



June 30, 2017 and 2016

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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 Berkeley County Public Service District ("District"), as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position, of the Berkeley County Public Service District as of June 30, 2017 and 2016, 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 35-39 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 41 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 18, 2017, 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 18, 2017

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Fiscal Year Ended June 30, 2017

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, 2017. 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 increased by \$3.28 million, or 5.87%, as a result of this year's operations.

Operating revenues increased to \$12.4 million, or 3.83% in FY2017 and operating expenses increased 7.93%.

The District's capital contributions increased by \$0.59 million to \$3.12 million, a 23.41% increase from last year.

#### **District highlights**

The District completed \$0.35 million of capital improvement projects, including various water main projects.

There were 4.64 miles of water mains added to the water distribution system during the year, of which 4.64 miles (estimated cost of \$2.35 million including hydrants and services) were installed by developers who transferred ownership to the District.

The number of metered customers served by the District increased from 22,425 to 23,175, an increase of 3.34%. Steady growth continues to create a need for additional resources to efficiently maintain the water system.

The District issued \$5,213,278 in new revenue bonds for several construction projects.

### **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.

#### **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.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Fiscal Year Ended June 30, 2017

### **USING THIS ANNUAL REPORT (continued)**

#### **Financial Statements (continued)**

The Statements of Net Position 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 increased by \$3.28 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.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Fiscal Year Ended June 30, 2017

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)**

<b>Table 1</b>	<b>2017</b>	<b>2016</b>
Capital assets (net)	\$ 110,086,089	\$ 109,376,617
Current and other assets	16,863,655	18,689,833
Deferred outflows of resources	<u>1,648,321</u>	<u>1,482,851</u>
<b>Total Assets</b>	<b>\$ 128,598,065</b>	<b>\$ 129,549,301</b>
Long-term debt outstanding	\$ 65,166,566	\$ 64,328,972
Other liabilities	4,209,334	8,981,319
Deferred inflows of resources	<u>93,360</u>	<u>391,866</u>
<b>Total liabilities</b>	<b>\$ 69,469,260</b>	<b>\$ 73,702,157</b>
Net Position:		
Invested in capital assets, net of debt	\$ 47,534,937	\$ 38,905,376
Restricted	7,077,548	12,800,695
Unrestricted	<u>4,516,319</u>	<u>4,141,073</u>
<b>Total net position</b>	<b>\$ 59,128,804</b>	<b>\$ 55,847,144</b>

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.

<b>Table 2</b>	<b>2017</b>	<b>2016</b>
Net operating revenues	\$ 12,487,147	\$ 12,026,490
Interest and other income	<u>103,357</u>	<u>35,039</u>
<b>Total Revenues</b>	<b>12,590,504</b>	<b>12,061,529</b>
Operating expenses	6,524,398	6,044,684
Interest expense	2,479,510	2,714,249
Other (income) expenses	16,553	12,476
Depreciation	<u>3,409,883</u>	<u>3,726,151</u>
<b>Total expenses</b>	<b>12,430,344</b>	<b>12,497,560</b>
Excess of revenues over expenses	160,160	(436,031)
Capital contributions	<u>3,121,500</u>	<u>2,529,228</u>
Change in net position	3,281,660	2,093,197
Net position at beginning of year	<u>55,847,144</u>	<u>53,753,947</u>
<b>Net position at end of year</b>	<b>\$ 59,128,804</b>	<b>\$ 55,847,144</b>

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Fiscal Year Ended June 30, 2017

### **FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)**

Total Operating Revenues reflect a 3.83% increase in 2017 compared to 2016 as a result of growth in the number of customer connections.

Operating expenses increased by approximately 7.93% in 2017 compared to 2016 due primarily to increases in labor and maintenance costs.

### **THE DISTRICT'S 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 and the Main & Meter Fund provides for large capital purchases of meter equipment and main replacement projects.

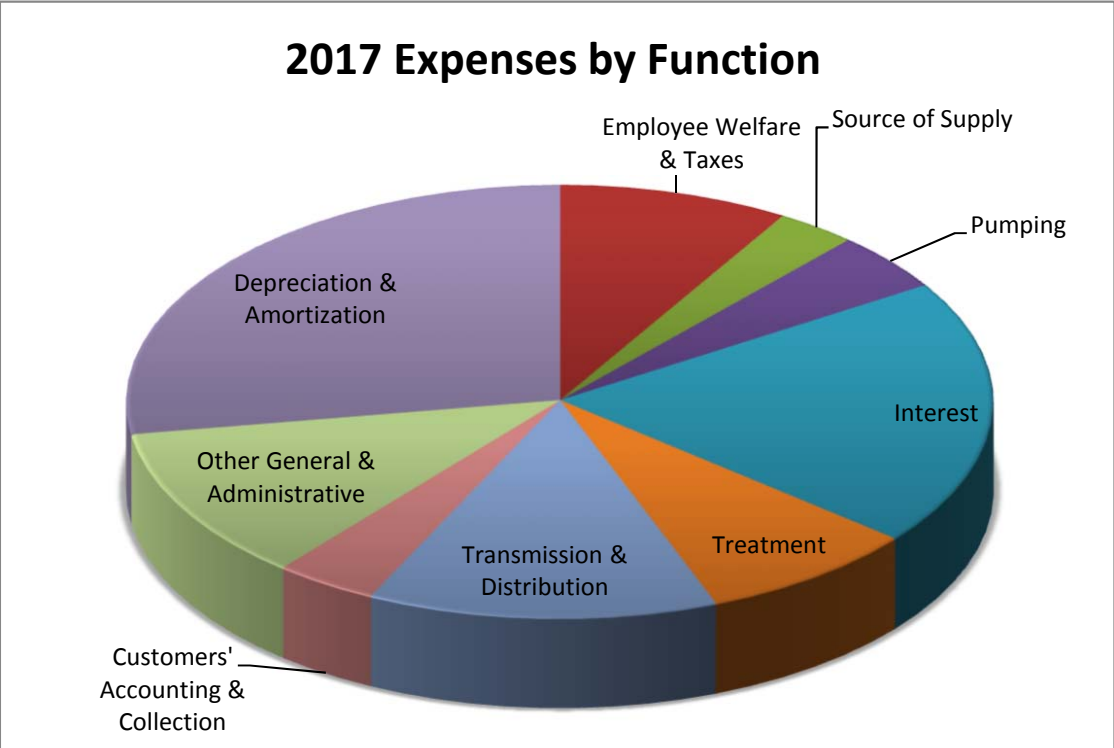
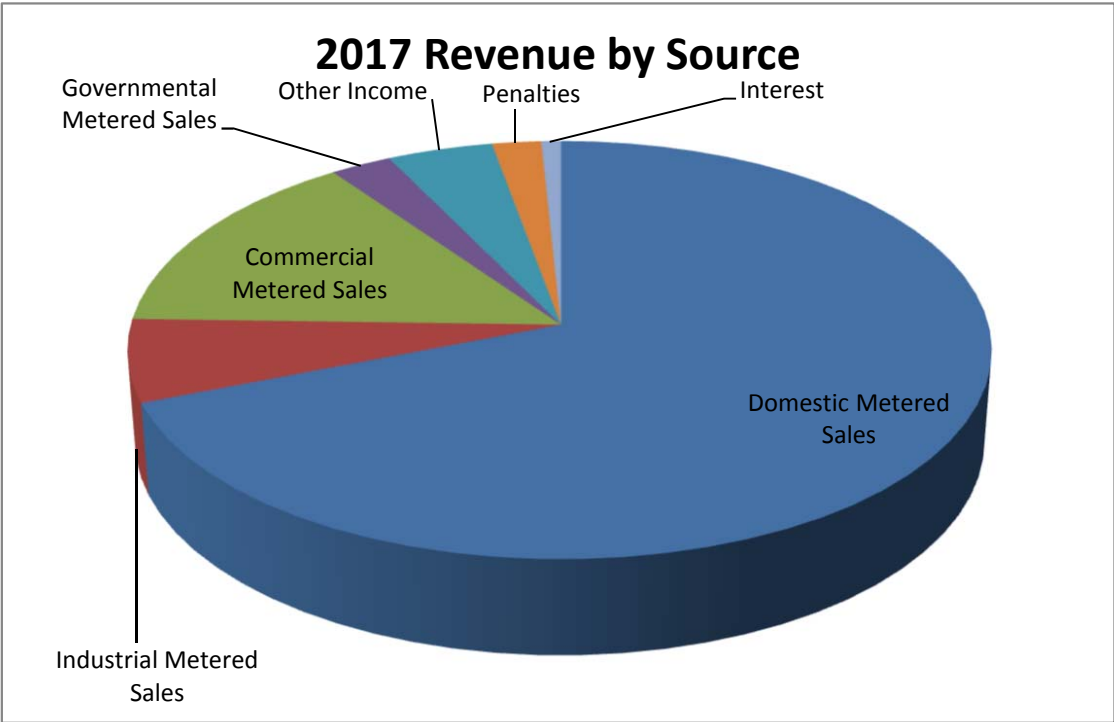
### **Budgetary highlights**

The District's Board of Directors adopted the Revised Operating Budget of \$12,170,000 for FY 2016/2017 on November 28, 2016. Major differences between budgeted and actual amounts per budgetary basis on the Budgetary Comparison Schedule on page 36 are as follows: Income from engineering fees increased as developer activity increased; less water was purchased than anticipated; meter reading and meter repairs increased as meters installed in 2004-2006 no longer have warranty coverage, and several capital projects were extended to FY18.



**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Fiscal Year Ended June 30, 2017



**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Fiscal Year Ended June 30, 2017

**CAPTIAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of the 2017 Fiscal Year, the District had \$110 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 \$0.70 million, or 0.64% from 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, 2017 and 2016.

<u>Table 3</u>	<u>2017</u>	<u>2016</u>
Land	\$ 1,368,631	\$ 1,368,631
Source of supply & pumping plant	6,200,225	8,629,470
Water treatment plant	18,482,737	19,586,819
Transmission and distribution plant	74,188,866	72,540,149
General plant and equipment	6,667,582	6,792,972
Construction work in progress	<u>3,178,048</u>	<u>458,576</u>
Net utility plant	<u>\$ 110,086,089</u>	<u>\$ 109,376,617</u>

This year's major additions included:

Water treatment plant	\$ 0.02 million
Transmission and distribution plant	\$ 6.98 million
General plant and equipment	\$ 0.16 million

The District awarded professional design contracts for the following projects:

FY 2016

- Engineering contracts were awarded to Dewberry and RKK for distribution and storage system improvements.

FY 2017

- Engineering contracts were awarded to Dewberry, Thrasher, and RKK for distribution system improvements, and with GWIN, Dobson, and Foreman for treatment plant modifications.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Fiscal Year Ended June 30, 2017

**CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)**

The District's 2018 capital budget plans for investing \$14.7 million in capital additions and equipment, including the following:

- New elevated water storage tank and pumping station improvements
- New equipment at water plants
- Service connections and meters
- Main line extensions and fire hydrants
- Transportation equipment, tools and office equipment

**Debt**

At year end, the District had a total of \$64,915,129 in outstanding revenue bonds versus \$70,071,066 last year.

Berkeley County Public Service District

**STATEMENTS OF NET POSITION**

June 30, 2017 and 2016

**ASSETS**

	<u>2017</u>	<u>2016</u>
<b>CURRENT ASSETS</b>		
Cash and temporary investments	\$ 3,910,874	\$ 2,969,529
Accounts receivable - customers (net of allowance for doubtful accounts of \$48,000 and \$48,000 respectively)	2,073,518	1,905,779
Inventory	262,874	242,830
Other current assets	<u>88,038</u>	<u>73,499</u>
 Total current assets	 <u>6,335,304</u>	 <u>5,191,637</u>
<b>RESTRICTED ASSETS</b>		
Debt service funds	2,090,634	7,814,102
Debt service reserve funds	2,122,175	3,850,410
Construction funds	1,874,520	206,790
Renewal and replacement funds	976,323	909,402
Customer deposits	<u>533,334</u>	<u>526,995</u>
 Total restricted assets	 <u>7,596,986</u>	 <u>13,307,699</u>
 Total current and restricted assets	 <u>13,932,290</u>	 <u>18,499,336</u>
<b>UTILITY PLANT</b>		
Utility plant in service	156,389,301	158,861,668
Construction in progress	3,178,048	458,576
Less accumulated depreciation	<u>(49,481,260)</u>	<u>(49,943,627)</u>
 Net utility plant	 <u>110,086,089</u>	 <u>109,376,617</u>
<b>OTHER ASSETS</b>		
Utility plant not in service	2,881,394	190,497
Prepaid insurance - bond reserve	<u>49,970</u>	<u>-</u>
 Total other assets	 <u>2,931,364</u>	 <u>190,497</u>
 Total assets	 <u>126,949,743</u>	 <u>128,066,450</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Unamortized debt issue expense - prepaid insurance	140,415	150,074
Deferred amount on refundings	636,285	684,770
Defined benefit pension plan contribution	282,287	288,564
Deferred pension funding	<u>589,334</u>	<u>359,443</u>
 Total deferred outflows of resources	 <u>1,648,321</u>	 <u>1,482,851</u>
 Total assets and deferred outflows of resources	 <u>\$ 128,598,064</u>	 <u>\$ 129,549,301</u>

See accompanying notes and independent auditors' report.

Berkeley County Public Service District

**STATEMENTS OF NET POSITION (Continued)**

June 30, 2017 and 2016

**LIABILITIES**

	<u>2017</u>	<u>2016</u>
<b>CURRENT LIABILITIES (payable from current assets)</b>		
Line of Credit Payable	\$ 400,000	\$ -
Leases payable (due within one year)	34,279	48,636
Accounts payable	534,593	126,045
Accrued expenses	162,124	142,805
Deferred rent revenue	-	42,042
Accrued payroll taxes	-	3,286
	<hr/>	<hr/>
Total current liabilities (payable from current assets)	<u>1,130,996</u>	<u>362,814</u>
<b>CURRENT LIABILITIES (payable from restricted assets)</b>		
Revenue bonds payable (due within one year)	2,171,518	7,715,405
Advances for construction - developers	74,048	74,048
Accrued interest expense	313,334	322,048
Customer deposits	519,438	507,004
	<hr/>	<hr/>
Total current liabilities (payable from restricted assets)	<u>3,078,338</u>	<u>8,618,505</u>
Total current liabilities	<u>4,209,334</u>	<u>8,981,319</u>
<b>LONG-TERM LIABILITIES</b>		
Advances for construction - developers	279,325	353,373
Leases payable	593,132	627,411
Net OPEB obligation	123,554	116,916
Net pension liability	1,426,944	875,611
Revenue bonds payable	62,743,611	62,355,661
	<hr/>	<hr/>
Total long-term liabilities	<u>65,166,566</u>	<u>64,328,972</u>
Total liabilities	<u>69,375,900</u>	<u>73,310,291</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred pension funding	93,360	391,866
	<hr/>	<hr/>
Total liabilities and deferred inflows of resources	<u>69,469,260</u>	<u>73,702,157</u>
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	47,534,937	38,905,376
Restricted for debt and construction	7,077,548	12,800,695
Unrestricted	4,516,319	4,141,073
	<hr/>	<hr/>
Total net position	<u>59,128,804</u>	<u>55,847,144</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 128,598,064</u>	<u>\$ 129,549,301</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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>OPERATING REVENUES</b>		
Metered water sales		
Domestic	\$ 8,698,318	\$ 8,528,294
Commercial	1,844,260	1,891,697
Industrial	800,996	691,473
Governmental	325,311	184,454
Customers' forfeited discounts and penalties	259,896	250,814
Other operating income	<u>558,366</u>	<u>479,758</u>
Total operating revenues	<u>12,487,147</u>	<u>12,026,490</u>
<b>OPERATING EXPENSES</b>	<u>6,524,398</u>	<u>6,044,684</u>
Operating income before depreciation	<u>5,962,749</u>	<u>5,981,806</u>
<b>DEPRECIATION</b>	<u>3,409,883</u>	<u>3,726,151</u>
Operating income	<u>2,552,866</u>	<u>2,255,655</u>
<b>NON-OPERATING INCOME (EXPENSES)</b>		
Interest earned	103,357	35,039
Gain (loss) on disposal of utility plant	(5,344)	-
Interest expense	(2,479,510)	(2,714,249)
Miscellaneous Nonutility Expense	(1,550)	-
Amortization	<u>(9,659)</u>	<u>(12,476)</u>
Total non-operating income (expense)	<u>(2,392,706)</u>	<u>(2,691,686)</u>
Increase (decrease) in net position before capital contributions	<u>160,160</u>	<u>(436,031)</u>
<b>CAPITAL CONTRIBUTIONS</b>	<u>3,121,500</u>	<u>2,529,228</u>
Increase in net position	3,281,660	2,093,197
Net position at beginning of year	<u>55,847,144</u>	<u>53,753,947</u>
Net position at end of year	\$ <u>59,128,804</u>	\$ <u>55,847,144</u>

See accompanying notes and independent auditors' report.

Berkeley County Public Service District

**STATEMENTS OF CASH FLOWS**

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 12,289,800	\$ 12,114,943
Cash payments for goods and services	(2,580,100)	(3,165,459)
Cash payments for employee services	<u>(3,307,353)</u>	<u>(3,168,200)</u>
Net cash provided by operating activities	<u>6,402,347</u>	<u>5,781,284</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	103,357	35,039
Deferred outflows of resources - payments for pension contribution	(282,746)	(288,564)
Maturities, redemptions and (purchases) of certificates of deposit (net)	<u>260,048</u>	<u>304,931</u>
Net cash provided by (used in) investing activities	<u>80,659</u>	<u>51,406</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from revenue bond payable	2,559,467	17,520,000
Principal payments on revenue bonds payable	(7,715,404)	(13,670,830)
Principal payments on capital lease payable	(48,636)	(54,857)
Proceeds from Disposal of Capital Assets	1,200	-
Proceeds from Line of Credit	400,000	-
Interest paid	(2,470,414)	(2,684,808)
Proceeds from (payments for) advances for construction-developers	(74,048)	(79,605)
Acquisition and construction of capital assets	(3,656,641)	(982,752)
Payments received for service connections	<u>12,150</u>	<u>19,350</u>
Net cash provided by (used in) capital and related financing activities	<u>(10,992,326)</u>	<u>66,498</u>
Net increase in cash and cash equivalents	<u>(4,509,320)</u>	5,899,188
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>14,830,814</u>	<u>8,931,626</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ <u>10,321,494</u>	\$ <u>14,830,814</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Operating income	\$ 2,552,866	\$ 2,255,655
Depreciation	3,409,883	3,726,151
Adjustments for changes in operating assets and liabilities:		
Receivables, net	(167,739)	20,992
Inventories	(20,044)	23,843
Other operating assets	(64,509)	54,002
Payables including trade and payroll	405,262	(84,630)
Pension liability	551,333	318,219
OPEB payable	6,638	(4,009)
Accrued expenses and other operating liabilities	31,753	65,636
Deferred inflows/outflows	(261,054)	(636,617)
Deferred income	<u>(42,042)</u>	<u>42,042</u>
Net cash provided by operating activities	\$ <u>6,402,347</u>	\$ <u>5,781,284</u>
<b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Main line extensions contributed by developers	\$ <u>3,121,500</u>	\$ <u>2,509,878</u>

See accompanying notes and independent auditors' report

## NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2017 and 2016

### 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, 2017 and 2016

**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, 2017 and 2016 was \$52,355 and \$0, 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, 2017 and 2016, are summarized below:

<b><u>Classification</u></b>	<b><u>Useful lives</u></b>
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 \$57,373 and \$52,081 at June 30, 2017 and 2016, respectively.

**Long-term Obligations**

Long-term debt and other long-term obligations are reported as liabilities in the District's statements of net position. Bond issuance costs consisting of prepaid insurance costs and deferred amount on refunding are reported as deferred outflows of resources and amortized over the term of the related debt.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2017 and 2016

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

**New Accounting Pronouncements**

The Governmental Accounting Standards Board has issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for fiscal years beginning after June 15, 2016 to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB). The adoption of GASB Statement No. 74 had no significant impact on the June 30, 2017 financial statements.

**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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Operation and maintenance - cash	\$ 8,208	\$ 28,029
Revenue fund - certificates of deposit	200,626	206,840
Revenue fund - cash	1,161,888	646,436
Tank paint fund - cash	1,226,562	731,679
Tank paint fund - certificates of deposit	305,840	568,956
Membrane fund - cash	506,948	387,195
Main and meter fund - cash	499,902	399,495
Other cash	<u>900</u>	<u>899</u>
Total	<u>\$ 3,910,874</u>	<u>\$ 2,969,529</u>

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2017 and 2016

**CASH AND TEMPORARY INVESTMENTS (Continued)**

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 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 (WVMBC). Construction funds include monies refunded by WVMBC in lieu of surety bonds for the 1993D, 1996A, 2001A and 2013A debt service reserve. 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.

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, 2017, 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		\$ -
State Investment Pool	Average of 90 Days	AA-	<u>4,257,347</u>
Total investments			4,257,347
Cash and Certificates of Deposit			<u>7,250,516</u>
Total Cash, Certificates of Deposit, and Investments			\$ <u>11,507,863</u>

**Credit Risk**

State statutes 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, 2017 and 2016

**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, 2017, \$6,341,996 of the District's bank balance of \$7,398,306 was exposed to custodial credit risk. Of the bank balance, \$1,056,310 was covered by Federal Deposit Insurance (FDIC). The remaining balance of \$6,341,996 was collateralized with securities held by the pledging financial institution's trust department or agent but not 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 had 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 were automatically withdrawn and used to purchase an investment under the repurchase agreement. Investments were 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 approximated cost at June 30, 2016. The District no longer has a repurchase agreement as of June 30, 2017.

**CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2016 was as follows:

	<u>Balance at July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2016</u>
Capital assets not being depreciated:				
Construction in progress	\$ 424,237	\$ 34,339	\$ -	\$ 458,576
Land	<u>1,368,631</u>	<u>-</u>	<u>-</u>	<u>1,368,631</u>
Total not being depreciated	<u>1,792,868</u>	<u>34,339</u>	<u>-</u>	<u>1,827,207</u>
Other capital assets:				
Source of supply & pumping plant	18,961,079	-	-	18,961,079
Water treatment plant	25,529,320	73,292	-	25,602,612
Transmission and distribution plant	100,357,375	3,026,160	-	103,383,535
General plant and equipment	<u>9,186,972</u>	<u>358,839</u>	<u>-</u>	<u>9,545,811</u>
Total other capital assets	<u>154,034,746</u>	<u>3,458,291</u>	<u>-</u>	<u>157,493,037</u>
Less accumulated depreciation:				
Source of supply & pumping plant	9,942,040	389,569	-	10,331,609
Water treatment plant	5,372,840	643,015	-	6,015,855
Transmission and distribution plant	28,433,819	2,409,508	-	30,843,327
General plant and equipment	<u>2,468,777</u>	<u>284,059</u>	<u>-</u>	<u>2,752,836</u>
Total accumulated depreciation	<u>46,217,476</u>	<u>3,726,151</u>	<u>-</u>	<u>49,943,627</u>
Net capital assets	\$ <u>109,610,138</u>	\$ <u>(233,521)</u>	\$ <u>-</u>	\$ <u>109,376,617</u>

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2017 and 2016

**CAPITAL ASSETS (Continued)**

Capital assets activity for the year ended June 30, 2017 was as follows:

	<u>Balance at July 1, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2017</u>
Capital assets not being depreciated:				
Construction in progress	\$ 458,576	\$ 3,072,023	\$ 352,551	\$ 3,178,048
Land	<u>1,368,631</u>	<u>-</u>	<u>-</u>	<u>1,368,631</u>
Total not being depreciated	<u>1,827,207</u>	<u>3,072,023</u>	<u>352,551</u>	<u>4,546,679</u>
Other capital assets:				
Source of supply & pumping plant	18,961,079	-	4,689,569	14,271,510
Water treatment plant	25,602,612	24,796	1,715,161	23,912,247
Transmission and distribution plant	103,383,535	3,912,782	39,850	107,256,467
General plant and equipment	<u>9,545,811</u>	<u>159,745</u>	<u>125,110.00</u>	<u>9,580,446</u>
Total other capital assets	<u>157,493,037</u>	<u>4,097,323</u>	<u>6,569,690</u>	<u>155,020,670</u>
Less accumulated depreciation:				
Labor	-	-	-	-
Source of supply & pumping plant	10,331,609	272,490	2,532,814	8,071,285
Water treatment plant	6,015,855	594,675	1,181,020	5,429,510
Transmission and distribution plant	30,843,327	2,264,124	39,850	33,067,601
General plant and equipment	<u>2,752,836</u>	<u>278,594</u>	<u>118,566</u>	<u>2,912,864</u>
Total accumulated depreciation	<u>49,943,627</u>	<u>3,409,883</u>	<u>3,872,250</u>	<u>49,481,260</u>
Net capital assets	\$ <u>109,376,617</u>	\$ <u>3,759,463</u>	\$ <u>3,049,991</u>	\$ <u>110,086,089</u>

**REVENUE BONDS PAYABLE**

The District is obligated under certain bond resolutions with respect to the following revenue bonds outstanding as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</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;	\$ 376,753	\$ 389,883
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;	6,780	7,232

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2017 and 2016

<b>REVENUE BONDS PAYABLE (Continued)</b>	<b><u>2017</u></b>	<b><u>2016</u></b>
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% interest;	<b>\$ 7,463,020</b>	<b>\$ 7,694,836</b>
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;	<b>511,203</b>	<b>525,098</b>
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;	<b>1,654,625</b>	<b>1,688,759</b>
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;	<b>1,128,281</b>	<b>1,260,258</b>
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, bonds were refinanced with the 2015E advance refunding bonds and were paid in full in December 2016 from funds held in escrow;	<b>-</b>	<b>5,875,000</b>
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;	<b>5,075,000</b>	<b>5,650,000</b>
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;	<b>7,700,000</b>	<b>7,725,000</b>

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2017 and 2016

**REVENUE BONDS PAYABLE (Continued)**

	<u>2017</u>	<u>2016</u>
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;	\$ <b>9,825,000</b>	\$ 9,850,000
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;	<b>1,600,000</b>	2,035,000
Series 2015A water revenue bonds in the original amount of \$9,575,000 principal payable in annual installments at varying amounts and semi-annual interest at varying rates averaging 3.04%; interest payments beginning June 2015 at 2.00% and principal payments beginning December 2015 and concluding December 2036 including 3.25% interest;	<b>9,300,000</b>	9,455,000
Series 2015B water revenue bonds in the original amount of \$525,000, principal payable in annual installments at varying amounts and semi-annual interest at varying rates averaging 1.99%; interest payments beginning June 2015 at 2.0% and principal payments beginning December 2015 and concluding December 2018 including 2.0% interest;	<b>265,000</b>	395,000
Series 2015C water refunding bonds in the original amount of \$9,910,000, principal payable in annual installments at varying amounts and semi-annual interest at varying rates averaging 3.46%; interest payments beginning December 2015 at 0.60% and principal payments beginning December 2016 and concluding December 2037 including 3.625% interest;	<b>9,860,000</b>	9,910,000
Series 2015D water refunding bonds in the original amount of \$2,150,000, principal payable in annual installments at varying amounts and semi-annual interest at varying rates averaging 2.92%; interest payments beginning December 2015 at 2.00% and principal payments beginning December 2016 and concluding December 2025 including 3.0% interest;	<b>2,130,000</b>	2,150,000
Series 2015E water refunding bonds in the original amount of \$5,460,000, principal payable in annual installments at varying amounts and semi-annual interest at varying rates averaging 2.74%; interest payments beginning June 2016 at 2.0% and principal payments beginning December 2017 and concluding December 2028 including 3.0% interest.	<b>5,460,000</b>	5,460,000

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2017 and 2016

**REVENUE BONDS PAYABLE (Continued)**

	<u>2017</u>	<u>2016</u>
Series 2016A water revenue bonds in the original amount of \$5,213,278, quarterly principal and interest payments beginning September 2019 and concluding June 2039, including 3.00% interest.	\$ <u>2,559,467</u>	\$ _____
	\$ <u>64,915,129</u>	\$ <u>70,071,066</u>

Maturities of revenue bonds payable and interest payments for each of the next five years and in subsequent five year increments succeeding June 30, 2017 are as follows:

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 2,171,518	\$ 2,269,732	\$ 4,441,250
2019	2,389,262	2,201,091	4,590,353
2020	2,677,255	2,258,237	4,935,492
2021	3,038,484	2,187,771	5,226,255
2022	2,842,802	2,092,507	4,935,309
2023-2027	16,773,765	8,842,148	25,615,913
2028-2032	19,211,638	5,511,035	24,722,673
2033-2037	15,995,042	1,721,963	17,717,005
2038-2042	2,469,174	80,289	2,549,463
Less: 2016A Undrawn Principal to Date	<u>(2,653,811)</u>	-	<u>(2,653,811)</u>
Total	\$ <u>64,915,129</u>	\$ <u>27,164,773</u>	\$ <u>92,079,902</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. The revenue bonds are at parity with one another.

	<u>Balance at July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2016</u>
Water revenue bonds:				
Series B 1993	\$ 402,069	\$ -	\$ 12,186	\$ 389,883
Series C 1993	7,684	-	453	7,231
Series D 1993	7,911,995	-	217,158	7,694,837
Series 1996	538,176	-	13,078	525,098
Series 2001	1,721,022	-	32,263	1,688,759
Series B 2003	1,385,950	-	125,692	1,260,258
Series C 2003	2,185,000	-	2,185,000	-
Series 2006	9,500,000	-	9,500,000	-
Series 2007	6,140,000	-	265,000	5,875,000
Series 2008	6,245,000	-	595,000	5,650,000
Series 2009	7,750,000	-	25,000	7,725,000
Series 2012 A	9,875,000	-	25,000	9,850,000
Series 2012 B	2,460,000	-	425,000	2,035,000
Series 2013 A	9,575,000	-	120,000	9,455,000
Series 2013 B	525,000	-	130,000	395,000
Series 2015 A	-	9,910,000	-	9,910,000
Series 2015 B	-	2,150,000	-	2,150,000
Series 2015 E	-	<u>5,460,000</u>	-	<u>5,460,000</u>
Total water revenue bonds payable	\$ <u>66,221,896</u>	\$ <u>17,520,000</u>	\$ <u>13,670,830</u>	\$ 70,071,066
Less: Current portion due in upcoming year:				<u>7,715,405</u>
Long-term water revenue bonds payable at June 30, 2016 (net of current portion)				\$ <u>62,355,661</u>



**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2017 and 2016

**REVENUE BONDS PAYABLE (Continued)**

	<u>Balance at July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2017</u>
Water revenue bonds:				
Series B 1993	\$ 389,883	\$ -	\$ 13,130	\$ 376,753
Series C 1993	7,231	-	451	6,780
Series D 1993	7,694,837	-	231,817	7,463,020
Series 1996	525,098	-	13,895	511,203
Series 2001	1,688,759	-	34,134	1,654,625
Series C 2003	1,260,258	-	131,977	1,128,281
Series 2009	5,875,000	-	5,875,000	-
Series 2012 A	5,650,000	-	575,000	5,075,000
Series 2012 B	7,725,000	-	25,000	7,700,000
Series 2013 A	9,850,000	-	25,000	9,825,000
Series 2013 B	2,035,000	-	435,000	1,600,000
Series 2015 A	9,455,000	-	155,000	9,300,000
Series 2015 B	395,000	-	130,000	265,000
Series 2015 C	9,910,000	-	50,000	9,860,000
Series 2015 D	2,150,000	-	20,000	2,130,000
Series 2015 E	5,460,000	-	-	5,460,000
Series 2016 A	-	<u>2,559,467</u>	-	<u>2,559,467</u>
Total water revenue bonds payable	\$ <u>70,071,066</u>	\$ <u>2,559,467</u>	\$ <u>7,715,404</u>	\$ 64,915,129
Less: Current portion due in upcoming year:				<u>2,171,518</u>
Long-term water revenue bonds payable at June 30, 2017 (net of current portion)				\$ <u>62,743,611</u>

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

	<u>2017</u>	<u>2016</u>
Actual coverage ratio	137%	130%
Required coverage ratio	120%	120%
Required annual additions to renewal and replacement fund	\$ 309,545	\$ 300,913
Required future debt service reserve	\$ 2,117,786	\$ 3,847,825

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, 2017 the District is in compliance with its revenue bonds required debt service coverage ratio, required annual additions to its renewal and replacement fund, and its required future debt service reserve. In addition West Virginia Senate Bill No. 234 requires public water utilities to maintain a working capital reserve in an amount of no less than one-eighth of actual operation and maintenance expense. The District is in compliance with its working capital reserve requirement of \$802,143 for the year ended June 30, 2017.

During the fiscal year ended June 30, 2017, the District issued Series 2015C, 2015D and 2015E bonds to refinance the Series 2007, 2008 and 2009 bond anticipation note. The District recognized a \$446,854 loss in relation to the refinance, to be amortized over the life of the new bonds issued.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2017 and 2016

**LINE OF CREDIT PAYABLE**

The District had 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. On October 27, 2016, the District entered into new \$2,250,000 line of credit agreement to replace the original line of credit. The District pays interest on a monthly basis and principal is due in full at maturity on October 27, 2019. The interest rate to be applied to the unpaid principal balance varies based on the Prime Rate as published in the Wall Street Journal, with a minimum rate of 3.5%. The balance outstanding at June 30, 2017 and 2016 was \$400,000 and \$0, respectively.

**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 paid BB&T monthly principal and interest payments beginning March 20, 2013, and ended four years later on February 20, 2017. At the end of the lease, ownership of the leased equipment transferred to the District for the sum of \$10.

Minimum future lease payments under capital leases as of June 30, 2017, for each of the next five years in the aggregate, are:

Year Ending June 30:

2018	\$	57,161
2019		57,161
2020		57,161
2021		57,161
2022		57,161
2023-2027		285,803
2028-2032		<u>237,406</u>
Total minimum lease payments		809,014
Less: amount representing interest		<u>181,602</u>
Present value of net minimum lease payments	\$	<u><u>627,412</u></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 \$34,583 for the year ended June 30, 2017.

**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 \$276,670 for the year ended June 30, 2017.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2017 and 2016

**OPERATING LEASE**

The District has entered into operating lease agreements with four 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, 2017 and 2016 was \$107,909 and \$160,222, respectively. Two of the leases with a combined lease income of \$55,200 have been terminated as of October 31, 2016.

**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 payments received by the District as of June 30, 2017 and 2016 of \$353,373 and \$427,421, 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 ("PERS"), which is a defined benefit, cost-sharing multi-employer pension plan. The PERS is included as part of the West Virginia Consolidated Public Retirement Board. The retirement plan is reported as a pension trust fund of West Virginia. The Consolidated Public Retirement Board issues a separate financial report for pension plans. This report is available at [www.wvretirement.com](http://www.wvretirement.com).

PERS provides retirement benefits as well as death and disability benefits. Qualification for normal retirement is age 60 with five years of service or at least age 55 with age and service equal to 80 or greater. For all employees hired after July 1, 2015, qualification for normal retirement is age 62 with 10 years of service or at least age 55 with age and service equal to 80 or greater. The straight-life annuity retirement benefit is equivalent to 2% of average salary multiplied by years of service. Average salary is the average of the three consecutive highest annual earnings out of the last fifteen years of earnings. For all employees hired after July 1, 2015, average salary is the average of the five consecutive highest annual earnings out of the last fifteen years of earnings. Terminated members with at least five years of contributory service who do not withdraw their accumulated contributions may elect to receive their retirement annuity beginning at age 62. For all employees hired after July 1, 2015, this age increases to 64.

Chapter 5, Article 10 of the West Virginia State Code assigns the authority to establish and amend the provisions of the plan to the State Legislature.

*Contributions* - Per Chapter 5, Article 10, members contribute 4.5% of annual earnings. All members hired after July 1, 2015 will contribute 6% of annual earnings. State and non-state governmental employers' contribution rates were 12.0% and 13.5% of covered employees' annual earnings for fiscal years ended June 30, 2017 and 2016, respectively. Contributions as a percentage of payroll for members are established by statutes, subject to legislative limitations and are not actuarially determined. Contributions as a percentage of payroll for employers are established by the Board. Employer contributions for the fiscal years ended June 30, 2017 and 2016, were \$282,287, and \$288,564, respectively.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2017 and 2016

**PENSION LIABILITIES, PENSION EXPENSE, DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS**

At June 30, 2017, the District reported a liability of \$1,426,944 for its proportionate share of the net pension liability. The net pension liability, deferred inflows of resources, deferred outflows of resources, and pension expense were determined by actuarial valuations as of July 1, 2015 and 2014 rolled forward to June 30, 2016 and 2015, respectively, which are the measurement dates. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. The District's proportion in June 30, 2016 and June 30, 2015 was 0.16 percent and 0.15 percent, respectively.

For the years ended June 30, 2017 and 2016, the District recognized pension expense of \$311,500 and \$128,379, respectively. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 448,399	\$ -
Differences between expected and actual experience	118,996	-
Deferred difference in assumptions	-	69,518
Changes in proportion and difference between District contributions and proportionate share contributions	21,939	23,842
District contributions subsequent to the measurement date	<u>282,287</u>	<u>-</u>
Total	<u>\$ 871,621</u>	<u>\$ 93,360</u>

\$282,287 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. The net difference between projected and actual investment earnings on pension plan investments is amortized over a five year period. All other deferred outflows of resources and deferred inflows of resources relating to pension amounts reported in these schedules are amortized and included in pension expense over the average remaining service life of 4.27 years.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2017 and 2016

**PENSION LIABILITIES, PENSION EXPENSE, DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (Continued)**

The June 30, 2016 actuarial assumptions used in the actuarial valuations are as follows:

Actuarial cost method	Individual entry age normal cost with level percentage of payroll
Asset valuation method	Fair Value
Amortization method	Level dollar, fixed period
Amortization period	Through FY 2035
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases:	
PERS:	
State	3.0% - 4.6%
Non-state	3.35% - 6.0%
Inflation rate	3.0%
Discount rate	7.5%
Mortality rates	Healthy males - 110% of RP-2000 Non-Annuitant, Scale AA Healthy females - 101% of RP-2000 Non Annuitant, Scale AA Disabled males - 96% of RP-2000 Disabled Annuitant, Scale AA Disabled females - 107% of RP-2000 Disabled Annuitant, Scale AA
Withdrawal rates	
State	1.75 - 35.1%
Non-state	2 - 35.8%
Disability rates	0 - 0.675%
Retirement rates	15% - 100%
Date range in most recent experience study	2009 - 2014

Discount rate - The discount rate used to measure the total pension liability was 7.5% for all defined benefit plans. The projections of cash flows used to determine the discount rates assumed that employer contributions will continue to follow the current funding policies. Based on those assumptions, the fiduciary net position of each defined benefit pension plan was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rates of return on pension plan investments were applied to all periods of projected benefit payments to determine the total pension liabilities of each plan.

<u>Sensitivity of Discount Rate</u>	<u>1% Decrease</u> <u>(6.75%)</u>	<u>Discount Rate</u> <u>(7.75%)</u>	<u>1% Increase</u> <u>(8.75%)</u>
District's proportionate share of the net pension liability	\$ 2,582,990	\$ 1,426,944	\$ 445,153

*Historical Trend Information*

Generally accepted accounting principles require 10 years of historical trend information to be included in the various schedules of RSI. This information is not readily available for fiscal years ending prior to June 30, 2014 and is not presented.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2017 and 2016

**CONSTRUCTION IN PROGRESS**

At June 30, 2017, 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, 2017, expenditures totaling \$11,208 had been incurred on this project, which is expected to cost approximately \$50,000 upon completion.

Project 951 relates to water system capital improvements, namely the installation of water transmission mains. As of June 30, 2017, 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, 2017. The total project is expected to cost approximately \$1,366,000 upon completion.

Project 957 relates to water system capital improvements, namely the installation of the Grubbs Corner tank. As of June 30, 2017, expenditures totaling \$2,476,625 had been incurred on this project, which is expected to cost approximately \$4,000,000 upon completion.

Project 803 relates to Bunker Hill townhomes 16" water main. As of June 30, 2017, expenditures totaling \$7,800 had been incurred on this project, which is expected to cost approximately \$400,000 upon completion.

Project 104 relates to water system capital improvements, namely the easement acquisition, permit acquisition, and design of water lines for Proctor and Gamble. As of June 30, 2017, expenditures totaling \$398,945 had been incurred on this project, which is expected to cost approximately \$540,000 upon completion.

Project 107 relates to water system capital improvements, namely the land acquisition, permit acquisition, and design of water lines for Grapevine Road. As of June 30, 2017, expenditures totaling \$10,986 had been incurred on this project, which is expected to cost approximately \$275,000 upon completion.

Project 110 relates to water system capital improvements, namely the easement acquisition, permit acquisition, and the design of a water line. As of June 30, 2017, expenditures totaling \$83,959 had been incurred on this project, which is expected to cost approximately \$200,000 upon completion.

Project 115 relates to water system capital improvements, namely the construction of a water line. As of June 30, 2017, expenditures totaling \$90 had been incurred on this project, which is expected to cost approximately \$900,000 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 \$3,109,350 and \$2,509,878 for the years ended June 30, 2017 and 2016, respectively. Total capital contributions in the income statement consist of the following:

	<u>2017</u>	<u>2016</u>
Mainline extensions, hydrants, and services	\$ 3,109,350	\$ 2,509,878
Service connection fees	<u>12,150</u>	<u>19,350</u>
Total capital contributions	<u>\$ 3,121,500</u>	<u>\$ 2,529,228</u>

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2017 and 2016

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Cash and cash equivalents consist of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Operation and maintenance	\$ 8,208	\$ 28,029
Revenue fund	1,161,787	646,436
Main and meter fund	499,902	399,495
Tank paint fund - excluding certificates of deposit	1,226,562	731,679
Membrane fund	506,947	387,195
Other cash	1,000	899
Debt service funds	2,090,634	7,814,102
Debt service reserve funds	2,122,176	3,850,410
Construction fund	1,874,520	206,790
Renewal and replacement fund - excluding certificates of deposit	763,005	699,600
Security deposit funds - excluding certificates of deposit	<u>66,753</u>	<u>66,179</u>
Total	<u>\$ 10,321,494</u>	<u>\$ 14,830,814</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</u> <u>Liabilities</u>	<u>Related</u> <u>Expenses</u>
2017	\$ 123,554	\$ 6,638
2016	\$ 116,916	\$ (4,009)
2015	\$ 120,925	\$ 18,048

*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, 2015, 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.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2017 and 2016

**OTHER POST EMPLOYMENT BENEFITS (Continued)**

For the fiscal years ended June 30:

	<u>2017</u>	<u>2016</u>
Normal cost	\$ 2,482	\$ 2,482
Amortization of unfunded	<u>7,204</u>	<u>7,204</u>
Annual required contribution	\$ <u>9,686</u>	\$ <u>9,686</u>
Annual required contribution	\$ 9,686	\$ 9,686
Interest on net OPEB obligation	3,398	3,398
Adjustment to annual required contribution	<u>(5,610)</u>	<u>(5,610)</u>
Annual OPEB Contributions made	<u>7,474</u> <u>(3,048)</u>	7,474 <u>(3,816)</u>
Increase in net OPEB obligation	4,426	3,658
Net OPEB obligation - beginning of year	116,916	120,925
Adjustment pursuant to current actuarial estimate	<u>2,212</u>	<u>(7,667)</u>
Net OPEB obligation - end of year	\$ <u>123,554</u>	\$ <u>116,916</u>

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, 2017 thru 2015:

<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>
2017	\$ 9,686	31.47%	\$ 123,554
2016	\$ 9,686	39.40%	\$ 116,916
2015	\$ 21,092	14.45%	\$ 120,925

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.



**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2017 and 2016

**OTHER POST EMPLOYMENT BENEFITS (Continued)**

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, 2015
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	5%

**SUBSEQUENT EVENTS**

In June 8, 2017 the District received approval from the Berkeley County Commission for a 8.4% rate increase effective beginning July 24, 2017.

In preparing these financial statements, The District has evaluated events and transactions for potential recognition or disclosure through September 18, 2017, the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTAL INFORMATION**

Berkeley County Public Service District

**SCHEDULE OF FUNDING PROGRESS**

For the year ended June 30, 2017

**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
07/01/15	\$ -	\$ 141,206	\$ 141,206	N/A	N/A	N/A
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
2017	\$ 7,474	40.78%
2016	\$ 7,474	51.00%
2015	\$ 21,092	14.45%
2014	\$ 21,092	14.45%
2013	\$ 21,092	18.23%

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 District

**BUDGETARY COMPARISON SCHEDULE**

For the year ended June 30, 2017

	<b>Budgeted Amounts (Original)</b>	<b>Budgeted Amounts (Final)</b>	<b>Actual Amounts Budgetary Basis</b>	<b>Budget to GAAP Differences Over (under)</b>	<b>Actual Amounts GAAP Basis</b>
<b>OPERATING REVENUES</b>					
Metered water sales - domestic	\$ 8,547,000	\$ 8,547,000	\$ 8,698,318	\$ -	\$ 8,698,318
- commercial	1,921,000	1,921,000	1,844,260	-	1,844,260
- industrial	706,000	706,000	800,996	-	800,996
- governmental	188,000	188,000	325,311	-	325,311
Customers' forfeited discounts and penalties	260,000	260,000	259,896	-	259,896
Other operating income	497,300	497,300	558,366	-	558,366
Total operating revenues	12,119,300	12,119,300	12,487,147	-	12,487,147
<b>OPERATING EXPENSES</b>					
Operating income before depreciation	5,467,050	5,452,050	5,962,749	-	5,962,749
<b>DEPRECIATION</b>					
Operating income (loss)	5,467,050	5,452,050	5,962,749	(3,409,883)	2,552,866
<b>NON-OPERATING INCOME (EXPENSES)</b>					
Interest income	30,400	30,400	103,357	-	103,357
Interest expense	- (B)	-	-	(2,479,510)	(2,479,510)
Amortization	- (A)	-	-	(9,659)	(9,659)
Gain (loss) on disposal of Utility Plant	- (A)	-	-	(5,344)	(5,344)
Miscellaneous Nonutility Expense	- (A)	-	-	(1,550)	(1,550)
Total non-operating income (expenses)	30,400	30,400	103,357	(2,496,063)	(2,392,706)
Increase (decrease) in net position before capital contributions	5,497,450	5,482,450	6,066,106	(5,905,946)	160,160
<b>CAPITAL CONTRIBUTIONS</b>	20,300	20,300	12,150 (A)	3,109,350	3,121,500
<b>OTHER FINANCING SOURCES (USES)</b>					
Renewal and replacement funds	354,000 (C)	574,363	549,826 (E)	(549,826)	-
Membrane funds	250,000 (C)	-	- (E)	-	-
Tank Maintenance funds	750,000 (C)	-	- (E)	-	-
Bank Line of Credit	- (C)	1,128,876	400,000 (E)	(400,000)	-
Construction fund	206,000 (C)	206,740	161,753 (E)	(161,753)	-
WVDA Advance	225,000	3,401,805	2,559,467 (E)	(2,559,467)	-
Debt Service	(5,216,750) (D)	(5,216,750)	(5,255,571) (E)	5,255,571	-
Capital improvements	(2,086,000)	(5,597,784)	(3,656,641) (E)	3,656,641	-
Total other financing sources (uses)	(5,517,750)	(5,502,750)	(5,241,166)	5,241,166	-
Increase (decrease) in net position	-	-	824,940	2,456,720	3,281,660
Net position at beginning of year	55,847,144	55,847,144	55,847,144	-	55,847,144
Net position at end of year	\$ 55,847,144	\$ 55,847,144	\$ 56,672,084	\$ 2,456,720	\$ 59,128,804

See independent auditors' report.

**BUDGETARY COMPARISON SCHEDULE (Continued)**

For the year ended June 30, 2017

Notes

- (A) Non-cash items are not included for budgetary purposes.
- (B) Interest expense is included in Debt Service for budgetary purposes.
- (C) Tank, renewal and replacement, M&O, membrane fund, construction fund, and Bank Line of Credit 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, maintenance and meter replacement 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, 2016

	<u>Budgeted Amounts (Original)</u>	<u>Budgeted Amounts (Final)</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Budget to GAAP Differences Over (under)</u>	<u>Actual Amounts GAAP Basis</u>
<b>OPERATING REVENUES</b>					
Metered water sales - domestic	\$ 8,457,000	\$ 8,457,000	\$ 8,528,294	\$ -	8,528,294
- commercial	2,005,000	2,005,000	1,891,697	-	1,891,697
- industrial	657,000	657,000	691,473	-	691,473
- governmental	178,000	178,000	184,454	-	184,454
Customers' forfeited discounts and penalties	274,500	274,500	250,814	-	250,814
Other operating income	461,900	461,900	479,758	-	479,758
Refunds and reimbursements	<u>1,000</u>	<u>1,000</u>	<u>-</u>	<u>(E) -</u>	<u>-</u>
Total operating revenues	<u>12,034,400</u>	<u>12,034,400</u>	<u>12,026,490</u>	<u>-</u>	<u>12,026,490</u>
<b>OPERATING EXPENSES</b>					
Operating income before depreciation	<u>4,843,600</u>	<u>4,843,600</u>	<u>5,981,806</u>	<u>-</u>	<u>5,981,806</u>
<b>DEPRECIATION</b>					
Operating income (loss)	<u>-</u> (A)	<u>-</u>	<u>-</u>	<u>3,726,151</u>	<u>3,726,151</u>
	4,843,600	4,843,600	5,981,806	(3,726,151)	2,255,655
<b>NON-OPERATING INCOME (EXPENSES)</b>					
Interest income	24,600	24,600	35,039	-	35,039
Interest expense	-	-	-	(2,714,249)	(2,714,249)
Amortization	<u>-</u> (A)	<u>-</u>	<u>-</u>	<u>(12,476)</u>	<u>(12,476)</u>
Total non-operating income (expenses)	<u>24,600</u>	<u>24,600</u>	<u>35,039</u>	<u>(2,726,725)</u>	<u>(2,691,686)</u>
Decrease in net position before capital contributions					
	<u>4,868,200</u>	<u>4,868,200</u>	<u>6,016,845</u>	<u>(6,452,876)</u>	<u>(436,031)</u>
<b>CAPITAL CONTRIBUTIONS</b>					
	<u>17,500</u>	<u>17,500</u>	<u>19,350</u>	<u>(A) 2,509,878</u>	<u>2,529,228</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Renewal and replacement funds	459,000	459,000	306,525	(E) (306,525)	-
Membrane funds	275,000	275,000	80,152	(E) (80,152)	-
Main and meter funds	91,000	91,000	252,060	(E) (252,060)	-
WVDA Advance	1,250,000	1,250,000	-	(E) -	-
Debt Service	(4,855,700)	(4,855,700)	(4,431,705)	(E) 4,431,705	-
Capital improvements	<u>(2,105,000)</u>	<u>(2,105,000)</u>	<u>(982,752)</u>	<u>(E) 982,752</u>	<u>-</u>
Total other financing sources (uses)	<u>(4,885,700)</u>	<u>(4,885,700)</u>	<u>(4,775,720)</u>	<u>4,775,720</u>	<u>-</u>
Increase (decrease) in net position	\$ -	-	1,241,125	852,072	2,093,197
Net position at beginning of year	<u>53,753,947</u>	<u>53,753,947</u>	<u>53,753,947</u>	<u>-</u>	<u>53,753,947</u>
Net position at end of year	<u>53,753,947</u>	<u>\$ 53,753,947</u>	<u>\$ 54,995,072</u>	<u>\$ 852,072</u>	<u>\$ 55,847,144</u>

See independent auditors' report.

Berkeley County Public Service District

**BUDGETARY COMPARISON SCHEDULE (Continued)**

For the year ended June 30, 2016

Notes

- (A) Non-cash items are not included for budgetary purposes.
- (B) Interest expense is included in Debt Service for budgetary purposes.
- (C) Tank, meter and main maintenance plus membrane 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.

## **SUPPLEMENTAL INFORMATION**



Berkeley County Public Service District  
**SCHEDULE OF OPERATING EXPENSES**  
For the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Source of supply expenses		
Maintenance of sources of supply	\$ 3,849	\$ 1,248
Water purchased	299,261	279,794
Miscellaneous expenses	69,163	70,663
Rents	1,560	-
Total	<u>373,833</u>	<u>351,705</u>
Pumping system expenses		
Power purchased	538,081	509,094
Maintenance of treatment system	7,733	91,566
Total	<u>545,814</u>	<u>600,660</u>
Treatment expenses		
Operation supervision and labor	507,087	464,300
Chemical treatment	289,950	296,814
Miscellaneous expenses	123,906	115,430
Maintenance of treatment system	94,069	92,758
Total	<u>1,015,012</u>	<u>969,302</u>
Transmission and distribution expenses		
Operation supervision and labor	968,165	828,410
Miscellaneous expenses	99,609	110,141
Maintenance of distribution mains	493,972	493,680
Power Purchased	44,585	41,172
Rent - railroad right of way	7,275	7,575
Total	<u>1,613,606</u>	<u>1,480,978</u>
Customers' accounting and collection expenses		
Meter reading	17,442	41,598
Accounting and collection	459,215	429,108
Total	<u>476,657</u>	<u>470,706</u>
General and administrative expenses		
Salaries and wages	652,693	660,376
Office and general supplies	57,547	86,757
Outside services	133,808	93,332
Employee welfare	1,073,789	776,331
Regulatory commission expense	37,040	38,092
Insurance	205,273	196,791
Miscellaneous expenses	145,236	140,268
Maintenance of equipment	2,265	3,928
Payroll taxes	191,825	175,458
Total	<u>2,499,476</u>	<u>2,171,333</u>
Total operating expenses	<u>\$ 6,524,398</u>	<u>\$ 6,044,684</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, 2017 and 2016, 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 18, 2017.

**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 18, 2017