

*Henry County Public Service Authority*  
*Comprehensive Annual Financial Report*  
*Years Ended June 30, 2010 and 2009*



*Creedle, Jones  
& Alga, P.C.*  
*Certified Public Accountants*

## Henry County Public Service Authority

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**Creedle  
Jones  
& Alga**

*A Professional Corporation*

*Sherwood H. Creedle, CPA  
Robin B. Jones, CPA, CFP  
David V. Alga, CPA, CVA, CFF  
Denise C. Williams, CPA, CSEP*

*James A. Allen, Jr., CPA  
Nadine L. Chase, CPA  
Nadia A. Rogers, CPA  
Scott A. Thompson, CPA*

*Members of  
American Institute of Certified Public Accountants  
Virginia Society of Certified Public Accountants*

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Henry County Public Service Authority  
Collinsville, Virginia

We have audited the accompanying financial statements of the governmental activities and the business-type activities of Henry County Public Service Authority, as of and for the year ended June 30, 2010, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Henry County Public Service Authority's management. 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, and *Specifications for Audit of Industrial Development Authorities* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities and the business-type activities of the Henry County Public Service Authority, as of June 30, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2010, on our consideration of the Henry County Public Service Authority'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1 through 5 and 24 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.

*Creedle, Jones & Alga, P.C.*

Creedle, Jones & Alga, P.C.  
Certified Public Accountants

South Hill, Virginia  
November 23, 2010

## Henry County Public Service Authority

### Management's Discussion and Analysis

As of June 30, 2010

Our discussion and analysis of the Henry County Public Service Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2010. Please read this information in conjunction with Henry County Public Service Authority's financial statements.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

The Henry County Public Service Authority (the "Authority") presents three basic financial statements. These are: (1) Statements of Net Assets; (2) Statements of Activities; and (3) Statements of Cash Flows.

Our financial position is measured in terms of resources (assets) we own and obligations (liabilities) we owe on a given date. This information is reported on the Statements of Net Assets, which reflects the Authority's assets in relation to its debt to creditors. The excess of our assets over liabilities is our equity, or net assets.

Information regarding the results of our operation during the years is reported in the Statements of Activities. These statements show how much our overall net assets increased or decreased during the year as a result of our operations and for other reasons.

Our Statements of Cash Flows disclose the flow of cash resources into and out of the Authority during the year (from fees and grants) and how we applied those funds (incentive payments and payment of expenses).

#### SUMMARY OF ORGANIZATION AND BUSINESS

The Henry County Public Service Authority is a public body organized and created under the Virginia Water and Waste Authorities Act of the Code of Virginia of 1950 as amended. The Henry County Board of Supervisors created the Authority in 1965. The purpose of the Authority is to "acquire, construct, improve, extend, operate, and maintain a water and sewage disposal system."

The Authority is governed by six citizen members appointed by the Henry County Board of Supervisors to four-year staggered terms.

In 1974, the Authority and neighboring City of Martinsville (the "City") signed a service agreement in which the Authority would purchase sewage treatment from the City. In 1982, the Authority signed a service agreement with the City to purchase water treatment from the City. These agreements require the Authority to share in the annual operating costs of the plants in proportion to its actual use as measured by the volume of water used and sewage it contributed. It also allowed for the Authority to purchase capacity rights into the water and sewer plants at an agreed-upon price.

The Authority's infrastructure assets consist of one water treatment plant (owned by Henry County and leased to the Authority), approximately 342 miles of water lines and 391 miles of interceptor sewers, and several pump stations. The collection system, consisting of mains and laterals, is owned and maintained by the Authority. The last remaining waste water plant was converted to a pumping station and was completed in December 2005.

The Authority has no taxing power. The revenues of the Authority are derived from water and sewage disposal charges based on metered and unmetered water consumption of the Authority's users of the system.

## FINANCIAL SUMMARY

### Financial Position

A summary of the Authority's Statements of Net Assets for 2010 and 2009 is presented below:

	<u>2010</u>	<u>2009</u>	<u>\$ Change</u>	<u>% Change</u>
Current Assets	<b>\$ 6,876,745</b>	\$ 6,519,272	\$ 357,473	5.48%
Net Capital Assets	<b>74,866,628</b>	76,597,237	(1,730,609)	-2.26%
Other Noncurrent Assets	<u>8,321,998</u>	<u>8,278,185</u>	<u>43,813</u>	0.53%
Total Assets	<b><u>\$ 90,065,371</u></b>	<b><u>\$ 91,394,694</u></b>	<b><u>\$ (1,329,323)</u></b>	-1.45%
Total Liabilities	<b>\$ 37,669,861</b>	\$ 40,356,935	\$ (2,687,074)	-6.66%
Net Assets				
Invested in capital assets	<b>40,572,037</b>	39,997,336	574,701	1.44%
Restricted for debt	<b>7,571,990</b>	7,419,606	152,384	2.05%
Unrestricted	<u>4,251,483</u>	<u>3,620,817</u>	<u>630,666</u>	17.42%
Total Net Assets	<b><u>52,395,510</u></b>	<b><u>51,037,759</u></b>	<b><u>1,357,751</u></b>	2.66%
Total Liabilities and Net Assets	<b><u>\$ 90,065,371</u></b>	<b><u>\$ 91,394,694</u></b>	<b><u>\$ (1,329,323)</u></b>	-1.45%

### Change in Net Assets

A summary of the Authority's Statements of Revenues, Expenses, and Changes in Net Assets for 2010 and 2009 is presented below:

#### Condensed Statements of Revenues, Expenses, and Changes in Net Assets

	<u>2010</u>	<u>2009</u>	<u>\$ Change</u>	<u>% Change</u>
Operating Revenues	<b>\$ 11,124,973</b>	\$ 11,151,447	\$ (26,474)	-0.24%
Operating Expenses	<u>(9,300,215)</u>	<u>(9,350,862)</u>	<u>50,647</u>	-0.54%
Operating Income	<b>1,824,758</b>	1,800,585	24,173	1.34%
Non-Operating Revenue	<b>453,285</b>	479,495	(26,210)	-5.47%
Gain (Loss) on Sale of Properties	<b>72,863</b>	2,297	70,566	100.00%
Non-Operating Expense	<u>(1,826,122)</u>	<u>(1,863,496)</u>	<u>37,374</u>	-2.01%
Income Before Contributions	<b>524,784</b>	418,881	105,903	25.28%
Capital Contributions	<u>832,967</u>	<u>802,086</u>	<u>30,881</u>	3.85%
Changes in Net Assets	<b><u>\$ 1,357,751</u></b>	<b><u>\$ 1,220,967</u></b>	<b><u>\$ 136,784</u></b>	11.20%

During the year, the Authority's net operating income was \$1,824,758. The Authority had non-operating revenues and expenses in the form of interest income and sale of assets, which amounted to \$526,148 and interest expense amounting to \$1,826,122. Operating expenses of \$9,300,215 included all expenses necessary to operate the Authority's water and sewer facilities.

Net assets increased \$1,357,751 in 2010 as compared to an increase of \$1,220,967 in 2009.

### Cash Flows

A summary of the Authority's Statements of Cash Flows for 2010 and 2009 is presented below:

#### Condensed Statement of Cash Flows

	<u>2010</u>	<u>2009</u>
<b>Cash Provided by (Used in)</b>		
Operating activities	<b>\$ 4,685,030</b>	\$ 4,489,836
Capital and related financing activities	<b>(4,696,892)</b>	(6,519,378)
Investing activities	<b><u>373,764</u></b>	<u>1,508,182</u>
Net Increase (Decrease) in Cash	<b><u>\$ 361,902</u></b>	<b><u>\$ (521,360)</u></b>

Cash flows from capital and related financing activities consist of purchases of fixed assets and payments related to debt.

Cash flows from operating activities consist of receipts from customers and grants less operating expenses, creating a positive cash flow.

During fiscal year 2010, there was an increase of \$361,902 in cash as compared to a decrease of \$521,360 in 2009.

### Capital Assets

As of June 30, 2010, the Authority's investment in capital assets totals \$40,572,037 which is net capital assets less related debt.

During fiscal year 2010, the Authority's net capital assets (including additions, decreases, and depreciation) decreased \$1,730,609 as summarized below:

#### Change in Capital Assets

	<u>Balance</u> <u>June 30, 2009</u>	<u>Net Additions</u> <u>and Deletions</u>	<u>Balance</u> <u>June 30, 2010</u>
Land and land improvements	\$ 361,554	\$ 93,117	\$ 454,671
Construction in progress	1,159,684	(588,432)	571,252
Building and leasehold improvements	767,274	555,637	1,322,911
Water and sewer system	123,053,395	1,073,891	124,127,286
Trucks and autos	1,643,780	77,419	1,721,199
Office equipment	365,330	43,162	408,492
Total Capital Assets	127,351,017	1,254,794	128,605,811
Less: Accumulated depreciation	(50,753,780)	(2,985,403)	(53,739,183)
Total Capital Assets, Net	<b><u>\$ 76,597,237</u></b>	<b><u>\$ (1,730,609)</u></b>	<b><u>\$ 74,866,628</u></b>

### Long-Term Debt

As of June 30, 2010, the Authority's long-term debt totals \$35,358,463.

The Authority's long-term debt is presented as follows:

### Change in Long-Term Debt

	<u>Balance June 30, 2009</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2010</u>
Long-term notes	\$ 37,458,480	\$ (2,413,880)	\$ 35,044,600
Compensated absences	<u>319,038</u>	<u>(5,175)</u>	<u>313,863</u>
	<u>\$ 37,777,518</u>	<u>\$ (2,419,055)</u>	<u>\$ 35,358,463</u>

### GENERAL TRENDS AND SIGNIFICANT EVENTS

The Authority's service area in Henry County has the potential for growth. The County is over two hundred years old and has available land that continues to be developed. Growth from new development is not expected to significantly increase the Authority's water and sewage disposal revenues in any given year.

It is anticipated that the small growth trend in customer connections will continue to increase as the amount of undeveloped land is developed.

### FINANCIAL CONDITION

The Authority's financial condition remained good at year end with adequate liquid assets and a reasonable level of unrestricted net assets. The current financial condition, staff capabilities, operating plans, and upgrade plans to meet future water quality requirements are well balanced and under control.

Total assets decreased by \$1,329,323 or 1.5 percent, while net assets increased by \$1,357,751. Accounts receivable-net at year end were \$977,532 compared to \$1,044,590 for fiscal year 2009. The reserve for bad debts equals all accounts over 90 days past due. The bad debt charge for 2010 and 2009 was \$36,058 and \$24,138, respectively. Recovery of bad debts previously written off amounted to \$9,190 and \$7,804 in 2010 and 2009, respectively.

### RESULTS OF OPERATIONS

The Authority's main revenues fall into the categories of operating revenues, interest income, and capital contributions. Revenues, including capital contributions, totaled \$12,484,088 compared to \$12,435,325 last year, a 0.4 percent decrease.

### DEBT

At year end, the Authority had \$35,358,463 in long-term debt with \$2,543,070 (including the deferred amounts) coming due in 2011. More detailed information about the Authority's long-term debt is presented in Note 7 to the financial statements.

One area that demonstrates the Authority's financial ability to pay current debt service (principal and interest) is seen in its debt service coverage, which is shown below. The financing agreement covenant requires the Authority to establish rates, fees, and other charges for the use of and for services furnished by the Authority and collection procedures so that in each fiscal year net revenues and available cash reserves are not less than 1.2 times the debt service (principal and interest) for the fiscal year. Cash reserves available were \$5.34 million for 2010 and \$4.98 million for 2009. The following table calculates debt service coverage for fiscal years 2010 and 2009, including the available cash reserves:

	(In Millions of Dollars)		
	<u>2010</u>	<u>2009</u>	<u>% Change</u>
Unrestricted operating revenue	\$ 11.12	\$ 11.15	-0.3%
Unrestricted investment income	<u>0.53</u>	<u>0.48</u>	10.4%
Total revenue	11.65	11.63	0.2%
Total operating expenses (less depreciation)	<u>6.21</u>	<u>6.38</u>	-2.7%
Net revenue	5.44	5.25	3.6%
Unrestricted cash - beginning of year	<u>4.98</u>	<u>5.50</u>	-9.5%
Available for debt service	<u>\$ 10.42</u>	<u>\$ 10.75</u>	-3.1%
Annual debt service	<u>\$ 4.03</u>	<u>\$ 4.01</u>	0.5%
Debt service coverage	<u>2.58</u>	<u>2.68</u>	-3.7%

## FINAL COMMENTS

Fiscal year 2010 continued the trend of positive financial performance by the Authority. This positive performance is needed in order for the Authority to maintain flexibility in future borrowing decisions, ensuring that there is an appropriate reserve for operating expenses, expansion, and that resources are available to provide for the effects of time and usage on the significant investment in equipment.

The Authority finished all of the construction of the Chestnut Knob Water Line and the 58 East Water Line. These new lines will allow the Philpott Water Treatment Plant to furnish water to the 220 South and 58 East areas and reduce water purchased from the City of Martinsville. The Authority can produce the water at a lower cost.

## REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. Questions concerning this report or requests for additional information should be directed to General Manager, Henry County Public Service Authority, P. O. Box 69, Collinsville, Virginia 24078, telephone 276-634-4600.

# **FINANCIAL STATEMENTS**

## Henry County Public Service Authority

## Statements of Net Assets

June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 5,342,244	\$ 4,980,342
Accounts receivable, net	977,532	1,044,590
Unbilled revenue	472,756	441,135
Inventory	<u>84,213</u>	<u>53,205</u>
Total Current Assets	6,876,745	6,519,272
<b>Capital Assets</b>		
Nondepreciable	1,025,923	1,521,238
Depreciable	<u>73,840,705</u>	<u>75,075,999</u>
Net Capital Assets	74,866,628	76,597,237
<b>Other Noncurrent Assets</b>		
Restricted investments	7,571,990	7,419,606
Unrealized bond issue costs	<u>750,008</u>	<u>858,579</u>
Total Other Noncurrent Assets	<u>8,321,998</u>	<u>8,278,185</u>
Total Assets	<u>\$ 90,065,371</u>	<u>\$ 91,394,694</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 319,202	\$ 572,200
Interest payable	203,050	216,824
Accrued expenses	5,995	6,307
Customer deposits	564,782	540,635
Current maturities of long-term liabilities	<u>2,543,070</u>	<u>2,445,784</u>
Total Current Liabilities	3,636,099	3,781,750
<b>Long-Term Liabilities</b>		
Due to other governments - Pittsylvania County	1,218,369	1,243,451
Compensated absences, net of current portion	282,477	287,134
Notes payable, net of current portion	<u>32,532,916</u>	<u>35,044,600</u>
Total Long-Term Liabilities	<u>34,033,762</u>	<u>36,575,185</u>
Total Liabilities	37,669,861	40,356,935
<b>Net Assets</b>		
Invested in capital assets, net of related debt	40,572,037	39,997,336
Restricted		
Debt covenants	7,571,990	7,419,606
Unrestricted	<u>4,251,483</u>	<u>3,620,817</u>
Total Net Assets	<u>52,395,510</u>	<u>51,037,759</u>
Total Liabilities and Net Assets	<u>\$ 90,065,371</u>	<u>\$ 91,394,694</u>

The accompanying notes to financial statements are an integral part of this statement.

## Henry County Public Service Authority

## Statements of Activities

Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Operating Revenues</b>		
Water and sewer charges	\$ 10,281,800	\$ 10,201,748
Fire protection fees - Henry County	406,800	406,800
Connection fees	55,077	168,234
Miscellaneous	<u>381,296</u>	<u>374,665</u>
Total Operating Revenues	<b>11,124,973</b>	11,151,447
<b>Operating Expenses</b>		
Water and sewer treatment	2,926,319	3,073,049
Depreciation	3,085,006	2,966,307
Maintenance - transmission and collection lines	1,169,418	1,170,497
Administration	894,654	937,937
Bad debts	36,058	24,138
Customer service	382,199	389,167
Engineering and mapping	302,313	298,341
Maintenance - vehicle and equipment	77,004	89,467
Management information systems	193,574	205,704
Meter reading	138,879	141,473
Service center	31,880	-
Safety	<u>62,911</u>	<u>54,782</u>
Total Operating Expenses	<u>9,300,215</u>	<u>9,350,862</u>
Operating Income	<b>1,824,758</b>	1,800,585
<b>Non-Operating Revenues (Expenses)</b>		
Interest income	453,285	479,495
Gain on sale of properties	72,863	2,297
Interest expense	<u>(1,826,122)</u>	<u>(1,863,496)</u>
Net Non-Operating Revenues (Expenses)	<u>(1,299,974)</u>	<u>(1,381,704)</u>
Change in Net Assets Before Contributions	<b>524,784</b>	418,881
<b>Capital Contributions</b>	<u>832,967</u>	<u>802,086</u>
Change in Net Assets	<b>1,357,751</b>	1,220,967
Total Net Assets - Beginning of Year	<u>51,037,759</u>	<u>49,816,792</u>
Total Net Assets - End of Year	<u>\$ 52,395,510</u>	<u>\$ 51,037,759</u>

The accompanying notes to financial statements are an integral part of this statement.

## Henry County Public Service Authority

## Statements of Cash Flows

Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Cash Flows from Operating Activities</b>		
Cash received from customers	\$ 11,184,557	\$ 11,874,487
Cash paid for goods and services	(4,291,464)	(5,155,077)
Cash paid to employees	<u>(2,208,063)</u>	<u>(2,229,574)</u>
Net Cash Provided by Operating Activities	4,685,030	4,489,836
<b>Cash Flows from Capital and Related Financing Activities</b>		
Governmental grant revenue	832,967	802,086
Money received other governments (Due to)	(25,082)	1,243,451
Purchase of capital assets	(1,354,397)	(4,503,722)
Bond principal payments	(2,419,055)	(2,301,497)
Bond interest payments	(1,839,896)	(1,876,567)
Bond issuance costs	<u>108,571</u>	<u>116,871</u>
Net Cash Used in Capital and Related Financing Activities	(4,696,892)	(6,519,378)
<b>Cash Flows from Investing Activities</b>		
Interest received	453,285	479,495
Gain (Loss) on sale of properties	72,863	(30,756)
Net change in investments	<u>(152,384)</u>	<u>1,059,443</u>
Net Cash Provided by Investing Activities	373,764	1,508,182
Net Increase (Decrease) in Cash and Cash Equivalents	361,902	(521,360)
Cash and Cash Equivalents - Beginning of Year	<u>4,980,342</u>	<u>5,501,702</u>
Cash and Cash Equivalents - End of Year	<u>\$ 5,342,244</u>	<u>\$ 4,980,342</u>
<b>Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities</b>		
Operating income	\$ 1,824,758	\$ 1,800,585
Adjustments to reconcile operating income		
Depreciation	3,085,006	2,966,307
Bad debts	36,058	24,138
Change in assets and liabilities		
Decrease (Increase) in		
Accounts receivable	31,000	641,198
Inventory	(31,008)	(1,558)
Unbilled revenue	(31,621)	24,961
Increase (Decrease) in		
Accounts payable	(252,998)	(999,951)
Customer deposits	24,147	32,744
Accrued expenses	<u>(312)</u>	<u>1,412</u>
Net Cash Provided by Operating Activities	<u>\$ 4,685,030</u>	<u>\$ 4,489,836</u>

The accompanying notes to financial statements are an integral part of this statement.

**Henry County Public Service Authority**

Statement of Fiduciary Assets and Liabilities

Year Ended June 30, 2010

	<b><u>OPEB Trust Fund</u></b>
<b>Assets</b>	
Investment - restricted	<u>\$ 21,242</u>
Total Assets	<u><u>\$ 21,242</u></u>
<b>Liabilities and Fund Balances</b>	
<b>Liabilities</b>	
Amounts held for others	<u>\$ 21,242</u>
Total Liabilities	21,242
<b>Fund Balances</b>	
Unreserved/Undesignated	_____ -
Total Fund Balances	_____ -
Total Liabilities and Fund Balances	<u><u>\$ 21,242</u></u>

The accompanying notes to financial statements are an integral part of this statement.

## Henry County Public Service Authority

### Notes to Financial Statements

Year Ended June 30, 2010

#### **1** Organization, Description of the Entity, and Its Activities

The Henry County Public Service Authority (the "Authority") was formed in 1965 under the provisions of the Virginia Water and Sewer Authorities Act, Code of Virginia (1950), as amended. The Authority provides water and sewer services to communities in Henry County, Virginia (the "County"). The Authority is governed by a six-member Board of Directors who are appointed for four-year staggered terms by the Board of Supervisors of the County. Since the Board of Supervisors cannot impose its will on the Authority and since there is no potential financial benefit or burden in the relationship, the County is not financially accountable for the Authority. Accordingly, the Authority is not considered a component unit of the County.

#### **2** Significant Accounting Policies

##### ***Financial Statement Presentation***

The accompanying financial statements conform to generally accepted accounting principles (GAAP) applicable to government units promulgated by the Governmental Accounting Standards Board (GASB).

The Authority applies all GASB pronouncements as well as the Financial Accounting Standards Board (FASB) Statements and Interpretations, APB Opinions and Accounts Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

##### ***Basis of Accounting***

The Authority's financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the Authority's financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Authority also has the option of following subsequent private-sector guidance, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for water and sewer sales. Operating expenses include the cost of water and sewer treatment, maintenance, and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

##### ***Cash and Cash Equivalents***

Cash and cash equivalents consists of cash on hand; demand, savings or money market accounts; and certificates of deposit or short-term investments with purchased maturities of three months or less.

***Unbilled Revenue***

Unbilled revenue consists of amounts earned as of year end, but not yet billed because billing dates do not coincide with year end.

***Allowance for Doubtful Accounts***

The Authority has calculated its allowance for doubtful accounts using historical collection data and specific account analysis of all accounts greater than or equal to ninety days aged.

***Inventory***

Inventory consists of grinder pumps, parts, and supplies on hand at year end, reported at the lower of cost (first-in, first-out) or market. Inventory is generally used for construction and for operation and maintenance work, and is not held for resale.

***Investments***

Investments are carried at fair value.

***Capital Assets***

Capital assets are recorded at original cost at the time of acquisition. Donated assets are recorded at their fair market value on the date donated. Repair and maintenance items are expensed when incurred. Depreciation is provided on the straight-line method over the following estimated useful lives:

Buildings and structures	40-50 years
Sewer system equipment	10-50 years
Water system equipment	10-40 years
Other equipment	5-20 years

***Compensated Absences***

The vacation policy provides for the accumulation of earned vacation leave, depending on years of service with a maximum accumulation of 240 hours. The sick leave policy provides for sick leave to be earned at the rate of eight hours per month of service with a maximum accumulation of 720 hours. Accumulated vacation is paid at 100 percent, and sick leave is paid at 25 percent, upon termination of employment. These amounts are accrued when incurred.

***Revenues***

The Authority records water and sewer revenues as billed to its customers principally on a monthly basis. Fees charged for the privilege of connecting to the system are credited to income.

***Property and Equipment***

Depreciation is provided principally on the straight-line method over the estimated useful lives of the assets.

### ***Use of Estimates***

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

### ***Budgets***

The Authority adopts an annual budget for informative and fiscal planning purposes only. The budget is not intended to be a legal control on expenses. Budgets are adopted on the accrual basis of accounting with the exception that depreciation and amortization are not budgeted.

### ***Amortization***

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Amortization of bond premiums or discounts is included in interest expense. Amortization of bond issuance costs is recorded as amortization expense. Bonds payable are reported net of the applicable bond premium or discount. The deferred amount resulting from bond refunding is amortized over the shorter of the life of the new bond issue or the refunded issue. Bonds payable are reported net of the deferred amount on refunding.

### ***Net Assets***

Net assets are the difference between assets and liabilities. Net assets invested in capital assets represent capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction, or improvement of those assets.

## **3 Cash Equivalents**

### ***Deposits***

All cash of the Authority is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et seq. of the Code of Virginia or covered by Federal Depository Insurance.

### ***Investments***

Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, bankers acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP).

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u>
U.S. Treasuries	\$5,416,348	5 months or less	AAA
Certificates of deposit	<u>2,155,642</u>	2010/2011	N/A
	<u>\$7,571,990</u>		

**Interest Rate Risk** – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority purchases investments having a maturity not greater than five years from the date of purchase.

**Credit Risk** – In accordance with State statutes, the Authority authorized investments in obligations of the United States and agencies thereof, commercial paper, repurchase agreements which are collateralized with securities that are approved for direct investment, and LGIP.

**Concentration of Credit Risk** – The Authority places no limit on the amount that may be invested in any one issuer. More than 20 percent of the Authority's investments are in certificates of deposit from a single bank.

#### **Debt Service Forward Delivery Agreements**

The Authority entered into two Debt Service Forward Delivery Agreements dated May 10, 2002 (one for the Debt Service Fund and one for the Debt Service Reserve Fund) maturing November 15, 2019. Monthly, the Authority transfers cash to the bond trustee in exchange for U.S. Treasury obligations which are held by the bond trustee. These obligations mature in accordance with the debt service payment schedule.

### **4 Amount of Allowance for Uncollectible Accounts**

The Authority calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. Management estimates the allowance account to be \$28,407 and \$20,462 as of June 30, 2010 and 2009, respectively.

### **5 Due to Other Governments**

The Authority has entered into a long-term agreement with Pittsylvania County concerning the construction of water lines. The agreement allows the Authority to repay Pittsylvania County for the cost of these lines based on water usage by the County. The original contract amount was \$1,250,000. The amount repaid for fiscal year 2010 was \$25,082 leaving a balance of \$1,218,369 as of June 30, 2010.

### **6 Capital Assets**

The following schedule shows the breakdown of capital assets by category at June 30, 2010:

	<u>Balance</u> <u>July 1, 2009</u>	<u>Acquired</u> <u>(Increased)</u>	<u>Deleted</u> <u>(Decreased)</u>	<u>Balance</u> <u>June 30, 2010</u>
<b>Capital assets, not depreciated</b>				
Land and land improvements	\$ 361,554	\$ 123,117	\$ 30,000	\$ 454,671
Construction in progress				
Water	574,260	422,837	840,072	157,025
Sewer	-	825,711	411,484	414,227
Other	<u>585,424</u>	<u>327,942</u>	<u>913,366</u>	<u>-</u>
Total Construction in Progress	<u>1,159,684</u>	<u>1,576,490</u>	<u>2,164,922</u>	<u>571,252</u>
Total Capital Assets, Not Depreciated	1,521,238	1,699,607	2,194,922	1,025,923
<b>Capital assets, depreciated</b>				
Buildings and leasehold improvements	767,274	615,342	59,705	1,322,911
Water and sewer system	123,053,395	1,101,251	27,360	124,127,286
Trucks and autos	1,643,780	89,957	12,538	1,721,199
Office equipment	<u>365,330</u>	<u>43,162</u>	<u>-</u>	<u>408,492</u>
Total Capital Assets, Depreciated	125,829,779	1,849,712	99,603	127,579,888
Less: Accumulated depreciation for				
Land improvements	2,029	89	-	2,118
Buildings and leasehold improvements	608,923	67,381	59,704	616,600
Water and sewer system	48,308,230	2,974,035	27,360	51,254,905
Trucks and autos	1,469,778	40,381	12,539	1,497,620
Office equipment	<u>364,820</u>	<u>3,120</u>	<u>-</u>	<u>367,940</u>
Total Accumulated Depreciation	<u>50,753,780</u>	<u>3,085,006</u>	<u>99,603</u>	<u>53,739,183</u>
Total Capital Assets Depreciated, Net	<u>75,075,999</u>	<u>(1,235,294)</u>	<u>-</u>	<u>73,840,705</u>
Total Capital Assets, Net	<u>\$ 76,597,237</u>	<u>\$ 464,313</u>	<u>\$ 2,194,922</u>	<u>\$ 74,866,628</u>

## 7 Long-Term Debt

The following is a summary of the Authority's long-term liability activity for the year:

<u>Details of Long-Term Indebtedness</u>	<u>Balance July 1, 2009</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2010</u>	<u>Due Within One Year</u>
2000 VRL Fund	\$ 306,320	\$ -	\$ 29,700	\$ 276,620	\$ 29,700
2000 Water	1,169,161	-	18,433	1,150,728	19,280
2000-A Water	776,254	-	11,994	764,260	12,545
2001 Water and Sewer Refunding	30,215,000	-	2,095,000	28,120,000	2,200,000
2004-B Water and Sewer Refunding	1,080,000	-	50,000	1,030,000	50,000
2005-A Sewer	1,007,474	-	12,447	995,027	12,971
2007 Bonds Payable	<u>2,562,653</u>	<u>-</u>	<u>96,340</u>	<u>2,466,313</u>	<u>100,175</u>
Long-Term Debt before Deferrals	37,116,862	-	2,313,914	34,802,948	2,424,671
Less: Deferred amounts					
2001 refunding	(611,908)	-	(78,634)	(533,274)	(72,234)
Imputed interest on 2000 VRL Fund	(69,272)	-	(11,629)	(57,643)	(10,714)
Unamortized premium on 2001 Water and Sewer Refunding	1,017,282	-	189,646	827,636	169,398
Unamortized premium on 2004-B Water and Sewer	<u>5,516</u>	<u>-</u>	<u>583</u>	<u>4,933</u>	<u>563</u>
Total Deferred Amounts	<u>341,618</u>	<u>-</u>	<u>99,966</u>	<u>241,652</u>	<u>87,013</u>
Long-Term Debt	37,458,480	-	2,413,880	35,044,600	2,511,684
Compensated absences	<u>319,038</u>	<u>-</u>	<u>5,175</u>	<u>313,863</u>	<u>31,386</u>
Total Long-Term Debt	<u>\$37,777,518</u>	<u>\$ -</u>	<u>\$2,419,055</u>	<u>\$ 35,358,463</u>	<u>\$2,543,070</u>

	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Final Maturity</u>	<u>Amount of Original Issue</u>	<u>Installment Payments</u>	<u>Installment Period</u>	<u>Balance June 30, 2010</u>
<b>Bonds</b>							
Virginia Revolving Loan Fund	0.000%	06/16/2000	2019	\$ 594,000	\$ 14,850	Semi-Annual	\$ 276,620
Water Facility Revenue	4.500%	01/28/2000	2039	1,282,840	5,889	Monthly	1,150,728
Water Facility Revenue	4.500%	06/14/2000	2040	847,400	3,890	Monthly	764,260
Water and Sewer Revenue Refunding	3.00-5.500%	11/15/2001	2019	42,470,000	1,565,000 3,540,000	Annual	28,120,000
Water and Sewer Revenue	2.35-4.475%	11/17/2004	2024	1,275,000	45,000 90,000	Annual	1,030,000
Sewer Facility Revenue	4.125%	07/14/2005	2045	1,030,000	4,481	Monthly	995,027
Water and Sewer Revenue Bond, Series 2007	3.910%	11/1/2007	Balloon in 2019	2,700,000	16,235	Monthly	<u>2,466,313</u>
<b>Total Debt before Deferrals</b>							<b><u>\$ 34,802,948</u></b>

The annual requirements to amortize bond principal and related interest are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Deferred Amounts</u>	<u>Total LT Debt with Deferrals</u>
2011	\$ 2,424,671	\$ 1,704,361	\$ 87,013	\$ 2,511,684
2012	2,545,666	1,583,920	75,633	2,621,299
2013	2,671,910	1,454,227	60,797	2,732,707
2014	2,808,413	1,314,757	45,438	2,853,851
2015	2,960,186	1,167,839	32,951	2,993,137
2016-2020	18,612,077	3,245,981	(60,827)	18,551,250
2021-2025	799,812	522,541	647	800,459
2026-2030	472,980	382,620	-	472,980
2031-2035	589,043	266,557	-	589,043
2036-2040	675,894	122,561	-	675,894
2041-2045	<u>242,296</u>	<u>26,226</u>	<u>-</u>	<u>242,296</u>
	<u>\$ 34,802,948</u>	<u>\$ 11,791,590</u>	<u>\$ 241,652</u>	<u>\$ 35,044,600</u>

Required escrow funds for debt service, repairs and replacements, and operating needs were as follows:

Operating funds reserve	\$1,321,000
Replacement reserve	444,788
Debt service - 2000 RUS bonds	360,000
Debt service - 2001 bonds	5,383,272
Debt service - accrued interest	<u>62,930</u>
	<b><u>\$7,571,990</u></b>

The Authority is required to maintain a debt service coverage ratio of 120 percent (as defined in the bond Master Trust Agreement and related amendments) and to periodically obtain a consulting engineer's report to determine amounts needed to escrow for future repairs, replacements, and operating needs. The Authority received the most recent report in September 2010. The management of the Authority believes it is in compliance with all requirements.

Revenue bonds require all revenues and receipts derived by the Authority to be pledged as security for the bonds. In addition, a security interest in all accounts receivable for services is granted to the issuer of the bonds.

## 8 Capital Contributions

Capital contributions represent proceeds from federal, state, and local agencies for the following capital projects:

<u>Source of Revenue</u>	<u>Project</u>	
County of Henry, Virginia	Philpott Sewer Extension	\$ 414,227
Virginia Resources Authority	SLS Generators Project	399,540
Department of Environmental Quality	Marigold Water Extension	<u>19,200</u>
		<u>\$ 832,967</u>

## 9 Operating Leases

The Authority leases its office space from the County for a fifteen year term commencing November 1, 1997 and ending on October 31, 2012. The lease is renewable annually for one year terms thereafter. In lieu of rent, the Authority renovated a portion of the building for the County's and Authority's use. These improvements (shown as leasehold improvements) are being depreciated over the life of the lease.

In addition, the Authority leases the water treatment plant from the County. The plant, with a cost of \$1,642,595, accumulated depreciation of \$1,051,437, and annual depreciation of \$40,440 is recorded on the County's financial statements. The Authority is responsible for all maintenance and operations of the plant. No payments are required. The Authority is required to retain funds in an Expansion and Replacement Fund to be applied to reasonable and necessary expenses for construction, replacement, repair, additions and/or extensions to the water and waste water facilities of the Authority. All disbursements from this fund must first be approved by the County. The lease continues until all debts of the Authority relating to water facility improvements have been satisfied.

## 10 Contingent Liabilities (Including Federally Assisted Programs – Compliance Audits)

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

At June 30, 2010, there were no matters of litigation involving the Authority which would materially affect the Authority's financial position should any court decision or pending matter not be favorable to the Authority.

# 11 Defined Benefit Pension Plan

## A. *Plan Description*

<b>Name of Plan:</b>	Virginia Retirement System (VRS)
<b>Identification of Plan:</b>	Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
<b>Administering Entity:</b>	Virginia Retirement System (System)

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 for participating local law enforcement officers, firefighters, and sheriffs) or at age 50 with at least 30 years of service if elected by the employer (age 50 with at least 25 years of service for participating local law enforcement officers, firefighters, and sheriffs) payable monthly for life in an amount equal to 1.70% of their average final compensation (AFC) for each year of credited service (1.85% for sheriffs and if the employer elects, for other employees in hazardous duty positions receiving enhanced benefits). Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living adjustment (COLA) beginning in their second year of retirement. The COLA is limited to 5.00% per year. AFC is defined as the highest consecutive 36 months of reported compensation. Participating local law enforcement officers, firefighters, and sheriffs may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their website at <http://www.varetire.org/Pdf/Publications/2009-Annual-Report.pdf> or obtained by writing to the System's Chief Financial Officer at P. O. Box 2500, Richmond, Virginia 23218-2500.

## B. *Funding Policy*

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their annual salary to the VRS. This 5.00% member contribution may be assumed by the employer. In addition, the Authority is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Authority's contribution rate for the fiscal year ended 2010 was 1.81 percent of annual covered payroll.

## C. *Annual Pension Cost*

For fiscal year 2010, the Authority's annual pension cost of \$37,185 was equal to the Authority's required and actual contributions.

### Three-Year Trend Information for Authority

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
June 30, 2008	\$ 98,329	100%	\$ -
June 30, 2009	37,446	100%	-
<b>June 30, 2010</b>	<b>37,185</b>	<b>100%</b>	<b>-</b>

The required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2007 included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases include an inflation component of 2.50 percent. The actuarial value of the Authority's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2007 was 20 years.

#### **D. Funded Status and Funding Progress**

As of June 30, 2009, the most recent actuarial valuation date, the plan was 103.39 percent funded. The actuarial accrued liability for benefits was \$7,699,838, and the actuarial value of assets was \$7,961,123, resulting in an unfunded actuarial accrued liability (UAAL) of \$(261,285). The covered payroll (annual payroll of active employees covered by the plan) was \$2,082,795, and ratio of the UAAL to the covered payroll was 12.54 percent.

The schedule of funding progress, presented as Required Supplementary Information following 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 liability (AAL) for benefits.

#### REQUIRED SUPPLEMENTARY INFORMATION

##### Schedule of Funding Progress for Authority

	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability (AAL)</u>	<u>Unfunded</u> <u>Actuarial</u> <u>Accrued</u> <u>Liability (UAAL)</u>	<u>Funded</u> <u>Ratio</u>	<u>Covered</u> <u>Payroll</u>	<u>UAAL as a</u> <u>Percentage</u> <u>of Covered</u> <u>Payroll</u>
June 30, 2007	\$7,113,084	\$ 6,705,521	\$ (407,563)	106.08%	\$1,901,186	-21.44%
June 30, 2008	7,851,357	7,360,409	(490,948)	106.67%	1,980,332	-24.79%
<b>June 30, 2009</b>	<b>7,961,123</b>	<b>7,699,838</b>	<b>(261,285)</b>	<b>103.39%</b>	<b>2,082,795</b>	<b>-12.54%</b>

**Notes to Required Supplementary Information**

This information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date	June 30, 2009
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay, Open
Payroll Growth Rate	3.00%
Remaining Amortization Period	20 Years
Asset Valuation Method	Five-Year Smoothed Market Value
Actuarial Assumptions	
Investment rate of return <sup>1</sup>	7.50%
Projected salary increases <sup>1</sup>	
NonLaw Enforcement Officer Employees	3.75% to 5.60%
Law Enforcement Officer Employees	3.50% to 4.75%
Cost-of-living adjustments	2.50%

<sup>1</sup>Includes inflation of 2.50%

**12 Postemployment Healthcare Plan**

*Plan Description.* Henry County Public Service Authority provides postemployment health benefits in the form of medical insurance benefits to eligible retirees and their spouses.

Three-year trend information is as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
06/30/09	\$ 20,190	100.00%	\$ (10,335)
06/30/10	19,689	100.00%	2,754

### Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Plan Assets</u> (a)	<u>Accrued Liability</u> (b)	<u>Unfunded Liability</u> (b-a)	<u>Normal Cost</u> (c)	<u>Funded Ratio</u> (a)/(b)	<u>Covered Payroll</u> (d)	<u>Unfunded % of Payroll</u> (b-a)/(d)
07/01/2008	\$ -	\$ 242,547	\$ 242,547	\$ 4,637	0.0%	\$ 1,998,828	12.1%
07/01/2009	19,356	253,601	234,245	4,753	7.6%	2,048,799	11.4%

### Schedule of Contributions

<u>FYE</u>	<u>ARC</u>	<u>Actual Contribution</u>	<u>% Contributed</u>
06/30/2009	\$ 20,190	\$ 30,525	151.2%
06/30/2010	19,689	6,600	33.5%

### Annual Pension OPEB Cost Summary

<u>Plan Year</u>	<u>BOY NOPEBO</u>	<u>ARC</u>	<u>Annual OPEB Int.</u>	<u>Cost Adj.</u>	<u>Total</u>	<u>Actual Cont.</u>	<u>EOY NOPEBO</u>	<u>Interest Rate</u>	<u>Amort. Period</u>
2008-09	\$ -	\$ 20,190	\$ -	\$ -	\$ 20,190	\$(30,525)	\$(10,335)	7.50%	30
2009-10	(10,335)	19,784	(775)	(680)	19,689	(6,600)	2,754	7.50%	30

The Authority also participates in the VRS (Virginia Retirement System) Health Insurance Credit Program.

#### **Summary of Main Benefit Provisions as Interpreted for Valuation Purposes**

Political subdivisions participating in the Virginia Retirement System (VRS) may elect to provide a credit toward the cost of health insurance coverage for any former state employee who retired under VRS with at least 15 years of total creditable service. The amount of each monthly health insurance credit shall be \$1.50 per year of creditable service, which amount shall be credited monthly to any retired state employee participating in the state retiree health benefits program. However, such credit shall not exceed the health insurance premium for retiree.

Disabled retirees automatically receive a maximum monthly credit, which is the greater of (i) \$45, or (ii) \$1.50 per year for each year of creditable service at the time of disability retirement.

If an eligible employee has worked for more than one employer in VRS, for the purpose of this valuation, their most current (or last) employer assumes full liability for that employee.

**Summary of Actuarial Assumptions and Methods as Interpreted for Valuation Purposes**

Valuation Date	June 30, 2009
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Pay, Open
Remaining Amortization Period	27 Years
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions	
Investment rate of return <sup>1</sup>	7.50%
Payroll growth rate	3.00%
<sup>1</sup> Includes inflation at	2.50%

**REQUIRED SUPPLEMENTARY INFORMATION**

**Health Insurance Credit Program**

Schedule of Funding Progress for Authority

	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
		Actuarial Accrued				UAAAL as a Percentage of Covered
Actuarial Valuation Date	Actuarial Value of Assets	Liability (AAL) Projected Unit Credit	Unfunded AAL (UAAAL)	Funded Ratio	Covered Payroll	Payroll
September 30, 2009	\$ 14,886	\$ 92,758	\$ 77,872	16.05%	\$2,082,795	3.74%
September 30, 2008	9,478	100,147	90,669	9.46%	1,980,332	4.58%
September 30, 2007*	1,542	157,835	156,293	0.98%	1,901,186	8.22%

\*Prepared by prior actuary.

## 13 Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority joined together with other local governments in the Virginia Municipal League Pool, a public entity risk pool currently operating as a common risk management and insurance program for participating local governments. The Authority pays an annual premium to the pool for substantially all of its insurance coverage. In the event of a loss creating a deficit or depletion of all available excess insurance, the pool may assist all members in the proportion that the premium of each bears to the total premiums of all members in the year in which such deficit occurs. The settled claims for 2010 and 2009 did not exceed insurance.

## 14 Commitments and Contingencies

Special purpose grants are subject to audit to determine compliance with their requirements. Authority officials believe that if any refunds are required, they will be immaterial.

## 15 Water and Sewer Purchases

In 1974, the Authority and neighboring City of Martinsville (the "City") signed a service agreement in which the Authority would purchase water and sewage treatment from the City and share in the annual operating costs of the plants in proportion to its actual use as measured by the volume of water used and sewage it contributed. It also allowed for the Authority to purchase capacity rights into the water and sewer plants at an agreed-upon price.

# **OTHER SUPPLEMENTARY INFORMATION**

### Henry County Public Service Authority

#### Schedule of Revenues and Expenses - Budget to Actual Non-GAAP Budgetary Basis

Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Operating Revenues</b>				
Metered water sales	\$ 6,054,385	\$ 6,054,385	\$ 5,974,119	\$ (80,266)
Waste water service charges	4,079,178	4,079,178	4,307,681	228,503
Miscellaneous	394,000	438,000	381,296	(56,704)
Fire protection fees - Henry County	406,800	406,800	406,800	-
Connection fees	62,000	62,000	55,077	(6,923)
	<u>10,996,363</u>	<u>11,040,363</u>	<u>11,124,973</u>	<u>84,610</u>
<b>Operating Expenses</b>				
Water and sewer treatment	2,870,119	2,881,455	2,926,319	(44,864)
Depreciation	-	-	3,085,006	(3,085,006)
Maintenance - transmission and collection lines	1,195,242	1,244,692	1,169,418	75,274
Administration	955,456	961,991	894,654	67,337
Bad debts	34,000	34,000	36,058	(2,058)
Customer service	395,670	396,347	382,199	14,148
Engineering and mapping	312,267	320,480	302,313	18,167
Maintenance - vehicle and equipment	190,022	191,852	77,004	114,848
Management information systems	202,284	219,809	193,574	26,235
Meter reading	149,313	149,313	138,879	10,434
Service center	53,000	53,000	31,880	21,120
Safety	71,316	71,316	62,911	8,405
	<u>6,428,689</u>	<u>6,524,255</u>	<u>9,300,215</u>	<u>(2,775,960)</u>
Operating Income (Loss)	4,567,674	4,516,108	1,824,758	(2,691,350)
<b>Non-Operating Revenues (Expenses)</b>				
Interest income	433,981	433,981	453,285	19,304
Gain (Loss) on sale of properties	-	-	72,863	72,863
Interest expense	(1,845,465)	(1,845,465)	(1,826,122)	19,343
	<u>(1,411,484)</u>	<u>(1,411,484)</u>	<u>(1,299,974)</u>	<u>111,510</u>
Total Non-Operating Revenue	(1,411,484)	(1,411,484)	(1,299,974)	111,510
Change in Net Assets Before Contributions	3,156,190	3,104,624	524,784	(2,579,840)
<b>Capital Contributions</b>	<u>-</u>	<u>1,155,740</u>	<u>832,967</u>	<u>(322,773)</u>
Change in Net Assets	<u>\$ 3,156,190</u>	<u>\$ 4,260,364</u>	<u>\$ 1,357,751</u>	<u>\$ (2,902,613)</u>

# **OTHER INFORMATION**

## Henry County Public Service Authority

## Revenues by Source

Last Ten Fiscal Years

<b>Fiscal Years Ended June 30</b>	<b>Water</b>	<b>Sewer</b>	<b>Other</b>	<b>Investment Earnings</b>	<b>Grants and Other Contributions</b>	<b>Connection Fees</b>	<b>Totals</b>
<b>2010</b>	<b>\$ 5,974,119</b>	<b>\$4,307,681</b>	<b>\$ 860,959</b>	<b>\$ 453,285</b>	<b>\$ 832,967</b>	<b>\$ 55,077</b>	<b>\$12,484,088</b>
2009	6,025,273	4,176,475	783,762	479,495	802,086	168,234	12,435,325
2008	6,168,866	4,328,704	971,473	495,603	1,720,265	178,999	13,863,910
2007	6,169,626	4,294,609	837,653	433,213	1,120,179	87,245	12,942,525
2006	5,254,066	3,659,856	1,225,266	379,168	4,400,499	70,361	14,989,216
2005	5,094,668	3,498,058	1,191,516	316,859	783,210	84,947	10,969,258
2004	4,939,862	4,250,583	1,132,135	199,727	1,488,583	59,147	12,070,037
2003	4,189,439	4,686,546	1,693,295	260,059	992,572	83,007	11,904,918
2002	3,462,773	4,572,001	1,407,514	571,937	446,298	167,894	10,628,417
2001	3,437,210	4,948,698	1,338,592	1,091,396	2,587,502	566,138	13,969,536

Table 2

## Expenses by Function

Last Ten Fiscal Years

<b>Fiscal Years Ended June 30</b>	<b>System Maintenance</b>	<b>Engineering and Treatment Mapping</b>	<b>Administration and Other</b>	<b>Amortization and Depreciation Interest</b>	<b>Totals</b>		
<b>2010</b>	<b>\$ 1,246,422</b>	<b>\$2,926,319</b>	<b>\$ 302,313</b>	<b>\$ 1,740,155</b>	<b>\$ 3,085,006</b>	<b>\$ 1,826,122</b>	<b>\$11,126,337</b>
2009	1,259,964	3,073,049	298,341	1,753,201	2,966,307	1,863,496	11,214,358
2008	1,332,212	3,399,533	295,074	2,154,420	2,902,898	1,922,257	12,006,394
2007	1,178,577	2,887,702	301,523	1,521,718	2,846,141	1,998,204	10,733,865
2006	1,103,634	2,811,535	248,097	1,703,284	2,757,877	2,015,079	10,639,506
2005	952,351	3,242,408	217,864	1,665,114	2,764,511	2,084,752	10,927,000
2004	1,008,133	2,782,206	278,196	2,091,757	2,892,934	2,158,290	11,211,516
2003	972,538	2,933,592	273,849	1,724,074	2,923,447	2,304,502	11,132,002
2002	789,699	3,474,946	336,496	1,678,482	2,763,101	2,530,653	11,573,377
2001	1,128,922	3,318,017	322,318	1,770,134	2,515,714	2,950,705	12,005,810

## Henry County Public Service Authority

## Revenue Bond Debt Service Coverage

Last Ten Fiscal Years

<b>Fiscal Years Ended June 30</b>	<b>Unrestricted Cash Beginning of Year</b>	<b>Gross Revenues</b>	<b>Direct Operating Expenses**</b>	<b>Net Available</b>	<b>Principal</b>	<b>Amortization and Interest</b>	<b>Totals</b>	<b>Coverage</b>
<b>2010</b>	<b>\$ 4,980,342</b>	<b>\$11,651,121</b>	<b>\$6,215,209</b>	<b>\$10,416,254</b>	<b>\$2,313,914</b>	<b>\$ 1,716,690</b>	<b>\$4,030,604</b>	<b>2.58</b>
2009	5,501,702	11,633,239	6,384,555	10,750,386	2,203,387	1,811,566	4,014,953	2.68
2008	4,195,338	12,143,645	6,680,675	9,658,308	2,051,338	1,850,293	3,901,631	2.48
2007	2,612,586	11,822,346	5,889,520	8,545,412	1,907,742	1,868,037	3,775,779	2.26
2006	2,231,596	10,588,717	5,866,550	6,953,763	1,830,124	1,890,236	3,720,360	1.87
2005	1,497,720	10,186,048	6,077,737	5,606,031	1,724,006	1,950,806	3,674,812	1.53
2004	621,729	10,581,454	6,160,292	5,042,891	1,662,939	1,972,999	3,635,938	1.39
2003	56,656	10,912,346	5,904,053	5,064,949	1,616,918	2,096,251	3,713,169	1.36
2002	-	10,182,119	5,979,624	4,202,495	1,257,122	2,530,653	3,787,775	1.11
2001	-	13,969,536	6,539,391	7,430,145	1,191,708	2,950,705	4,142,413	1.79

\*\* Excluding depreciation, interest, and amortization.

**Note:** Beginning with fiscal year 2003, net available funds include unrestricted cash, and interest expense excludes amortization of bond issuance costs to reflect the proper calculation of the debt service coverage as contained in bond covenants.

## Henry County Public Service Authority

## Schedule of Insurance in Force

June 30, 2010

<u>Type Coverage</u> <u>(Insurer)</u>	<u>Liability Limits</u>	
Commercial General Liability (Virginia Municipal Liability Pool)	\$ 1,000,000	Each Occurrence Limit
	\$ 100,000	Fire Damage Limit
	\$ 10,000	Medical Expense Limit
	\$ 10,000	No Fault Property Damage
Primary Automobile Liability (Virginia Municipal Liability Pool)	\$ 25,000	Bodily Injury Per Person
	\$ 50,000	Bodily Injury Per Accident
	\$ 20,000	Property Damage Per Accident
	\$ 1,000,000	Per Occurrence
Automobile Uninsured Motorists (Virginia Municipal Liability Pool)	\$ 25,000	Bodily Injury Per Person
	\$ 50,000	Bodily Injury Per Accident
	\$ 20,000	Property Damage Per Accident
	\$ 10,000	Automobile Medical Payments
Automobile Physical Damage (Virginia Municipal Liability Pool)	Actual	Comprehensive
	Actual	Collision
	\$ 250	Deductible/Comprehensive
	\$ 500	Deductible/Collision
Umbrella Liability (Virginia Municipal Liability Pool)	\$ 2,000,000	Per Occurrence
Commercial Property Coverage (Virginia Municipal Liability Pool)	\$33,881,793	Blanket Real and Personal Property
	\$ 100,000	Extra Expense (Monthly Limit)
	\$ 1,000	Deductible
Commercial Inland Marine Coverage (Virginia Municipal Liability Pool)	\$ 770,007	Contractor's Equipment
Boiler and Machinery Coverage (Virginia Municipal Liability Pool)	\$ 4,500,000	Direct Damage (Per Accident)
	\$ 100,000	Refrigerant
	\$ 100,000	Ammonia Contamination
	\$ 100,000	Expediting Expenses
	\$ 100,000	Hazardous Substances
	\$ 100,000	Water Damage
	\$ 100,000	Computer
	\$ 100,000	Perishable Goods
	\$ 250,000	Demolition & ICC
	\$ 250,000	Newly Acquired Location
Public Employees Dishonesty Coverage (Virginia Municipal Liability Pool)	\$ 1,000,000	Aggregate Amount
Worker's Compensation (Virginia Municipal Group Self-Insurance Association)	\$ 5,000	Deductible
	Statutory	State Statutory Provision
	\$ 1,000,000	Employer's Liability Limit
Public Official Liability (Commonwealth of Virginia - Division of Risk Management)	\$ 1,000,000	Limit of Liability
	\$ 1,000	Deductible

## Henry County Public Service Authority

## Raw Water Production by Source (In Million Gallons)

Last Ten Fiscal Years

<b>Fiscal Years Ended June 30</b>	<b>City of Martinsville/ Eden**</b>	<b>Marrowbone**</b>	<b>Philpott</b>	<b>Wells</b>	<b>Totals</b>
<b>2010</b>	<b>\$ 11</b>	<b>\$ -</b>	<b>\$ 1,030</b>	<b>\$ 9</b>	<b>\$ 1,050</b>
2009	122	-	833	11	966
2008	409	-	631	16	1,056
2007	360	-	645	17	1,022
2006	399	-	688	19	1,106
2005	415	-	678	18	1,111
2004	416	-	672	163	1,251
2003	-	102	629	172	903
2002	-	178	620	196	994
2001	-	198	641	175	1,014

**Source:** Reports prepared by the Authority and submitted to the Virginia Department of Health.

\*\* The Marrowbone substation (water filtration plant) was closed in fiscal year 2003 and the water is now being purchased from the City of Martinsville. As of 2009, the Philpott water plant is supplying the majority of all water. The Authority still purchases water from the City of Eden for the Sandy Level community and a small amount from Martinsville for certain areas.

Table 6

Waste Water Treatment By Plant  
(In Million Gallons)

Last Ten Fiscal Years

<b>Fiscal Years Ended June 30</b>	<b>City of Martinsville**</b>	<b>Koehler**</b>	<b>Lower Smith River</b>	<b>Totals</b>
<b>2010</b>	<b>\$ 822</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 822</b>
2009	713	-	-	713
2008	710	-	-	710
2007	792	-	-	792
2006	716	-	93	809
2005	599	-	238	837
2004	446	205	381	1,032
2003	-	1,012	404	1,416
2002	-	803	660	1,463
2001	-	962	856	1,818

**Note:** Does not include waste treatment in lagoon systems.

**Source:** Flow Reports

\*\* The Koehler Wastewater Plant was closed in November 2003 and the sewer treatment is now being purchased from the City of Martinsville. The Lower Smith River Plant was converted to a pumping station in December 2005 and the sewer treatment is now being purchased from the City of Martinsville.

### Henry County Public Service Authority

#### Demographic Statistics

#### Last Ten Fiscal Years

Fiscal Years Ended June 30	Population (1)	Per Capita Income (2)	Median Age (3)	High School Grad. Rate (4)	School Enrollment (5)	Unemployment Rate (6)
<b>2010</b>	<b>53,795</b>	<b>30,018</b>	<b>41.8</b>	<b>76.0%</b>	<b>7,128</b>	<b>13.9%</b>
2009	53,869	27,427	41.9	73.0%	7,179	15.3%
2008	55,279	25,591	39.3	72.0%	7,237	7.8%
2007	54,506	25,312	39.3	88.0%	7,628	6.0%
2006	55,100	24,527	39.3	71.0%	7,628	4.8%
2005	55,100	23,309	39.3	74.0%	7,701	7.0%
2004	55,600	23,144	39.3	67.0%	7,805	14.0%
2003	56,500	21,447	39.3	66.7%	8,189	13.3%
2002	57,332	21,032	39.3	64.9%	8,371	13.8%
2001	57,930	30,843	*	53.9%	8,597	6.8%

#### Sources:

- 1) U. S. Census, 1990 and 2000; figures are adjusted estimates prepared by the University of Virginia Weldon Cooper Center for Public Service.
  - 2) Bureau of Economic Analysis. Figures are for Martinsville and Henry County combined; Henry County only figures not available; information based on latest available data.
  - 3) U. S. Census, 2000; figures for other years are unavailable.
  - 4), 5) Henry County Public Schools
  - 6) Virginia Employment Commission
- \* Information is not available.

### Henry County Public Service Authority

#### List of Ten Largest Customers

Year Ended June 30, 2010

<u>Customer</u>	<u>Business</u>	<u>Amount</u>	<u>Percent of Total Billings*</u>
C.P. Films, Inc.	Manufacturing	\$ 542,706	5.28%
Stanley Furniture Company	Manufacturing	151,952	1.48%
Henry County Schools	Public School System	138,788	1.35%
King's Grant	Retirement Community	131,236	1.28%
County of Henry, Virginia	Local Government	123,494	1.20%
Monogram Snack Food Co., LLC	Manufacturing	116,378	1.13%
Scrub Board/Bobby Nickelston	Laundries and Car Washes	111,060	1.08%
Karbelk Investments, LLC	Rental Properties	50,600	0.49%
Eugene R. Lemieux	Rental Properties	50,220	0.49%
Stanleytown Healthcare	Nursing Home/Rehab Center	<u>50,162</u>	<u>0.49%</u>
Total		<u>\$ 1,466,596</u>	<u>14.27%</u>
*Total Billings		<u>\$ 10,281,800</u>	

## Henry County Public Service Authority

### Miscellaneous Statistical Data

As of June 30, 2010

Type of Entity	Independent authority created pursuant to the Virginia Water and Sewer Authorities Act, Section 15.2-5100, Code of Virginia (1950), as amended.	
Date of Incorporation	1965	
Selected Information	Number of Employees	52
	Number of Active Water Connections	12,396
	Number of Active Sewer Connections	7,357
	Miles of Water Lines	342
	Miles of Sewer Lines	391
	Number of Fire Hydrants	1,513
	Water Treatment Plant Capacity	4 MGD
	City of Martinsville Purchased Water Capacity	2 MGD
	Sewer Treatment Plant Capacity	6 MGD
	City of Martinsville Purchased Sewer Capacity	4 MGD
	Average Daily Water Consumption	2.88 MGD
	Average Daily Sewage Flow	2.25 MGD
Bond Rating:	AAA	
Minimum Consumption Charge Per Service (Sewer charges are based on water consumption.)	Residential customers charged a minimum monthly consumption charge of \$26.00 per service for up to 4,000 gallons consumption. Non-Residential customers charged a minimum monthly consumption charge of \$39.00 per service for up to 4,000 gallons consumption. Institutional customers charged a minimum monthly consumption charge of \$59.50 per service for up to 6,000 gallons consumption.	
Additional Consumption	The following charges apply to each 1,000 gallons, or fractions thereof, of water consumed above mentioned minimums:  Residential customers - \$4.00 per additional 1,000 gallons Non-Residential customers - \$6.00 per additional 1,000 gallons Institutional customers - \$7.00 per additional 1,000 gallons	
Exceptions	The Authority reserves the right to negotiate contracts for service charges with industrial users.	

# COMPLIANCE



**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  
Henry County Public Service Authority  
Collinsville, Virginia

We have audited the accompanying financial statements of the governmental activities and the business-type activities of Henry County Public Service Authority, as of and for the year ended June 30, 2010, and have issued our report thereon dated November 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Henry County Public Service Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Henry County Public Service Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Henry County Public Service Authority's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Henry County Public Service Authority'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*.

This report is intended solely for the information and use of management, the audit committee, Board of Directors, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.



Creedle, Jones & Alga, P.C.  
Certified Public Accountants

South Hill, Virginia  
November 23, 2010