# JEFFERSON COUNTY PUBLIC SERVICE DISTRICT

**Kearneysville, West Virginia**

**FINANCIAL REPORT**

**JUNE 30, 2018**

C O N T E N T S

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# INDEPENDENT AUDITOR'S REPORT

The Members of the Public Service Board
Jefferson County Public Service District
Kearneysville, West Virginia

## Report on the Financial Statements

We have audited the accompanying financial statements of Jefferson County Public Service District (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents (collectively, the financial statements).

## Management's Responsibility for the Financial Statements

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

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Jefferson County Public Service District, as of June 30, 2018, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of the District's Proportionate Share of the Collective Net Pension Liability, Schedule of the District's Pension Plan Contributions, Schedule of the District's Proportionate Share of the Collective Net OPEB Liability, and Schedule of the District's OPEB Plan Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Jefferson County Public Service District's basic financial statements. The Supplementary Schedules of Operating Expenses and Budgetary Comparisons are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express and opinion or provide any assurance on them.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2018, on our consideration of Jefferson County Public Service District'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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 District's internal control over financial reporting and compliance.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
October 19, 2018

**JEFFERSON COUNTY PUBLIC SERVICE DISTRICT**

**Management's Discussion and Analysis**
For the Fiscal Year Ended June 30, 2018

The management of Jefferson Public Service District provides the following information as an introduction, overview and analysis of the District's financial statements for the year ended June 30, 2018. Readers should also review the basic financial statements that begin on page 9 to further enhance their understanding of the District's financial performance.

## Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. This annual report consists of four parts: Management's Discussion and Analysis, Financial Statements, Required Supplementary Information and Supplementary Information. The Financial Statements also include notes that explain in more detail some of the information in the financial statements.

## Financial Statements

The Financial Statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities.

The Balance Sheet includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for computing the rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges.

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing, and capital and non-capital financing activities and provides answers to such questions as "from where did cash come?", "for what was cash used?", and "what was the change in cash balance during the reporting period?"

The notes to the basic financial statements provide additional and explanatory data. They are an integral part of the basic financial statements.

## Financial Analysis of the District as a Whole

One of the most important questions asked about the District's finances is "Is the District, as a whole, better off or worse off as a result of the year's activities?" The Balance Sheet, the Statement of Revenue, Expenses and Changes in Net Position and the Statement of Cash Flows report information about the District's activities in a way that will help answer this question. These statements repot the net assets of the District and changes in them. You can think of the District's net position – the difference between asset and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, population growth, political leaders, and new or changed legislation.

The net position may serve over time as a useful indicator of an entity's financial position. In the case of the District, at various times, the District receives infrastructure improvements from a developer and in return takes over these assets and maintains them. The District either puts in or has a developer put in the infrastructure, and pays for it through a developer contribution, current operations or by an issuance of a bond. These assets are reflected as an asset on the District's books and are depreciated over the estimated life of the assets.

Below are highlights of the financial statements:

| | |
|---|---|
| Unrestricted cash | $ 491,662 |
| Restricted cash | 1,587,739 |
| Other assets | 1,984,600 |
| Deferred outflows | 284,755 |
| Capital assets | 13,856,317 |
| Total assets and deferred outflows | $ 18,205,073 |
| Current and other liabilities | $ 830,153 |
| Long-term liabilities | 6,756,750 |
| Deferred inflows | 53,335 |
| Total liabilities and deferred inflows | $ 7,640,238 |
| Invested in assets, net of debt | $ 8,675,949 |
| Restricted net position | 1,393,182 |
| Unrestricted net position | 495,704 |
| Total net position | $ 10,564,835 |

| | |
|---|---|
| Revenues | |
| Sales to customers | $ 2,936,710 |
| Other | 138,411 |
| Total revenue | 3,075,121 |
| Expenses | |
| Operating | 2,202,262 |
| Disposal of assets | 18,710 |
| Depreciation and amortization | 572,951 |
| Interest expense | 127,225 |
| Total expenses | 2,921,148 |
| Net income before capital contributions | 153,973 |
| Capital contributions | 197,850 |
| Change in net position | $ 351,823 |

Unrestricted cash increased by $127k due to the decrease in expenses for this fiscal year and the funding of the SB 234 account. Restricted cash increased by $66k because of the increase in the Capital Improvement Fee account and the decrease of the Bank of Charles Town (BCT) account. The remaining balance of the BCT account proceeds from the $660,000 loan that was issued in 2015 for the soft costs related to the Sewer Transmission Project was used to pay Thrasher Engineering and Bowles Rice for project related work they had completed. Deferred outflows decreased $131k because of pension liability adjustments. Current liabilities and other liabilities decreased $181k because Sewer Transmission Project payables were paid in full during the fiscal year.

In August 2015, the District implemented a sewer rate increase to be in compliance with SB 234 requirements and provide sufficient revenues for issuance of the 2015 project soft costs loan in the amount of $660,000. The West Virginia Public Service Commission rate case number was 15-1338-PSD-42R-PC. The implemented rates were in effect as follows: The implemented rates were in effect from August 13, 2015 through August 15, 2017. The rates were then reduced from $17.85 per thousand gallons to $16.61 per thousand gallons to remove the SB 234 requirement for all service rendered on and after August 16, 2017. Other revenues decreased $53k because of the elimination of the Sanitary Associates credit from the monthly invoice from Charles Town for flows to the Charles Town Treatment plant and the removal of the Water System labor. The method of recording the Water System Labor was changed this fiscal year and is no longer included in other revenues.

Operating expenses decreased $215k because of the elimination of the Finance Manager position, change in the maintenance staff, reduction in payroll & retirement expenses, and removal of Water System Labor expense on the Sewer System books.

District staff work diligently to collect all amounts owed to the District. In fiscal year 2018, the bad debt expense was .3% of sales to customers and .6% in fiscal year 2017.

## Management's Discussion and Analysis (continued)

For the Fiscal Year Ended June 30, 2018

### Budgetary Highlights

Over the course of the year, the District approved an amendment to the Sewer Department budget mid-year to adjust specific line items that were over-budget or under-budget overall. The SB234 reserve requirement was also removed from the Sewer Department budget because the reserve account was fully funded. The account balance as of June 30, 2018 was $267,093.

### Capital Asset and Debt Administration

Many debt obligations require debt coverage (revenues over operating expenses) to be more than 115% of the debt obligation.

| | June 30, | | | | |
|---|---|---|---|---|---|
| **Sewer Debt Service Exhibit** | **2014** | **2015** | **2016** | **2017** | **2018** |
| Gross revenues | $ 2,547,526 | $ 2,655,108 | $ 3,036,051 | $ 3,137,574 | $ 2,974,120 |
| Operating expenses | (2,015,149) | (2,118,215) | (2,205,980) | (2,313,254) | (2,161,485) |
| Available for debt service | 532,377 | 536,893 | 830,071 | 824,320 | 812,635 |
| Highest debt service | 462,933 | 463,582 | 519,744 | 519,744 | 519,774 |
| Debt service coverage | 115% | 116% | 160% | 158% | 156% |
| Amounts available to | | | | | |
| repair/replace the system | $ 69,444 | $ 78,406 | $ 82,036 | $ 110,152 | $ 292,861 |

| | June 30, | |
|---|---|---|
| **Water Debt Service Exhibit** | **2017** | **2018** |
| Gross revenues | $ 99,571 | $ 101,001 |
| Operating expenses | (54,360) | (40,777) |
| Available for debt service | 45,211 | 60,224 |
| Highest debt service | 35,391 | 35,391 |
| Debt service coverage | 128% | 170% |
| Amounts available to | | |
| repair/replace the system | $ 767 | $ 24,833 |

At the end of the current fiscal year, the District's Sewer and Water Departments had outstanding revenue bonds of $5,906,795 and $901,049, respectively.

## Economic Factors

The District began to experience a slowdown in the new service customer connections in 2008. Management attributes much of the decline to the overall national slump in the housing industry. The District expects that the residential sector will continue to slowly increase as the economy improves. Overall, the District expects growth within the current service area in new service customer connections and equivalent dwelling units (EDU). This year alone the District had 69 new connections which equated to an addition of 95 EDUs. With the addition of Home2Suites this year, we now serve four hotels. The final order in WV Public Service Commission case #15-1338-PSD-42R-PC, was issued on March 23, 2017. In this order the WV Public Service Commission reduced the amount of the Capacity Improvement Fee (CIF) the District had been collecting from $4,832 to $3,207. The amount of the reduction, $1,625, was the portion of the fee that the District had been collecting per our agreement with Ranson for use of their Flowing Springs Pump Station. Since Ranson withdrew from the agreement, the WV Public Service Commission removed their portion of this CIF fee from the District's collected fee of $4,832 even though District flows continue to use the Flowing Springs Pump Station. Now, out of the $3,207 collected for each EDU, the District keeps $2,080 for District future capacity needs due to growth and the balance of $1,127 is sent to Charles Town for their CIF. Capacity upgrades needed due to growth is the only purpose the money can be used and the District must get permission from the WV Public Service Commission to use these funds. The collected CIF money is kept in a separate bank account. Because the District had been collecting the fee since initiation of this case on August 13, 2015, there were 107 EDUs of CIFs collected at $1,625 per EDU, totaling $173,875. This balance was refunded to those who had paid the CIFs. In fiscal year 2018, the District collected $304,665 CIF's, $107,067 of that balance was remitted to Charles Town and $197,600 was deposited into the District's CIF account.

One of the newer developments in the District's service area, Aspen Greens, has completed and turned over to the District, a 15" line as part of their offsite sewer system. This new line will become part of the new project that is mentioned above and will eventually serve numerous new developments. The Developer of Aspen Greens only needed an 8" line for his development but agreed to put the 15" line if the District agreed to pay the difference in the cost of materials only. The District paid $43,716 for this upgrade but it will save the District close to $1,000,000 in construction costs for this portion of the line during the construction of the project. The developer turned over this line to the District in June of 2017 and their contribution was $964,700 for a total value of $1,008,000. In addition to the sewer collection system, the District also has one small wastewater treatment plant that serves the residents of Deerfield, a development of about 48 lots located in the North East area of Jefferson County. The plant is a recirculating sand filter plant and operates very well.

The Aspen Greens Development by Roderick Planes, LLC is under an alternate mainline extension agreement. The project will service approximately 203 homes when fully built out. Currently there are 11 metered customers. Over the past fiscal year, the developer has purchased 11 CIFs. The sewer system is being constructed by the Developer and will be turned over to the District as phases are completed. The District previously accepted the lines for Phase 1 and a 15 inch sewer line in 2017. The estimated total cost of the project is recorded on the District's books as utility plant and capital contributions when turned over to the District. The developer is currently working on Phase II. The estimated cost of future capital contributions to the District is currently unavailable.

The Norborne Glebe Project is an alternate main line extension that will service the Norborne Glebe subdivision. The project has been expanded from its original plan to serve 602 homes, to serve approximately 1,000 residential units and 40 acres of commercial property. 243 homes are currently on the billing system. Over the past fiscal year, the developer has purchased 14 CIFs. The developer has put a hold on new construction until a new builder takes over the project. This project is being built by the developer and upon phase completion will be turned over to the District, at which time the estimated total cost of the project will be recorded on the District's books as utility plant and capital contributions. Phase I was turned over to the District in September 2005. This is reflected in capital contributions and utility plant in the year ended June 30, 2006. The estimated date of completion for the remainder of the project is 2025 with an estimated total cost of $500,000 (unaudited).

The Beallair Development by Wormald Developers is under an alternate mainline extension agreement. The project will service approximately 400 homes when fully built out. Currently there are 94 metered customers and 3 flat rate customers. Over the past fiscal year, the developer has purchased 5 CIFs and 18 CAFs. The sewer system is being constructed by the Developer and will be turned over to the District as phases are completed. The District previously accepted one pump station and the lines for lots 1-49 in 2007. The estimated total cost of the project is recorded on the District's books as utility plant and capital contributions when turned over to the District. The developer is currently working on Phase II. The estimated cost of future capital contributions to the District is currently unavailable.

The District currently serves potable water to two small developments in Jefferson County, Cavaland, with about 42 customers and Glen Haven, with about 74 customers. These water systems were "given" to the District about 25 years ago and were installed by developers whose main goal in constructing them, was to provide water service so they could sell homes. Unfortunately, since these installations were not their main priority, they didn't use the best of materials or standardized practices in installation. In 2014, the District attained about 50% loan and 50% grants to replace these systems through our IJDC application #2012-W-1331. This project cost was $2,000,000 and it is now completed. Our customers, in these developments have now had their water rates increased approximately 40%. The bond payments associated with the project started in September of 2015. In 2017, the District was granted a rate increase for these customers to be able to meet debt service, operating expenses and SB 234.

## Dissolution

The District has undergone many changes in the past year, including changes to the District's Board of Directors. The previous Chairman, William Strider's term expired December 1, 2017 and Todd Milliron was appointed. The previous Secretary, Richard Weese resigned in December 2017 and Tara Ashley was appointed on January 4, 2018. Currently, the District Board is as follows:

Roger Forshee, Chairman
Todd Milliron, Treasurer
Tara Ashley, Secretary

In the beginning of FY 2017, District staff and professionals were actively working on the administrative duties required for the Sewer Transmission Project, but in December 2017 the Board decided to put an indefinite hold on the project.

The details of that project and the current status are discussed below:

As we noted in 2015:
"With the closing of the Flowing Springs Waste Water Treatment Plant Project in 2014, the District expensed $2.8 million of engineering, legal, accounting and management costs last year. These costs may have a future value as in FY 2016 the District applied to West Virginia Infrastructure and Jobs Development Council (IJDC) for the collection system upgrades that were associated with the Flowing Spring Wastewater Treatment Plant. On June 5, 2015, the District received notification of preliminary approval for this project which is IJDC project #2014S-1538. The loan package suggested for this project, included in this preliminary approval is for a Rural Utility Service Loan (4%, 40 years) - $3,575,000 and a Clean Water State Revolving Fund loan (0%, .5% Administrative Fee, 40 years) - $3,575,000 for a total project cost of $7,150,000."

In 2016, the project was filed with the WV PSC in case 16-0616-PSD-PC-CN. The project costs were reduced by approximately $364,000 due to some design changes. On March 23, 2017, the WV Public Service Commission approved the project. That approval was challenged and the WV Supreme Court ruled that the WV Public Service Commission had properly deemed the project was necessary and convenient as they had ruled. The intervenor asked the WV Supreme Court to reconsider their ruling and they declined, again upholding the decision of the WV Public Service Commission. The District had letters of commitment for funding from USDA and from WV DEP for SRF funds, and a $500,000 grant for the project. Approved funding had the following terms; From USDA, a 2.5% interest loan for $3,575,000 for 40 years, from WV DEP, a 0.5% interest loan for $2,844,984 for 40 years and a $500,000 Green Giant that does not have to be paid back.

During the beginning of fiscal year 2017, the project was still active with the intention of going out to bid and beginning construction on the project as soon as possible. However, there were other issues going on with the District during that time. The Jefferson County Commission voted to dissolve the District on March 30, 2017 after the WV Public Service Commission approved the project in case 16-0616-PSD-PC-CN. After the Jefferson County Commission voted to dissolve the District, WV Public Service Commission case 17-0915-PSWD-PC, the Jefferson County Commission then approved the Charles Town Resolution 2017-012 for the acquisition of the Districts assets. The City of Charles Town amended the Resolution 2017-013 for the acquisition on June 19, 2017. On July 6, 2017 the Jefferson County Commission had a second hearing on the dissolution of the District and submitted the Order of Dissolution to the WV Public Service Commission.

During the August 7, 2017 board meeting, the majority of the Board motioned and approved to intervene in the dissolution case and have Mr. Rodecker represent the District in the intervention. In October 2017, the Charles Town City Council and the Jefferson County Commission approved the purchase agreement to acquire the District's assets. The majority of the District Board did not agree to this sale so the District continued to move forward with the administrative portions of the project while they waited for approval to go to bid. The District had already spent over $800,000 in project related costs based upon the design contemplated in the Facility Plan.

On November 6, 2017, the District approved Resolution #13 to use the remaining funds from the loan for the project to pay Thrasher and Bowles Rice for the majority of the work they had completed to that point. The remaining balance owed to Thrasher Engineering was paid in payments. Mr. Milliron was appointed to the Board on December 1, 2017 and Mr. Weese resigned a few days later. The Board then decided to have a special meeting on December 7, 2017 and the Board voted to put an indefinite hold on the Sewer Transmission Project PSC Case No. 16-0616-PSD-PC-CN.

On January 4, 2018, the intervenors in the 17-0915-PSWD-PC case filed a complaint and petition for appointment of receiver on the District in WV Public Service Commission case 18-0006-PSD-C. The complainants requested the WV Public Service Commission order the District complete the sewer project and petition the Circuit Court of Jefferson County to place the District into receivership until such time that the project be completed. This case was combined with case 17-0915-PSWD-PC on February 7, 2018.

On March 1, 2018, the District Board signed the Purchase Agreement approving the acquisition of the District's assets by the City of Charles Town. The WV Public Service Commission issued a final order in the consolidation case 17-0915-PSWD-PC on June 26, 2018. Since that time, the case was appealed to the WV Supreme Court. District legal counsel, Susan Riggs of Spilman Thomas & Battle, submitted a joint respondent's brief with the Jefferson County Commission and Charles Town to the WV Supreme Court on September 10, 2018. The PSC also filed a response the same day. The Petitioners filed their reply brief on October 1, 2018. The case is set for hearing on October 23, 2018. Both the District and Charles Town have been and will continue to move forward with the necessary step towards consolidation while waiting for a final decision in the WV Supreme Court case.

Also during that time, the Jefferson County Commission approved a Request for Proposals to pursue an independent audit of the District on June 1, 2017. On August 3, 2017 the Jefferson County Commission accepted the proposal from Perry & Associates for the audit of the Districts 2016 and 2017 books. Perry & Associates started the audit after Cox Hollida completed the fiscal year 2017 audit in October.

In June 2018, the District Board hired Yount, Hyde, and Barbour, P.C. of Winchester, VA to perform a financial audit for FY 2018.

## JEFFERSON COUNTY PUBLIC SERVICE DISTRICT

**Statement of Net Position**
June 30, 2018

| Assets | Water Department | Sewer Department | Total |
|---|---|---|---|
| **Current Assets** | | | |
| Cash and cash equivalents | $ 8,628 | $ 483,034 | $ 491,662 |
| Accounts receivable, net of allowance for doubtful accounts of $10,000 | 11,715 | 311,853 | 323,568 |
| Accounts receivable - other | - - | 16,182 | 16,182 |
| Prepaid expenses and deposits | - - | 18,296 | 18,296 |
| Total current assets | 20,343 | 829,365 | 849,708 |
| **Restricted Assets,** cash and cash equivalents | 20,753 | 1,566,986 | 1,587,739 |
| **Property, Plant and Equipment** | | | |
| Land and land rights | 36,142 | 1,059,785 | 1,095,927 |
| Construction work in progress | - - | 29,803 | 29,803 |
| Utility plant in service | 2,279,340 | 18,212,987 | 20,492,327 |
| Less accumulated depreciation | (241,258) | (7,520,482) | (7,761,740) |
| Net property, plant and equipment | 2,074,224 | 11,782,093 | 13,856,317 |
| **Other Assets** | | | |
| Future utility plant preliminary survey and design charges | 222,656 | 868,559 | 1,091,215 |
| Due from other funds | - - | 5,042 | 5,042 |
| Capacity upgrades, net | - - | 530,297 | 530,297 |
| Total other assets | 222,656 | 1,403,898 | 1,626,554 |
| Total assets | 2,337,976 | 15,582,342 | 17,920,318 |
| **Deferred Outflows of Resources** | | | |
| Collective deferred outflows related to OPEB | - - | 17,169 | 17,169 |
| Collective deferred outflows related to pension | - - | 68,570 | 68,570 |
| Unamortized amounts from refunding of debt | - - | 199,016 | 199,016 |
| Total deferred outflows of resources | - - | 284,755 | 284,755 |
| Total assets and deferred outflows of resources | $ 2,337,976 | $ 15,867,097 | $ 18,205,073 |

See Notes to Financial Statements.

| Liabilities | Water Department | Sewer Department | Total |
|---|---|---|---|
| **Current Liabilities (payable from current assets)** | | | |
| Accounts payable | $ 14,670 | $ 160,845 | $ 175,515 |
| Accrued taxes and expenses | - - | 38,421 | 38,421 |
| Total current liabilities (payable from current assets) | 14,670 | 199,266 | 213,936 |
| **Current Liabilities (payable from restricted assets)** | | | |
| Revenue bonds payable (due within one year) | 30,943 | 390,717 | 421,660 |
| Accrued interest payable | 375 | 18,318 | 18,693 |
| Customer deposits | 3,876 | 171,988 | 175,864 |
| Total current liabilities (payable from restricted assets) | 35,194 | 581,023 | 616,217 |
| **Long-Term Liabilities** | | | |
| Due to other funds | 5,042 | - - | 5,042 |
| OPEB obligation | - - | 213,984 | 213,984 |
| Net pension liability | - - | 157,504 | 157,504 |
| Revenue bond payable | 870,106 | 5,510,114 | 6,380,220 |
| Total long-term liabilities | 875,148 | 5,881,602 | 6,756,750 |
| Total liabilities | 925,012 | 6,661,891 | 7,586,903 |
| **Deferred Inflows of Resources** | | | |
| Collective deferred inflows related to OPEB | - - | 5,385 | 5,385 |
| Collective deferred inflows related to pension | - - | 47,950 | 47,950 |
| Total deferred inflows of resources | - - | 53,335 | 53,335 |
| Total liabilities and deferred inflows of resources | 925,012 | 6,715,226 | 7,640,238 |
| **Net Position** | | | |
| Invested in capital assets, net of related debt | 1,395,831 | 7,280,118 | 8,675,949 |
| Restricted net position | 16,502 | 1,376,680 | 1,393,182 |
| Unrestricted net position | 631 | 495,073 | 495,704 |
| Total net pension | 1,412,964 | 9,151,871 | 10,564,835 |
| Total liabilities, deferred inflows of resources, and net position | $ 2,337,976 | $ 15,867,097 | $ 18,205,073 |

**JEFFERSON COUNTY PUBLIC SERVICE DISTRICT**

**Statement of Revenues, Expenses and Change in Net Position**
For the Year Ended June 30, 2018

| | Water Department | Sewer Department | Total |
|---|---|---|---|
| **Operating Revenues** | | | |
| Sales to general customers | $ 98,632 | $ 2,838,078 | $ 2,936,710 |
| Customers' penalties | 1,524 | 57,106 | 58,630 |
| Miscellaneous revenues | 596 | 26,383 | 26,979 |
| Total operating revenues | 100,752 | 2,921,567 | 3,022,319 |
| **Operating Expenses** | 40,777 | 2,161,485 | 2,202,262 |
| Operating income before depreciation | 59,975 | 760,082 | 820,057 |
| **Depreciation** | 79,387 | 428,701 | 508,088 |
| Operating income (loss) | (19,412) | 331,381 | 311,969 |
| **Non-Operating Revenue (Expense)** | | | |
| Interest income | 249 | 11,141 | 11,390 |
| Loss on disposal of assets | - - | (18,710) | (18,710) |
| Interest expense | (4,576) | (122,649) | (127,225) |
| Amortization | - - | (64,863) | (64,863) |
| Miscellaneous non-operating revenues | - - | 41,412 | 41,412 |
| Total non-operating revenue (expense) | (4,327) | (153,669) | (157,996) |
| Net income (loss) before capital contributions | (23,739) | 177,712 | 153,973 |
| **Capital Contributions** | - - | 197,850 | 197,850 |
| Change in net position | (23,739) | 375,562 | 351,823 |
| Net position, beginning of year | 1,436,703 | 8,790,478 | 10,227,181 |
| Prior period adjustment | - - | (14,169) | (14,169) |
| Net position, beginning of year, restated | 1,436,703 | 8,776,309 | 10,213,012 |
| Net position, end of year | $ 1,412,964 | $ 9,151,871 | $ 10,564,835 |

See Notes to Financial Statements.

## JEFFERSON COUNTY PUBLIC SERVICE DISTRICT

### Statements of Cash Flows
For the Year Ended June 30, 2018

| | Water Department | Sewer Department | Total |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| Cash received from customers | $ 95,393 | $ 2,930,121 | $ 3,025,514 |
| Payments to employees for services | (22,264) | (575,938) | (598,202) |
| Payments to suppliers for goods and services | (26,128) | (1,625,377) | (1,651,505) |
| Net cash flows provided by operating activities | 47,001 | 728,806 | 775,807 |
| **Cash Flows from Capital and Related Financing Activities** | | | |
| Purchase of plant and other assets | (2,132) | (48,619) | (50,751) |
| Payments on preliminary surveys | - - | (51,909) | (51,909) |
| Proceeds from sale of plant and other assets | - - | 161 | 161 |
| Principal payment on debt - bond | (30,789) | (389,612) | (420,401) |
| Principal payment on debt - notes | - - | (184,245) | (184,245) |
| Proceeds received from others on debt service | - - | 41,412 | 41,412 |
| Interest paid on bonds and notes | (4,602) | (122,478) | (127,080) |
| Contributions in aid of construction | - - | 197,850 | 197,850 |
| Net cash (used in) capital and related financing activities | (37,523) | (557,440) | (594,963) |
| **Cash Flows from Investing Activities,** interest received | 249 | 11,141 | 11,390 |
| Net increase in cash | 9,727 | 182,507 | 192,234 |
| **Cash and Cash Equivalents,** beginning of year | 19,654 | 1,867,513 | 1,887,167 |
| **Cash and Cash Equivalents,** end of year | $ 29,381 | $ 2,050,020 | $ 2,079,401 |

See Notes to Financial Statements.

**JEFFERSON COUNTY PUBLIC SERVICE DISTRICT**

**Statements of Cash Flows**
(Continued)
For the Year Ended June 30, 2018

| | Water Department | Sewer Department | Total |
|---|---|---|---|
| **Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities** | | | |
| Operating income (loss) | $ (19,412) | $ 331,381 | $ 311,969 |
| Bad debt expense | - - | 9,827 | 9,827 |
| Depreciation | 79,387 | 428,701 | 508,088 |
| Net change in pension related adjustments | - - | (49,316) | (49,316) |
| Net change in OPEB related adjustments | - - | (15,493) | (15,493) |
| Adustments to reconcile operating income (loss) to net cash flows from operating activities: | | | |
| (Increase) decrease in receivables | (5,484) | 4,613 | (871) |
| (Increase) in prepaid expenses | - - | (311) | (311) |
| (Increase) decrease due from other funds | (6,723) | 6,723 | - - |
| Increase (decrease) in accounts payable | (892) | 19,949 | 19,057 |
| Increase (decrease) in security deposits | 125 | (1,695) | (1,570) |
| (Decrease) in accrued expenses | - - | (5,573) | (5,573) |
| Net cash provided by operating activities | $ 47,001 | $ 728,806 | $ 775,807 |
| **Reconciliation of cash:** | | | |
| Cash | $ 8,628 | $ 483,034 | $ 491,662 |
| Restricted cash | 20,753 | 1,566,986 | 1,587,739 |
| | $ 29,381 | $ 2,050,020 | $ 2,079,401 |

## Note 1. General

Jefferson County Public Service District ("District") is a public corporation created by the Jefferson County Commission on December 1, 1983, for the purpose of operating a public utility by providing water and sewer services to customers in its franchise area in Jefferson County. The District is governed by a board of directors who are appointed by the Jefferson County Commission.

The territory allowed to be served by the District consists of all land within the boundaries of Jefferson County, excluding water and sewage authorities within incorporated municipalities and any other public service districts properly authorized and existing within the County.

### Reporting Entity

For financial reporting purposes, the District is considered an independent reporting entity. The basic criteria for defining the District as an independent reporting entity is the District's financial independence, accountability for fiscal matters, significant influence on operations and ability to designate management.

For purposes of regulation by the West Virginia Public Service Commission and as required by its revenue bond issues, water and sewer departments are maintained as separate entities with separate books of account.

The District purchased two private water systems, Glen Haven Utilities, Inc. and Cavaland South Water Service in 1994 for $5,010. In 2015, the District replaced these systems. This project cost approximately $2 million, financed by 50% grants and 50% bond proceeds. Financial data of these water systems are shown in the financial statements under the columnar heading of water department.

## Note 2. Summary of Significant Accounting Principles

The financial statements of the District are prepared in accordance with Generally Accepted Accounting Principles (GAAP). As a proprietary fund type, the District applies all Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncement, in which case, GASB prevails.

All employees and their related costs are paid directly by the sewer fund. The water fund is billed monthly by the sewer fund for its use of the staff based on hours and related materials.

**Basis of Presentation**

Accounts of the District are organized on the basis of fund accounting under one fund, an enterprise fund. Enterprise funds are proprietary fund used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

**Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

The proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported. Proprietary fund equity is classified as net position.

The District utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Cash and Cash Equivalents**

The District considers all highly-liquid investments, including restricted assets, with a maturity of three months or less when purchased to be cash equivalents.

**Accounts Receivable**

An allowance for uncollectible accounts is used to provide for possible losses in the collection of customer's accounts receivable. The allowance for uncollectible accounts amounted to $10,000 as of June 30, 2018.

The District bills customers each month for the prior month's usage. Therefore at year end, accounts receivable includes one month's revenues earned but not billed as of June 30, 2018.

## Property, Plant and Equipment

Property, plant and equipment purchased is stated at cost at the date of acquisition. Donated assets, principally water and sewer lines and land, are recorded at an amount which approximates the donor's cost and are recorded as capital contributions. Depreciation is provided on the straight-line method at various rates calculated to allocate the costs of the respective items over their estimated useful lives ranging from 3 to 50 years. Interest paid on loans obtained for construction of plant facilities is capitalized when material. There was no capitalized interest for the year ended June 30, 2018. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. When items of property or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

Major classifications of property, plant and equipment of the District and their respective useful lives at June 30, 2018 are summarized below:

| Sewer Department | | Water Department | |
|---|---|---|---|
| **Classification** | **Useful Lives** | **Classification** | **Useful Lives** |
| Collection mains and services | 50 years | Structures and improvements | 20-50 years |
| Transmission mains | 50 years | Supply mains | 50 years |
| Gravity mains | 50 years | Pump equipment | 10-50 years |
| Force mains | 50 years | Transmission and distribution lines | 10-50 years |
| Flow meters | 50 years | Services and meters | 10-50 years |
| Electric pumping equipment | 20-50 years | Hydrants | 30 years |
| Transportation equipment | 5 years | | |
| Communication equipment | 5-7 years | | |
| Furniture and office equipment | 3-7 years | | |

Construction work in progress represents costs for projects that were not completed at year end.

## Unamortized Loss on Refunding of Debt

Unamortized losses on refunding of debt are costs that are amortized as a component of interest expense on the straight-line method over the remaining lives of the old or new debt, whichever are shorter.

## Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Employees may, depending on level and length of service, be paid for various amounts of their total accrued vacation upon termination or retirement. Accrued sick pay is not paid upon termination. The District accrues a liability for unused vacation up to 240 hours that meets the criteria for payment at the eligible employees' current rates of pay plus retirement benefits and employment taxes. The accrual for compensated absences was $21,802 at June 30, 2018.

### Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the lives of the related bonds. Other issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expense as incurred.

### Equity Classifications

Equity is classified as net position and displayed in three components:

a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

b. Restricted net position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

c. Unrestricted net position – All other net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

### Budget

In accordance with West Virginia Code, Management shall prepare and submit to the Board a tentative budget. Such tentative budget shall be considered by the Board and, subject to any revisions or amendments that may be determined by the Board, shall be adopted as the budget for the ensuing fiscal year. No expenditures for operation and maintenance expenses in excess of the budget shall be made during such fiscal year unless unanimously authorized and directed by the Board.

### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

### Reclassifications

The District reclassified the prior year presentation of Note 6 in the Notes to Financial Statements. Collection mains and services amounting $878,740, previously included in Electric pumping equipment, was reclassed to more accurately reflect the nature of the property, plant and equipment. There was no net effect on total property, plant and equipment or change in net positon.

## 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 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 report 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 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 to 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.

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 June 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 District has not yet determined the effect these Statements will have on its financial statements.

## Note 3. Cash and Cash Equivalents

Cash and cash equivalents consisted of the following accounts at June 30, 2018:

| | Water | Sewer | Total |
|---|---|---|---|
| Revenue | $ 5,343 | $ 218,526 | 223,869 |
| Petty cash | - - | 700 | 700 |
| Operations and maintenance (SB 234) | 3,285 | 263,808 | 267,093 |
| Restricted cash | 20,753 | 1,566,986 | 1,587,739 |
| | $ 29,381 | $ 2,050,020 | $ 2,079,401 |

## Note 4. Restricted Net Position

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

| | Water | Sewer | Total |
|---|---|---|---|
| Cash and cash equivalents | | | |
| Debt service revenue | $ 3,278 | $ 147,161 | $ 150,439 |
| Debt service reserve | 10,146 | 460,923 | 471,069 |
| Renewal and replacement | 2,229 | 146,581 | 148,810 |
| Capacity improvement | - - | 152,632 | 152,632 |
| Capacity improvement 2015 | - - | 478,453 | 478,453 |
| Customer deposits | 5,100 | 181,236 | 186,336 |
| Accrued interest | (375) | (18,318) | (18,693) |
| Security deposits | (3,876) | (171,988) | (175,864) |
| | $ 16,502 | $ 1,376,680 | $ 1,393,182 |

The debt service revenue and related reserve includes funds on deposit with the West Virginia Municipal Bond Commission as trustee under the various revenue bond indentures and proceeds from bond issues. The Trust indentures require the trustee to establish various special purpose trust fund accounts, make periodic transfers to and between funds, maintain them at a specified level and/or disburse funds from them in accordance with the specific terms of the indentures.

The renewal and replacement funds are under the control and custody of the District as trustee in accordance with provisions of the revenue bond indentures. The renewal and replace fund represents funds on deposit for the purpose of making repairs and replacements.

The District is required to collect Capacity Improvement Fees (CIF), by the orders of the Public Service Commission of West Virginia (PSC) dated March 2005 and modified January 2010, which are to be used for the purpose of improving the Charles Town treatment facilities.

The District is required to remit CIF collections for new customer flows that will be treated at the Charles Town treatment plant by 30 days from collection without interest. The District maintains a liability on the books for fees collected by not yet transferred. The balance of the liability as of June 30, 2018 was $17,524.

CIF account was collections in excess of amounts to be remitted to Charles Town treatment facilities under previous tariff. These amounts were collected directly from new customers and these amounts can only be disbursed by the District with permission of the PSC.

CIF 2015 account is collections in excess of amounts to be remitted to Charles Town treatment facilities under the current tariff. These amounts collected directly for new customer flows can only be disbursed by the District with permission of the PSC.

The customer deposits fund represents funds on deposit with a financial institution as required by the Public Service Commission of West Virginia. These funds are returned to customers upon twelve consecutive timely service payments or upon termination of service.

## Note 5. Deposits and Investments

At June 30, 2018, the District's cash and investment balances are as follows:

| Investment Type | Maturities | Fair Value | Standard Poor Rating |
|---|---|---|---|
| State investment pool | Average of 90 days | $ 621,508 | Unknown |
| Cash | | 3,045,632 | |
| Total cash and investments | | $ 3,667,140 | |

### Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value changes arising from changing interest rates.

### Credit Risk

State statutes authorize the District to invest in the State Investment Pool or the Municipal Bond Commission or to invest such funds in the following classes of securities: Obligations of the United States or any agency thereof, certificates of deposit (which mature in less than one year), general and direct obligations of the state of West Virginia, obligations of the federal mortgage association, indebtedness secured by first lien deeds of trust for property situated within this state if the payment is substantially insured or guaranteed by the federal government, pooled mortgage trusts (subject to limitations), indebtedness of any private corporation that is properly graded as in the top two or three highest rating grades, interest earning deposits, which are fully insured or collateralized, and mutual funds registered with S.E.C. which have fund assets over three hundred million dollars. The District has no investment policy that would further limit its investment choices.

### Concentration Credit Risk

The District does not have a formal investment policy that limits its investments in any one issuer.

GAAP requires disclosure when any one issuer is 5% or more of the investment portfolio. The investments in the state investment pool constitute 100% of the investment portfolio. These types of investments are within state statutes as listed under credit risk, therefore, this is not viewed as an additional risk by the District.

## Note 6. Property, Plant and Equipment

Property, Plant and Equipment activity for the year ended June 30, 2018 are as follows:

**Sewer Department**

| | Balance at July 1, 2017 | Additions | Retirements | Balance at June 30, 2018 |
|---|---|---|---|---|
| Property, plant and equipment not be depreciated: | | | | |
| Land and land rights | $ 1,059,785 | $ - - | $ - - | $ 1,059,785 |
| Construction work in progress | 29,068 | 735 | - - | 29,803 |
| Total property, plant and equipment not being depreciated - sewer | 1,088,853 | 735 | - - | 1,089,588 |
| Property, plant and equipment being depreciated: | | | | |
| Collection mains and services | 13,139,358 | - - | - - | 13,139,358 |
| Transmission mains | 240,858 | - - | - - | 240,858 |
| Gravity mains | 64,865 | - - | - - | 64,865 |
| Force mains | 1,152,835 | - - | - - | 1,152,835 |
| Electric pumping equipment | 3,199,274 | 38,343 | 34,536 | 3,203,081 |
| Transportation equipment | 146,475 | - - | - - | 146,475 |
| Communication equipment | 23,888 | 1,360 | 1,050 | 24,198 |
| Furniture and office equipment | 248,514 | 8,181 | 15,378 | 241,317 |
| Total property, plant and equipment being depreciated - sewer | 18,216,067 | 47,884 | 50,964 | 18,212,987 |
| Less: accumulated depreciation | 7,123,874 | 428,701 | 32,093 | 7,520,482 |
| Net property, plant and equipment - sewer | $ 12,181,046 | $ (380,082) | $ 18,871 | $ 11,782,093 |

**Water Department**

| | Balance at July 1, 2017 | Additions | Retirements | Balance at June 30, 2018 |
|---|---|---|---|---|
| Property, plant and equipment not be depreciated: | | | | |
| Land and land rights | $ 36,142 | $ - - | $ - - | $ 36,142 |
| Property, plant and equipment being depreciated: | | | | |
| Wells and springs | 74,667 | - - | - - | 74,667 |
| Pump equipment | 672,774 | 1,419 | - - | 674,193 |
| Transmission and distribution lines | 1,306,585 | - - | - - | 1,306,585 |
| Services and meters | 223,182 | 713 | - - | 223,895 |
| Total property, plant and equipment being depreciated - water | 2,277,208 | 2,132 | - - | 2,279,340 |
| Less: accumulated depreciation | 161,871 | 79,387 | - - | 241,258 |
| Net property, plant and equipment - sewer | $ 2,151,479 | $ (77,255) | $ - - | $ 2,074,224 |

## Note 7. Construction Work in Progress

Construction work in progress is comprised of the following at June 30, 2018:

| | | |
|---|---|---|
| Norborne Glebe Project - Sewer | $ | 11,575 |
| Wormald/Beallair Project - Sewer | | 16,324 |
| Jefferson Crossing | | 1,904 |
| | $ | 29,803 |

## Note 8. Other Assets

### Future Utility Plan Preliminary Survey and Design Charges

These charges represent engineering, legal, accounting and other incidental costs incurred for the acquisition and or development of future sewer and water systems.

### Capacity Upgrades

The District's contribution to the Charles Town wastewater treatment plant upgrade is being amortized over the remaining life of the associated bonds. The carrying amount of this asset, net of amortization at June 30, 2018 is $530,297.

## Note 9. Revenue Bonds Payable

The District was obligated under trust indentures with respect to the following sewer and water revenue bonds outstanding at June 30, 2018:

**Water**

| | | |
|---|---|---|
| Series 2014 A Water Revenue Bonds, original face value of $985,350, payable in quarterly installments with principal beginning December 1, 2014, at 0.5% interest and concluding on September 1, 2045. | $ | 901,049 |

The District was obligated under trust indentures with respect to the following sewer and water revenue bonds outstanding at June 30, 2018:

| | | |
|---|---|---|
| Series - 1998 B sewer revenue bonds, original face value of $425,767, payable in annual installments, with principal beginning in 1990 at $10,914 at 0% interest and concluding October 10, 2028. | $ | 120,091 |
| Series - 1998 B sewer revenue bonds, original face value of $599,089, payable in quarterly installments, with principal beginning September 1, 1999 at $7,489 at 0% interest and concluding June 1, 2019. | | 29,952 |

| | |
|---|---|
| Series - 1998 C sewer revenue bond, infrastructure fund, original face value of $662,039, payable in quarterly installments, with principal and interest beginning September 1, 2019 at 1% interest and concluding June 1, 2038. | 662,039 |
| Series - 1999 A sewer revenue bond, original face value of $378,363, payable in quarterly installments, with principal beginning June 1, 2000 at $3,154 at 0% interest and concluding March 1, 2030. | 148,191 |
| Series - 2000 A sewer revenue bonds, original face value of $1,154,889, payable in quarterly installments with principal beginning March 1, 2002 at $9,625 at 0% interest and concluding December 1, 2031. | 519,696 |
| Series - 2008 A sewer revenue bonds, original face value of $2,005,000, payable in quarterly installments with principal beginning March 1, 2009 at $16,709 at 0% interest and concluding December 1, 2038. | 1,370,058 |
| Series - 2008 A sewer revenue refunding bonds, original face value of $1,895,000, payable in semi-annual installments with principal beginning October 1, 2010 at $19,900 at 3% increasing to 4.375% interest and concluding on October 1, 2028. | 1,300,000 |
| Series - 2013 A sewer revenue bonds, original face value of $1,660,000, payable in semi-annual installments with principal beginning June 1, 2014, at 2.25% increasing to 4.0% interest concluding on October 1, 2028. | 1,190,000 |
| Series - 2015 A sewer revenue bonds, original face value of $660,000, payable in 180 monthly installments with principal beginning December 1, 2016, at 3.39% interest concluding November 1, 2030. | 566,768 |
| Total outstanding sewer revenue bonds | $ 5,906,795 |
| Less: Bond discount | (5,964) |
| Total sewer revenue bonds | $ 5,900,831 |

Maturities of sewer and water revenue bonds payable and interest payments for each of the next five years and in subsequent five-year increments succeeding June 30, 2018 are as follows:

| | Sewer | | Water | |
|---|---|---|---|---|
| **Year Ending June 30** | **Principal** | **Interest** | **Principal** | **Interest** |
| 2019 | $ 391,299 | $ 113,254 | $ 30,943 | $ 4,447 |
| 2020 | 404,436 | 111,809 | 31,098 | 4,292 |
| 2021 | 416,090 | 103,031 | 31,254 | 4,137 |
| 2022 | 422,795 | 93,451 | 31,411 | 3,980 |
| 2023 | 429,548 | 83,667 | 31,568 | 3,823 |
| 2024-2028 | 2,335,956 | 247,761 | 160,225 | 16,725 |
| 2029-2033 | 952,518 | 22,785 | 164,279 | 12,671 |
| 2034-2038 | 520,737 | 4,936 | 168,437 | 8,515 |
| 2039-2043 | 33,416 | - - | 172,699 | 4,254 |
| 2044-2047 | - - | - - | 79,135 | 495 |
| | $ 5,906,795 | $ 780,694 | $ 901,049 | $ 63,339 |

The bond issues are secured by a first lien on the revenues derived from the system and a statutory mortgage lien on the system. All sewer revenue bonds are on parity with each other.

Sewer revenue bond activity for the year ended June 30, 2018 was as follows:

| | **Balance at July 1, 2017** | **Additions** | **Deductions** | **Balance at June 30, 2018** |
|---|---|---|---|---|
| Series 1988 B | $ 131,008 | $ - - | $ 10,917 | $ 120,091 |
| Series 1998 B | 59,904 | - - | 29,952 | 29,952 |
| Series 1998 C | 662,039 | - - | - - | 662,039 |
| Series 1999 A | 160,803 | - - | 12,612 | 148,191 |
| Series 2000 A | 558,192 | - - | 38,496 | 519,696 |
| Series 2008 A | 1,436,894 | - - | 66,836 | 1,370,058 |
| Series 2010 A | 1,395,000 | - - | 95,000 | 1,300,000 |
| Series 2013 A | 1,290,000 | - - | 100,000 | 1,190,000 |
| Series 2016 A | 602,567 | - - | 35,799 | 566,768 |
| Total sewer revenue bonds payable | $ 6,296,407 | $ - - | $ 389,612 | $ 5,906,795 |
| Bond discount | (6,546) | - - | 582 | (5,964) |
| Total sewer revenue, net of bond discount | $ 6,289,861 | $ - - | $ 390,194 | $ 5,900,831 |
| Less: Current portion due in the upcoming year | | | | (390,717) |
| Long-term sewer revenue bonds, net of current portion | | | | $ 5,510,114 |

Water revenue bond activity for the year ended June 30, 2018 was as follows:

| | Balance at July 1, 2017 | Additions | Deductions | Balance at June 30, 2018 |
|---|---|---|---|---|
| Series 2014 A | $ 931,838 | $ - - | $ 30,789 | $ 901,049 |
| Less: Current portion due in the upcoming year | | | | (30,943) |
| Long-term sewer revenue bonds, net of current portion | | | | $ 870,106 |

**Current Refunding – Deferred Outflows**

On June 24, 2010, the District issued Series 2010 A Sewer revenue bonds to refund its Series 1998 A revenue refinancing bond. The District deferred the difference between the reacquisition price and the net carrying amount of the old debt to be amortized as a component of interest expense over the shorter of the remainder life of the old debt or the new debt.

| | Original Amount | Accumulated Amortization | Net Amount |
|---|---|---|---|
| Deferred 2010 A reacquisition cost | $ 359,727 | $ 160,711 | $ 199,016 |

## Note 10. Noncurrent Liabilities

Changes in other long-term liabilities for the fiscal year ended June 30, 2018, was as follows:

| | Beginning Balance | Additions | Deductions | Ending Balance |
|---|---|---|---|---|
| OPEB obligation | $ 203,524 | $ 10,460 | $ - - | $ 213,984 |
| Net pension liability | 358,749 | - - | (201,245) | 157,504 |
| | $ 562,273 | $ 10,460 | $ (201,245) | $ 371,488 |

## Note 11. Capacity Improvement Fees

The District began collecting capacity improvement fees in March 2005 for all new connections to the District's system pursuant to a PSC order dated March 28, 2005. This order was modified by an order dated January 30, 2009, to increase the amount of capacity improvement fee collected from $1,127 to $7,500 per equivalent dwelling unit. The January 30, 2009 order was changed by the March 20, 2013 order to reduce capacity improvement fees collected from $7,500 to $1,127 per equivalent dwelling unit. The March 20, 2013 order was changed in August 2015 by PSC WV Order No. 17 to increase capacity improvement fees collected from $1,127 to $4,832 per equivalent dwelling unit for service rendered on or after August 13, 2015.

The final order in WV PSC case #15-1338-PSD-42R-PC, was issued on March 23, 2017. In this order the PSC reduced the amount of the capacity improvement fee the District had been collecting from $4,832 to $3,207. The amount of the reduction, $1,625, was the portion of the fee that the District had been collecting per our agreement with Ranson for use of their Flowing Springs Pump Station. Since Ranson withdrew from the agreement, the PSC removed their portion of this capacity improvement fee from the District's collected fee even tough District flows continue to use the Flowing Springs Pump Station. Now, out of the $3,207 collected for each equivalent unit (EDU), the District retains $2,080 for District future capacity needs due to growth and the balance of $1,127 is sent to Charles Town. Capacity upgrades needed due to growth is the only purpose the money can be used and the District must get permission from the WV PSC to use these funds. The collected money is kept in a separate bank account. Because the District had been collecting the fee since initiation of this case on August 13, 2015, there were 107 EDUs of capacity improvement fees collected which included the $1,625 portion for Ranson. At the conclusion of the case, the District refunded $173,875 related to these 107 EDUs.

As required by the previous order, new service connections that will be treated at the Charles Town waste water treatment plant, $1,127 per equivalent dwelling unit will be maintained in a separate fund administered jointly by the parties and shall only be used for the purpose of improving the Charles Town treatment facilities.

Capacity improvement fee activity for the year ended June 30, 2018:

| **Charles Town WWTP** | | |
|---|---|---|
| Capacity improvement fees collected | $ | 304,665 |
| Capacity improvement fees remitted to Charles Town | | (107,065) |
| Deposited in District's CIF Account | | 197,600 |
| Refunded Ranson CIFs per PSC Order | | - - |
| Net CIF deposits in District's CIF Account | $ | 197,600 |

## Note 12. Leases

In April 2008, the District entered into a (10) ten-year facilities lease agreement with options to extend. The monthly lease payments start at $5,782 for the first twelve months and escalate at a rate of 3% each year. Subsequent to year-end the District extended this lease for a term of 15 months with monthly lease payments of $6,375. The District incurred $89,648 in lease expense for fiscal year June 30, 2018. Minimum future rental payments under the operating leases are as follows:

| | | |
|---|---|---|
| 2019 | $ | 77,669 |
| 2020 | | 25,500 |
| Total minimum future rental payments | $ | 103,169 |

## Note 13. Sewer Service Agreement

Effective for service rendered on and after May 1, 2005, by order of the Public Service Commission of West Virginia (PSC), the District is considered a bulk rate customer to the City of Charles Town; therefore, the specific formula used to calculate the amount charged for these sewer services in prior years was changed to include actual usage at a resale rate as stated in the City of Charles Town's sewer tariff, less resale and transportation credits, applicable only to the District. The bulk rate is reflected at gross in the supplemental schedule of operating expense – sewer department under treatment and disposal rent. The credits are reflected as income in the District's financial statements. The resale credit, which is for the debt incurred by the District as part of the 2000 Charles Town treatment plan upgrade, is reflected as miscellaneous non-operating revenues.

As of July 1, 2005, the District's asset related to the Charles Town wastewater treatment plant upgrade was reclassified from utility plant in service to other assets on the balance sheet and is being amortized over the remaining life (25 years) of the associated bonds for the Charles Town wastewater treatment plant upgrades (Series 2000). The carrying amount of this asset, net of amortization at June 30, 2018 was $530,297. The transportation credits are for reimbursement of fixed debt associated with lift stations to transport Charles Town's sewage from the former Sanitary Associates service area, and for flows from the former Sanitary Associates area. These credits are included in miscellaneous operating revenues. During the year ended June 30, 2018, treatment expenses totaled $1,024,463.

## Note 14. Employee Retirement Systems and Plans

### Plan Descriptions, Contribution Information, and Funding Policies

The District participates in the West Virginia Public Employees Retirement System (WVPERS), a state-wide, cost-sharing, multiple-employer defined benefit plan on behalf of Council 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.

The plan 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 plans 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 full-time employees, except those covered by other pension plans |
| Authority establishing contribution Obligations and benefit provisions | State Statute |
| Plan member's contribution rate | 4.5% - 6.0% |
| District's contribution rate | 11.00% |

| | |
|---|---|
| Period required to vest | Five Years |
| Benefits and eligibility for distribution | 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. |
| Deferred retirement portion | No |
| Provisions for: | |
| Cost of living | No |
| Death benefits | Yes |

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 Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions**

At fiscal year-end, the District reported the following liabilities for its proportionate share of the net pension liabilities. The net position liabilities were measured as of June 30, 2017, and the total pension liability used to calculate the net pension liabilities were determined by an actuarial valuation as of July 1, 2016 and rolled forward to June 30, 2017 using the actuarial assumptions and methods described in the appropriate section of this note. The District's proportion of the net pension liabilities was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating governments, actuarially determined. At June 30, 2018, the District reported the following proportions and increase/decreases from its proportion measured as of June 30, 2017:

| | |
|---|---|
| Amount for proportionate share of net pension liability | $ 157,504 |
| Percentage for proportionate share of net pension liability | 0.036489% |
| Increase (decrease) % from prior proportion measured actual earnings on pension plan investments | 0.001328% |

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

| | |
|---|---|
| PERS pension expense | $ (1,091) |

The District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Net difference between projected and actual earnings on pension plan investments | $ 14,017 | $ 38,292 |
| Deferred difference in assumptions | - - | 8,170 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 6,328 | 1,140 |
| Differences between expected and actual experience | - - | 348 |
| District contributions subsequent to the measurement date | 48,225 | - - |
| | $ 68,570 | $ 47,950 |

The amount reported as deferred outflows of resources related to pensions resulting from government 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 pensions will be recognized in pension expense as follows:

| Year Ended June 30: | |
|---|---|
| 2019 | $ (28,404) |
| 2020 | 794 |
| 2021 | 5 |
| 2022 | - - |
| 2023 | - - |
| | $ (27,605) |

**Actuarial Assumptions**

The total pension liability was determined using the following actuarial assumptions:

| | |
|---|---|
| Actuarial Method | Individual entry age normal cost, level percentage of payroll |
| Amortization Method | Level dollar, fixed period |
| Amortization period | Through fiscal year 2035 |
| Asset valuation method | Fair Value |
| Inflation rate | 3.00% |
| Salary increases | 3.35% - 6% |
| Investment rate of return | 7.50% |
| Discount rate | 7.50% |
| Withdrawal rates | 2% - 35.88% |
| Retirement rates | 12% - 100% |

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
Disable males: 96% of RP-2000 Disabled Annuitant, Scale AA fully generational
Disabled females: 107% of RP-2000 Disabled Annuitant, Scale AA fully generational

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period 2009 through 2014.

*Long-Term Expected Rates of Return*

The long-term expected rates of return on pension plan investments were determined using the building-block method in which best-estimate ranges of expected future real rates of return (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 percentages and by adding expected inflation. Best-estimates of long-term geometric rates of return for each major asset class included in the systems target asset allocation are summarized below:

| | |
|---|---|
| Domestic Equity 7.0% | TIPS 2.7% |
| International Equity 7.7% | Real Estate 7.0% |
| Core Fixed Income 2.7% | Private Equity 9.4% |
| High Yield Fixed Income 5.5% | Hedge Funds 4.7% |

*Sensitivity of the net pension liability to changes in the discount rate*

The following chart presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-perentage-point lower or 1-percentage-point higher than the current rate:

| | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|---|---|---|---|
| District's proportionate share of PERS's net pension liability | $ 436,037 | $ 157,503 | $ (77,996) |

## Note 15. Other Post-Employment Benefits (OPEB)

### Plan Description, Contribution Information, and Funding Policies

The District participates in the West Virginia Other Postemployment Benefit Plan (the Plan), a multiple employer, defined benefited other post-employment benefit plan that covers the retires of State agencies, colleges and universities, county boards of education, and other government entities as set forth in the West Virginia Code Section 5-16D-2. 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. PEIA and RHBT issues publicly available reports that include a full description of the OPEB plans regarding benefit provisions, assumptions and membership information that can be found on the PEIA website at www.peia.wv.gov. The following is a summary of eligibility factors, contribution methods, and benefit provisions:

Active employees who retire are eligible for PEIA health and life benefits, provided they meet the minimum eligibility requirements of the applicable State retirement system and if their last employer immediately prior to retirement is a participating employer under the CPRB and, as of July 1, 2008 forward, is a participate employer with the PEIA. Active employees who, as of July 1, 2008, have ten years or more of credited service in the CPRB and whose employer at the time of their retirement does participate with CPRB but does not participate with PEIA will be eligible for PEIA retiree coverage provided: they otherwise meet all criteria under this heading and their employer agrees, in writing, upon a form prescribed by PEIA, that the employer will pay to PEIA the non-participating retiree premium on behalf of the retiree or retirees, or that the retiree agrees to pay the entire unsubsidized premium themselves.

| | |
|---|---|
| Authority establishing contribution obligations and benefit provisions | State Statute and the PEIA Finance Board |
| Plan member's contribution rate | Eligible participants hired prior to July 1, 2010 do not contribute while active or retired.<br><br>Eligible participants hired after June 30, 2010, do not contribute while active, but are required to fully fund premium contributions upon retirement, resulting in no implicit or explicit employer cost. Consequently, these members are excluded from the actuarial valuation. |
| District's contribution rate | Paygo premium per month $177 |
| Benefits provided | Medical and prescription drug insurance<br>Life insurance |

The projections of the net OPEB liability are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of the net OPEB liability does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost-sharing between the employer and plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial estimated liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. However, the preparation of any estimate of future post-employment costs requires consideration of a broad array of complex social and economic events. Future changes in the healthcare reform, changes in reimbursement methodology, the emergence of new and expensive medical procedures and prescription drugs option, changes in the investment rate of return and other matters increase the level of uncertainty of such estimates. As such, the estimate of post-employment program costs contains considerable uncertainty and variability and actual experience may vary significantly by the current estimated net OPEB liability.

Additional information for the latest actuarial valuation follows:

**Net OPEB Liability of the District**

The components of the net OPEB liability of the District at June 30, 2018 rolled forward, were as follows:

| | |
|---|---|
| District's proportionate share of the total OPEB liability | $ 285,682 |
| District's proportionate share of the plan fiduciary net position | 71,698 |
| District's proportionate share of the net OPEB liability | $ 213,984 |
| District's proportionate share of the plan fiduciary net position as a percentage of the total OPEB liability | 0.008702115% |
| Plan fiduciary net position as a percentage of the total pension liability | 25.10% |

**Actuarial assumptions**

The net OPEB liability was determined by an actuarial valuation as of June 30, 2016, using the following

| | |
|---|---|
| Inflation rate | 2.75% |
| Salary increases | Dependent upon pension system ranging from 3.00% to 6.5%, including inflation |
| Investment rate of return | 7.15%, net 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 costs beginning in 2020 to account for the Excise Tax. |
| Actuarial cost method | Entry Age Normal Cost Method |
| Amortization method | Level percentage of payroll over a 21 year closed period |
| Remaining amortization period | 21 years closed as of June 30, 2016 |

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2015.

The long-term expected rate of return of 7.15% on OPEB plan investments was determined by a combination of an expected long-term rate of return of 7.50% for long-term assets invested with the WV Investment Management Board (the WVIMB) and an expected short-term rate of return of 3.0% for assets invested with the West Virginia Board of Treasury Investments. Long-term pre-funding assets are invested with the WVIMB. 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.

The long-term rate of return on OPEB plan investments were determined using a building block method in which estimates of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) was developed for each major asset class. These ranges were 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. Best estimates of long-term geometric rates are summarized in the following table:

| Investment | Long-Term Expected Real Rate of Return |
|---|---|
| Large Cap Domestic | 17.0% |
| Non-Large Cap Domestic | 22.0% |
| International Qualified | 24.6% |
| International Non-Qualified | 24.3% |
| Internation 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% |
| Oppportunistic Income | 4.8% |
| Cash | 0.0% |

## Discount Rate

The discount rate used to measure the total OPEB liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that RHBT contributions would be made at rates equal to the actuarially determined contribution rates, in accordance with prefunding and investment policies. Future pre-funding assumptions include a $30 million annual contribution from the State through 2037. Based on those assumptions, and that the Plan is expected to be fully funded by fiscal year ended June 30, 2036, 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. The discount rate used to measure the total OPEB liability at June 30, 2016 is a 0.45% increase from the June 30, 2015 valuation.

### Other Key Assumptions

The projection assumes that the capped subsidy aggregate contribution limit of $150 million for 2017 would increase by $10 million per year on and after 2018. Additionally, the per member subsidy is projected to increase by at least 3.0% per year but no more than the healthcare trend inflation assumption such that the product of the projected subsidy and projected members is less than the projected aggregated capped costs; and the member's share of plan costs is expected remain stable as a percentage of total costs following the year that the program is fully funded. After 2035, the program is projected to be fully funded and the sponsor is assumed to contribute the residual portion of normal cost and operational expenses needed to maintain a funded ratio of 100% in future years. In addition, after 2035, the member's share of total plan costs is assumed to remain stable at approximately 61 % of total plan costs. These assumptions produced per member annual capped subsidy increases of 3.0% per year from 2018 to 2023 and 4.5% per year after 2023.

### Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the District’s proportionate share of the net OPEB liability of the RHBT, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.15%) or 1-percentage-point higher (8.15%) than the current discount rate:

| | 1% Decrease (6.15%) | Current Discount Rate (7.15%) | 1% Increase (8.15%) |
|---|---|---|---|
| District's proportionate share of RHBT's net OPEB liability | $ 249,160 | $ 213,984 | $ 184,743 |

### Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the District’s proportional share of the net OPEB liability of the Plan, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower:

| | 1% Decrease | Healthcare Cost Trend Rates | 1% Increase |
|---|---|---|---|
| District's proportionate share of RHBT's net OPEB liability | $ 179,750 | $ 213,984 | $ 255,855 |

## Note 16. PSC Order – Case Number 17-0915-PSWD-PC and 18-0006-PSD-C Charles Town Utility Board Acquisition of the District

In 2017, the Jefferson County Commission voted to dissolve the District, subject to the consent and approval of the Public Service Commission of West Virginia. Subsequent to the County Commissions' vote, the Board of Directors of Jefferson County Public Service District entered into negotiations with the City of Charles Town to transfer the District's water and sewer system assets to the City. An agreement was reached and approved by the Board of Directors of the District on March 1, 2018, the Charles Town City Council on March 5, 2018, and the Jefferson County Commission on March 29, 2018.

On June 26, 2018 the Public Service Commission of West Virginia issued and order, pursuant to West Virginia Code §§16-13A-18a and 24-2-12, granting its' prior consent and approval for City of Charles Town and Jefferson County Public Service District to enter into the Purchase Agreement that was filed on March 9, 2018, subject to any required bondholder approval. As of June 30, 2018, the purchase was not complete.

## Note 17. Prior Period Adjustment

For the fiscal year ended June 30, 2018, the District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* The implementation of Statement No. 75 resulted in the reporting of the full OPEB liability, which was previously being recognized over a period of time per GASB Statement No. 45. This resulted in a restatement (decrease) of previously reported net position in the Statement of Revenues, Expenses and Changes in Net Position of $14,169.

## Note 18. Subsequent Events

The District has evaluated all subsequent events through October 19, 2018, the date the financial statements were available to be issued. The District has determined there are no additional subsequent events that require recognition or disclosure.

## REQUIRED SUPPLEMENTAL INFORMATION

**JEFFERSON COUNTY PUBLIC SERVICE DISTRICT**

**Schedule of the District's Proportionate Share of the Net Pension Liability**
Last 10 Fiscal Years

**Public Employees Retirement System**

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| District's proportionate share of the net pension liability (percentage) | 0.036489% | 0.035161% | 0.035402% |
| District's proportionate share of the net pension liability | $ 157,504 | $ 323,174 | $ 197,686 |
| District's covered-employee payroll | $ 441,563 | $ 500,963 | $ 484,519 |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 35.67% | 64.51% | 40.80% |
| Plan fiduciary net position as a percentage of the total pension liability | 93.67% | 86.11% | 83.10% |

Note: This data will be presented prospectively until ten years is accumulated.

See Independent Auditor's Report.

**JEFFERSON COUNTY PUBLIC SERVICE DISTRICT**
**Schedule of the District's Pension Plan Contributions**
**Public Employees Retirement System**

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|---|---|
| Contractually required contribution | $ 48,225 | $ 60,116 | $ 65,410 | $ 67,214 | $ 69,108 | $ 65,554 | $ 64,383 |
| Contributions in relation to the contractually required contribution | (48,225) | (60,116) | (65,410) | (67,214) | (69,108) | (65,554) | (64,383) |
| Contribution deficiency (excess) | $ - - | $ - - | $ - - | $ - - | $ - - | $ - - | $ - - |
| District's covered-employee payroll | $ 441,563 | $ 500,963 | $ 484,519 | $ 480,102 | $ 477,898 | $ 468,246 | $ 442,022 |
| Contributions as a percentage of covered-employee payroll | 11% | 12% | 14% | 14% | 15% | 14% | 15% |

Note: This data will be presented prospectively until ten years is accumulated.

See Independent Auditor's Report.

**JEFFERSON COUNTY PUBLIC SERVICE DISTRICT**
**Schedule of the District's Proportionate Share**
**of the Collective Net OPEB Liability**
**West Virginia Retiree Health Benefit Trust Fund**

| | **2018** | **2017** |
|---|---|---|
| District's proportionate share of the net OPEB liability (percentage) | 0.008702115% | 0.008766184% |
| District's proportionate share of the net OPEB liability | $ 213,984 | $ 217,693 |
| District's covered-employee payroll | $ 441,563 | $ 500,963 |
| District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll | 48.46% | 43.45% |
| Plan fiduciary net OPEB as a percentage of the total OPEB liability | 25.10% | 21.64% |

Note: This data will be presented prospectively until ten years are accumulated.

See Independent Auditor's Report.

**JEFFERSON COUNTY PUBLIC SERVICE DISTRICT**

**Schedule of the District's Contributions**
**West Virginia Retiree Health Benefit Trust Fund**

| | | 2018 |
|---|---|---|
| Actuarially determined contribution | $ | 17,169 |
| Contributions in relation to the actuarially determined contribution | | 17,169 |
| Contribution deficiency (excess) | $ | - - |
| District's covered-employee payroll | $ | 441,563 |
| Contributions as a percentage of covered-employee payroll | | 4.00% |

Note: This data will be presented prospectively until ten years are accumulated.

See Independent Auditor's Report.

**SUPPLEMENTAL INFORMATION**

**JEFFERSON COUNTY PUBLIC SERVICE DISTRICT**

**Budgetary Comparison Schedule - Water Department**
For the Year Ended June 30, 2018
See Independent Auditor's Report

| | | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts Budgetary Basis | | Budget to GAAP Differences Over (Under) | Actual Amounts GAAP Basis |
|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | |
| Operating revenues | | $ 103,500 | $ 99,000 | $ 100,156 | (C) | $ 596 | $ 100,752 |
| Non-operating revenues | (B) | 300 | 600 | 596 | | (347) | 249 |
| Total revenue | | 103,800 | 99,600 | 100,752 | | 249 | 101,001 |
| **Revenue Deductions Before Depreciation** | | | | | | | |
| Operating expenses | | 52,870 | 48,270 | 40,777 | | - - | 40,777 |
| Income before depreciation | | 50,930 | 51,330 | 59,975 | | 249 | 60,224 |
| **Depreciation** | (A) | - - | - - | - - | | 79,387 | 79,387 |
| Income before non-operating expenses | | 50,930 | 51,330 | 59,975 | | (79,138) | (19,163) |
| **Non-Operating Income (Expenses)** | | | | | | | |
| Interest expense | (E) | - - | - - | - - | | (4,576) | (4,576) |
| **Other Financing Sources (Uses)** | | | | | | | |
| Renewal and replacement funds | (D) | (2,595) | (2,490) | - - | | - - | - - |
| Debt service reserve | (D) | (3,539) | (3,539) | - - | | - - | - - |
| Debt service | (D) | (35,391) | (35,391) | - - | | - - | - - |
| SB 234 funds | (D) | (4,136) | (3,957) | - - | | - - | - - |
| Total other financing sources (uses) | | (45,661) | (45,377) | - - | | - - | - - |
| Increase (decrease) in net position | | 5,269 | 5,953 | 59,975 | | (83,714) | (23,739) |
| Net position at beginning of year | | 469,623 | 495,075 | 510,240 | | (127,303) | 1,436,703 |
| Net position at end of year | | $ 474,892 | $ 501,028 | $ 570,215 | | $ (211,017) | $ 1,412,964 |

NOTES:

(A) Non-cash items are not included for budgetary purposes.
(B) For budgetary purposes, includes interest earned included in miscellaneous revenues.
(C) Miscellaneous revenues included in non-operating revenues for budgetary purposes.
(D) Budget includes principal, interest and fund of reserve accounts.
(E) Interest expense is included in debt service for budgetary purposes.

See Independent Auditor's Report.

**JEFFERSON COUNTY PUBLIC SERVICE DISTRICT**

**Budgetary Comparison Schedule - Sewer Department**
For the Year Ended June 30, 2018
See Independent Auditor's Report

| | | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts Budgetary Basis | | Budget to GAAP Differences Over (Under) | Actual Amounts GAAP Basis |
|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | |
| Operating revenues | | $ 2,967,818 | $ 2,967,818 | $ 2,895,184 | (F) | $ 26,383 | $ 2,921,567 |
| Non-operating revenues | (C) | 96,928 | 96,928 | 26,383 | | 26,170 | 52,553 |
| Total revenues | | 3,064,746 | 3,064,746 | 2,921,567 | | 52,553 | 2,974,120 |
| **Revenue Deductions Before Depreciation** | | | | | | | |
| Operating expenses | (G) | 2,387,874 | 2,387,874 | 2,216,467 | | (54,982) | 2,161,485 |
| Income before depreciation | | 676,872 | 676,872 | 705,100 | | 107,535 | 812,635 |
| **Depreciation** | (A) | - - | - - | - - | | 428,701 | 428,701 |
| Income before non-operating expenses | | 676,872 | 676,872 | 705,100 | | (321,166) | 383,934 |
| **Non-Operating Income (Expenses)** | | | | | | | |
| Interest expense | (B) | - - | - - | - - | | (122,649) | (122,649) |
| Amortization of treatment plant upgrades | (A) | - - | - - | - - | | (64,863) | (64,863) |
| Loss on disposal of assets | (A) | - - | - - | - - | | (18,710) | (18,710) |
| Total non-operating income (expenses) | | - - | - - | - - | | (206,222) | (206,222) |
| Increase (decrease) in net position before capital contributions | | 676,872 | 676,872 | 705,100 | | (527,388) | 177,712 |
| **Capital Contributions** | | - - | - - | - - | | 197,850 | 197,850 |
| **Other Financing Sources (Uses)** | | | | | | | |
| Renewal and replacement funds | (D) | (76,619) | (76,619) | (74,746) | (E) | 74,746 | - - |
| SB 234 funds | (D) | - - | - - | (83,876) | (E) | 83,876 | - - |
| Note payable | (D) | (56,376) | (56,376) | (56,372) | (E) | 56,372 | - - |
| Debt service | (D) | (454,623) | (454,623) | (450,894) | (E) | 450,894 | - - |
| Total other financing sources (uses) | | (587,618) | (587,618) | (665,888) | | 665,888 | - - |
| Increase (decrease) in net position | | 89,254 | 89,254 | 39,212 | | 336,350 | 375,562 |
| Net position, beginning of year, as originally stated | | 7,515,152 | 7,515,152 | 7,920,245 | | 870,233 | 8,790,478 |
| Prior period adjustment | | - - | - - | - - | | - - | (14,169) |
| Net position, beginning of year, as restated | | 7,515,152 | 7,515,152 | 7,920,245 | | 870,233 | 8,776,309 |
| Net position, end of year | | $ 7,604,406 | $ 7,604,406 | $ 7,959,457 | | $ 1,206,583 | $ 9,151,871 |

NOTES:

(A) Non-cash items are not included for budgetary purposes.
(B) Interest expense is included in debt service for budgetary purposes.
(C) For budgetary purposes, included interest earned on debt service and other funds, capital contributions, developer guaranteed minimum payments, grant revenues and miscellaneous operating revenues.
(D) Budget includes principal, interest and funding of debt service and reserve funds.
(E) Balance sheet transactions are excluded from revenues and expenses under GAAP.
(F) Miscellaneous revenues included in non-operating revenues for budgetary purposes.
(G) Budget operating expenses do not include bad debts or changes in OPEB and Pension liabilities.

See Independent Auditor's Report.

**JEFFERSON COUNTY PUBLIC SERVICE DISTRICT**

**Schedule of Operating Expenses - Water Department**
For the Year Ended June 30, 2018
See Independent Auditor's Report

| | 2018 |
|---|---|
| **Source of Supply Expenses** | |
| Repairs and maintenance | $ 1,765 |
| Operation supplies and expenses | 1,204 |
| Total | 2,969 |
| | |
| **Pumping Expenses** | |
| Operation labor | 22,264 |
| Repairs and maintenance | 2,814 |
| Operation supplies and expenses | 5,937 |
| Total | 31,015 |
| | |
| **Billing and Collecting Expenses** | |
| Meter reading, accounting and collection | 203 |
| | |
| **Administrative and General Expenses** | |
| Bad debts | 15 |
| Miscellaneous expenses | 6,575 |
| Total | 6,590 |
| | |
| Total operating expenses | $ 40,777 |

**JEFFERSON COUNTY PUBLIC SERVICE DISTRICT**

**Schedule of Operating Expenses - Sewer Department**
For the Year Ended June 30, 2018
See Independent Auditor's Report

| | 2018 |
|---|---|
| **Collecting Expenses** | |
| Operation labor | $ 11,502 |
| Supplies and expense | 2,522 |
| Total | 14,024 |
| **Pumping System** | |
| Operation labor | 66,135 |
| Power purchased for pumping | 48,805 |
| Pumping and supplies | 54,828 |
| Pumping maintenance | 56,883 |
| Total | 226,651 |
| **Treatment and Disposal System Expenses** | |
| Operation labor | 6,459 |
| Supplies and expense | 4,015 |
| Treatment and disposal rent | 1,024,463 |
| Total | 1,034,937 |
| **Billing and Collecting Expenses** | |
| Meter reading, accounting and collection | 121,351 |
| **Administrative and General Expenses** | |
| General office salaries | 214,703 |
| Employee benefits | 85,410 |
| Office supplies and expense | 92,894 |
| Insurance | 52,900 |
| Professional fees | 134,091 |
| Miscellaneous general expense | 19,365 |
| Directors' fees | 6,650 |
| Rent | 89,799 |
| Regulatory commission expense and penalties | 20,291 |
| Utilities | 23,345 |
| Bad debts | 9,827 |
| Repairs and maintenance | 15,247 |
| Total | 764,522 |
| Total operating expenses | $ 2,161,485 |

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# INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Members of the Board
Jefferson County Public Service District
Kearneysville, West Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Jefferson County Public Service District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Jefferson County Public Service District's basic financial statements, and have issued our report thereon dated October 19, 2018.

**Internal Control over Financial Reporting**

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

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

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

We noted certain matters that we reported in a separate letter dated October 19, 2018.

**Compliance and Other Matters**

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

**Purpose of this Report**

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

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
October 19, 2018