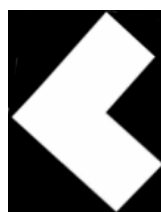


Henry County Public Service Authority
Comprehensive Annual Financial Report
Years Ended June 30, 2007 and 2006



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

Henry County Public Service Authority

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Henry County Public Service Authority
Collinsville, Virginia

We have audited the accompanying basic financial statements of the Henry County Public Service Authority, as of and for the year ended June 30, 2007, 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. The financial statements of Henry County Public Service Authority as of June 30, 2006 were audited by other auditors whose report dated October 5, 2006 expressed an unqualified opinion on those statements.

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 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 financial position of the Henry County Public Service Authority, as of June 30, 2007, and the changes in financial position, and, where applicable, cash flows 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 December 11, 2007, 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 is not a required part of the basic financial statements but is 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.

Creedle, Jones & Alga, P.C.

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

South Hill, Virginia
December 11, 2007

Henry County Public Service Authority

Management's Discussion and Analysis

As of June 30, 2007

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, 2007. 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 own 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 2007 and 2006 is presented below:

	<u>2007</u>	<u>2006</u>	<u>\$ Change</u>	<u>% Change</u>
Current Assets	\$ 5,715,461	\$ 4,426,057	\$ 1,289,404	29.13%
Net Capital Assets	74,480,512	75,993,925	(1,513,413)	-1.99%
Other Noncurrent Assets	<u>8,262,963</u>	<u>8,026,666</u>	<u>236,297</u>	2.94%
Total Assets	<u>\$ 88,458,936</u>	<u>\$ 88,446,648</u>	<u>\$ 12,288</u>	0.01%
Total Liabilities	<u>\$ 40,499,660</u>	<u>\$ 42,696,032</u>	<u>\$ (2,196,372)</u>	-5.14%
Net Assets				
Invested in capital assets	36,286,047	35,872,370	413,677	1.15%
Restricted for debt	7,199,204	6,832,741	366,463	5.36%
Unrestricted	<u>4,474,025</u>	<u>3,045,505</u>	<u>1,428,520</u>	46.91%
Total Net Assets	<u>47,959,276</u>	<u>45,750,616</u>	<u>2,208,660</u>	4.83%
Total Liabilities and Net Assets	<u>\$ 88,458,936</u>	<u>\$ 88,446,648</u>	<u>\$ 12,288</u>	0.01%

Change in Net Assets

A summary of the Authority's Statements of Revenues, Expenses, and Changes in Net Assets for 2007 and 2006 is presented below:

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

	<u>2007</u>	<u>2006</u>	<u>\$ Change</u>	<u>% Change</u>
Operating Revenues	\$ 11,389,133	\$ 10,209,549	\$ 1,179,584	11.55%
Operating Expenses	<u>(8,735,661)</u>	<u>(8,624,427)</u>	<u>(111,234)</u>	1.29%
Operating Income	2,653,472	1,585,122	1,068,350	67.40%
Non-Operating Revenue	433,213	379,168	54,045	14.25%
Non-Operating Expense	<u>(1,998,204)</u>	<u>(2,015,079)</u>	<u>16,875</u>	-0.84%
Income (Loss) before Contributions	1,088,481	(50,789)	1,139,270	-2243.14%
Capital contributions	<u>1,120,179</u>	<u>4,400,499</u>	<u>(3,280,320)</u>	-74.54%
Changes in Net Assets	<u>\$ 2,208,660</u>	<u>\$ 4,349,710</u>	<u>\$ (2,141,050)</u>	-49.22%

During the year, the Authority's net operating income was \$2,208,660. The Authority had non-operating revenues and expenses in the form of interest income, which amounted to \$433,213 and interest expense amounting to \$1,998,204. Operating expenses of \$8,735,661 included all expenses necessary to operate the Authority's water and sewer facilities.

Net assets increased \$2,208,660 in 2007 as compared to an increase of \$4,349,710 in 2006.

Cash Flows

A summary of the Authority's Statements of Cash Flows for 2007 and 2006 is presented below:

Condensed Statement of Cash Flows

	<u>2007</u>	<u>2006</u>
Cash Provided by (Used in)		
Operating activities	\$ 5,653,849	\$ 4,253,710
Capital and related financing activities	(4,137,846)	(5,368,212)
Investing activities	<u>66,749</u>	<u>1,495,492</u>
Net Increase in Cash	<u>\$ 1,582,752</u>	<u>\$ 380,990</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 2007, there was an increase of \$1,582,752 in cash as compared to an increase of \$380,990 in 2006.

Capital Assets

As of June 30, 2007, the Authority's investment in capital assets totals \$36,286,047 which is net capital assets less related debt.

During fiscal year 2007, the Authority's net capital assets (including additions, decreases, and depreciation) decreased \$1,513,413 as summarized below:

Change in Capital Assets

	<u>Balance</u> <u>June 30, 2006</u>	<u>Net Additions</u> <u>and Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>
Land	\$ 297,985	\$ 46,631	\$ 344,616
Construction in progress	5,220,102	(5,113,335)	106,767
Building and leasehold improvements	767,274	-	767,274
Water and sewer system	110,575,579	6,108,278	116,683,857
Trucks and autos	1,524,607	52,307	1,576,914
Office equipment	<u>417,662</u>	-	<u>417,662</u>
Total Capital Assets	118,803,209	1,093,881	119,897,090
Less: Accumulated depreciation	<u>(42,809,284)</u>	<u>(2,607,294)</u>	<u>(45,416,578)</u>
Total Capital Assets, Net	<u>\$ 75,993,925</u>	<u>\$ (1,513,413)</u>	<u>\$ 74,480,512</u>

Long-Term Debt

As of June 30, 2007, the Authority's long-term obligations total \$39,575,432.

The Authority's long-term obligations are presented as follows:

Change in Long-Term Debt

	<u>Balance June 30, 2006</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2007</u>
Long-term notes	\$ 41,315,480	\$ (2,057,259)	\$ 39,258,221
Compensated absences	<u>283,305</u>	<u>33,906</u>	<u>317,211</u>
	<u>\$ 41,598,785</u>	<u>\$ (2,023,353)</u>	<u>\$ 39,575,432</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 increased by \$12,288 or .01%, while net assets increased by \$2,208,660. A substantial portion of the net assets change resulted from money received from the County.

Accounts receivable-net at year-end were approximately \$971,541 compared to \$951,988 for fiscal year 2006. The reserve for bad debts was increased to equal all accounts over 90 days past due. The bad debt charge for 2007 and 2006 was \$27,589 and \$362,460, respectively.

RESULTS OF OPERATIONS

The Authority's revenues from operations fall into four main categories: 1) Water and Sewage disposal charges to customers in Henry County which are based upon metered and unmetered water consumption which is billed monthly. 2) Miscellaneous revenue including penalties, Henry County shared expense reimbursements, and other revenue. 3) Construction grants revenues. 4) Non-operating revenues including interest, gain on sale of investments, and other revenue. Revenues from the four main categories totaled \$11,389,133 or 11.55% more than fiscal year 2006.

DEBT

At year-end, the Authority had \$39,575,432 in long-term debt with \$2,006,643 coming due in 2008. There was no new borrowing during the year, and principal payments on outstanding long-term debt were \$2,168,604. More detailed information about the Authority's long-term debt is presented in Note 6 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 \$4.2 and \$2.6 million for 2007 and 2006, respectively. The following table calculates debt service coverage for fiscal years 2007 and 2006, including the available cash reserves:

	(In Millions of Dollars)		
	<u>2007</u>	<u>2006</u>	<u>% Change</u>
Unrestricted operating revenue	\$ 11.39	\$ 10.21	118.0%
Unrestricted investment income	<u>0.43</u>	<u>0.38</u>	<u>5.0%</u>
Total revenue	11.82	10.59	123.0%
Total operating expenses (less depreciation)	<u>5.89</u>	<u>5.86</u>	<u>3.0%</u>
Net revenue	5.93	4.73	120.0%
Unrestricted cash	<u>2.61</u>	<u>2.23</u>	<u>38.0%</u>
Available for debt service	<u>\$ 8.54</u>	<u>\$ 6.96</u>	<u>158.0%</u>
Annual debt service	<u>\$ 3.78</u>	<u>\$ 3.72</u>	<u>6.0%</u>
Debt service coverage	<u>\$ 2.26</u>	<u>\$ 1.87</u>	<u>38.8%</u>

FINAL COMMENTS

Fiscal year 2007 continued the trend of improved financial performance by the Authority. This improvement 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.

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 276-634-4670.

FINANCIAL STATEMENTS

Henry County Public Service Authority

Statements of Net Assets

June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 4,195,338	\$ 2,612,586
Accounts receivable, net	971,541	951,988
Unbilled revenue	467,035	452,858
Due from other governments	36,825	332,839
Inventory	<u>44,722</u>	<u>75,786</u>
Total Current Assets	5,715,461	4,426,057
Capital Assets		
Nondepreciable	451,383	5,518,087
Depreciable	<u>74,029,129</u>	<u>70,475,838</u>
Net Capital Assets	74,480,512	75,993,925
Other Noncurrent Assets		
Restricted investments	7,199,204	6,832,741
Unrealized bond issue costs	<u>1,063,759</u>	<u>1,193,925</u>
Total Other Noncurrent Assets	<u>8,262,963</u>	<u>8,026,666</u>
Total Assets	<u>\$ 88,458,936</u>	<u>\$ 88,446,648</u>
Liabilities and Net Assets		
Liabilities		
Current Liabilities		
Accounts payable	\$ 229,352	\$ 457,849
Interest payable	240,405	252,209
Accrued expenses	3,990	10,895
Customer deposits	450,481	376,294
Current maturities of long-term liabilities	<u>2,137,252</u>	<u>1,906,291</u>
Total Current Liabilities	3,061,480	3,003,538
Long-Term Liabilities		
Compensated absences	317,211	283,305
Notes payable	<u>37,120,969</u>	<u>39,409,189</u>
Total Long-Term Liabilities	<u>37,438,180</u>	<u>39,692,494</u>
Total Liabilities	40,499,660	42,696,032
Net Assets		
Invested in capital assets, net of related debt	36,286,047	35,872,370
Restricted		
Debt covenants	7,199,204	6,832,741
Unrestricted	<u>4,474,025</u>	<u>3,045,505</u>
Total Net Assets	<u>47,959,276</u>	<u>45,750,616</u>
Total Liabilities and Net Assets	<u>\$ 88,458,936</u>	<u>\$ 88,446,648</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, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating Revenues		
Water and sewer charges	\$ 10,464,235	\$ 8,913,922
Fire protection fees - Henry County	406,800	406,800
Connection fees	87,245	70,361
Miscellaneous	<u>430,853</u>	<u>818,466</u>
Total Operating Revenues	11,389,133	10,209,549
Operating Expenses		
Water and sewer treatment	2,887,702	2,811,535
Depreciation	2,846,141	2,757,877
Maintenance - transmission and collection lines	1,064,215	944,622
Administration	822,307	723,953
Bad debts	27,589	362,460
Customer service	361,185	333,806
Engineering and mapping	301,523	248,097
Maintenance - vehicle and equipment	114,362	159,012
Management information systems	124,253	112,758
Meter reading	132,404	126,491
Safety	<u>53,980</u>	<u>43,816</u>
Total Operating Expenses	<u>8,735,661</u>	<u>8,624,427</u>
Operating Income	2,653,472	1,585,122
Non-Operating Revenues (Expenses)		
Interest income	433,213	379,168
Interest expense	<u>(1,998,204)</u>	<u>(2,015,079)</u>
Net Non-Operating Revenues (Expenses)	<u>(1,564,991)</u>	<u>(1,635,911)</u>
Change in Net Assets Before Contributions	1,088,481	(50,789)
Capital Contributions	<u>1,120,179</u>	<u>4,400,499</u>
Change in Net Assets	2,208,660	4,349,710
Total Net Assets - Beginning of Year	<u>45,750,616</u>	<u>41,400,906</u>
Total Net Assets - End of Year	\$ 47,959,276	\$ 45,750,616

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, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 11,725,605	\$ 9,641,993
Cash paid for goods and services	(4,099,102)	(3,095,268)
Cash paid to employees	<u>(1,972,654)</u>	<u>(2,293,015)</u>
Net Cash Provided by Operating Activities	5,653,849	4,253,710
Cash Flows from Capital and Related Financing Activities		
Governmental grant revenue	1,120,179	4,183,819
Purchase of capital assets	(1,332,728)	(6,713,373)
Bond proceeds received	-	1,030,000
Bond principal payments	(2,057,259)	(1,994,624)
Bond interest payments	(1,998,204)	(1,874,034)
Bond issuance costs	<u>130,166</u>	<u>-</u>
Net Cash Used in Capital and Related Financing Activities	(4,137,846)	(5,368,212)
Cash Flows from Investing Activities		
Interest received	433,213	355,708
Net change in investments	<u>(366,464)</u>	<u>1,139,784</u>
Net Cash Provided by Investing Activities	66,749	1,495,492
Net Increase in Cash and Cash Equivalents	1,582,752	380,990
Cash and Cash Equivalents - Beginning of Year	<u>2,612,586</u>	<u>2,231,596</u>
Cash and Cash Equivalents - End of Year	<u>\$ 4,195,338</u>	<u>\$ 2,612,586</u>
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities		
Operating income	\$ 2,653,472	\$ 1,585,122
Adjustments to reconcile operating income		
Depreciation	2,846,141	2,757,877
Bad debts	27,589	362,460
Change in assets and liabilities		
Decrease (Increase) in		
Accounts receivable	(47,141)	(554,653)
Due from other governments	296,014	-
Inventory	31,064	8,741
Unbilled revenue	(14,177)	(78,639)
Increase (Decrease) in		
Accounts payable	(228,497)	70,960
Customer deposits	74,187	65,736
Compensated absences	33,906	-
Interest payable	(11,804)	-
Accrued expenses	<u>(6,905)</u>	<u>36,106</u>
Net Cash Provided by Operating Activities	<u>\$ 5,653,849</u>	<u>\$ 4,253,710</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, 2007

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%, and sick leave is paid at 25%, 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	\$ 5,221,800	5 months or less	AAA
Certificates of deposit	<u>1,885,000</u>	2010	N/A
	<u>\$ 7,106,800</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% 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 \$22,713 and \$33,075 as of June 30, 2007 and 2006, respectively.

5 Capital Assets

The following schedule shows the breakdown of capital assets by category at June 30, 2007:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Acquired</u> <u>(Increased)</u>	<u>Deleted</u> <u>(Decreased)</u>	<u>Balance</u> <u>June 30, 2007</u>
Capital assets, not depreciated				
Land	\$ 297,985	\$ 46,631	\$ -	\$ 344,616
Construction in progress				
Water				
Chestnut Knob	21,300	50,685	-	71,985
Eagle Lane	1,170	-	-	1,170
Pittsylvania County	-	33,612	-	33,612
Fairystone State Park	943,184	2,756	945,940	-
	<u>965,654</u>	<u>87,053</u>	<u>945,940</u>	<u>106,767</u>
Sewer				
NW County	4,254,448	92,100	4,346,548	-
	<u>4,254,448</u>	<u>92,100</u>	<u>4,346,548</u>	<u>-</u>
Total Construction in Progress	<u>5,220,102</u>	<u>179,153</u>	<u>5,292,488</u>	<u>106,767</u>
Total Capital Assets, Not Depreciated	5,518,087	225,784	5,292,488	451,383
Capital assets, depreciated				
Buildings and leasehold improvements	767,274	-	-	767,274
Water and sewer system	110,575,579	6,334,875	226,597	116,683,857
Trucks and autos	1,524,607	64,557	12,250	1,576,914
Office equipment	417,662	-	-	417,662
	<u>113,285,122</u>	<u>6,399,432</u>	<u>238,847</u>	<u>119,445,707</u>
Less: Accumulated depreciation for				
Buildings and leasehold improvements	473,652	45,120	-	518,772
Water and sewer system	40,489,176	2,754,030	226,597	43,016,609
Trucks and autos	1,448,446	35,872	12,250	1,472,068
Office equipment	398,010	11,119	-	409,129
	<u>42,809,284</u>	<u>2,846,141</u>	<u>238,847</u>	<u>45,416,578</u>
Total Accumulated Depreciation	<u>42,809,284</u>	<u>2,846,141</u>	<u>238,847</u>	<u>45,416,578</u>
Total Capital Assets Depreciated, Net	<u>70,475,838</u>	<u>3,553,291</u>	<u>-</u>	<u>74,029,129</u>
Total Capital Assets, Net	<u>\$ 75,993,925</u>	<u>\$ 3,779,075</u>	<u>\$ 5,292,488</u>	<u>\$ 74,480,512</u>

Capital assets of the Authority are stated at cost. Depreciation of the cost of capital assets is provided on a straight-line basis over their estimated useful lives as follows:

Vehicles	5 to 10 years
Furniture, fixtures, and equipment	5 to 25 years
Infrastructure and improvements	25 to 40 years

6 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, 2006</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2007</u>	<u>Due Within One Year</u>
2000 VRL Fund	\$ 395,420	\$ -	\$ 29,700	\$ 365,720	\$ 29,700
2000 Water	1,219,743	-	16,110	1,203,633	16,849
2000-A Water	809,166	-	10,482	798,684	10,963
2001 Water and Sewer Refunding	35,895,000	-	1,800,000	34,095,000	1,890,000
2004-B Water and Sewer Refunding	1,230,000	-	50,000	1,180,000	50,000
2005-A Sewer	1,030,000	-	1,450	1,028,550	9,131
Long-Term Debt before Deferrals	40,579,329	-	1,907,742	38,671,587	2,006,643
Less: Deferred amounts					
2001 refunding	(884,978)	97,227	-	(787,751)	(90,995)
Imputed interest on 2000 VRL Fund	(109,219)	14,118	-	(95,101)	(13,329)
Unamortized premium on 2001 Water and Sewer Refunding	1,722,975	-	260,226	1,462,749	234,314
Unamortized premium on 2004-B Water and Sewer	7,373	-	636	6,737	619
Total Deferred Amounts	736,151	111,345	260,862	586,634	130,609
Long-Term Debt	41,315,480	111,345	2,168,604	39,258,221	2,137,252
Compensated absences	283,305	33,906	-	317,211	-
Total Long-Term Liabilities	<u>\$ 41,598,785</u>	<u>\$ 145,251</u>	<u>\$ 2,168,604</u>	<u>39,575,432</u>	<u>\$ 2,137,252</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, 2007</u>
Bonds							
Virginia Revolving Loan Fund	0.000%	06/16/2000	2019	\$ 594,000	\$ 14,850	Semi-Annual	\$ 365,720
Water Facility Revenue	4.500%	01/28/2000	2039	1,282,840	5,889	Monthly	1,203,633
Water Facility Revenue	4.500%	06/14/2000	2040	847,400	3,890	Monthly	798,684
Water and Sewer Revenue Refunding	3.00-5.500%	11/15/2001	2019	42,470,000	1,565,000 3,540,000	Annual	34,095,000
Water and Sewer Revenue	2.35-4.475%	11/17/2004	2024	1,275,000	45,000 90,000	Annual	1,180,000
Sewer Facility Revenue	4.125%	07/14/2005	2045	1,030,000	4,481	Monthly	<u>1,028,550</u>
							<u>\$ 38,671,587</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>
2008	\$ 2,006,643	\$ 1,923,670	\$ 130,609
2009	2,110,735	1,825,822	114,407
2010	2,217,574	1,720,495	99,966
2011	2,324,496	1,609,710	87,013
2012	2,441,502	1,493,259	75,633
2013-2017	14,255,921	5,407,070	164,753
2018-2022	10,836,700	1,469,555	(85,988)
2022-2027	674,645	458,367	241
2028-2032	516,371	339,229	-
2033-2037	643,098	212,502	-
2038-2042	492,710	71,035	-
2043-2047	<u>151,192</u>	<u>9,788</u>	<u>-</u>
	<u>\$ 38,671,587</u>	<u>\$ 16,540,502</u>	<u>\$ 586,634</u>

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

Operating funds reserve	\$ 1,125,000
Replacement reserve	400,000
Debt service - 2000 RUS bonds	360,000
Debt service - 2001 bonds	5,221,800
Debt service - accrued interest	<u>92,404</u>
	<u>\$ 7,199,204</u>

The Authority is required to maintain a debt service coverage ratio of 120% (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 July 2007. 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.

7 Capital Contributions

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

Northwest sewer project	\$ 69,077
Fieldale water project	1,048,346
Fairystone water project	<u>2,756</u>
	<u>\$ 1,120,179</u>

8 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 are 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 \$930,117, 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.

9 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, 2007, 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.

10 Defined Benefit Pension Plan

A. *Plan Description*

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 1.7 percent of their average final compensation (AFC) for each year of credited service. 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 increases limited to 5 percent per year beginning in their second year of retirement. 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/2006AnnuRept.pdf> or obtained by writing to the System 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 percent of their annual salary to the VRS. The employer may assume this 5 percent member contribution. 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 2007 was 4.89 percent of annual covered payroll.

C. *Annual Pension Cost*

For fiscal year 2007, the Authority's annual pension cost of \$91,762 was equal to the Authority's required and actual contributions. The required contribution was determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.50 percent investment rate of return, (b) projected salary increases ranging from 3.75 percent to 6.20 percent per year, and (c) 2.50 percent per year cost-of-living adjustments. Both (a) and (b) included 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 payroll on an open basis within a period of 21 years.

Three-Year Trend Information for Authority

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2005	\$ 81,861	100%	\$ -
June 30, 2006	97,418	100%	-
June 30, 2007	91,762	100%	

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for Authority

	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
June 30, 2004	\$ 5,786,414	\$ 4,816,094	\$ (970,320)	120.15%	\$ 1,790,460	-54.19%
June 30, 2005	5,943,663	5,970,608	26,945	99.55%	1,749,626	1.54%
June 30, 2006	6,279,456	5,735,210	(544,246)	109.49%	1,801,565	-30.21%

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, 2006
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent, Open
Payroll Growth Rate	2.50%
Remaining Amortization Period	20 Years
Asset Valuation Method	Modified Market
Actuarial Assumptions	
Investment rate of return ¹	7.50%
Projected salary increases ¹	
NonLaw Enforcement Officer Employees	3.75% to 5.60%
Law Enforcement Officer Employees	3.50% to 4.75%
Cost-of-living adjustments	2.50%

¹Includes inflation of 2.50%.

11 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 2007 and 2006 did not exceed insurance.

12 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.

13 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, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Operating Revenues				
Metered water sales	\$ 6,011,243	\$ 6,011,243	\$ 6,169,626	\$ 158,383
Waste water service charges	3,897,034	3,897,034	4,294,609	397,575
Miscellaneous	853,541	853,541	430,853	(422,688)
Fire protection fees - Henry County	406,800	406,800	406,800	-
Connection fees	<u>62,000</u>	<u>62,000</u>	<u>87,245</u>	<u>25,245</u>
Total Operating Revenues	11,230,618	11,230,618	11,389,133	158,515
Operating Expenses				
Water and sewer treatment	3,097,063	3,113,620	2,887,702	225,918
Depreciation	-	-	2,846,141	(2,846,141)
Maintenance-transmission and collection lines	1,017,044	1,018,604	1,064,215	(45,611)
Administration	880,331	877,831	822,307	55,524
Bad debts	440,600	440,600	27,589	413,011
Customer service	371,886	372,071	361,185	10,886
Engineering and mapping	268,228	309,872	301,523	8,349
Maintenance - vehicle and equipment	139,279	139,279	114,362	24,917
Management information systems	123,739	123,739	124,253	(514)
Meter reading	143,120	143,637	132,404	11,233
Safety	<u>57,141</u>	<u>57,141</u>	<u>53,980</u>	<u>3,161</u>
Total Operating Expenses	<u>6,538,431</u>	<u>6,596,394</u>	<u>8,735,661</u>	<u>(2,139,267)</u>
Operating Income (Loss)	4,692,187	4,634,224	2,653,472	(1,980,752)
Non-Operating Revenues (Expenses)				
Interest income	319,666	319,666	433,213	113,547
Interest expense	<u>(2,110,843)</u>	<u>(2,110,843)</u>	<u>(1,998,204)</u>	<u>112,639</u>
Total Non-Operating Revenue	<u>(1,791,177)</u>	<u>(1,791,177)</u>	<u>(1,564,991)</u>	<u>226,186</u>
Change in Net Assets Before Contributions	2,901,010	2,843,047	1,088,481	(1,754,566)
Capital Contributions	<u>2,001,500</u>	<u>945,433</u>	<u>1,120,179</u>	<u>174,746</u>
Change in Net Assets	<u>\$ 4,902,510</u>	<u>\$ 3,788,480</u>	<u>\$ 2,208,660</u>	<u>\$ (1,579,820)</u>

OTHER INFORMATION

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>
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
1999	3,486,451	5,169,727	880,088	765,179	-	305,192	10,606,637
1998	3,402,458	5,111,736	801,720	1,312,408	-	300,292	10,928,614

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>
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
1999	924,006	3,349,291	157,232	1,420,825	2,368,110	3,028,216	11,247,680
1998	1,026,082	3,412,078	226,112	1,457,535	2,218,696	3,071,861	11,412,364

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>
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
1999	-	10,509,520	5,851,354	4,658,166	1,050,000	3,028,216	4,078,216	1.14
1998	-	10,928,614	6,121,807	4,806,807	995,000	3,071,861	4,066,861	1.18

** 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 to proper calculation of the debt service coverage as contained in bond covenants.

Henry County Public Service Authority

Schedule of Insurance in Force

June 30, 2007

<u>Type Coverage</u> <u>(Insurer)</u>		<u>Liability Limits</u>
Commercial General Liability (Virginia Municipal Liability Pool)	\$ 1,000,000	Each Occurrence Limit
	\$ 2,000,000	General Aggregate Limit
	\$ 2,000,000	Products/Completed Operations Aggregate Limit
Primary Automobile Liability (Virginia Municipal Liability Pool)	\$ 100,000	Fire Damage Limit
	\$ 10,000	Medical Expense Limit
	\$ 25,000	Bodily Injury Per Person
	\$ 50,000	Bodily Injury Per Accident
	\$ 20,000	Property Damage Per Accident
Automobile Uninsured Motorists (Virginia Municipal Liability Pool)	\$ 1,000,000	Per Occurrence
	\$ 25,000	Bodily Injury Per Person
	\$ 50,000	Bodily Injury Per Accident
	\$ 20,000	Property Damage Per Accident
Automobile Physical Damage (Virginia Municipal Liability Pool)	\$ 10,000	Automobile Medical Payments
	Actual	Comprehensive
	Actual	Collision
	\$ 250	Deductible/Comprehensive
Umbrella Liability (Virginia Municipal Liability Pool)	\$ 500	Deductible/Collision
	\$ 2,000,000	Per Occurrence
Commercial Property Coverage (Virginia Municipal Liability Pool)	\$ 32,581,634	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)	\$ 4,100,000	Direct Damage (Per Accident)
	\$ 100,000	Refrigerant
	\$ 100,000	Ammonia Contamination
	\$ 100,000	Expediting Expenses
	\$ 100,000	Hazardous Substances
	\$ 100,000	Consequential Damage (Per Accident)
	\$ 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
	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

Henry County Public Service Authority

Raw Water Production by Source (In Million Gallons)

Last Ten Fiscal Years

<u>Fiscal Years Ended June 30</u>	<u>City of Martinsville/ Eden**</u>	<u>Marrowbone**</u>	<u>Philpott</u>	<u>Wells</u>	<u>Totals</u>
2007	\$ 360.34	\$ -	\$ 644.86	\$ 17.38	\$ 1,022.58
2006	398.84	-	688.30	18.99	1,106.13
2005	414.55	-	677.90	17.91	1,110.36
2004	416.44	-	671.90	162.62	1,250.96
2003	-	102.31	629.42	172.10	903.83
2002	-	177.72	619.51	195.55	992.78
2001	-	198.41	641.25	175.13	1,014.79
2000	-	209.73	632.42	164.06	1,006.21
1999	-	196.67	615.64	163.62	975.93
1998	-	170.53	532.41	143.28	846.22

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

<u>Fiscal Years Ended June 30</u>	<u>City of Martinsville**</u>	<u>Koehler**</u>	<u>Lower Smith River</u>	<u>Totals</u>
2007	\$ 792.10	\$ -	\$ -	\$ 792.10
2006	715.87	-	92.88	808.75
2005	599.37	-	237.56	836.93
2004	445.66	205.00	381.10	1,031.76
2003	-	1,011.76	404.13	1,415.89
2002	-	803.00	660.10	1,463.10
2001	-	962.16	856.50	1,818.66
2000	-	1,016.35	983.59	1,999.94
1999	-	903.41	810.34	1,713.75
1998	-	1,052.75	875.36	1,928.11

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

<u>Fiscal Years Ended June 30</u>	<u>Population (1)</u>	<u>Per Capita Income (2)</u>	<u>Median Age (3)</u>	<u>High School Grad. Rate (4)</u>	<u>School Enrollment (5)</u>	<u>Unemployment Rate (6)</u>
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%
1999	55,627	*	*	53.9%	8,981	6.0%
1998	56,300	*	*	*	9,096	4.0%

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 & 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, 2007

<u>Customer</u>	<u>Business</u>	<u>Amount</u>	<u>Percent of Total Billings</u>
C.P. Films, Inc.	Manufacturing	\$ 451,367	4.31%
Stanley Furniture Company	Manufacturing	161,347	1.54%
King's Grant	Retirement Community	138,222	1.32%
Henry County Schools	Public School System	126,525	1.21%
Bassett Furniture Industries	Manufacturing	121,648	1.16%
Scrub Board/Bobby Nickelston	Laundries and Car Washes	118,434	1.13%
County of Henry	Local Government	110,376	1.05%
Knauss Snack Food Co., LLC	Manufacturing	65,415	0.63%
Mechanical Development Co.	Rental Properties	64,897	0.62%
Resurgence Properties (TSI)	Manufacturing	<u>62,477</u>	<u>0.60%</u>
Total		<u>\$ 1,420,708</u>	<u>13.57%</u>

Henry County Public Service Authority

Miscellaneous Statistical Data

As of June 30, 2007

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	49
	Number of Active Water Connections	12,388
	Number of Active Sewer Connections	7,404
	Miles of Water Lines	320
	Miles of Sewer Lines	238
	Number of Fire Hydrants	1,376
	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	2.80 MGD
	Average Daily Sewage Flow	2.17 MGD
Bond Rating:	AAA	
Minimum Consumption Charge Per Service (Sewer charges are based on water consumption.)	<p style="text-align: center;">July 2005 to May 2006</p> <p>All customers charged a minimum monthly consumption charge of \$24.00 per service for up to 6,000 gallons consumption.</p> <p style="text-align: center;">Effective June 2006</p> <p>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.</p>	
Additional Consumption	<p>The following charges apply to each 1,000 gallons, or fractions thereof, of water consumed above mentioned minimums:</p> <p style="text-align: center;">July 2005 to May 2006</p> <p>All customers - \$4.08 per additional 1,000 gallons.</p> <p style="text-align: center;">Effective June 2006</p> <p>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</p>	
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**

Board of Directors
Henry County Public Service Authority
Collinsville, Virginia

We have audited the financial statements of the Henry County Public Service Authority, as of and for the year ended June 30, 2007, and have issued our report thereon dated December 11, 2007. 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 the 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 the 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 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 the Henry County Public Service Authority's financial statements that is more than inconsequential will not be prevented or detected by the 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 the 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 the 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*.

We noted certain matters that we reported to management of Henry County Public Service Authority in a separate letter dated December 11, 2007.

This report is intended solely for the information and use of management, the audit committee, Board of Directors, 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.

Credle, Jones & Alga, P.C.

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

South Hill, Virginia
December 11, 2007

Henry County Public Service Authority

Summary of Compliance Matters

June 30, 2007

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.