

**SANITARY BOARD OF THE  
CITY OF CLARKSBURG  
CLARKSBURG, WEST VIRGINIA**

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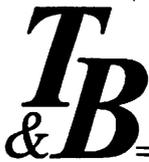
**INDEPENDENT AUDITOR'S REPORT AND  
RELATED FINANCIAL STATEMENTS**

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**FOR THE YEAR ENDED JUNE 30, 2013**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Sanitary Board of the City of Clarksburg  
Clarksburg, West Virginia

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Sanitary Board of the City of Clarksburg, a component unit of the City of Clarksburg, West Virginia as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

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

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

### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial

statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Sanitary Board of the City of Clarksburg, as of June 30, 2013, and the changes in financial position, and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Emphasis of Matter*

As described in Note 1 to the financial statements for the year ended June 30, 2013, the Sanitary Board of the City of Clarksburg adopted new accounting guidance, GASB 60, *Accounting and Financial Reporting for Service Concession Arrangements*, GASB 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53* and *GASB 65, Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

### *Other Matters*

#### *Required Supplementary Information*

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2013, on our consideration of the Sanitary Board of the City of Clarksburg'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 Sanitary Board of the City of Clarksburg's internal control over financial reporting and compliance.

*T. Tuck & Bartlett, PLLC*

November 25, 2013

**SANITARY BOARD OF THE CITY OF CLARKSBURG**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2013**

**Assets**

**Current Assets**

Cash	\$ 816,206	
Receivables, net of allowances:		
Accounts	791,016	
Due to/from other funds	26,343	
Inventory	<u>171,105</u>	
Total current assets		\$ 1,804,670

**Noncurrent Assets**

Restricted assets		521,862
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**Capital Assets**

Land	84,065	
Construction in process	1,839,195	
Buildings	1,524,498	
Machinery and equipment	7,020,334	
Treatment and disposal	12,522,610	
Collecting mains and accessories	3,340,404	
Less: Accumulated depreciation	<u>(16,446,305)</u>	
Total capital assets		<u>9,884,801</u>

<b>Total assets</b>		<b>\$ <u>12,211,333</u></b>
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## Liabilities

<b>Current Liabilities (payable from current assets)</b>		
Notes payable	\$ 585,902	
Current portion obligation under capital lease	17,459	
Accounts payable	49,705	
Accrued compensated absences	92,905	
Accrued post employment benefits payable	<u>907,105</u>	
Total current liabilities (payable from current assets)		\$ 1,653,076
<b>Current Liabilities (payable from restricted assets)</b>		
Revenue bonds payable	409,429	
Accrued revenue bond interest payable	<u>3,349</u>	
Total current liabilities (payable from restricted assets)		412,778
<b>Long-Term Liabilities (net of current portion)</b>		
Obligation under capital lease	57,477	
Revenue bonds payable	2,311,615	
Accrued compensated absences	<u>285,227</u>	
Total long-term liabilities (net of current portion)		<u>2,654,319</u>
Total liabilities		<u>4,720,173</u>
<b>Net Position</b>		
Net investment in capital assets	6,502,919	
Restricted	521,862	
Unrestricted	<u>466,379</u>	
Total net position		\$ <u>7,491,160</u>

The accompanying independent auditor's report and notes are integral parts of this statement.

**SANITARY BOARD OF THE CITY OF CLARKSBURG  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2013**

<b>Operating Revenues</b>			
Charges for services			\$ 4,807,110
<b>Operating Expenses</b>			
Collecting	\$ 1,384,757		
Treatment and disposal	1,456,678		
Billing and collection	198,534		
General government	386,247		
Depreciation	<u>396,003</u>	<u>3,822,219</u>	
Operating income			984,891
<b>Nonoperating Revenues (Expenses)</b>			
Interest	895		
Miscellaneous income	59,319		
Interest and fiscal charges	<u>( 97,068)</u>	<u>( 36,854)</u>	
Change in net position			948,037
Total net position – beginning			<u>6,543,123</u>
Total net position – ending			\$ <u>7,491,160</u>

The accompanying independent auditor's report and notes are integral parts of this statement.

**SANITARY BOARD OF THE CITY OF CLARKSBURG  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2013**

**Cash Flows from Operating Activities**

Receipts from customers	\$ 4,738,258	
Receipts from other sources	59,319	
Payments to suppliers	(2,322,631)	
Payments to employees	<u>(1,193,800)</u>	
Net cash provided by operating activities		\$ 1,281,146

**Cash Flows from Capital and Related Financing Activities**

(Increase) decrease in restricted assets	( 207)	
Repayment of revenue bonds	( 402,329)	
Repayment of obligation under capital lease	( 16,936)	
Proceeds from short term borrowing	425,021	
Acquisition of capital assets	( 788,464)	
Interest expense	<u>( 99,143)</u>	
Net cash (used in) capital and related financing activities		( 882,058)

**Cash Flows from Investing Activities**

Interest on investments	<u>895</u>	
Net cash provided by investing activities		<u>895</u>

Net increase in cash		399,983
Cash at beginning of year		<u>416,043</u>
Cash at end of year		\$ <u>816,026</u>

**SANITARY BOARD OF THE CITY OF CLARKSBURG  
STATEMENT OF CASH FLOWS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 984,891
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	396,003
Miscellaneous income	59,319
(Increase) decrease in:	
Accounts receivable	( 68,852)
Due to/from other funds	( 59,900)
Inventory	( 6,444)
Increase (decrease) in:	
Accounts payable	( 23,917)
Accrued compensated absences	( 26,024)
Accrued post employment benefits payable	<u>26,070</u>
Net cash provided by operating activities	\$ <u>1,281,146</u>

**Supplemental Disclosure of Noncash Flow Information**

On May 18, 2011, the City of Clarksburg entered into a capital lease in the amount of \$108,549 to finance the acquisition of a high pressure sewer cleaner.

The accompanying independent auditor's report and notes are integral parts of this statement.

**SANITARY BOARD OF THE CITY OF CLARKSBURG  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**1. Summary of Significant Accounting Policies**

The Sanitary Board of the City of Clarksburg's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Board are discussed below.

During the year ended June 30, 2013, the Board adopted the following GASB statements:

***GASB 60 – Accounting and Financial Reporting for Service Concession Arrangements –***

The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements, which are a type of public – private or public – public partnership. This statement had no effect on the accompanying financial statements.

***GASB 61 – The Financial Reporting Entity: Omnibus an amendment of GASB Statements***

***No. 14 and No. 34*** – This Statement modifies certain requirements for inclusion of component units in the financial reporting entities financial statements.

***GASB 62 – Codification of Accounting and Financial Reporting Guidance Contained in***

***Pre-November 30, 1989 FASB and AICPA Pronouncements*** – The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations.
2. Accounting Principles Board Opinions.
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Principles.

This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in that Statement for enterprise funds and business-type activities to apply post November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements.

The accompanying independent auditor's report is an integral part of these notes.

**SANITARY BOARD OF THE CITY OF CLARKSBURG  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

**GASB 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*** – The purpose of this Statement was to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

**GASB 64 – *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*** – The purpose of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and the hedge accounting should continue to be applied. This statement had no effect on the accompanying financial statements.

**GASB 65 – *Items Previously Reported as Assets and Liabilities*** – The purpose of this Statement was to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources, certain items that were previously reported as assets and liabilities.

**Reporting Entity**

The Board complies with GASB Statement No. 61, "*The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34*". This statement established standards for defining and reporting component units in the financial statements of the reporting entity. It defines component units as legally separate organizations for which the component unit not only has a fiscal dependency on the reporting entity but also a financial benefit or burden relationship must be present between the reporting entity and the entity that is to be included as a component unit. In addition, an entity may be included as a component unit in the financial statements of the reporting entity, if the reporting entity's management determines that it would be misleading to exclude them.

The Board considered all potential component units in determining what entities should be included in the Board's financial statements. Based on these criteria, there are not component units to include in the Board's financial statements.

The accompanying independent auditor's report is an integral part of these notes.

**SANITARY BOARD OF THE CITY OF CLARKSBURG  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

**Basis of Accounting**

The Sanitary Board of the City of Clarksburg's financial statements are presented as prescribed by accounting principles generally accepted in the United States of America. The accompanying financial statements are accounted for using the accrual basis of accounting. The accrual basis of accounting recognizes revenues when earned. Expenses are recorded when incurred.

**Cash, Cash Equivalents and Investments**

Cash on hand and deposits with banking institutions either in checking or savings accounts are presented as cash and cash equivalent 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 less than one year), (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 deed 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 Security 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 any private corporations nor can the portfolio have over twenty-five percent of its portfolio consisting of the indebtedness of a private corporation's 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.

The accompanying independent auditor's report is an integral part of these notes.

**SANITARY BOARD OF THE CITY OF CLARKSBURG  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

Investment risk is categorized as follows:

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

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

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

**Cash**

For purpose of the statement of cash flows, the Sanitary Board considers cash to be cash and cash equivalents.

**Inventories**

Inventories are valued at cost based on the first-in, first-out method of inventory valuation.

**Accounts Receivable**

Accounts receivable are shown net of allowance for doubtful accounts of \$32,686.

**Capital Assets**

Capital assets 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 Sanitary Board of the City of Clarksburg is charged as an expense against operations and accumulated depreciation is reported on the Sanitary Board's balance sheet. Depreciation has been provided over the estimated useful lives using the straight-line method of depreciation. The estimated useful lives are as follows:

Buildings	25-50 years
Improvements	10-20 years
Utility plant	10-20 years
Equipment	5-25 years

A valuation of one dollar has been assigned to approximately forty-one miles of sewer lines constructed prior to June 30, 1959 on which records of construction costs were not maintained.

The accompanying independent auditor's report is an integral part of these notes.

**SANITARY BOARD OF THE CITY OF CLARKSBURG  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

**Compensated Absences**

The liability for compensated absences consists of unpaid, accumulated annual sick and accrued vacations. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payment upon termination are included.

The Sanitary Board accounts for compensated absences in accordance with accounting principles generally accepted in the United States of America.

**Pension Plans**

All eligible employees are covered under the West Virginia Public Employee Retirement System due to the Sanitary Board of the City of Clarksburg's electing to be a participating public employer.

**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 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.

**Equity Classification**

Net Position Classifications:

***GASB 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*** – divided net position for Government-wide net position into three components:

- a. Net investment in capital assets – consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.

The accompanying independent auditor's report is an integral part of these notes.

**SANITARY BOARD OF THE CITY OF CLARKSBURG  
NOTES TO THE FINANCIAL STATEMENTS (CONTD)  
FOR THE YEAR ENDED JUNE 30, 2013**

- b. Restricted net position – consists of net position that is restricted by the Authority’s creditors (for example through debt covenants), by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.
- c. Unrestricted – all other net position is reported in this category

**Restricted Assets**

Certain proceeds of the water and sewer enterprise fund revenue bonds, as well as certain proceeds set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants.

**2. Deposits and Investments**

The Sanitary Board considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

**Deposits**

It is the Sanitary Board’s policy for 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. The Sanitary Board’s deposits are categorized to give an indication of the level of risk assumed by the Sanitary Board at June 30, 2013. The categories are described as follows:

**Category 1** – Insured or collateralized with securities held by the entity or by its agent in the entity’s name.

**Category 2** – Collateralized with securities held by the pledging financial institution’s trust department or agent in the entity’s name.

**Category 3** – Uncollateralized.

<u>Non-Pooled Deposits</u>	<u>Bank</u> <u>Balance</u>	<u>1</u>	<u>Category</u> <u>2</u>	<u>3</u>	<u>Carrying</u> <u>Amount</u>
Cash	\$ <u>887,926</u>	\$ <u>37,618</u>	\$ <u>850,308</u>	\$ <u>-0-</u>	\$ <u>816,206</u>

The accompanying independent auditor's report is an integral part of these notes.

**SANITARY BOARD OF THE CITY OF CLARKSBURG  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

**Investments**

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 less than one year), (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 Security 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 any private corporations nor can the portfolio have over twenty-five percent of its portfolio consisting of the indebtedness of a private corporation's 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.

The Sanitary Board's investments are categorized to give an indication of the level of risk assumed by the Sanitary Board at June 30, 2013. The categories are described as follows:

**Category 1** – Insured or registered, or securities held by the Sanitary Board or its agent in the Sanitary Board's name.

**Category 2** – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Sanitary Board's name.

**Category 3** – Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Sanitary Board's name.

The accompanying independent auditor's report is an integral part of these notes.

**SANITARY BOARD OF THE CITY OF CLARKSBURG  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

<u>Type of Investments</u>	<u>1</u>	<u>Category</u> <u>2</u>	<u>3</u>	<u>Carrying</u> <u>Amount</u>	<u>Market</u> <u>Value</u>	
Investments	\$	<u>-0-</u>	\$	<u>-0-</u>	\$	<u>-0-</u>
Investments in municipal bond commission				<u>521,862</u>	<u>521,862</u>	
Total investments				\$ <u>521,862</u>	\$ <u>521,862</u>	

**3. Note Payable – Line of Credit**

***City National Bank***

4.10%; \$700,000 line of credit maturing April 30, 2014. \$ 566,411

4.25% installment obligation; payable in monthly installments  
of \$9,941; maturing 11/21/13. 19,491

Total 585,902

Less: Current maturities 585,902

Non-current maturities \$ -0-

The accompanying independent auditor's report is an integral part of these notes.

**SANITARY BOARD OF THE CITY OF CLARKSBURG  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

**4. Long-Term Debt**

The following is a summary of bonds and notes payable at June 30, 2013:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u> <u>Balance</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>	<u>Amounts</u> <u>Due After</u> <u>One Year</u>
<b>Business-Type Activities</b>						
<b>Bonds and notes payable:</b>						
1996 Sewer Revenue Bonds	\$ 2,223,373	\$ -0-	\$ 352,329	\$ 1,871,044	\$ 359,429	\$ 1,511,615
2009A Sewer Revenue Bonds	<u>900,000</u>	<u>-0-</u>	<u>50,000</u>	<u>850,000</u>	<u>50,000</u>	<u>800,000</u>
Total bonds and notes payable	<u>3,123,373</u>	<u>-0-</u>	<u>402,329</u>	<u>2,721,044</u>	<u>409,429</u>	<u>2,311,615</u>
<b>Other long-term debt</b>						
Obligation under capital lease	91,872	-0-	16,936	74,936	17,459	57,477
Accrued compensated absences	<u>404,156</u>	<u>-0-</u>	<u>26,024</u>	<u>378,132</u>	<u>92,905</u>	<u>285,227</u>
Total other long-term debt	<u>496,028</u>	<u>-0-</u>	<u>42,960</u>	<u>453,068</u>	<u>110,364</u>	<u>342,704</u>
Total long-term debt	\$ <u>3,619,401</u>	\$ <u>-0-</u>	\$ <u>445,289</u>	\$ <u>3,174,112</u>	\$ <u>519,793</u>	\$ <u>2,654,319</u>

**Sewer Revenue Bond - Bond Issue of 1996**

This issue was authorized to pay a portion of the costs of acquisition and construction of certain additions, betterments and improvements to the existing public sewerage system of the City. The bond was issued in a denomination of \$6,484,243, bearing interest of 2.00% payable quarterly on the first day of September, December, March and June beginning on September 1, 1998.

The accompanying independent auditor's report is an integral part of these notes.

**SANITARY BOARD OF THE CITY OF CLARKSBURG  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

The outstanding bond of this issue and its maturity dates are as follows:

<u>Maturity Date</u>	<u>Amount</u>
September 1, 2013	\$ 89,186
December 1, 2013	89,632
March 1, 2014	90,080
June 1, 2014	90,531
September 1, 2014	90,983
December 1, 2014	91,438
March 1, 2015	91,895
June 1, 2015	92,355
September 1, 2015	92,817
December 1, 2015	93,281
March 1, 2016	93,747
June 1, 2016	94,216
September 1, 2016	94,687
December 1, 2016	95,160
March 1, 2017	95,636
June 1, 2017	96,114
September 1, 2017	96,595
December 1, 2017	97,077
March 1, 2018	97,563
June 1, 2018	<u>98,051</u>
	\$ <u>1,871,044</u>

The accompanying independent auditor's report is an integral part of these notes.

**SANITARY BOARD OF THE CITY OF CLARKSBURG  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

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

<u>For the Year Ended June 30,</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 394,165	\$ 359,429	\$ 34,736
2015	394,165	366,671	27,494
2016	394,165	374,061	20,104
2017	394,165	381,597	12,568
2018	<u>394,165</u>	<u>389,286</u>	<u>4,879</u>
	\$ <u>1,970,825</u>	\$ <u>1,871,044</u>	\$ <u>99,781</u>

The 1996 bond issue is secured with a lien and pledge on the net revenues derived from the system.

As required by the 1996 Series Bond Ordinance, a sinking fund has been established with the West Virginia Municipal Bond Commission. Moneys in the sinking fund are to be used only for the purposes of paying principal of and interest on the bonds. Payments are required to be made into the sinking fund to pay interest which will mature and become due on the next succeeding interest payment date and 1/6 of the amount which will be required to redeem 1996 Series bonds prior to their stated dates of maturities. The balance in the sinking fund account with the Municipal Bond Commission at June 30, 2013 was \$462,716.

**Sewer Revenue Bonds, Series 2009A**

This issue was authorized to pay a portion of the costs of acquisition and construction of certain additions, betterments and improvements to the existing public sewerage system of the City. The bond was issued in a denomination of \$1,000,000 bearing interest of 0.00% payable quarterly on the first day of September, December, March and June beginning on September 1, 2010.

The accompanying independent auditor's report is an integral part of these notes.

**SANITARY BOARD OF THE CITY OF CLARKSBURG  
NOTES TO THE FINANCIAL STATEMENTS (CONTD)  
FOR THE YEAR ENDED JUNE 30, 2013**

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

<u>For the Year Ended June 30,</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 50,000	\$ 50,000	\$ -0-
2015	50,000	50,000	-0-
2016	50,000	50,000	-0-
2017	50,000	50,000	-0-
2018	50,000	50,000	-0-
2019 – 2023	250,000	250,000	-0-
2024 – 2028	250,000	250,000	-0-
2029 – 2030	<u>100,000</u>	<u>100,000</u>	<u>-0-</u>
	\$ <u>850,000</u>	\$ <u>850,000</u>	\$ <u>-0-</u>

The 2009A bond issue is secured with a lien and pledge on the net revenues derived from the system.

As required by the 2009A Series Bond Ordinance, a sinking fund has been established with the West Virginia Municipal Bond Commission. Moneys in the sinking fund are to be used only for the purposes of paying principal on the bonds. Payments are required to be made into the sinking fund to pay principal which will become due on the next payment date. The balance in the sinking fund account with the Municipal Bond Commission at June 30, 2013 was \$59,166.

The future bond debt maturity based on current financing arrangements is as follows:

<u>For the Year Ended June 30,</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 444,165	\$ 409,429	\$ 34,736
2015	444,165	416,671	27,494
2016	444,165	424,061	20,104
2017	444,165	431,597	12,568
2018	444,165	439,286	4,879
2019 – 2023	250,000	250,000	-0-
2024 – 2028	250,000	250,000	-0-
2029 – 2031	<u>100,000</u>	<u>100,000</u>	<u>-0-</u>
	\$ <u>2,820,825</u>	\$ <u>2,721,044</u>	\$ <u>99,781</u>

The accompanying independent auditor's report is an integral part of these notes.

**SANITARY BOARD OF THE CITY OF CLARKSBURG  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

**Obligation Under Capital Lease**

**Sanitary Board**

The Sanitary Board of the City of Clarksburg entered into a capital lease on May 18, 2011 to finance the acquisition of a high pressure sewer cleaner. This lease qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the minimum lease payments as of the date of inception. The following is a schedule of the future minimum lease payments required under this capital lease and the present value of the net minimum lease payments at June 30, 2013:

<u>Fiscal Year Ending June 30,</u>	
2014	\$ 19,489
2015	19,489
2016	19,489
2017	<u>19,489</u>
	77,956
Less: Amount representing interest	<u>3,020</u>
	74,936
Less: Current maturities	<u>17,459</u>
Non-current maturities	\$ <u>57,477</u>

**5. Employees Retirement System**

The Sanitary Board of the City of Clarksburg, elected to become a participating public employer under the West Virginia Public Employees Retirement System effective July 1, 1963 for the coverage of all eligible employees. The Sanitary Board's contribution to the West Virginia Public Employees Retirement System for the year ended June 30, 2013 was:

<u>Percentage of Payroll</u>	<u>Total Wages</u>	<u>Covered Wages</u>	<u>Amount</u>
Employee share – 14.0%	\$ 1,316,417	\$ 1,232,107	\$ 172,495
Employee share – 4.5%	\$ 1,316,417	\$ 1,232,107	\$ 55,445

The accompanying independent auditor's report is an integral part of these notes.

**SANITARY BOARD OF THE CITY OF CLARKSBURG  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

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

	<u>Public Employees' Retirement System (PERS)</u>
Eligibility to participate	All Board full-time employees, except those covered by other pension plans
Authority establishing contribution obligations and benefit provisions	State Statute
Plan member's contribution rate	4.50%
Board's contribution rate	14.0%
Period required to vest	Five Years
Benefits and eligibility for distribution	A member who has attained age 60 and has earned 5 years or more of contribution 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 10) times the years of service times 2% equals the annual retirement benefit.
Deferred retirement portion	No
Provisions for:	
Cost of living	No
Death benefits	Yes

**Trend Information**

	<u>Public Employees' Retirement System (PERS)</u>	
<u>Fiscal Year</u>	<u>Annual Pension Cost</u>	<u>Percentage Contributed</u>
2013	\$ 172,495	100%
2012	\$ 174,268	100%
2011	\$ 148,819	100%
2010	\$ 135,573	100%

The accompanying independent auditor's report is an integral part of these notes.

**SANITARY BOARD OF THE CITY OF CLARKSBURG  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to the Public Employees Retirement System, Building 5, Room 1000, 1900 Kanawha Boulevard East, Charleston, WV 25305.

**Other Post Employment Benefits**

***Plan Description:***

The Sanitary Board of the City of Clarksburg contributes to the West Virginia Retiree Health Benefits Trust Fund (RHBT), a cost-sharing, multiple-employer defined benefit post-employment health care plan administered by the West Virginia Public Employees Insurance Agency (PEIA). RHBT provides medical benefits to eligible retired employees of participating employers. Eligibility is primarily established through participation in certain defined benefit plans. RHBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to: West Virginia Retiree Health Benefits Trust, Building 5, Room 1001, 1900 Kanawha Boulevard East, Charleston, West Virginia 25305-0170.

***Authority Establishing the Plan and Fund Policy:***

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

**Funding Policy:** The Board's contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2013, the Board contributed \$-0- to the plan. Employees are not required to make contributions for basic life insurance.

The accompanying independent auditor's report is an integral part of these notes.

**SANITARY BOARD OF THE CITY OF CLARKSBURG  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

**Annual OPEB Cost:** The Board's annual OPEB cost (expense) for the plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information follow in the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions:** Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The accompanying independent auditor's report is an integral part of these notes.

**SANITARY BOARD OF THE CITY OF CLARKSBURG  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

The following table shows the components of the Board's annual OPEB cost for the year, the amount actually contributed to the Plans, and changes in the Board's net OPEB obligations, as well as the assumptions used to calculate the net OPEB obligation for the covered active and retired employees.

Annual required contribution		\$ 26,070
Interest on net OPEB obligation		-0-
Adjustment to annual required contribution		<u>-0-</u>
 Annual OPEB cost		 26,070
Contributions made		<u>-0-</u>
 Increase (decrease) in net OPEB obligation		 26,070
Net OPEB obligation (asset) beginning of year		<u>881,035</u>
 Net OPEB obligation (asset) end of year		 \$ <u>907,105</u>
 Actuarial valuation date	6/30/2010	
 Actuarial cost method	Entry age	
 Amortization method	Level dollar	
 Asset valuation method	Smoothed market approach	
 Remaining amortization period	30 years	
 Actuarial assumptions:		
Investment rate of return	4.50%	
 Projected rate increase	4.60% - 5.60%	

The accompanying independent auditor's report is an integral part of these notes.

**SANITARY BOARD OF THE CITY OF CLARKSBURG  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

**Three-Year Trend Information**

<u>Year Ending</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
June 30, 2013	\$ 26,070	0%	\$ 907,105
June 30, 2012	\$ 262,020	0%	\$ 881,035
June 30, 2011	\$ 235,943	0%	\$ 619,015
June 30, 2010	\$ 256,105	0%	\$ 379,362

GASB Statement No. 45 was applied prospectively.

**6. Restricted Assets**

Certain enterprise fund assets are restricted for repayment of long-term debt. Reserved net assets include the excess of assets over certain liabilities restricted for the debt service on revenue bonds.

**7. Debt Service Coverage Factor – Sanitary Board Fund**

The Debt Service Coverage Factor has been calculated as follows:

Operating revenues	\$ 4,807,110
Operating expenses	<u>3,822,219</u>
Operating income	984,891
Add: Depreciation expense	396,003
Interest income	<u>895</u>
Amount available for debt service and capital expenditures	\$ <u>1,381,789</u>
Maximum annual debt service	\$ <u>444,165</u>
Calculated debt service coverage factor	<u>3.11</u>
Required debt service coverage factor	<u>1.15</u>

Based on this calculation, it appears that the Sanitary Board of the City of Clarksburg was in compliance with the provisions set forth in the Bond Ordinance.

The accompanying independent auditor's report is an integral part of these notes.

**SANITARY BOARD OF THE CITY OF CLARKSBURG  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2013**

**8. Restatement of Net Position**

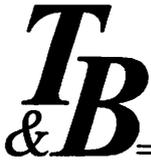
It was determined during this examination that the beginning net position of the Sanitary Sewer Board required restatement as follows:

Net position as previously reported	\$ 6,562,721
Restatements:	
Understatement of capital assets	17,474
Overstatement of accumulated depreciation	51,607
Understatement of notes payable	( 57,381)
Write off of unamortized bond discount in accordance with GASB Statement Number 65	( <u>31,298</u> )
Net position restated	\$ <u>6,543,123</u>

**9. Subsequent Events**

The Sanitary Board has considered all subsequent events through November 25, 2013, the date the financial statements were made available.

The accompanying independent auditor's report is an integral part of these notes.



**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 of Directors  
Sanitary Board of the City of Clarksburg  
Clarksburg, 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 of the Sanitary Board of the City of Clarksburg, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Sanitary Board of the City of Clarksburg's basic financial statements, and have issued our report thereon dated November 25, 2013.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2013-01 to be a material weakness.

### **Compliance and Other Matters**

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

### **Sanitary Board of the City of Clarksburg's Response to Findings**

Sanitary Board of the City of Clarksburg's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Sanitary Board of the City of Clarksburg's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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.

*Tetlock & Battlett, PLLC*

November 25, 2013

**SANITARY BOARD OF THE CITY OF CLARKSBURG  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2013**

**2013-1 Segregation of Duties**

**Condition:** Responsibility for approving, executing and recording transactions and custody of the resulting asset arising from the transaction should be assigned to different individuals.

**Criteria:** Internal control should be implemented to the degree possible to assign to different individuals the responsibility for approving, executing and recording transactions and custody of the resulting asset arising from the transaction.

**Cause:** Responsibilities for approving, executing, and recording transactions and custody of the resulting asset arising from the transaction are not assigned to different individuals.

**Effect:** The lack of complete segregation of duties increases the risk that errors or irregularities in recording, processing, summarizing and reporting financial data could occur and not be detected in a timely manner.

**Recommendation:** Responsibilities of approval, executing, recording and custody be distributed among the accounting staff to the degree possible. We recommend that the board of directors should remain involved in the financial affairs of the Sanitary Board to provide oversight and independent review function.

**Entity's Response:** To the extent possible, the Sanitary Board has segregated its duties. Any further segregation of duties would not be economically feasible.