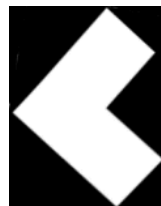


*Henry County Public Service Authority*  
*Comprehensive Annual Financial Report*  
*Years Ended June 30, 2009 and 2008*



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

# Henry County Public Service Authority

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**Creedle  
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& Alga**

*A Professional Corporation*

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*American Institute of Certified Public Accountants*  
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## 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, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Henry County Public Service Authority, as of and for the year ended June 30, 2009, 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, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Henry County Public Service Authority, as of June 30, 2009, 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 30, 2009, on our consideration of 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.

The management's discussion and analysis and budgetary comparison information on pages 1 through 5 and 20 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Henry County Public Service Authority's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Henry County Public Service Authority. The schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

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

South Hill, Virginia  
November 30, 2009

## Henry County Public Service Authority

### Management's Discussion and Analysis

As of June 30, 2009

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, 2009. 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 320 miles of water lines and 238 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 2009 and 2008 is presented below:

	<u>2009</u>	<u>2008</u>	<u>\$ Change</u>	<u>% Change</u>
Current Assets	\$ 6,519,272	\$ 7,729,371	\$ (1,210,099)	-15.66%
Net Capital Assets	76,597,237	75,026,770	1,570,467	2.09%
Other Noncurrent Assets	<u>8,278,185</u>	<u>9,454,499</u>	<u>(1,176,314)</u>	-12.44%
Total Assets	<u>\$ 91,394,694</u>	<u>\$ 92,210,640</u>	<u>\$ (815,946)</u>	-0.88%
Total Liabilities	<u>\$ 40,356,935</u>	<u>\$ 42,393,848</u>	<u>\$ (2,036,913)</u>	-4.80%
Net Assets				
Invested in capital assets	39,997,336	36,225,945	3,771,391	10.41%
Restricted for debt	7,419,606	8,479,049	(1,059,443)	-12.49%
Unrestricted	<u>3,620,817</u>	<u>5,111,798</u>	<u>(1,490,981)</u>	-29.17%
Total Net Assets	<u>51,037,759</u>	<u>49,816,792</u>	<u>1,220,967</u>	2.45%
Total Liabilities and Net Assets	<u>\$ 91,394,694</u>	<u>\$ 92,210,640</u>	<u>\$ (815,946)</u>	-0.88%

### Change in Net Assets

A summary of the Authority's Statements of Revenues, Expenses, and Changes in Net Assets for 2009 and 2008 is presented below:

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

	<u>2009</u>	<u>2008</u>	<u>\$ Change</u>	<u>% Change</u>
Operating Revenues	\$ 11,151,447	\$ 11,648,042	\$ (496,595)	-4.26%
Operating Expenses	<u>(9,350,862)</u>	<u>(9,583,573)</u>	<u>232,711</u>	-2.43%
Operating Income	1,800,585	2,064,469	(263,884)	-12.78%
Non-Operating Revenue	479,495	495,603	(16,108)	-3.25%
Gain (Loss) on Sale of Properties	2,297	(500,564)	502,861	100.00%
Non-Operating Expense	<u>(1,863,496)</u>	<u>(1,922,257)</u>	<u>58,761</u>	-3.06%
Income Before Contributions	418,881	137,251	281,630	205.19%
Capital Contributions	<u>802,086</u>	<u>1,720,265</u>	<u>(918,179)</u>	-53.37%
Changes in Net Assets	<u>\$ 1,220,967</u>	<u>\$ 1,857,516</u>	<u>\$ (636,549)</u>	-34.27%

During the year, the Authority's net operating income was \$1,800,585. The Authority had non-operating revenues and expenses in the form of interest income, which amounted to \$479,495 and interest expense amounting to \$1,863,496. Operating expenses of \$9,350,862 included all expenses necessary to operate the Authority's water and sewer facilities.

Net assets increased \$1,220,967 in 2009 as compared to an increase of \$1,857,516 in 2008.

### Cash Flows

A summary of the Authority's Statements of Cash Flows for 2009 and 2008 is presented below:

#### Condensed Statement of Cash Flows

	<u>2009</u>	<u>2008</u>
<b>Cash Provided by (Used in)</b>		
Operating activities	<b>\$ 4,493,063</b>	\$ 5,635,955
Capital and related financing activities	<b>(6,522,605)</b>	(3,044,785)
Investing activities	<b><u>1,508,182</u></b>	<u>(1,284,806)</u>
Net Increase (Decrease) in Cash	<b><u>\$ (521,360)</u></b>	<u>\$ 1,306,364</u>

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 2009, there was a decrease of \$521,360 in cash as compared to an increase of \$1,306,364 in 2008.

### Capital Assets

As of June 30, 2009, the Authority's investment in capital assets totals \$39,997,336 which is net capital assets less related debt.

During fiscal year 2009, the Authority's net capital assets (including additions, decreases, and depreciation) increased \$1,570,467 as summarized below:

#### Change in Capital Assets

	<u>Balance</u> <u>June 30, 2008</u>	<u>Net Additions</u> <u>and Deletions</u>	<u>Balance</u> <u>June 30, 2009</u>
Land and land improvements	\$ 349,703	\$ 11,851	\$ 361,554
Construction in progress	3,185,319	(2,025,635)	1,159,684
Building and leasehold improvements	767,274	-	767,274
Water and sewer system	116,565,629	6,487,766	123,053,395
Trucks and autos	1,614,039	29,741	1,643,780
Office equipment	365,330	-	365,330
Total Capital Assets	<u>122,847,294</u>	<u>4,503,723</u>	<u>127,351,017</u>
Less: Accumulated depreciation	<u>(47,820,525)</u>	<u>(2,933,255)</u>	<u>(50,753,780)</u>
Total Capital Assets, Net	<b><u>\$ 75,026,769</u></b>	<b><u>\$ 1,570,468</u></b>	<b><u>\$ 76,597,237</u></b>

### Long-Term Debt

As of June 30, 2009, the Authority's long-term debt totals \$37,777,518.



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

### Change in Long-Term Debt

	<u>Balance</u> <u>June 30, 2008</u>	<u>Net Additions</u> <u>and Deletions</u>	<u>Balance</u> <u>June 30, 2009</u>
Long-term notes	\$ 39,776,275	\$ (2,317,795)	\$ 37,458,480
Compensated absences	<u>302,740</u>	<u>16,298</u>	<u>319,038</u>
	<u>\$ 40,079,015</u>	<u>\$ (2,301,497)</u>	<u>\$ 37,777,518</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 \$815,946 or .1 percent, while net assets increased by \$1,220,967. Accounts receivable-net at year end were approximately \$1,044,590 compared to \$1,709,926 for fiscal year 2008. The reserve for bad debts equals all accounts over 90 days past due. The bad debt charge for 2009 and 2008 was \$24,138 and \$31,230, respectively. Recovery of bad debts previously written off amounted to \$7,804 and \$92,742 in 2009 and 2008, respectively.

### RESULTS OF OPERATIONS

The Authority's main revenues fall into the categories of operating revenues, interest income, and capital contributions. Revenues from the main categories totaled \$12,433,028 compared to \$13,863,910 last year, a 10.1 percent decrease. The Authority's other revenues fall into the categories of construction grants revenues, non-operating revenues including interest, and other revenue.

### DEBT

At year-end, the Authority had \$37,777,518 in long-term debt with \$2,413,880 (including the deferred amounts) coming due in 2010. 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 \$4.98 million for 2009 and \$5.5 million for 2008. The following table calculates debt service coverage for fiscal years 2009 and 2008, including the available cash reserves:

	(In Millions of Dollars)		
	<u>2009</u>	<u>2008</u>	<u>% Change</u>
Unrestricted operating revenue	\$ 11.15	\$ 11.65	-4.3%
Unrestricted investment income	<u>0.48</u>	<u>0.49</u>	-2.0%
Total revenue	11.63	12.14	-4.2%
Total operating expenses (less depreciation)	<u>6.38</u>	<u>6.69</u>	-4.6%
Net revenue	5.25	5.45	-3.7%
Unrestricted cash - beginning of year	<u>5.50</u>	<u>4.19</u>	31.3%
Available for debt service	<u>\$ 10.75</u>	<u>\$ 9.64</u>	11.5%
Annual debt service	<u>\$ 4.01</u>	<u>\$ 3.90</u>	2.8%
Debt service coverage	<u>2.68</u>	<u>2.48</u>	8.0%

## FINAL COMMENTS

Fiscal year 2009 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 substantially 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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 4,980,342	\$ 5,501,702
Accounts receivable, net	1,044,590	1,709,926
Unbilled revenue	441,135	466,096
Inventory	<u>53,205</u>	<u>51,647</u>
Total Current Assets	6,519,272	7,729,371
<b>Capital Assets</b>		
Nondepreciable	1,521,238	3,535,022
Depreciable	<u>75,075,999</u>	<u>71,491,748</u>
Net Capital Assets	76,597,237	75,026,770
<b>Other Noncurrent Assets</b>		
Restricted investments	7,419,606	8,479,049
Unrealized bond issue costs	<u>858,579</u>	<u>975,450</u>
Total Other Noncurrent Assets	<u>8,278,185</u>	<u>9,454,499</u>
Total Assets	<u>\$ 91,394,694</u>	<u>\$ 92,210,640</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 572,200	\$ 1,572,151
Interest payable	216,824	229,895
Accrued expenses	6,307	4,895
Customer deposits	540,635	507,892
Current maturities of long-term liabilities	<u>2,445,784</u>	<u>2,317,794</u>
Total Current Liabilities	3,781,750	4,632,627
<b>Long-Term Liabilities</b>		
Due to other governments - Pittsylvania County	1,243,451	-
Compensated absences	287,134	302,740
Notes payable	<u>35,044,600</u>	<u>37,458,481</u>
Total Long-Term Liabilities	<u>36,575,185</u>	<u>37,761,221</u>
Total Liabilities	40,356,935	42,393,848
<b>Net Assets</b>		
Invested in capital assets, net of related debt	39,997,336	36,225,945
Restricted		
Debt covenants	7,419,606	8,479,049
Unrestricted	<u>3,620,817</u>	<u>5,111,798</u>
Total Net Assets	<u>51,037,759</u>	<u>49,816,792</u>
Total Liabilities and Net Assets	<u>\$ 91,394,694</u>	<u>\$ 92,210,640</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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>Operating Revenues</b>		
Water and sewer charges	\$ 10,201,748	\$ 10,497,570
Fire protection fees - Henry County	406,800	406,800
Connection fees	168,234	178,999
Miscellaneous	<u>374,665</u>	<u>564,673</u>
Total Operating Revenues	<b>11,151,447</b>	11,648,042
<b>Operating Expenses</b>		
Water and sewer treatment	3,073,049	3,399,533
Depreciation	2,966,307	2,902,898
Maintenance - transmission and collection lines	1,170,497	1,101,845
Administration	937,937	926,956
Bad debts	24,138	31,230
Customer service	389,167	365,389
Engineering and mapping	298,341	295,074
Maintenance - vehicle and equipment	89,467	230,367
Management information systems	205,704	135,558
Meter reading	141,473	137,062
Safety	<u>54,782</u>	<u>57,661</u>
Total Operating Expenses	<u>9,350,862</u>	<u>9,583,573</u>
Operating Income	<b>1,800,585</b>	2,064,469
<b>Non-Operating Revenues (Expenses)</b>		
Interest income	479,495	495,603
Gain (Loss) on sale of properties	2,297	(500,564)
Interest expense	<u>(1,863,496)</u>	<u>(1,922,257)</u>
Net Non-Operating Revenues (Expenses)	<u>(1,381,704)</u>	<u>(1,927,218)</u>
Change in Net Assets Before Contributions	<b>418,881</b>	137,251
<b>Capital Contributions</b>	<u>802,086</u>	<u>1,720,265</u>
Change in Net Assets	<b>1,220,967</b>	1,857,516
Total Net Assets - Beginning of Year	<u>49,816,792</u>	<u>47,959,276</u>
Total Net Assets - End of Year	<u><b>\$ 51,037,759</b></u>	<u><b>\$ 49,816,792</b></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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>Cash Flows from Operating Activities</b>		
Cash received from customers	\$ 11,874,487	\$ 11,004,832
Cash paid for goods and services	(5,168,148)	(3,243,412)
Cash paid to employees	<u>(2,213,276)</u>	<u>(2,125,465)</u>
Net Cash Provided by Operating Activities	4,493,063	5,635,955
<b>Cash Flows from Capital and Related Financing Activities</b>		
Governmental grant revenue	802,086	1,720,265
Money received other governments (Due to)	1,243,451	-
Purchase of capital assets	(4,503,722)	(3,449,156)
Bond proceeds received	-	2,700,000
Bond principal payments	(2,317,795)	(2,181,946)
Bond interest payments	(1,863,496)	(1,922,257)
Bond issuance costs	<u>116,871</u>	<u>88,309</u>
Net Cash Used in Capital and Related Financing Activities	(6,522,605)	(3,044,785)
<b>Cash Flows from Investing Activities</b>		
Interest received	479,495	495,603
Gain (Loss) on sale of properties	(30,756)	(500,564)
Net change in investments	<u>1,059,443</u>	<u>(1,279,845)</u>
Net Cash Provided by (Used In) Investing Activities	1,508,182	(1,284,806)
Net Increase (Decrease) in Cash and Cash Equivalents	(521,360)	1,306,364
Cash and Cash Equivalents - Beginning of Year	<u>5,501,702</u>	<u>4,195,338</u>
Cash and Cash Equivalents - End of Year	<u>\$ 4,980,342</u>	<u>\$ 5,501,702</u>
<b>Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities</b>		
Operating income	\$ 1,800,585	\$ 2,064,469
Adjustments to reconcile operating income		
Depreciation	2,966,307	2,902,898
Bad debts	24,138	31,230
Change in assets and liabilities		
Decrease (Increase) in		
Accounts receivable	641,198	(769,615)
Due from other governments	-	36,825
Inventory	(1,558)	(6,925)
Unbilled revenue	24,961	939
Increase (Decrease) in		
Accounts payable	(999,951)	1,342,799
Customer deposits	32,744	57,411
Compensated absences	16,298	(14,471)
Interest payable	(13,071)	(10,510)
Accrued expenses	<u>1,412</u>	<u>905</u>
Net Cash Provided by Operating Activities	<u>\$ 4,493,063</u>	<u>\$ 5,635,955</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, 2009

	<b>OPEB <u>Trust Fund</u></b>
<b>Assets</b>	
Cash - restricted	\$ 19,356
Total Assets	<u>\$ 19,356</u>
<b>Liabilities and Fund Balances</b>	
<b>Liabilities</b>	
Amounts held for others	\$ 19,356
Total Liabilities	19,356
<b>Fund Balances</b>	
Unreserved/Undesignated	_____ -
Total Fund Balances	_____ -
Total Liabilities and Fund Balances	<u>\$ 19,356</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, 2009

### 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	50 years
Sewer system equipment	40-50 years
Water system equipment	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, banker's 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	\$5,361,253	5 months or less	AAA
Certificates of deposit	<u>2,058,353</u>	2010	N/A
	<u>\$7,419,606</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 \$20,462 and \$16,819 as of June 30, 2009 and 2008, 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 2009 was \$6,549 leaving a balance of \$1,243,451 as of June 30, 2009.

## **6** Capital Assets

The following schedule shows the breakdown of capital assets by category at June 30, 2009:

	<u>Balance</u> <u>July 1, 2008</u>	<u>Acquired</u> <u>(Increased)</u>	<u>Deleted</u> <u>(Decreased)</u>	<u>Balance</u> <u>June 30, 2009</u>
<b>Capital assets, not depreciated</b>				
Land and land improvements	\$ 349,703	\$ 11,851	\$ -	\$ 361,554
Construction in progress				
Water	3,146,417	-	2,572,157	574,260
Sewer	27,581	-	27,581	-
Other - Motor pool	<u>11,321</u>	<u>574,103</u>	<u>-</u>	<u>585,424</u>
Total Construction in Progress	<u>3,185,319</u>	<u>574,103</u>	<u>2,599,738</u>	<u>1,159,684</u>
Total Capital Assets, Not Depreciated	3,535,022	585,954	2,599,738	1,521,238
<b>Capital assets, depreciated</b>				
Buildings and leasehold improvements	767,274	-	-	767,274
Water and sewer system	116,565,629	6,487,766	-	123,053,395
Trucks and autos	1,614,039	62,794	33,053	1,643,780
Office equipment	<u>365,330</u>	<u>-</u>	<u>-</u>	<u>365,330</u>
Total Capital Assets, Depreciated	119,312,272	6,550,560	33,053	125,829,779
Less: Accumulated depreciation for				
Land improvements	1,940	89	-	2,029
Buildings and leasehold improvements	563,803	45,120	-	608,923
Water and sewer system	45,417,621	2,890,609	-	48,308,230
Trucks and autos	1,473,361	29,470	33,053	1,469,778
Office equipment	<u>363,800</u>	<u>1,020</u>	<u>-</u>	<u>364,820</u>
Total Accumulated Depreciation	<u>47,820,525</u>	<u>2,966,308</u>	<u>33,053</u>	<u>50,753,780</u>
Total Capital Assets Depreciated, Net	<u>71,491,747</u>	<u>3,584,252</u>	<u>-</u>	<u>75,075,999</u>
Total Capital Assets, Net	<u>\$ 75,026,769</u>	<u>\$ 4,170,206</u>	<u>\$ 2,599,738</u>	<u>\$ 76,597,237</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, 2008</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2009</u>	<u>Due Within One Year</u>
2000 VRL Fund	\$ 336,020	\$ -	\$ 29,700	\$ 306,320	\$ 29,700
2000 Water	1,186,784	-	17,623	1,169,161	18,433
2000-A Water	787,721	-	11,467	776,254	11,994
2001 Water and Sewer Refunding	32,205,000	-	1,990,000	30,215,000	2,095,000
2004-B Water and Sewer Refunding	1,130,000	-	50,000	1,080,000	50,000
2005-A Sewer	1,019,419	-	11,945	1,007,474	12,447
2007 Bonds Payable	<u>2,655,305</u>	<u>-</u>	<u>92,652</u>	<u>2,562,653</u>	<u>96,340</u>
Long-Term Debt before Deferrals	39,320,249	-	2,203,387	37,116,862	2,313,914
Less: Deferred amounts					
2001 refunding	(696,756)	-	(84,848)	(611,908)	(78,634)
Imputed interest on 2000 VRL Fund	(81,771)	-	(12,499)	(69,272)	(11,629)
Unamortized premium on 2001 Water and Sewer Refunding	1,228,435	-	211,153	1,017,282	189,646
Unamortized premium on 2004-B Water and Sewer	<u>6,118</u>	<u>-</u>	<u>602</u>	<u>5,516</u>	<u>583</u>
Total Deferred Amounts	<u>456,026</u>	<u>-</u>	<u>114,408</u>	<u>341,618</u>	<u>99,966</u>
Long-Term Debt	39,776,275	-	2,317,795	37,458,480	2,413,880
Compensated absences	<u>302,740</u>	<u>16,298</u>	<u>-</u>	<u>319,038</u>	<u>31,904</u>
Total Long-Term Debt	<u>\$ 40,079,015</u>	<u>\$ 16,298</u>	<u>\$ 2,317,795</u>	<u>\$ 37,777,518</u>	<u>\$ 2,445,784</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, 2009</u>
<b>Bonds</b>							
Virginia Revolving Loan Fund	0.000%	06/16/2000	2019	\$ 594,000	\$ 14,850	Semi-Annual	\$ 306,320
Water Facility Revenue	4.500%	01/28/2000	2039	1,282,840	5,889	Monthly	1,169,161
Water Facility Revenue	4.500%	06/14/2000	2040	847,400	3,890	Monthly	776,254
Water and Sewer Revenue Refunding	3.00-5.500%	11/15/2001	2019	42,470,000	1,565,000 3,540,000	Annual	30,215,000
Water and Sewer Revenue	2.35-4.475%	11/17/2004	2024	1,275,000	45,000 90,000	Annual	1,080,000
Sewer Facility Revenue	4.125%	07/14/2005	2045	1,030,000	4,481	Monthly	1,007,474
Water and Sewer Revenue Bond, Series 2007	3.910%	11/1/2007	Balloon in 2019	2,700,000	16,235	Monthly	<u>2,562,653</u>
							<u>\$ 37,116,862</u>

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>
2010	\$ 2,313,914	\$ 1,818,980	\$ 99,966
2011	2,424,671	1,704,360	87,013
2012	2,545,665	1,583,921	75,633
2013	2,671,910	1,454,227	60,797
2014	2,808,413	1,314,755	45,438
2015-2019	16,479,466	4,165,472	16,488
2020-2024	5,719,841	680,525	(43,745)
2025-2029	542,675	404,939	28
2030-2034	563,747	291,853	-
2035-2039	702,120	153,479	-
2040-2044	292,173	36,888	-
2045-2049	<u>52,267</u>	<u>1,169</u>	<u>-</u>
	<u>\$ 37,116,862</u>	<u>\$ 13,610,568</u>	<u>\$ 341,618</u>

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

Operating funds reserve	\$ 1,252,153
Replacement reserve	421,826
Debt service - 2000 RUS bonds	360,000
Debt service - 2001 bonds	5,323,164
Debt service - accrued interest	<u>62,463</u>
	<u>\$ 7,419,606</u>

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 2009. 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>	
EPA	58 East Waterline	\$ 488,166
Rural Utilities Service (Rural Development)	Chestnut Knob	138,168
Harvest Foundation	Soccer	16,599
Virginia Department of Housing	58 West Waterline	<u>3,800</u>
		<u>\$ 646,733</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 \$1,010,997, 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, 2009, 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*

<i>Name of Plan:</i>	Virginia Retirement System (VRS)
<i>Identification of Plan:</i>	Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
<i>Administering Entity:</i>	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.va.retire.org/Pdf/Publications/2008annurept.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 2009 was 1.81 percent of annual covered payroll.

### C. *Annual Pension Cost*

For fiscal year 2009, the Authority's annual pension cost of \$37,446 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, 2007	\$ 91,762	100%	\$ -
June 30, 2008	98,329	100%	-
June 30, 2009	37,446	100%	-

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, 2008, the most recent actuarial valuation date, the plan was 24.79 percent funded. The actuarial accrued liability for benefits was \$7,360,409, and the actuarial value of assets was \$7,851,357, resulting in an unfunded actuarial accrued liability (UAAL) of \$(490,948). The covered payroll (annual payroll of active employees covered by the plan) was \$1,980,332, and ratio of the UAAL to the covered payroll was 24.79 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, 2006	\$6,279,456	\$ 5,854,033	\$ (425,423)	107.27%	\$1,801,565	-23.61%
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%

*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, 2008
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)

Following are disclosures for the Authority's postemployment benefits:

**Development of Annual Required Contribution (ARC)**

1. Assumptions	
(a) Funding interest rate	7.50%
(b) Amortization payment increase rate	2.50%
2. Preliminary Funding Policy Contribution	
(a) Normal cost	\$4,637
(b) Term cost	0
(c) Administrative expenses	0
(d) Supplemental cost	
(i) Funding liability	242,547
(ii) Actuarial assets	0
(iii) Outstanding Balance: (i)-(ii)	242,547
(iv) Years to run	30
(v) Supplemental cost	14,836
(e) BOY contribution: (a)+(b)+(c)+(d)(v)	19,473
(f) Contribution timing	
(i) Fraction of year to cont.:	
.5000	
(ii) Interest on cont. at rate (1)(a)	717
(g) Preliminary contribution: (e)+(f)(ii),	20,190
3. Additional contribution	
	0
4. Employer contribution: (2)(g)+(3), not less than 0	
	20,190 3.88%

**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%	\$ 1,998,828	12.1%

**Schedule of Contributions**

<u>FYE</u>	<u>Actuarial Valuation Date</u>	<u>ARC</u>	<u>Actual Contribution</u>	<u>% Contributed</u>	<u>Contribution as % of Payroll</u>
06/30/2009	07/01/2008	\$ 20,190	\$ 30,525	151.2%	1.5%

### 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	0	\$ 20,190	0	0	\$ 20,190	\$(30,525)	\$(10,335)	7.50%	30

## 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 2009 and 2008 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, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Operating Revenues</b>				
Metered water sales	\$ 6,232,702	\$ 6,232,702	\$ 6,025,273	\$ (207,429)
Waste water service charges	4,436,151	4,436,151	4,176,475	(259,676)
Miscellaneous	368,000	368,000	374,665	6,665
Fire protection fees - Henry County	406,800	406,800	406,800	-
Connection fees	<u>62,000</u>	<u>62,000</u>	<u>168,234</u>	<u>106,234</u>
Total Operating Revenues	11,505,653	11,505,653	11,151,447	(354,206)
<b>Operating Expenses</b>				
Water and sewer treatment	3,054,670	3,078,286	3,073,049	5,237
Depreciation	-	-	2,966,307	(2,966,307)
Maintenance - transmission and collection lines	1,165,327	1,170,305	1,170,497	(192)
Administration	978,095	985,395	937,937	47,458
Bad debts	34,000	34,000	24,138	9,862
Customer service	392,027	404,092	389,167	14,925
Engineering and mapping	303,546	307,846	298,341	9,505
Maintenance - vehicle and equipment	157,361	135,462	89,467	45,995
Management information systems	202,214	210,364	205,704	4,660
Meter reading	150,450	150,568	141,473	9,095
Safety	<u>60,232</u>	<u>61,232</u>	<u>54,782</u>	<u>6,450</u>
Total Operating Expenses	<u>6,497,922</u>	<u>6,537,550</u>	<u>9,350,862</u>	<u>(2,813,312)</u>
Operating Income (Loss)	5,007,731	4,968,103	1,800,585	(3,167,518)
<b>Non-Operating Revenues (Expenses)</b>				
Interest income	385,600	385,600	479,495	93,895
Gain (Loss) on sale of properties	-	-	2,297	2,297
Interest expense	<u>(1,947,973)</u>	<u>(1,947,973)</u>	<u>(1,863,496)</u>	<u>84,477</u>
Total Non-Operating Revenue	<u>(1,562,373)</u>	<u>(1,562,373)</u>	<u>(1,381,704)</u>	<u>180,669</u>
Change in Net Assets Before Contributions	3,445,358	3,405,730	418,881	(2,986,849)
<b>Capital Contributions</b>	<u>-</u>	<u>2,565,134</u>	<u>802,086</u>	<u>(1,763,048)</u>
Change in Net Assets	<u>\$ 3,445,358</u>	<u>\$ 5,970,864</u>	<u>\$ 1,220,967</u>	<u>\$ (4,749,897)</u>

## **OTHER INFORMATION**

Table 1

## Henry County Public Service Authority

## Revenues by Source

Last Ten Fiscal Years

<u>Fiscal Years Ended June 30</u>	<u>Water</u>	<u>Sewer</u>	<u>Other</u>	<u>Investment Earnings</u>	<u>Grants and Other Contributions</u>	<u>Connection Fees</u>	<u>Totals</u>
<b>2009</b>	<b>\$ 6,025,273</b>	<b>\$4,176,475</b>	<b>\$ 783,762</b>	<b>\$ 479,495</b>	<b>\$ 802,086</b>	<b>\$ 168,234</b>	<b>\$12,435,325</b>
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
2000	3,385,289	4,966,913	1,108,373	645,475	703,364	100,043	10,909,457

Table 2

## Expenses by Function

Last Ten Fiscal Years

<u>Fiscal Years Ended June 30</u>	<u>System Maintenance</u>	<u>Treatment</u>	<u>Engineering and Mapping</u>	<u>Administration and Other</u>	<u>Depreciation</u>	<u>Amortization and Interest</u>	<u>Totals</u>
<b>2009</b>	<b>\$ 1,259,964</b>	<b>\$3,073,049</b>	<b>\$ 298,341</b>	<b>\$ 1,753,201</b>	<b>\$ 2,966,307</b>	<b>\$ 1,863,496</b>	<b>\$11,214,358</b>
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
2000	1,047,571	3,104,415	319,834	1,753,077	2,393,070	2,938,606	11,556,573



## Henry County Public Service Authority

## Revenue Bond Debt Service Coverage

## Last Ten Fiscal Years

<u>Fiscal Years Ended June 30</u>	<u>Unrestricted Cash Beginning of Year</u>	<u>Gross Revenues</u>	<u>Direct Operating Expenses**</u>	<u>Net Available</u>	<u>Principal</u>	<u>Amortization and Interest</u>	<u>Totals</u>	<u>Coverage</u>
<b>2009</b>	<b>\$ 5,501,702</b>	<b>\$11,633,239</b>	<b>\$6,384,555</b>	<b>\$10,750,386</b>	<b>\$2,203,387</b>	<b>\$ 1,811,566</b>	<b>\$4,014,953</b>	<b>2.68</b>
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
2000	-	10,909,457	6,224,957	4,684,500	1,110,000	2,938,606	4,048,606	1.16

\*\* 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, 2009

<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
	\$36,179,278	Blanket Real and Personal Property
Commercial Property Coverage (Virginia Municipal Liability Pool)	\$ 100,000	Extra Expense (Monthly Limit)
	\$ 1,000	Deductible
Commercial Inland Marine Coverage (Virginia Municipal Liability Pool)	\$ 770,007	Contractor's Equipment
	\$ 4,500,000	Direct Damage (Per Accident)
Boiler and Machinery Coverage (Virginia Municipal Liability Pool)	\$ 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
	\$ 1,000,000	Aggregate Amount
Public Employees Dishonesty Coverage (Virginia Municipal Liability Pool)	\$ 5,000	Deductible
	Statutory	State Statutory Provision
Worker's Compensation (Virginia Municipal Group Self-Insurance Association)	\$ 1,000,000	Employer's Liability Limit
	\$ 1,000,000	Limit of Liability
Public Official Liability (Commonwealth of Virginia - Division of Risk Management)	\$ 1,000	Deductible
	\$ 100,000	Bond Amount
Permit Bond (US Fidelity & Guaranty Co.)	\$ 100,000	Bond Amount

Table 5

### Henry County Public Service Authority

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

Last Ten Fiscal Years

Fiscal Years Ended June 30	City of Martinsville/ Eden**	Marrowbone**	Philpott	Wells	Totals
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
2000	-	210	632	164	1,006

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

\*\* The Marrowbone substation was closed in fiscal year 2003 and the water is now being purchased from the City of Martinsville. The Authority also purchases water from the City of Eden to supply the Sandy Level community.

Table 6

#### Waste Water Treatment By Plant (In Million Gallons)

Last Ten Fiscal Years

Fiscal Years Ended June 30	City of Martinsville**	Koehler**	Lower Smith River	Totals
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
2000	-	1,016	984	2,000

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

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

\*\* 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

<b>Fiscal Years Ended June 30</b>	<b>Population (1)</b>	<b>Per Capita Income (2)</b>	<b>Median Age (3)</b>	<b>High School Grad. Rate (4)</b>	<b>School Enrollment (5)</b>	<b>Unemployment Rate (6)</b>
<b>2009</b>	<b>\$ 53,869</b>	<b>\$ 27,427</b>	<b>41.9</b>	<b>73.0%</b>	<b>\$ 7,179</b>	<b>15.3%</b>
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%
2000	55,600	30,843	*	53.9%	8,982	6.2%

**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, 2009

<u>Customer</u>	<u>Business</u>	<u>Amount</u>	<u>Percent of Total Billings*</u>
C.P. Films, Inc.	Manufacturing	\$ 454,547	4.46%
Henry County Schools	Public School System	148,912	1.46%
King's Grant	Retirement Community	126,462	1.24%
Stanley Furniture Company	Manufacturing	124,793	1.22%
Scrub Board/Bobby Nickelston	Laundries and Car Washes	115,956	1.14%
County of Henry, Virginia	Local Government	115,906	1.14%
Knauss Snack Food Co., LLC	Manufacturing	68,765	0.67%
Eugene R. Lemieux	Rental Properties	59,624	0.58%
Dutch Inn	Hotel and Restaurant	55,152	0.54%
Karbelk Investments, LLC	Rental Properties	<u>52,800</u>	<u>0.52%</u>
Total		<u>\$ 1,322,917</u>	<u>12.97%</u>
*Total Billings		<u>\$ 10,201,748</u>	

### Henry County Public Service Authority

#### Miscellaneous Statistical Data

As of June 30, 2009

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	12,382
	Number of Active Sewer Connections	7,356
	Miles of Water Lines	320
	Miles of Sewer Lines	238
	Number of Fire Hydrants	1,511
	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	2.65 MGD
	Average Daily Sewage Flow	1.95 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



**Creedle  
Jones  
& Alga**

*A Professional Corporation*

*Certified Public Accountants  
Sherwood H. Creedle, CPA  
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**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 financial statements of Henry County Public Service Authority, as of and for the year ended June 30, 2009, and have issued our report thereon dated November 30, 2009. 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 Henry County Public Service Authority's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Henry County Public Service Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Henry County Public Service Authority's financial statements that is more than inconsequential will not be prevented or detected by Henry County Public Service Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Henry County Public Service Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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, others within the entity and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

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

South Hill, Virginia  
November 30, 2009



**Creedle  
Jones  
& Alga**

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**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

**Compliance**

We have audited the compliance of Henry County Public Service Authority with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2009. Henry County Public Service Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Henry County Public Service Authority's management. Our responsibility is to express an opinion on Henry County Public Service Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards, OMB Circular A-133, and specifications require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Henry County Public Service Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Henry County Public Service Authority's compliance with those requirements.

In our opinion, Henry County Public Service Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

**Internal Control Over Compliance**

The management of Henry County Public Service Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Henry County Public Service Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Henry County Public Service Authority's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

This report is intended solely for the information and use of management, Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

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

South Hill, Virginia  
November 30, 2009

## Henry County Public Service Authority

### Summary of Compliance Matters

June 30, 2009

As more fully described in the 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*, we performed tests of the Authority's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

#### State Compliance Matters

##### Code of Virginia

Cash and Investment Laws

Conflicts of Interest Act

Local Retirement Systems

Procurement Laws

Uniform Disposition of Unclaimed Property Act

#### Local Compliance Matters

Authority By-Laws

#### Federal Compliance Matters

##### Compliance Supplement for Single Audits of State and Local Governments

Provisions and conditions of agreements related to federal programs selected for testing.

Henry County Public Service Authority

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2009

<b>Federal Granting Agency/Recipient State Agency/ Grant Program</b>	<b>Federal Catalog Number</b>	<b><u>Expenditures</u></b>
<b>U. S. Department of Agriculture</b>		
<b>Direct Payments</b>		
Rural Utilities Service Virginia Water and Sewer Authorities Act	10.000	\$ 138,168
<b>U. S. Environmental Protection Agency</b>		
<b>Direct Payments</b>		
Water Protection Division	66.000	<u>488,166</u>
Grand Totals		<u>\$ 626,334</u>

Note to Schedule of Expenditures of Federal Awards

*Basis of Presentation*

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the Authority and is presented on GAAP. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

**Henry County Public Service Authority**

Schedule of Findings and Questioned Costs

Year Ended June 30, 2009

**1. SUMMARY OF AUDIT RESULTS**

- a. The auditor's report expresses an **unqualified opinion** on the financial statements of Henry County Public Service Authority.
- b. **No significant deficiencies** relating to the audit of the financial statements are reported in the 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*.
- c. **No instances of noncompliance** material to the financial statements of Henry County Public Service Authority were disclosed during the audit.
- d. **No significant deficiencies** relating to the audit of the major federal award programs are reported in the Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133.
- e. The auditor's report on compliance for the major federal award programs for Henry County Public Service Authority expresses an **unqualified opinion** on all major federal programs.
- f. There were **no audit findings** relative to the major federal award programs for Henry County Public Service Authority to be reported in this schedule.
- g. The program tested as major programs included:

**CFDA #66.000, Water Protection Division**

- h. The **threshold for** distinguishing Types A and B programs was **\$300,000**.
- i. Henry County Public Service Authority was determined to be a **low-risk auditee**.

**2. Findings Relating to the Financial Statements Reported in Accordance With *Government Auditing Standards***

None

**3. Findings and Questioned Costs Relating to Federal Awards**

None

**Henry County Public Service Authority**  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2009

**FINANCIAL STATEMENTS**

There were no findings in the prior year.