

**PARKERSBURG UTILITY BOARD
PARKERSBURG, WEST VIRGINIA**

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2016

WITH

INDEPENDENT AUDITOR'S REPORT

**PARKERSBURG UTILITY BOARD
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YEAR ENDED JUNE 30, 2016**

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**PARKERSBURG UTILITY BOARD
BOARD MEMBERS
YEAR ENDED JUNE 30, 2016**

Position	Name	Term
Board Members		
Chairman	James E. Colombo	06/19/2015 - 01/04/2017
Vice Chairman	John S. Lutz	05/25/2016 - 05/24/2020
Member	Edward C. Glasser	02/15/2010 – 06/30/2016
Member	Gregory L. Herrick, PE	05/25/2015 - 05/24/2019
Member	Paul C. Hoblitzell III	05/23/2013 - 05/22/2017
Administrative		
Manager	Eric Bennett	
Comptroller	Erin Hall	

INDEPENDENT AUDITOR'S REPORT

To the Board Members
Parkersburg Utility Board
Parkersburg, West Virginia

Report on the financial statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the Parkersburg Utility Board (the Utility Board), a component unit of the City of Parkersburg, West Virginia, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Utility Board's basic financial statements as listed in the table of contents.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the Parkersburg Utility Board as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Required supplementary information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages six through twenty and the schedule of the proportionate share of the net pension liability, schedule of contributions, schedule of changes in the net pension liability and related ratios - Waterworks Pension Fund, schedule of investment returns - Waterworks Pension Fund, schedule of contributions - Waterworks Pension Fund, and the related notes to required supplementary information on pages sixty-one through sixty-six be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2016, on our consideration of the Parkersburg Utility Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Parkersburg Utility Board's internal control over financial reporting and compliance.



Parkersburg, West Virginia
December 11, 2016

**PARKERSBURG UTILITY BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

INTRODUCTION

The Parkersburg Utility Board (the Utility Board) was created in 1996 in response to a vote of the citizens of the City of Parkersburg regarding the mode of management they preferred for operation and maintenance of a combined water and sanitary sewer utility. Prior to 1996, Parkersburg's water system had been operated as a department of the City. The sanitary sewer system had functioned under the guidance of a Sanitary Board from the mid 1950s. The Utility Board is comprised of the Mayor of Parkersburg who serves as Chairman of the Board, and four citizens of Parkersburg appointed by City Council with staggered four year terms on the Utility Board.

Both the water and sanitary sewer systems in Parkersburg date back to the late 1800s. Prior to the Utility Board, there had been capital improvements done over the years in both systems, but those had not kept pace with the needs in the two systems. There had been no on-going renewal and replacement program in either system for decades. One of the early actions taken by the Utility Board was to select engineering firms to perform an engineering evaluation of each system and to provide a report on each. Each report was to detail existing conditions and was to provide recommendations for addressing improvements in each of the systems.

A Comprehensive Water System Evaluation dated December 1997 and revised July 1998 was prepared by Burgess & Niple. The report recommended four phases of water system improvements totaling \$18,469,700, based on mid-1998 cost indices.

A report titled Wastewater System Evaluation and Recommendations dated April 1998 was prepared by Strand Associates, Inc. This report recommended capital improvements totaling \$52,657,000, based on first quarter 1998 dollars.

As with any infrastructure, conditions and needs are ever changing and the comprehensive engineering reports are updated every two to three years to accommodate the changing needs of the systems, as well as the need to comply with increasing regulatory requirements.

The Parkersburg Utility Board has worked diligently to properly expend utility revenues to repair, reconstruct or improve the water and sanitary sewer systems of the City of Parkersburg. Since 1996, the Utility Board has expended \$81,423,706 on major capital improvements to the sanitary sewer system. This includes a major upgrade to the Waste Water Treatment Plant (WWTP) at a cost of \$48,240,617. The Utility Board also has expenditures totaling \$22,215,442 for major improvements and additions to the water system.

There is still much work to be completed, the most daunting of which in the sanitary sewer system is the requirement to eliminate all wet weather related overflows by October 2020, while still maintaining a system that ranges from 50 to 120 years old. The Utility Board is under an Administrative Order from the West Virginia Department of Environmental Protection that requires certain milestones be met, which includes the elimination of all overflows. Major upgrades at two of the major pumping stations have been completed. This project allows the stations to pump wet weather flows to the treatment plant and reduce sanitary sewer overflows from the collection system. A project to remove the rotating biological contactors and replace them with additional secondary clarification and digestion was considered substantially complete by mid-2016. This project was necessary to maintain the WWTP's current capacity and retire equipment that has exceeded its useful life.

**PARKERSBURG UTILITY BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

(Continued)

There is ample work that remains to be completed with the most prevalent in the water system being the replacement of the aging water lines. Even with the recently completed water improvement project there still remains many thousands of feet of small diameter galvanized steel water mains that are in dire need of replacement along with the cast iron water mains that range from 50 to 120 years old. However, it has been assumed that with the improvements maintenance needs will be reduced allowing Utility Board staff to begin a more aggressive in-house waterline replacement program. It will also be necessary to replace the existing pneumatic butterfly valves for the eight filters at the Water Treatment Plant (WTP). The current operational state of these valves creates problems in the daily operations. As energy costs and the age of the high service pumps continue to increase it could be advantageous to pursue a more energy efficient option to the current 2300 volt split case pumps.

Since the Utility Board's creation in 1996, great emphasis has been placed on expending funds wisely to properly maintain and improve the water and sanitary sewer infrastructure of Parkersburg. The Utility Board believes that it is imperative that these utilities be adequately funded to allow for the wise and effective operation, maintenance, and improvement of this vital infrastructure for the community and the environment. The lack of adequate funding leads to unsound maintenance practices that will result in poorly maintained systems that could act as a deterrent to economic development in the future.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements present two types of funds, proprietary and fiduciary. The Parkersburg Utility Board operates the Wastewater and Water Utilities of the City of Parkersburg as a proprietary fund and they are reported on the accrual basis of accounting. The Utility Board also maintains a Waterworks Pension Plan, a fiduciary fund, for six former employees and/or spouses of the Waterworks department of the City of Parkersburg.

The basic financial statements include four components:

Statement of net position – presents information on assets, deferred outflows, liabilities, deferred inflows, and net position

Statement of revenues, expenses, and changes in net position – operating and nonoperating revenues and expenditures and capital contributions are reported on this statement

Statement of cash flows – reports cash receipts, cash payments, net changes in cash from operations, non-capital financing, capital financing, and investing activities

Notes to the financial statements – provides additional information that is essential to fully understand the data provided in the financial statements

**PARKERSBURG UTILITY BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

(Continued)

FINANCIAL HIGHLIGHTS – COMBINED UTILITY

	2016	2015	Increase (Decrease)	% Change
ASSETS				
Cash and cash equivalents	\$ 7,732,065	\$ 7,864,541	\$ (132,476)	-1.68%
Accounts receivable, net	1,682,814	1,790,827	(108,013)	-6.03%
Bond proceeds receivable	217,185	-	217,185	0.00%
Inventories	355,875	348,675	7,200	2.06%
Other current assets	136,150	66,714	69,436	104.08%
Total current assets	10,124,089	10,070,757	53,332	0.53%
Restricted cash and cash equivalents	12,784,112	16,572,681	(3,788,569)	-22.86%
Capital assets, net	111,235,987	107,822,966	3,413,021	3.17%
Total non-current assets	124,020,099	124,395,647	(375,548)	-0.30%
Total assets	\$ 134,144,188	\$ 134,466,404	\$ (322,216)	-0.24%
DEFERRED OUTFLOWS				
Deferred outflows of resources related to pension	\$ 769,083	\$ 491,352	\$ 277,731	56.52%
Total deferred outflows	\$ 769,083	\$ 491,352	\$ 277,731	56.52%

Major changes in the Proprietary Fund Net Position between fiscal years June 30, 2016 and June 30, 2015 are in cash and cash equivalents, accounts receivable, bond proceeds receivable, and capital assets.

Cash and cash equivalents – restricted and non-restricted - Non-restricted cash and cash equivalents decreased by \$132,476 and restricted cash and equivalents decreased by \$3,788,569 compared to fiscal year 2015.

The capital account for water increased \$485,849 from the previous fiscal year. In fiscal year 2012, the water utility initiated setting aside \$0.50 per month per customer for the maintenance of water reservoirs. During this fiscal year, \$96,329 was deposited into the capital fund for this purpose. In August of this year, the 2006C water bond was refunded creating \$387,787 in savings that was deposited into the water capital account.

**PARKERSBURG UTILITY BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

(Continued)

The sewer utility capital reserve account decreased by \$363,890. During fiscal year 2016, \$845,000 was withdrawn for Sewer Collection System Improvements engineering fees and interceptor lining projects. Interest income for the year was \$32,386. In August of this year, the 2005A sewer bond was refunded creating \$448,724 in savings that was deposited into the sewer capital account. Over the next two years the Utility Board expects to withdraw approximately \$4.7 million from this account for sewer system improvements.

Sanitary Sewer System Overflow (SSO) account and depreciation accounts for water and sewer increased by \$1,035,107 over the prior year. Bond ordinances require deposits into depreciation accounts at 5% of revenue and the sewer tariff requires deposit into the sewer SSO account of \$1 per customer per month. Withdrawals are permitted from the depreciation accounts for capital spending and from the SSO account for sewer system overflow improvement projects. For fiscal year 2016, no withdraws were made from the accounts. Deposits into these accounts were \$1,013,680 and interest income was \$21,427.

The Utility Board refunded two public bonds in 2016. The new issues are not required to carry a reserve fund balance. Accordingly, bond reserve accounts decreased by \$4,234,265 in this fiscal year. Other changes to restricted cash were decreases in bond redemption funds of \$593,353 and an increase in customer deposits of \$3,942.

Accounts receivable (net of reserves) - Net accounts receivable decreased in fiscal year 2016 by \$108,013 or 6.03%. This was the result of lower unpaid billing of approximately \$71,000 in June 2016 compared to 2015, due to decreased volume for that month.

A half percent (.5%) of gross revenue is added to bad debt reserves each month. This provision to the allowance for doubtful accounts was \$73,158 in 2016. Recoveries were \$25,469 and accounts written off totaled \$79,578. The allowance for doubtful accounts is adequate to cover potential write-offs.

Capital assets (net) - Capital assets increased by a net of \$3,413,021 or 3.17% during fiscal year 2016. Capital spending increased assets by \$7,501,481. Major capital spending includes:

- \$5,048,165 - Wastewater Treatment Plant (WWTP) Phase II Upgrade
- \$869,960 - Wards Run Interceptor Lining
- \$178,667 - Customer Service Building and Improvements
- \$827,494 - Routine upgrades to service lines, collecting mains, distribution mains and hydrants

The remaining balance of spending represents numerous projects. The provision for depreciation reduced assets by \$4,087,605. Also, assets were disposed of with a net book value of \$855.

**PARKERSBURG UTILITY BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

(Continued)

Deferred outflows - In fiscal year 2015, Governmental Accounting Standards Board (GASB) Statement No. 68 was adopted and implemented. GASB 68 created a pension liability and deferred outflows and inflows related to the pension contributions and investments held with the West Virginia Public Employee Retirement System (WVPERS). Employer pension contributions for 2016 were \$450,775.

	2016	2015	Increase (Decrease)	% Change
LIABILITIES				
Accounts payable / contracts payable	\$ 994,623	\$ 1,391,261	\$ (396,638)	-28.51%
Revenue bonds payable	4,416,724	4,740,487	(323,763)	-6.83%
Other current liabilities	4,078,764	4,106,494	(27,730)	-0.68%
Total current liabilities	9,490,111	10,238,242	(748,131)	-7.31%
Revenue bonds payable	56,863,984	59,900,352	(3,036,368)	-5.07%
Net pension liability	1,412,645	919,585	493,060	53.62%
Other non-current liabilities	247,015	524,475	(277,460)	-52.90%
Total non-current liabilities	58,523,644	61,344,412	(2,820,768)	-4.60%
Total liabilities	\$ 68,013,755	\$ 71,582,654	\$ (3,568,899)	-4.99%
DEFERRED INFLOWS				
Deferred inflows of resources related to pension	\$ 479,684	\$ 972,795	\$ (493,111)	-50.69%
Total deferred inflows	\$ 479,684	\$ 972,795	\$ (493,111)	-50.69%
NET POSITION				
Net investment in capital assets	\$ 49,955,279	\$ 43,182,127	\$ 6,773,152	15.69%
Restricted	11,959,317	15,500,027	(3,540,710)	-22.84%
Unrestricted	4,505,236	3,720,153	785,083	21.10%
Total net position	\$ 66,419,832	\$ 62,402,307	\$ 4,017,525	6.44%

Accounts payable - A decrease of \$396,638 in accounts payable resulted primarily from the difference in unpaid capital spending at the end of each fiscal year. Unpaid invoices related to capital spending were \$1,106,313 at the end of 2015 compared to unpaid capital invoices, primarily for the WWTP Phase II Upgrade, in the amount of \$689,657 at the end of 2016. Operation and maintenance unpaid expenses at the end of fiscal year 2016 increased by \$20,018.

**PARKERSBURG UTILITY BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

(Continued)

Revenue bonds payable current and long-term - Bonds payable both current and long-term decreased by \$3,893,813 or 6.03%. Proceeds from the 2014B bond for the WWTP Phase II Upgrade project were \$5,591,675. Principal payments for all bonds were \$3,410,488. The refunding of the 2005A and 2006C bonds for the 2015A and 2015B bonds decreased revenue bonds payable by \$6,075,000.

Status of revenue bonds issued for both utilities is:

	Cumulative Total Bond	June 30, 2016	June 30, 2015
2003A Water WV Infrastructure Jobs Council	\$ 4,000,000	\$ 1,890,552	\$ 2,096,648
2003B Water WV Water Development Authority	3,250,000	1,657,514	1,822,826
2003D Sewer WV Infrastructure Jobs Council	926,000	449,725	497,081
2003E Sewer WV State Revolving Fund	4,326,705	2,051,203	2,270,444
2005A Sewer Public Bond Issue	34,950,000	-	22,535,000
2006C Water Public Bond Refunding of 1996 Bond	17,425,000	-	8,895,000
2006D Sewer WV State Revolving Fund	9,000,000	6,525,000	6,825,000
2006E Sewer WV State Revolving Fund	4,175,342	3,045,733	3,191,489
2011A Water DWTRF Revolving Fund	5,800,000	4,944,545	5,195,086
2012A Sewer SRF Revolving Fund	5,731,700	4,943,592	5,230,177
2014A Equipment Financing	715,513	495,920	635,521
2014B Sewer WV Infrastructure Jobs Council	12,676,820	10,935,132	5,343,457
2015A Sewer Public Bond Refunding 2005A	17,905,000	17,905,000	-
2015B Water Public Bond Refunding 2006C	5,800,000	5,800,000	-
Total bond issues	<u>126,682,080</u>	<u>60,643,916</u>	<u>64,537,729</u>
Unamortized debt premium	<u>-</u>	<u>636,792</u>	<u>103,110</u>
Total all outstanding bond issues	<u>\$ 126,682,080</u>	<u>\$ 61,280,708</u>	<u>\$ 64,640,839</u>

The Combined Revenue Bonds 2003A funded by Infrastructure Jobs Development Council (IJDC) and 2003B funded by the Water Development Authority (WDA) closed March 3, 2003 and financed the capital improvements for the Phase I Water system improvements. Payments of principal for 2016 were \$206,096 and \$165,312 respectively.

The Combined Revenue Bonds 2003D funded by Infrastructure Jobs Development Council (IJDC) and 2003E funded by the West Virginia State Revolving Fund (SRF) closed on August 4, 2004 and funded sewer system improvements. Both issues were funded on a draw down basis with no debt service during the year of construction. Principal payments were made in 2016 of \$47,356 and \$219,241 respectively.

**PARKERSBURG UTILITY BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

(Continued)

The Combined Revenue Bond 2005A is a public bond issue and substantially financed the wastewater plant upgrade project, including refinancing of the engineering design 2003C bond. Principal payments for fiscal year 2016 were \$1,650,000. This bond was refinanced in August 2016 and replaced with Revenue Bond 2015A.

The Combined Revenue Bond 2006C is a public bond issue that refinanced the 1996 Combined Revenue Bond for the water utility. In August 2016 this bond was refinanced a second time and replaced with Revenue Bond 2015B.

The Combined Revenue Bond 2006D funded by the West Virginia State Revolving Fund (SRF) closed on December 14, 2006 and funded \$9,000,000 for the wastewater plant upgrade project. Principal payments for fiscal year 2016 were \$300,000. This bond was issued for 30 years at 0.0% interest plus an administration fee of 0.5%.

The Combined Revenue Bond 2006E funded by the West Virginia State Revolving Fund (SRF) closed on December 14, 2006 and funded \$4,175,342 for the 6th Street pump station and force main project. This project was completed in September 2009. Principal payments for fiscal year 2016 were \$145,756. This bond was issued for 30 years at 0.0% interest plus an administration fee of 0.5%.

The Combined Revenue Bond 2011A funded by the Drinking Water Treatment Revolving Fund (DWTRF) closed on March 16, 2011 and funded \$5,800,000 for the Phase II water system improvements project. Principal payments for fiscal year 2016 were \$250,541. This bond was issued for 20 years at 2.0% interest plus an administration fee of 1.0 %.

The Combined Revenue Bond 2012A funded by the West Virginia State Revolving Fund (SRF) closed on May 23, 2012 and funded \$5,731,700 for the 1st Avenue and Agnes Street pump stations and force main project, which was completed in fiscal year 2014. Principal payments for fiscal year 2016 were \$286,585. This bond was issued for 20 years at 0.0% interest plus an administration fee of 0.5 %.

The Combined Revenue Bond 2014A funded by Branch Banking & Trust Company (BB&T) closed on October 22, 2014 and funded \$715,513 for equipment purchases which included two backhoes, a sewer cleaner, a dump truck and three pickup trucks. This bond was fully drawn in fiscal year 2015. This bond was issued for 5 years at 1.76% interest. Principal payments for fiscal year 2016 were \$139,601.

The Combined Revenue Bond 2014B funded by Infrastructure Jobs Development Council (IJDC) closed on August 27, 2014 and funds the WWTP Phase II Upgrade project currently under construction. This \$12,676,820 bond is funded on a draw down basis with \$5,591,675 drawn for fiscal year 2016. This bond was issued for 20 years at 1.0% interest. Debt service payments will begin in fiscal year 2017.

The Combined Revenue Bond 2015A is a public bond issue that refinanced the 2005A Combined Revenue Bond for the sewer utility. This refunding did not extend the original payback period and cash flow savings of \$2,324,000 will be experienced over the life of the bond. No principal payments were made in fiscal year 2016.

**PARKERSBURG UTILITY BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

(Continued)

The Combined Revenue Bond 2015B is a public bond issue that refinanced the 2006C Combined Revenue Bond for the water utility. This refunding did not extend the original payback period and cash flow savings of \$553,000 will be experienced over the life of the bond. No principal payments were made in fiscal year 2016.

Net position - The Utility Board's net position improved over 2015 by \$4,017,525 to a total of \$66,419,832. Of this total \$49,955,279 was net investment in capital assets, \$11,959,317 restricted, and \$4,505,236 unrestricted.

DEBT ADMINISTRATION

The 2015B Revenue Bond requires a 1.20 combined (water and sewer) coverage ratio as do subsequent subordinate notes or bond issues on parity. The minimum debt coverage ratio has been met or exceeded. However, each utility is a standalone enterprise fund. Thus, sewer funds cannot be used for water expenses and vice versa. Accordingly, each utility must rationally meet the debt coverage ratio to be healthy.

Statement of Revenues, Expenses and Changes in Net Position
Enterprise Fund

	2016	2015	Increase (Decrease)	% Change
Operating income (expenses)				
Operating revenues				
Wastewater revenues	\$ 9,141,296	\$ 9,040,911	\$ 100,385	1.11%
Water revenues	7,422,750	7,589,018	(166,268)	-2.19%
Total operating revenues	16,564,046	16,629,929	(65,883)	-0.40%
Operating expenses				
Personal services	3,620,527	3,577,188	43,339	1.21%
Contractual services	37,860	24,009	13,851	57.69%
Administrative and general	633,599	606,180	27,419	4.52%
Materials and supplies	603,176	587,154	16,022	2.73%
Utilities	942,911	927,482	15,429	1.66%
Maintenance	1,495,944	1,757,448	(261,504)	-14.88%
Depreciation	4,087,605	4,168,840	(81,235)	-1.95%
Total operating expenses	11,421,622	11,648,301	(226,679)	-1.95%
Operating income	\$ 5,142,424	\$ 4,981,628	\$ 160,796	3.23%

**PARKERSBURG UTILITY BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

(Continued)

Operating revenue - Total operating revenues of \$16,564,046 decreased by \$65,883 or 0.40% from the prior fiscal year.

Compared to 2015, billed consumption decreased in the sewer utility by 4.99% and 4.26% for the water utility.

The second year of a four year step rate increase for the sewer utility was effective with the July 2015 billing. This increase will fund routine cost increases and the additional debt service for the WWTP Phase II upgrade project. The increase generated nearly \$375,000 in additional revenue. However, all of the revenue was not realized due to the continued decline in customer consumption. The water and sewer utilities accrued revenue at year end increased \$34,102.

The Utility Board treats the sewage for the City of Vienna and shares the cost of treatment pro-rata based on flow. Capital expenditures and debt service for sewer treatment facilities are also shared by the two municipalities. Vienna billed revenue decreased by \$104,930 or 11.14% compared to 2015. This decrease is the result of Vienna reducing their flows to the Utility Board by 4.98% over the prior year. Vienna's percent of the total plant flow went from 16.32% in 2015 to 14.74% in 2016.

Operating expenses - Operating and maintenance expenses, excluding depreciation, decreased from 2015 by \$145,444 or 1.94%. Lower depreciation expense of \$81,235 brought the change in total operating and maintenance expenses to a decrease of \$226,679.

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Detail personal costs				
Payroll costs	\$ 3,385,706	\$ 3,455,705	\$ (69,999)	-2.03%
Benefit costs	1,226,135	1,206,162	19,973	1.66%
ARC benefit costs unfunded	<u>185,402</u>	<u>174,375</u>	<u>11,027</u>	6.32%
Total payroll costs	4,797,243	4,836,242	(38,999)	-0.81%
Transferred to capital	(374,363)	(326,025)	(48,338)	14.83%
Transferred to maintenance/other	<u>(802,353)</u>	<u>(933,029)</u>	<u>130,676</u>	14.01%
Net personal cost	<u>\$ 3,620,527</u>	<u>\$ 3,577,188</u>	<u>\$ 43,339</u>	1.21%

Payroll and payroll associated costs decreased by \$69,999 or 2.03% compared to fiscal year 2015. The Utility Board implemented a 1.70% wage increase effective July 1, 2015 for all employees.

**PARKERSBURG UTILITY BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

(Continued)

Benefit costs increased by \$19,973 or 1.66% compared to 2015. Workers' Compensation decreased by \$1,603 and FICA decreased by \$6,763. West Virginia Public Employees Retirement rates decreased from 14.0% to 13.5% of payroll. With the implementation of GASB 68 in fiscal year 2015, pension contributions are reclassified to deferred outflows. Pension expense for 2016 increased by \$66,633 compared to 2015. Health insurance rates decreased by approximately 3% in 2016 and the net cost was less than 2015 by \$38,294. To partially offset rising health insurance cost, the Utility Board raised the employee contribution toward health insurance in 2010 and again in 2011 fiscal years.

ARC expense increased by \$11,027 or 6.32% in fiscal year 2016. The ARC rate per person per month increased from \$225 in 2015 to \$266 in 2016. ARC represents the future cost of retiree's health insurance and was recorded in compliance with GASB 45 for the first time in fiscal year 2008. No cash funding has been provided for these future costs. However, current costs for existing retirees already receiving these benefits are funded monthly along with health insurance premiums. This benefit of reduced health insurance cost at early retirement was eliminated for new hires after July 1, 2010.

	2016	2015	Increase (Decrease)	% Change
Non-operating income (expenses)				
Interest and investment revenue	\$ 66,859	\$ 58,903	\$ 7,956	13.51%
Interest and fiscal charges	(1,469,019)	(1,862,881)	393,862	-21.14%
Other income / expense non-operating	36,397	13,926	22,471	161.36%
Total non-operating income (expenses)	<u>\$ (1,365,763)</u>	<u>\$ (1,790,052)</u>	<u>\$ 424,289</u>	-23.70%
Total net position				
Income before capital contributions	\$ 3,776,661	\$ 3,191,576	\$ 585,085	18.33%
Capital contributions	240,864	-	240,864	0.00%
Change in net position	4,017,525	3,191,576	825,949	25.88%
Net position, beginning of year, restated	<u>62,402,307</u>	<u>59,210,731</u>	<u>3,191,576</u>	5.39%
Net position, end of year	<u>\$ 66,419,832</u>	<u>\$ 62,402,307</u>	<u>\$ 4,017,525</u>	6.44%

Interest and investment revenue - For fiscal year 2016, interest income increased from 2015 by \$7,956 or 13.51%. While interest rates continue to be insignificant, the Utility Board did experience a slight increase in interest rates offered. As an indicator of interest rates, the West Virginia Treasury office paid an average of .32% in 2016.

In an attempt to minimize further decline in interest revenue, the Utility Board placed its larger deposits in Certificate of Deposit Account Registry Service (CDARs) accounts and Certificate of Deposits (CDs) with slightly higher interest rates. All CDs have staggered maturity dates for cash availability.

**PARKERSBURG UTILITY BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

(Continued)

Interest and fiscal charges - Interest expense decreased from 2015 by \$393,862 or 21.14% as payments reduce principal balances and bonds were refinanced with lower interest rates. Details are:

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Interest and fiscal charges				
Revenue Bonds 2003A, B, D, & E	\$ 226,031	\$ 246,018	\$ (19,987)	- 8.12%
Revenue Bond Series 2005A	156,267	975,883	(819,616)	- 83.99%
Revenue Bond Series 2006C	62,051	382,847	(320,796)	-83.79%
Revenue Bonds 2006D & E	33,710	33,710	-	0.00%
Revenue Bond 2011A	132,899	137,856	(4,957)	-3.60%
Revenue Bond 2012A	14,508	14,508	-	0.00%
Revenue Bond 2014A	9,858	8,243	1,615	19.59%
Revenue Bond 2015A	438,499	-	438,499	0.00%
Revenue Bond 2015B	126,462	-	126,462	0.00%
Debt premium	(177,060)	(14,318)	(162,742)	1136.63%
Other interest and fiscal charge expense	<u>445,794</u>	<u>78,134</u>	<u>367,660</u>	470.55%
Total interest expense	<u>\$ 1,469,019</u>	<u>\$ 1,862,881</u>	<u>\$ (393,862)</u>	-21.14%

ANNUAL BUDGET

The Parkersburg Utility Board is required by bond covenants to adopt an annual budget. Over the course of the year, deviations from the budget are noted and reported on a monthly basis to the Board Members.

**PARKERSBURG UTILITY BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

(Continued)

Statement of fiduciary net position

	2016	2015	Increase (Decrease)	% Change
Cash and cash equivalents	\$ 100,317	\$ 107,708	\$ (7,391)	-6.86%
Investments	875,603	961,187	(85,584)	-8.90%
Interest receivable	2,914	3,586	(672)	-18.74%
Total assets	\$ 978,834	\$ 1,072,481	\$ (93,647)	-8.73%
Liabilities	\$ -	\$ -	\$ -	0.00%
Total liabilities	-	-	-	0.00%
Net position	\$ 978,834	\$ 1,072,481	\$ (93,647)	-8.73%

Statement of changes in fiduciary net position

	2016	2015	Increase (Decrease)	% Change
Employer contributions	\$ -	\$ -	\$ -	0.00%
Interest and dividends	19,933	25,892	(5,959)	-23.01%
Net change in fair value of investments	10,662	16,845	(6,183)	-36.71%
Total additions	30,595	42,737	(12,142)	-28.41%
Deduct: benefits and costs	124,242	140,945	(16,703)	-11.85%
Change in net position	(93,647)	(98,208)	4,561	-4.64%
Net position, beginning of year	1,072,481	1,170,689	(98,208)	-8.39%
Net position, end of year	\$ 978,834	\$ 1,072,481	\$ (93,647)	-8.73%

**PARKERSBURG UTILITY BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

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(Continued)

Fiduciary net assets - The Utility Board administers the Water Works Pension fund comprised of 6 retired employees and/or their qualifying spouses. An updated actuarial study was completed as of July 1, 2015 reflecting a funding ratio of 102.45% compared to 114.82% at July 1, 2013. The investment plan had projected in a previous study that this liability would be fully funded by July 1, 2008 after the required contribution. This has occurred even in the face of radically reduced interest rates since that study. According to this plan, benefits paid to retirees were paid directly from the pension investment fund effective July 1, 2008 where previously these benefits were paid from operating funds and expensed as a contribution to the pension fund.

The next scheduled actuarial analysis will be completed as of July 1, 2017 (every two years) and further contributions, if required, will be adjusted accordingly.

ECONOMIC FACTORS THAT MAY AFFECT THE PARKERSBURG UTILITY BOARD

Economic conditions of the country as a whole as well as those of the state and the local community all affect operation of Parkersburg's water and sanitary sewer systems.

Nationally, the turmoil in the housing and financial markets continues to adversely impact the national and global economy. Part of this impact is seen in interest rates that are currently at historically low levels. Interest earned on deposits of utility funds, such as depreciation funds and bond reserve funds, add to the income of a utility. Thus, with higher interest income, water and sewer service charge adjustments required from time to time for utility operation can be correspondingly lower. From a borrowing standpoint, higher interest rates increase the revenue that must be generated from water and sewer service charges for debt service related to system capital improvements. On balance, the community receives greater benefit from lower borrowing costs during periods of low interest rates in comparison with lower returns on invested funds during periods of low interest rates. The Utility Board has been fortunate over the last few years to secure low interest loans from the West Virginia State Revolving Fund (SRF) to make much needed improvements in both systems. The WWTP Phase II upgrade project was originally approved for a 12.6 million dollar loan at 0% interest and 0.5% administration fee for 20 years from the SRF program. However, with a high demand for SRF funds related to the Chesapeake Bay projects in the eastern panhandle and the very high costs of these projects there were no funds available when the project was ready to go to bid. We were very fortunate that the West Virginia Infrastructure and Jobs Development Council (WVIJDC) had funds available and provided the Utility Board with the necessary loan funds at 1% interest for 20 years.

Without additional stimulus funding or increased grant funding options the burden for maintaining and upgrading the aging infrastructure systems across our nation will continue to be the responsibility of the local communities. Increases in the cost of energy and steel products has also increased the cost of basically every commodity used by this utility and therefore these increased costs have an effect on the amount of renewal and replacement work that can be completed. Water and sanitary sewer systems are among the most essential services that communities can provide to protect the health and economic welfare of citizens, and expenditures needed to assure continued reliable and adequate service should be among those with highest priority.

**PARKERSBURG UTILITY BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

(Continued)

Over the last year the cost of oil has decreased drastically. This decrease has reduced the economic feasibility for the construction of the proposed ethane cracker facility. However, it is our understanding at this point that it is still considered a viable project but the timeline for completion has been delayed a few years. The reduced oil costs have also drastically slowed the oil and gas exploration and development that had fueled some of the more recent development in the state and local area over recent years. However, a major benefit of the decrease in oil costs is a very significant decrease in gasoline and diesel expenses incurred by the Utility Board.

Like other older communities throughout the nation, Parkersburg has major need for capital improvements in its infrastructure systems, including water and sanitary sewer systems. Aging facilities require continued renewal and replacement. Evolving environmental regulations also require capital investment to improve performance of existing facilities and to add new facilities to meet new federal and state standards. Therefore, priorities must be established to make expenditures that are affordable in a manner that best benefits the community and promotes the health and economy of the community.

In addition to the need for infrastructure improvement, the local economy is in a state of change. Although the county's population has remained relatively steady, Parkersburg's population base has experienced steady decline. This correlates to a decrease in the number of Utility Board customers. The job market is also changing. The number of industrial jobs in the area has declined in recent years. This decline can be attributed to the impact of technology, as well as company downsizing and relocation to better compete in today's global economy. Along with the effort to attract new employers to provide needed jobs with respectable pay and benefits, Parkersburg will need to continue to properly maintain and upgrade the community's water and sanitary sewer systems in the most cost effective manner possible in order to promote the long-term prosperity and growth of the community.

Parkersburg's industrial base has steadily declined since the mid to late 90's. With the loss of high volume users the cost to maintain the utilities has been shifted to the lower volume residential and commercial customers. In addition to this cost reallocation to residential and commercial customers, the consumption continues to decline in both utilities due to water conservation techniques.

This decline in customers and consumption has contributed to the need for rate increases. With the three step water rate increase that was effective July 1, 2010, revenues for the water utility are still adequate to properly operate and maintain the water system. City Council approved a four step rate increase for the sewer utility effective July 1, 2014. However, with the requirements of the Administrative Order to complete specific improvements in the sanitary sewer system it will be necessary to implement rate increases, as necessary, to ensure that the Utility Board has adequate funds to operate and maintain the sewer system while continuing to work towards the ominous goal of eliminating all overflows from the system by October 2020.

DATE OF MANAGEMENT'S REVIEW OF SUBSEQUENT EVENTS

In preparing the management's discussion and analysis section, the Utility Board's management has evaluated subsequent events and transactions for potential recognition or disclosure through December 11, 2016.

**PARKERSBURG UTILITY BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

(Continued)

CONTACTING THE PARKERSBURG UTILITY BOARD MANAGEMENT

The above financial highlights are intended to provide a general overview of the Parkersburg Utility Board's financial statements. Any questions about this report should be directed to the administration office at 125 19th Street, Parkersburg, West Virginia 26101, or call (304) 424-8535.

PARKERSBURG UTILITY BOARD
STATEMENT OF NET POSITION - PROPRIETARY FUND
JUNE 30, 2016

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ASSETS AND DEFERRED OUTFLOWS

Current assets	
Cash and cash equivalents	\$ 7,732,065
Accounts receivable (net of allowance for doubtful accounts of \$766,447)	1,682,814
Bond proceeds receivable	217,185
Inventory	355,875
Prepaid expenses	<u>136,150</u>
Total current assets	<u>10,124,089</u>
Noncurrent assets	
Restricted assets	
Cash and cash equivalents	
Debt service	2,879,457
Debt service - reserve	1,454,141
Capital maintenance and construction	5,669,314
Sanitary sewer overflow	2,284,337
Customer deposits	496,863
Capital assets	
Land	2,566,720
Buildings	51,503,844
Equipment	117,657,306
Construction in progress	12,935,661
Less: accumulated depreciation	<u>(73,427,544)</u>
Total noncurrent assets	<u>124,020,099</u>
Total assets	<u>134,144,188</u>
Deferred outflows	
Deferred outflows of resources related to pension	<u>769,083</u>
Total outflows	<u>769,083</u>
Total assets and deferred outflows	<u><u>\$ 134,913,271</u></u>

The accompanying notes are an integral part of these financial statements.

PARKERSBURG UTILITY BOARD
STATEMENT OF NET POSITION - PROPRIETARY FUND
JUNE 30, 2016
(Continued)

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LIABILITIES, DEFERRED INFLOWS, AND NET POSITION

Current liabilities	
Accounts payable	\$ 994,623
Due to primary government	17,020
Accrued compensated absences	204,792
Accrued post employment benefit liability	2,887,750
Other current liabilities	144,407
Current liabilities payable from restricted assets	
Accrued interest payable	329,068
Customer deposits	495,727
Bonds payable	<u>4,416,724</u>
Total current liabilities	<u>9,490,111</u>
Long-term liabilities	
Accrued compensated absences	28,913
Customer advances for construction	218,102
Bonds payable	56,863,984
Net pension liability	<u>1,412,645</u>
Total long-term liabilities	<u>58,523,644</u>
Total liabilities	<u>68,013,755</u>
Deferred inflows	
Deferred inflows of resources related to pension	<u>479,684</u>
Total deferred inflows	<u>479,684</u>
Total liabilities and deferred inflows	<u>68,493,439</u>
Net position	
Net invested in capital assets	49,955,279
Restricted	
Debt service	4,005,666
Renewal and replacement	7,953,651
Unrestricted	<u>4,505,236</u>
Total net position	<u>66,419,832</u>
Total liabilities, deferred inflows, and net position	<u><u>\$ 134,913,271</u></u>

The accompanying notes are an integral part of these financial statements.

PARKERSBURG UTILITY BOARD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
- PROPRIETARY FUND
YEAR ENDED JUNE 30, 2016

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Operating revenues	
Charges for services	\$ 16,564,046
Total operating revenues	16,564,046
Operating expenses	
Personal services	3,620,527
Contractual services	37,860
Administrative and general	633,599
Materials and supplies	603,176
Utilities	942,911
Maintenance	1,495,944
Depreciation	4,087,605
Total operating expenses	11,421,622
Operating income	5,142,424
Nonoperating revenues (expenses)	
Interest income	66,859
Gain from disposition of capital assets	36,397
Interest and fiscal charges, including amortization	(1,469,019)
Total nonoperating revenues (expenses)	(1,365,763)
Income before capital contributions	3,776,661
Capital contributions	240,864
Change in net position	4,017,525
Net position at beginning of year	62,402,307
Net position at end of year	\$ 66,419,832

The accompanying notes are an integral part of these financial statements.

PARKERSBURG UTILITY BOARD
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2016

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Cash flows from operating activities	
Cash received from customers	\$ 16,672,059
Cash paid to suppliers	(3,768,824)
Cash paid to employees	(3,676,038)
	<u>9,227,197</u>
Net cash provided (used) by operating activities	
Cash flows from non-capital and related financing activities	
Change in customer deposits	1,630
	<u>1,630</u>
Net cash provided (used) by non-capital and related financing activities	
Cash flows from capital and related financing activities	
Acquisition and construction of capital assets	(7,838,535)
Proceeds from sale of capital assets	37,253
Proceeds from bond issue	29,079,490
Proceeds from premium on bond issue	710,742
Principal repayments on bonds	(33,190,488)
Interest paid	(1,896,744)
Rebates paid for customer advances for construction	(176,313)
Capital contributions	57,864
	<u>(13,216,731)</u>
Net cash provided (used) by capital and related financing activities	
Cash flows from investing activities	
Interest received	66,859
	<u>66,859</u>
Net cash provided (used) by investing activities	
Net increase in cash and cash equivalents	(3,921,045)
Cash and cash equivalents at beginning of year	24,437,222
	<u>24,437,222</u>
Cash and cash equivalents at end of year	\$ 20,516,177
	20,516,177

The accompanying notes are an integral part of these financial statements.

PARKERSBURG UTILITY BOARD
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2016
(Continued)

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Reconciliation of cash and cash equivalents to statement of net position	
Cash and cash equivalents	\$ 7,732,065
Restricted	
Debt service	2,879,457
Debt service - reserve	1,454,141
Capital maintenance and construction	5,669,314
Sanitary sewer overflow	2,284,337
Customer deposits	496,863
	<hr/>
Total cash and cash equivalents	<u><u>\$ 20,516,177</u></u>
Reconciliation of operating income to net cash provided (used)	
by operating activities	
Operating income	\$ 5,142,424
Adjustments to reconcile operating income to net cash Provided (used)	
by operating activities	
Depreciation	4,087,605
Changes in assets and liabilities	
(Increase) decrease in accounts receivable	108,013
(Increase) decrease in inventory	(7,200)
(Increase) decrease in prepaid expenses	(69,436)
(Increase) decrease in deferred outflow	(277,731)
Increase (decrease) in accounts payable	20,018
Increase (decrease) in due to primary government	456
Increase (decrease) in accrued compensated absences	7,228
Increase (decrease) in accrued post employment benefit liability	185,402
Increase (decrease) in other current liabilities	30,469
Increase (decrease) in net pension	493,060
Increase (decrease) in deferred inflow	(493,111)
	<hr/>
Total adjustments	4,084,773
	<hr/>
Net cash provided (used) by operating activities	<u><u>\$ 9,227,197</u></u>

The accompanying notes are an integral part of these financial statements.

**PARKERSBURG UTILITY BOARD
WATERWORKS PENSION FUND
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2016**

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ASSETS AND DEFERRED OUTFLOWS

Assets		
Cash and cash equivalents	\$	100,317
Investments, at fair value		
Certificates of deposit		250,996
Collateralized mortgage obligations		139,699
Federal government agencies securities		484,908
Interest receivable		<u>2,914</u>
Total assets		<u>978,834</u>
Deferred outflows		<u>-</u>
Total assets and deferred outflows	\$	<u>978,834</u>

LIABILITIES, DEFERRED INFLOWS, AND NET POSITION

Liabilities	\$	<u>-</u>
Deferred inflows		<u>-</u>
Net position		
Net position held in trust for pension benefits		<u>978,834</u>
Total liabilities, deferred inflows, and net position	\$	<u>978,834</u>

The accompanying notes are an integral part of these financial statements.

**PARKERSBURG UTILITY BOARD
WATERWORKS PENSION FUND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2016**

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Additions	
Investment income	
Net increase (decrease) in fair value of assets	\$ 10,662
Interest income	<u>19,933</u>
Total investment income	<u>30,595</u>
Total additions	<u>30,595</u>
Deductions	
Benefit payments	120,992
Administrative and general	<u>3,250</u>
Total deductions	<u>124,242</u>
Change in net position	(93,647)
Net position at beginning of year	<u>1,072,481</u>
Net position at end of year	<u><u>\$ 978,834</u></u>

The accompanying notes are an integral part of these financial statements.

PARKERSBURG UTILITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Reporting entity - The Parkersburg Utility Board (the Utility Board) serves the residents of Parkersburg, West Virginia (the City) and is governed by a board comprised of five members, one of whom is the Mayor of the City, and not less than one of whom is a registered professional engineer. The remaining board members are citizens and residents of the City. With the exception of the Mayor, all board members are appointed by the City Council. The Utility Board has the power to fix and maintain a separate budget and has full and complete authority for the supervision, management, control, and operation of the system. Although the City Council approves rates for user fees and the issuance of debt, the Utility Board has fiscal responsibility for the payment of long-term debt.

Based on criteria established by the Governmental Accounting Standards Board (GASB), the Utility Board is considered a component unit of the City.

Measurement focus, basis of accounting, and financial statement presentation - The financial statements of the Utility Board have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Measurement focus refers to what is being measured and basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The accounts of the Utility Board are organized into fund types, each of which is considered to be a separate accounting entity. The major fund categories for the fund financial statements are:

Proprietary fund category

Proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with a proprietary fund's activities are included in its statement of net position.

Enterprise Fund Type: Enterprise Funds are used to report activities (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that the periodic determination of revenues earned, expense incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

PARKERSBURG UTILITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

(Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer accounts are charges to customers for sales and services. Operating expenses for the water and sewer accounts include the cost of sales and services, administrative expenses, and depreciation on capital assets. All other revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary fund category

Fiduciary Funds are used to report assets held by the Utility Board in a trustee or agency capacity for others and therefore cannot be used to support the Utility Board's own programs. Fiduciary funds are accounted for in essentially the same manner as proprietary funds.

Pension Trust Fund Type: Pension Trust Funds report the activities of the former retirement system, Waterworks Pension Fund, which accumulates resources for pension benefit payments to qualified employees.

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

Budgets - The Utility Board is not required to prepare an annual budget by state statute and therefore, a statement detailing budgeted versus actual activity is not presented.

Cash and cash equivalents - For purposes of the statement of cash flows, the Utility Board considers all cash accounts and all highly liquid investments available for current use with an original maturity of twelve months or less when purchased to be cash and cash equivalents.

PARKERSBURG UTILITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

(Continued)

Cash and investments - Cash on hand and deposits with banking institutions either in checking or savings accounts are presented as cash in the accompanying financial statements.

State statutes authorize the government to invest in the State Investment Pool or the Municipal Bond Commission or to invest such funds in the following classes of securities: (a) obligations of the United States or any agency thereof, (b) certificates of deposit (which mature in five years or less), (c) general and direct obligations of the State of West Virginia, (d) obligations of the Federal National Mortgage Association, (e) indebtedness secured by first lien deeds of trust for property situated within the State if the payment is substantially insured or guaranteed by the federal government, (f) pooled mortgage trusts (subject to limitations), (g) indebtedness of any private corporation that is properly graded as in the top two or three highest rating grades, (h) interest earning deposits which are fully insured or collateralized, and (i) mutual funds registered with the Securities and Exchange Commission which have fund assets over three hundred million dollars. State statute limitations concerning the aforementioned investments include the following:

- 1) At no time can investment portfolios consist of more than seventy-five percent of the indebtedness of private corporations nor can the portfolio have over twenty-five percent of its portfolio consisting of the indebtedness of private corporation debt which matures in less than one year.
- 2) At no time may more than nine percent of the portfolio be invested in securities issued by a single private corporation or association.
- 3) At no time can more than sixty percent of the portfolio be invested in equity mutual funds.

Municipal Pension Funds are governed as to type of investments by West Virginia Code §8-22-22. Pension funds are permitted to invest in all of the above mentioned types of investments with the exceptions of: (1) direct and general obligations of the State and (2) pooled mortgage trusts. Additionally, pension funds are permitted to invest funds in the following categories of investments: (1) repurchase agreements and (2) common stock, securities convertible into common stock, or warrants and rights to purchase such securities. Pension funds have different rules concerning the purchase of marketable debt securities.

The following restrictions apply only to pension portfolios and are separate and distinct from the limitations mentioned above: (1) fixed income securities which are issued by one issuer (with the exception of the United States government) are not to exceed ten percent of the total assets of the total pension fund assets and (2) at no time can the equity portion of the portfolio exceed fifty percent of the total portfolio.

Investments are carried at fair value which is based upon quoted market price. Realized gains and losses are recognized and reported as a component of investment income when proceeds of the sale differ from historical costs. Unrealized gains and losses are recognized and reported as a component of investment income when fair value differs from historical costs.

PARKERSBURG UTILITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES
(Continued)

Investment risk is categorized as follows:

Custodial credit risk - The risk that, in the event of the failure of the counterparty to a transaction, the Utility Board will not be able to recover the value of the investment or the collateral securities that are in the possession of an outside party.

Credit risk - The risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Interest rate risk - The risk that changes in interest rates will adversely affect the fair value of an investment.

Accounts receivable - Accounts receivable are reported net of an estimated allowance for doubtful accounts. Management establishes an allowance for estimated uncollectible accounts receivable based on historical collection experience and management's evaluation of the collectability of outstanding accounts receivable. The allowance for doubtful accounts was \$766,447 as of June 30, 2016.

Inventory - Inventory is valued at cost based on the first-in, first-out (FIFO) method.

Prepaid expenses - Prepaid expenses consist of certain payments to vendors, which reflects costs applicable to future accounting periods.

Restricted assets - Certain proceeds of the Utility Board's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants.

- 1) The regular debt service accounts are used to segregate resources accumulated for debt service payments over the next twelve months.
- 2) Reserve accounts are used to report resources set aside to make up potential future deficiencies in bond sinking funds.
- 3) Capital maintenance and construction accounts are used to report resources set aside to meet unexpected contingencies or fund asset renewals and replacements.
- 4) The sanitary sewer overflow account is used to report proceeds for elimination and repair of sanitary sewer overflow.
- 5) Customer deposit accounts are used to report the segregation of returnable cash deposits from customers of the utility upon initial receipt of the service.

PARKERSBURG UTILITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES
(Continued)

Capital assets - Capital assets with an initial, individual cost of \$1,000 or more and estimated to have a useful life in excess of one year are recorded at cost which includes labor, materials, services, and interest on funds used during construction and other indirect costs. Depreciation of all exhaustible capital assets used by the Utility Board is charged as an expense against operations and accumulated depreciation is reported on the Utility Board's statement of net position. Depreciation has been provided over the estimated useful lives using the straight-line method of depreciation. The estimated useful lives are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life</u>
Land	Not applicable
Construction in progress	Not applicable
Buildings and systems	10-50 years
Equipment	3-25 years

Maintenance and repairs are expensed as incurred and major additions and improvements are capitalized. Gains or losses on dispositions of capital assets are included in nonoperating revenue (expense) as realized.

Compensated absences - It is the Utility Board's current policy to permit employees to accumulate earned but unused vacation benefits. Vested or accumulated vacation and previously accumulated sick leave is recorded as an expense and a liability in the proprietary fund as the benefits accrue to employees.

Net position classification - As required by GASB, the Utility Board displays net position in three components:

- 1) Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- 2) Restricted - Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- 3) Unrestricted - All other net position that does not meet the definition of "Restricted" or "Invested in Capital Assets, Net of Related Debt."

PARKERSBURG UTILITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES
(Continued)

Deferred inflows and outflows of resources - A deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period.

Pension plans - All eligible employees are covered under the West Virginia Public Employees Retirement System due to the Utility Board electing to be a participating public employer.

The Utility Board maintains a defined benefit pension plan, Waterworks Pension Fund (the Plan), that was discontinued when the Utility Board became a participating member of the West Virginia Public Employees Retirement System. The Plan is administered only for those employees that qualified for the Plan and no current employee may contribute or receive the benefits of the Plan.

Restricted resources - Restricted resources should be applied first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Newly adopted statements issued by the Governmental Accounting Standards Board (GASB) - The Governmental Accounting Standards Board has issued Statement No. 72, *Fair Value Measurement and Application*, effective for fiscal years beginning after June 15, 2015. This Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. The adoption of GASB Statement No. 72 had no significant impact on the June 30, 2016 financial statements.

The Governmental Accounting Standards Board has issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, effective for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets that accumulate for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement will improve financial reporting by establishing a single framework for the presentation of information about pensions, which will enhance the comparability of pension-related information reported by employers and nonemployer contributing entities. The adoption of GASB Statement No. 73 had no significant impact on the June 30, 2016 financial statements.

PARKERSBURG UTILITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES
(Continued)

The Governmental Accounting Standards Board has issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for fiscal years beginning after June 15, 2015. The requirements of this Statement will identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The adoption of GASB Statement No. 76 had no significant impact on the June 30, 2016 financial statements.

The Governmental Accounting Standards Board has issued Statement No. 79, *Certain External Investment Pools and Pool Participants*, effective for fiscal years beginning after June 15, 2015. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this statement during the reporting period, individually or in the aggregate, were significant. The adoption of GASB Statement No. 79 had no significant impact on the June 30, 2016 financial statements.

Recent statements issued by the governmental accounting standards board for future adoption - The Governmental Accounting Standards Board has issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for fiscal years beginning after June 15, 2016. The requirements of this Statement will improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The Utility Board has not yet determined the effect that the adoption of GASB Statement No. 74 may have on its financial statements.

The Governmental Accounting Standards Board has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after June 15, 2017. The requirements of this Statement will improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The Utility Board has not yet determined the effect that the adoption of GASB Statement No. 75 may have on its financial statements.

PARKERSBURG UTILITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES
(Continued)

The Governmental Accounting Standards Board has issued Statement No. 77, *Tax Abatement Disclosures*, effective for fiscal years beginning after December 15, 2015. The requirements of this Statement will improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition. The Utility Board has not yet determined the effect that the adoption of GASB Statement No. 77 may have on its financial statements.

The Governmental Accounting Standards Board has issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, effective for fiscal years beginning after December 15, 2015. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The Utility Board has not yet determined the effect that the adoption of GASB Statement No. 78 may have on its financial statements.

The Governmental Accounting Standards Board has issued Statement No. 80, *Blending Requirements for Certain Component Units an amendment of GASB Statement No. 14*, effective for fiscal years beginning after June 15, 2016. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The Utility Board has not yet determined the effect that the adoption of GASB Statement No. 80 may have on its financial statements.

The Governmental Accounting Standards Board has issued Statement No. 81, *Irrevocable Split-Interest Agreements*, effective for fiscal years beginning after December 15, 2016. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Utility Board has not yet determined the effect that the adoption of GASB Statement No. 81 may have on its financial statements.

PARKERSBURG UTILITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES
(Continued)

The Governmental Accounting Standards Board has issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, effective for fiscal years beginning after June 15, 2016. The objective of this Statement is to address 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 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The Utility Board has not yet determined the effect that the adoption of GASB Statement No. 82 may have on its financial statements.

NOTE 2 - BANK DEPOSITS AND INVESTMENTS

Bank deposits - Custodial credit risk for bank deposits is the risk that in the event of a bank failure, the Utility Board's deposits may not be returned to it. It is the Utility Board's policy for bank deposits to be 100% secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance.

Investments - Investment pools are under the custody of the Utility Board. Investing is performed in accordance with investment policies complying with State statutes.

PROPRIETARY FUND

The Utility Board has nineteen (19) accounts with the Municipal Bond Commission totaling \$4,333,598 as of June 30, 2016. These funds are invested with the State of West Virginia Board of Treasury Investments (BTI) in the WV Government Money Market Pool as of June 30, 2016.

The BTI has adopted an investment policy in accordance with the "Uniform Prudent Investor Act." The "prudent investor rule" guides those with responsibility for investing the money for others. Such fiduciaries must act as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income; preserve capital; and, in general, avoid speculative investments. The BTI's investment policy is to invest assets in a manner that strives for maximum safety, provides adequate liquidity to meet all operating requirements, and achieves the highest possible investment return consistent with the primary objectives of safety and liquidity. The BTI recognizes that risk, volatility, and the possibility of loss in purchasing power are present to some degree in all types of investments. Due to the short-term nature of BTI's Consolidated Fund, the BTI believes that it is imperative to review and adjust the investment policy in reaction to interest rate market fluctuations/trends on a regular basis and has adopted a formal review schedule. Investment policies have been established for each investment pool and account of the BTI's Consolidated Fund.

PARKERSBURG UTILITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 2 - BANK DEPOSITS AND INVESTMENTS (Continued)

WV Government Money Market Pool - Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation.

For the year ended June 30, 2016, the WV Government Market Pool has been rated AAAm by Standard & Poor's. A fund rated "AAAm" has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. "AAAm" is the highest principal stability fund rating assigned by Standard & Poor's.

The BTI limits the exposure to credit risk in the WV Government Money Market Pool by limiting the pool to U.S. Treasury issues, U.S. government agency issues, money market funds investing in U.S. Treasury issues and U.S. government agency issues, and repurchase agreements collateralized by U.S. Treasury issues and U.S. government agency issues. The pool must have at least 15% of its assets in U.S. Treasury obligations or obligations guaranteed as to repayment of interest and principal by the U.S.

The following table provides information on the credit ratings of the WV Government Money Market Pool's investments as of June 30, 2016.

Security Type	Credit Ratings		Carrying Value (In Thousands)	Percent of Pool Assets
	Moody's	S&P		
U.S. treasury notes*	Aaa	AA+	\$ 60,445	31.80%
U.S. treasury bills*	P-1	A-1+	6,999	3.68
U.S. agency discount notes	P-1	A-1+	78,200	41.14
Money market funds	Aaa	AAAm	34	0.02
Repurchase agreements (underlying securities)				
U.S. treasury notes*	Aaa	AA+	44,400	23.36
			<u>\$ 190,078</u>	<u>100.00%</u>

*U.S. Treasury issues are explicitly guaranteed by the United States government and are not subject to credit risk.

As of June 30, 2016, the WV Government Money Market Pool investments had a total carrying value of \$190,078,000, of which the Utility Board's ownership represents approximately 2.28%.

WV Government Money Market Pool - Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. All of the BTI's Consolidated Fund pools and accounts are subject to interest rate risk.

PARKERSBURG UTILITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 2 - BANK DEPOSITS AND INVESTMENTS (Continued)

The overall weighted average maturity (WAM) of the investments of the WV Government Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase, except for government floating rate notes, which can be up to 762 days. The following table provides information on the weighted average maturities for the various asset types in the WV Government Money Market Pool as of June 30, 2016.

Security Type	Carrying Value (In Thousands)	WAM (Days)
Repurchase agreements	\$ 44,400	1
U.S. treasury notes	60,445	89
U.S. treasury bills	6,999	21
U.S. agency discount notes	78,200	50
Money market funds	34	1
	<u>\$ 190,078</u>	50

WV Government Money Market Pool - Other Investment Risks

Other investment risks can include concentration of credit risk, custodial credit risk, and foreign currency risk. None of the BTI's Consolidated Fund's investment pools or accounts is exposed to these risks as described below.

Concentration of credit risk is the risk of loss attributed to the magnitude of a BTI's Consolidated Fund pool or account's investment in a single corporate issuer. The BTI investment policy prohibits those pools and accounts permitted to hold corporate securities from investing more than 5% of their assets in any one corporate name or one corporate issue.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the BTI will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Repurchase agreements are required to be collateralized by at least 102% of their value, and the collateral is held in the name of the BTI. The BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. None of the BTI's Consolidated Fund's investment pools or accounts hold interests in foreign currency or interests valued in foreign currency.

Requests for additional financial information pertaining to the BTI may be sent to the Chief Financial Officer, West Virginia Board of Treasury Investments, 1900 Kanawha Boulevard East, Charleston, WV 25305.

PARKERSBURG UTILITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

FIDUCIARY FUND

Credit risk

State law limits investments. It is the Utility Board's policy that no investment be purchased which does not conform to the State of West Virginia Code. As of June 30, 2016, the following fiduciary fund's investments were rated using Standard & Poor's and Fitch and Moody's Investment Services.

Security Type	Credit Rating		Fair Value	Cost
	Moody's	S&P		
Certificates of deposit	N/A	N/A	\$ 250,996	\$ 250,000
Collateralized mortgage obligations	AAA	AA+	139,699	154,116
Federal government agency securities	AAA	AA+	484,908	484,950
			<u>\$ 875,603</u>	<u>\$ 889,066</u>

Interest rate risk

As of June 30, 2016, the fiduciary fund had the following investments and maturities exposed to interest rate risk.

Security Type	Fair Value	Maturities (In Years)			
		Less than 1	1-5	6-10	More than 10
Certificates of deposit	\$ 250,996	\$ 49,943	\$ 100,202	\$ 50,764	\$ 50,087
Collateralized mortgage obligations	139,699	-	-	-	139,699
Federal government agency securities	484,908	-	179,677	49,935	255,296
	<u>\$ 875,603</u>	<u>\$ 49,943</u>	<u>\$ 279,879</u>	<u>\$ 100,699</u>	<u>\$ 445,082</u>

PARKERSBURG UTILITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 3 - CAPITAL ASSETS AND CAPITAL ASSETS NET OF DEPRECIATION

Capital assets activity for the year ended were as follows:

	Beginning Balance	Additions	Retirements	Transfers Net	Ending Balance
Nondepreciable capital assets					
Land	\$ 2,543,158	\$ 5,120	\$ -	\$ 18,442	\$ 2,566,720
Construction in progress	7,042,634	-	-	5,893,027	12,935,661
Total nondepreciable capital assets	9,585,792	5,120	-	5,911,469	15,502,381
Depreciable capital assets					
Buildings and systems	51,207,967	5,242,755	-	(4,946,878)	51,503,844
Equipment	116,721,534	2,253,607	(353,244)	(964,591)	117,657,306
Total depreciable capital assets at historical costs	167,929,501	7,496,362	(353,244)	(5,911,469)	169,161,150
Less: accumulated depreciation					
Buildings and systems	18,643,892	1,102,000	-	-	19,745,892
Equipment	51,048,435	2,985,605	(352,388)	-	53,681,652
Total accumulated depreciation	69,692,327	4,087,605	(352,388)	-	73,427,544
Depreciable capital assets, net	98,237,174	3,408,757	(856)	(5,911,469)	95,733,606
Capital assets, net	\$ 107,822,966	\$ 3,413,877	\$ (856)	\$ -	\$ 111,235,987

Depreciation expense was \$4,087,605 for the year ended June 30, 2016.

PARKERSBURG UTILITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 4 - LONG-TERM DEBT AND OBLIGATIONS

The following is a summary of long-term liability activity for the year ended June 30, 2016:

Business type activities

	Beginning Balance	Additions	Retirements	Ending Balance	Amounts Due Within One Year	Amounts Due After One Year
Bonds Payable						
2003A Combined Revenue Bonds	\$ 2,096,648	\$ -	\$ 206,096	\$ 1,890,552	\$ 212,349	\$ 1,678,203
2003B Combined Revenue Bonds	1,822,826	-	165,312	1,657,514	173,578	1,483,936
2003D Combined Revenue Bonds	497,081	-	47,356	449,725	48,793	400,932
2003E Combined Revenue Bonds	2,270,444	-	219,241	2,051,203	223,659	1,827,544
2005A Combined Revenue Bonds	22,535,000	-	22,535,000	-	-	-
2006C Combined Revenue Bonds	8,895,000	-	8,895,000	-	-	-
2006D Combined Revenue Bonds	6,825,000	-	300,000	6,525,000	300,000	6,225,000
2006E Combined Revenue Bonds	3,191,489	-	145,756	3,045,733	145,756	2,899,977
2011A Combined Revenue Bonds	5,195,086	-	250,541	4,944,545	255,589	4,688,956
2012A Combined Revenue Bonds	5,230,177	-	286,585	4,943,592	286,585	4,657,007
2014A Combined Revenue Bonds	635,521	-	139,601	495,920	142,076	353,844
2014B Combined Revenue Bonds	5,343,457	5,591,675	-	10,935,132	143,339	10,791,793
2015A Combined Revenue Bonds	-	17,905,000	-	17,905,000	1,460,000	16,445,000
2015B Combined Revenue Bonds	-	5,800,000	-	5,800,000	1,025,000	4,775,000
Total bonds payable	64,537,729	29,296,675	33,190,488	60,643,916	4,416,724	56,227,192
Bond premiums	103,110	710,742	177,060	636,792	-	636,792
Net bonds payable	64,640,839	30,007,417	33,367,548	61,280,708	4,416,724	56,863,984
Other long-term obligations						
Accrued compensated absences	226,477	214,999	207,771	233,705	204,792	28,913
Customer advances for construction	497,812	79,603	359,313	218,102	-	218,102
Net pension liability	919,585	973,364	480,304	1,412,645	-	1,412,645
Total other long-term obligations	1,643,874	1,267,966	1,047,388	1,864,452	204,792	1,659,660
Total long-term debt and obligations	\$ 66,284,713	\$ 31,275,383	\$ 34,414,936	\$ 63,145,160	\$4,621,516	\$58,523,644

PARKERSBURG UTILITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 4 - LONG-TERM DEBT AND OBLIGATIONS (Continued)

2003A Combined Waterworks and Sewerage System Revenue Bonds - This bond issue had an original issue amount of \$4,000,000 and is payable in quarterly installments of \$66,673 including interest of 3.0%. The issue matures June 2024 and is secured by a first lien on the gross revenues of the Waterworks and Sewerage systems on parity with other issued bonds.

Future debt maturity retirement based on current financing arrangements is as follows:

For the Year Ended June 30,	Total	Principal	Interest
2017	\$ 266,691	\$ 212,349	\$ 54,342
2018	266,691	218,791	47,900
2019	266,691	225,429	41,262
2020	266,691	232,269	34,422
2021	266,691	239,316	27,375
2022-2024	800,076	762,398	37,678
	<u>\$ 2,133,531</u>	<u>\$ 1,890,552</u>	<u>\$ 242,979</u>

2003B Combined Waterworks and Sewerage System Revenue Bonds - This bond issue had an original issue amount of \$3,250,000 and is payable in annual varying installment amounts including interest of 5.0%. The issue matures October 2023 and is secured by a first lien on the gross revenues of the Waterworks and Sewerage systems on parity with other issued bonds.

Future debt maturity retirement based on current financing arrangements is as follows:

For the Year Ended June 30,	Total	Principal	Interest
2017	\$ 252,114	\$ 173,578	\$ 78,536
2018	251,897	182,257	69,640
2019	251,670	191,370	60,300
2020	251,430	200,938	50,492
2021	251,179	210,985	40,194
2022-2024	751,901	698,386	53,515
	<u>\$ 2,010,191</u>	<u>\$ 1,657,514</u>	<u>\$ 352,677</u>

PARKERSBURG UTILITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 4 - LONG-TERM DEBT AND OBLIGATIONS (Continued)

2003D Combined Waterworks and Sewerage System Revenue Bonds - This bond issue had an original issue amount of \$926,000 and is payable in quarterly installments of \$15,435 including interest of 3.0%. The issue matures September 2024 and is secured by a first lien on the gross revenues of the Waterworks and Sewerage systems on parity with other issued bonds.

Future debt maturity retirement based on current financing arrangements is as follows:

For the Year Ended June 30,	Total	Principal	Interest
2017	\$ 61,739	\$ 48,793	\$ 12,946
2018	61,739	50,273	11,466
2019	61,739	51,798	9,941
2020	61,739	53,370	8,369
2021	61,739	54,989	6,750
2022-2025	200,653	190,502	10,151
	<u>\$ 509,348</u>	<u>\$ 449,725</u>	<u>\$ 59,623</u>

2003E Combined Waterworks and Sewerage System Revenue Bonds - This bond issue had an original issue amount of \$4,326,705 and is payable in quarterly installments of \$65,753 including interest of 2.0%. Also, a 1% administration fee of \$5,835 is due quarterly. The issue matures December 2024 and is secured by a first lien on the gross revenues of the Waterworks and Sewerage systems on parity with other issued bonds.

Future debt maturity retirement based on current financing arrangements is as follows:

For the Year Ended June 30,	Total	Principal	Interest
2017	\$ 263,013	\$ 223,659	\$ 39,354
2018	263,012	228,165	34,847
2019	263,012	232,763	30,249
2020	263,012	237,454	25,558
2021	263,012	242,238	20,774
2022-2025	920,543	886,924	33,619
	<u>\$ 2,235,604</u>	<u>\$ 2,051,203</u>	<u>\$ 184,401</u>

PARKERSBURG UTILITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 4 - LONG-TERM DEBT AND OBLIGATIONS (Continued)

2006D Combined Waterworks and Sewerage System Revenue Bonds - This bond issue had an original issue amount of \$9,000,000 and is payable in quarterly installments of \$75,000 with an interest rate of 0.0%, however, a 0.5% administration fee of \$5,672 is due quarterly. The issue matures March 2038 and is secured by a lien on the gross revenues of the Waterworks and Sewerage systems on parity with other issued bonds.

Future debt maturity retirement based on current financing arrangements is as follows:

For the Year Ended June 30,	Total	Principal	Interest
2017	\$ 300,000	\$ 300,000	\$ -
2018	300,000	300,000	-
2019	300,000	300,000	-
2020	300,000	300,000	-
2021	300,000	300,000	-
2022 - 2026	1,500,000	1,500,000	-
2027 - 2031	1,500,000	1,500,000	-
2032 - 2036	1,500,000	1,500,000	-
2035 - 2038	525,000	525,000	-
	<u>\$ 6,525,000</u>	<u>\$ 6,525,000</u>	<u>\$ -</u>

2006E Combined Waterworks and Sewerage System Revenue Bonds - This bond issue had an original issue amount of \$4,372,600 with the Utility Board drawing \$4,175,342 of these funds. The issue is payable in quarterly installments of \$36,439 with an interest rate of 0.0%, however, a 0.5% administration fee of \$2,756 is due quarterly. The issue matures June 2037 and is secured by a lien on the gross revenues of the Waterworks and Sewerage systems on parity with other issued bonds.

Future debt maturity retirement based on current financing arrangements is as follows:

For the Year Ended June 30,	Total	Principal	Interest
2017	\$ 145,756	\$ 145,756	\$ -
2018	145,756	145,756	-
2019	145,753	145,753	-
2020	145,752	145,752	-
2021	145,752	145,752	-
2022 - 2026	728,760	728,760	-
2027 - 2031	728,760	728,760	-
2032 - 2036	728,760	728,760	-
2037	130,684	130,684	-
	<u>\$ 3,045,733</u>	<u>\$ 3,045,733</u>	<u>\$ -</u>

PARKERSBURG UTILITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 4 - LONG-TERM DEBT AND OBLIGATIONS (Continued)

2011A Combined Waterworks and Sewerage System Revenue Bonds - This bond issue had an original issue amount of \$5,800,000. This issue is payable in quarterly installments of \$88,143 including interest of 2.0%. Also, a 1% administration fee of \$7,821 is due quarterly. The issue matures December 2032 and is secured by a lien on the gross revenues of the Waterworks and Sewerage systems on parity with other issued bonds.

Future debt maturity retirement based on current financing arrangements is as follows:

For the Year Ended June 30,	Total	Principal	Interest
2017	\$ 352,571	\$ 255,589	\$ 96,982
2018	352,572	260,740	91,832
2019	352,572	265,994	86,578
2020	352,572	271,354	81,218
2021	352,572	276,821	75,751
2022 - 2026	1,762,856	1,470,060	292,796
2027 - 2031	1,762,856	1,624,263	138,593
2032 - 2033	528,857	519,724	9,133
	<u>\$ 5,817,428</u>	<u>\$ 4,944,545</u>	<u>\$ 872,883</u>

2012A Combined Waterworks and Sewerage System Revenue Bonds - This bond issue had an original issue amount of \$5,731,700. This issue is payable in quarterly installments of \$71,646 including interest of 0.0%, however, a 0.5% administration fee of \$3,627 is due quarterly. The issue matures September 2033 and is secured by a lien on the gross revenues of the Waterworks and Sewerage systems on parity with other issued bonds.

Future debt maturity retirement based on current financing arrangements is as follows:

For the Year Ended June 30,	Total	Principal	Interest
2017	\$ 286,585	\$ 286,585	\$ -
2018	286,585	286,585	-
2019	286,585	286,585	-
2020	286,585	286,585	-
2021	286,585	286,585	-
2022 - 2026	1,432,925	1,432,925	-
2027 - 2031	1,432,925	1,432,925	-
2032 - 2034	644,817	644,817	-
	<u>\$ 4,943,592</u>	<u>\$ 4,943,592</u>	<u>\$ -</u>

PARKERSBURG UTILITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 4 - LONG-TERM DEBT AND OBLIGATIONS (Continued)

2014A Combined Waterworks and Sewerage System Revenue Bonds - This bond issue had an original issue amount of \$715,513. This issue is payable in monthly installments of \$12,472 including interest of 1.76%. The issue matures June 2020 and is secured by a lien on the gross revenues of the Waterworks and Sewerage systems on parity with other issued bonds.

Future debt maturity retirement based on current financing arrangements is as follows:

For the Year Ended June 30,	Total	Principal	Interest
2017	\$ 149,662	\$ 142,076	\$ 7,586
2018	149,662	144,597	5,065
2019	149,662	147,163	2,499
2020	62,359	62,084	275
	<u>\$ 511,345</u>	<u>\$ 495,920</u>	<u>\$ 15,425</u>

2014B Combined Waterworks and Sewerage System Revenue Bonds - This bond issue had an original issue amount of \$12,676,820 of which the Utility board has drawn 10,935,132 as of June 30, 2016 with the intention of drawing the remaining amount in the next year. This issue is payable in quarterly installments of \$175,031 including interest of 1.0% beginning in June 2017. The issue matures March 2037 and is secured by a lien on the gross revenues of the Waterworks and Sewerage systems on parity with other issued bonds.

Future debt maturity retirement based on current financing arrangements is as follows:

For the Year Ended June 30,	Total	Principal	Interest
2017	\$ 175,031	\$ 143,339	\$ 31,692
2018	700,126	576,950	123,176
2019	700,126	582,741	117,385
2020	700,125	588,590	111,535
2021	700,126	594,499	105,627
2022-2026	3,500,629	3,063,209	437,420
2027-2031	3,500,631	3,220,065	280,566
2032-2036	3,500,628	3,384,947	115,681
2037	525,095	522,480	2,615
	<u>\$ 14,002,517</u>	<u>\$ 12,676,820</u>	<u>\$ 1,325,697</u>

PARKERSBURG UTILITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 4 - LONG-TERM DEBT AND OBLIGATIONS (Continued)

2015A Combined Waterworks and Sewerage System Revenue Bonds - On August 31, 2015, the Utility Board issued \$17,905,000 in combined revenue bonds for the purpose of refunding \$20,885,000 of then-outstanding 2005A combined revenue bonds. The 2015A bonds are payable in varying installment amounts including an average interest of 3.0%. The issue matures August 1, 2025, and is secured by a lien on the gross revenues of the Waterworks and Sewerage systems on parity with other bonds. The Utility Board completed the current refunding to reduce its total debt service payments over the next 9 years by \$2,324,000 and to obtain an economic gain of approximately \$2,290,000.

Future debt maturity retirement based on current financing arrangements is as follows:

For the Year Ended June 30,	Total	Principal	Interest
2017	\$ 1,969,850	\$ 1,460,000	\$ 509,850
2018	2,095,875	1,625,000	470,875
2019	2,096,375	1,675,000	421,375
2020	2,095,375	1,725,000	370,375
2021	2,101,750	1,775,000	326,750
2022-2026	10,454,700	9,645,000	809,700
	<u>\$ 20,813,925</u>	<u>\$ 17,905,000</u>	<u>\$ 2,908,925</u>

2015B Combined Waterworks and Sewerage System Revenue Bonds - On August 31, 2015, the Utility Board issued \$5,800,000 in combined revenue bonds for the purpose of refunding \$8,895,000 of then-outstanding 2006C combined revenue bonds. The 2015B bonds are payable in varying installment amounts including an average interest of 2.59%. The issue matures September 1, 2020, and is secured by a lien on the gross revenues of the Waterworks and Sewerage systems on parity with other bonds. The Utility Board completed the current refunding to reduce its total debt service payments over the next 4 years by \$553,000 and to obtain an economic gain of approximately \$586,000.

Future debt maturity retirement based on current financing arrangements is as follows:

For the Year Ended June 30,	Total	Principal	Interest
2017	\$ 1,166,000	\$ 1,025,000	\$ 141,000
2018	1,253,650	1,140,000	113,650
2019	1,253,925	1,175,000	78,925
2020	1,253,150	1,210,000	43,150
2021	1,262,500	1,250,000	12,500
	<u>\$ 6,189,225</u>	<u>\$ 5,800,000</u>	<u>\$ 389,225</u>

**PARKERSBURG UTILITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 4 - LONG-TERM DEBT AND OBLIGATIONS (Continued)

Total future debt maturity for the Utility Board based on current financing arrangements is as follows:

For the Year Ended June 30,	Total	Principal	Interest
2017	\$ 5,389,012	\$ 4,416,724	\$ 972,288
2018	6,127,565	5,159,114	968,451
2019	6,128,110	5,279,596	848,514
2020	6,038,790	5,313,396	725,394
2021	5,991,906	5,376,185	615,721
2022 - 2026	22,053,043	20,378,164	1,674,879
2027 - 2031	8,925,172	8,506,013	419,159
2032 - 2036	6,903,062	6,778,248	124,814
2037 - 2038	1,180,779	1,178,164	2,615
	<u>\$ 68,737,439</u>	<u>\$ 62,385,604</u>	<u>\$ 6,351,835</u>

PARKERSBURG UTILITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 5 - EMPLOYEE RETIREMENT SYSTEM AND PLANS

Public Employees Retirement System (PERS)

The Utility Board participates in the West Virginia Public Employees Retirement System (PERS), a state-wide, cost-sharing, multiple-employer defined benefit plan on behalf of the Utility Board's employees administered by the West Virginia Consolidated Public Retirement Board (CPRB), which acts as a common investment and administrative agent for all of the participating employers. CPRB issues a publicly available financial report that includes financial statements and required supplemental information for PERS. That report can be obtained by writing to CPRB, 4101 MacCorkle Avenue Southeast, Charleston, West Virginia 25304.

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

Eligibility to participate	All full-time employees, except those covered by other pension plans.
Authority establishing contribution obligations and benefit provisions	Chapter 5, Article 10, of the West Virginia State Code assigns the authority to establish and amend benefits provisions to the PERS Board of Trustees.
Plan Member's contribution rate	4.50% - Hire date prior to July 1, 2015 6.00% - Hire date on or after July 1, 2015
Utility Board's contribution rate	13.50% - 2016 14.00% - 2015 14.50% - 2014
Period required to vest	5 Years
Benefits and eligibility for distribution	A member who has attained age 60 and has earned 5 years or more of contributory service or age 55 if the sum of his/her age plus years of credited service is equal to or greater than 80. The final average salary (three highest consecutive years in the last 15) times the years of service times 2% equals the annual retirement benefit.
Deferred retirement portion	No
Provisions for: Cost of living Death benefits	No Yes

Trend information

<u>Fiscal Year</u>	<u>Annual Pension Employer Contributions</u>	<u>Percentage Contributed</u>
2016	\$ 450,775	100%
2015	\$ 480,304	100%
2014	\$ 483,807	100%

PARKERSBURG UTILITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 5 - EMPLOYEE RETIREMENT SYSTEM AND PLANS (Continued)

Pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to the pension - As of June 30, 2016, the Utility Board reported the following liability for its proportionate share of the net pension liability. The net pension liability, deferred inflows of resources, deferred outflows of resources, and pension expense were determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015, which is the measurement date, using the actuarial assumptions and methods described in the appropriate section of this note. The Utility Board's proportion of the net pension liability was based on a projection of the Utility Board's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. As of June 30, 2016, the Utility Board reported the following proportions and increase/decreases from its proportion measured as of June 30, 2015:

Amount for proportionate share of net pension liability	\$ 1,412,645
Percentage for proportionate share of net pension liability	0.252979 %
Increase % from prior proportion measured	0.003813 %

For the year ended June 30, 2016, the Utility Board recognized pension expense of \$176,419.

As of June 30, 2016, the Utility Board reported deferred outflows of resources and deferred inflows of resources related to the pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 309,766
Differences between expected and actual experience	288,920	-
Deferred difference in assumptions	-	169,918
Changes in proportion and differences between employer contributions and proportionate share of contributions	29,388	-
Employer contributions to pension plan subsequent to measurement date	450,775	-
Total	\$ 769,083	\$ 479,684

PARKERSBURG UTILITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 5 - EMPLOYEE RETIREMENT SYSTEM AND PLANS (Continued)

The amount reported as deferred outflows of resources related to the pension resulting from the Utility Board's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension will be netted and recognized as credits to pension expense as follows:

<u>Year ended June 30:</u>	
2017	\$ 24,856
2018	24,856
2019	24,856
2020	24,856
2021 and thereafter	<u>61,952</u>
Total	<u>\$ 161,376</u>

Actuarial assumptions and methods - The total pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation rate	1.90%
Salary increases	3.00 – 6.00%, average, including inflation
Investment rate of return	7.50%, net of pension plan investment expense
Mortality rates	Healthy males - 110% of RP-2000 Non-annuitant, Scale AA Healthy females - 101% of RP-2000 Non-annuitant, Scale AA Disabled males - 96% of RP-2000 Disabled annuitant, Scale AA Disabled females - 107% of RP-2000 Disabled annuitant, Scale AA

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2009 through June 30, 2014.

PARKERSBURG UTILITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 5 - EMPLOYEE RETIREMENT SYSTEM AND PLANS (Continued)

Long-term expected rates of return - The long-term rates of return on pension plan investments were determined using a building-block method in which estimates of expected real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentages and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Weighted Average Expected Real Rate of Return
U.S. equity	27.5%	7.0%	1.92%
International equity	27.5%	7.7%	2.12%
Core fixed income	7.5%	2.7%	0.20%
High yield fixed income	7.5%	5.5%	0.41%
Real estate	10.0%	5.6%	0.56%
Private equity	10.0%	9.4%	0.94%
Hedge funds	10.0%	4.7%	0.47%
Cash	0.0%	1.5%	0.00%
Total	100.0%		6.62%
Inflation (CPI)			1.90%
			8.52%

Discount rate - The discount rate used to measure the total pension liability was 7.5%. The projections of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will continue to be made at statutorily required rates, which are determined annually based on actuarial valuations. 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 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. Although discount rates are subject to change between measurement dates, there were no changes in the discount rate in the current period.

**PARKERSBURG UTILITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 5 - EMPLOYEE RETIREMENT SYSTEM AND PLANS (Continued)

The following presents the sensitivity of the Utility Board’s proportionate share of the net pension liability to changes in the discount rate, calculated using the current discount rate of 7.5% as used in the actuarial evaluation, and what the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	1% Decrease 6.5%	Discount Rate 7.5%	1% Increase 8.5%
The Utility Board’s proportionate share of the net pension liability (asset)	\$ 3,257,929	\$ 1,412,645	\$ (146,343)

Pension plan fiduciary net position - Detailed information about the pension plan’s fiduciary net position is available in the separately issued financial report.

Waterworks Pension Plan

Plan description, contribution information, and funding policies - The Utility Board maintains the Waterworks Pension Fund, administered by a five-member Board of Trustees. The pension fund is for the civil service employees of the former department of Waterworks of the City of Parkersburg. Assets of the Plan are held separately and may be used only for the payment of benefits to the members of the Plan. Unless otherwise indicated, the pension information is provided as of the latest actuarial valuation date of July 1, 2015. As of January 1, 1983, the Plan was closed to newly hired employees and on February 19, 1993, the last employee participating in the Plan retired.

Actuarial valuations are required to be performed once every three years per state statute. However, the actuarial valuations can be performed in shorter intervals at the discretion of the Utility Board.

Memberships of the plan are as follows:

<u>Group</u>	<u>Participants</u>
Active employees	-
Retirees and beneficiaries	6
Total	6

PARKERSBURG UTILITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 5 - EMPLOYEE RETIREMENT SYSTEM AND PLANS (Continued)

The plan is a single-employer defined benefit pension plan. The following is a summary of funding policies, contribution methods, and benefit provisions:

	Waterworks Pension Fund
Determination of Contribution Requirements	Actuarially determined
Employer	Contributes the amount necessary to pay any unfunded portion
Plan Member	No contributions
Period Required to Vest	No active employees may participate in the plan. All fully vested participants are receiving benefits.
Post-Retirement Benefit Increases	Equal to the percentage increase in the Consumer Price Index, limited to 4.00% on the first \$15,000 of retirement benefits
Eligibility for Distribution	No active employees may participate in the plan nor are they eligible for distribution. There are no other vested retirees or beneficiaries other than those currently receiving benefits that are eligible for distributions.
Provisions for: Disability benefits Death benefits	No Yes

Significant actuarial assumptions and methods - The total pension liability was determined by an actuarial valuation using the following significant actuarial assumptions, applied to all periods included in the measurement. Total pension liability was based on census data as of July 1, 2015.

Actuarial valuation date	July 1, 2015
Census date	July 1, 2015
Measurement date	June 30, 2016
Actuarial cost method	Entry Age Normal (Level % of Salary)
Discount rate	5.00%
Investment rate of return	5.00%
Projected salary increases	N/A
Underlying inflation rate	3.00%
Cost of living adjustments	3.00% per year
Mortality table	RP 2000 Mortality Table
Employee Termination	N/A
Retirement	N/A
Disability	N/A

PARKERSBURG UTILITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 5 - EMPLOYEE RETIREMENT SYSTEM AND PLANS (Continued)

Long-term expected rate of return - The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates 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. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation are summarized in the following table. All rates are reported as arithmetic averages:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>	<u>Weighted Return By Asset Class</u>
Domestic equity	0%	6.00%	0.00%
Alternatives	0%	6.00%	0.00%
Fixed income	100%	2.25%	2.25%
Real estate	0%	4.50%	0.00%
Cash	0%	0.00%	0.00%
Total	<u>100%</u>		2.25%
Inflation (CPI)			<u>3.00%</u>
Implied long-term rate of return			<u>5.25%</u>

There has been no change to the long-term rate of return on investments since the last valuation report.

Discount rate - The discount rate used to measure the total pension liability is 5.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions would be equal to the Annual Required Contribution (ARC) each year (if applicable). The ARC was calculated using a closed 40 year period over which the unfunded actuarial accrued liability would be paid off. No contributions are assumed for any period in which the funded status of the plan is projected to exceed 100%. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members for all future years. The long-term expected rate of return on pension plan investments is applied to all periods of projected benefit payments where assets are available. For periods of projected benefit payments where assets are insufficient to meet benefit payments, an average 20 year municipal bond rate for bonds rated Aa and above as of June 30, 2016 of 3.50% would be applied. A single level discount rate is determined that is equivalent to the two individual rates used to discount cash flows. Since all future benefit payments are assumed to be funded, the long-term expected rate of return on pension plan investments is the single level discount rate. There has been no change to the discount rate since the last valuation.

PARKERSBURG UTILITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 5 - EMPLOYEE RETIREMENT SYSTEM AND PLANS (Continued)

The following presents the sensitivity of the net pension liability to changes in the discount rate, calculated using the current discount rate of 5.0% as used in the actuarial evaluation, and what the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	1% Decrease 4.0%	Discount Rate 5.0%	1% Increase 6.0%
Net pension liability (asset)	\$ 55,730	\$ (3,413)	\$ (56,663)

The following presents the changes in the net pension liability asset:

	Increase (Decrease)		
Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)	
Beginning balance as of June 30, 2015	\$ 1,047,298	\$ 1,072,481	\$ (25,183)
Change for the year			
Interest	52,365	-	52,365
Net investment income	-	30,595	(30,595)
Benefit payments	(120,992)	(120,992)	-
Administrative and general costs	(3,250)	(3,250)	-
Net changes	(71,877)	(93,647)	21,770
Ending balance as of June 30, 2016	\$ 975,421	\$ 978,834	\$ (3,413)

NOTE 6 - OTHER POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan description - The Utility Board participates in the West Virginia Other Post-Employment Benefit (OPEB) Plan of the West Virginia Retiree Health Benefit Trust Fund (RHBT), a cost-sharing multiple-employer defined benefit post-employment healthcare plan administered by the West Virginia Public Employees Insurance Agency (WVPEIA). The OPEB Plan provides retiree post-employment healthcare benefits for participating state and local government employers. The provisions of the Code of West Virginia, 1931, as amended (the Code), assign the authority to establish and amend benefit provisions to the WVPEIA Finance Board. WVPEIA issues a publicly available financial report that includes financial statements and required supplementary information for the OPEB Plan, which can be obtained by contacting Public Employees Insurance Agency at 601 57th Street Southeast, Suite 2, Charleston, West Virginia 25304, by visiting peia.wv.gov, or by calling 1-888-680-7342.

**PARKERSBURG UTILITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 6 - OTHER POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
(Continued)

The West Virginia Legislature passed legislation to provide alternate funding sources for the RHBT OPEB unfunded liability. In addition, the PEIA Finance Board imposed limits on the retiree subsidy currently provided for PEIA premiums for retirees. Future increases in the subsidy will be limited to no more than 3% per year. These actions have had a material impact on the amounts billed by the RHBT to the Utility Board in the current year as well as an expected material impact on amounts billed in the future.

Funding policy - The Code requires the OPEB Plan to bill the participating employers 100% of the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the regulations of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The State of West Virginia plan employers are billed per active health policy per month.

Trend information

Fiscal year ending June 30,	Annual OPEB Cost	Contributions Paid	Percentage Contribution	Net OPEB Obligation Liability
2016	\$ 327,864	\$ 142,462	43%	\$ 2,887,750
2015	323,779	149,404	46%	2,702,348
2014	229,762	155,408	68%	2,527,973

NOTE 7 - RISK MANAGEMENT

The Utility Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to and illnesses of employees; and natural disasters.

The Utility Board has obtained commercial insurance coverage for general liability, property damage, errors and omissions, and natural disasters. Such coverage is offered in exchange for a premium to a third-party insurance company. Any general liability or auto liability loss in excess of \$5,000,000, and public officials loss in excess of \$3,000,000, will be the responsibility of the Utility Board. Real and personal property inventory is covered for replacement cost subject to a signed Statement of Values. Scheduled automotive and maintenance equipment is covered for actual cash value.

In addition, through its participation in the West Virginia Public Employees Insurance Agency (PEIA) and a third-party insurer, the entity has obtained health, life, and prescription drug coverage for its employees. In exchange for payment of premiums to PEIA and the third-party insurer, the Utility Board has transferred its risks related to health, life, and prescription drug coverage.

The Utility Board is self-insured for losses and liabilities related to workers' compensation.

**PARKERSBURG UTILITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 8 - COMMITMENT AND CONTINGENCIES

The Utility Board has entered into various agreements for construction, as well as engineering and architectural services in connection with the maintenance, operation, and expansion of its combined waterworks and sewerage systems. Commitments for future payments by the Utility Board under these construction and professional services contracts totaled approximately \$1,630,000 as of June 30, 2016.

The Utility Board’s sewerage system is subject to federal and state requirements governing the collection, treatment, and discharge of pollutants, including the requirements of the United States Environmental Protection Agency and the West Virginia Division of Environmental Protection. The Utility Board currently holds all licenses and permits required for operation of the sewerage system. Pursuant to the National Pollutant Discharge Elimination System Water Pollution Control permits granted to the Utility Board to operate the sewerage system, the Utility Board is subject to certain compliance measures required to eliminate sewerage system overflows by October 31, 2020. More stringent or additional environmental requirements may substantially increase the cost of sewerage services by requiring changes in the design or operation of existing facilities as well as changes in location, design, construction, and operation of any new facilities. There is no assurance that the sewerage system facilities in operation or contemplated will always remain in compliance with regulations currently in effect or will always be in compliance with future regulations. Failure to comply with such requirements could result in the imposition of civil and criminal penalties.

NOTE 9 - RATE COVENANT COMPLIANCE

The Parkersburg Utility Board is subject to rate covenant compliance associated with the issuance of the Series 2015A Bonds. Specifically, the entity must meet gross revenue targeted percentage as shown in the bond document as follows:

“the Issuer hereby covenants and agrees that the schedule or schedules of rates or charges from time to time in effect shall be sufficient, whether calculated individually or combined, together with other revenues of the System (i) to provide for all Operating Expenses of the System and (ii) to leave a balance each year equal to at least 120% of the maximum amount required in any year for payment of principal of and interest, if any, on the Series 2015A Bonds and all other obligations secured by a lien on or payable from such revenues on a parity with or junior to the Series 2015A Bonds, including the Prior Bonds.”

The following summarizes the provisions for the year ended June 30, 2016.

Rate Covenant

<u>Net Gross Revenues</u>	<u>Maximum Amount Annual Debt Service</u>	<u>Percentage</u>	<u>Percentage Required</u>
\$ 9,482,290	\$ 6,128,110	155%	120%

PARKERSBURG UTILITY BOARD
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 9 - RATE COVENANT COMPLIANCE (Continued)

As of June 30, 2016, the entity was in compliance with the provisions of the Series 2015A revenue bond covenant which require net gross revenues to be 120% or above the amount of the highest principal payment plus interest due in any given year.

The provisions of various revenue bond covenants require that assets be accumulated in restricted accounts for the payment of future debt service. The covenant requires, at a minimum, that an amount equivalent to one-twelfth of the current year's debt service payment be maintained in a revenue account. A reserve account must also be funded over a ten year period to an amount equal to the highest debt service payment in any given year. The entity will deposit \$1,178,793 in the reserve accounts to comply with the bond provisions.

NOTE 10 - RELATED PARTY TRANSACTIONS

The Utility Board includes garbage fees on the invoices for water and sewer services on behalf of the City of Parkersburg (the City). The Utility Board receives the payments and remits the funds received to the City on a monthly basis. The Utility Board had a balance due to the City of \$17,020 as of June 30, 2016.

From time to time, the Utility Board constructs water and sewer lines on behalf of the City. The Utility Board is reimbursed for their costs by the City and then the City donates the constructed lines, as a capital contribution, back to the Utility Board for maintaining the lines. The Utility Board had no receivable from the City as of June 30, 2016.

NOTE 11 - DATE OF MANAGEMENT'S REVIEW OF SUBSEQUENT EVENTS

In preparing these financial statements, the Utility Board's management has evaluated subsequent events and transactions for potential recognition or disclosure through December 11, 2016, the date the financial statements were available to be issued.

PARKERSBURG UTILITY BOARD
REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
YEAR ENDED JUNE 30, 2016

PARKERSBURG UTILITY BOARD
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
YEAR ENDED JUNE 30, 2016

Public Employees Retirement System
 Last 10 Fiscal Years*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
The Utility Board's proportionate (percentage) of the net pension liability	0.252979%	0.249166%	0.247584%
The Utility Board's proportionate share of the net pension liability	\$ 1,412,645	\$ 919,585	\$ 2,257,047
The Utility Board's covered employee payroll	\$ 3,430,739	\$ 3,336,598	\$ 3,313,738
The Utility Board's proportionate share of the net pension liability as a percentage of its covered employee payroll	41.18%	27.56%	68.11%
Plan fiduciary net position as a percentage of the total pension liability	91.29%	93.98%	79.70%

*- The amounts presented for each fiscal year were determined as of the prior fiscal year ended June 30.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

**PARKERSBURG UTILITY BOARD
SCHEDULE OF CONTRIBUTIONS
YEAR ENDED JUNE 30, 2016**

Public Employees Retirement System
Last 10 Fiscal Years

	Fiscal Years Ended June 30,						
	2016	2015	2014	2013	2012	2011	2010
Statutorily required contribution	\$ 450,775	\$ 480,304	\$ 483,807	\$ 463,923	\$ 466,770	\$ 416,613	\$ 359,782
Contributions in relation to the statutorily required contribution	<u>(450,775)</u>	<u>(480,304)</u>	<u>(483,807)</u>	<u>(463,923)</u>	<u>(466,770)</u>	<u>(416,613)</u>	<u>(359,782)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Utility Board's covered employee payroll	\$ 3,339,075	\$ 3,430,739	\$ 3,336,598	\$ 3,313,738	\$ 3,219,103	\$ 3,332,900	\$ 3,270,738
Contributions as a percentage of covered employee payroll	13.50%	14.00%	14.50%	14.00%	14.50%	12.50%	11.00%

This schedule is present to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

PARKERSBURG UTILITY BOARD 63
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
WATERWORKS PENSION FUND
YEAR ENDED JUNE 30, 2016

Last 10 Fiscal Years

	2016	2015
Total pension liability		
Interest	\$ 52,365	\$ 66,775
Differences between expected and actual experience	-	(17,504)
Changes in assumptions	-	70,577
Benefits payments	(120,992)	(140,945)
Administrative and general costs	(3,250)	-
	(71,877)	(21,097)
Net change in total pension liability	(71,877)	(21,097)
Total pension liability at beginning of year	1,047,298	1,068,395
	\$ 975,421	\$ 1,047,298
	\$ 975,421	\$ 1,047,298
Plan fiduciary net position		
Net investment income	\$ 30,595	\$ 42,737
Benefit payments	(120,992)	(140,945)
Administrative and general costs	(3,250)	-
	(93,647)	(98,208)
Net change in plan fiduciary net position	(93,647)	(98,208)
Plan fiduciary net position at beginning of year	1,072,481	1,170,689
	\$ 978,834	\$ 1,072,481
	\$ 978,834	\$ 1,072,481
Net pension liability at end of year	\$ (3,413)	\$ (25,183)
Plan fiduciary net position as a percentage of the total pension liability	100.35%	102.40%
Covered employee payroll	\$ -	\$ -
Net pension liability as a percentage of covered employee payroll	0.00%	0.00%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, entities should present information for those years for which information is available.

See independent auditor's report.

**PARKERSBURG UTILITY BOARD
SCHEDULE OF INVESTMENT RETURNS
WATERWORKS PENSION FUND
YEAR ENDED JUNE 30, 2016**

Last 10 Fiscal Years

	<u>2016</u>	<u>2015</u>
Annual money-weighted rate of return, net of investment expense	3.01%	3.86%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, entities should present information for those years for which information is available.

See independent auditor's report.

**PARKERSBURG UTILITY BOARD
SCHEDULE OF CONTRIBUTIONS
WATERWORKS PENSION FUND
YEAR ENDED JUNE 30, 2016**

Last 10 Fiscal Years

	2016	2015
Actuarially determined contribution	\$ -	\$ -
Employer contribution	-	-
Contribution deficiency (excess)	\$ -	\$ -
Covered payroll	-	-
Actual contribution as a percent of covered payroll	0.00%	0.00%

Since the plan is fully funded, benefits for retirees and beneficiaries are paid by the Pension Fund, not the Parkersburg Utility Board.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, entities should present information for those years for which information is available.

See independent auditor's report.

PARKERSBURG UTILITY BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2016

NOTE 1 - PUBLIC EMPLOYEES RETIREMENT SYSTEM

Amounts reported during the year ended June 30, 2016 reflect an adjustment of the expectation of life after disability to more closely reflect actual experience. For amounts reported in 2016, the expectation of retired life mortality was based on RP-2000 Mortality Tables rather than on the 1983 Group Annuity Mortality Table, which was used to determine amounts reported prior to 2016. Amounts reported in 2016 also reflect a change in salary increase assumptions to more closely reflect actual experience.

There were no other factors that affected trends in the amounts reported. If necessary, additional information can be obtained from the CPRB Comprehensive Annual Financial Report for the year ended June 30, 2015.

PARKERSBURG UTILITY BOARD
OTHER INFORMATION
YEAR ENDED JUNE, 30, 2016

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

To the Board Members
Parkersburg Utility Board
Parkersburg, West Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate remaining fund information of the Parkersburg Utility Board, a component unit of the City of Parkersburg, West Virginia, as of and for the year ended June 30, 2016, and the related notes of the financial statements, which collectively comprise the Parkersburg Utility Board's basic financial statements, and have issued our report thereon dated December 11, 2016.

Internal control over financial reporting

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

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

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

Compliance and other matters

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

Purpose of this report

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

A handwritten signature in cursive script that reads "Suttle & Stalaker, PLLC".

Parkersburg, West Virginia
December 11, 2016