in the aggregate, are:

<u>Year Ending June 30:</u>	
2015	\$ 81,020
2016	81,020
2017	73,157
2018	57,430
2019	57,430
2020-2024	287,151
2025-2029	287,151
2030-2032	<u>119,646</u>
Total minimum lease payments	1,044,005
Less: amount representing interest	<u>257,026</u>
Present value of net minimum lease payments	<u>\$ 786,979</u>

In addition to leasing the water distribution main, the District committed to purchase a minimum of 25,000 gallons of water per day from the City. Based on the City's tariff, the minimum purchase amount was \$33,150 for the year ended June 30, 2014.

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 purchase a minimum of 200,000 gallons of water per day 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 estimate 5.8% interest rate in effect over the term of this agreement (40 years). Based on the City's tariff, the minimum purchase amount was \$262,204 for the year ended June 30, 2014.

OPERATING LEASES

The District entered into an operating lease for administrative space on October 1, 2001. Rental expense charged to income for the years ended June 30, 2014 and 2013 was \$38,141 and \$48,966, respectively. This lease was terminated on March 31, 2014.

The District also entered into an operating lease for shop facilities on August 26, 2011. Rental expense for the years ended June 30, 2014 and 2013 was \$26,667 and \$35,556, respectively. This lease was terminated on March 31, 2014.

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2014 and 2013

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 2040, if all renewal periods are elected. Monthly rents related to these agreements range from \$600 - \$2,460. Non-operating rental income for the years ended June 30, 2014 and 2013 was \$169,949 and \$147,439, 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. Also included in this account are advanced payment received by the District as of June 30, 2014 and 2013 of \$477,482 and \$582,422, respectively. These are payment for lines to be installed in developments.

RETIREMENT PLAN

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

All full-time employees are eligible and must participate in the State PERS. The pension plan provides 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 \$2,097,238, \$2,102,296, and \$2,088,564 for the years ended June 30, 2014, 2013 and 2012, 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% of its covered payroll. Total contributions made during the fiscal years ended June 30, 2012 through 2014 amounted to \$302,719, \$388,835, and \$384,014 respectively, of which \$87,887, \$94,513, and \$90,762 was made by employees. The above contributions represent 100% of the required contributions to the plan. Information regarding this plan is available from the state of West Virginia.

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2014 and 2013

CONSTRUCTION IN PROGRESS

At June 30, 2014, construction in progress consisted of various water upgrade projects and studies.

Project 948 relates to water system capital improvements, namely easement acquisition for a water transmission main. As of June 30, 2014, 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, 2014, expenditures totaling \$1,054,782 had been incurred on this project of which \$866,347 had been completed and added to utility plant in service leaving \$188,435 as construction in progress at June 30, 2014. The total project 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, 2014, expenditures totaling \$140,874 had been incurred on this project, which is expected to cost approximately \$2,920,000 upon completion.

Project 803 relates to Bunker Hill townhomes 16" water main. As of June 30, 2014, expenditures totaling \$7,717 had been incurred on this project, which is expected to cost approximately \$223,000 upon completion.

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 contributions 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 \$1,055,921 and \$613,569 for the years ended June 30, 2014 and 2013, respectively. Total capital contributions in the income statement consist of the following:

	<u>2014</u>	<u>2013</u>
Mainline extensions, hydrants, and services	\$ 1,055,921	\$ 613,569
Service connection fees	20,250	21,150
Capacity improvement fee (refunded)/collected	-	(168,480)
Total capital contributions	<u>\$ 1,076,171</u>	<u>\$ 466,239</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

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

	<u>2014</u>	<u>2013</u>
Operation and maintenance	\$ 6,483	\$ 15,868
Revenue fund	536,718	498,535
Debt service funds	2,104,220	1,958,475
Debt service reserve funds	4,736,879	4,540,886
Construction fund	512,269	5,984,435
Renewal and replacement fund	611,145	755,164
Security deposit funds	26,532	43,899
Capacity improvement fees	-	112,702
Total	<u>\$ 8,534,246</u>	<u>\$ 13,909,964</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2014 and 2013

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>
2014	\$ 102,877	\$ 20,537
2013	\$ 82,340	\$ (82,508)
2012	\$ 164,848	\$ 61,791

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 cost 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>2014</u>	<u>2013</u>
Normal cost	\$ 6,124	\$ 6,124
Amortization of unfunded	14,532	14,532
Interest	<u>436</u>	<u>436</u>
Annual required contribution	\$ <u>21,092</u>	\$ <u>21,092</u>
Annual required contribution	\$ 21,092	\$ 21,092
Interest on net OPEB obligation	-	2,078
Adjustment to annual required contribution	<u>-</u>	<u>(3,431)</u>
Annual OPEB	21,092	19,739
Contributions made	<u>(3,048)</u>	<u>(3,846)</u>
Increase in net OPEB obligation	18,044	15,893
Net OPEB obligation - beginning of year	82,340	164,848
Adjustment pursuant to current actuarial estimate	<u>2,493</u>	<u>(98,401)</u>
Net OPEB obligation - end of year	\$ <u>102,877</u>	\$ <u>82,340</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2014 and 2013

OTHER POST EMPLOYMENT BENEFITS (continued)

The District's annual OPEB cost, the percentage of annual OPEB cost contribution to the plan, and the net OPEB obligation for the years ended June 30, 2014 thru 2012:

<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>
2014	\$ 21,092	14.45%	\$ 102,877
2013	\$ 21,092	18.23%	\$ 82,340
2012	\$ 61,791	7.52%	\$ 164,848

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 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%

PRIOR PERIOD ADJUSTMENT

An Adjustment was made to correct an error by decreasing prepaid expenses by \$64,417 to agree to actual balances as of June 30, 2013. The prior period adjustment had no effect on operations for the year ended June 30, 2014.

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.

SUBSEQUENT EVENTS

In preparing these financial statements, The District has evaluated events and transactions for potential recognition or disclosure through September 16, 2014, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

SCHEDULE OF FUNDING PROGRESS

For the year ended June 30, 2014

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 Contributions - Other Post Employment Benefits

Fiscal Year:	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed
2014	\$ 21,092	14.45%
2013	\$ 21,092	18.23%
2012	\$ 61,791	7.52%
2011	\$ 61,791	11.37%

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.

Berkeley County Public Service District

BUDGETARY COMPARISON SCHEDULE

For the year ended June 30, 2014

	<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>
OPERATING REVENUES					
Metered water sales - domestic	\$ 7,007,500	\$ 7,007,500	\$ 7,656,378	\$ -	7,656,378
- commercial	1,680,700	1,680,700	1,802,091	-	1,802,091
- industrial	656,800	656,800	608,609	-	608,609
- governmental	145,400	145,400	159,020	-	159,020
Customers' forfeited discounts and penalties	216,300	216,300	236,162	-	236,162
Other operating income	1,012,600	1,012,600	553,987	-	553,987
Refunds and reimbursements	<u>65,800</u>	<u>65,800</u>	<u>227,387</u>	(E) <u>(227,387)</u>	<u>-</u>
Total operating revenues	10,785,100	10,785,100	11,243,634	(227,387)	11,016,247
OPERATING EXPENSES					
	<u>5,818,200</u>	<u>5,818,200</u>	<u>5,626,322</u>	-	<u>5,626,322</u>
Operating income before depreciation	4,966,900	4,966,900	5,617,312	(227,387)	5,389,925
DEPRECIATION					
	<u>-</u> (A)	<u>-</u>	<u>-</u>	<u>3,828,214</u>	<u>3,828,214</u>
Operating income (loss)	4,966,900	4,966,900	5,617,312	(4,055,601)	1,561,711
NON-OPERATING INCOME (EXPENSES)					
Interest income	36,400	36,400	24,819	-	24,819
Gain on disposal of utility plant	-	-	-	(A) 6,480	6,480
Miscellaneous non-utility expense	-	-	-	(A) (57,556)	(57,556)
Interest expense	-	(B) -	-	(2,758,465)	(2,758,465)
Amortization	<u>-</u> (A)	<u>-</u>	<u>-</u>	<u>(120,299)</u>	<u>(120,299)</u>
Total non-operating income (expenses)	<u>36,400</u>	<u>36,400</u>	<u>24,819</u>	<u>(2,929,840)</u>	<u>(2,905,021)</u>
Decrease in net position before capital contributions	<u>5,003,300</u>	<u>5,003,300</u>	<u>5,642,131</u>	<u>(6,985,441)</u>	<u>(1,343,310)</u>
CAPITAL CONTRIBUTIONS					
	<u>19,200</u>	<u>19,200</u>	<u>-</u>	(A) <u>1,076,171</u>	<u>1,076,171</u>
OTHER FINANCING SOURCES (USES)					
Line of credit proceeds	357,260	357,260	-	(E) -	-
Renewal and replacement funds	301,340	(C) 301,340	258,532	(E) (258,532)	-
Maintenance and Operating Reserve funds	247,000	247,000	-	-	-
Debt Service	(5,055,800)	(D) (5,055,800)	(4,835,457)	(E) 4,835,457	-
Capital improvements	<u>(872,300)</u>	<u>(872,300)</u>	<u>(5,304,851)</u>	(E) <u>5,304,851</u>	<u>-</u>
Total other financing sources (uses)	<u>(5,022,500)</u>	<u>(5,022,500)</u>	<u>(9,881,776)</u>	<u>9,881,776</u>	<u>-</u>
Increase (decrease) in net position	-	-	(6,639,580)	5,101,157	(267,139)
Net position at beginning of year	<u>56,778,040</u>	<u>56,778,040</u>	<u>56,778,040</u>	<u>-</u>	<u>56,778,040</u>
Net position at end of year	\$ <u>56,778,040</u>	\$ <u>56,778,040</u>	\$ <u>50,138,460</u>	\$ <u>5,101,157</u>	\$ <u>56,510,901</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) Balance sheet transactions are excluded from revenues and expenses under GAAP.

See independent auditors' report.

Berkeley County Public Service District

BUDGETARY COMPARISON SCHEDULE

For the year ended June 30, 2013

	<u>Budgeted Amounts (Original)</u>	<u>Budgeted Amounts (Final)</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Budget to GAAP Differences Over (under)</u>	<u>Actual Amounts GAAP Basis</u>
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					
Operating income before depreciation	<u>4,819,000</u>	<u>4,819,000</u>	<u>4,645,162</u>	(5,000)	<u>4,640,162</u>
DEPRECIATION					
Operating income (loss)	<u>-</u> (A)	<u>-</u>	<u>-</u>	<u>3,696,664</u>	<u>3,696,664</u>
Operating income (loss)	4,819,000	4,819,000	4,645,162	(3,701,664)	943,498
NON-OPERATING INCOME (EXPENSES)					
Interest income	16,400	16,400	2,587	(G) 32,620	35,207
Interest expense	- (B)	-	-	(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 assets	(5,200)	(5,200)	(6,639,580)	5,101,157	(1,538,423)
Net assets at beginning of year	<u>58,380,880</u>	<u>58,380,880</u>	<u>58,380,880</u>	-	<u>58,380,880</u>
Net assets 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 improvements fees only.

See independent auditors' report.

SUPPLEMENTAL INFORMATION

Berkeley County Public Service District

SCHEDULE OF OPERATING EXPENSES

For the years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Source of supply expenses		
Maintenance of sources of supply	\$ 26,382	\$ 29,514
Operation supervision and labor	11,237	10,356
Water purchased	302,859	289,030
Miscellaneous expenses	82,186	81,687
Rents	<u>1,560</u>	<u>1,560</u>
Total	<u>424,224</u>	<u>412,147</u>
Pumping system expenses		
Power purchased	474,426	426,774
Pumping supervision and labor	246,236	246,849
Maintenance of treatment system	<u>56,388</u>	<u>13,163</u>
Total	<u>777,050</u>	<u>686,786</u>
Treatment expenses		
Operation supervision and labor	216,414	213,127
Chemical treatment	238,544	199,769
Miscellaneous expenses	108,571	108,027
Maintenance of treatment system	<u>62,075</u>	<u>46,817</u>
Total	<u>625,604</u>	<u>567,740</u>
Transmission and distribution expenses		
Operation supervision and labor	680,640	672,701
Miscellaneous expenses	148,556	129,880
Maintenance of distribution mains	216,850	180,870
Rent - building and equipment	38,141	48,966
Rent - railroad right of way	<u>5,325</u>	<u>4,025</u>
Total	<u>1,089,512</u>	<u>1,036,442</u>
Customers' accounting and collection expenses		
Meter reading	18,670	47,498
Accounting and collection	<u>419,953</u>	<u>419,813</u>
Total	<u>438,623</u>	<u>467,311</u>
General and administrative expenses		
Salaries and wages	681,228	645,968
Office and general supplies	60,673	39,219
Outside services	54,177	113,901
Employee welfare	941,195	807,457
Regulatory commission expense	33,359	31,272
Insurance	227,210	217,069
Miscellaneous expenses	92,257	106,356
Maintenance of equipment	12,079	5,295
Payroll taxes	<u>169,131</u>	<u>171,534</u>
Total	<u>2,271,309</u>	<u>2,138,071</u>
Total operating expenses	\$ <u>5,626,322</u>	\$ <u>5,308,497</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 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 District ("District") as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 16, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Decker & Company PLLC

September 16, 2014