

Raleigh County

RFP#18-114

Beckley Sanitary Board

A Component Unit of the Municipality of Beckley, West Virginia

Financial Statements and Independent Auditor's Report

For the Fiscal Year Ended June 30, 2018

BECKLEY SANITARY BOARD
A COMPONENT UNIT OF THE MUNICIPALITY OF BECKLEY, WEST VIRGINIA
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Financial Section

Ferrari & Associates, PLLC

1340 Cain Street | Morgantown, WV 26505

Independent Auditor's Report

Beckley Sanitary Board
301 S. Heber Street
Beckley, West Virginia 25801

Report on the Financial Statements

We have audited the accompanying financial statements of Beckley Sanitary Board (the Board), a component unit of the Municipality of the City of Beckley, West Virginia, as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

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Emphasis of Matter

As discussed in Note I.C, during the year ended June 30, 2018, the Board adopted new accounting guidance, the Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

The Board has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by GASB, 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require this presentation to include the Schedule of the Board's Proportionate Share of the Net Pension Liability, Schedule of Contributions – Retirement Systems, Schedule of the Board's Proportionate Share of the Net OPEB Liability, Schedule of Contributions – OPEB, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, GASB considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements as a whole.

The Schedule of Rate Covenant Compliance is presented for purposes of additional analysis and is not a required part of the basic financial statements.

This information is management's responsibility and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected the schedules to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedules directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2019, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Board's internal control over financial reporting and compliance.

Ferrari & Associates, PLLC

**Morgantown, West Virginia
January 23, 2019**

BECKLEY SANITARY BOARD
A COMPONENT UNIT OF THE MUNICIPALITY OF BECKLEY, WEST VIRGINIA
STATEMENT OF NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Business Type Activities- Enterprise Funds		Totals
	Sewerage	Stormwater Utility	
ASSETS			
Current:			
Cash and cash equivalents	\$ 869,275	\$ 157,126	\$ 1,026,401
Receivables:			
Accounts, net	501,540	215,607	717,147
Taxes	1,626	-	1,626
Prepaid expenses	45,757	4,921	50,678
Due from other funds	78,288	736	79,024
Inventory, at cost	45,852	-	45,852
Total current assets	<u>1,542,338</u>	<u>378,390</u>	<u>1,920,728</u>
Noncurrent Assets			
Restricted:			
Regular account	4,315,541	24,499	4,340,040
Reserve account	2,801,317	-	2,801,317
Customer deposits	154,826	-	154,826
Renewal and replacement	488,999	53,431	542,430
Total restricted assets:	<u>7,760,683</u>	<u>77,930</u>	<u>7,838,613</u>
Capital assets:			
Nondepreciable:			
Land	271,900	-	271,900
Construction in progress	11,094,855	61,863	11,156,718
Depreciable:			
Buildings	23,033,197	-	23,033,197
Structures and improvements	33,323,885	5,003,830	38,327,715
Machinery and equipment	4,130,211	198,363	4,328,574
Less: accumulated depreciation	<u>(29,805,555)</u>	<u>(917,560)</u>	<u>(30,723,115)</u>
Total capital assets (net of accumulated depreciation)	<u>42,048,493</u>	<u>4,346,496</u>	<u>46,394,989</u>
Total assets	<u>51,351,514</u>	<u>4,802,816</u>	<u>56,154,330</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflow - pension	202,551	75,274	277,825
Total deferred outflows	<u>202,551</u>	<u>75,274</u>	<u>277,825</u>
Total assets and deferred outflows	<u>\$ 51,554,065</u>	<u>\$ 4,878,090</u>	<u>\$ 56,432,155</u>
LIABILITIES			
Current liabilities payable from current assets:			
Accounts payable	\$ 1,485,977	\$ 47,184	\$ 1,533,161
Payroll liabilities payable	56,069	6,356	62,425
Other accrued expenses	41,422	-	41,422
Benefits payable	-	1,109	1,109
Compensated absences payable	62,596	16,269	78,865
Due to other funds	767	67,397	68,164
Customer deposits	163,012	7,000	170,012
Total current liabilities payable from current assets	<u>1,809,843</u>	<u>145,315</u>	<u>1,955,158</u>
Noncurrent liabilities due within one year:			
Bonds payable	1,506,958	90,170	1,597,128
Leases payable	51,648	-	51,648
Total noncurrent liabilities due within one year:	<u>1,558,606</u>	<u>90,170</u>	<u>1,648,776</u>
Noncurrent liabilities due within more than one year:			
Bonds payable	23,800,961	1,341,678	25,142,639
Leases payable	29,748	-	29,748
Compensated absences payable	123,976	18,741	142,717
Net Pension Liability	282,558	131,504	414,062
OPEB liability	1,337,052	288,888	1,625,940
Total noncurrent liabilities due within more than one year	<u>25,574,295</u>	<u>1,780,811</u>	<u>27,355,106</u>
Total liabilities	<u>28,942,744</u>	<u>2,016,296</u>	<u>30,959,040</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflow - PERS	85,050	26,157	111,207
Deferred inflow - OPEB	7,157	1,546	8,703
Total deferred inflows	<u>92,207</u>	<u>27,703</u>	<u>119,910</u>
NET POSITION			
Net investment in capital assets	16,659,178	2,914,649	19,573,827
Restricted for debt service	7,116,858	24,499	7,141,357
Restricted for renewal and replacement	488,999	53,431	542,430
Restricted for customer deposits	154,826	-	154,826
Unrestricted (deficit)	<u>(1,900,747)</u>	<u>(158,488)</u>	<u>(2,059,235)</u>
Total net position	<u>22,519,114</u>	<u>2,834,091</u>	<u>25,353,205</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 51,554,065</u>	<u>\$ 4,878,090</u>	<u>\$ 56,432,155</u>

BECKLEY SANITARY BOARD
A COMPONENT UNIT OF THE MUNICIPALITY OF BECKLEY, WEST VIRGINIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Business Type Activities-Enterprise Funds		Totals
	Sewage	Stormwater Utility	
OPERATING REVENUES			
Sales and services to customers	\$ 6,779,917	\$ 1,197,171	\$ 7,977,088
Discount and penalties	117,748	-	117,748
Miscellaneous	105,392	40,158	145,550
Total revenue	<u>7,003,057</u>	<u>1,237,329</u>	<u>8,240,386</u>
OPERATING EXPENSES			
Personal services	2,215,495	435,448	2,650,943
Contractual services	434,825	42,961	477,786
Administrative and general	131,293	15,522	146,815
Rents	31,696	23,921	55,617
Miscellaneous	109,940	31,853	141,793
Fuel and oil	72,897	27,867	100,764
Insurance	209,410	38,363	247,773
Materials and supplies	454,510	85,076	539,586
Utilities	348,830	11,556	360,386
Depreciation	1,402,800	163,317	1,566,117
Maintenance	376,448	9,349	385,797
Bad debt	-	11,000	11,000
Total operating expenses	<u>5,788,144</u>	<u>896,233</u>	<u>6,684,377</u>
Operating income	<u>1,214,913</u>	<u>341,096</u>	<u>1,556,009</u>
NONOPERATING REVENUES (EXPENSES)			
Interest revenues	82,171	381	82,552
Interest and fiscal charges	(628,448)	(57,291)	(685,739)
Total nonoperating revenues (expenses)	<u>(546,277)</u>	<u>(56,910)</u>	<u>(603,187)</u>
Change in net position	668,636	284,186	952,822
Net position-beginning of the year (see note 11)	21,850,478	2,549,905	24,400,383
Net position-end of year	<u>\$ 22,519,114</u>	<u>\$ 2,834,091</u>	<u>\$ 25,353,205</u>

BECKLEY SANITARY BOARD
A COMPONENT UNIT OF THE MUNICIPALITY OF BECKLEY, WEST VIRGINIA
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Business Type Activities-Enterprise Funds		Totals
	Sewerage	Stormwater Utility	
Increase (decrease) in cash and cash equivalents			
Cash flows from operating activities:			
Cash received from customers	\$ 6,652,931	\$ 1,156,966	\$ 7,809,897
Cash payments for employee services and benefits	(2,275,356)	(439,835)	(2,715,191)
Cash payments to suppliers for goods and services	(2,141,082)	(388,727)	(2,529,809)
Other operating revenues	223,140	40,158	263,298
Other operating expenses	109,944	(31,852)	78,092
<i>Net cash provided/(used) by operating activities</i>	<u>2,569,577</u>	<u>336,710</u>	<u>2,906,287</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(9,490,964)	(168,691)	(9,659,655)
Principal paid on bonds	(1,353,240)	(86,753)	(1,439,993)
Principal paid on capital leases	(82,308)	-	(82,308)
Interest paid on debt	(628,448)	(57,291)	(685,739)
<i>Net cash used for capital and related financing activities</i>	<u>(11,554,960)</u>	<u>(312,735)</u>	<u>(11,867,695)</u>
Cash flows from investing activities:			
Investment earnings	82,171	381	82,552
<i>Net increase in cash and cash equivalents</i>	(8,903,212)	24,356	(8,878,856)
<i>Cash and cash equivalents beginning of year - includes \$16,692,524 in restricted cash</i>	<u>17,533,170</u>	<u>210,700</u>	<u>17,743,870</u>
<i>Cash and cash equivalents end of year - includes \$7,838,613 in restricted cash</i>	<u>\$ 8,629,958</u>	<u>\$ 235,056</u>	<u>\$ 8,865,014</u>
Reconciliation of operating income to net cash provided by operating activities:			
<i>Operating Income</i>	\$ 1,214,913	\$ 341,096	\$ 1,556,009
Adjustments:			
Depreciation	1,402,800	163,317	1,566,117
(Increase)/decrease in assets:			
Accounts receivable	(134,559)	(36,205)	(170,764)
Taxes receivable	-	-	-
Due from other funds	57,116	154,379	211,495
Inventory	4,463	-	4,463
Prepaid items	10,395	11,241	21,636
Deferred outflows	344,206	43,289	387,495
Increase/(decrease) in liabilities:			
Accounts payable	69,472	(305,073)	(235,601)
Payroll payable	7,524	(2,195)	5,329
Other accrued expenses	(6,745)	(474)	(7,219)
Compensated absences payable	36,162	1,428	37,590
Due to other funds	(134,031)	(10,180)	(144,211)
Customer deposits	7,573	7,000	14,573
Pension	(398,719)	(50,144)	(448,863)
OPEB	89,007	19,231	108,238
<i>Net cash provided/(used) by operating activities</i>	<u>\$ 2,569,577</u>	<u>\$ 336,710</u>	<u>\$ 2,906,287</u>

BECKLEY SANITARY BOARD
A COMPONENT UNIT OF THE MUNICIPALITY OF BECKLEY, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Beckley Sanitary Board (the Board), conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of significant accounting policies:

A. Reporting Entity

The Board, a component unit of the Municipality of Beckley, West Virginia is governed by a three member board with the mayor as the chairman. Board members are approved by the Municipality of Beckley Council. The Board is a legally separate organization for which elected officials of the primary government are financially accountable. The Board is a discretely presented component unit of the primary government based upon the criteria stipulated by the Governmental Accounting Standards Board (GASB).

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Board reports the following major proprietary funds:

The *Sewerage* fund consists of facilities that provide sewerage service to the public. The sewerage fund serves the citizens by providing sewerage services to the community. This fund accounts for the receipts and expenses of operating this facility. The rates for user charges and bond issuance authorization are approved by the Board.

The *Stormwater Utility* fund consists of facilities that provide storm water services to the public. The storm water fund serves the citizens by providing storm water services to the community. This fund accounts for the receipts and expenses of operating this facility. The rates for user charges and bond issuance authorizations are approved by the Board.

Proprietary funds distinguish 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 revenue of the sewerage and storm water utility (enterprise funds) are charges to customers for services. Operating expenses for the enterprise funds include the cost of service, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Board's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Assets, Liabilities, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position

Deposits and Investments

The Board's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of less than three months from the date of acquisition. For purpose of Statement of Cash Flows, restricted assets may be considered cash equivalents based on liquidity.

**BECKLEY SANITARY BOARD
A COMPONENT UNIT OF THE MUNICIPALITY OF BECKLEY, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In accordance with GASB Statement No 31, Accounting and Financial Reporting for Certain Investments and External Investment Pools, the Board reports its investments at fair value, except for non-participating investment contracts (certificates of deposit and repurchase agreements), which are reported at cost, which approximates fair value. All investment income, including changes in fair value of investments, are recognized as revenue in the operating statement. Fair value is determined by quoted market prices.

State statutes authorize the government to invest in the State Investment Pool for 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 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 trust (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.

Receivables and Payables

Interfund Transactions

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "Interfund receivables or payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of the interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Trade Receivables

All trade receivables are shown at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The government analyzes delinquent accounts and determines if the provision for total uncollectible accounts is inadequate. Accounts in excess of the provision for uncollectibles are written off.

Inventories

The cost of inventories are recorded as expenses when consumed rather than when purchased and consist of expendable supplies.

Restricted Assets

Certain proceeds of the sewerage and stormwater utility enterprise fund revenue bonds, as well as certain proceeds set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

- The "regular" account is used to segregate resources accumulated for debt service payments over the next twelve months.
- The "reserve" account is used to report resources set aside to make up potential future deficiencies in the regular account.
- The "renewal and replacement" account is used to report resources set aside to meet unexpected contingencies or fund asset renewals and replacements.
- The "customer deposit" account is used to report the segregation of returnable cash deposits from customers of the utility upon initial receipt of the service.

**BECKLEY SANITARY BOARD
A COMPONENT UNIT OF THE MUNICIPALITY OF BECKLEY, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets and Depreciation

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., road, bridges, sidewalks, and similar items), are reported in the financial statements. Capital assets are defined by the government as assets with an initial, individual cost of \$5,000 or more and estimated to have a useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of the proprietary fund capital assets are reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds during the same period.

The Board's capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25-50
Structures and improvements	25-50
Machinery and equipment	3-10

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. The separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow or resources (expense/expenditure) until that time.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Compensated Absences

The Board's policy permits employees to accumulate earned but unused vacation and sick pay benefits. All vacation and sick pay is accrued when incurred in the financial statements.

Long-Term Obligations

In the financial statements, long-term debt and other long-term obligations are reported as liabilities in the proprietary fund statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of applicable bond premium or discount.

**BECKLEY SANITARY BOARD
A COMPONENT UNIT OF THE MUNICIPALITY OF BECKLEY, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets.

Net position is reported as restricted when there are limitations imposed on their use either through external restrictions imposed by creditors, grantors or laws or regulation of other governments. The Board applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

Change In Accounting Principle

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

NOTE 2 – DEPOSITS AND INVESTMENTS

At year end, the Board had the following investments:

	Fair Value	Credit Risk Rating	
		Standard & Poor's and Fitch	Moody's Investment Service
Municipal Bond Commission	\$ 2,499,590	Not Rated	Not Rated
Investments in Bank Accounts	\$ 4,117,850	Not Rated	Not Rated

Custodial Credit Risk

For deposits, the Board could be exposed to risk in the event of a bank failure where the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk. At year end, the Board's cash bank balances were \$2,246,374 which were fully collateralized with securities held by the pledging financial institution's trust department or agent but not in the government's name.

**BECKLEY SANITARY BOARD
A COMPONENT UNIT OF THE MUNICIPALITY OF BECKLEY, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

For investments, the Board could be exposed to risk in the event of the failure of the counter party where the Board will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At year end, the Board's investments were \$6,617,440 of which \$2,499,590 were held at the Municipal Bond Commission and fully collateralized by the State of West Virginia.

A reconciliation of cash and investments as shown on the Statement of Net Position is as follows:

Cash and cash equivalents	\$ 2,247,574
Investments – collateralized and secured	6,617,440
Total	<u>\$ 8,865,014</u>
Cash and cash equivalents	\$ 1,026,401
Cash and cash equivalents – restricted	1,221,173
Investments - restricted	6,617,440
Total	<u>\$ 8,865,014</u>

NOTE 3 – RECEIVABLES

Receivables at year end for the Board's individual major funds, including applicable allowances for uncollectible accounts, are as follows:

	Sewerage	Stormwater Utility	Total
Receivables:			
Accounts	\$ 634,540	\$ 373,607	\$ 1,008,147
Taxes	1,626	-	1,626
Other	-	-	-
Gross receivables	636,166	373,607	1,009,773
Less: Allowance for Uncollectible	(133,000)	(158,000)	(291,000)
Net Total Receivables	<u>\$ 503,166</u>	<u>\$ 215,607</u>	<u>\$ 718,773</u>

BECKLEY SANITARY BOARD
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NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year end June 30, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 403,272	\$ -	\$ (131,372)	\$ 271,900
Construction in progress	2,650,503	10,310,051	(1,803,836)	11,156,718
Total capital assets not being depreciated	<u>3,053,775</u>	<u>10,310,051</u>	<u>(1,935,208)</u>	<u>11,428,618</u>
Capital assets being depreciated:				
Buildings	23,094,011	-	(60,814)	23,033,197
Structures and improvements	36,043,866	2,283,849	-	38,327,715
Machinery and equipment	3,927,145	463,703	(165,855)	4,224,993
Software	76,881	26,700	-	103,581
Total accumulated depreciation	(29,156,998)	(1,566,117)	-	(30,723,115)
Total capital assets being depreciated, net	<u>33,984,905</u>	<u>1,208,135</u>	<u>(226,669)</u>	<u>34,966,371</u>
Governmental activities capital assets, net	<u>\$ 37,038,680</u>	<u>\$ 11,518,186</u>	<u>\$ (2,161,877)</u>	<u>\$ 46,394,989</u>

Depreciation expense was charged to the funds of the Board as follows:

Sewerage	\$ 1,402,800
Stormwater Utility	163,317
Total Depreciation	<u>\$ 1,566,117</u>

Construction in Progress

The Board has active construction projects as of June 30, 2018. The projects include system upgrades, line expansions, and stormwater projects. At year end, the amounts spent-to-date are as follows:

Sewer Projects	Spent-to-date
200 Armory Drive	\$ 9,067
Piney Creek Plant Upgrade 2017	11,042,745
Crawford Street - WVU Tech	41,228
302 Circle Street	1,815
Total Sewer Projects	<u>\$ 11,094,855</u>
Stormwater Projects	
Jamescrest Phase I	\$ 21,547
East Park Pool	23,063
Crawford WVU Tech	17,253
Total Stormwater Projects	<u>\$ 61,863</u>
Total Sewer and Stormwater Projects	<u>\$ 11,156,718</u>

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NOTE 5 – LONG-TERM DEBT

Revenue Bonds

The Board issues bonds where the government pledges income derived from acquired or constructed assets to pay debt service.

Series	Issued	Retired	Balance June 30, 2018
1998-A Sanitary	\$ 11,000,000	\$ 9,852,885	\$ 1,147,115
2004-A Sanitary	9,039,000	4,986,252	4,052,748
2009-A Sanitary	679,316	247,861	431,455
2009-C Sanitary	1,035,783	200,490	835,293
2010 Stormwater	2,000,000	568,152	1,431,848
2015-A Sanitary	3,614,914	23,606	3,591,308
2017 Sanitary	15,450,000	200,000	15,250,000
Total revenue bonds	<u>\$ 42,819,013</u>	<u>\$ 16,079,246</u>	<u>\$ 26,739,767</u>

Revenue bond debt service requirement to maturity are as follows:

Year Ending June 30,	Stormwater Utility		Sanitary Board	
	Principal	Interest	Principal	Interest & Fees
2019	\$90,170	\$53,874	\$1,506,956	\$630,084
2020	93,721	50,321	1,968,679	600,514
2021	97,414	46,629	1,503,128	558,764
2022	101,251	42,792	1,609,320	519,766
2023	105,240	38,803	1,650,731	477,339
2029-2029	591,752	128,463	7,829,300	1,724,413
2030-2034	352,300	18,539	7,075,494	693,574
2035-2039	-	-	785,744	35,539
2040-2044	-	-	802,243	17,819
2045-2049	-	-	542,893	3,333
2050-2054	-	-	33,431	-
Total	<u>\$1,431,848</u>	<u>\$379,421</u>	<u>\$25,307,919</u>	<u>\$5,261,145</u>

Additional Debt Disclosure

Outstanding Bonds, Maturity Dates, and Interest Rates

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NOTE 5 – LONG TERM DEBT (CONTINUED)

Description and Purpose	Issue Date	Maturity Date	Interest Rate(s)	Original Issue
Sanitary Board (Series 1998-A)	3/18/1998	3/1/2020	2.00%	\$11,000,000
Sanitary Board (Series 2004-A)	9/29/2004	6/1/2026	2.00%	9,039,000
Sanitary Board (Series 2009-A WV CWSRF Program)	9/18/2009	3/1/2030	2.00%	679,316
Sanitary Board (Series 2009-C WV CWSRF Program)	9/18/2009	9/1/2049	0.00%	1,035,783
Sanitary Board (Series 2015-A)	10/22/2015	6/1/2046	0.50%	3,614,914
Sanitary Board (Series 2017)	6/22/2017	6/1/2020	2.75%	620,000
Sanitary Board (Series 2017)	6/22/2017	6/1/2033	3.35%	14,830,000
Stormwater Utility (Series 2010)	12/15/2010	1/1/2031	3.87%	2,000,000
Total				\$42,819,013

Utility Pledge Revenue

The Board has pledged future sewer customer revenues, net of specified operating expenses, to repay \$11,000,000 in sewerage system revenue bonds issued in March 1998. Proceeds from the bonds provided financing for the construction and maintenance of the wastewater treatment facility. The bonds are payable solely from sewerage customer net revenues and are payable through March 2020. Annual principal and interest payments on the bonds are expected to require less than 31 percent of net revenues. The total principal remaining to be paid on the bonds is \$1,147,115. Principal and interest paid for the current year and total customer net revenues were \$668,669 and \$2,617,713, respectively.

The Board has pledged future sewer customer revenues, net of specified operating expenses, to repay \$9,039,000 in water system revenue bonds issued in September 2004. Proceeds from the bonds provided financing for the construction and maintenance of the wastewater treatment facility. The bonds are payable solely from sewerage customer net revenues and are payable through June 2026. Annual principal and interest payments on the bonds are expected to require less than 25 percent of net revenues. The total principal remaining to be paid on the bonds is \$4,052,748. Principal and interest paid for the current year and the total customer net revenues were \$549,464 and \$2,617,713, respectively.

The Board has pledged future sewer revenues, net of specified operating expenses, to repay \$679,316 in sewerage system revenue bonds issued September 2009. Proceeds from the bonds provided financing for the construction and maintenance of the wastewater treatment facility. The bonds are payable solely from sewerage customer net revenues and are payable through March 2030. Annual principal and interest payments on the bonds are expected to require less than 2 percent of net revenues. The total principal remaining to be paid on the bonds is \$431,455. Principal and interest paid for the current year and the total customer net revenues were \$41,295 and \$2,617,713, respectively.

The Board has pledged future sewer revenues, net of specified operating expenses, to repay \$1,035,783 in sewerage system revenue bonds issued September 2009. Proceeds from the bonds provided financing for the construction and maintenance of the wastewater treatment facility. The bonds are payable solely from sewerage customer net revenues and are payable through September 2049. Annual principal and interest payments on the bonds are expected to require less than 1 percent of net revenues. The total principal remaining to be paid on the bonds is \$835,293. Principal and interest paid for the current year and total customer net revenues were \$26,732 and \$2,617,713, respectively.

**BECKLEY SANITARY BOARD
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FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 5 – LONG TERM DEBT (CONTINUED)

The Board has pledged future storm water utility customer revenues, net of specified operating expenses, to repay \$2,000,000 in storm water utility revenue bonds issued December 2010. Proceeds from the bonds provided financing for the construction and maintenance of the storm water drainage system. The bonds are payable solely from storm water customer net revenues and are payable through January 2031. Annual principal and interest payments on the bonds are expected to require less than 29 percent of net revenues. The total principal remaining to be paid on the bonds is \$1,431,848. Principal and interest paid for the current year and total customer net revenues were \$144,043 and \$504,413, respectively.

The Board has pledged future sewer customer revenues, net of specified operating expenses, to repay \$3,614,914 in sewer system revenue bonds issued in October 2015. Proceeds from the bonds provide funding for construction of certain extensions, additions, betterments and improvements to the existing sewer system. The bonds are payable solely from sewerage customer net revenues and are payable through June 2046. Annual principal and interest payments on the bonds are expected to require less than 6 percent of net revenues. The total principal remaining to be paid on the bonds is \$3,591,308. Principal and interest paid for the current year and total customer net revenues were \$137,529 and \$2,617,713, respectively.

The Board has pledged future sewer customer revenues, net of specified operating expenses, to repay \$15,450,000 in sewer system revenue bonds issued in June 2017. Proceeds from the bonds provide funding for construction and maintenance of the wastewater treatment facility. The bonds are payable solely from sewerage customer net revenues are payable through June 2033. The total principal remaining to be paid on the bonds if \$15,250,000. Principal and interest paid for the current year and total customer net revenues were \$456,928 and \$2,617,713, respectively.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2018:

Description and Purpose	Balance July 1, 2017	Issued	Retired	Balance June 30, 2018	Due Within One Year
Revenue Bonds:					
Sanitary Board	\$ 26,661,160	\$ -	\$ (1,353,241)	\$ 25,307,919	\$ 1,506,958
Stormwater Utility	1,518,600	-	(86,752)	1,431,848	90,170
Less: deferred amounts	-	-	-	-	-
Total Revenue Bonds	28,179,760	-	(1,439,993)	26,739,767	1,597,128
Lease Obligations Payable	163,704	-	(82,308)	81,396	51,648
Compensated Absences	293,651	43,560	(115,629)	221,582	78,865
Net Pension Liability	943,582	-	(529,520)	414,062	-
OPEB Liability	1,526,405	99,535	-	1,625,940	-
Total Long-Term Debt	\$ 14,321,268	\$ 43,560	\$ (1,637,930)	\$ 27,456,807	\$ 1,727,641

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NOTE 6 – LEASE COMMITMENTS

Capital Leases

The future minimum lease obligation and net present value of these minimum lease payments as of June 30, 2018, were as follows:

Year Ending June 30,	Principal	Interest
2019	\$ 51,648	\$ 1,365
2020	21,425	432
2021	8,322	43
Totals	\$ 81,395	\$ 1,840

Operating Leases

The Board leased certain vehicles and other equipment under noncancelable operating leases. Total cost for such leases approximated \$35,516 for the year ended June 30, 2018.

NOTE 7 – RESTRICTED ASSETS

The balances of the restricted assets account for the Board are as follows:

Revenue bond debt service account	\$	7,141,357
Revenue bonds renewal and replacement account		542,460
Customer Deposits		154,826
Total restricted assets	\$	7,838,613

NOTE 8 – OTHER INFORMATION

A. Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the government carries insurance with Traveler’s Insurance and Cincinnati Insurance for umbrella (general liability) insurance for these various risks. The Board uses Traveler’s Insurance for workers compensation insurance.

Liabilities are reported when it is a probability a loss has occurred and the amount of the loss can be reasonably estimated.

B. Litigation

The Board is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the Board’s counsel that resolution of these matters will not have a material effect on the financial condition of the Board.

**BECKLEY SANITARY BOARD
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NOTE 8 – OTHER INFORMATION (CONTINUED)

C. Deferred Compensation Plan

The Board offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time government employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held for the exclusive benefit of the participants and their beneficiaries.

NOTE 9 – EMPLOYEE RETIREMENT SYSTEMS AND PLANS

Public Employees Retirement System (PERS)

The Board's personnel are employees of the Municipality of Beckley, West Virginia (the "Municipality"), which participates in a state-wide, cost-sharing, multiple-employer defined benefit plan on behalf of general Municipality 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 following is a summary of eligibility factors, contribution methods, and benefit provisions:

Eligibility to participate	All Municipality full-time employees, except those covered by other pension plans.
Authority establishing contribution obligations and benefits provisions	State Statute
Tier 1 members' contribution rate	4.5% (Employees hired before July 1, 2015)
Tier 2 members' contribution rate	6.0% (Employees hired after July 1, 2015)
Municipality's contribution rate	11.00%
Period require to vest	Tier 1 - Five Years; Tier 2 – Ten Years
Benefits and eligibility for distribution	Tier 1 – A member who has attained age 60 and has earned 5 years or more of contributing service or age 55 and the sum of his/her age plus years of credited service is equal to or greater than 80. The final average salary is the three highest consecutive years in the last 15 times the years of service times 2% equals the annual retirement benefit.
	Tier 2- Qualification for normal retirement age is 62 with 10 years of services or at least 55 and the sum of his/her age plus years of credited service is equal to or greater than 80. The average salary is the average of the five consecutive highest annual earnings out of the last fifteen years of earnings times the years of service times 2% equals the retirement benefit.
Deferred retirement portion	No
Provisions for:	
Cost of Living	No
Death Benefits	Yes

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NOTE 9 – EMPLOYEE RETIREMENT SYSTEMS AND PLANS (CONTINUED)

Public Employees Retirement System (PERS) – Trend Information

Fiscal Year	Annual Pension Cost	Percentage Contributed
2018	174,037	8.076%
2017	190,929	11.99%
2016	218,710	13.48%
2015	215,311	13.92%
2014	214,437	14.46%

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 Ave. S.E., Charleston, WV 25304.

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

At June 30, 2018, the Board reported the following liabilities for its proportionate share of the net pension liabilities. The Board's proportion of the net pension liability was based on a projection of the long-term share of contributions to the pension plans relative to the projected contributions of all participating governments, actuarially determined. At June 30, 2018, the Board reported the following proportions and increases/decreases from its proportion measure as of June 30, 2017.

	PERS
Amount for proportionate share of net pension liability	\$ 414,062
Percentage for proportionate share of net pension liability – current year	.095927%
Percentage for proportionate share of net pension liability – prior year	.102662%
Increase/(Decrease) % from prior proportion measured	(.934392%)

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

Pension expense \$ 92,459

The Board 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
Change in proportionate share percentage	\$ 48,267	\$ 11,118
Difference between expected and actual experience	55,527	745
Contributions made after measurement date	174,031	-
Net difference between projected and actual investment earnings	-	81,876
Difference in assumptions	-	17,468
Total	\$ 277,825	\$ 111,207

BECKLEY SANITARY BOARD
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NOTE 9 – EMPLOYEE RETIREMENT SYSTEMS AND PLANS (CONTINUED)

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

Year Ended June 30:		
2019	\$	4,352
2020		4,352
2021		4,352
2022		(20,469)
Total	<u>\$</u>	<u>(7,413)</u>

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation as of June 30, 2017 for all plans, using the following actuarial assumptions, applied to all periods included in the measurement.

Inflation rate	3.00%
Salary increases	3.35 -6.00%, including inflation
Investment rate of return	7.50%, net of pension plan investment expenses, including inflation
Mortality rates	Healthy Males – 110% of RP – 2000 Healthy-Annuitant table, Scale AA Healthy Females – 101% of RP – 2000 Health-Annuitant table, Scale AA Disabled Males – 96% of RP – 2000 Disabled Annuitant table, Scale AA Disabled Females – 107% of RP- 2000 Disabled Annuitant table, Scale AA

The actuarial assumptions used in the July 1, 2017 PERS valuation were based on the results of an actuarial experience study for the period July 1, 2009 to June 30, 2014.

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

Investment	Long-term Expected Real Rate of Return	Target Asset Allocation
US Equity	7.0%	27.5%
International Equity	7.7%	27.5%
Core Fixed Income	2.7%	7.5%
High Yield	5.5%	7.5%
Real Estate	5.6%	10.0%
Private Equity	9.4%	10.0%
Hedge Funds	4.7%	10.0%
Inflation (CPI)	1.9%	0.0%
		<u>100%</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 9 – EMPLOYEE RETIREMENT SYSTEMS AND PLANS (CONTINUED)

Discount rate- The discount rate used to measure the total pension liability was 7.5% from PERS. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that the Municipality contributions to all plans will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plans' fiduciary net position were projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments were applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease 6.50%	Discount Rate 7.50%	1% Increase 8.50%
Municipality's proportionate share of PERS net pension liability	\$ 1,146,307	\$ 414,062	\$ (205,044)

Pension plans' fiduciary net position – Detailed information about the pension plans' fiduciary net position is available in the separately issued financial report.

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

General Information about the OPEB plan

Plan description. The Board provides healthcare benefits to retirees and their dependents. The insurance premiums are paid fully by the retiree. The Board also contributes up to \$3,750 per year towards the deductible for each retiree. In addition, there is a group of retirees who receive a monthly payment from the Board, to be used towards the cost of health insurance. Therefore, the Board's liability equals the value of the implicit subsidy, the (up to) \$3,750 payment, and the monthly payments. All full time active employees who retire or qualify for retirement directly from the Board, and meet the eligibility criteria, may participate. The Municipality plan had approximately 269 participants with 229 being active employees and 40 being retirees and their beneficiaries of which the Board is a member of.

Benefits provided. The Plan provides medical and prescription drug insurance and dental and vision insurance.

OPEB Liabilities, Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. At fiscal year-end, the Board reported a liability of \$1,625,940 for its share of net OPEB liability. The net OPEB liability, deferred inflows and outflows of resources and OPEB expense were determined by an actuarial valuation date as of June 30, 2018, which is the measurement date.

For this fiscal year, the Board recognized OPEB expense of \$108,238. The government reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Deferred difference in assumptions	\$ -	\$ (8,703)
	\$ -	\$ (8,703)

**BECKLEY SANITARY BOARD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

The amount reported as deferred inflows of resources related to OPEB resulting from government contributions subsequent to the measurement date will be recognized as an increase in the net OPEB liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30:

2019	\$	(1,088)
2020		(1,088)
2021		(1,088)
2022		(1,088)
2023		(1,088)
2024-2026		(3,263)
Total	\$	<u>(8,703)</u>

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation Rate	2.750%
Salary Increases	3.50%
Healthcare Trend	6.50% initially, grading down to 4.50 ultimate
Discount Rate	3.62%
Mortality Rates – Police and Firefighters	Pre-Retirement: RP-2014 blue collar healthy employee tables, projected with MP-2014 generational scales Post-Retirement – healthy retirees: RP-2014 blue collar healthy annuitant tables, projected with MP-2014 generational scales. Post-Retirement – disabled retirees: RP-2014 blue collar healthy annuitant tables, set forward 4 years, projected with MP-2014 generational scales.
Mortality Rates – Others	Pre-Retirement: RP-2000 non-annuitant tables, projected with Scale AA generational Post-Retirement – healthy males: 110% RP-2000 healthy annuitant table, projected with Scale AA generational. Post-Retirement – healthy females: 101% RP-2000 healthy annuitant table, projected with Scale AA generational. Post-Retirement – disabled males: 96% RP-2000 disabled annuitant table, projected with Scale AA generational. Post-Retirement – disabled females: 107% RP-2000 disabled annuitant table, projected with Scale AA generational.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Changes in actuarial assumptions.

The discount rate changed from 3.56% to 3.62%.

Actuarial Methods for Determining Employer Contributions

The same economic and demographic assumptions are used for both funding and financial reporting purposes under GASB 74/75.

The Entry Age method is used for accounting /GASB purposes; therefore all of the actuarial figures within the report are based on it. Although there is no prefunding of benefits at this time, an actuarially determined contribution is computed based on a 30 year amortization, level % of pay approach, of the unfunded actuarial liability.

Discount Rate.

The discount rate used to measure the total OPEB liability was 3.62%. There is no prefunding of benefits in an OPEB trust for this plan; therefore the discount rate is equal to the yield on a 20-year municipal bond Aa index as of June 30, 2018.

Sensitivity of the Board’s net OPEB liability to changes in the discount rate. The following presents the net OPEB liability of the plan, calculated using the discount rate of 3.62%, as well as what the plan’s net OPEB liability would be if it were calculated using a discount rate that is 1.00% lower or 1.00% higher than the current rate:

	1% Decrease 2.6200%	Current Discount Rate Assumption 3.6200%	1% Increase 4.6200%
Net OPEB Liability	\$ <u>1,819,080</u>	\$ <u>1,625,940</u>	\$ <u>1,460,584</u>

Sensitivity of the Board’s net OPEB liability to changes in the healthcare trend rate. The follow presents the net OPEB liability of the plan, calculated using the healthcare trend rate of 6.50% to an ultimate rate of 4.50%, as well as what the plan’s net OPEB liability would be if it were calculated using a discount rate that is 1.00% lower or 1.00% higher than the current rates:

	1% Decrease 3.50%	Current Ultimate Trend Rate 4.50%	1% Increase 5.50%
Net OPEB Liability	\$ <u>1,428,658</u>	\$ <u>1,625,940</u>	\$ <u>1,864,513</u>

NOTE 11 – PRIOR PERIOD ADJUSTMENT

The June 30, 2017 net position of the Board has been restated. The restatement was necessary in order to record prior Other Post Employment Benefit Liability (OPEB) per GASB 75 as well as an error in prior audit assigned fund balance. A summary of the restatement activity at June 30, 2018 is as follows:

Net Position as Previously Reported	\$ 25,830,260
Prior Period Adjustment	<u>(429,877)</u>
Beginning Net Position, Restated	<u>\$ 25,400,383</u>

**BECKLEY SANITARY BOARD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 12 – SUBSEQUENT EVENTS

The Board's management has evaluated the effect that subsequent events would have on the Board's financial statements through January 23, 2019, which is the date the financial statements were available to be released.

Required Supplementary Information

**BECKLEY SANITARY BOARD
A COMPONENT UNIT OF THE MUNICIPALITY OF BECKLEY, WEST VIRGINIA
SCHEDULE OF BOARD'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Public Employees' Retirement System

	2018	2017	2016	2015	2014
Board's proportion of the net pension liability (asset) (percentage)	0.095927%	0.102662%	0.090231%	0.088825%	0.066027%
Board's proportionate share of the net pension liability (asset)	\$414,062	\$943,582	\$503,854	\$327,822	\$601,922
Board's covered payroll	\$1,405,455	\$1,414,669	\$1,227,680	\$1,192,343	\$815,923
Board's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	29.46%	64.40%	41.04%	27.49%	73.77%
Plan fiduciary net position as a percentage of the total pension liability	93.67%	86.11%	91.29%	93.98%	79.70%

The amounts presented for each fiscal year were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

**BECKLEY SANITARY BOARD
A COMPONENT UNIT OF THE MUNICIPALITY OF BECKLEY, WEST VIRGINIA
SCHEDULE OF CONTRIBUTIONS – RETIREMENT SYSTEMS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Public Employees' Retirement System

	2018	2017	2016	2015	2014
Contractually required contribution	\$ 174,037	\$ 190,929	\$ 218,710	\$ 164,310	\$ 172,472
Contributions in relation to contractually required contribution	(174,037)	(190,929)	(218,710)	(164,310)	(172,472)
Contribution deficit (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Municipality's covered payroll	\$1,405,455	\$ 1,591,075	\$ 1,414,669	\$ 1,227,680	\$ 1,192,343
Contributions as a percentage of covered payroll	8.08%	11.99%	13.48%	13.92%	14.46%

The amounts presented for each fiscal year were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

**BECKLEY SANITARY BOARD
A COMPONENT UNIT OF THE MUNICIPALITY OF BECKLEY, WEST VIRGINIA
SCHEDULE OF BOARD'S PROPORTIONATE SHARE OF THE OPEB LIABILITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	<u>2018</u>
Board's proportion of the net OPEB liability (percentage)	100%
Board's proportionate share of the net OPEB liability	\$1,625,940
Board's covered payroll	\$1,511,115
Board's proportionate share of the net OPEB liability as a percentage of its covered payroll	107.60%
Plan fiduciary net position as a percentage of the total pension liability	0%

The amounts presented for each fiscal year were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

**BECKLEY SANITARY BOARD
A COMPONENT UNIT OF THE MUNICIPALITY OF BECKLEY, WEST VIRGINIA
SCHEDULE OF CONTRIBUTIONS - OPEB
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	<u>2018</u>
Contractually required contribution	\$ 124,507
Contributions in relation to contractually required contribution	19,827
Contribution deficit (excess)	<u>\$ 104,680</u>
Municipality's covered payroll	\$1,511,115
Contributions as a percentage of covered payroll	1.31%

The amounts presented for each fiscal year were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

Supplementary Information

**BECKLEY SANITARY BOARD
A COMPONENT UNIT OF THE MUNICIPALITY OF BECKLEY, WEST VIRGINIA
SCHEDULE OF RATE COVENANT COMPLIANCE
FOR THE YEAR ENDED JUNE 30, 2018**

Beckley Sanitary Board

The Beckley Sanitary Board is subject to rate covenant compliance associated with the issuance of the Sewerage Series 2017 Bonds. Specifically, the Board must meet gross revenue targeted percentage and reserve debt requirements as shown in the bond documents as follows:

“...the Issuer hereby covenants and agrees that the schedule or schedules of rates or charges from time to time in effect shall be sufficient, together with other revenues of the System, to meet the coverage requirements set forth in the Prior Ordinance so long as the Prior Bonds are Outstanding and thereafter, (i) to provide for all Operating Expenses of the System and (ii) to leave a balance each year equal to at least 115% of the maximum amount required in any year for payment of principal of and interest on the Series 2017 Bonds, and all other obligations secured by a lien on or payable from such revenues on a parity with, or subordinate to, the Series 2017 Bonds including the Prior Bonds; provided, that in the event that, an amount equal to or in excess of the Reserve Requirement is on deposit in the Reserve Accounts and any reserve accounts for obligations on a parity with the Series 2017 Bonds are funded at least at the requirement therefor, such sum need only equal 110% of the maximum amount required in any year for payment of principal of and interest on the Series 2017 Bonds, and all other obligations secured by a lien on or payable from such revenues on a parity with, or subordinate to, the Series 2017 Bonds.”

The following schedule summarizes the provisions for the fiscal year ended June 30, 2018:

Rate Covenant

Net Gross Revenues	Maximum Amount Annual Debt Service	Percentage	Percentage Required
\$2,617,713	\$2,137,040	123%	115%

As of June 30, 2018, the Board was in compliance with the provisions of the 2017 revenue bond covenant which requires revenue to be 115% or above the amount of the highest principal payment plus interest due in any given year.

The provisions of the 2017 revenue bond covenant require that assets to be accumulated in restricted accounts for the payment of future debt service. The covenant requires, at a minimum, that an amount equivalent to one-third of the current year’s debt service payment be maintained in a revenue account. A reserve account must also be funded with one-tenth of one-twelfth of the highest debt service payment in any given year. As of June 30, 2018, the Board was in compliance with the provisions of this requirement.

**BECKLEY SANITARY BOARD
A COMPONENT UNIT OF THE MUNICIPALITY OF BECKLEY, WEST VIRGINIA
SCHEDULE OF RATE COVENANT COMPLIANCE
FOR THE YEAR ENDED JUNE 30, 2018**

Stormwater Utility Fund

The Stormwater Utility is subject to rate covenant compliance associated with the issuance of the Series 2010 Bonds. Specifically, the Utility must meet gross revenue targeted percentage and reserve debt requirements as shown in the bond document as follows:

“...the Issuer hereby covenants and agrees that the schedule or schedules of rates or charges from time to time in effect shall be sufficient, together with other revenues of the System, to meet the coverage requirements set forth in the Prior Ordinance so long as the Prior Bonds are Outstanding and thereafter, (i) to provide for all Operating Expenses of the System and (ii) to leave a balance each year equal to at least 115% of the maximum amount required in any year for payment of principal of and interest on the Series 2010 Bonds, and all other obligations secured by a lien on or payable from such revenues on a parity with, or subordinate to, the Series 2010 Bonds including the Prior Bonds; provided, that in the event that, an amount equal to or in excess of the Reserve Requirement is on deposit in the Reserve Accounts and any reserve accounts for obligations on a parity with the Series 2010 Bonds are funded at least at the requirement therefor, such sum need only equal 110% of the maximum amount required in any year for payment of principal of and interest on the Series 2010 Bonds, and all other obligations secured by a lien on or payable from such revenues on a parity with, or subordinate to, the Series 2010 Bonds.”

The following schedule summarizes the provisions for the fiscal year ended June 30, 2018:

Rate Covenant

Net Gross Revenues	Maximum Amount Annual Debt Service	Percentage	Percentage Required
\$504,413	\$144,044	350%	115%

As of June 30, 2018, the Board was in compliance with the provisions of the 2010 revenue bond covenant which requires revenue to be 115% or above the amount of the highest principal payment plus interest due in any given year.

The provisions of the 2010 revenue bond covenant require that assets to be accumulated in restricted accounts for the payment of future debt service. The covenant requires, at a minimum, that an amount equivalent to one-third of the current year’s debt service payment be maintained in a revenue account. A reserve account must also be funded with one-tenth of one-twelfth of the highest debt service payment in any given year. As of June 30, 2018, the Board was in compliance with the provisions of this requirement.

Ferrari & Associates, PLLC

1340 Cain Street | Morgantown, WV 26505

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*

Beckley Sanitary Board
301 S. Herber Street
Beckley, West Virginia 25801

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 Beckley Sanitary Board, a component unit of the Municipality of Beckley, West Virginia, (the Board) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 23, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board'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*.

Ferrari & Associates, PLLC

1340 Cain Street | Morgantown, WV 26505

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 result 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.

Ferrari & Associates, PLLC

**Morgantown, West Virginia
January 23, 2019**

**BECKLEY SANITARY BOARD
A COMPONENT UNIT OF THE MUNICIPALITY OF BECKLEY, WEST VIRGINIA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018**

There were no audit findings for the year ended June 30, 2018.

**BECKLEY SANITARY BOARD
A COMPONENT UNIT OF THE MUNICIPALITY OF BECKLEY, WEST VIRGINIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

Status of Prior Year Audit Findings

<u>Finding Number</u>	<u>Title</u>	<u>Status</u>
2017-01	Material Weakness – Financial Reporting	Resolved