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**MUNICIPALITY OF CHARLES TOWN  
WEST VIRGINIA**

**Single Audit  
For the Year Ended June 30, 2017  
RFP #17-410  
Jefferson County**

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**Municipality of Charles Town, West Virginia  
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## INDEPENDENT AUDITOR'S REPORT

March 30, 2018

Municipality of Charles Town  
101 East Washington Street  
Charles Town, West Virginia 25414

To the Members of Council:

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of the **Municipality of Charles Town, West Virginia (the Municipality)**, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the municipality's basic financial statements as listed in the table of contents.

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

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

### ***Auditor's Responsibility***

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

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

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

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### **Summary of Opinions**

<b>Opinion Unit</b>	<b>Type of Opinion</b>
Governmental Activities	Qualified
Aggregate Discretely Presented Component Units	Qualified
General Fund	Qualified
Capital Reserve Fund	Unmodified
Residual Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

### ***Basis for Qualified Opinions on Governmental Activities, Discretely Presented Component Units and the General Fund***

The Municipality has elected not to record the 2017 OPEB expense that, in our opinion, should be recorded in order to conform with accounting principles generally accepted in the United States of America. If the OPEB expense was recorded, OPEB liability would increase \$33,012, and net position would decrease by \$33,012 as of June 30, 2017. Additionally, expenses would increase by \$33,012 for the year ending June 30, 2017. In addition the Municipality has elected not to record previous periods' OPEB expense that, in our opinion, should be recorded in order to conform with accounting principles generally accepted in the United States of America. If the previous OPEB expense was recorded the OPEB liability would be \$1,042,016 as of June 30, 2017. The Utility Board, a component unit of the Municipality, has elected not to record the 2017 OPEB expense that, in our opinion, should be recorded in order to conform with accounting principles generally accepted in the United States of America. If the OPEB expense was recorded, OPEB liability would increase \$34,578, and net position would decrease by \$34,578 as of June 30, 2017. Additionally, expenses would increase by \$34,578 for the year ending June 30, 2017. In addition the Utility Board has elected not to record previous periods OPEB expense that, in our opinion, should be recorded in order to conform with accounting principles generally accepted in the United States of America. If the previous OPEB expense was recorded the OPEB liability would be \$754,041 as of June 30, 2017.

### **Qualified Opinions**

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinions on Governmental Activities, the Aggregate Discretely Presented Component Units and the General Fund* paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units the a and general fund of the Municipality of Charles Town, Jefferson County, West Virginia, as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Unmodified Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Coal Severance Fund, Capital Reserve Fund, Residual Fund, Sales Tax Fund, Bond Escrow Fund, and the aggregate remaining fund information of the Municipality of Charles Town, Jefferson County, West Virginia as of June 30, 2017, and the respective changes in its financial position thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

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

***Supplementary and Other Information***

Our audit was conducted to opine on the Municipality's basic financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

Also, the supplementary information of the Combining Balance Sheet – Nonmajor Governmental Funds and the Combining Statement of Revenue, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Municipality.

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, these schedules are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2018, on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipality's internal control over financial reporting and compliance.



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

**Municipality of Charles Town**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2017  
(unaudited)

The discussion and analysis of the Municipality of Charles Town's financial performance provides an overview and analysis of the Municipality's financial activities for the fiscal year ended June 30, 2017. It should be read in conjunction with the accompanying accountant's compilation report and the accompanying basic financial statements. The Charles Town Utility Board, component unit of the Municipality of Charles Town, has presented a Management's Discussion and Analysis in its separately issued financial statements.

### **FINANCIAL HIGHLIGHTS**

Net position of the governmental activities increased by \$1.3 million to \$9.6 million at June 30, 2017.

During the year, the Municipality had expenses for governmental programs that were \$4.4 million more than the \$1.0 million generated by governmental program revenues and intergovernmental aid. The remaining cost of governmental activities was financed with general revenues, which totaled \$5.7 million this year.

The governmental funds ended the year with a fund balance of \$6.3 million which is an increase of \$1.1 million from 2016.

The Municipality's Building Commission completed a \$4.0 million renovation of Charles Washington Hall during 2017. The renovation of this historic structure enabled the Municipality to offset the cost of the rehabilitation by approximately \$1.1 million through the sale of historic tax credits.

The Building Commission issued \$2,100,000 lease revenue bonds to purchase land and provide construction funding for the new municipal annex.

The Municipality's implementation of a 1% sales tax generated \$0.9 million in 2017 and \$0.8 million in 2016.

Other Municipality tax revenues remained constant at approximately \$2.5 million compared with the previous year.

### **MUNICIPALITY AS A WHOLE**

One of the most important questions asked about the Municipality's finances is, "Is the Municipality as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Municipality as a whole and about its activities in a way that helps answer this question. These statements include all governmental assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Municipality's net position and changes to it. You can think of the Municipality's net position-the difference between assets and deferred outflows and liabilities and deferred inflows - as one way to measure the Municipality's financial health or financial position. Over time, increases or decreases in the Municipality's net position, is one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Municipality's property tax base, debt structure and the condition of the Municipality's infrastructure, to assess the overall health of the Municipality.



Municipality of Charles Town  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2017

**MUNICIPALITY AS A WHOLE (continued)**

In the Statement of Net Position and the Statement of Activities, the Municipality reports the Governmental Activities and Component Units. The business-type activities are found in the Municipality's component units, the Municipality of Charles Town Building Commission and the Charles Town Utility Board.

Governmental activities-Most of the Municipality's basic services are reported here, including the police, streets, culture and recreation, social services, and general administration. Taxes, licenses and permits, fines, fees and forfeits, lottery and table gaming revenues, and general revenues finance most of these activities.

**Reporting the Municipality's Most Significant Funds**

The fund financial statements provide detailed information about the most significant funds-not the Municipality as a whole. Some funds are required to be established by State law and by bond covenants. However, the Municipality Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The Municipality uses the governmental fund types.

Governmental funds -The majority of the Municipality's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Municipality's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs.

**The Municipality as Trustee**

The Municipality is the trustee for the policeman's pension and relief fund. The Municipality's fiduciary activities related to this pension fund are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position. These activities are excluded from the Municipality's other financial statements because the Municipality cannot use these assets to finance its operations. The Municipality is responsible for ensuring that the assets reported in this fund are used to provide pension benefits to eligible participants.

The Municipality's combined net position increased \$1.3 million (\$9.6 million for 2017, \$8.3 million for 2016) compared to the prior year. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, increased from \$3.4 million at June 30, 2016, to \$4.3 million at the end of this year. Reviewing the net position and net expenses of governmental activities provides more detail about this change. The analyses below focus on the net position and changes in net position of the Municipality's governmental activities.

Municipality of Charles Town  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2017

**MUNICIPALITY AS A WHOLE (continued)**

Statements of Net Position  
June 30, 2017 and 2016  
(in Millions)

	<b>Governmental Activities</b>	
	<b>2017</b>	<b>2016</b>
Current and other assets	\$ 7.1	\$ 6.1
Capital assets	4.8	4.7
Deferred outflows of resources	0.8	0.7
<b>Total assets and deferred outflows</b>	<b>\$ 12.7</b>	<b>\$ 11.5</b>
Long-term liabilities	\$ 2.3	\$ 1.7
Other liabilities	0.7	1.1
Deferred inflows of resources	0.1	0.4
<b>Total liabilities and deferred inflows</b>	<b>3.1</b>	<b>3.2</b>
Net investment in capital assets	4.8	4.7
Restricted	0.5	0.2
Unrestricted	4.3	3.4
<b>Total net position</b>	<b>9.6</b>	<b>8.3</b>
<b>Total liabilities, deferred inflows, and net position</b>	<b>\$ 12.7</b>	<b>\$ 11.5</b>

Municipality of Charles Town  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2017

**MUNICIPALITY AS A WHOLE (continued)**

Statements of Activities  
June 30, 2017 and 2016  
(in Millions)

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 0.2	\$ 0.2
Operating grants and contributions	0.8	0.1
Capital grants and contributions	-	-
General revenues:		
Taxes	3.4	3.2
Licenses and permits	0.1	0.1
Fines, fees, forfeits	0.8	0.6
Table gaming	0.3	0.3
Video lottery	0.9	0.9
Other general revenues	0.2	0.1
	<u>6.7</u>	<u>5.5</u>
<b>Total revenues</b>		
	<u>6.7</u>	<u>5.5</u>
<b>Expenses</b>		
General government	2.5	1.5
Public safety	1.8	1.9
Highways and streets	0.9	0.9
Culture and recreation/social services	0.2	0.3
	<u>5.4</u>	<u>4.6</u>
<b>Total expenses</b>		
	<u>5.4</u>	<u>4.6</u>
<b>Change in net position</b>	<u>\$ 1.3</u>	<u>\$ 0.9</u>

Municipality of Charles Town  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2017

**MUNICIPALITY AS A WHOLE (continued)**

Revenues for the Municipality's governmental activities increased by 22 percent (\$1.2 million), while total expenses increased by \$0.8 million or 17 percent. The factors driving these results include the following:

- a) The Municipality's governmental revenue sources increased by \$1.2 million primarily because of increases in federal funding (\$0.5 million) for the City's land reclamation projects, increases in developer fees (\$0.2 million), increases in confiscated property (\$0.3 million), and increases in tax revenues (\$0.2 million).
- b) The Municipality's expenses increased (\$0.8 million) because of work done on the land reclamation project (\$0.5 million), work on the Municipality's comprehensive plan (\$0.1 million) and providing for capital needs through debt service and depreciation (\$0.3 million).

The cost of all governmental activities this year was \$5.4 million. As shown in the Statement of Activities, the amount that taxpayers ultimately financed for these activities through general revenues was \$4.4 million because some of the cost was paid by those who directly benefitted from the programs (\$0.2 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$0.8 million).

As the Municipality completed the year, the governmental funds (as presented in the balance sheet) reported a combined fund balance of \$6.3 million, which is an increase of \$1.1 million from the previous year.

**General Fund Budgetary Highlights**

Over the course of the year, the Municipality's Council made occasional revisions to the Municipality budget. These budget amendments were made to reflect anticipated funding changes in the Municipality's operations.

Even with the above mentioned amendments, the Municipality's general fund actual revenues exceeded budgeted revenues by \$0.8 million and general fund expenditures were less than budgeted by \$0.2 million.

Municipality of Charles Town  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2017

**CAPITAL ASSET AND DEBT ADMINISTRATION (in Millions)**

Capital Assets

	Governmental Activities	
	2017	2016
Land	\$ 0.7	\$ 0.7
Land improvements	4.5	4.2
Buildings and improvements	2.2	2.2
Leasehold improvements	0.1	-
Equipment and vehicles	2.2	2.0
Construction in progress	-	0.1
<b>Total</b>	<b>9.7</b>	<b>9.2</b>
<b>Accumulated depreciation</b>	<b>(4.9)</b>	<b>(4.5)</b>
<b>Capital assets, net of accumulated depreciation</b>	<b>\$ 4.8</b>	<b>\$ 4.7</b>

This year's major additions included  
(in millions)

Equipment	\$ 0.1
Street improvements	0.3
Vehicles including outfitting	0.1
<b>Total</b>	<b>\$ 0.5</b>

The Charles Town Building Commission (component unit) incurred \$1.5 million of costs related to the purchase of land for the Municipal Annex and \$0.5 million for the renovation of Charles Washington Hall during 2017.

Debt

The governmental activities had no fixed debt obligations at June 30, 2016.

Charles Town Building Commission debt consists of four bond issues. The Building Commission received proceeds of its 2015A and 2015B Bonds (\$0.7 million) to fund the completion of the Charles Washington Hall renovation and issued bonds for the Municipal Annex in the amount of (\$2.1 million) with \$1.5 million being advanced as of June 30, 2017.

**Municipality of Charles Town**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2017

**ECONOMIC FACTORS**

The Municipality's elected and appointed officials considered many factors when setting the fiscal-year 2017 budget and tax rates. One of those factors is the economy. The County's population has a direct impact on the Municipality's economic growth.

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

**CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide citizens, taxpayers, customers, and investors and creditors with a general overview of the Municipality's finances and to show the Municipality's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Manager at City Hall 101 E. Washington Street, Charles Town, West Virginia.

Municipality of Charles Town, West Virginia  
**STATEMENT OF NET POSITION**  
June 30, 2017

	PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES	DISCRETELY PRESENTED COMPONENT UNITS BUILDING COMMISSION	UTILITY BOARD
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>			
<b>Assets:</b>			
Cash and cash equivalents	\$ 4,304,857	\$ 615,934	\$ 894,821
Restricted cash	580,739	272,288	6,147,313
Accounts receivable, net	1,115,858	10,306	251,765
Accrued revenue	-	-	523,010
Due from associated companies	18,750	-	187,851
Inventory	-	-	101,786
Investments	538,837	-	-
Prepaid expenses	10,425	-	-
Loan to Charles Town Utility Board	563,899	-	-
Development fee receivable	-	718,615	-
Capital assets not being depreciated	751,174	1,779,044	9,229,672
Capital assets being depreciated, net	4,038,747	3,362,979	46,165,779
Prepaid bond insurance	-	-	168,216
<b>Total assets</b>	<b>11,923,286</b>	<b>6,759,166</b>	<b>63,670,213</b>
<b>Deferred outflows of resources:</b>			
Defined benefit pension plan contributions	200,530	-	149,296
Collective deferred outflows related to pensions	562,143	-	400,730
Unamortized amounts from refunding of debt	-	-	651,574
<b>Total deferred outflows</b>	<b>762,673</b>	<b>-</b>	<b>1,201,600</b>
<b>Total assets and deferred outflows</b>	<b>\$ 12,685,959</b>	<b>\$ 6,759,166</b>	<b>\$ 64,871,813</b>
<b>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 323,511	\$ 42,100	\$ 308,682
Accrued expenses	90,975	-	26,080
Accrued interest	-	9,848	172,055
Advance rents received	-	5,211	-
Customer deposits	21,442	-	187,947
Developer bonds held	107,377	-	-
OPEB liability	271,598	-	237,124
Compensated absences	83,053	-	75,610
Loan from City of Charles Town	-	-	563,899
Net pension liabilities	2,158,280	-	859,464
Long-term debt:			
Due within one year	-	170,508	1,866,793
Due in more than one year	-	5,140,914	39,819,383
<b>Total liabilities</b>	<b>3,056,237</b>	<b>5,368,581</b>	<b>44,117,047</b>
<b>Deferred inflows of resources:</b>			
Collective deferred inflows related to pensions	58,579	-	41,872
<b>Total liabilities and deferred inflows</b>	<b>3,114,816</b>	<b>5,368,581</b>	<b>44,158,919</b>
<b>NET POSITION</b>			
Net investment in capital assets	4,789,921	(204,398)	14,909,662
Restricted by debt/construction	-	272,288	4,210,972
Restricted by regulations	476,239	-	-
Unrestricted	4,304,983	1,322,695	1,592,260
<b>Total net position</b>	<b>9,571,143</b>	<b>1,390,585</b>	<b>20,712,894</b>
<b>Total liabilities, deferred inflows and net position</b>	<b>\$ 12,685,959</b>	<b>\$ 6,759,166</b>	<b>\$ 64,871,813</b>

See accompanying notes.

Municipality of Charles Town, West Virginia  
**STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2017

	PROGRAM REVENUES		NET (EXPENSES) REVENUES AND CHANGES IN NET POSITION			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENTAL ACTIVITIES	
					BUILDING COMMISSION	DISCRETELY PRESENTED COMPONENT UNITS UTILITY BOARD
<b>FUNCTIONS/PROGRAMS</b>						
<b>PRIMARY GOVERNMENT</b>						
Governmental activities:						
General government	\$ 2,464,240	\$ -	\$ 705,350	\$ -	\$ -	\$ -
Public safety	1,808,763	-	-	-	-	-
Streets and transportation	906,024	151,549	53,329	-	-	-
Culture and recreation	254,792	56,774	57,426	-	-	-
Social services	6,547	-	-	-	-	-
Total governmental activities	\$ 5,440,366	\$ 208,323	\$ 816,105	\$ -	\$ -	\$ -
<b>DISCRETELY PRESENTED COMPONENT UNITS</b>						
Building Commission	\$ 224,722	\$ 422,406	-	\$ -	197,684	-
Utility Board	7,381,428	7,734,063	-	364,262	-	716,897
Total discretely presented component units	\$ 7,606,150	\$ 8,156,469	\$ -	\$ 364,262	197,684	716,897
General revenues:						
Taxes						
Licenses and permits					3,344,953	-
Fines, forfeits and confiscated property					142,272	-
Fees					637,956	-
Interest and investment earnings					208,419	-
Table gaming					53,713	30,157
Video lottery					290,161	-
Reimbursements					865,033	-
Rentals					61,779	-
Miscellaneous					1	374,531
					87,137	87,642
Total general revenues					5,691,424	492,330
Change in net position					27	1,209,227
Net position at beginning of year, as adjusted					1,275,486	19,503,667
Net position at end of year					8,295,657	20,712,894
					\$ 1,390,585	\$ 20,712,894

See accompanying notes.



Municipality of Charles Town, West Virginia  
BALANCE SHEET - GOVERNMENTAL FUNDS  
June 30, 2017

	GENERAL FUND	COAL SEVERANCE FUND	CAPITAL RESERVE FUND	RESIDUAL FUND	SALES TAX FUND	BOND ESCROW FUND	OTHER GOVERNMENTAL FUNDS	TOTALS
<b>ASSETS</b>								
Cash	\$ 1,069,345	\$ 17,368	\$ 1,717,380	\$ 252,638	\$ 1,140,918	\$ -	\$ 107,208	\$ 4,304,857
Restricted cash	-	-	-	-	-	104,500	476,239	580,739
Investments	-	-	-	538,837	-	-	-	538,837
Receivables, net of allowances:								
Taxes	601,339	4,465	-	-	238,293	-	-	844,097
Accounts	11,199	-	-	-	-	-	-	11,199
Grants	-	-	229,096	-	-	-	-	229,096
Due from other funds	-	-	115,398	25,632	-	3,241	-	144,271
Due from associated entities	-	-	18,750	-	-	-	-	18,750
Prepayments	10,425	-	-	-	-	-	-	10,425
Loan to Charles Town Utility Board	-	-	-	563,899	-	-	-	563,899
<b>Total assets</b>	<b>\$ 1,692,308</b>	<b>\$ 21,833</b>	<b>\$ 2,080,624</b>	<b>\$ 1,381,006</b>	<b>\$ 1,379,211</b>	<b>\$ 107,741</b>	<b>\$ 583,447</b>	<b>\$ 7,246,170</b>
<b>LIABILITIES AND FUND BALANCES</b>								
<b>Liabilities:</b>								
Accounts payable	\$ 32,059	\$ -	\$ 284,589	\$ -	\$ 4,150	\$ -	\$ 2,715	\$ 323,513
License fees and deposits	21,442	-	-	-	-	-	-	21,442
Other accrued expenses	314,148	-	-	-	-	-	5,151	319,299
Developer bonds held	-	-	-	-	-	107,377	-	107,377
Due to other funds	131,455	-	12,616	-	-	-	-	144,271
<b>Total liabilities</b>	<b>499,104</b>	<b>-</b>	<b>297,405</b>	<b>-</b>	<b>4,150</b>	<b>107,377</b>	<b>7,866</b>	<b>915,902</b>
<b>Fund balances:</b>								
Nonspendable	10,425	-	-	-	-	-	-	10,425
Restricted	-	-	-	-	-	-	476,239	476,239
Committed	-	-	1,783,219	1,381,006	1,375,061	-	-	4,539,286
Assigned	1,182,779	21,833	-	-	-	364	99,342	1,304,318
Unassigned	-	-	-	-	-	-	-	-
<b>Total fund balances</b>	<b>1,193,204</b>	<b>21,833</b>	<b>1,783,219</b>	<b>1,381,006</b>	<b>1,375,061</b>	<b>364</b>	<b>575,581</b>	<b>6,330,268</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,692,308</b>	<b>\$ 21,833</b>	<b>\$ 2,080,624</b>	<b>\$ 1,381,006</b>	<b>\$ 1,379,211</b>	<b>\$ 107,741</b>	<b>\$ 583,447</b>	

Amounts reported for governmental activities  
in the statement of net position are different  
because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	4,733,921
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	31,466
Deferred inflows and outflows of resources related to pension activity are not required to be reported in the funds but are required to be reported at the government-wide level.	704,094
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(2,284,606)
<b>Net position of governmental activities.</b>	<b>\$ 9,571,143</b>

See accompanying notes.

Municipality of Charles Town, West Virginia  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
For the year ended June 30, 2017

	GENERAL FUND	COAL SEVERANCE FUND	CAPITAL RESERVE FUND	RESIDUAL FUND	SALES TAX FUND	BOND ESCROW FUND	OTHER GOVERNMENTAL FUNDS	TOTALS
<b>REVENUES</b>								
Taxes (including interest and penalties)	\$ 2,472,173	\$ -	\$ -	\$ -	\$ 888,375	\$ -	\$ -	\$ 3,360,548
Licenses and permits	142,272	-	-	-	-	-	-	142,272
Intergovernmental:								
Federal	50,000	-	571,350	-	-	-	-	621,350
State	7,426	13,329	40,000	-	-	-	-	60,755
Grants and contributions	-	-	130,000	-	-	-	4,000	134,000
Charges for services	27,185	-	-	-	-	-	58,774	85,959
Fines and forfeits	335,828	-	-	-	-	-	-	335,828
Street paving fees	124,365	-	-	-	-	-	-	124,365
Franchise fees	43,227	-	-	-	-	-	-	43,227
Interest	1,784	32	5,089	8,251	1,435	212	510	17,823
Dividends	-	-	-	4,550	-	-	-	4,550
Gain (loss) on investments	-	-	-	31,240	-	-	-	31,240
Video lottery	865,033	-	-	-	-	-	-	865,033
Gaming income	290,161	-	-	-	-	-	-	290,161
Fees	55,781	-	-	-	-	-	-	55,781
Developer fees	-	-	109,411	-	-	-	-	109,411
Reimbursements	61,779	-	-	-	-	-	-	61,779
Confiscated property	-	-	-	-	-	-	302,328	302,328
Miscellaneous	70,940	-	-	-	-	-	2,040	72,980
<b>Total revenues</b>	<b>4,547,754</b>	<b>13,361</b>	<b>856,460</b>	<b>44,041</b>	<b>889,810</b>	<b>212</b>	<b>365,652</b>	<b>5,717,290</b>
<b>EXPENDITURES</b>								
General government	1,170,060	45,070	999,874	5,139	225,137	-	-	2,445,280
Public safety	1,750,164	17,809	60,856	-	-	-	1,768	1,830,697
Streets and transportation	685,776	-	417,757	-	-	-	-	1,103,533
Culture and recreation	84,036	-	6,404	-	-	-	174,235	264,675
Social services	2,051	-	-	-	-	-	-	2,051
<b>Total expenditures</b>	<b>3,692,087</b>	<b>62,879</b>	<b>1,484,991</b>	<b>5,139</b>	<b>225,137</b>	<b>-</b>	<b>176,003</b>	<b>5,645,136</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>855,667</b>	<b>(49,518)</b>	<b>(628,531)</b>	<b>38,902</b>	<b>664,673</b>	<b>212</b>	<b>189,649</b>	<b>1,071,054</b>
<b>Other financing sources (uses):</b>								
Transfers from other funds	10,000	-	280,164	-	-	-	118,287	418,451
Transfers to other funds	(377,661)	-	(30,790)	(10,000)	-	-	-	(418,451)
<b>Total other financing sources (uses)</b>	<b>(367,661)</b>	<b>-</b>	<b>249,374</b>	<b>(10,000)</b>	<b>-</b>	<b>-</b>	<b>118,287</b>	<b>-</b>
<b>Net change in fund balance</b>	<b>488,006</b>	<b>(49,518)</b>	<b>(369,157)</b>	<b>28,902</b>	<b>664,673</b>	<b>212</b>	<b>307,936</b>	<b>1,071,054</b>
<b>Fund balance at beginning of year, as adjusted</b>	<b>705,198</b>	<b>71,351</b>	<b>2,152,376</b>	<b>1,352,104</b>	<b>710,368</b>	<b>152</b>	<b>267,845</b>	<b>5,250,214</b>
<b>Fund balance at end of year</b>	<b>\$ 1,193,204</b>	<b>\$ 21,833</b>	<b>\$ 1,783,219</b>	<b>\$ 1,381,006</b>	<b>\$ 1,375,041</b>	<b>\$ 364</b>	<b>\$ 575,781</b>	<b>\$ 6,320,268</b>

See accompanying notes.

Municipality of Charles Town, West Virginia  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
 For the year ended June 30, 2017

Net change in fund balance - total governmental funds \$ 1,071,054

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlays	\$	518,399
Depreciation expense		<u>(388,656)</u>

Amount capital outlays exceeded depreciation expense in the current period.	129,743
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds. Deferred revenues decreased by this amount in the current period.	(15,595)
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Certain pension expenses in the statement of activities are recognized on the accrual basis of accounting in accordance with GASB No. 68

Amount of pension expenditures at fund modified level	284,494
Amount of pension expenses recognized at government-wide level	<u>(239,058)</u>

Amount pension expense exceeded contractual retirement payments in the current period.	45,436
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Expenses in the statement of activities that do not require the use of current financial resources are not reported as expenditures in governmental funds. Accrued compensated absences decreased by this amount in current period.	<u>44,848</u>
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Change in net position of governmental activities.	<u><u>\$ 1,275,486</u></u>
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See accompanying notes.

Municipality of Charles Town, West Virginia  
**STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -  
GENERAL FUND**  
For the year ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget - Favorable (Unfavorable)
<b>REVENUES</b>				
Taxes (including interest and penalties):				
General property tax	\$ 1,048,645	\$ 1,048,645	\$ 1,027,472	\$ (21,173)
Business and occupation tax	560,000	560,000	963,979	403,979
Alcoholic beverages tax	115,000	115,000	110,002	(4,998)
Utility services tax	170,000	170,000	278,760	108,760
Hotel/motel tax	85,000	85,000	83,159	(1,841)
Other taxes	6,400	6,400	8,801	2,401
Total taxes	1,985,045	1,985,045	2,472,173	487,128
Licenses and permits	155,000	155,000	142,272	(12,728)
Intergovernmental:				
Federal	15,000	15,000	50,000	35,000
State	8,250	8,250	7,426	(824)
Charges for services	25,000	25,000	27,185	2,185
Fines and forfeits	344,000	344,000	335,628	(8,372)
Street paving fees	100,000	100,000	124,365	24,365
Franchise fees	62,000	62,000	43,227	(18,773)
Interest	500	500	1,784	1,284
Video lottery	775,000	775,000	865,033	90,033
Gaming income	300,000	240,000	290,161	50,161
Fees	8,800	8,800	55,781	46,981
Reimbursements	50,000	50,000	61,779	11,779
Miscellaneous	15,000	15,000	70,940	55,940
Total revenues	3,843,595	3,783,595	4,547,754	764,159
<b>EXPENDITURES</b>				
General government	1,005,073	1,166,319	1,170,060	(3,741)
Public safety	1,740,069	1,788,337	1,750,164	38,173
Streets and transportation	636,639	779,400	685,776	93,624
Culture and recreation	111,814	177,539	84,036	93,503
Social services	-	-	2,051	(2,051)
Total expenditures	3,493,595	3,911,595	3,692,087	219,508
Excess (deficiency) of revenues over expenditures	350,000	(128,000)	855,667	983,667
Other financing sources (uses):				
Transfers from other funds	-	-	10,000	10,000
Transfers to other funds	(350,000)	(290,000)	(377,661)	(87,661)
Total other financing sources (uses)	(350,000)	(290,000)	(367,661)	(77,661)
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	-	(418,000)	488,006	906,006
Fund balance at beginning of year, as adjusted	-	418,000	705,198	287,198
Fund balance at end of year	\$ -	\$ -	\$ 1,193,204	\$ 1,193,204

See accompanying notes.

Municipality of Charles Town, West Virginia  
**STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - COAL SEVERANCE TAX FUND**  
For the year ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget - Favorable (Unfavorable)
<b>REVENUES</b>				
Intergovernmental:				
State	\$ 8,000	\$ 8,000	\$ 13,329	\$ 5,329
Interest	-	-	32	32
Total revenues	8,000	8,000	13,361	5,361
<b>EXPENDITURES</b>				
General government	68,000	76,233	45,070	31,163
Public Safety	-	-	17,809	(17,809)
Total expenditures	68,000	76,233	62,879	13,354
Excess (deficiency) of revenues over expenditures	(60,000)	(68,233)	(49,518)	18,715
Fund balance at beginning of year	60,000	68,233	71,351	3,118
Fund balance at end of year	\$ -	\$ -	\$ 21,833	\$ 21,833

See accompanying notes.

Municipality of Charles Town, West Virginia  
**STATEMENT OF FIDUCIARY NET POSITION**  
June 30, 2017

	Policemen's Pension and Relief
	<u>                    </u>
<b>ASSETS</b>	
Cash	\$ 91,882
Investments	<u>371,107</u>
Total assets	<u><u>\$ 462,989</u></u>
 <b>LIABILITIES AND NET POSITION</b>	
Liabilities:	<u>\$ -</u>
Net position:	
Restricted for pension benefits	<u>462,989</u>
Total liabilities and net position	<u><u>\$ 462,989</u></u>

See accompanying notes.

Municipality of Charles Town, West Virginia  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
For the year ended June 30, 2017

	<u>Policemen's Pension and Relief</u>
<b>ADDITIONS</b>	
Contributions:	
Employer	\$ 83,964
State of West Virginia	<u>14,084</u>
Total contributions	<u>98,048</u>
Investment income:	
Realized and unrealized gains (losses)	13,524
Interest and dividends	9,434
Investment expense	<u>(3,795)</u>
Net investment income	<u>19,163</u>
Other income:	
Accident reports	<u>4,920</u>
Total other income	<u>4,920</u>
Total additions	<u>122,131</u>
<b>DEDUCTIONS</b>	
Benefits	105,358
Administrative expense	<u>1,045</u>
Total deductions	<u>106,403</u>
Change in net position	15,728
Net position restricted for pension benefits:	
Beginning of year	<u>447,261</u>
End of year	<u><u>\$ 462,989</u></u>

See accompanying notes.

Municipality of Charles Town, West Virginia  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2017

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The Municipality of Charles Town, West Virginia ("Municipality") is a municipal corporation in which citizens elect the mayor at large and eight council members. The Municipality engages in a comprehensive range of services, including general government administration, public safety, administration of justice, water and sewer services, transportation, planning, community development, recreation, cultural and historic activities, and social services.

The accounting policies and the presentation of the financial report of the Municipality has been designed to conform to generally accepted accounting principles as applicable to government units, in accordance with the Governmental Accounting Standards Board (GASB), except as noted in Note 12.

The Municipality follows the Governmental Accounting Standards Board (GASB) Standards for financial reporting. Certain significant components of the Standards include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Municipality's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Municipality's activities.
- Fund financial statements that focus on major funds.

These financial statements present all fund types of the City and its discretely presented component units.

**Individual Component Unit Disclosure**

The criteria for including component units consists of identification of legally separate organizations for which the elected officials of the Municipality are financially accountable. This criteria also includes identification of organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Blended component units, although legally separate entities, are in substance, part of the government's operations and so data from these units are combined with data of the primary government. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government.

The Municipality had no blended component units as of and for the year ended June 30, 2017.

The Municipality of Charles Town Building Commission and the Charles Town Utility Board are governed by boards appointed by the Municipality's Council. While legally separate from the Municipality, they are reported as part of the reporting entity under the discretely presented method because the Municipality's elected officials are financially accountable for the Municipality of Charles Town Building Commission and the Charles Town Utility Board. The Municipality Council has the power to approve, disapprove, or modify budgets and financial operations of the Building Commission and the Charles Town Utility Board. Separate financial information can be obtained from the Municipality of Charles Town Building Commission and the Charles Town Utility Board.



Municipality of Charles Town, West Virginia  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2017

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Parks and Recreation Fund**

The Parks and Recreation fund is not a legally separate organization but does have a separate board of directors and federal employer identification number. The fund relies on financial support from the City and daily operations are managed by City employees. The fund does not meet the criteria to be considered a component unit.

**Related Organizations**

The Municipality's officials are also responsible for appointing the members of the boards of various organizations, but the Municipality's accountability for these organizations does not significantly extend beyond making the appointments. The Municipality is not financially accountable for the organizations to which these appointments are made.

**Government-wide and Fund Financial Statements**

The financial statements include both government-wide (based on the Municipality as a whole) and fund financial statements. Under this reporting model, the focus is on both the Municipality as a whole and the fund financial statements, including the major funds of the governmental and business-type categories, as well as the fiduciary funds, (by fund type) and the component units. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type, as applicable. In the government-wide Statement of Net Position, both the governmental and business-type activities columns, as applicable, (a) are presented on a consolidated basis by column, and (b) are reflected in a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (general government, public safety, highways and streets, culture and recreation, etc.) that are otherwise being supported by general government revenues (property, business and occupation taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants and contributions. The program revenues must be directly associated with the function (general government, public safety, highways and streets, culture and recreation, etc.) or a business-type activity, as applicable. Program revenues include 1) charges to customers for applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported as general revenues. The Municipality does not allocate indirect expenses. The operating grants include operating - specific and discretionary (either operating or capital) grants while the capital grants column reflects capital - specific grants and contributions.

In the fund financial statements, financial transactions and accounts of the Municipality are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The fund statements are presented on a current financial resources and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund financial statements to the governmental column of the government-wide financial statements.

Municipality of Charles Town, West Virginia  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2017

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Government-wide and Fund Financial Statements (continued)**

The emphasis in fund financial statements is on major funds in the governmental categories. Non-major funds by category are summarized into a single column. GASB Standards set forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental categories combined) for the determination of major funds.

Municipality management may electively add funds as major funds, when it is determined the funds have specific community or management focus. The coal severance fund has been electively added as a major fund.

The Municipality's fiduciary funds are presented in the fund financial statements by type (pension). Since, by definition, these assets are being held for the benefit of a third party (pension participants) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government - wide statements.

The following is a brief description of the specific funds used by the Municipality:

**Governmental Funds**

Governmental funds are those through which most governmental functions typically are financed. Governmental funds are reported using the current financial resource measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within a current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Municipality considers revenues to be available if they are collected within sixty days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

**General Fund**

The general fund is the primary operating fund of the Municipality. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for service, interest, and other income.

**Special Revenue Funds**

Special revenue funds account for revenue derived from specific sources (other than major capital projects) that are restricted by legal and regulatory provisions to finance specific activities. The special revenue funds, except for the coal severance fund, capital reserve fund, residual fund, sales tax fund, and bond escrow fund are considered non-major funds for reporting purposes. The coal severance fund is used to account for the funds received from the State of West Virginia that are derived from the coal severance tax. The capital reserve fund is used to administer the capital grant and bond and loan monies received for capital improvements. The sales tax fund is used to account for the Municipality's 1% sales tax including allowable uses of sales tax revenue. The bond escrow fund is used to administer developer bonds held. The residual fund is used for municipal stabilization purposes.

Municipality of Charles Town, West Virginia  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2017

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Government-wide and Fund Financial Statements (continued)**

**Fiduciary Funds**

Fiduciary funds are used to account for assets held by the Municipality in a trustee capacity for individuals, private organizations and other governments. The fiduciary fund of the Municipality is a pension trust fund. For accounting measurement purposes, the pension trust fund accounts for the assets of the Municipality's police pension plan. Fiduciary funds are not included in the government-wide financial statements.

**Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet in the funds statements. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of the governmental funds present increases (i.e. revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The government-wide statements of net position and statements of activities and pension trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these activities are either included on the statement of net position or on the statement of activities as increases (e.g. revenues) decreases (e.g. expenses) in net position.

The statement of net position, statement of activities, and financial statements of the fiduciary funds are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned, and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

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

**Budgets and Budgetary Accounting**

All municipalities within West Virginia are required by statute to prepare annual budgets (levy estimates) on prescribed forms and submit these for approval to the West Virginia State Auditor's office. These budgets are prepared in accordance with the following procedures:

1. The governing body of the Municipality is required to hold a meeting or meetings between the seventh and twenty-eighth days of March to ascertain the financial condition of the Municipality and to prepare the levy estimate (budget) for the fiscal year commencing July 1.
2. The budget is then forthwith submitted to the West Virginia State Auditor's office for approval.
3. The governing body then reconvenes on the third Tuesday in April to hear objections from the public and to formally lay the levy.

The annual budget for the General Fund is prepared on a basis generally consistent with U.S. generally accepted accounting principles.

Revisions are authorized only with the prior written approval of the West Virginia State Auditor's office. The budgeted amounts reflected in the accompanying financial statements represent those adopted by the Municipality's Council and approved by the West Virginia State Auditor's office.

Municipality of Charles Town, West Virginia  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2017

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Encumbrances**

Encumbrance accounting, under which purchase orders are issued but are not considered expenditures until liabilities for payments are incurred, is not employed as an extension of the formal budgetary process.

**Cash and Cash Equivalents**

Cash and cash equivalents of the primary government, fiduciary fund, and component units at June 30, 2017 include deposits of \$11,193,330 at six financial institutions (excludes investments and funds held at the West Virginia Municipal Bond Commission). Deposits are FDIC insured and deposits in excess of FDIC limits are 100% collateralized with securities held by the financial institutions.

**Restricted Cash**

Restricted cash of the primary government consists of the following:

Law enforcement funds held in investigation and evidence accounts whose use is limited by state law and regulation.	\$ 476,239
Developer bonds held in accordance with Municipality requirements to assure development project completion.	<u>104,500</u>
Total	<u>\$ 580,739</u>

Restricted cash of the Utility Board consists of the following:

Debt service funds and debt service reserve funds represent funds required by debt covenants under the various debt ordinances. These funds are to be used to pay bond interest and principal.	\$ 1,972,016
Construction funds represent funds held by banks as trustees under the bond ordinances. These funds are to be used solely for payment of costs associated with the Utility Board's ongoing construction projects.	1,764,286
Capacity improvement funds are established by ordinance and subject to regulatory commission oversight. The capacity improvement fund is to be kept apart from all other funds and shall be invested and reinvested in accordance with applicable regulation. Withdrawals and disbursements may be made for replacements, emergency repairs, improvements, and upgrades to the system.	2,138,827
The repair and replacement fund represents funds held by a bank under the Utility Board's bond ordinances. Withdrawals may be made for replacement and emergency repairs.	<u>272,184</u>
Total	<u>\$ 6,147,313</u>

Restricted cash of Building Commission consists of the following:

Debt service funds and debt service reserve funds represent funds required by debt covenants under the various debt ordinances. These funds are to be used to pay bond interest and principal.	\$ <u>272,288</u>
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Municipality of Charles Town, West Virginia  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2017

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Investment Securities - Policemen's Pension and Relief Fund and Residual Fund**

Investments are carried at fair value. Realized gains and losses on sales of securities are recognized based on the cost of specified securities sold and are included in revenue. Fair values are determined by quoted market prices. Changes in fair values are included in the determination of changes in net position.

**Market Risks - Policemen's Pension and Relief Fund and Residual Fund**

Investments are exposed to various risks, such as interest rate, market, currency and credit risks. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term would affect investment assets reported in the financial statements.

**Accounts Receivable**

**Primary Government**

The Municipality uses the reserve method of providing for possible losses in the collection of its accounts receivable. Management believes all accounts are materially collectible and the allowance of \$15,000 is adequate at June 30, 2017.

**Utility Board**

The Utility Board's management periodically analyzes delinquent accounts of the water and sewer funds and uses the allowance method for accounting for bad debts. At June 30, 2017, accounts receivable amounted to \$251,765 net of allowance of doubtful accounts. Revenue accrued but not billed amounted to \$523,010 at June 30, 2017. No allowance was deemed necessary at June 30, 2017.

**Building Commission**

The Building Commission's management considers all accounts receivable to be collectible. Accounts receivable amounted to \$10,306 at June 30, 2017.

**Inventories**

**Primary Government**

The Municipality considers inventories of materials and supplies utilized in governmental fund type operations as expended at the time of purchase. Therefore, they do not appear in the Municipality's financial statements.

**Utility Board**

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

Municipality of Charles Town, West Virginia  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2017

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Capital Assets**

Capital outlays are recorded as expenditures of the general and special revenue funds and as assets in the government-wide financial statements including the component units. The capitalization threshold is \$5,000. Depreciation is recorded using the straight-line method and the following estimated useful lives:

Primary Government

Buildings	25-50 years
Improvements	10-20 years
Equipment	3-10 years

Utility Board

Utility Plant	5-50 years
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Building Commission

Buildings	40 years
Improvements	40 years
Roads	20 years

All assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated capital assets are valued at their acquisition value on the date donated.

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

Interest is capitalized on qualifying construction in process. For assets acquired with tax-exempt debt, the amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project and the interest earned from temporary investment of the debt proceeds. Capitalized interest is recorded as a component of the asset cost. The Utility Board capitalized \$396,445 of interest during the year ended June 30, 2017. The Building Commission capitalized \$65,530 of interest during the year ended June 30, 2017.

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

**Bond Issue Costs**

Bond issue costs are expensed as incurred except for those costs related to prepaid insurance.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statements of net position and or balance sheets will sometimes report a separate section for deferred outflows of resources. This 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 of resources (expense/expenditure) until then. Deferred amounts resulting from advance refunding of debt and elements of the Municipality's defined benefit pension plans qualifies for reporting in this category.

Municipality of Charles Town, West Virginia  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2017

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Deferred Outflows/Inflows of Resources (continued)**

In addition to liabilities, the statements of net position and or balance sheets will sometimes report a separate section for deferred inflows of resources. This 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. Defined benefit pension plan elements qualify for reporting in this category.

**Advance Refunding of Debt**

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

**Compensated Absences**

Employees are permitted to accumulate earned but unused vacation benefits. The liability related to compensated absences is fully recognized in the government-wide financial statements without modification.

**Interfund Charges**

All interfund services provided and used are reported as due to/due from asset and liability accounts.

**Estimates**

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

**Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

**Nonexchange Transactions**

GASB Standards establish accounting and reporting guidelines for government entities that gives (or receives) value without directly receiving (or giving) equal value in return is followed. Voluntary nonexchange transactions from developer and customer donations of cash, property, lines and improvements are received. In addition, various capital grants are received from federal and state agencies. These donations are considered capital contributions in the government-wide financial statements.

**Customer Utility Deposits**

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

Municipality of Charles Town, West Virginia  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2017

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Fund Balances**

In accordance with GASB Standards, the Municipality classifies governmental fund balances within the following categories: Nonspendable fund balance, which includes amounts that cannot be spent because it is not in spendable form; restricted fund balance, which includes amounts constrained for specific purposes that are externally imposed by the resource providers; committed fund balance, which includes amounts constrained for specific purposes that are internally imposed through formal action of the City Council; assigned fund balance, which includes amounts intended to be used for specific purposes that are neither restricted or committed, however, assigned by non-formal action of City Council or finance department; and unassigned fund balance, which is the residual classification for amounts in the general fund that have not been classified within the other categories and special revenue funds with deficit fund balances.

When the Municipality incurs expenditures for purposes for which various fund balance classifications can be used, it is the Municipality's policy to use restricted fund balance first, then committed, assigned and finally unassigned fund balance.

**Net Position**

Net Position is classified as follows:

Net investment in capital assets - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted net position - This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted net position - This amount is net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

**Pension**

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

**NOTE 2: NEW ACCOUNTING PRONOUNCEMENTS**

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

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



Municipality of Charles Town, West Virginia  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2017

**NOTE 2: NEW ACCOUNTING PRONOUNCEMENTS (continued)**

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

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

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

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

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

**NOTE 3: PROPERTY TAXES**

The taxes on real property and the interest and other charges upon such taxes attach as an enforceable lien on the first day of July. There is no lien denominated as such on personal property. However, statutes provide that the sheriff of a county may distrain for delinquent taxes any goods and chattels belonging to a person assessed. All current taxes assessed on real and personal property may be paid in two installments: the first installment is payable on September first of the year for which the assessment is made and becomes delinquent on October first; the second installment is payable on the first day of the following March and becomes delinquent on April first. Taxes paid on or before the date when they are due, including both first and second installments, are subject to a discount of two and one-half percent. If taxes are not paid on or before the date on which they become delinquent, including both first and second installments, interest at the rate of nine percent per annum is added from the date they become delinquent until paid.

All municipalities within the state are authorized to levy taxes not in excess of the maximum levies per \$100 of assessed valuation. In addition, municipalities may provide for an election to lay an excess levy, the rates not to exceed fifty percent of such authorized maximum levies, provided that at least sixty percent of the voters cast ballots in favor of the excess levy.

Municipality of Charles Town, West Virginia  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2017

**NOTE 3: PROPERTY TAXES (continued)**

The rates levied by the Municipality per \$100 of

Class of Property	Assessed Valuations For Tax Purposes	Current Expense
Class I	\$ -	10.91¢
Class II	\$ 198,260,150	21.82¢
Class IV	\$ 156,034,117	43.64¢

**NOTE 4: CASH**

Unrestricted cash and cash equivalents at June 30, 2017 were as follows:

	Primary Government	Utility Board	Building Commission
Cash in checking and savings accounts	\$ 4,301,507	\$ 894,671	\$ 615,934
Cash on hand	3,350	150	-
Total cash and cash equivalents	<u>\$ 4,304,857</u>	<u>\$ 894,821</u>	<u>\$ 615,934</u>

**NOTE 5: INVESTMENTS - POLICEMEN'S PENSION AND RELIEF FUND AND RESIDUAL FUND**

The Municipality uses a fair value hierarchy established by GAAP that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy are:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 - Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the assets or liabilities.

Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (that is, the inputs are supported by little or no market activity).

- A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Municipality of Charles Town, West Virginia  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2017

**NOTE 5: INVESTMENTS - POLICEMEN'S PENSION AND RELIEF FUND AND RESIDUAL FUND (continued)**

**Policemen's Pension and Relief Fund**

The Plan's investments are as follows at June 30, 2017:

	<u>Fair Value</u>	<u>Cost</u>	<u>Appreciation (Depreciation)</u>	<u>Hierarchy</u>
Stocks and bonds	<u>\$371,107</u>	<u>\$337,595</u>	<u>\$ 33,512</u>	Level 1

The components of investment income for the year ended June 30, 2017 are as follows:

Interest and dividends	\$ 9,314
Realized and unrealized gain (loss)	13,524
Investment expense	<u>(3,795)</u>
Net investment income	<u>\$ 19,043</u>

**Residual Fund**

The Plan's investments are as follows at June 30, 2017:

	<u>Fair Value</u>	<u>Cost</u>	<u>Appreciation (Depreciation)</u>	<u>Hierarchy</u>
Stocks, bonds, core account	<u>\$538,837</u>	<u>\$499,726</u>	<u>\$ 39,111</u>	Level 1

The components of investment income for the year ended June 30, 2017 are as follows:

Interest and dividends	\$ 11,540
Realized and unrealized gain (loss)	31,240
Investment expenses	<u>(5,139)</u>
Net investment income	<u>\$ 37,641</u>

Municipality of Charles Town, West Virginia  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2017

**NOTE 6: INTERNAL BALANCES AND INTERFUND TRANSFERS**

The composition of internal balances as of June 30, 2017 is as follows:

Governmental funds/component units:

Receivable Fund/CU	Payable Fund/CU	Amount	Nature
General Fund	Charles Town Utility Board	\$ 13,997	Utility tax (taxes receivable)
Residual Fund	Charles Town Utility Board	563,889	Loan (loan to Charles Town Utility Board)
Capital Reserve Fund	General Fund	115,398	Table gaming revenue (due to/from)
Charles Town Building Commission	General Fund	10,306	Lease revenues (accounts receivable)
Residual Fund	General Fund	12,816	Charles Town Utility Board loan repayment (due to/from)
Bond Escrow Fund	General Fund	3,241	Expense reimbursement (due to/from)
Capital Reserve Fund	Charles Town Utility Board	18,750	Cost reimbursement (due from associated entity)
Residual Fund	Capital Reserve	12,816	Misposted deposit (due to/from)
		<u>\$751,213</u>	

These balances represent timing differences due to routine transfers. Internal receivables and payables and are expected to be paid by year end except for the Charles Town Utility Board to Residual Fund, which represents financing of water and sewer assets.

The Residual Fund advanced the Utility Board \$640,795 to finance certain construction projects. The advance bears no interest and is generally being repaid over a 50 year term. For the year ended June 30, 2017, \$12,816 has been repaid.

Interfund transfers and transactions for the year ended June 30, 2017, consisted of the following:

Transfer to (Fund)	Transfer from (Fund)	Amount
Capital Reserve Fund	General Fund	\$290,164
General Fund	Residual Fund	10,000
Parks and Recreation Fund	General Fund	87,497
Parks and Recreation Fund	Capital Reserve Fund	30,790
		<u>\$418,451</u>

Municipality of Charles Town, West Virginia  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2017

**NOTE 7: CHANGES IN CAPITAL ASSETS**

The following is a summary of the changes in capital assets of governmental activities during the year:

	Balance at June 30, 2016	Additions	Reductions	Balance at June 30, 2017
Capital assets not being depreciated:				
Land	\$ 696,275	\$ 30,787	\$ -	\$ 727,062
Construction in progress	109,375	-	(85,263)	24,112
	<u>805,650</u>	<u>30,787</u>	<u>(85,263)</u>	<u>751,174</u>
Total capital assets not being depreciated				
Capital assets being depreciated:				
Buildings and improvements	2,223,108	-	-	2,223,108
Leasehold improvements	-	85,263	-	85,263
Land improvements	4,143,216	318,816	-	4,462,032
Equipment	1,106,245	140,140	-	1,246,385
Vehicles	871,802	28,656	-	900,458
	<u>8,344,371</u>	<u>572,875</u>	<u>-</u>	<u>8,917,246</u>
Total				
Less accumulated depreciation	(4,489,843)	(388,656)	-	(4,878,499)
	<u>3,854,528</u>	<u>184,219</u>	<u>-</u>	<u>4,038,747</u>
Total capital assets being depreciated, net				
Governmental activities capital assets, net	<u>\$ 4,660,178</u>	<u>\$ 215,006</u>	<u>\$ (85,263)</u>	<u>\$ 4,789,921</u>

Municipality of Charles Town, West Virginia  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2017

**NOTE 7: CHANGES IN CAPITAL ASSETS (continued)**

Depreciation was charged to functions as follows:

Governmental activities:

General government	\$ 51,032
Public safety	92,037
Highways and streets	224,683
Culture and recreation	20,904
	<u>388,656</u>
Total government activities depreciation expense	<u>\$ 388,656</u>

The following is a summary of the changes in capital assets of the Utility Board during the year:

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

Municipality of Charles Town, West Virginia  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2017

**NOTE 7: CHANGES IN CAPITAL ASSETS (continued)**

The following is a summary of changes in capital assets of the Building Commission during the year:

	Balance at June 30, 2016	Additions	Reductions	Balance at June 30, 2017
Capital assets not being depreciated:				
Land	\$ 30,327	\$ 166,519	\$ -	\$ 196,846
Construction in progress	3,607,131	1,957,650	3,982,583	1,582,198
 Total capital assets not being depreciated	 3,637,458	 2,124,169	 3,982,583	 1,779,044
Capital assets being depreciated:				
Buildings and improvements	934,196	2,701,731	-	3,635,927
Roads and improvements	979,119	-	-	979,119
Land improvements	22,457	-	-	22,457
Equipment and furnishings	2,175	-	-	2,175
 Total capital assets being depreciated	 1,937,947	 2,701,731	 -	 4,639,678
 Less accumulated depreciation	 (1,160,205)	 (116,494)	 -	 (1,276,699)
 Total capital assets being depreciated, net	 777,742	 2,585,237	 -	 3,362,979
 Building Commission capital assets, net	 \$ 4,415,200	 \$ 4,709,406	 \$ 3,982,583	 \$ 5,142,023
 Depreciation expense	 \$ 116,494			

**NOTE 8: PERFORMANCE BONDS**

**Bond Escrow Fund**

The Municipality periodically holds developer performance bonds based on Municipality requirements. The performance bonds are refunded to the developers based on satisfactory completion of related developer project construction.

Municipality of Charles Town, West Virginia  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2017

**NOTE 9: LONG-TERM DEBT**

**Charles Town Building Commission (Component Unit)**

**Series 1999 Lease Revenue Bond**

Series 1999 Lease Revenue Bond in the original amount of \$1,070,000 with an outstanding balance of \$175,217 at June 30, 2017. The bond bears interest at 6.0% to 6.5% and matures June 2019.

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 79,888	\$ 10,112	\$ 90,000
2019	95,329	4,671	100,000
	<u>\$ 175,217</u>	<u>\$ 14,783</u>	<u>\$ 190,000</u>

Bond debt service is payable solely from lease rental payments pursuant to an agreement and lease between the Building Commission and the City. Lease rentals are subject to annual appropriation by the City. The bonds are secured by a lease assignment made to the bondholder by the Building Commission.

**Series 2015A and Series 2015B Lease Revenue Bonds**

The Series 2015A and Series 2015B Lease Revenue Bonds were issued to the United States Department of Agriculture (USDA) on March 4, 2015 in the aggregate amount of \$3,893,950 to finance improvements and renovations to Charles Washington Hall. Bond proceeds are advanced by the USDA based on amounts requisitioned by the Building Commission. The term of the bonds is for 36 years at 3.75% interest per annum. Interest only is payable annually for the first year of the term and monthly interest and principal payments are required thereafter. The 2015 SeriesA Lease Revenue Bonds were issued for \$2,999,950 and had an outstanding balance of \$2,764,052 at June 30, 2017. The 2015 SeriesB Lease Revenue Bonds were issued for \$894,000 and had an outstanding balance of \$872,153 at June 30, 2017. Monthly interest and principal payments are \$12,840 for the 2015 SeriesA Bonds and \$3,827 for the SeriesB Bonds. The bonds are secured by a Credit Line Leasehold Deed of Trust, Security Agreement and a lease assignment made to the bondholder by the Building Commission.

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 64,752	\$ 135,252	\$ 200,004
2019	67,222	132,782	200,004
2020	69,787	130,217	200,004
2021	72,449	127,555	200,004
2022	75,213	124,791	200,004
2023-2027	421,361	578,659	1,000,020
2028-2032	508,110	491,910	1,000,020
2033-2037	612,719	387,301	1,000,020
2038-2042	738,864	261,156	1,000,020
2043-2047	864,922	109,083	974,005
2048-2049	140,806	9,009	149,815
	<u>\$ 3,636,205</u>	<u>\$ 2,487,715</u>	<u>\$ 6,123,920</u>



Municipality of Charles Town, West Virginia  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2017

**NOTE 9: LONG-TERM DEBT**

**Charles Town Building Commission (Component Unit) (continued)**

**Series 2017A Lease Revenue Bonds**

The Series 2017A Lease Revenue Bonds were issued to a financial institution on May 30, 2017, in the aggregate amount of \$2,100,000 to purchase land and finance the construction of a municipal annex at 661 South George Street. Bond proceeds are advanced by the financial institution based on amounts requisitioned by the Charles Town Building Commission. The term of the bonds is for 25 years at 3.16% interest per annum. Interest only is payable for the first 9 months of the term and monthly interest and principal payments of \$10,391 are required thereafter. The outstanding balance of the bonds was \$1,500,000 at June 30, 2017. The bonds are secured by a credit line deed of trust and a lease assignment made to the bondholder by the Building Commission.

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 25,868	\$ 47,298	\$ 73,166
2019	79,257	45,441	124,698
2020	81,798	42,900	124,698
2021	84,420	40,278	124,698
2022	87,127	37,571	124,698
2023-2027	479,372	144,118	623,490
2028-2032	561,307	62,183	623,490
2033	100,851	1,424	102,275
	<u>\$ 1,500,000</u>	<u>\$ 421,213</u>	<u>\$ 1,921,213</u>

**Changes in Long-Term Liabilities**

Charles Town Building Commission changes in long-term debt for the year ended June 30, 2017 are as follows:

	<u>Balance June 30, 2016</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2017</u>	<u>Due Within One Year</u>
1999 Bond	\$ 250,155	\$ -	\$ 74,938	\$ 175,217	\$ 79,888
2015A Bond	2,130,139	690,612	56,699	2,764,052	51,304
2015B Bond	864,820	20,775	13,442	872,153	13,448
2017A Bond	-	1,500,000	-	1,500,000	25,868
Total	<u>\$ 3,245,114</u>	<u>\$ 2,211,387</u>	<u>\$ 145,079</u>	<u>\$ 5,311,422</u>	<u>\$ 170,508</u>

Municipality of Charles Town, West Virginia  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2017

**NOTE 9: LONG-TERM DEBT (continued)**

**Utility Board (Component Unit)**

**Bonds Payable - Water Fund**

<u>Issue</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>Balance June 30, 2016</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2017</u>	<u>Due Within One Year</u>
1987B	2026	0.00%	\$ 119,735	\$ -	\$ 10,885	\$ 108,850	\$ 10,885
1988B	2028	0.00%	185,992	-	14,308	171,684	14,308
1989B	2029	0.00%	42,173	-	3,012	39,161	3,012
2002A	2039	5.80%	931,380	-	18,826	912,554	19,917
2002B	2042	0.00%	2,431,168	-	93,607	2,337,661	93,507
2010A	2031	2.00%	706,981	-	41,638	665,343	42,478
2010B	2031	2.00%	77,480	-	4,563	72,917	4,656
2013B	2043	4.70%	1,096,600	-	28,800	1,067,800	22,800
2014C	2033	2.50%-4.75%	790,000	-	35,000	755,000	35,000
2014E	2026	1.60%-3.40%	1,285,000	-	110,000	1,155,000	115,000
2015A	2030	1.50%-3.50%	1,732,500	-	81,900	1,650,600	85,050
2015B	2029	1.50%-4.00%	3,527,550	-	238,950	3,288,600	259,200
2016A	2046	1.60%-4.50%	7,695,000	-	140,000	7,555,000	160,000
<b>Total Bonds Payable</b>			<b>\$ 20,601,559</b>	<b>\$ -</b>	<b>\$ 821,389</b>	<b>19,780,170</b>	<b>\$ 865,813</b>
Unamortized Premiums/ Discounts, Net						53,617	
						<b>\$ 19,833,787</b>	

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

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

Municipality of Charles Town, West Virginia  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2017

**NOTE 9: LONG-TERM DEBT (continued)**

**Utility Board (Component Unit) (continued)**

**Bonds Payable - Sewer Fund**

Issue	Maturity Date	Interest Rates	Balance June 30, 2016	Additions	Payments	Balance June 30, 2017	Due Within One Year
1988B	2028	0.00%	\$ 98,628	\$ -	\$ 7,588	\$ 91,040	\$ 7,588
1998 Design	2019	2.00%	83,500	-	25,119	58,381	25,625
2000A	2021	2.00%	999,300	-	173,632	825,668	177,130
2010C	2041	0.00%	1,041,660	-	41,668	999,992	41,668
2010D	2041	0.00%	416,660	-	16,668	399,992	16,668
2011A	2041	0.00%	6,269,320	-	250,373	6,008,947	250,373
2013A	2044	0.50%	559,827	-	18,497	541,330	18,590
2013B	2043	4.70%	1,768,400	-	26,200	1,742,200	37,200
2014A	2046	0.50%	4,027,528	-	125,880	3,901,648	126,510
2014D	2028	3.00%-5.00%	1,310,000	-	85,000	1,225,000	90,000
2015A	2030	1.50%-3.50%	1,017,500	-	48,100	969,400	49,950
2015B	2030	1.50%-4.00%	827,450	-	58,050	771,400	60,800
2016B	2046	1.50%-4.00%	-	3,895,000	-	3,895,000	-
<b>Total Bonds Payable</b>			<b>\$ 18,409,773</b>	<b>\$ 3,895,000</b>	<b>\$ 874,775</b>	<b>\$ 21,429,998</b>	<b>\$ 902,102</b>
Unamortized Premiums/ Discounts, Net						109,041	
						<b>\$ 21,539,039</b>	

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

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

Municipality of Charles Town, West Virginia  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2017

**NOTE 9: LONG-TERM DEBT (continued)**

**Utility Board (Component Unit) (continued)**

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

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

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

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

**Notes Payable Bank - Sewer Fund**

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

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

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

Municipality of Charles Town, West Virginia  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2017

**NOTE 9: LONG-TERM DEBT (continued)**

**Utility Board (Component Unit) (continued)**

**Water and Sewer Fund Capital Leases**

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

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

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

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

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

Municipality of Charles Town, West Virginia  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2017

**NOTE 9: LONG-TERM DEBT (continued)**

**Utility Board (Component Unit) (continued)**

**Utility Board Changes in Long-Term Liabilities other than Bonds**

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

**NOTE 10: OPERATING LEASE AGREEMENTS**

**Operating Leases**

**Municipality of Charles Town (Lessor) and Charles Town Building Commission (Lessee)**

The Municipality and the Building Commission entered into a 20 year lease agreement dated July 27, 1999, whereby the Municipality leased certain of its roads and streets including improvements thereon to the Building Commission. No rentals are payable under the agreement and the Municipality retains responsibility for all taxes and insurance regarding the leased property.

**Charles Town Building Commission (Lessor) and Municipality of Charles Town (Lessee)**

The Municipality and the Building Commission entered into an Agreement and Lease dated July 27, 1999, whereby the Municipality leases from the Building Commission certain improved roads and streets in consideration for the issuance by the Building Commission of Lease Revenue Bonds, Series 1999.

The lease term is for a 20 year period ending July 30, 2019. The Municipality has pledged to pay lease rentals to the Building Commission consisting of amounts received by the Municipality as municipal service fees for street improvements as established by City ordinance. The Municipality is required to pay sufficient lease rentals to accumulate sums necessary to promptly pay principal and interest due on the Building Commission's Lease Revenue Bonds, Series 1999. The Municipality is responsible for all operation and maintenance costs associated with the leased property.

The Municipality and the Building Commission entered into a lease agreement dated March 2, 2015, whereby the Municipality leases from the Building Commission the Charles Washington Hall facilities. The lease is for a 36 year term reflecting the same term as the bond financing used to fund the Charles Washington Hall improvements and renovation. The Municipality is required to pay sufficient lease rentals to accumulate sums necessary to promptly pay principal and interest due on the Building Commission's Series 2015A and Series 2015B Lease Revenue Bonds. The lease is a net lease therefore the Municipality is responsible for all operation and maintenance costs associated with the leased property.

Municipality of Charles Town, West Virginia  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2017

**NOTE 10: OPERATING LEASE AGREEMENTS (continued)**

**Operating Leases (continued)**

**Charles Town Building Commission (Lessor) and Municipality of Charles Town (Lessee)  
(continued)**

The Municipality and the Building Commission entered into a lease agreement dated May 30, 2017, whereby the Municipality leases from the Building Commission the Municipal Annex Facilities (Construction in Progress at June 30, 2017). The lease is for a 25 year term reflecting the same term as the bond financing used to fund the Municipal Annex land purchase and building construction. The Municipality is required to pay sufficient rentals to accumulate sums necessary to promptly pay principal and interest due on the Building Commission's Series 2017A Lease Revenue Bonds. The lease is a net lease therefore the Municipality is responsible for all operation and maintenance costs associated with the leased property.

**NOTE 11: EMPLOYEES' RETIREMENT SYSTEM AND PLAN**

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

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

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

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 benefit provisions:	State Statute
Tier 1 Plan member's contribution rate:	4.50% (Employees hired before July 1, 2015)
Tier 2 Plan member's contribution rate:	6.00% (Employees hired after July 1, 2015)
Municipality's contribution rate:	12.00% for fiscal year 2017
Period required to vest:	5 years for Tier 1 and 10 years for Tier 2

Municipality of Charles Town, West Virginia  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2017

**NOTE 11: EMPLOYEES' RETIREMENT SYSTEM AND PLAN (continued)**

***Plan Description, Contribution Information, and Funding Policies (continued)***

Benefits and eligibility for distribution:

Tier 1

A member who has attained age 60 and has earned 5 years or more of contributing service or age 55 if the sum of his/her age plus years of credited service is equal to or greater than 80. The final average salary (three highest consecutive years in the last 15) times the years of service times 2% equals the annual retirement benefit.

Tier 2

Qualification for normal retirement is age 62 with 10 years of service or at least age 55 plus service years equal to 80 or greater. The final average salary is the average of the five consecutive highest annual earnings years out of the last fifteen years. The final average salary times the years of service times 2% equals the annual retirement benefit.

Deferred retirement portion:

No

Provisions for:

Cost of living

No

Death benefits

Yes

***Trend Information***

<u>Fiscal Year</u>	<u>Annual Pension Cost</u>	<u>Percentage Contributed</u>
2017	\$200,531	100%
2016	\$243,364	100%
2015	\$237,040	100%

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

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



Municipality of Charles Town, West Virginia  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2017

**NOTE 11: EMPLOYEES' RETIREMENT SYSTEM AND PLAN (continued)**

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

At June 30, 2017, the Municipality reported the following proportion and increase/(decrease) from its proportion measured as of June 30, 2016:

Amount for proportionate share of net pension liability	\$1,202,400
Percentage for proportionate share of net pension liability	.130821%
Increase/(decrease) % from prior proportion measured	.007103%

For the year ended June 30, 2017, the Municipality recognized \$224,814 of pension expense.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 377,839	\$ -
Difference between expected and actual experience	100,270	-
Deferred difference in assumptions	-	58,579
Changes in proportion and differences between Municipality contributions and proportionate share of contributions	58,909	-
Municipality contributions subsequent to the measurement date	200,531	-
	<u>\$ 737,549</u>	<u>\$ 58,579</u>

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

Year ended June 30

2018	\$ 84,219
2019	84,212
2020	191,385
2021	118,623
Total	<u>\$ 478,439</u>

Municipality of Charles Town, West Virginia  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2017

**NOTE 11: EMPLOYEES' RETIREMENT SYSTEM AND PLAN (continued)**

***Actuarial Assumptions***

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

Actuarial Cost Method	Individual entry age normal cost with level percentage of payroll
Asset Valuation Method	Fair value
Amortization Method	Level dollar, fixed period
Amortization Period	Through fiscal year 2034
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Projected Salary Increases:	
PERS:	
State	3.0-4.6%
Nonstate	3.35-6%
Inflation Rate	3.00%
Discount Rate	7.50%
Mortality Rates	Healthy males - 110% of RP-2000 Non-Annuitant, Scale AA fully generational; Healthy females - 101% of RP-2000, Disabled males - 96% of RP-2000 Disabled females - 107% of RP 2000 Disabled Annuitant, Scale AA fully generational
Withdrawal Rates:	
State	1.75-35.1%
Nonstate	2-35.8%
Disability Rates	0-.675%
Retirement Rates	15-100%
Date Range in Most Recent Experience Study	2009-2014

Municipality of Charles Town, West Virginia  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2017

**NOTE 11: EMPLOYEES' RETIREMENT SYSTEM AND PLAN (continued)**

***Actuarial Assumptions (continued)***

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

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

**Deferred Inflows and Outflows Related to Pension**

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 25,124	\$ -

Amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension plan will be recognized in pension expense as follows:

Year ended June 30

2018	\$ 9,201
2019	9,201
2020	5,292
2021	1,430
Total	<u>\$ 25,124</u>

Municipality of Charles Town, West Virginia  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2017

**NOTE 11: EMPLOYEES' RETIREMENT SYSTEM AND PLAN (continued)**

***Discount Rate***

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

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

	1% Decrease 6.5%	Discount Rate 7.5%	1% Increase 8.5%
Municipality's proportionate share of PERS's net pension liability	\$ 2,176,536	\$ 1,202,400	\$ 375,104

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

**Policemen's Pension and Relief Fund**

The Municipality participates in one single employer, public employee retirement system. Assets are held separately and may be used only for the payment of benefits to the members of the plan.

The Policemen's Pension Relief Fund (PPRF) provides retirement benefits for certain retired police employees and their beneficiaries. The PPRF's Board consists of a chairman which is the Mayor and four members from the municipal police department. The Municipality is authorized in accordance with State Code §8-22 to establish and maintain this plan. Unless otherwise indicated, PPRF information in this Note is provided as of the latest actuarial valuation, July 1, 2016, and projected to the measurement date of June 30, 2017.

Actuarial valuations are required to be performed once every year.

The investment policies of the PPRF are restricted by State Code and may be restricted further as determined by the Board. For additional information relating to basis of accounting and reported investment values, see Notes 1 and 5. There were no significant changes in the investment policies for the current year.

Municipality of Charles Town, West Virginia  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2017

**NOTE 11: EMPLOYEES' RETIREMENT SYSTEM AND PLAN (continued)**

Membership of the plan is as follows:

Group	Participants
Active Employees	0
Inactive, Non-Retired Members	0
Retirees and Beneficiaries	
Currently Receiving Benefits	6
<b>Total</b>	<b>6</b>

This plan is a defined benefit plan. The following is a summary of funding policies, contribution methods, and benefit provisions.

Determination of Contribution Requirements	Actuarially determined
Employer	Contributes annually an amount which, together with contributions from the members and others, and the allocable portion of the State premium tax fund, will be sufficient to meet the normal cost of the fund and amortize any actuarial deficiency over a period of not more than forty years in accordance with West Virginia State code §8-22-10.
Plan Members	7% of covered payroll
Period Required to Vest	No vesting occurs. If separation from employment occurs the member is entitled to a refund of his/her contributions only.
Post-Retirement Benefit Increases	Cost of living adjustment after two years of retirement. Adjustment calculated on the first \$15,000 of the total annual benefit in the first year and then the cumulative index for the preceding year. The supplemental pension benefit shall not exceed four percent.
Eligibility for Distribution	20 years of credited service or age 65; whichever comes first. Must be at least age 50.
Provisions for: Disability Benefits	Yes
Death Benefits	Yes

Municipality of Charles Town, West Virginia  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2017

**NOTE 11: EMPLOYEES' RETIREMENT SYSTEM AND PLAN (continued)**

Actuarial Assumptions and Rate of Return

The total pension liability was determined by an actuarial valuation as of July 1, 2016, and projected to the measurement date of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement. The actuarial assumptions used in the valuation were based on the results of an actuarial experience study for the period July 1, 2009, through June 30, 2014. Additional actuarial assumptions are disclosed in the Required Supplementary Information.

Actuarial Assumptions	
Inflation Rate	2.75%
Wage Inflation	1% plus
Investment Rate of Return	5.00%

Mortality rates were as follows: Active: RP-2014 Blue Collar Healthy Employee; Post-Retirement: RP-2014 Blue Collar Healthy Annuitant; Disabled: RP-2014 Blue Collar Healthy Annuitant set forward four years. These incorporate generational mortality improvement using MP-2014 two-dimensional mortality improvement scales.

Rate of Return

For the year ended June 30, 2017, the annual money-weighted rate of return on pension plan investments (excluding cash equivalents), net of pension plan investment expense was 5.05%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

The long-term expected rate of return on pension plan investments and target asset allocation as of June 30, 2017, are summarized in the following chart:

Asset Class	Target Allocation	Expected Annualized Return
U.S. Large Cap Growth	10.00%	5.90%
U.S. Large Cap Value	10.00%	5.90%
U.S. Mid Cap	5.00%	5.90%
U.S. Small Cap	3.00%	5.90%
International Developed Equity	4.00%	6.50%
Emerging Markets Equity	3.00%	5.70%
U.S. Treasury Bonds	30.00%	2.70%
U.S. Investment-Grade Corporate Bonds	30.00%	3.10%
Cash	5.00%	2.00%
	<u>100.00%</u>	

Municipality of Charles Town, West Virginia  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2017

**NOTE 11: EMPLOYEES' RETIREMENT SYSTEM (continued)**

**Policemen's Pension and Relief Fund (continued)**

**Net Pension Liability, Reserves and Discount Rate**

The current year net pension liability is shown below. The annual required contributions were made in accordance with State Code.

**Reserves**

There are no assets legally reserved for purposes other than the payment of plan members benefits.

**Net Pension Liability**

The Municipality's net pension liability is as follows:

Total pension liability	\$1,462,623
Plan fiduciary net position	<u>(506,743)</u>
Net pension liability	<u><u>\$ 955,880</u></u>
Plan fiduciary net position as a percentage of the total pension liability	34.65%

**Discount Rate**

The discount rate used to measure the total pension liability was 5.00% and the municipal bond rate used was 3.56%. The projection of cash flows used to determine these discount rates assumed that the plans sponsor would make the statutory required contribution as defined by the funding policy. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the single discount rate of 5.00% was 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% lower or 1% higher than the current rate:

	1% Decrease 4.00%	Current Discount Rate 5.00%	1% Increase 6.00%
PPRF's net pension liability	<u><u>\$1,109,573</u></u>	<u><u>\$955,880</u></u>	<u><u>\$ 825,977</u></u>

Municipality of Charles Town, West Virginia  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2017

**NOTE 12: RETIREE HEALTH PLAN (RHP)**

**Plan Description**

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

**Corporation Establishing the Plan and Funding Policy**

Chapter 5, Article 16D of the West Virginia State Code requires the West Virginia Health Benefits Trust to establish and amend benefits and provisions to the RHBT. Participating employers are contractually required to contribute at a rate assessed each year by the RHBT. The RHBT board sets the employers contribution rate based on the annual required contributions (ARC) of the plan, an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board (GASB) Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years.

The Municipality has elected not to accrue the annual OPEB cost and related liability beginning July 1, 2010, which is required under U.S. generally accepted accounting principles. The effect of this on the financial statements has not been determined.

**NOTE 13: RISK MANAGEMENT**

The Municipality 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 umbrella (general liability) insurance for these various risks.

The Municipality provides insurance coverage to employees for job-related injuries through Brickstreet Mutual Insurance Company and offers health insurance to all eligible employees through Public Employees Insurance Agency (PEIA).

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

**NOTE 14: COMMITMENTS AND CONTINGENCIES**

**Litigation**

The Municipality is routinely a party to various legal proceedings which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the Municipality, when considered in relation to insurance coverage in force.

**Federal and State Grants**

In the normal course of operations, the Municipality receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as a result of these audits is not believed to be material.



Municipality of Charles Town, West Virginia  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2017

**NOTE 15: CHARLES WASHINGTON HALL HISTORIC TAX CREDITS**

Improvements made to the Charles Washington Hall facility represent qualified rehabilitation expenditures for purposes of claiming Federal And State Historic Tax Credits. The Federal and State Historic Tax Credits represent 20% and 10% of qualified rehabilitation expenditures, respectively. Because the Municipality and Charles Town Building Commission are tax exempt entities, the Municipality entered into a partnership, Charles Washington Hall Landlord, LLC, with a private investor to enable the Building Commission to receive a financial benefit from the federal tax credits. Tax credits were sold at a discount to the private investor through Charles Washington Hall Landlord, LLC, and the Building Commission, as the property owner and developer, is due a \$718,616 developer fee from the partnership. The developer fee has not been paid as of June 30, 2017 and is contingent on Charles Washington Hall Landlord, LLC cash flows as defined by the Charles Washington Hall Landlord, LLC operating agreement. The Building Commission received, through a wholly owned Municipal entity (Charles Washington Hall Manager, LLC), \$395,717 from the sale of State Historic Tax Credits during the year ended June 30, 2017.

Both the developer fee and the proceeds from the sale of state tax credits were offset against the book value of the Charles Washington Hall facility.

There are various rights and restrictions contained in lease agreements, operating agreements, a developer agreement, contribution agreements, and other agreements that pertain to the leasing operations of Charles Washington Hall during the existence of Charles Washington Hall Landlord, LLC which is generally for a 40 year period.

**NOTE 16: PRIOR PERIOD ADJUSTMENT**

The following prior period adjustment was made to fund balance/net position at July 1, 2016.

	Governmental Funds		
	General	Parks and Recreation	Governmental Activities
Fund Balance/net position, as originally stated	\$626,221	\$ 20,272	\$ 8,206,356
Add:			
Correction of accrued salaries at June 30, 2016	78,977	10,324	89,301
Fund Balance/net position, as restated	<u>\$705,198</u>	<u>\$ 30,596</u>	<u>\$ 8,295,657</u>

Municipality of Charles Town, West Virginia  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2017

**NOTE 17: FUND BALANCE**

Fund balance is classified as nonspendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the Municipality is bound to observe constraints imposed upon the use of the resources in governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balance	General	Coal Severance	Capital Reserve Fund	Sales Tax Fund	Residual Fund	Bond Escrow Fund	Other
<b>Nonspendable:</b>							
Prepayments	\$ 10,425	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Restricted for:</b>							
Law enforcement	-	-	-	-	-	-	476,239
<b>Committed for:</b>							
Capital outlays/debt service on capital projects	-	-	1,783,219	1,375,061	1,381,006	-	-
<b>Assigned for:</b>							
Carryover in fiscal year June 30, 2018 budget	1,182,779	-	-	-	-	-	-
General government operations/ capital outlay	-	21,833	-	-	-	364	-
Parks and recreation operations/ capital outlay	-	-	-	-	-	-	35,467
Community development	-	-	-	-	-	-	62,145
Law enforcement	-	-	-	-	-	-	1,730
<b>Total fund balance</b>	<b>\$1,193,204</b>	<b>\$ 21,833</b>	<b>\$ 1,783,219</b>	<b>\$1,375,061</b>	<b>\$1,381,006</b>	<b>\$ 364</b>	<b>\$575,581</b>

**NOTE 18: SUBSEQUENT EVENTS**

The Municipality has evaluated all subsequent events through March 30, 2018, the date the financial statements were available to be issued. The Municipality has determined there are no additional subsequent events that require recognition or disclosure.

Municipality of Charles Town, West Virginia  
**SCHEDULE OF THE MUNICIPALITY'S PROPORTIONATE SHARE OF THE COLLECTIVE NET PENSION LIABILITY**  
June 30, 2017

Public Employees Retirement System Last 10 Fiscal Years				
	2017	2016	2015	2014
Municipality's proportionate share of the net pension liability (%)	.130821%	.123718%	.120059%	.116021%
Municipality's proportionate share of the net pension liability (\$)	\$ 1,202,400	\$ 690,846	\$ 443,096	\$ 1,057,685
Municipality's covered payroll	\$ 1,802,696	\$ 1,593,143	\$ 1,606,497	\$ 1,559,979
Municipality's proportionate share of net pension liability as a % of its covered payroll	66.70%	40.80%	27.58%	67.80%
Plan fiduciary net position as a percentage of the total pension liability	86.11%	91.29%	93.98%	79.70%

Note: This data will be presented prospectively until ten years is accumulated.  
The amounts presented for each fiscal year were determined as of June 30th.

Municipality of Charles Town, West Virginia  
**SCHEDULE OF THE MUNICIPALITY'S PENSION PLAN CONTRIBUTIONS**  
June 30, 2017

	Public Employees Retirement System Last 10 Fiscal Years						
	2017	2016*	2015	2014	2013	2012	2011
Contractually required contribution	\$ 200,531	\$ 243,364	\$ 237,040	\$ 232,942	\$ 218,397	\$ 222,826	\$ 189,161
Contributions in relation to the contractually required contribution	(200,531)	(243,364)	(237,040)	(232,942)	(218,397)	(222,826)	(189,161)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Authority's covered payroll	\$ 1,671,092	\$ 1,802,696	\$ 1,693,143	\$ 1,606,497	\$ 1,559,979	\$ 1,536,731	\$ 1,513,288
Contributions as a percentage of covered payroll	12.0%	13.5%	14.0%	14.5%	14.0%	14.5%	12.5%

Note: This data will be presented prospectively until ten years is accumulated.  
The amounts presented for each fiscal year were determined as of June 30th.

\*Amended

Municipality of Charles Town, West Virginia  
**POLICEMEN'S PENSION AND RELIEF FUND SUPPLEMENTARY INFORMATION**  
For the Fiscal Year Ended June 30, 2017

**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS**

	2017	2016	2015	2014
<b>Total pension liability</b>				
Service cost	\$ -	\$ -	\$ -	\$ -
Interest on total pension liability	72,157	73,313	74,674	76,052
Difference between expected and actual experience	(8,200)	9,315	6,054	-
Assumption changes	-	152,520	-	-
Benefits payments	(105,358)	(109,553)	(107,918)	(106,408)
Net change in total pension liability	(41,401)	125,595	(27,190)	(30,356)
Total pension liability - beginning	1,504,024	1,378,429	1,405,619	1,435,975
Total pension liability - ending (a)	\$ 1,462,623	\$ 1,504,024	\$ 1,378,429	\$ 1,405,619
<b>Plan fiduciary net position</b>				
Contributions - employer	\$ 98,049	\$ 85,871	\$ 93,468	\$ 111,388
Contributions - members	-	-	-	-
Net investment income	17,191	5,562	6,065	19,050
Benefit payments	(105,358)	(109,553)	(107,918)	(106,408)
Administrative expenses	(4,793)	(2,478)	(4,056)	(3,145)
Other	11,119	5,390	-	5,680
Net change in plan fiduciary net position	16,208	(15,208)	(12,441)	26,565
Plan fiduciary net position - beginning	490,535	462,469	474,910	448,345
Plan fiduciary net position - ending (b)	\$ 506,743	\$ 447,261	\$ 462,469	\$ 474,910
Net pension liability - ending (a) - (b)	\$ 955,880	\$ 1,056,763	\$ 915,960	\$ 930,709
Plan fiduciary net position as a percentage of the total pension liability	34.65%	29.74%	33.55%	33.79%
Covered employee payroll	\$ -	\$ -	\$ -	\$ -
Net pension liability as a percentage of covered employee payroll	N/A	N/A	N/A	N/A

Only four years are presented due to the availability of the information. The application of the reporting requirements will be prospective to cover ten years.

**SCHEDULE OF INVESTMENT RETURNS**

	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense (excluding cash equivalents)	5.05%	1.06%	1.50%	7.97%

Only four years are presented due to the availability of the information. The application of the reporting requirements will be prospective to cover ten years.

Municipality of Charles Town, West Virginia  
**POLICEMEN'S PENSION AND RELIEF FUND SUPPLEMENTARY INFORMATION (continued)**  
For the Fiscal Year Ended June 30, 2017

**SCHEDULE OF CONTRIBUTIONS (MULTI-YEAR)**

	2017	2016	2015	2014	2013
Actuarially determined contribution (a)	\$ 98,048	\$ 85,057	\$ 86,746	\$ 112,230	\$ 124,337
Employer contribution (b)	83,965	73,086	79,204	100,741	110,655
State contribution (c)	14,084	12,785	14,264	10,647	15,148
Percentage contributed [(b)+(c)]/(a)	100%	101%	108%	99%	101%
Covered payroll (f)	\$ -	\$ -	\$ -	\$ -	\$ -
Actual contribution as a percent of covered payroll [(b)+(c)]/(f)	N/A	N/A	N/A	N/A	N/A

Only five years are presented due to the availability of the information. The application of the reporting requirements will be prospective to cover ten years.

**NOTES TO SCHEDULES**

Significant Actuarial Assumptions

The actuarial assumptions and other information used to determine the annual required contributions are as follows:

Measurement date	June 30, 2017 measurement date based on actuarial liabilities as of July 1, 2016
Actuarial cost method	Entry age normal, level-percentage-of-pay
Actuarial value of assets	Market value used for GASB Nos. 67 and 68 reporting
Contribution policy and amortization method	The sponsor finances benefits using the standard funding policy as defined in state statutes. Sponsor contributions are equal to the normal cost, net of employee contributions, plus amortization of the unfunded actuarial liability, net of the premium tax allocation applicable to the plan year. The amortization is based on a 40-year closed amortization period, commencing on July 1, 1991, with level dollar payments. The plan also receives state contributions based on an allocation of premium tax that depends on the number of active and retired members. Projected sponsor, state and member contributions along with projected investment earnings are expected to fully fund the projected actuarial liability for current plan members by 2031.
Actuarial assumptions:	
Investment rate of return	5.00% per year
GASB 67/68 discount rate	5.0% per year at June 30, 2017 and 5.0% at June 30, 2016
Projected salary increases	Service-based increases: 20.0% in year 1, 6.5% in year 2, reducing over years of service down to 1.25% in year 30 - 34.0% increases for service over 34
Cost of living increases	2.75% on first \$15,000 of annual benefit and on the accumulated supplemental pension amounts for prior years

Municipality of Charles Town, West Virginia  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended June 30, 2017

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<b>Direct Funding:</b>		
<b>U.S. Department of Agriculture</b>		
Community Facilities Loans and Grants	10.766	\$ 711,386
<b>Environmental Protection Agency</b>		
Brownsfield Assessment and Cleanup Cooperative Agreements	66.818	385,405
<b>National Endowment of Arts</b>		
Our Town Grant	45.024	<u>50,000</u>
<b>Total</b>		<u><u>\$ 1,146,791</u></u>

Municipality of Charles Town  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year ended June 30, 2017

**NOTE A - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Municipality of Charles Town under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Municipality of Charles Town, it is not intended to and does not present either the financial position or changes in net assets of the Municipality of Charles Town.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the cash basis of accounting which is a financial framework other than U.S. Generally Accepted Accounting Principles (accrual basis). Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE C - PASS-THROUGH ENTITIES**

All federal awards are received directly from federal agencies therefore there are no pass-through entities.

**NOTE D - INDIRECT COST RATE**

The Municipality of Charles Town has elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance. The Municipality does not charge indirect expenses to federal grants.



Municipality of Charles Town, West Virginia  
**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS**  
June 30, 2017

	Parks and Recreation Fund	Community Development Fund	Law Enforcement Fund	Totals
<b>ASSETS</b>				
Cash	\$ 43,333	\$ 62,145	\$ 1,730	\$ 107,208
Restricted cash	-	-	476,239	476,239
Due from other funds	-	-	-	-
Total assets	<u>\$ 43,333</u>	<u>\$ 62,145</u>	<u>\$ 477,969</u>	<u>\$ 583,447</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 2,715	\$ -	\$ -	\$ 2,715
Other accrued expenses	5,151	-	-	5,151
Total liabilities	<u>7,866</u>	<u>-</u>	<u>-</u>	<u>7,866</u>
Fund balances:				
Nonspendable	-	-	-	-
Restricted	-	-	476,239	476,239
Committed	-	-	-	-
Assigned	35,467	62,145	1,730	99,342
Unassigned	-	-	-	-
Total fund balances	<u>35,467</u>	<u>62,145</u>	<u>477,969</u>	<u>575,581</u>
Total liabilities and fund balances	<u>\$ 43,333</u>	<u>\$ 62,145</u>	<u>\$ 477,969</u>	<u>\$ 583,447</u>

Municipality of Charles Town, West Virginia  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**NONMAJOR GOVERNMENTAL FUNDS**  
For the year ended June 30, 2017

	Parks and Recreation Fund	Community Development Fund	Law Enforcement Fund	Totals
<b>REVENUES</b>				
Grants and contributions	\$ 4,000	\$ -	\$ -	\$ 4,000
Charges for services	56,774	-	-	56,774
Interest	45	31	434	510
Confiscated property	-	-	302,328	302,328
Other	-	-	2,040	2,040
Total revenues	<u>60,819</u>	<u>31</u>	<u>304,802</u>	<u>365,652</u>
<b>EXPENDITURES</b>				
General government	-	-	-	-
Public safety	-	-	1,768	1,768
Streets and transportation	-	-	-	-
Culture and recreation	174,235	-	-	174,235
Social services	-	-	-	-
Total expenditures	<u>174,235</u>	<u>-</u>	<u>1,768</u>	<u>176,003</u>
Excess (deficiency) of revenues over expenditures	<u>(113,416)</u>	<u>31</u>	<u>303,034</u>	<u>189,649</u>
Other financing sources (uses):				
Transfers from other funds	118,287	-	-	118,287
Transfer to other funds	-	-	-	-
Total other financing sources (uses)	<u>118,287</u>	<u>-</u>	<u>-</u>	<u>118,287</u>
Net change in fund balance	<u>4,871</u>	<u>31</u>	<u>303,034</u>	<u>307,936</u>
Fund balance at beginning of year, as adjusted	<u>30,596</u>	<u>62,114</u>	<u>174,935</u>	<u>267,645</u>
Fund balance at end of year	<u>\$ 35,467</u>	<u>\$ 62,145</u>	<u>\$ 477,969</u>	<u>\$ 575,581</u>



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

March 30, 2018

Municipality of Charles Town  
Jefferson County  
101 East Washington Street  
Charles Town, WV 25414

To the Members of Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the **Municipality of Charles Town, West Virginia (the Municipality)** as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated March 30, 2018.

***Internal Control Over Financial Reporting***

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2017-001 to be a material weakness.

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***Compliance and Other Matters***

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

We did note a certain matter not requiring inclusion in this report that we reported to the Municipality's management in a separate letter dated March 30, 2018.

***Municipality's Response to Findings***

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

***Purpose of this Report***

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



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



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

March 30, 2018

Municipality of Charles Town  
Jefferson County  
101 East Washington Street  
Charles Town, WV 25414

To the Members of Council:

***Report on Compliance for the Major Federal Program***

We have audited the **Municipality of Charles Town**, West Virginia (the Municipality) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the Municipality's major federal program for the year ended June 30, 2017. The *Summary of Audit Results* in the accompanying schedule of audit findings identifies the Municipality's major federal program.

***Management's Responsibility***

The Municipality's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

***Auditor's Responsibility***

Our responsibility is to opine on the Municipality's compliance for the Municipality's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Municipality's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the Municipality's major program. However, our audit does not provide a legal determination of the Municipality's compliance.

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***Opinion on the Major Federal Programs***

In our opinion, the Municipality complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2017.

***Report on Internal Control Over Compliance***

The Municipality's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the Municipality's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Municipality's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



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

**Municipality of Charles Town, West Virginia**  
**Schedule of Audit Findings**  
**2 CFR § 200.515**  
**For the Year Ended June 30, 2017**

**1. SUMMARY OF AUDIT RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Qualified for Governmental Activities, Discretely Presented Component Units and General Fund. Unmodified for Capital Reserve Fund, Residual Fund, Sales Tax Fund, Bond Escrow Fund, and Aggregate remaining Fund Information.
<b>(d)(1)(ii)</b>	<b>Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material weaknesses in internal control reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other significant deficiencies in internal control reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unmodified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under 2 CFR § 200.516(a)?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Community Facilities Loans and Grants CFDA# 10.766
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A\B Programs</b>	Type A: > \$ 750,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee under 2 CFR §200.520?</b>	No

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**FINDING NUMBER 2017-001**

**Material Weakness**

**OPEB Liability**

The Municipality has elected not to record the 2017 OPEB expense that, in our opinion, should be recorded in order to conform with accounting principles generally accepted in the United States of America. If the OPEB expense was recorded, OPEB liability would increase \$33,012, and net position would decrease by \$33,012 as of June 30, 2017. Additionally, expenses would increase by \$33,012 for the year ending June 30, 2017.

**Municipality of Charles Town, West Virginia**  
**Schedule of Audit Findings**  
**2 CFR § 200.515**  
**For the Year Ended June 30, 2017**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS</b> <b>REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2017-001 (Continued)**

**Material Weakness (Continued)**

**OPEB Liability (Continued)**

In addition the Municipality has elected not to record previous periods' OPEB expense that, in our opinion, should be recorded in order to conform with accounting principles generally accepted in the United States of America. If the previous OPEB expense was recorded the OPEB liability would be \$1,042,016 as of June 30, 2017.

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

In addition the Utility Board has elected not to record previous periods OPEB expense that, in our opinion, should be recorded in order to conform with accounting principles generally accepted in the United States of America. If the previous OPEB expense was recorded the OPEB liability would be \$754,041 as of June 30, 2017.

<b>3. FINDINGS FOR FEDERAL AWARDS</b>
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None.



**MUNICIPALITY OF CHARLES TOWN  
JEFFERSON COUNTY**

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

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

**MUNICIPALITY OF CHARLES TOWN  
JEFFERSON COUNTY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**CORRECTIVE ACTION PLAN  
2 CFR § 200.515**

<b>Finding Number</b>	<b>Planned Corrective Action</b>	<b>Anticipated Completion Date</b>	<b>Responsible Contact Person</b>
2017-001	<p>The Management of City of Charles Town acknowledges that the financial statements have the OPEB departure consistent with the Charles Town Utility Board. Management is also aware that the standard for OPEB is changing. Going forward, the liability will be evaluated in conjunction with the Charles Town Utility Board to determine the effects of OPEB compliance with generally accepted accounting principles and taken into consideration at 06/30/2018.</p> <p>The Charles Town Utility Board acknowledged that the financial statements have the OPEB departure. For the audit period, this utility was regulated by the West Virginia Public Service Commission (WV PSC) and their policy is to disallow the unpaid OPEB. Going forward, the Utility Board is likely to be no longer regulated by the WV PSC and this liability will be reviewed and evaluated to determine compliance with generally accepted accounting principles.</p>	June 30, 2018	Tina Burke, Accounting Manager.