



Certified Public Accountants, A.C.

**CHARLES TOWN UTILITY BOARD
Component Unit of the
Municipality of Charles Town
JEFFERSON COUNTY
Regular Audit
For the Year Ended June 30, 2018**

RFP #17-230

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**CHARLES TOWN UTILITY BOARD
JEFFERSON COUNTY
FOR THE YEAR ENDED JUNE 30, 2018**

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INDEPENDENT AUDITOR'S REPORT

January 11, 2019

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, 2018, 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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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility Board, as of June 30, 2018, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during 2018, the Utility Board adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

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 and OPEB liabilities and pension and OPEB 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 January 11, 2019 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, 2018
(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, 2018. Please read it in conjunction with the Utility Board's financial statements.

FINANCIAL HIGHLIGHTS

The Utility Board's net position increased \$0.5 million as a result of this year's operations. Net position of the water fund increased \$0.3 million compared to the previous year, or 2 percent. Net position of the sewer fund increased by \$0.2 million, or 1 percent compared to the previous year.

The Utility Board's operating revenues decreased by \$0.1 million and operating expenses increased by \$0.4 million compared to the previous year. Water fund operating revenues remained constant at \$3.9 million and water fund operating expenses increased by \$0.3 million compared to the previous year. Sewer fund operating revenues decreased by \$0.1 million and sewer operating expenses increased by \$0.1 million compared to the previous year.

The Utility Board has no increases in rates and charges during 2018. Usage and consumption declined slightly and is attributed to unusual wet weather conditions experienced in 2018.

Operating income decreased by \$0.3 million for the water fund and decreased by \$0.2 million for the sewer fund compared to the previous year.

The Utility Board placed in service approximately \$10.8 million in utility plant assets during 2018. Most of the additions related to upgrades to water and sewer treatment plants.

The Utility Board acquired the net assets and rights to service customers of both the City of Ranson Sewer Department and Jefferson County Public Service District in fiscal year 2019. The acquisitions are forecasted to enhance both financial condition and results of operations.

The Utility Board adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, in 2018. Although the Utility Board offers postemployment health benefits through the State of West Virginia, the adoption of the standard had no significant impact on the Utility Board's financial statements. The OPEB liability decreased approximately \$60,000 with the adoption of the new standard and OPEB expense for 2018 is \$5,000 less than required employer contributions to the plan.

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.

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.

Charles Town Utility Board
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018
(Unaudited)

2. Financial Statements (continued)

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.

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, 2018
(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>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Current and other assets	\$ 3.9	\$ 4.9	\$ 2.6	\$ 3.4	\$ 6.5	\$ 8.3
Capital assets	20.8	20.5	34.9	34.9	55.7	55.4
Total assets	24.7	25.4	37.5	38.3	62.2	63.7
Deferred outflows of resources	0.6	0.8	0.2	0.4	0.8	1.2
Total assets and deferred outflows of resources	\$ 25.3	\$ 26.2	\$ 37.7	\$ 38.7	\$ 63.0	\$ 64.9
Long-term debt outstanding	\$ 19.6	\$ 20.2	\$ 20.8	\$ 21.1	\$ 40.4	\$ 41.3
Other liabilities	1.1	1.6	0.4	1.2	1.5	2.8
Total liabilities	20.7	21.8	21.2	22.3	41.9	44.1
Deferred inflows of resources	0.1	-	0.1	0.1	0.2	0.1
Net position:						
Net investment in capital assets	1.2	1.1	14.9	13.8	16.1	14.9
Restricted	2.4	2.2	1.1	2.0	3.5	4.2
Unrestricted	0.9	1.1	0.4	0.5	1.3	1.6
Total net position	4.5	4.4	16.4	16.3	20.9	20.7
Total liabilities, deferred and net position	\$ 25.3	\$ 26.2	\$ 37.7	\$ 38.7	\$ 63.0	\$ 64.9

Charles Town Utility Board
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2018
 (Unaudited)

Net position of the Utility Board as a whole increased by 1 percent (\$0.2 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, decreased from \$1.6 million at June 30, 2017, to \$1.3 million at the end of this year.

Water net position increased by \$0.1 million or 2 percent and sewer net position increased by \$0.1 million or 1 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>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 3.9	\$ 3.9	\$ 3.7	\$ 3.8	\$ 7.6	\$ 7.7
Operating expenses	<u>3.7</u>	<u>3.4</u>	<u>3.3</u>	<u>3.2</u>	<u>7.0</u>	<u>6.6</u>
Operating income	0.2	0.5	0.4	0.6	0.6	1.1
Non-operating revenues (expenses)	<u>-</u>	<u>0.1</u>	<u>(0.4)</u>	<u>(0.4)</u>	<u>(0.4)</u>	<u>(0.3)</u>
Changes in net position before capital contributions	0.2	0.6	-	0.2	0.2	0.8
Capital contributions	<u>0.1</u>	<u>0.3</u>	<u>0.2</u>	<u>0.1</u>	<u>0.3</u>	<u>0.4</u>
Change in net position	<u>\$ 0.3</u>	<u>\$ 0.9</u>	<u>\$ 0.2</u>	<u>\$ 0.3</u>	<u>\$ 0.5</u>	<u>\$ 1.2</u>

The Utility Board's operating revenues decreased by \$0.1 million or 1 percent. The operating expenses increased by \$0.4 million or 6 percent. The analysis separately considers the operations of the water and sewer funds.

BUDGETARY HIGHLIGHTS

For the year ended June 30, 2018, 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, 2018
 (Unaudited)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the Utility Board had \$55.7 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 \$0.3 million compared to the previous year.

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

	2018	2017
Capital assets not depreciated - utility plant	\$ 0.8	\$ 9.2
Capital assets depreciated - utility plant	79.4	70.0
Totals	80.2	79.2
Accumulated depreciation	(24.5)	(23.8)
Capital assets, net of depreciation	\$ 55.7	\$ 55.4

Capital additions placed in service for the year ended June 30, 2018 are as follows (in Millions)

Water

Treatment plant improvements	\$ 3.0
Treatment Equipment	3.1
Transmission and distribution mains	0.3
Vehicles	0.1
	6.5

Sewer

Collection mains	0.3
Pumping equipment	3.4
Treatment plant improvements	0.5
Treatment plant equipment	0.1
	4.3
Total 2018 additions	\$ 10.8

Charles Town Utility Board
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2018
 (Unaudited)

Debt

At year-end, the Utility Board had \$40.4 million in long-term debt outstanding compared to \$42.3 million in the previous year.

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

	2018	2017
Leases	\$ 0.2	\$ 0.3
Loans (Municipality of Charles Town)	0.5	0.5
Notes	0.1	0.1
Bonds	39.6	41.4
Total	\$ 40.4	\$ 42.3

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 2018 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, 2018

ASSETS AND DEFERRED OUTFLOWS

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
ASSETS			
CURRENT ASSETS			
Cash	\$ 676,016	\$ 245,489	\$ 921,505
Customer accounts receivable, net of allowances	165,042	88,495	253,537
Due from associated companies	4,221	185,380	189,601
Inventory, at cost	84,328	1,768	86,096
Accrued utility revenue	309,746	177,398	487,144
	<u>1,239,353</u>	<u>698,530</u>	<u>1,937,883</u>
RESTRICTED ASSETS			
Debt service funds	1,099,375	960,810	2,060,185
Construction funds	-	740,929	740,929
Capacity improvement funds	1,234,614	60,609	1,295,223
Repair and replacement funds	216,338	104,403	320,741
	<u>2,550,327</u>	<u>1,866,751</u>	<u>4,417,078</u>
CAPITAL ASSETS			
Utility plant in service	35,242,315	44,727,735	79,970,050
Less: accumulated depreciation and amortization	14,633,248	9,902,250	24,535,498
	<u>20,609,067</u>	<u>34,825,485</u>	<u>55,434,552</u>
Construction in progress	168,509	71,520	240,029
	<u>20,777,576</u>	<u>34,897,005</u>	<u>55,674,581</u>
OTHER ASSETS			
Prepaid bond insurance	111,030	48,685	159,715
	<u>24,678,286</u>	<u>37,510,971</u>	<u>62,189,257</u>
DEFERRED OUTFLOWS OF RESOURCES			
Unamortized amounts from refunding of debt	457,373	114,087	571,460
Defined benefit pension plan contribution	81,638	55,801	137,439
Other post employment plan contribution	32,037	9,735	41,772
Collective deferred outflows related to pension	49,285	21,883	71,168
	<u>620,333</u>	<u>201,506</u>	<u>821,839</u>
Total assets and deferred outflows	<u>\$ 25,298,619</u>	<u>\$ 37,712,477</u>	<u>\$ 63,011,096</u>

See accompanying notes to financial statements.

Charles Town Utility Board
STATEMENT OF NET POSITION (CONTINUED)
June 30, 2018

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

	Water Fund	Sewer Fund	Totals
CURRENT LIABILITIES			
(PAYABLE FROM CURRENT ASSETS)			
Accounts payable	\$ 133,383	\$ 47,930	\$ 181,313
Accrued expenses	16,907	13,098	30,005
Customer deposits	132,026	58,213	190,239
Notes payable (current portion)	-	5,858	5,858
Capital lease payable (current portion)	95,659	-	95,659
	<u>377,975</u>	<u>125,099</u>	<u>503,074</u>
CURRENT LIABILITIES			
(PAYABLE FROM RESTRICTED ASSETS)			
Revenue bonds payable	889,165	915,666	1,804,831
Accrued revenue bond interest payable	144,297	45,452	189,749
	<u>1,033,462</u>	<u>961,118</u>	<u>1,994,580</u>
LONG-TERM LIABILITIES			
(NET OF CURRENT PORTION)			
Revenue bonds payable	18,074,894	19,716,998	37,791,892
Capital lease payable	139,633	-	139,633
Notes payable	-	1,992	1,992
Accrued expenses	55,796	27,830	83,626
Loan from Charles Town	434,740	116,343	551,083
Net other post employment benefit liability	335,366	130,768	466,134
Collective net pension liability	248,828	147,317	396,145
	<u>19,289,257</u>	<u>20,141,248</u>	<u>39,430,505</u>
Total long-term liabilities	<u>19,289,257</u>	<u>20,141,248</u>	<u>39,430,505</u>
Total liabilities	<u>20,700,694</u>	<u>21,227,465</u>	<u>41,928,159</u>
DEFERRED INFLOWS OF RESOURCES			
Collective deferred inflows related to other post employment benefit plan	60,202	23,474	83,676
Collective deferred inflows related to pension	70,271	55,267	125,538
	<u>20,831,167</u>	<u>21,306,206</u>	<u>42,137,373</u>
Total liabilities and deferred inflows	<u>20,831,167</u>	<u>21,306,206</u>	<u>42,137,373</u>
NET POSITION			
Net investment in capital assets	1,143,485	14,881,077	16,024,562
Restricted	2,406,030	1,080,370	3,486,400
Unrestricted	917,937	444,824	1,362,761
	<u>4,467,452</u>	<u>16,406,271</u>	<u>20,873,723</u>
Total net position	<u>4,467,452</u>	<u>16,406,271</u>	<u>20,873,723</u>
Total liabilities, deferred inflows and net position	<u>\$ 25,298,619</u>	<u>\$ 37,712,477</u>	<u>\$ 63,011,096</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, 2018

	Water Fund	Sewer Fund	Totals
OPERATING REVENUES			
Sales and services to customers	\$ 3,885,780	\$ 3,747,309	\$ 7,633,089
Total operating revenues	<u>3,885,780</u>	<u>3,747,309</u>	<u>7,633,089</u>
OPERATING EXPENSES			
Personal services	787,893	738,051	1,525,944
Contractual services	153,168	301,376	454,544
Administrative and general	181,371	126,633	308,004
Materials and supplies	298,029	367,555	665,584
Utilities	153,571	329,345	482,916
Maintenance	1,062,794	508,998	1,571,792
Depreciation and amortization	1,062,676	965,869	2,028,545
Total operating expenses	<u>3,699,502</u>	<u>3,337,827</u>	<u>7,037,329</u>
Operating income	<u>186,278</u>	<u>409,482</u>	<u>595,760</u>
NONOPERATING REVENUES (EXPENSES)			
Interest revenue	24,640	17,353	41,993
Interest and fiscal charges	(556,967)	(397,592)	(954,559)
Miscellaneous revenues	530,297	-	530,297
Total nonoperating revenues (expenses)	<u>(2,030)</u>	<u>(380,239)</u>	<u>(382,269)</u>
Income before contributed capital	184,248	29,243	213,491
CONTRIBUTED CAPITAL	<u>90,675</u>	<u>146,132</u>	<u>236,807</u>
Change in net position	274,923	175,375	450,298
Total net position at beginning of year, as adjusted (See Note 10)	<u>4,192,529</u>	<u>16,230,896</u>	<u>20,423,425</u>
Total net position at end of year	<u>\$ 4,467,452</u>	<u>\$ 16,406,271</u>	<u>\$ 20,873,723</u>

See accompanying notes to financial statements.

Charles Town Utility Board
STATEMENT OF CASH FLOWS
For the year ended June 30, 2018

	Water Fund	Sewer Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 3,909,241	\$ 3,758,505	\$ 7,667,746
Cash paid for operation and maintenance expenses	<u>(2,718,937)</u>	<u>(2,446,381)</u>	<u>(5,165,318)</u>
Net cash provided by operations	<u>1,190,304</u>	<u>1,312,124</u>	<u>2,502,428</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(1,363,209)	(944,466)	(2,307,675)
Proceeds from revenue bonds and long-term debt	115,590	-	115,590
Principal paid on revenue bonds and long-term debt	(1,046,105)	(907,608)	(1,953,713)
Payment of bond insurance	-	-	-
Interest paid on bonds, notes and leases payable	(473,275)	(382,533)	(855,808)
Decrease in restricted assets, net	987,034	743,201	1,730,235
Other contributed capital	<u>90,675</u>	<u>146,132</u>	<u>236,807</u>
Net cash used in capital and related financing activities	<u>(1,689,290)</u>	<u>(1,345,274)</u>	<u>(3,034,564)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest and other income received	554,912	17,353	572,265
Interest paid on refunded customer security deposits	(441)	(188)	(629)
Interdepartmental advances/repayments	15,451	(15,451)	-
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>559,742</u>	<u>(922)</u>	<u>558,820</u>
Net increase in cash and cash equivalents	60,756	(34,072)	26,684
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>615,260</u>	<u>279,561</u>	<u>894,821</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 676,016</u>	<u>\$ 245,489</u>	<u>\$ 921,505</u>

See accompanying notes to financial statements.

Charles Town Utility Board
STATEMENT OF CASH FLOWS (CONTINUED)
For the year ended June 30, 2018

	Water Fund	Sewer Fund	Totals
Operating income	\$ 186,278	\$ 409,482	\$ 595,760
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization expense	1,062,676	965,869	2,028,545
Decrease (increase) in receivables	(1,872)	(1,629)	(3,501)
Decrease (increase) in accrued revenues	23,041	12,825	35,866
Decrease (increase) in inventory	15,690	-	15,690
Decrease (increase) in deferred outflows	206,213	132,370	338,583
Increase (decrease) in accounts payable	(65,439)	(61,925)	(127,364)
Increase (decrease) in customer deposits	2,292	-	2,292
Increase (decrease) in accrued expenses	(152,401)	(72,794)	(225,195)
Increase (decrease) in collective net pension liability	(276,398)	(186,921)	(463,319)
Increase (decrease) in net OPEB liability	86,572	51,157	137,729
Increase (decrease) in pension deferred inflows	103,652	63,690	167,342
Net cash provided by operating activities	\$ 1,190,304	\$ 1,312,124	\$ 2,502,428
 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	\$ 676,016	\$ 245,489	\$ 921,505
Cash per statement of cash flows	\$ 676,016	\$ 245,489	\$ 921,505

See accompanying notes to financial statements.

Charles Town Utility Board
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

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 6,200 water customers and 3,300 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 utility 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, 2018

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 \$120,813 of interest in the water fund and \$31,956 of interest in the sewer fund during the year ended June 30, 2018.

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.

Cash and cash equivalents at June 30, 2018 includes deposits of \$3,495,936 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, 2018

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. No allowance was deemed necessary by management at June 30, 2018. At June 30, 2018, accounts receivable for the water and sewer funds are \$165,042 and \$88,495, 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, 2018 are \$309,746 and \$177,398, 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 and OPEB plans 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 and OPEB plans 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, 2018.

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, 2018, amounted to \$55,796 and \$27,830, respectively.

Charles Town Utility Board
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

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 in 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, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability and deferred outflows/inflows of the resources related to OPEB, and OPEB expense, information about the fiduciary net position of the West Virginia Retiree Health Benefits Trust (RHBT) and additions to/deductions from the RHBT's fiduciary net position have been determined on the same basis as they are reported by the RHBT. RHBT recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Change in Accounting Principle

Effective July 1, 2017, the Utility Board adopted the Governmental Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of the requirements of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

NOTE 2 - NEW ACCOUNTING PRONOUNCEMENTS

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 fiscal year ending June 30, 2019.

GASB Statement No. 84, *Fiduciary Activities*, provides guidance to improve the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Statement 84 will be effective for fiscal year ending June 30, 2020.

GASB Statement No. 87, *Leases*, aims 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. Statement 87 will be effective for the fiscal year ending June 30, 2021.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, requires additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit, assets pledged as collateral for the debt; and terms specified in debt agreements related significant events of default with finance-related consequences. This statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. Statement 88 will be effective for fiscal year ending June 30, 2019.

Charles Town Utility Board
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2018

NOTE 2 - NEW ACCOUNTING PRONOUNCEMENTS (continued)

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, is designed to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. Statement 89 will be effective for fiscal year ending Jun 30, 2021.

GASB Statement No 90, *Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61* seeks to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Statement 90 will be effective for fiscal year ending June 30, 2020.

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

NOTE 3 - CASH

Cash consists of the following accounts and amounts at June 30, 2018:

	Water	Sewer	Total
Petty cash	\$ 75	\$ 75	\$ 150
Operation and maintenance accounts	305,538	55,593	361,131
Security deposit accounts	118,495	54,861	173,356
Working capital reserve accounts	251,908	134,960	386,868
	\$ 676,016	\$ 245,489	\$ 921,505

NOTE 4 - CAPITAL ASSETS

	Balance at June 30, 2017	Additions	Reductions	Balance at June 30, 2018
Capital Assets Not Depreciated				
Land and land rights	\$ 525,800	\$ -	\$ -	\$ 525,800
Construction in progress	8,703,872	2,307,675	10,771,518	240,029
Total Capital Assets Net	9,229,672	2,307,675	10,771,518	765,829
Capital Assets Depreciated				
Utility plant in service	69,963,553	10,771,518	(1,290,821)	79,444,250
Less accumulated depreciation	(23,797,774)	(2,028,545)	1,290,821	(24,535,498)
Net Capital Assets Depreciated	46,165,779	8,742,973	-	54,908,752
Total Capital Assets	\$ 55,395,451	\$ 11,050,648	\$ 10,771,518	\$ 55,674,581
Depreciation Expense	\$ 2,028,545			

Charles Town Utility Board
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

NOTE 5 - LONG-TERM DEBT

The following is a summary of bonds and notes payable at June 30, 2018:

Bonds Payable - Water Fund

Issue	Maturity Date	Interest Rates	Balance June 30, 2017	Additions	Payments	Balance June 30, 2018	Due Within One Year
1987B	2026	0.00%	\$ 108,850	\$ -	\$ 10,885	\$ 97,965	\$ 10,885
1988B	2028	0.00%	171,684	-	14,308	157,376	14,308
1989B	2029	0.00%	39,160	-	3,012	36,148	3,012
2002A	2039	5.80%	912,554	-	19,917	892,637	21,073
2002B	2042	0.00%	2,337,662	-	93,506	2,244,156	93,507
2010A	2031	2.00%	665,343	-	42,478	622,865	43,332
2010B	2031	2.00%	72,917	-	4,656	68,261	4,748
2013B	2043	4.70%	1,067,800	-	22,800	1,045,000	22,800
2014C	2033	2.50%-4.75%	755,000	-	35,000	720,000	35,000
2014E	2026	1.50%-3.40%	1,155,000	-	115,000	1,040,000	120,000
2015A	2030	1.50%-3.50%	1,650,600	-	85,050	1,565,550	88,200
2015B	2029	1.50%-4.00%	3,288,600	-	259,200	3,029,400	267,300
2016A	2046	1.60%-4.50%	7,555,000	-	160,000	7,395,000	165,000
Total Bonds Payable			\$ 19,780,170	\$ -	\$ 865,812	18,914,358	\$ 889,165
Unamortized Premiums/ Discounts,						49,701	
						\$ 18,964,059	

Maturities of water bonds payable for years succeeding June 30, 2018, are as follows:

Year	Principal	Interest	Total
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	964,792	489,364	1,454,156
2024-2028	4,729,468	2,037,382	6,766,850
2029-2033	3,322,812	1,409,221	4,732,033
2034-2038	2,428,063	910,379	3,338,442
2039-2043	2,551,244	476,484	3,027,728
2044-2046	1,268,401	89,900	1,358,301
	\$ 18,914,358	\$ 7,564,729	\$ 26,479,087

Charles Town Utility Board
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

NOTE 5 - LONG-TERM DEBT (continued)

Bonds Payable - Sewer Fund

Issue	Maturity Date	Interest Rates	Balance June 30, 2017	Additions	Payments	Balance June 30, 2018	Due Within One Year
1988B	2028	0.00%	\$ 91,040	\$ -	\$ 7,588	\$ 83,452	\$ 7,588
1998 Design	2019	2.00%	58,383	-	25,625	32,758	26,141
2000A	2021	2.00%	825,668	-	177,130	648,538	180,699
2010C	2041	0.00%	999,992	-	41,668	958,324	41,668
2010D	2041	0.00%	399,992	-	16,668	383,324	16,668
2011A	2041	0.00%	6,008,947	-	250,373	5,758,574	250,373
2013A	2044	0.50%	541,331	-	18,590	522,741	18,684
2013B	2043	4.70%	1,742,200	-	37,200	1,705,000	37,200
2014A	2046	0.50%	3,901,648	-	126,510	3,775,138	127,145
2014D	2028	3.00%-5.00%	1,225,000	-	90,000	1,135,000	95,000
2015A	2030	1.50%-3.50%	969,400	-	49,950	919,450	51,800
2015B	2030	1.50%-4.00%	771,400	-	60,800	710,600	62,700
2016B	2046	1.50%-4.00%	3,895,000	-	-	3,895,000	-
Total Bonds Payable			\$ 21,430,001	\$ -	\$ 902,102	\$ 20,527,899	\$ 915,666

Unamortized Premiums/
Discounts, 104,765
\$ 20,632,664

Maturities of sewer bonds payable for years succeeding June 30, 2018, are as follows:

Year	Principal	Interest	Total
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	790,469	328,149	1,118,618
2024-2028	4,148,197	1,430,234	5,578,431
2029-2033	3,752,565	1,060,593	4,813,158
2034-2038	3,597,404	753,721	4,351,125
2039-2043	3,266,685	394,083	3,660,768
2044-2046	1,235,990	53,399	1,289,389
	<u>\$ 20,527,899</u>	<u>\$ 5,529,702</u>	<u>\$ 26,057,601</u>

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, 2018

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, 2018.

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, 2018.

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. \$ 7,850

Scheduled maturities of the note for the years succeeding June 30, 2018 are estimated as follows:

Year	Principal	Interest	Total
2019	\$ 5,858	\$ 319	\$ 6,177
2020	1,992	25	2,017
	\$ 7,850	\$ 344	\$ 8,194

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, 2018.

Leased Equipment	Expiration	Water Fund Remaining (net of interest) Lease Payments
Various utility improvements, equipment, and vehicles	2019-2022	
Total capital leases payable at June 30,		\$ 235,292
Less: Current portion due in upcoming		(95,659)
Long-term capital leases payable at June 30, 2018 (net of current portion)		\$ 139,633

Charles Town Utility Board
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

NOTE 6 - LEASE AGREEMENTS (continued)

Capital Leases (continued)

Estimated minimum future lease payments under the capital leases as of June 30, 2018 are as follows:

Year	Principal	Interest	Total
2019	\$ 95,659	\$ 8,154	\$ 103,813
2020	57,906	5,089	62,995
2021	40,037	3,374	43,411
2022	41,690	1,721	43,411
	<u>\$ 235,292</u>	<u>\$ 18,338</u>	<u>\$ 253,630</u>

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

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018
Note payable	\$ 13,356	\$ -	\$ 5,506	\$ 7,850
Capital leases payable	299,994	115,590	180,292	235,292
Loan from Charles Town	563,899	-	12,816	551,083
Accrued compensated absences	75,610	8,016	-	83,626
Collective net pension liability	859,464	260,637	723,956	396,145
Net other post employment benefit	565,528	23,218	122,612	466,134
Total	<u>\$ 2,377,851</u>	<u>\$ 407,461</u>	<u>\$ 1,045,182</u>	<u>\$ 1,740,130</u>

Charles Town Utility Board
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

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: 11.00% for fiscal year 2018

Period required to vest: 5 years for Tier 1 and 10 years for Tier 2

Benefits and eligibility for distribution:

Tier 1

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.

Tier 2

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.

Deferred retirement portion: No

Provisions for:

Cost of living	No
Death benefits	Yes

Charles Town Utility Board
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2018

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM AND PLAN (continued)

Trend Information

Fiscal Year	Annual Pension Cost	Percentage Contributed
2018	\$137,439	100%
2017	\$149,296	100%
2016	\$174,028	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, 2018, 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, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. 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, 2018, the Utility Board reported the following proportion:

Amount for proportionate share of net pension liability	\$396,145
Percentage for proportionate share of net pension liability	0.091775%
Increase/(decrease) % from prior proportion measured	(0.001735)%

For the year ended June 30, 2018, the Utility Board recognized the following pension expense:

	Water	Sewer	Total
Pension expense	\$ 60,513	\$ 41,361	\$ 101,874

Charles Town Utility Board
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

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	\$ -	\$ 96,309
Difference between expected and actual experience	35,254	876
Deferred difference in assumptions	-	20,548
Changes in proportion and differences between Utility Board contributions and proportionate share of contributions	35,914	7,805
Utility Board contributions subsequent to the measurement date	137,439	-
	\$ 208,607	\$ 125,538

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, 2019. 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

2019	\$ 10,426
2020	(25,888)
2021	(38,831)
2022	(77)
Total	\$ (54,370)

Charles Town Utility Board
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2018

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM AND PLAN (continued)

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of July 1, 2016, and rolled forward to June 30, 2017, 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 2035
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases:	
PERS:	
State	3.0-4.6%%
Nonstate	3.35-6.0%%
Inflation rate	3.00%
Discount rate	7.50%
Mortality rates	Active-100% of RP-2000 Non-Annuitant, Scale AA fully generational Retired healthy males-110% of RP-2000 Healthy Annuitant, Scale AA fully generational Retired healthy females-101% of RP-2000 Healthy Annuitant, Scale AA fully generational Disabled Males-96% of RP2000 Disabled Annuitant, Scale AA fully generational Disabled Females-107% of RP-2000 Disabled Annuitant, Scale AA fully generational
Withdrawal rates	
State	1.75-35.10%%
Non-state	2-35.88%%
Disability rates	0.007 - .675%%
Retirement rates	12 - 100%%
Date range in most recent experience study	2009-2014

Charles Town Utility Board
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2018

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, 2017, include the inflation component and were used for the defined benefit plan:

Asset Class	Long-Term Expected Rate of Return	PERS Target Asset Allocation
Domestic Equity	7.00%	27.50%
International Equity	7.70%	27.50%
Private Equity	2.70%	10.00%
Fixed Income	5.50%	15.00%
Real Estate	7.00%	10.00%
Hedge Funds	2.70%	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 7.50%	1% Increase 8.50%
Utility Board's proportionate share of net pension	\$ (1,096,703)	\$ (396,145)	\$ 196,171

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, 2018

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM AND PLAN (continued)

Summary of Deferred Outflow/Inflow Balances

	<u>Total</u>	<u>Water</u>	<u>Sewer</u>
Difference between expected and actual experience	\$ 34,378	\$ 23,739	\$ 10,639
Net difference between projected and actual earnings on pension plan investments	(96,309)	(50,960)	(45,349)
Change in assumptions	(20,548)	(14,155)	(6,393)
Changes in proportion and differences between Utility Board contributions and proportionate share of contributions	28,109	20,390	7,719
Utility Board contributions subsequent to the measurement date	<u>137,439</u>	<u>81,638</u>	<u>55,801</u>
	<u>\$ 83,069</u>	<u>\$ 60,652</u>	<u>\$ 22,417</u>

NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

General Information about the OPEB Plan

Plan Description

The Utility Board contributes to the West Virginia Other Postemployment Benefit Plan (The Plan), a cost-sharing, multiple-employer defined benefit postemployment healthcare plan. The financial activities of the Plan are accounted for in the West Virginia Retiree Health Benefit Trust Fund (RHBT), a fiduciary fund of the State of West Virginia. The Plan is administered by a combination of the West Virginia Public Employees Insurance Agency (PEIA) and the RHBT staff. Plan benefits are established and revised by PEIA and the RHBT management with approval of the Finance Board. The Finance Board is comprised of nine members. Finance Board members are appointed by the Governor, serve a term of four years and are eligible for reappointment. The State Department of Administration cabinet secretary serves as Chairman of the Board. Four members represent labor, education, public employees and public retirees. The four remaining members represent the public at large. The Plan had approximately 43,000 policyholders and 63,000 covered lives at June 30, 2017. The RHBT audited financial statements and actuarial reports can be found on the PEIA website at www.peia.wv.gov. You can also submit your questions in writing to the West Virginia Public Employees Insurance Agency, 601 57th Street, SE, Suite 2, Charleston WV 25304.

Benefits Provided

The Plan provides medical and prescription drug insurance and life insurance. The medical and prescription drug insurance is provided through two options: 1) Self-Insured Preferred Provider Benefit Plan (primarily for non-Medicare-eligible retirees and spouses) and 2) External Managed Care Organizations (primarily for Medicare-eligible retirees and spouses).

Charles Town Utility Board
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2018

NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

Contributions

Paygo premiums are established by the Finance Board annually. All participating employers are required by statute to contribute this premium to the RHBT at the established rate for every active policyholder per month. The active premiums subsidized the retirees' health care by approximately \$150 million for both fiscal years ended June 30, 2016 and June 30, 2017. For the year ended June 30, 2018, contributions to the OPEB plan from the Utility Board were \$32,037 and \$9,735 for the water and sewer funds, respectively.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the Utility Board reported a liability of \$335,366 and \$130,768 for the water and sewer funds, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability, deferred inflows and outflows of resources, and OPEB expense were determined by an actuarial valuation date as of June 30, 2016, rolled forward to June 30, 2017, which is the measurement date. The Utility Board's proportion of the net OPEB liability was based on a projection of the Utility Board's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating governments, actuarially determined. At June 30, 2017, the Utility Board's proportionate share was .018956336%, which was a decrease of 0.003816686% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Utility Board recognized OPEB expense of \$16,637 and \$6,487 for the water and sewer funds, respectively.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and differences between Utility Board contributions and proportionate share of contributions	\$ -	\$ (74,675)
Net difference between projected and actual investment earnings on OPEB plan investments	-	(7,440)
Difference between expected and actual experience	-	(1,561)
District contributions subsequent to the measurement date	41,772	-
	\$ 41,772	\$ (83,676)

Charles Town Utility Board
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2018

NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

The amount reported as deferred outflows of resources related to OPEB resulting from Utility Board contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended June 30:</u>	
2019	\$ (22,370)
2020	(22,370)
2021	(22,370)
2022	<u>(16,566)</u>
Total	<u><u>\$ (83,676)</u></u>

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified.

Inflation rate	2.75%
Salary increases	Dependent upon pension system, ranging from 3.0% to 6.5%, including inflation.
Investment rate of return	7.15%, net of OPEB plan investment expense, including inflation.
Healthcare cost trend rates	Actual trend used for fiscal year 2017. For fiscal years on and after 2018, trend starts at 8.50% and 9.75% for pre and post-Medicare, respectively, and gradually decreases to an ultimate trend of 4.50%. Excess trend rate of 0.14% and 0.29% for pre and post-Medicare, respectively, is added to healthcare trend rates pertaining to per capita claims beginning in 2020 to account for the excise tax.

Charles Town Utility Board
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2018

NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

Actuarial Assumptions (continued)

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table projected with Scale AA on a fully generational basis for PERS. Pre-Retirement: RP-2000 Non-Annuitant Mortality Table projected with Scale AA on a fully generational basis for PERS. The actual assumptions used in the valuation were based on the results of an actuarial experience study for the period July 1, 2010 through June 30, 2015.

The long-term rates of return on OPEB plan investments are determined using a building-block method in which estimates of future real rates of returns (expected returns, net of OPEB 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 percentages and by adding expected inflation. The strategic asset allocation consists of 55% equity, 15% fixed income, 10% private equity, 10% hedge fund and 10% real estate invested. Short-term assets used to pay current year benefits and expenses are invested with the WVBTI. Best estimates of long-term geometric rates are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap Domestic	17.0%
Non-Large Cap Domestic	22.0%
International Qualified	24.6%
International Non-Qualified	24.3%
International Equity	26.2%
Short-Term Fixed	0.5%
Total Return Fixed Income	6.7%
Core Fixed Income	0.1%
Hedge Fund	5.7%
Private Equity	19.6%
Real Estate	8.3%
Opportunistic Income	4.8%
Cash	0.0%

Discount Rate

The discount rate used to measure the OPEB liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions would be made at rates equal to the actuarially determined contribution rates, in accordance with prefunding and investment policies. The OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. Discount rates are subject to change between measurement dates.

Charles Town Utility Board
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2018

NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

Sensitivity of the Utility Board's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following chart presents the Utility Board's proportionate share of the net OPEB liability, as well as what the proportionate share of the net OPEB 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 discount rate:

	1% Decrease 6.15%	Discount Rate 7.15%	1% Increase 8.15%
Net OPEB Liability	\$ 542,759	\$ 466,134	\$ 402,437

Sensitivity of the Utility Board's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following chart presents the Utility Board's proportionate share of the net OPEB liability, as well as what the proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates described in the actuarial assumptions:

	1% Decrease	Healthcare Cost Trend Rates	1% Increase
Net OPEB Liability	\$ 391,559	\$ 466,134	\$ 557,343

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued financial report available at the West Virginia Public Employee Insurance Agency's website at peia.wv.gov. That information can also be obtained by writing to the West Virginia Public Employee Insurance Agency, 601 57th Street, Suite 2, Charleston, WV 25304.

Charles Town Utility Board
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

Summary of Deferred Outflow/Inflow Balances

	<u>Total</u>	<u>Water</u>	<u>Sewer</u>
Difference between expected and actual experience	\$ (1,561)	\$ (1,123)	\$ (438)
Net difference between projected and actual earnings on OPEB plan investments	(7,440)	(5,353)	(2,087)
Changes in proportion and differences between Utility Board contributions and proportionate share of contributions	(74,675)	(53,726)	(20,949)
Utility Board contributions subsequent to the measurement date	<u>41,772</u>	<u>32,037</u>	<u>9,735</u>
	<u>\$ (41,904)</u>	<u>\$ (28,165)</u>	<u>\$ (13,739)</u>

NOTE 10 - PRIOR PERIOD ADJUSTMENT

Net position required restatement at the beginning of the year as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Net position, as previously stated	\$ 4,413,310	\$ 16,299,584	\$ 20,712,894
OPEB payable balance reported in prior year in accordance with GASB No. 45	158,082	79,041	237,123
GASB No. 75 beginning of year Net OPEB Liability	(406,876)	(158,652)	(565,528)
2017 OPEB Paygo employer contributions recognized in the current year under GASB No. 75	<u>28,013</u>	<u>10,923</u>	<u>38,936</u>
Net Position, restated	<u>\$ 4,192,529</u>	<u>\$ 16,230,896</u>	<u>\$ 20,423,425</u>

Charles Town Utility Board
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

NOTE 11 - 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 12 - 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 \$434,740 and \$116,343 for the water and sewer departments, respectively, at June 30, 2018.

NOTE 13 - RESTRICTED NET ASSETS

Restricted net assets reflect that portion of total net assets legally or contractually segregated for a specific future use. The following amounts represent restricted net assets at June 30, 2018:

Cash and temporary investments	
Debt service and debt service reserve funds	\$2,060,185
Repair and replacement funds	320,741
Capacity improvement funds	1,295,223
Accrued interest	<u>(189,749)</u>
 Total	 <u><u>\$3,486,400</u></u>

NOTE 14 - SUBSEQUENT EVENTS

The Utility Board has evaluated all subsequent events through January 11, 2019, the date the financial statements were available to be issued.

Effective July 1, 2018, the Utility Board acquired the net assets of the City of Ranson Sewer Department including all rights to provide sewer services to the Ranson Sewer Department 's former customers. No consideration was paid by the Utility Board for the acquisition. The acquisition is forecast to improve the Utility Board's financial position and results of operations.

Effective January 1, 2019, the Utility Board acquired the net assets of the Jefferson County Public Service District (JCPSD) including all rights to provide water and sewer services to the JCPSD's former customers. Although no consideration was paid by the Utility Board for the acquisition, the Utility Board was required to issue \$3,065,000 of bonds to substitute for certain JCPSD debt and also accept certain reassigned state sponsored bond issues previously held by JCPSD. The acquisition is forecast to improve the financial condition of the Utility Board and be revenue neutral in regard to results of operations.

REQUIRED SUPPLEMENTARY INFORMATION

CHARLES TOWN UTILITY BOARD
 REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
 June 30, 2018

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

	2017	2016	2015	2014
Board's proportion of the net pension liability (asset) (percentage)	0.091775%	0.09351%	0.085784%	0.080179%
Board's proportionate share of the net pension liability (asset)	\$ 396,145	\$ 859,464	\$ 479,022	\$ 295,926
Board's covered payroll	\$ 1,249,466	\$ 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	31.71%	69.08%	41.17%	27.01%
Plan fiduciary net position as a percentage of the total pension liability	99.56%	86.11%	91.29%	93.98%

(1) Information prior to 2014 is not available

Charles Town Utility Board
 Required Supplemental Information
SCHEDULE OF PENSION PLAN CONTRIBUTIONS
 June 30, 2018

Public Employees Retirement System

	2018	2017	2016	2015
Contractually required contribution	\$ 137,439	\$ 149,296	\$ 174,028	\$ 162,876
Contributions in relation to contractually required contribution	<u>(137,439)</u>	<u>(149,296)</u>	<u>(174,028)</u>	<u>(162,876)</u>
Contribution deficit (surplus)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Board's covered payroll	\$ 1,249,446	\$ 1,244,131	\$ 1,289,097	\$ 1,163,400
Contributions as a percentage of covered payroll	11.00%	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.

CHARLES TOWN UTILITY BOARD
 REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
June 30, 2018

Public Employees Insurance Agency

		2018
Board's proportion of the net OPEB liability		0.018956336%
Board's proportionate share of the net OPEB liability	\$	466,134
Board's covered payroll	\$	1,248,678
Board's proportionate share of the net OPEB liability as a percentage of its covered payroll		37.33%
Plan fiduciary net position as a percentage of the total OPEB liability		25.10%

* Information for years prior to 2018 was not available.

Charles Town Utility Board
Required Supplemental Information
SCHEDULE OF OPEB PLAN CONTRIBUTIONS
June 30, 2018

Public Employees Insurance Agency

	2018
Contractually required contribution	\$ 41,772
Contributions in relation to contractually required contribution	<u>(41,772)</u>
Contribution deficit (surplus)	<u><u>\$ -</u></u>
Board's covered payroll	\$ 1,248,678
Contributions as a percentage of covered payroll	3.35%

* Information for years prior to 2018 was not available.



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

January 11, 2019

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, 2018, 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 January 11, 2019, wherein we noted the Utility Board adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

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. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

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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*.

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 PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

Finding Number	Finding Summary	Status?	Additional Information
2017-001	OPEB Liability	Corrected	N/A