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Marietta, OH 45750
740.373.0056

1907 Grand Central Ave.
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304.422.2203

104 South Sugar St.
St. Clairsville, OH 43950
740.695.1569

1310 Market Street, Suite 300
Wheeling, WV 26003
304.232.1358



**CHARLES TOWN UTILITY BOARD
Component Unit of the
Municipality of Charles Town
JEFFERSON COUNTY
Regular Audit
For the Year Ended June 30, 2017**

RFP #17-230

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**CHARLES TOWN UTILITY BOARD
JEFFERSON COUNTY
FOR THE YEAR ENDED JUNE 30, 2017**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report.....	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statement of Net Position	9
Statement of Revenues, Expenses, and Changes in Net Position	11
Statement of Cash Flows	12
Notes to the Financial Statements.....	14
Required Supplemental Information:	
Schedule of Proportionate Share of Net Pension Liability	31
Schedule of Contributions	32
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	33
Schedule of Audit Findings.....	35
Schedule of Prior Audit Findings	36



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INDEPENDENT AUDITOR'S REPORT

December 13, 2017

Charles Town Utility Board
Jefferson County
832 South George Street
Charles Town, WV 25414

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the **Charles Town Utility Board**, a component unit of the Municipality of Charles Town, Jefferson County, West Virginia (the Utility Board), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Utility Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to the preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Utility Board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Utility Board's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our opinion.

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Basis for Qualified Opinion

The Utility Board has elected not to record the 2017 OPEB expense that, should be recorded in order to conform with accounting principles generally accepted in the United States of America. If the OPEB expense was recorded, OPEB liability would increase \$34,578, and net position would decrease by \$34,578 as of June 30, 2017. Additionally, expenses would increase by \$34,578 for the year ending June 30, 2017. In addition, the Utility Board has elected not to record previous periods OPEB expense that, should be recorded in order to conform to accounting principles generally accepted in the United States of America. If the previous OPEB expense was recorded the OPEB liability would be \$754,041 as of June 30, 2017.

Qualified Opinion

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Charles Town Utility Board, as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with the 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 this presentation to include *Management's discussion and analysis and schedules of net pension liabilities and pension contributions*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2017 on our consideration of the Utility Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility Board's internal control over financial reporting and compliance.



Perry and Associates
Certified Public Accountants, A.C.
Marietta, Ohio

Charles Town Utility Board
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017
(Unaudited)

The discussion and analysis of the Charles Town Utility Board's (Utility Board) financial performance provides an overview of the Utility Board's financial activities for the fiscal year ended June 30, 2017. Please read it in conjunction with the Utility Board's financial statements.

FINANCIAL HIGHLIGHTS

The Utility Board's net position increased \$1.2 million as a result of this year's operations. Net position of the water fund increased \$0.9 million compared to the previous year, or 26 percent. Net position of the sewer fund increased by \$0.3 million, or 2 percent compared to the previous year.

The Utility Board's operating revenues increased by \$1.1 million and operating expenses increased by \$0.7 million compared to the previous year. Water fund operating revenues increased by \$0.7 million and water fund operating expenses increased by \$0.5 million compared to the previous year. Sewer fund operating revenues increased by \$0.4 million and sewer operating expenses increased by \$0.2 million compared to the previous year.

Operating income increased by \$0.2 million for the water fund and increased by \$0.2 million for the sewer fund compared to the previous year.

The Utility Board had construction in progress at June 30, 2017, most significantly to upgrades of water and sewer treatment plants. Total estimated cost of the projects is \$12.8 million with \$8.7 million incurred as of June 30, 2017. The projects are being funded by the issuance of bonds.

USING THIS ANNUAL REPORT

1. Management's Discussion and Analysis

The Management's Discussion and Analysis is intended to serve as an introduction to the Utility Board's financial statements. The Utility Board's financial statements and Notes to the Financial Statements included in this report were prepared in accordance with GAAP applicable to governmental entities in the United States of America for proprietary fund types, except that the Utility Board has elected to not record the liability for other post employment benefits (OPEB).

2. Financial Statements

The financial statements are designed to provide readers with a broad overview of the Utility Board's finances, in a manner similar to private-sector business. They consist of the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows.

The Statement of Net Position presents information on all the Utility Board's assets/deferred outflows and liabilities/deferred inflows with the difference between the two reported as net position. Increases or decreases in net position will serve as a useful indicator of whether the financial position of the Utility Board is improving or deteriorating.

Charles Town Utility Board
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017
(Unaudited)

2. Financial Statements (continued)

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the Utility Board's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in different fiscal periods (e.g., depreciation and earned but unused vacation leave).

The Statement of Cash Flows presents the Utility Board's sources and uses of cash and changes in cash balances between the current and prior year.

The basic financial statements report all Utility Board financial activities. The activities are primarily supported by water and sewer user fees. The Utility Board's mission is furthering the preservation of public health, comfort and convenience of the residents of the Municipality of Charles Town and surrounding areas by providing water and sewer services to customers in its franchise area.

3. Notes to Financial Statements

The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The Notes to Financial Statements can be found in the financial statements mentioned at #2 above.

Charles Town Utility Board
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017
(Unaudited)

REPORTING THE UTILITY BOARD AS A WHOLE

The analysis below focuses on net position (Table 1) and changes in net position (Table 2) of the Utility Board's financial activities.

Table 1 - Net Position (in Millions)

	<u>Water</u>		<u>Sewer</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 4.9	\$ 9.8	\$ 3.4	\$ 2.5	\$ 8.3	\$ 12.3
Capital assets	20.5	15.4	34.9	32.4	55.4	47.8
Total assets	25.4	25.2	38.3	34.9	63.7	60.1
Deferred outflows of resources	0.8	0.8	0.4	0.3	1.2	1.1
Total assets and deferred outflows of resources	\$ 26.2	\$ 26.0	\$ 38.7	\$ 35.2	\$ 64.9	\$ 61.2
Long-term debt outstanding	\$ 20.2	\$ 21.4	\$ 21.1	\$ 18.6	\$ 41.3	\$ 40.0
Other liabilities	1.6	0.9	1.2	0.5	2.8	1.4
Total liabilities	21.8	22.3	22.3	19.1	44.1	41.4
Deferred inflows of resources	-	0.2	0.1	0.1	0.1	0.3
Net position:						
Net investment in capital assets	1.1	0.9	13.8	14.5	14.9	15.4
Restricted	2.2	1.7	2.0	1.3	4.2	3.0
Unrestricted	1.1	0.9	0.5	0.2	1.6	1.1
Total net position	4.4	3.5	16.3	16.0	20.7	19.5
Total liabilities, deferred and net position	\$ 26.2	\$ 26.0	\$ 38.7	\$ 35.2	\$ 64.9	\$ 61.2

Charles Town Utility Board
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2017
 (Unaudited)

Net position of the Utility Board as a whole increased by 6 percent (\$1.2 million). Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, increased from \$1.1 million at June 30, 2016, to \$1.6 million at the end of this year.

Water net position increased by \$0.9 million or 26 percent and sewer net position increased by \$0.3 million or 2 percent.

By far, the largest portion of the Utility Board's assets reflects its investment in capital assets. The Utility Board uses these capital assets to provide water and sewer services to its customers; consequently, these assets are not available for future spending.

Table 2 - Changes in Net Position (in Millions)

	<u>Water</u>		<u>Sewer</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Operating revenues	\$ 3.9	\$ 3.2	\$ 3.8	\$ 3.4	\$ 7.7	\$ 6.6
Operating expenses	<u>3.4</u>	<u>2.9</u>	<u>3.2</u>	<u>3.0</u>	<u>6.6</u>	<u>5.9</u>
Operating income	0.5	0.3	0.6	0.4	1.1	0.7
Non-operating revenues (expenses)	<u>0.1</u>	<u>(0.3)</u>	<u>(0.4)</u>	<u>(0.3)</u>	<u>(0.3)</u>	<u>(0.6)</u>
Changes in net position before capital contributions	0.6	-	0.2	0.1	0.8	0.1
Capital contributions	<u>0.3</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.4</u>	<u>0.2</u>
Change in net position	<u>\$ 0.9</u>	<u>\$ 0.1</u>	<u>\$ 0.3</u>	<u>\$ 0.2</u>	<u>\$ 1.2</u>	<u>\$ 0.3</u>

The Utility Board's operating revenues increased by \$1.1 million or 17 percent. The operating expenses increased by \$0.7 million or 12 percent. The analysis separately considers the operations of the water and sewer funds.

BUDGETARY HIGHLIGHTS

For the year ended June 30, 2017, budgets were prepared by the Utility Board and were approved by the Utility Board of Directors. The budgets were primarily used as a management tool and have no legal stature. The budgets were prepared in accordance with principles used in the preparation of the basic financial statements.

Charles Town Utility Board
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2017
 (Unaudited)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2017, the Utility Board had \$55.4 million invested in a broad range of capital assets, including land, structures, machinery and equipment, and water and sewer lines (see Table 3 below). This amount represents a net increase (including additions and disposals) of \$7.6 million.

Table 3 - Capital Assets at Year-End (Net of Depreciation, in Millions)

	2017	2016
Capital assets not depreciated - utility plant	\$ 9.2	\$ 1.9
Capital assets depreciated - utility plant	70.0	67.7
Totals	79.2	69.6
Accumulated depreciation	(23.8)	(21.8)
Capital assets, net of depreciation	\$ 55.4	\$ 47.8

Capital additions placed in service for the year ended June 30, 2017 are as follows (in Millions)

Water

Treatment plant improvements	\$ 0.3
Equipment	0.1
Water tank improvements	0.2
Water transmission and distributions improvement projects	1.2
	1.8

Sewer

Collection mains	0.3
Treatment plant improvements	0.2
	0.5
Total 2017 additions	\$ 2.2

Charles Town Utility Board
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2017
 (Unaudited)

Debt

At year-end, the Utility Board had \$42.3 million in long-term debt outstanding compared to \$40.0 million in the previous year.

Table 4 - Outstanding Debt at Year-End (in Millions)

	2017	2016
Leases	\$ 0.3	\$ 0.3
Loans (Municipality of Charles Town)	0.5	0.5
Notes	0.1	0.1
Bonds	41.4	39.1
Total	\$ 42.3	\$ 40.0

The debt resulted mainly from issuing revenue bonds for the construction of water and sewer utility plant improvements. These bonds are secured by revenues derived from the combined water and sewer system.

Other obligations include notes, loans, and obligations under capital leases. More detailed information about the Utility Board's long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS

The Utility Board's appointed officials considered many factors when setting the fiscal-year 2017 budget. One of those factors was the economy. The County's population has a direct impact on the Utility Board's economic growth.

The Utility Board is optimistic about its potential for economic growth in the future. The increasing population, infrastructure improvements, annexation, and procurement of grants and other funding sources are all positive indicators for continued economic growth of the Utility Board.

CONTACTING THE UTILITY BOARD'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, customers, and investors and creditors with a general overview of the Utility Board's finances and to show the Utility Board's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Utility Manager at 832 South George Street, Charles Town, WV 25414.

Charles Town Utility Board
STATEMENT OF NET POSITION
June 30, 2017

ASSETS AND DEFERRED OUTFLOWS

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
ASSETS			
CURRENT ASSETS			
Cash	\$ 615,260	\$ 279,561	\$ 894,821
Customer accounts receivable, net of allowances	163,171	88,594	251,765
Due from sewer department	15,451	-	15,451
Due from associated companies	4,200	183,651	187,851
Inventory, at cost	100,018	1,768	101,786
Accrued utility revenue	332,786	190,224	523,010
 Total current assets	 <u>1,230,886</u>	 <u>743,798</u>	 <u>1,974,684</u>
RESTRICTED ASSETS			
Debt service funds	1,073,967	898,049	1,972,016
Construction funds	1,181,768	582,518	1,764,286
Capacity improvement funds	1,141,388	997,439	2,138,827
Repair and replacement funds	140,238	131,946	272,184
 Total restricted assets	 <u>3,537,361</u>	 <u>2,609,952</u>	 <u>6,147,313</u>
CAPITAL ASSETS			
Utility plant in service	29,617,404	40,871,949	70,489,353
Less: accumulated depreciation and amortization	14,463,980	9,333,794	23,797,774
 Net utility plant in service	 15,153,424	 31,538,155	 46,691,579
 Construction in progress	 <u>5,323,619</u>	 <u>3,380,253</u>	 <u>8,703,872</u>
 Total capital assets	 <u>20,477,043</u>	 <u>34,918,408</u>	 <u>55,395,451</u>
OTHER ASSETS			
Prepaid bond insurance	117,242	50,974	168,216
 Total assets	 <u>25,362,532</u>	 <u>38,323,132</u>	 <u>63,685,664</u>
DEFERRED OUTFLOWS OF RESOURCES			
Unamortized amounts from refunding of debt	519,343	132,231	651,574
Defined benefit pension plan contribution	89,869	59,427	149,296
Collective deferred outflows related to pension	251,291	149,439	400,730
 Total deferred outflows	 <u>860,503</u>	 <u>341,097</u>	 <u>1,201,600</u>
 Total assets and deferred outflows	 <u>\$ 26,223,035</u>	 <u>\$ 38,664,229</u>	 <u>\$ 64,887,264</u>

See accompanying notes to financial statements.

Charles Town Utility Board
STATEMENT OF NET POSITION (CONTINUED)
June 30, 2017

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

	Water Fund	Sewer Fund	Totals
CURRENT LIABILITIES			
(PAYABLE FROM CURRENT ASSETS)			
Accounts payable	\$ 198,825	\$ 109,857	\$ 308,682
Accrued expenses	174,957	88,257	263,214
Customer deposits	129,734	58,213	187,947
Due to water fund	-	15,451	15,451
Notes payable (current portion)	-	5,510	5,510
Capital lease payable (current portion)	93,368	-	93,368
	<u>596,884</u>	<u>277,288</u>	<u>874,172</u>
CURRENT LIABILITIES			
(PAYABLE FROM RESTRICTED ASSETS)			
Revenue bonds payable	865,813	902,102	1,767,915
Accrued revenue bond interest payable	125,314	46,741	172,055
	<u>991,127</u>	<u>948,843</u>	<u>1,939,970</u>
LONG-TERM LIABILITIES			
(NET OF CURRENT PORTION)			
Revenue bonds payable	18,967,974	20,636,937	39,604,911
Capital lease payable	206,626	-	206,626
Notes payable	-	7,846	7,846
Accrued expenses	50,147	25,463	75,610
Loan from Charles Town	444,920	118,979	563,899
Collective net pension liability	525,226	334,238	859,464
	<u>20,194,893</u>	<u>21,123,463</u>	<u>41,318,356</u>
Total long-term liabilities	<u>20,194,893</u>	<u>21,123,463</u>	<u>41,318,356</u>
Total liabilities	<u>21,782,904</u>	<u>22,349,594</u>	<u>44,132,498</u>
DEFERRED INFLOWS OF RESOURCES			
Collective deferred inflows related to pension	26,821	15,051	41,872
	<u>21,809,725</u>	<u>22,364,645</u>	<u>44,174,370</u>
Total liabilities and deferred inflows	<u>21,809,725</u>	<u>22,364,645</u>	<u>44,174,370</u>
NET POSITION			
Net investment in capital assets	1,080,110	13,829,552	14,909,662
Restricted	2,230,279	1,980,693	4,210,972
Unrestricted	1,102,921	489,339	1,592,260
	<u>4,413,310</u>	<u>16,299,584</u>	<u>20,712,894</u>
Total net position	<u>4,413,310</u>	<u>16,299,584</u>	<u>20,712,894</u>
Total liabilities, deferred inflows and net position	<u>\$ 26,223,035</u>	<u>\$ 38,664,229</u>	<u>\$ 64,887,264</u>

See accompanying notes to financial statements.

Charles Town Utility Board
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the year ended June 30, 2017

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
OPERATING REVENUES			
Sales and services to customers	<u>\$ 3,938,563</u>	<u>\$ 3,795,500</u>	<u>\$ 7,734,063</u>
Total operating revenues	<u>3,938,563</u>	<u>3,795,500</u>	<u>7,734,063</u>
OPERATING EXPENSES			
Personal services	776,995	712,582	1,489,577
Contractual services	146,648	228,679	375,327
Administrative and general	156,557	110,089	266,646
Materials and supplies	265,768	389,867	655,635
Utilities	157,968	355,407	513,375
Maintenance	957,854	393,910	1,351,764
Depreciation and amortization	<u>942,604</u>	<u>966,319</u>	<u>1,908,923</u>
Total operating expenses	<u>3,404,394</u>	<u>3,156,853</u>	<u>6,561,247</u>
Operating income	<u>534,169</u>	<u>638,647</u>	<u>1,172,816</u>
NONOPERATING REVENUES (EXPENSES)			
Interest revenue	17,485	12,672	30,157
Interest and fiscal charges	(399,553)	(314,773)	(714,326)
Bond issuance costs	-	(105,855)	(105,855)
Miscellaneous revenues	<u>462,173</u>	<u>-</u>	<u>462,173</u>
Total nonoperating revenues (expenses)	<u>80,105</u>	<u>(407,956)</u>	<u>(327,851)</u>
Income before contributed capital	614,274	230,691	844,965
CONTRIBUTED CAPITAL	<u>277,483</u>	<u>86,779</u>	<u>364,262</u>
Change in net position	891,757	317,470	1,209,227
Total net position at beginning of year	<u>3,521,553</u>	<u>15,982,114</u>	<u>19,503,667</u>
Total net position at end of year	<u><u>\$ 4,413,310</u></u>	<u><u>\$ 16,299,584</u></u>	<u><u>\$ 20,712,894</u></u>

See accompanying notes to financial statements.

Charles Town Utility Board
STATEMENT OF CASH FLOWS
For the year ended June 30, 2017

	Water Fund	Sewer Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 3,892,526	\$ 3,722,692	\$ 7,615,218
Cash paid for operation and maintenance expenses	<u>(2,415,785)</u>	<u>(2,184,507)</u>	<u>(4,600,292)</u>
Net cash provided by operations	<u>1,476,741</u>	<u>1,538,185</u>	<u>3,014,926</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(6,001,214)	(3,488,828)	(9,490,042)
Bond acquisition costs paid	-	(105,855)	(105,855)
Proceeds from revenue bonds and long-term debt	140,888	3,997,250	4,138,138
Principal paid on revenue bonds and long-term debt	(951,770)	(879,957)	(1,831,727)
Payment of bond insurance	-	(40,681)	(40,681)
Interest paid on bonds, notes and leases payable	(336,297)	(299,422)	(635,719)
Decrease in restricted assets, net	5,211,085	(648,793)	4,562,292
Other contributed capital	<u>277,483</u>	<u>86,779</u>	<u>364,262</u>
Net cash used in capital and related financing activities	<u>(1,659,825)</u>	<u>(1,379,507)</u>	<u>(3,039,332)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest and other income received	475,458	12,672	488,130
Interest paid on refunded customer security deposits	(657)	(408)	(1,065)
Interdepartmental advances/repayments	7,900	(7,900)	-
Payments to other utilities	(423)	-	(423)
Repayment of City of Charles Town general fund advances	<u>(10,180)</u>	<u>(2,636)</u>	<u>(12,816)</u>
Net cash provided by (used in) investing activities	<u>472,098</u>	<u>1,728</u>	<u>473,826</u>
Net increase in cash and cash equivalents	289,014	160,406	449,420
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>326,246</u>	<u>119,155</u>	<u>445,401</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 615,260</u>	<u>\$ 279,561</u>	<u>\$ 894,821</u>

See accompanying notes to financial statements.

Charles Town Utility Board
STATEMENT OF CASH FLOWS (CONTINUED)
For the year ended June 30, 2017

	Water Fund	Sewer Fund	Totals
Operating income	\$ 534,169	\$ 638,647	\$ 1,172,816
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization expense	942,604	966,319	1,908,923
Decrease (increase) in receivables	12,576	(41,745)	(29,169)
Decrease (increase) in accrued revenues	(60,774)	(22,775)	(83,549)
Decrease (increase) in inventory	(14,245)	-	(14,245)
Decrease (increase) in pension deferred outflows	(66,590)	(48,690)	(115,280)
Increase (decrease) in accounts payable	48,748	623	49,371
Increase (decrease) in customer deposits	2,161	(8,287)	(6,126)
Increase (decrease) in accrued expenses	2,646	(377)	2,269
Increase (decrease) in collective net pension liability	223,443	156,999	380,442
Increase (decrease) in pension deferred inflows	(147,997)	(102,529)	(250,526)
Net cash provided by operating activities	\$ 1,476,741	\$ 1,538,185	\$ 3,014,926

**SUPPLEMENTAL DISCLOSURES
OF CASH FLOW INFORMATION**

Noncash investing, capital, and financing transactions:

 Capital assets financed by accounts payable

\$ -	\$ -	-
\$ -	\$ -	-

RECONCILIATION OF CASH

Cash per statement of net position

\$ 615,260	\$ 279,561	\$ 894,821
\$ 615,260	\$ 279,561	\$ 894,821

Cash per statement of cash flows

\$ 615,260	\$ 279,561	\$ 894,821
\$ 615,260	\$ 279,561	\$ 894,821

See accompanying notes to financial statements.

Charles Town Utility Board
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS

The Charles Town Utility Board (the "Utility Board") is a component unit of the Municipality of Charles Town, West Virginia. The Utility Board's purpose is furthering the preservation of the public health, comfort, and convenience of the residents of the Municipality of Charles Town and surrounding areas by providing water and sewer services to customers in its franchise area. The Utility Board is governed by a board of directors who are appointed by the Municipality of Charles Town. The Utility Board serves approximately 6,310 water customers and 3,293 sewer customers.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Significant accounting policies of the Utility Board are described below.

Reporting Entity

For financial reporting purposes, the Utility Board is considered a component unit of the Municipality of Charles Town. The basic criteria for defining the Utility Board as a component unit of the Municipality of Charles Town is the financial interdependence, accountability for fiscal matters, significant influence on operations and ability to designate management.

The Utility Board is a combined water and sewer utility. For purposes of establishing user rates and charges and as required by its revenue bond issues, water and sewer are maintained as separate funds with separate books of account.

Basis of Presentation

The accounting policies of the Utility Board conform to accounting principles generally accepted in the United States of America as applicable to enterprise funds of governmental units. The Utility Board accounts for its operations in a manner similar to those often found in the private sector. The measurement focus is based upon the determination of net income. The costs (including depreciation) of providing goods and services to customers on a continuing basis are recovered primarily through user charges. Periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control and accountability.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Revenues and expenses of the Utility Board are accounted for within two funds, both of which are enterprise funds. The Utility Board uses the accrual basis of accounting for its enterprise funds, under which revenues are recognized when they are earned and expenses are recognized when they are incurred.

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Utility Board. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange or ancillary activities.

Charles Town Utility Board
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting (continued)

When both restricted and unrestricted resources are available for use, it is the Utility Board's policy to use restricted resources first, and then the unrestricted resources as needed. See Note 1 for information describing restricted assets.

Utility Plant

Utility plant purchased or acquired under capital leases by the Utility Board is stated at cost and utility plant contributed to the Utility Board is stated at fair market value at the time received. Depreciation is provided on all utility plant in service based on the estimated useful lives, which range from 5 to 50 years, using the straight-line method. The Utility Board's policy is to capitalize all property, plant, and equipment with a purchase price greater than \$5,000.

Expenditures for repairs and upgrading which materially add to the value or life of an asset are capitalized. Other maintenance and repair costs are expensed as incurred.

Interest is capitalized on qualifying construction in process. For assets acquired with tax-exempt debt, the amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project and the interest earned from temporary investment of the debt proceeds. Capitalized interest is amortized using the straight-line method over the estimated useful lives of the assets. The Utility Board capitalized \$285,308 of interest in the water fund and \$111,137 of interest in the sewer fund during the year ended June 30, 2017.

The depreciation/amortization of assets acquired under capital leases or in excess of predecessor book value are included in depreciation expense.

Cash and Cash Equivalents

For purposes of reporting the statement of cash flows, the Utility Board considers all cash accounts and all highly liquid debt instruments purchased with an original maturity of three months or less, to be cash equivalents.

Bank balances at June 30, 2017 includes deposits of \$5,272,127 at four banks. Deposits are FDIC insured and deposits in excess of FDIC limits are 100% collateralized with securities held by the financial institution in the name of the Utility Board.

All carrying values are the same as market values.

Restricted Assets

Assets whose use is limited include:

Debt service funds and debt service reserve funds represent funds required by debt covenants under the various debt ordinances. These funds are to be used to pay bond interest and principal.

Construction funds represent funds held by banks as trustees under the bond ordinances. These funds are to be used solely for payment of costs associated with the Utility Board's ongoing construction projects.

Capacity improvement funds are established by ordinance. The capacity improvement fund is kept apart from all other funds. Withdrawals and disbursements are made for improvements and upgrades to the system that maintain or increase capacity to service customers.

Charles Town Utility Board
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted Assets (continued)

The repair and replacement fund represents funds held by a bank under the Utility Board's bond ordinances. Withdrawals may be made for replacement and emergency repairs.

All carrying values are the same as market values.

Accounts Receivable and Bad Debts

The Utility Board's management periodically analyzes delinquent accounts of the water and sewer funds and uses the allowance method for accounting for bad debts. At June 30, 2017, accounts receivable for the water and sewer funds are \$163,171 and \$88,594, respectively, net of allowance for doubtful accounts.

Revenue Recognition

The Utility Board's policy is to recognize revenue on the accrual basis. The Utility Board accrues revenue earned but not billed. Revenue accrued but not billed for the water and sewer funds at June 30, 2017 are \$332,786 and \$190,224, respectively.

Deferred Outflows and Inflows of Resources

A deferred outflow of resources represents a consumption of net assets applicable to a future reporting period and will not be recognized as an expense until then. Deferred outflows from the refunding of debt will be recognized as interest expense in the appropriate reporting period. Deferred outflows related to the Utility Board's defined benefit pension plan will be recognized based on actuarial determinations.

A deferred inflow of resources represents an acquisition of net assets applicable to a future reporting period and will not be recognized as revenue until then. Deferred inflows related to the Utility Board's defined benefit pension plan will be recognized based on actuarial determinations.

Advance Refunding of Debt

Deferred amounts resulting from advance refunding of debt are being amortized by the straight-line method over the life of the new debt.

Income Taxes

The Utility Board is exempt from federal and state income taxes as a subdivision of the Municipality of Charles Town.

Inventories

Inventories consist of expendable supplies and are accounted for on a first-in first-out basis. Inventories approximate fair market value at June 30, 2017.

Compensated Absences

The Utility Board's policy is to permit employees to accumulate earned but unused vacation benefits. The Utility Board fully recognizes the liability related to compensated absences in the funds. For the water and sewer funds, compensated absences at June 30, 2017, amounted to \$50,147 and \$25,463, respectively.

Charles Town Utility Board
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain 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 expenses during the reporting period. Actual results could differ from those estimates.

Nonexchange Transactions

The Utility Board follows GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (Statement 33), which establishes accounting and reporting guidelines for government entities that gives (or receives) value without directly receiving (or giving) equal value in return. The Utility Board receives voluntary nonexchange transactions from developer and customer donations of cash, property, lines and improvements. In addition, the Utility Board receives various capital grants from federal and state agencies. These donations are considered capital contributions on the Statement of Revenues, Expenses and Changes in Net Position.

Customer Deposits

Customer deposits are refunded after bills for service have been paid on time for twelve consecutive months.

Net Position

Net position presents the difference between assets/deferred outflows and liabilities/deferred inflows in the statement of net position. Net investment in capital assets is reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when legal limitations are imposed on its use by legislation or external restrictions by creditors, grantors, laws or regulations of other governments. Unrestricted net position is net position that does not meet the definition of "net investment in capital assets, or restricted net position."

Interfund Transactions

Interfund transactions are reflected in the financial statements and recorded through applicable "due to/due from" asset and liability accounts.

Pension

For purposes of measuring the net pension liability and deferred outflows/inflows of the resources related to the pension, and pension expense, information about the fiduciary net position of the Utility Board's Public Retirement System (PERS) and additions to/deduction from the Plan's fiduciary net position have been determined on the same basis as they are reported by the PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Charles Town Utility Board
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 - NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* addresses accounting and financial reporting issues related to other postemployment benefits provided to employees of state and local government employers. Statement 75 will be effective for the Utility Board for fiscal year ending June 30, 2018.

GASB Statement No. 82, *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73* addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 63, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Statement 82 will be effective for the Utility Board for fiscal year ending June 30, 2018.

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations. This statement establishes criteria for determining the timing and pattern for recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. Statement 83 will be effective for the Utility Board for fiscal year ending June 30, 2019.

GASB Statement No. 85, *Omnibus 2017*, purpose is to address practice issues that have been identified during implementation and application of certain GASB statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. Statement No. 85 will be effective for the Utility Board for fiscal year ending June 30, 2018.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, objective is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. Statement No. 86 will be effective for the Utility Board for fiscal year ending June 30, 2018.

GASB Statement No. 87, *Leases*, the objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. No. 87 will be effective for the Utility Board for fiscal year ending June 30, 2021.

The Utility Board has not yet determined the effect these Statements will have on its financial statements.

Charles Town Utility Board
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 3 - CASH

Cash consists of the following accounts and amounts at June 30, 2017:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Petty cash	\$ 75	\$ 75	\$ 150
Operations and maintenance accounts	324,102	89,850	413,952
Security deposit accounts	39,412	54,806	94,218
Working capital reserve accounts	<u>251,671</u>	<u>134,830</u>	<u>386,501</u>
	<u>\$ 615,260</u>	<u>\$ 279,561</u>	<u>\$ 894,821</u>

NOTE 4 - CAPITAL ASSETS

	Balance at June 30, 2016	<u>Additions</u>	<u>Reductions</u>	Balance at June 30, 2017
Capital Assets Not Depreciated				
Land and land rights	\$ 525,800	\$ -	\$ -	\$ 525,800
Construction in progress	<u>1,432,270</u>	<u>9,466,634</u>	<u>2,195,032</u>	<u>8,703,872</u>
Total Capital Assets Not	<u>1,958,070</u>	<u>9,466,634</u>	<u>2,195,032</u>	<u>9,229,672</u>
Capital Assets Depreciated				
Utility plant in service	67,768,521	2,195,032	-	69,963,553
Less accumulated depreciation	<u>(21,888,851)</u>	<u>(1,908,923)</u>	<u>-</u>	<u>(23,797,774)</u>
Net Capital Assets Depreciated	<u>45,879,670</u>	<u>286,109</u>	<u>-</u>	<u>46,165,779</u>
Total Capital Assets	<u>\$ 47,837,740</u>	<u>\$ 9,752,743</u>	<u>\$ 2,195,032</u>	<u>\$ 55,395,451</u>
Depreciation Expense	<u>\$ 1,908,923</u>			

Charles Town Utility Board
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 5 - LONG-TERM DEBT

The following is a summary of bonds and notes payable at June 30, 2017:

Bonds Payable - Water Fund

Issue	Maturity Date	Interest Rates	Balance June 30, 2016	Additions	Payments	Balance June 30, 2017	Due Within One Year
1987B	2026	0.00%	\$ 119,735	\$ -	\$ 10,885	\$ 108,850	\$ 10,885
1988B	2028	0.00%	185,992	-	14,308	171,684	14,308
1989B	2029	0.00%	42,173	-	3,012	39,161	3,012
2002A	2039	5.80%	931,380	-	18,826	912,554	19,917
2002B	2042	0.00%	2,431,168	-	93,507	2,337,661	93,507
2010A	2031	2.00%	706,981	-	41,638	665,343	42,478
2010B	2031	2.00%	77,480	-	4,563	72,917	4,656
2013B	2043	4.70%	1,096,600	-	28,800	1,067,800	22,800
2014C	2033	2.50%-4.75%	790,000	-	35,000	755,000	35,000
2014E	2026	1.50%-3.40%	1,265,000	-	110,000	1,155,000	115,000
2015A	2030	1.50%-3.50%	1,732,500	-	81,900	1,650,600	85,050
2015B	2029	1.50%-4.00%	3,527,550	-	238,950	3,288,600	259,200
2016A	2046	1.60%-4.50%	7,695,000	-	140,000	7,555,000	160,000
Total Bonds Payable			\$ 20,601,559	\$ -	\$ 21,389	19,780,170	\$ 865,813
Unamortized Premiums/ Discounts,						<u>53,617</u>	
						<u><u>\$ 19,833,787</u></u>	

Maturities of water bonds payable for years succeeding June 30, 2017, are as follows:

Year	Principal	Interest	Total
2018	\$ 865,813	\$ 581,070	\$ 1,446,883
2019	889,165	563,725	1,452,890
2020	905,407	547,115	1,452,522
2021	921,789	529,969	1,451,758
2022	933,217	511,190	1,444,407
2023-2027	4,893,994	2,174,805	7,068,799
2028-2032	3,494,121	1,524,033	5,018,154
2033-2037	2,535,703	1,000,643	3,536,346
2038-2042	2,631,061	560,868	3,191,929
2043-2046	1,709,900	152,381	1,862,281
	<u>\$ 19,780,170</u>	<u>\$ 8,145,799</u>	<u>\$ 27,925,969</u>

Charles Town Utility Board
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 5 - LONG-TERM DEBT (continued)

Bonds Payable - Sewer Fund

Issue	Maturity Date	Interest Rates	Balance June 30, 2016	Additions	Payments	Balance June 30, 2017	Due Within One Year
1988B	2028	0.00%	\$ 98,628	\$ -	\$ 7,588	\$ 91,040	\$ 7,588
1998 Design	2019	2.00%	83,500	-	25,119	58,381	25,625
2000A	2021	2.00%	999,300	-	173,632	825,668	177,130
2010C	2041	0.00%	1,041,660	-	41,668	999,992	41,668
2010D	2041	0.00%	416,660	-	16,668	399,992	16,668
2011A	2041	0.00%	6,259,320	-	250,373	6,008,947	250,373
2013A	2044	0.50%	559,827	-	18,497	541,330	18,590
2013B	2043	4.70%	1,768,400	-	26,200	1,742,200	37,200
2014A	2046	0.50%	4,027,528	-	125,880	3,901,648	126,510
2014D	2028	3.00%-5.00%	1,310,000	-	85,000	1,225,000	90,000
2015A	2030	1.50%-3.50%	1,017,500	-	48,100	969,400	49,950
2015B	2030	1.50%-4.00%	827,450	-	56,050	771,400	60,800
2016B	2046	1.50%-4.00%	-	3,895,000	-	3,895,000	-
Total Bonds Payable			\$ 18,409,773	\$ 3,895,000	\$ 874,775	\$ 21,429,998	\$ 902,102
Unamortized Premiums/ Discounts, Net						109,041	
						\$ 21,539,039	

Maturities of sewer bonds payable for years succeeding June 30, 2017, are as follows:

Year	Principal	Interest	Total
2018	\$ 902,102	\$ 411,706	\$ 1,313,808
2019	915,665	400,190	1,315,855
2020	926,458	385,942	1,312,400
2021	940,194	372,750	1,312,944
2022	954,272	350,641	1,304,913
2023-2027	4,076,732	1,503,455	5,580,187
2028-2032	3,848,453	1,128,667	4,977,120
2033-2037	3,620,698	813,395	4,434,093
2038-2042	3,516,529	478,270	3,994,799
2043-2046	1,728,895	96,393	1,825,288
	\$ 21,429,998	\$ 5,941,409	\$ 27,371,407

Interest in the above schedule includes administrative fees payable to the West Virginia State Revolving Fund program.

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

Charles Town Utility Board
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2017

NOTE 5 - LONG-TERM DEBT (continued)

The covenants contained in the water and sewer bond issues include a required debt service coverage ratio of 115%. The Utility Board met the required coverage for the year ended June 30, 2017.

The water and sewer bond issues require monthly deposits to the renewal and replacement fund equal to 2-1/2% of monthly gross revenues. The Utility Board's deposits, including necessary expenditures for renewals and replacements, exceeded this requirement for the year ended June 30, 2017.

Note Payable Bank - Sewer Fund

Loan from a bank in the original amount of \$71,000; monthly installments of principal and interest of \$515 including interest at 6.15% until 2020; secured by deed of trust. \$ 13,356

Scheduled maturities of the note for the years succeeding June 30, 2017 are estimated as follows:

Year	Principal	Interest	Total
2018	\$ 5,510	\$ 668	\$ 6,178
2019	5,859	319	6,178
2020	1,987	25	2,012
	<u>\$ 13,356</u>	<u>\$ 1,012</u>	<u>\$ 14,368</u>

NOTE 6 - LEASE AGREEMENTS

Capital Leases

The Charles Town Utility Board is the lessor of various equipment and improvements under capital leases expiring at various times. The assets and liabilities under the capital leases are recorded at their present value of the minimum lease payments.

The lease obligations are secured by the leased equipment and/or improvements. Depreciation of assets under capital lease is included in depreciation expense for the year ended June 30, 2017.

Leased Equipment	Expiration	Water Fund Remaining Minimum (net of interest) Lease Payments
Various utility improvements, equipment, and vehicles	2018-2022	
Total capital leases payable at June 30, 2017		\$ 299,994
Less: Current portion due in upcoming year		(93,368)
Long-term capital leases payable at June 30, 2017 (net of current portion)		<u>\$ 206,626</u>

Charles Town Utility Board
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 6 - LEASE AGREEMENTS (continued)

Capital Leases (continued)

Estimated minimum future lease payments under the capital leases as of June 30, 2017 are as follows:

Year	Principal	Interest	Total
2018	\$ 93,368	\$ 10,792	\$ 104,160
2019	96,957	7,203	104,160
2020	66,519	3,737	70,256
2021	25,469	1,661	27,130
2022	17,681	629	18,310
	<u>\$ 299,994</u>	<u>\$ 24,022</u>	<u>\$ 324,016</u>

NOTE 7 - CHANGES IN LONG-TERM LIABILITIES OTHER THAN BONDS

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017
Notes payable	\$ 18,539	\$ -	\$ 5,183	\$ 13,356
Capital lease payable	289,488	140,888	130,382	299,994
Loan from Charles Town	576,715	-	12,816	563,899
Accrued compensated absences	76,672	-	1,062	75,610
Collective net pension liability	479,022	581,565	201,123	859,464
Total	<u>\$ 1,440,436</u>	<u>\$ 722,453</u>	<u>\$ 350,566</u>	<u>\$ 1,812,323</u>

Charles Town Utility Board
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2017

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM AND PLAN

Plan Description, Contribution Information, and Funding Policies

The Utility Board participates in the West Virginia Public Employees Retirement System (PERS), a state-wide, cost-sharing, multiple-employer defined benefit plan on behalf of Utility Board employees. The system is administered by agencies of the State of West Virginia and funded by contributions from participants, employers, and State appropriations, as necessary.

PERS is administered by the Consolidated Public Retirement Board (CPRB), which acts as a common investment and administrative agent for all of the participating employers. CPRB issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CPRB website at www.wvretirement.com.

The following is a summary of eligibility factors, contribution methods, and benefit provisions:

Eligibility to participate:	All Utility Board full-time employees, except those covered by other pension plans
Authority establishing contribution obligations and benefit provisions:	State Statute
Tier 1 Plan member's contribution rate:	4.50% (Employees hired before July 1, 2015)
Tier 2 Plan member's contribution rate:	6.00% (Employees hired after July 1, 2015)
Utility Board's contribution rate:	12.00% for fiscal year 2017
Period required to vest:	5 years for Tier 1 and 10 years for Tier 2
Benefits and eligibility for distribution:	<p><u>Tier 1</u> A member who has attained age 60 and has earned 5 years or more of contributing service or age 55 if the sum of his/her age plus years of credited service is equal to or greater than 80. The final average salary (three highest consecutive years in the last 15) times the years of service times 2% equals the annual retirement benefit.</p> <p><u>Tier 2</u> Qualification for normal retirement is age 62 with 10 years of service or at least age 55 plus service years equal to 80 or greater. The final average salary is the average of the five consecutive highest annual earnings years out of the last fifteen years. The final average salary times the years of service times 2% equals the annual retirement benefit.</p>
Deferred retirement portion:	No
Provisions for:	
Cost of living	No
Death benefits	Yes

Charles Town Utility Board
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2017

NOTE 8: EMPLOYEE RETIREMENT SYSTEM AND PLAN (continued)

Trend Information

Fiscal Year	Annual Pension Cost	Percentage Contributed
2017	\$149,296	100%
2016	\$174,028	100%
2015	\$162,876	100%

PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to the Public Employees' Retirement System, 4101 MacCorkle Avenue, SE, Charleston, WV 25304.

Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pension

At June 30, 2017, the Utility Board reported the following liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015 and rolled forward to June 30, 2016 using the actuarial assumptions and methods described in the appropriate section of this note. The Utility Board's proportion of the net pension liability was based on a projection of the Utility Board's long-term share of contributions to the pension plan relative to the projected contributions of all participating governments, actuarially determined. At June 30, 2017, the Utility Board reported the following proportion and increase/(decrease) from its proportion measured as of June 30, 2016:

Amount for proportionate share of net pension liability	\$859,464
Percentage for proportionate share of net pension liability	.09351%
Increase/(decrease) % from prior proportion measured	.007726%

For the year ended June 30, 2017, the Utility Board recognized the following pension expense:

	Water	Sewer	Total
Pension expense	\$ 99,204	\$ 65,600	\$ 164,804

Charles Town Utility Board
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 8: EMPLOYEE RETIREMENT SYSTEM AND PLAN (continued)

Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pension (continued)

The Utility Board reported deferred outflows of resources and deferred inflows of resources related to the pension plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions		
Net difference between projected and actual earnings on pension plan investments	\$ 270,075	\$ -
Difference between expected and actual experience	71,672	-
Deferred difference in assumptions	-	41,872
Changes in proportion and differences between Utility Board contributions and proportionate share of contributions	58,983	-
Utility Board contributions subsequent to the measurement date	149,296	-
	\$ 550,026	\$ 41,872

The amount reported as deferred outflows of resources related to the pension plan resulting from Utility Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension plan will be recognized in pension expense as follows:

Year ended June 30

2018	\$ 67,533
2019	67,530
2020	138,579
2021	85,216
Total	\$ 358,858

Charles Town Utility Board
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2017

NOTE 8: EMPLOYEE RETIREMENT SYSTEM AND PLAN (continued)

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of July 1, 2015, and rolled forward to June 30, 2016, which is the measurement date, using the following actuarial assumptions, applied to all periods included in the measurement.

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 fiscal year 2034
Actuarial Assumptions: Investment Rate of Return	7.50%
Projected Salary Increases: PERS:	
State	3.0-4.6%
Nonstate	3.35-6%
Inflation Rate	3.00%
Discount Rate	7.50%
Mortality Rates	Healthy males - 110% of RP-2000 Non-Annuitant, Scale AA fully generational; Healthy females - 101% of RP-2000, Disabled males - 96% of RP-2000 Disabled females - 107% of RP 2000 Disabled Annuitant, Scale AA fully generational
Withdrawal Rates:	
State	1.75-35.1%
Nonstate	2-35.8%
Disability Rates	0-.675%
Retirement Rates	15-100%
Date Range in Most Recent Experience Study	2009-2014

Charles Town Utility Board
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2017

NOTE 8: EMPLOYEE RETIREMENT SYSTEM AND PLAN (continued)

Actuarial Assumptions (continued)

The long-term expected rate of return on pension plan investments were determined using a building-block method in which estimates of expected real rates of returns (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Rates summarized in the following table as of June 30, 2016, include the inflation component and were used for the defined benefit plan:

Asset Class	Long-Term Expected Rate of Return	PERS Target Asset Allocation
US Equity	7.00%	27.50%
International Equity	7.70%	27.50%
Core Fixed Income	2.70%	7.50%
High Yield Fixed Income	5.50%	7.50%
TPS	2.70%	0.00%
Real Estate	7.00%	10.00%
Private Equity	9.40%	10.00%
Hedge Funds	4.70%	10.00%
		100.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent for the defined benefit plan. The projection of cash flows used to determine the discount rate assumed that employer contributions will continue to follow the current funding policies. Based on those assumptions, the fiduciary net position for the 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 liability of the plan.

The following chart presents the sensitivity of the net pension liability to changes in the discount rate, calculated using the discount rates as used in the actuarial evaluation, and what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Utility Board's proportionate share of net pension liability	\$ 1,555,768	\$ 859,464	\$ 268,121

Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report available at the Consolidated Public Retirement Board's website at www.wvretirement.com. That information can also be obtained by writing to the West Virginia Consolidated Public Retirement Board, 4101 MacCorkle Avenue SE, Charleston, WV 25304.

Charles Town Utility Board
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 9 - RETIREE HEALTH PLAN (RHP)

Plan Description

The Utility Board contributes to the West Virginia Retiree Health Benefits Trust Fund (RHBT), a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the West Virginia Public Employees Insurance Agency (PEIA). The RHBT provides medical benefits to eligible retired employees of participating employers. Eligibility is primarily established through participation in certain defined benefit plans. The RHBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to West Virginia Retiree Health Benefits Trust, Building 5, Room 1001, 1900 Kanawha Boulevard East, Charleston, West Virginia.

Corporation Establishing the Plan and Funding Policy

Chapter 5, Article 16D of the West Virginia State Code assigns the Corporation to establish and amend benefits and provisions to the RHBT. Participating employers are contractually required to contribute at a rate based on the annual required contributions (ARC) of the plan, an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board (GASB) Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The Utility Board elected not to record OPEB expense for fiscal year 2017 and certain preceding years which is required under Generally Accepted Accounting Principles.

NOTE 10 - RISK MANAGEMENT

The Utility Board is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Utility Board participates in several risk management programs administered by the State of West Virginia.

NOTE 11 - LOAN FROM MUNICIPALITY OF CHARLES TOWN

The Municipality of Charles Town loaned the Utility Board \$640,795 to finance certain water and sewer construction projects. The loans bear no interest and are generally being repaid over a 50 year term. Annual required loan payments amount to \$12,816. The loan balances are \$444,920 and \$118,979 for the water and sewer departments, respectively, at June 30, 2017.

NOTE 12 - RESTRICTED NET POSITION

Restricted net position reflect that portion of total net assets legally or contractually segregated for a specific future use. The following amounts represent restricted net position at June 30, 2017:

Cash and temporary investments	
Debt service and debt service reserve funds	\$1,972,016
Repair and replacement funds	272,184
Capacity improvement funds	2,138,827
Accrued interest	<u>(172,055)</u>
Total	<u><u>\$4,210,972</u></u>

Charles Town Utility Board
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 13 - COMMITMENTS AND CONTINGENCIES

The Utility Board is in the construction phase of various water and sewer projects with estimated costs of approximately \$12.8 million. Costs incurred through June 30, 2017 amount to approximately \$8.7 million. The projects are being financed with the proceeds from bond issuances, grant awards, and internal capacity improvement funds.

NOTE 14 - SUBSEQUENT EVENTS

The Utility Board has evaluated all subsequent events through December 13, 2017, the date the financial statements were available to be issued. The Utility Board has determined there are no additional subsequent events that require recognition or disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

CHARLES TOWN UTILITY BOARD
 REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
 June 30, 2017

Public Employees Retirement System - Last 10 Fiscal Years (1)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Board's proportion of the net pension liability (asset) (percentage)	0.09351%	0.085784%	0.080179%
Board's proportionate share of the net pension liability (asset)	\$ 859,464	\$ 479,022	\$ 295,926
Board's covered payroll	\$ 1,289,097	\$ 1,163,400	\$ 1,095,816
Board's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	69.08%	41.17%	27.01%
Plan fiduciary net position as a percentage of the total pension liability	86.11%	91.29%	93.98%

(1) Information prior to 2014 is not available

Charles Town Utility Board
 Required Supplemental Information
SCHEDULE OF CONTRIBUTIONS
 June 30, 2017

Public Employees Retirement System

	2017	2016	2015
Contractually required contribution	\$ 149,296	\$ 174,028	\$ 162,876
Contributions in relation to contractually required contribution	<u>(149,296)</u>	<u>(174,028)</u>	<u>(162,876)</u>
Contribution deficit (surplus)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Board's covered payroll	\$ 1,244,131	\$ 1,289,097	\$ 1,163,400
Contributions as a percentage of covered payroll	12.00%	13.50%	14.00%

The information presented is only available as of June 30, 2015.
 The Board will be adding additional years to the schedule as information is available.



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1310 Market St., Suite 300
Wheeling, WV 26003
304.232.1358

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

December 13, 2017

Charles Town Utility Board
Jefferson County
832 South George Street
Charles Town, West Virginia 25414

To the Board of Directors:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Charles Town Utility Board, a component unit of the Municipality of Charles Town, Jefferson County, West Virginia, (the Utility Board) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Utility Board's basic financial statements and have issued our report thereon dated December 13, 2017, wherein we qualified our opinion because the Utility Board elected not to record OPEB liability and expense as of and for the year ended June 30, 2017.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Utility Board's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Utility Board's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Utility Board's financial statements. 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 internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of audit findings that we consider a material weakness. We consider finding 2017-001 to be a material weakness.

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Compliance and Other Matters

As part of reasonably assuring whether the Utility Board's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Management's Response to Findings

Management's response to the finding identified in our audit is described in the accompanying schedule of audit findings. We did not audit Management's response and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Utility Board's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Utility Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Perry and Associates
Certified Public Accountants, A.C.
Marietta, Ohio

**CHARLES TOWN UTILITY BOARD
JEFFERSON COUNTY**

**SCHEDULE OF AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
--

FINDING NUMBER 2017-001

Material Weakness

OPEB Liability

The Utility Board has elected not to record the 2017 OPEB expense that should be recorded in order to conform with accounting principles generally accepted in the United States of America. If the OPEB expense was recorded, OPEB liability would increase \$34,578, and net position would decrease by \$34,578 as of June 30, 2017. Additionally, expenses would increase by \$34,578 for the year ending June 30, 2017. In addition, the Utility Board has elected not to record previous periods OPEB expense that should be recorded in order to conform with accounting principles generally accepted in the United States of America. If the previous OPEB expense was recorded the OPEB liability would be \$754,041 as of June 30, 2017.

Management's Response – The Charles Town Utility Board acknowledges that the financial statements have the OPEB departure. As of April 22, 2015, the Utility Board is no longer regulated by the West Virginia Public Service Commission (WV PSC) and their policy disallowed the unpaid OPEB. Going forward, this liability will be reviewed and evaluated to determine compliance with generally accepted accounting principles.

**CHARLES TOWN UTILITY BOARD
JEFFERSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2016-001	OPEB Liability	No	Repeated as Finding 2017-001