

*Henry County Public Service Authority*  
*Comprehensive Annual Financial Report*  
*Years Ended June 30, 2016 and 2015*



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

# Henry County Public Service Authority

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Henry County Public Service Authority

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and fiduciary fund of the Henry County Public Service Authority, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Henry County Public Service Authority's basic financial statements as listed in the table of contents.

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

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

#### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Authorities, Boards, and Commissions* 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 from material misstatement.

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

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

#### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary fund of the Henry County Public Service Authority, as of June 30, 2016 and 2015, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## *Other Matters*

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 6 and the schedule of changes in the political subdivision's net pension liability and related ratios, schedule of employer contributions, and notes to required supplemental information on pages 35 through 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Henry County Public Service Authority's basic financial statements. The Schedule of Revenues and Expenses – Budget to Actual and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Schedule of Revenues and Expenses – Budget to Actual and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated, October 14, 2016 on our consideration of the Henry County Public Service Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Henry County Public Service Authority's internal control over financial reporting and compliance.



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

South Hill, Virginia  
October 14, 2016

## Henry County Public Service Authority

### Management's Discussion and Analysis

As of June 30, 2016

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, 2016. Please read this information in conjunction with Henry County Public Service Authority's basic financial statements.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

The Henry County Public Service Authority (the "Authority") presents four basic financial statements. These are: (1) Statements of Net Position; (2) Statements of Revenues, Expenses, and Changes in Net Position; (3) Statements of Cash Flows; and (4) Statements of Fiduciary Net Position.

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 Position, 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 position.

Information regarding the results of our operation during the years is reported in the Statements of Revenues, Expenses, and Changes in Net Position. These statements show how much our overall net position 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 and how we applied those funds.

#### 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.

In recent years, the Authority constructed the Chestnut Knob Water Line and the 58 East Water Line. These new lines allow the Philpott Water Treatment Plant to furnish water to the 220 South and 58 East areas and have significantly reduced water purchased from the City of Martinsville, Virginia. The Authority can produce the water at a lower cost.

The Authority's infrastructure assets consist of one water treatment plant (owned by Henry County and leased to the Authority), approximately 348 miles of water lines and 240 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 and all waste water is now treated by the City of Martinsville.

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 Position for 2016 and 2015 is presented below:

	<u>2016</u>	<u>2015</u>	<u>\$ Change</u>	<u>% Change</u>
Current Assets	<b>\$ 10,395,867</b>	\$ 8,994,630	\$ 1,401,237	15.58%
Net Capital Assets	<b>68,947,987</b>	66,283,010	2,664,977	4.02%
Other Noncurrent Assets	<u>7,827,681</u>	<u>8,092,572</u>	<u>(264,891)</u>	-3.27%
Total Assets	<b>87,171,535</b>	83,370,212	3,801,323	4.56%
Deferred Outflows of Resources	<u>773,950</u>	<u>379,176</u>	<u>394,774</u>	104.11%
Total Assets and Deferred Outflows of Resources	<b><u>\$ 87,945,485</u></b>	<b><u>\$ 83,749,388</u></b>	<b><u>\$ 4,196,097</u></b>	5.01%
Total Liabilities	<b>\$ 25,420,294</b>	\$ 24,130,909	\$ 1,289,385	5.34%
Deferred Inflows of Resources	<b>269,362</b>	613,106	(343,744)	-56.07%
<b>Net Position</b>				
Net investment in capital assets	<b>47,580,078</b>	44,724,072	2,856,006	6.39%
Restricted for debt	<b>7,827,681</b>	8,092,572	(264,891)	-3.27%
Unrestricted	<u>6,848,070</u>	<u>6,188,729</u>	<u>659,341</u>	10.65%
Total Net Position	<b><u>62,255,829</u></b>	<b><u>59,005,373</u></b>	<b><u>3,250,456</u></b>	5.51%
Total Liabilities, Deferred Inflows of Resources, and Net Position	<b><u>\$ 87,945,485</u></b>	<b><u>\$ 83,749,388</u></b>	<b><u>\$ 4,196,097</u></b>	5.01%

### *Change in Net Position*

A summary of the Authority's Statements of Revenues, Expenses, and Changes in Net Position for 2016 and 2015 is presented below:

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

	<u>2016</u>	<u>2015</u>	<u>\$ Change</u>	<u>% Change</u>
Operating Revenues	<b>\$ 13,137,536</b>	\$ 12,661,991	\$ 475,545	3.76%
Operating Expenses	<u>(10,344,970)</u>	<u>(9,826,249)</u>	<u>(518,721)</u>	5.28%
Operating Income	<b>2,792,566</b>	2,835,742	(43,176)	-1.52%
Interest income	<b>393,482</b>	379,498	13,984	3.68%
Gain on sale of properties	<b>4,600</b>	23,745	(19,145)	-80.63%
Nonoperating expense	<u>(1,016,061)</u>	<u>(1,128,956)</u>	<u>112,895</u>	-10.00%
Income Before Contributions	<b>2,174,587</b>	2,110,029	64,558	3.06%
Capital Contributions	<u>1,075,869</u>	<u>173,085</u>	<u>902,784</u>	521.58%
Changes in Net Position	<b><u>\$ 3,250,456</u></b>	<b><u>\$ 2,283,114</u></b>	<b><u>\$ 967,342</u></b>	42.37%

During the year, the Authority's net operating income was \$2,792,566. The Authority had nonoperating revenues in the form of interest income and sale of assets, which amounted to \$398,082 and a nonoperating expense in the form of interest expense amounting to \$1,016,061. Operating expenses of \$10,344,970 included all expenses necessary to operate the Authority's water and sewer facilities.

Net position increased \$3,250,456 in 2016 as compared to an increase of \$2,283,114 in 2015.

### *Cash Flows*

A summary of the Authority's Statements of Cash Flows for 2016 and 2015 is presented below:

#### **Condensed Statements of Cash Flows**

	<u>2016</u>	<u>2015</u>
<b>Cash Provided by (Used in)</b>		
Operating activities	<b>\$ 6,552,389</b>	\$ 5,520,557
Capital and related financing activities	<b>(5,831,094)</b>	(5,026,736)
Investing activities	<u>662,972</u>	<u>321,919</u>
 Net Increase in Cash	 <u><b>\$ 1,384,267</b></u>	 <u>\$ 815,740</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 2016, there was an increase of \$1,384,267 in cash as compared to an increase of \$815,740 in 2015.

### *Capital Assets*

As of June 30, 2016, the Authority's net investment in capital assets totals \$47,580,078 which is net capital assets less related debt.

During fiscal year 2016, the Authority's net capital assets (including additions, decreases, and depreciation) increased \$2,664,977 as summarized below:

#### **Change in Capital Assets**

	<u>Balance July 1, 2015</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2016</u>
Land and land improvements	\$ 500,044	\$ 25,000	<b>\$ 525,044</b>
Construction in progress	849,901	4,609,314	<b>5,459,215</b>
Building and leasehold improvements	1,338,336	1,617,595	<b>2,955,931</b>
Water and sewer system	127,876,283	296,626	<b>128,172,909</b>
Trucks and autos	1,927,557	59,337	<b>1,986,894</b>
Office equipment	<u>191,162</u>	<u>(99,453)</u>	<u><b>91,709</b></u>
Total Capital Assets	132,683,283	6,508,419	<b>139,191,702</b>
Less: Accumulated depreciation	<u>(66,400,273)</u>	<u>(3,843,442)</u>	<u><b>(70,243,715)</b></u>
Total Capital Assets, Net	<u><b>\$ 66,283,010</b></u>	<u><b>\$ 2,664,977</b></u>	<u><b>\$ 68,947,987</b></u>



### Long-Term Debt

As of June 30, 2016, the Authority's long-term debt totals \$21,752,790.

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

#### Change in Long-Term Debt

	<u>Balance July 1, 2015</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2016</u>
Long-term notes	\$ 21,558,938	\$ (191,029)	\$ 21,367,909
Net OPEB liability	3,831	(3,357)	474
Compensated absences	<u>367,301</u>	<u>17,106</u>	<u>384,407</u>
	<u>\$ 21,930,070</u>	<u>\$ (177,280)</u>	<u>\$ 21,752,790</u>
Refunding on debt	<u>\$ 227,015</u>	<u>\$ (47,915)</u>	<u>\$ 179,100</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.

In 2011 and 2012, Henry County secured grants and other funding in the amount of \$4,373,000 to expand water and sewer to and within its newest industrial park, Commonwealth Crossing Business Center. Construction to the Park for water and sewer is completed and remaining funds of approximately \$670,000 will be used for water and sewer infrastructure in the Park. At the end of fiscal year 2014, the County obtained the environmental permit from the Army Corps of Engineers allowing for grading and development of this Park. Grading commenced in early fiscal year 2015 with an anticipated completion date of late Fall 2016.

In August of 2015, the Authority refinanced with Virginia Resources Authority (VRA) the 2004-B Water and Sewer Refunding Bond and the 2005-A Sewer Facility Revenue Bond as listed in Note 7 to the financial statement. The new combined loan, Series 2015, original issue amount was \$1,615,000 with an issuance premium of \$166,151 and coupon interest rates varying from 2.792% to 5.125%. Principal payments are due annually on October 1 each year and interest payments are due semi-annually on October 1 and April 1 each year. The principal payments vary from \$40,000 to \$125,000 with the final payment due in October 2035. This refinancing resulted in overall savings from lower interest and a shorter term.

Also in August of 2015, the Authority refinanced with Virginia Resources Authority (VRA) the 2000 Water Facility Revenue Bond and the 2000-A Water Facility Revenue Bond as listed in Note 7 to the financial statement. The new combined loan, Series 2015A, original issue amount was \$1,733,769 with an interest rate of 2.05% and semi-annual payments of \$53,054 due on February 1 and August 1 each year through the year 2035. This refinancing lowered the interest rate and shortened the terms of both original loans.

In fiscal years 2014 and 2015, the Authority was approved for a \$2,400,570 zero percent loan from the Virginia Department of Environmental Quality (financed through Virginia Resources Authority) to run a sewer line to the Grassy Creek community. The new line would allow for two lagoon systems, Carver and Greenbriar, to be taken off-line and the sewage to be treated by the City of Martinsville with the potential for new sewer customers to be added to the system. The loan, Series 2015B, was closed in December 2015 followed by project construction which was completed in early fiscal year 2017.

In fiscal years 2014 and 2015, the Authority was approved by the Virginia Department of Health (VDH) for a \$1,189,280 low interest loan (financed through Virginia Resources Authority) and a \$297,320 grant to construct a water line to the Pleasant Grove community. This area had been serviced by a well system and, with the new line, this well system could be taken off-line and water provided by the Authority's Philpott water system. This loan, Series 2015C, was closed in December 2015 followed by project construction which was completed in the Summer of 2016.

In fiscal years 2014 and 2015, the Authority received a Virginia Department of Health (VDH) planning grant in the amount of \$47,500 to study water line extensions for the Eastwood and Sandy Level community. The Eastwood community had been serviced through a well system and the Authority purchased water from the City of Eden, North Carolina for the Sandy Level community. The results of the study indicated the best path forward was to construct water line extensions to connect this area to the Authority's Philpott water system. A new line would remove the need to purchase water from the City of Eden and take the well out of service. The Virginia Department of Health (VDH) approved a low interest loan (financed through Virginia Resources Authority) in the amount of \$1,293,500 and a grant of \$100,000 to construct the new line. This loan, Series 2015D, was closed in December 2015 followed by project construction which was completed in the Summer of 2016.

In fiscal year 2016, the Authority was approved by the Virginia Department of Health (VDH) for a \$621,200 loan (financed through Virginia Resources Authority) at an interest rate of 2.65% for 30 years and an \$185,000 grant to construct a water line in the Oak Level community on Reed Creek Drive. This line would allow the Authority to shut down a well system serving this area that has had water quality issues. The closing of this loan and construction of this line is anticipated to occur in fiscal year 2017.

Due to current water consumption and to position the Authority for future growth, the Authority is currently working on projects to increase its permitted water withdrawal from the Smith River and also the expansion of its water treatment plant to allow for increased capacity from 4 million gallons per day to 6 million gallons per day. The Authority has received a funding offer from the Virginia Department of Health for a low interest loan in the amount of \$13,182,000 to upgrade the Philpott water treatment plant. The Authority has begun working with engineers on designs for this planned upgrade.

To position the Authority for future growth and to control future cost, the Authority has begun to study and evaluate re-opening its Lower Smith River plant as a waste water treatment facility. This plant previously operated as a waste water treatment facility before being converted to a pump station over a decade ago. The Authority is currently working with engineers looking at options and potential funding sources.

## **FINANCIAL CONDITION**

The Authority's financial condition remained good at year end with adequate liquid assets and a reasonable level of unrestricted net position. 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 and deferred outflows of resources increased by \$4,196,097 or 5 percent, while net position increased by \$3,250,456 or 5.5 percent. Accounts receivable, net at year end was \$1,217,592 compared to \$1,174,002 for fiscal year 2015. The reserve for bad debts equals all accounts over 90 days past due. The bad debt charge for 2016 and 2015 was \$40,028 and \$45,837, respectively. Recovery of bad debts previously written off amounted to \$11,020 and \$9,931 in 2016 and 2015, respectively.

## RESULTS OF OPERATIONS

The Authority's main revenues fall into the categories of operating revenues, interest income, and capital contributions. Revenues, including capital contributions, totaled \$14,611,487 compared to \$13,238,319 last year, a 10.37 percent increase.

## DEBT

At year end, the Authority had \$21,752,790 in long-term debt with \$3,488,728 (including the deferred amounts) coming due in 2017. 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 \$8.54 million for 2016 and \$7.16 million for 2015. The following table calculates debt service coverage for fiscal years 2016 and 2015, including the available cash reserves:

	(In Millions of Dollars)		
	<u>2016</u>	<u>2015</u>	<u>% Change</u>
Unrestricted operating revenue	\$ 13.14	\$ 12.66	3.8%
Unrestricted investment income	<u>0.40</u>	<u>0.41</u>	-2.4%
Total revenue	13.54	13.07	3.6%
Total operating expenses (less depreciation)	<u>7.26</u>	<u>6.75</u>	7.6%
Net revenue	6.28	6.32	-0.6%
Unrestricted cash - beginning of year	<u>7.15</u>	<u>6.34</u>	12.8%
Available for Debt Service	<u>\$ 13.43</u>	<u>\$ 12.66</u>	6.1%
Annual Debt Service	<u>\$ 4.09</u>	<u>\$ 4.09</u>	0.0%
Debt Service Coverage	<u>3.28</u>	<u>3.10</u>	5.9%

## FINAL COMMENTS

Fiscal year 2016 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.

## 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 the 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 Position

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Assets and Deferred Outflows of Resources</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 8,544,150	\$ 7,159,883
Accounts receivable, net	1,217,592	1,174,002
Unbilled revenue	476,997	489,941
Inventory	<u>157,128</u>	<u>170,804</u>
Total Current Assets	<b>10,395,867</b>	8,994,630
<b>Capital Assets</b>		
Nondepreciable	5,984,259	1,349,945
Depreciable	<u>62,963,728</u>	<u>64,933,065</u>
Total Capital Assets	<b>68,947,987</b>	66,283,010
<b>Other Noncurrent Assets</b>		
Restricted investments	<u>7,827,681</u>	<u>8,092,572</u>
Total Other Noncurrent Assets	<b>7,827,681</b>	8,092,572
Total Assets	<b>87,171,535</b>	83,370,212
<b>Deferred Outflows of Resources</b>		
Deferred outflows - pension liability	594,850	152,161
Refunding of debt	<u>179,100</u>	<u>227,015</u>
Total Deferred Outflows of Resources	<b>773,950</b>	379,176
Total Assets and Deferred Outflows of Resources	<b>\$ 87,945,485</b>	<b>\$ 83,749,388</b>
<b>Liabilities, Deferred Inflows of Resources, and Net Position</b>		
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 892,417	\$ 218,778
Interest payable	132,389	120,139
Accrued expenses and payables	47,142	34,041
Customer deposits	757,762	717,771
Current maturities of long-term liabilities	<u>3,488,728</u>	<u>3,222,848</u>
Total Current Liabilities	<b>5,318,438</b>	4,313,577
<b>Long-Term Liabilities</b>		
Due to other governments - Pittsylvania County	1,033,138	1,059,466
Net OPEB liability	474	3,831
Net pension liability	804,656	50,644
Compensated absences, net of current portion	345,966	330,571
Notes payable, net of current portion	<u>17,917,622</u>	<u>18,372,820</u>
Total Long-Term Liabilities	<b>20,101,856</b>	19,817,332
Total Liabilities	<b>25,420,294</b>	24,130,909
<b>Deferred Inflows of Resources</b>		
Deferred inflows - pension liability	269,362	613,106
<b>Net Position</b>		
Net investment in capital assets	47,580,078	44,724,072
<i>Restricted</i>		
Debt covenants	7,827,681	8,092,572
Unrestricted	<u>6,848,070</u>	<u>6,188,729</u>
Total Net Position	<b>62,255,829</b>	<b>59,005,373</b>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<b>\$ 87,945,485</b>	<b>\$ 83,749,388</b>

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

## Henry County Public Service Authority

## Statements of Revenues, Expenses, and Changes in Net Position

Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Operating Revenues</b>		
Water and sewer charges	\$ 12,194,669	\$ 11,764,015
Fire protection fees - Henry County	406,800	406,800
Connection fees	109,850	57,950
Miscellaneous	<u>426,217</u>	<u>433,226</u>
Total Operating Revenues	<b>13,137,536</b>	12,661,991
<b>Operating Expenses</b>		
Water and sewer treatment	3,491,294	3,183,910
Depreciation	3,085,840	3,073,959
Maintenance - transmission and collection lines	1,183,801	1,079,888
Administration	1,141,475	1,150,843
Bad debts	40,028	45,837
Customer service	421,894	407,272
Engineering and mapping	323,939	289,375
Maintenance - vehicle and equipment	152,726	126,893
Management information systems	212,268	199,375
Meter reading	156,093	150,474
Service center	65,006	52,405
Safety	<u>70,606</u>	<u>66,018</u>
Total Operating Expenses	<u>10,344,970</u>	<u>9,826,249</u>
Operating Income	<b>2,792,566</b>	2,835,742
<b>Non-Operating Revenues (Expenses)</b>		
Interest income	393,482	379,498
Gain on sale of properties	4,600	23,745
Interest expense and bond costs	<u>(1,016,061)</u>	<u>(1,128,956)</u>
Net Non-Operating Revenues (Expenses)	<u>(617,979)</u>	<u>(725,713)</u>
Change in Net Position Before Contributions	<b>2,174,587</b>	2,110,029
<b>Capital Contributions</b>	<u>1,075,869</u>	<u>173,085</u>
Change in Net Position	<b>3,250,456</b>	2,283,114
Total Net Position - Beginning of Year	<u>59,005,373</u>	<u>56,722,259</u>
Total Net Position - End of Year	<u>\$ 62,255,829</u>	<u>\$ 59,005,373</u>

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

## Henry County Public Service Authority

## Statements of Cash Flows

Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Cash Flows from Operating Activities</b>		
Cash received from customers	\$ 13,146,881	\$ 12,565,046
Cash paid for goods and services	(3,426,521)	(3,935,901)
Cash paid to employees and fringes	<u>(3,167,971)</u>	<u>(3,108,588)</u>
Net Cash Provided by Operating Activities	6,552,389	5,520,557
<b>Cash Flows from Capital and Related Financing Activities</b>		
Governmental grant revenue	1,075,869	173,085
Due to Pittsylvania County	(26,328)	(28,516)
Purchase of capital assets	(5,750,817)	(1,154,902)
Disposal of fixed assets	-	104,888
Compensated absences	17,106	19,474
Bond proceeds	6,285,035	-
Bond principal payments	(6,558,572)	(2,993,137)
Bond interest payments	<u>(873,387)</u>	<u>(1,147,628)</u>
Net Cash Used in Capital and Related Financing Activities	(5,831,094)	(5,026,736)
<b>Cash Flows from Investing Activities</b>		
Interest received	393,482	379,498
Gain on sale of properties	4,600	23,745
Net change in investments	<u>264,890</u>	<u>(81,324)</u>
Net Cash Provided by Investing Activities	<u>662,972</u>	<u>321,919</u>
Net Increase in Cash and Cash Equivalents	1,384,267	815,740
Cash and Cash Equivalents - Beginning of Year	<u>7,159,883</u>	<u>6,344,143</u>
Cash and Cash Equivalents - End of Year	<u>\$ 8,544,150</u>	<u>\$ 7,159,883</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Operating income	\$ 2,792,566	\$ 2,835,742
<b>Adjustments to reconcile operating income</b>		
Depreciation	3,085,840	3,073,959
Bad debts	40,028	45,837
<b>Change in assets and liabilities</b>		
<i>Decrease (Increase) in</i>		
Accounts receivable	(83,618)	(179,491)
Inventory	13,676	(13,923)
Net OPEB asset/liability	(3,357)	2,733
Deferred outflows - pension liability	(442,689)	(13,687)
Unbilled revenue	12,944	(5,320)
<i>Increase (Decrease) in</i>		
Accounts payable	673,640	(125,894)
Net pension liability	754,012	(757,659)
Deferred inflows - pension liability	(343,744)	613,106
Customer deposits	39,991	42,029
Accrued expenses	<u>13,100</u>	<u>3,125</u>
Net Cash Provided by Operating Activities	<u>\$ 6,552,389</u>	<u>\$ 5,520,557</u>

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

## Henry County Public Service Authority

## Statements of Fiduciary Net Position

As of June 30, 2016 and 2015

	<u>2016</u> <u>OPEB</u> <u>Trust Fund</u>	<u>2015</u> <u>OPEB</u> <u>Trust Fund</u>
<b>Assets</b>		
Investment - restricted	<u>\$ 108,836</u>	<u>\$ 96,496</u>
Total Assets	<u>\$ 108,836</u>	<u>\$ 96,496</u>
<b>Liabilities and Net Position</b>		
<b>Liabilities</b>	\$ -	\$ -
<b>Net Position</b>		
Restricted for OPEB	<u>108,836</u>	<u>96,496</u>
Total Liabilities and Net Position	<u>\$ 108,836</u>	<u>\$ 96,496</u>

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



## Henry County Public Service Authority

### Notes to the Financial Statements

Year Ended June 30, 2016

#### 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 is 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.

*Capital Assets*

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

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

*Compensated Absences*

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

*Pensions*

The Virginia Retirement System (VRS) Political Subdivision Retirement Plan is a multi-employer agent plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Political Subdivision's Retirement Plan and the additions to/deductions from the Political Subdivision's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

*Other Postemployment Benefits Plans*

Other postemployment benefit plan contributions are actuarially determined to project the present value of postemployment benefits for retired and active employees. The notes to financial statements present required schedules of funding progress that includes multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

### *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 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. 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.

### *Net Position*

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

### *Deferred Outflows/Inflows of Resources*

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources until then.

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources until that time.

### *Adoption of New GASB Statements*

During the fiscal year ended June 30, 2016, the Authority adopted the following GASB statements:

- Statement No. 72, "Fair Value Measurement and Application"
- Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments"
- Statement No. 77, "Tax Abatement Disclosures"

The adoption of these statements had no effect on the current financial statements.

### 3 Cash Equivalents

#### *Deposits*

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

#### *Investments*

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Moody's Rating</u>
U.S. Treasuries	\$ 5,829,818	5 months or less	AAA
Certificates of deposit	<u>1,997,863</u>	2021	N/A
	<u>\$ 7,827,681</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 \$42,238 and \$48,137 as of June 30, 2016 and 2015, 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 2016 was \$26,328 leaving a balance of \$1,033,138 as of June 30, 2016.

## 6 Capital Assets

The following schedule shows the breakdown of capital assets by category at June 30, 2016:

	<u>Balance July 1, 2015</u>	<u>Contribution Per Henry County</u>	<u>Acquired (Increased)</u>	<u>Deleted (Decreased)</u>	<u>Balance June 30, 2016</u>
<b>Capital assets, not depreciated</b>					
Land and land improvements	\$ 500,044	\$ 25,000	\$ -	\$ -	\$ 525,044
<b>Construction in Progress</b>					
Water	710,881	-	3,187,766	269,109	3,629,538
Sewer	139,020	-	2,023,489	332,832	1,829,677
Other	-	-	-	-	-
Total Construction in Progress	<u>849,901</u>	<u>-</u>	<u>5,211,255</u>	<u>601,941</u>	<u>5,459,215</u>
Total Capital Assets, Not Depreciated	1,349,945	25,000	5,211,255	601,941	5,984,259
<b>Capital assets, depreciated</b>					
Buildings and leasehold improvements	1,338,336	1,617,595	-	-	2,955,931
Water and sewer system	127,876,283	-	660,964	364,338	128,172,909
Trucks and autos	1,927,557	-	132,020	72,683	1,986,894
Office equipment	<u>191,162</u>	<u>-</u>	<u>-</u>	<u>99,453</u>	<u>91,709</u>
Total Capital Assets, Depreciated	131,333,338	1,617,595	792,984	536,474	133,207,443
<b>Less: Accumulated depreciation for</b>					
Land improvements	2,561	-	89	-	2,650
Buildings and leasehold improvements	863,668	1,294,076	28,588	-	2,186,332
Water and sewer system	63,828,302	-	2,938,155	364,338	66,402,119
Trucks and autos	1,524,301	-	112,843	72,683	1,564,461
Office equipment	<u>181,441</u>	<u>-</u>	<u>6,165</u>	<u>99,453</u>	<u>88,153</u>
Total Accumulated Depreciation	<u>66,400,273</u>	<u>1,294,076</u>	<u>3,085,840</u>	<u>536,474</u>	<u>70,243,715</u>
Total Capital Assets Depreciated, Net	<u>64,933,065</u>	<u>323,519</u>	<u>(2,292,856)</u>	<u>-</u>	<u>62,963,728</u>
Total Capital Assets, Net	<u>\$ 66,283,010</u>	<u>\$ 348,519</u>	<u>\$ 2,918,399</u>	<u>\$ 601,941</u>	<u>\$ 68,947,987</u>
<b>Net Increase in Fixed Assets per Contribution by Henry County</b>					
Land and land improvements	\$ 25,000				
Buildings and leasehold improvements	1,617,595				
<b>Less: Accumulated depreciation for</b>					
Buildings and leasehold improvements	<u>(1,294,076)</u>				
	<u>\$ 348,519</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, 2015</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2016</u>	<u>Due Within One Year</u>
2000 VRL Fund	\$ 128,120	\$ -	\$ 29,700	\$ 98,420	\$ 29,700
* 2000 Water	1,045,057	-	1,045,057	-	-
* 2000-A Water	695,500	-	695,500	-	-
2001 Water and Sewer Refunding	15,920,000	-	2,845,000	13,075,000	3,005,000
* 2004-B Water and Sewer Refunding	755,000	-	755,000	-	-
* 2005-A Sewer	924,488	-	924,488	-	-
2007 Bonds Payable	1,923,939	-	121,767	1,802,172	126,614
2015 VRA Bond	-	1,615,000	105,000	1,510,000	90,000
2015A VRA Bond	-	1,733,769	37,060	1,696,709	71,691
2015B VRA Bond	-	2,400,570	-	2,400,570	60,014
2015C VRA Bond	-	1,189,280	-	1,189,280	-
2015D VRA Bond	-	1,293,500	-	1,293,500	-
Subtotal	21,392,104	8,232,119	6,558,572	23,065,651	3,383,019
<b>Less: Unfunded Portion of Bonds</b>					
2015B VRA Bond	-	(1,279,560)	-	(1,279,560)	-
2015C VRA Bond	-	(214,377)	-	(214,377)	-
2015D VRA Bond	-	(453,147)	-	(453,147)	-
	-	(1,947,084)	-	(1,947,084)	-
Long-Term Debt before Deferrals	21,392,104	6,285,035	6,558,572	21,118,567	3,383,019
<b>Deferred Amounts</b>					
Imputed interest on 2000 VRL Fund	(14,181)	-	(5,397)	(8,784)	(4,167)
Unamortized premium on 2001 Water and Sewer Refunding	178,640	-	73,854	104,786	53,828
Unamortized premium on 2004-B Water and Sewer	2,375	-	2,375	-	-
Unamortized premium on 2015 VRA Bond	-	166,151	12,811	153,340	17,607
	166,834	166,151	83,643	249,342	67,268
Long-Term Debt	21,558,938	6,451,186	6,642,215	21,367,909	3,450,287
Net OPEB Liability	3,831	-	3,357	474	-
Compensated absences	367,301	17,106	-	384,407	38,441
Total Long-Term Debt	<u>\$ 21,930,070</u>	<u>\$6,468,292</u>	<u>\$ 6,645,572</u>	<u>\$ 21,752,790</u>	<u>\$ 3,488,728</u>

\*Refinanced in Fiscal Year 2016

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	<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, 2016</u>
<b>Bonds</b>							
Virginia Revolving Loan Fund	0.000%	06/16/2000	2019	\$ 594,000	\$ 14,850	Semi-Annual	\$ 98,420
Water and Sewer Revenue Refunding	3.00-5.500%	11/15/2001	2019	42,470,000	1,565,000 3,540,000	Annual	13,075,000
Water and Sewer Revenue Bond, Series 2007	3.910%	11/1/2007	Balloon in 2019	2,700,000	16,235	Monthly	1,802,172
Water and Sewer VRA Series 2015	3.4925%	8/19/2015	2036	1,615,000	Various	Semi-Annual	1,510,000
Water and Sewer VRA Series 2015A	2.050%	8/19/2015	2036	1,733,769	53,054	Semi-Annual	1,696,709
Water and Sewer VRA Series 2015B	0.000%	12/17/2015	2037	2,400,570	60,014	Semi-Annual	2,400,570
Water and Sewer VRA Series 2015C	2.250%	12/17/2015	2047	1,189,280	27,691	Semi-Annual	1,189,280
Water and Sewer VRA Series 2015D	2.250%	12/17/2015	2047	1,293,500	30,117	Semi-Annual	1,293,500
							<u>23,065,651</u>
				<b>Less: Unfunded Portion of Bonds</b>			
							(1,279,560)
							(214,377)
							<u>(453,147)</u>
<b>Total Debt Before Deferrals</b>							<u>\$ 21,118,567</u>

*The remainder of this page is left blank intentionally.*

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Deferred Amounts</u>	<u>Total LT Debt with Deferrals</u>
2017	\$ 3,383,019	\$ 859,077	\$ 67,268	\$ 3,450,287
2018	3,679,641	677,088	47,868	3,727,509
2019	3,872,749	486,039	31,244	3,903,993
2020	5,310,413	258,108	14,317	5,324,730
2021	372,075	126,703	13,370	385,445
2022-2026	1,867,567	509,846	45,107	1,912,674
2027-2031	1,677,670	344,613	22,324	1,699,994
2032-2036	1,766,630	199,026	7,844	1,774,474
2037-2041	540,907	97,190	-	540,907
2042-2046	537,815	40,267	-	537,815
2047	57,165	643	-	57,165
	<u>\$ 23,065,651</u>	<u>\$ 3,598,600</u>	<u>\$ 249,342</u>	<u>23,314,993</u>

**Less: Unfunded Portion of Bonds**

2015B VRA Bond	(1,279,560)
2015C VRA Bond	(214,377)
2015D VRA Bond	(453,147)
	<u>21,367,909</u>

Net OPEB Liability	474
Compensated absences	384,407
	<u>\$ 21,752,790</u>

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

Operating funds reserve	\$ 1,472,290
Replacement reserve	522,713
Debt service - 2001 bonds	5,797,164
Debt service - accrued interest	35,514
	<u>\$ 7,827,681</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 annually 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 December 2015 for the fiscal year 2015. 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.



### Advance Refunding and Deferred Amount

In 2001, the Authority issued \$42,470,000 in Refunding Revenue Bonds with an average interest rate of 5.25% to advance refund \$42,465,000 of outstanding 1991 Series bonds with an average interest rate of 6.25% in order to reduce the interest rate and reduce total debt service payments over the life of the loan. The net proceeds from the issuance were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1991 Series bonds and, as a result, the 1991 Series bonds are considered defeased and the liability is not reported on the Authority's financial statements, only the balance of the 2001 Series bonds. The reacquisition price of the new bonds was \$42,889,650 and the carrying amount of the old bonds was \$41,292,795 which resulted in a Deferred Amount on Refunding of \$1,596,855. This amount is being amortized into interest expense over 19 years using the effective interest method and had an unamortized balance of \$179,100 and \$227,015 at June 30, 2016 and 2015, respectively. This is reported as a Deferred Outflow of Resources on the Authority's Statements of Net Position.

	<u>Balance</u> <u>July 1, 2015</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2016</u>
<b>Details of Refunding of Debt</b>				
2001 Refunding of Debt	\$ 227,015	\$ -	\$ 47,915	\$ 179,100

### 8 Net Investment in Capital Assets

The "net investment in capital assets" amount reported on the Statements of Net Position as of June 30, 2016 and 2015 is determined as follows:

	<u>2016</u>	<u>2015</u>
<b>Net Investment in Capital Assets</b>		
Cost of capital assets	\$ 139,191,702	\$ 132,683,283
Less: Accumulated depreciation	<u>(70,243,715)</u>	<u>(66,400,273)</u>
Book value	68,947,987	66,283,010
Less: Capital related debt	<u>(21,367,909)</u>	<u>(21,558,938)</u>
Net Investment in Capital Assets	<u>\$ 47,580,078</u>	<u>\$ 44,724,072</u>

*The remainder of this page is left blank intentionally.*

## 9 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>	
<b>State and Local Funding</b>		
Virginia Department of Health Southeast Rural Community Assistance Project, Inc.	Pleasant Grove Planning Grant	\$ 15,270
County of Henry, Virginia	LSR WWTP Study	20,000
County of Henry, Virginia	Philpott Water Plant - Land	25,000
County of Henry, Virginia	Philpott Water Plant - Building	323,519
County of Henry, Virginia	Generators	323,812
County of Henry, Virginia	CCBC Water Tank	<u>4,766</u>
Total State and Local Funds		712,367
<b>Federal Funding</b>		
Virginia Resources Authority	Pleasant Grove	278,823
Virginia Resources Authority	Sandy Level/Eastwood	<u>84,679</u>
Total Federal Funds		<u>363,502</u>
Total Capital Contributions		<u><u>\$ 1,075,869</u></u>

## 10 Operating Leases

The Authority leased 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 and has been renewed for a one-year term ending October 31, 2016. 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 leased the water treatment plant from the County until June 2016. In June 2016, the plant, with a cost of \$1,642,595 and accumulated depreciation of \$1,294,076, was deeded by the County to the PSA. The Authority is responsible for all maintenance and operations of the plant. No payments were required under the lease.

## 11 Commitments and Contingencies

If applicable, federal programs in which the Authority participates were audited in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Pursuant to the provisions of the Uniform Guidance, all major programs and certain other programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by the audit, the Federal Government may subject grant programs to additional compliance tests which may result in disallowed expenditures. In the opinion of management, any future disallowance of current grant program expenditures, if any, would be immaterial.

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.

## 12 Litigation

At June 30, 2016, 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.

## 13 Pension Plan

### *Plan Description*

All full-time, salaried permanent employees of the Political Subdivision are automatically covered by VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

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## RETIREMENT PLAN PROVISIONS

### PLAN 1

#### *About Plan 1*

Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

#### *Eligible Members*

Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

#### *Hybrid Opt-In Election*

VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.

### PLAN 2

#### *About Plan 2*

Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

#### *Eligible Members*

Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

#### *Hybrid Opt-In Election*

Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.

### HYBRID RETIREMENT PLAN

#### *About the Hybrid Retirement Plan*

The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (See "Eligible Members")

- The defined benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula.
- The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
- In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

#### *Eligible Members*

Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:

- Political subdivision employees\*
- Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 - April 30, 2014; the plan's effective date for opt-in members was July 1, 2014

#### *\*Non-Eligible Members*

Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:

- Political subdivision employees who are covered by enhanced benefits for hazardous duty employees

Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.

**PLAN 1**

*Retirement Contributions*

Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.

*Creditable Service*

Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

*Vesting*

Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.

Members are always 100% vested in the contributions that they make.

**PLAN 2**

*Retirement Contributions*

Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.

*Creditable Service*

Same as Plan 1.

*Vesting*

Same as Plan 1.

**HYBRID  
RETIREMENT PLAN**

*Retirement Contributions*

A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

*Creditable Service*

**Defined Benefit Component:**

Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

**Defined Contributions Component:**

Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

*Vesting*

**Defined Benefit Component:**

Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

**Defined Contributions Component:**

Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.

Members are always 100% vested in the contributions that they make.

**PLAN 1**

*Calculating the Benefit*

The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier, and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.

An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

*Average Final Compensation*

A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.

*Service Retirement Multiplier*

**VRS:** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.

**Sheriffs and regional jail superintendents:** The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.

**Political subdivision hazardous duty employees:** The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.

**PLAN 2**

*Calculating the Benefit*

See definition under Plan 1.

*Average Final Compensation*

A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.

*Service Retirement Multiplier*

**VRS:** Same as Plan 1 for service earned, purchased, or granted prior to January 1, 2013. For non-hazardous duty members, the retirement multiplier is 1.65% for creditable service earned, purchased, or granted on or after January 1, 2013.

**Sheriffs and regional jail superintendents:** Same as Plan 1.

**Political subdivision hazardous duty employees:** Same as Plan 1.

**HYBRID  
RETIREMENT PLAN**

Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.

- After two years, a member is 50% vested and may withdraw 50% of employer contributions.
- After three years, a member is 75% vested and may withdraw 75% of employer contributions.
- After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.

Distribution is not required by law until age 70 1/2.

*Calculating the Benefit*

**Defined Benefit Component:**

See definition under Plan 1.

**Defined Contribution Component:**

The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

*Average Final Compensation*

Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

*Service Retirement Multiplier*

**Defined Benefit Component:**

**VRS:** The retirement multiplier for the defined benefit component is 1.00%.

For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

**Sheriffs and regional jail superintendents:** Not applicable.

**Political subdivision hazardous duty employees:** Not applicable.

**Defined Contribution Component**

Not applicable.

**PLAN 1**

*Normal Retirement Age*

**VRS:** Age 65.

**Political subdivisions hazardous duty employees:**  
Age 60.

*Earliest Unreduced Retirement Eligibility*

**VRS:** Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.

**Political subdivisions hazardous duty employees:**  
Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.

*Earliest Reduced Retirement Eligibility*

**VRS:** Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.

**Political subdivisions hazardous duty employees:**  
Age 50 with at least five years of creditable service.

*Cost-of-Living Adjustment (COLA) in Retirement*

The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.

*Eligibility:*

For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.

For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.

**PLAN 2**

*Normal Retirement Age*

**VRS:** Normal Social Security retirement age.

**Political subdivisions hazardous duty employees:**  
Same as Plan 1.

*Earliest Unreduced Retirement Eligibility*

**VRS:** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.

**Political subdivisions hazardous duty employees:**  
Same as Plan 1.

*Earliest Reduced Retirement Eligibility*

**VRS:** Age 60 with at least five years (60 months) of creditable service.

**Political subdivisions hazardous duty employees:**  
Same as Plan 1.

*Cost-of-Living Adjustment (COLA) in Retirement*

The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.

*Eligibility:*

Same as Plan 1

**HYBRID  
RETIREMENT PLAN**  
*Normal Retirement Age*

**Defined Benefit Component:**

**VRS:** Same as Plan 2.

**Political subdivisions hazardous duty employees:**  
Not applicable.

**Defined Contribution Component:**

Members are eligible to receive distributions upon leaving employment, subject to restrictions.

*Earliest Unreduced Retirement Eligibility*

**Defined Benefit Component:**

**VRS:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

**Political subdivisions hazardous duty employees:**  
Not applicable.

**Defined Contribution Component:**

Members are eligible to receive distributions upon leaving employment, subject to restrictions.

*Earliest Reduced Retirement Eligibility*

**Defined Benefit Component:**

**VRS:** Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

**Political subdivisions hazardous duty employees:**  
Not applicable

**Defined Contribution Component:**

Members are eligible to receive distributions upon leaving employment, subject to restrictions.

*Cost-of-Living Adjustment (COLA) in Retirement*

**Defined Benefit Component:**

Same as Plan 2

**Defined Contribution Component:**

Not applicable

*Eligibility:*

Same as Plan 1 and Plan 2

### PLAN 1

#### *Exceptions to COLA Effective Dates:*

The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.
- The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
- The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

#### *Disability Coverage*

Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased, or granted.

VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

#### *Purchase of Prior Service*

Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts towards vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

### PLAN 2

#### *Exceptions to COLA Effective Dates:*

Same as Plan 1

#### *Disability Coverage*

Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased, or granted.

VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

#### *Purchase of Prior Service*

Same as Plan 1

### HYBRID RETIREMENT PLAN

#### *Exceptions to COLA Effective Dates:*

Same as Plan 1 and Plan 2

#### *Disability Coverage*

Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.

Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

#### *Purchase of Prior Service*

#### **Defined Benefit Component:**

Same as Plan 1, with the following exceptions:

- Hybrid Retirement Plan members are ineligible for ported service.
- The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.
- Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.

#### **Defined Contribution Component:**

Not applicable



### *Employees Covered by Benefit Terms*

As of the June 30, 2014 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	40
Inactive members:	
Vested	3
Non-vested	10
Active elsewhere in VRS	<u>19</u>
Total inactive members	32
Active members	<u>50</u>
Total covered employees	<u><u>122</u></u>

### *Contributions*

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

**If the employer used the certified rate:** The political subdivision's contractually required contribution rate for the year ended June 30, 2016 was 7.07% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$159,224 and \$152,161 for the years ended June 30, 2016 and June 30, 2015, respectively.

### *Net Pension Liability*

The political subdivisions net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

### *Actuarial Assumptions – General Employees*

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Inflation	2.5 percent
Salary increases, including Inflation	3.5 percent - 5.35 percent
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation*

\*Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates: 14% of deaths are assumed to be service related

**Largest 10 – Non-LEOS:**

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

**All Others (Non 10 Largest) – Non-LEOS:**

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

**Largest 10 – Non-LEOS:**

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

**All Others (Non 10 Largest) – Non-LEOS:**

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

### Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
U. S. Equity	19.50%	6.46%	1.26%
Developed Non U. S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	<u>1.00%</u>	-1.50%	<u>-0.02%</u>
Total	<u>100.00%</u>		5.83%
			Inflation
			<u>2.50%</u>
			*Expected arithmetic nominal return
			<u>8.33%</u>

\*Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons, the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

### Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the Long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

*Changes in Net Pension Liability*

	<b>Total Pension Liability (a)</b>	<b>Increase (Decrease) Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) - (b)</b>
Balances at June 30, 2014	\$ 10,012,499	\$ 9,961,855	\$ 50,644
<b>Changes for the Year</b>			
Service cost	197,594	-	197,594
Interest	687,221	-	687,221
Differences between expected and actual experience	589,016	-	589,016
Contributions - employer	-	152,017	(152,017)
Contributions - employee	-	119,286	(119,286)
Net investment income	-	454,864	(454,864)
Benefit payments, including refunds of employee contributions	(390,123)	(390,123)	-
Administrative expenses	-	(6,254)	6,254
Other changes	-	(94)	94
Net Changes	<u>1,083,708</u>	<u>329,696</u>	<u>754,012</u>
Balances at June 30, 2015	<u>\$ 11,096,207</u>	<u>\$ 10,291,551</u>	<u>\$ 804,656</u>

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate*

The following presents the net pension liability of the political subdivision using the discount rate of 7.00%, as well as what the political subdivision's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	<b>1.00% Decrease (6.00%)</b>	<b>Current Discount Rate (7.00%)</b>	<b>1.00% Increase (8.00%)</b>
Political subdivision's Net Pension Liability	\$ 2,306,618	\$ 804,656	\$ (444,251)

*Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

For the year ended June 30, 2016, the political subdivision recognized pension expense of \$126,659. At June 30, 2016, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 435,626	\$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	269,362
Employer contributions subsequent to the measurement date	<u>159,224</u>	<u>-</u>
Total	<u>\$ 594,850</u>	<u>\$ 269,362</u>

\$159,224 reported as deferred outflows of resources related to pensions resulting from the political subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

**Year Ended  
June 30.**

2017	\$ 47,731
2018	47,731
2019	23,185
2020	47,617
2021	-
Thereafter	-

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# 14 Postemployment Healthcare Plan

County Sponsored

## Plan Description

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

## Schedule of Funding Progress

Actuarial Valuation Date	Plan Assets (a)	Accrued Liability (b)	Unfunded Liability (b-a)	Normal Cost (c)	Funded Ratio (a)/(b)	Covered Payroll (d)	Unfunded % of Payroll (b-a)/(d)
07/01/2012	\$ 51,723	\$ 224,210	\$ 172,487	\$ 5,510	23.1%	\$ 2,056,948	8.4%
07/01/2014	84,935	270,121	185,186	6,238	31.4%	1,838,600	10.1%
07/01/2014 R	96,496	291,393	194,897	6,394	33.1%	1,884,565	10.3%

R - Roll Forward - valuation only performed every two years

## Schedule of Contributions and Three-Year Trend

FYE	Annual OPEB Cost	Actual Contribution	% Contributed	Net OPEB Obligation (Asset)
06/30/2014	\$ 17,143	\$ 13,173	76.8%	\$ 1,098
06/30/2015	18,224	15,491	85.0%	3,831
<b>06/30/2016</b>	<b>19,033</b>	<b>22,390</b>	<b>117.6%</b>	<b>474</b>

## Annual Pension OPEB Cost Summary

Plan Year	Beginning of Year Net OPEB Obligation	Annual Required Contribution	Annual OPEB Costs		Total	Actual Contribution	End of Year Net OPEB Obligation	Interest Rate	Amortization Period
			Interest	Adjustments					
2013-14	\$ (2,872)	\$ 17,176	\$ (215)	\$ 182	\$ 17,143	\$ 13,173	\$ 1,098	7.50%	30
2014-15	1,098	18,212	82	(70)	18,224	15,491	3,831	7.50%	30
<b>2015-16</b>	<b>3,831</b>	<b>18,989</b>	<b>287</b>	<b>243</b>	<b>19,033</b>	<b>22,390</b>	<b>474</b>	<b>7.50%</b>	<b>30</b>

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*Virginia Retirement System (VRS)*

*Plan Description*

Henry County Public Service Authority provides postemployment health benefits in the form of medical insurance benefits to eligible retirees and their spouses through the Virginia Retirement System (VRS) Health Insurance Credit Program.

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

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

Disabled retirees are eligible to receive a maximum monthly credit of \$45.

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**Health Insurance Credit Program**

Schedule of Funding Progress for Authority

	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Liability (AAL) Projected Unit Credit</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
June 30, 2013	\$ 36,076	\$ 116,347	\$ 80,271	31.01%	\$2,109,778	3.80%
June 30, 2014	41,723	120,703	78,980	34.57%	2,047,723	3.86%
<b>June 30, 2015</b>	<b>43,014</b>	<b>124,820</b>	<b>81,806</b>	<b>34.46%</b>	<b>2,184,061</b>	<b>3.75%</b>

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

Valuation Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Pay, Closed
Remaining Amortization Period	19 - 28 Years
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions	
Investment rate of return <sup>1</sup>	7.00%
Payroll growth rate	3.00%

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

## **15** 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 2016 and 2015 did not exceed insurance.

## **16** Water and Sewer Purchases

In 1974, the Authority and neighboring City of Martinsville, Virginia (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.

## **17** Subsequent Events

We have searched for events occurring subsequent to the date of the financial statements that may impact the financial data herein presented. When such events occur, we report the event and estimate, to the best of our ability, the potential measurable impact to the financial data reported. We are not aware of any material events occurring during the period of time that is subsequent to the date of the financial statements up to and including the date of the Independent Auditor's Report.



**REQUIRED SUPPLEMENTARY  
INFORMATION**

**Henry County Public Service Authority**

Schedule of Changes in the Political Subdivision's Net Pension Liability  
and Related Ratios

Year Ended June 30, 2016

	<u>2015</u>	<u>2014</u>
<b>Total pension liability</b>		
Service cost	\$ 197,594	\$ 199,863
Interest	687,221	656,584
Changes of benefit terms	-	-
Differences between expected and actual experience	589,016	-
Changes in assumptions	-	-
Benefit Payments, including refunds of employee contributions	<u>(390,123)</u>	<u>(447,437)</u>
<b>Net change in total pension liability</b>	<b>1,083,708</b>	409,010
<b>Total pension liability - beginning</b>	<b>10,012,499</b>	<u>9,603,489</u>
<b>Total pension liability - ending (a)</b>	<b><u>\$ 11,096,207</u></b>	<b><u>\$ 10,012,499</u></b>
<b>Plan fiduciary net position</b>		
Contributions - employer	\$ 152,017	\$ 138,474
Contributions - employee	119,286	108,301
Net investment income	454,864	1,374,762
Benefit Payments, including refunds of employee contributions	(390,123)	(447,437)
Administrative expense	(6,254)	(7,503)
Other	<u>(94)</u>	<u>72</u>
<b>Net change in plan fiduciary net position</b>	<b>329,696</b>	1,166,669
<b>Plan fiduciary net position - beginning</b>	<b>9,961,855</b>	<u>8,795,186</u>
<b>Plan fiduciary net position - ending (b)</b>	<b><u>\$ 10,291,551</u></b>	<b><u>\$ 9,961,855</u></b>
<b>Political subdivision's net pension liability - ending (a) - (b)</b>	<b><u>\$ 804,656</u></b>	<b><u>\$ 50,644</u></b>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	<b>92.75%</b>	99.49%
<b>Covered payroll</b>	<b>\$ 2,161,601</b>	\$ 2,047,723
<b>Political subdivision's net pension liability as a percentage of covered payroll</b>	<b>37.23%</b>	2.47%

**Henry County Public Service Authority**

Schedule of Employer Contributions

For the Years Ended June 30, 2007 through 2016

Date	Contributions in Relation to			Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
	Contractually Required Contribution (1)	Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)		
<b>2016</b>	<b>\$ 159,224</b>	<b>\$ 159,224</b>	<b>\$ -</b>	<b>\$ 2,252,132</b>	<b>7.07%</b>
2015	152,161	152,161	-	2,161,601	7.04%
2014	138,474	138,474	-	2,047,723	6.76%
2013	136,619	136,619	-	2,109,778	6.48%
2012	40,267	40,267	-	2,035,564	1.98%
2011	40,161	40,161	-	2,056,050	1.95%
2010	37,185	37,185	-	2,003,384	1.86%
2009	37,446	37,446	-	2,082,795	1.80%
2008	98,329	98,329	-	1,980,332	4.97%
2007	91,762	91,762	-	1,901,186	4.83%

**For Reference Only:**

Column 1 – Employer contribution rate multiplied by the employer's covered payroll

Column 2 – Actual employer contribution remitted to VRS

Column 4 – Employer's covered payroll amount for the fiscal year

## Henry County Public Service Authority

### Notes to Required Supplemental Information

For the Year Ended June 30, 2016

**Changes of benefit terms** – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 is not material.

**Changes of assumptions** – The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

**Largest 10 – Non-LEOS:**

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

**Largest 10 – LEOS:**

- Update mortality table
- Decrease in male rates of disability

**All Others (Non 10 Largest) – Non-LEOS:**

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

**All Others (Non 10 Largest) – LEOS:**

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

## **OTHER INFORMATION**

## Henry County Public Service Authority

## Schedule of Revenues and Expenses - Budget to Actual

Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Operating Revenues</b>				
Metered water sales	\$ 6,841,737	\$ 6,841,737	\$ 7,001,004	\$ 159,267
Waste water service charges	4,859,823	4,859,823	5,193,665	333,842
Miscellaneous	336,676	356,304	426,217	69,913
Fire protection fees - Henry County	406,800	406,800	406,800	-
Connection fees	<u>45,500</u>	<u>108,046</u>	<u>109,850</u>	<u>1,804</u>
Total Operating Revenues	12,490,536	12,572,710	13,137,536	564,826
<b>Operating Expenses</b>				
Water and sewer treatment	3,744,216	3,771,887	3,491,294	280,593
Depreciation	-	-	3,085,840	(3,085,840)
Maintenance - transmission and collection lines	1,320,904	1,251,794	1,183,801	67,993
Administration	1,191,470	1,215,086	1,141,475	73,611
Bad debts	50,000	50,000	40,028	9,972
Customer service	434,794	436,492	421,894	14,598
Engineering and mapping	349,049	357,368	323,939	33,429
Maintenance - vehicle and equipment	150,191	165,191	152,726	12,465
Management information systems	210,975	214,206	212,268	1,938
Meter reading	168,164	164,771	156,093	8,678
Service center	64,500	77,000	65,006	11,994
Safety	<u>72,167</u>	<u>72,167</u>	<u>70,606</u>	<u>1,561</u>
Total Operating Expenses	<u>7,756,430</u>	<u>7,775,962</u>	<u>10,344,970</u>	<u>(2,569,008)</u>
Operating Income (Loss)	4,734,106	4,796,748	2,792,566	(2,004,182)
<b>Non-Operating Revenues (Expenses)</b>				
Interest income	360,359	360,359	393,482	33,123
Gain on sale of properties	-	-	4,600	4,600
Interest expense and bond costs	<u>(1,075,941)</u>	<u>(1,075,941)</u>	<u>(1,016,061)</u>	<u>59,880</u>
Total Non-Operating Revenues (Expenses)	<u>(715,582)</u>	<u>(715,582)</u>	<u>(617,979)</u>	<u>97,603</u>
Change in Net Position Before Contributions	4,018,524	4,081,166	2,174,587	(1,906,579)
Capital Contributions	<u>-</u>	<u>9,068,376</u>	<u>1,075,869</u>	<u>(7,992,507)</u>
Change in Net Position	<u>\$ 4,018,524</u>	<u>\$ 13,149,542</u>	<u>\$ 3,250,456</u>	<u>\$ (9,899,086)</u>

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>2016</b>	<b>\$ 7,001,004</b>	<b>\$ 5,193,665</b>	<b>\$ 837,617</b>	<b>\$ 393,482</b>	<b>\$ 1,075,869</b>	<b>\$ 109,850</b>	<b>\$ 14,611,487</b>
2015	6,933,471	4,830,544	863,771	379,498	173,085	57,950	13,238,319
2014	6,828,639	4,656,607	768,128	371,617	37,480	41,600	12,704,071
2013	6,043,520	4,026,670	762,450	366,579	32,739	47,924	11,279,882
2012	6,013,784	4,003,556	735,664	359,540	2,518,393	47,650	13,678,587
2011	5,973,085	4,248,075	772,940	343,548	1,252,729	70,493	12,660,870
2010	5,974,119	4,307,681	860,959	453,285	832,967	55,077	12,484,088
2009	6,025,273	4,176,475	783,762	479,495	802,086	168,234	12,435,325
2008	6,168,866	4,328,704	971,473	495,603	1,720,265	178,999	13,863,910
2007	6,169,626	4,294,609	837,653	433,213	1,120,179	87,245	12,942,525

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>2016</b>	<b>\$ 1,336,527</b>	<b>\$ 3,491,294</b>	<b>\$ 323,939</b>	<b>\$ 2,107,370</b>	<b>\$ 3,085,840</b>	<b>\$ 1,016,061</b>	<b>\$ 11,361,031</b>
2015	1,206,781	3,183,910	289,375	2,072,224	3,073,959	1,128,956	10,955,205
2014	1,249,187	3,117,220	320,103	2,091,333	3,061,958	1,263,436	11,103,237
2013	1,319,612	3,024,397	315,279	1,909,491	3,056,933	1,388,263	11,013,975
2012	1,184,196	2,952,894	308,273	1,767,202	3,242,047	1,596,439	11,051,051
2011	1,241,531	2,981,668	303,426	1,810,205	3,547,867	1,715,083	11,599,780
2010	1,246,422	2,926,319	302,313	1,740,155	3,085,006	1,826,122	11,126,337
2009	1,259,964	3,073,049	298,341	1,753,201	2,966,307	1,863,496	11,214,358
2008	1,332,212	3,399,533	295,074	2,154,420	2,902,898	1,922,257	12,006,394
2007	1,178,577	2,887,702	301,523	1,521,718	2,846,141	1,998,204	10,733,865

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>Interest</u>	<u>Total Debt</u>	<u>Coverage</u>
<b>2016</b>	<b>\$ 7,159,883</b>	<b>\$ 13,535,618</b>	<b>\$ 7,259,130</b>	<b>\$ 13,436,371</b>	<b>\$ 3,138,527</b>	<b>\$ 955,079</b>	<b>\$ 4,093,606</b>	<b>3.28</b>
2015	6,344,143	13,065,234	6,752,290	12,657,087	2,960,185	1,128,206	4,088,391	3.10
2014	5,385,959	12,666,591	6,777,843	11,274,707	2,808,413	1,262,686	4,071,099	2.77
2013	5,467,913	11,247,143	6,568,779	10,146,277	2,671,909	1,387,513	4,059,422	2.50
2012	5,398,771	11,160,194	6,212,565	10,346,400	2,545,666	1,504,481	4,050,147	2.55
2011	5,342,244	11,408,141	6,336,830	10,413,555	2,424,671	1,614,321	4,038,992	2.58
2010	4,980,342	11,651,121	6,215,209	10,416,254	2,313,914	1,716,690	4,030,604	2.58
2009	5,501,702	11,633,239	6,384,555	10,750,386	2,203,387	1,811,566	4,014,953	2.68
2008	4,195,338	12,143,645	6,680,675	9,658,308	2,051,338	1,850,293	3,901,631	2.48
2007	2,612,586	11,822,346	5,889,520	8,545,412	1,907,742	1,868,037	3,775,779	2.26

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

\*\*\*Excludes debt refinancing payoffs.



Henry County Public Service Authority

Schedule of Insurance in Force

June 30, 2016

<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
Excess Liability Coverage (Virginia Municipal Liability Pool)	\$ 2,000,000	Per Occurrence
Commercial Property Coverage (Virginia Municipal Liability Pool)	\$48,136,486	Blanket Real and Personal Property
	\$ 100,000	Extra Expense (Monthly Limit)
	\$ 1,000	Deductible
Commercial Inland Marine Coverage (Virginia Municipal Liability Pool)	\$ 400,000	Contractor's Equipment
Boiler and Machinery Coverage (Virginia Municipal Liability Pool)	\$50,000,000	Direct Damage (Per Accident)
	\$ 100,000	Refrigerant
	\$ 100,000	Ammonia Contamination
	\$ 100,000	Expediting Expenses
	\$ 100,000	Hazardous Substances
	\$ 100,000	Water Damage
	\$ 100,000	Computer
	\$ 100,000	Perishable Goods
	\$ 250,000	Demolition & ICC
\$ 250,000	Newly Acquired Location	
Public Employees Dishonesty Coverage (Virginia Municipal Liability Pool)	\$ 1,000,000	Aggregate Amount
	\$ 5,000	Deductible
Worker's Compensation (Virginia Municipal Group Self-Insurance Association)	Statutory	State Statutory Provision
	\$ 1,000,000	Employer's Liability Limit
Public Official Liability (Commonwealth of Virginia - Division of Risk Management)	\$ 1,000,000	Limit of Liability
	\$ 1,000	Deductible

Table 5

## Henry County Public Service Authority

Raw Water Production by Source (In Million Gallons)

Last Ten Fiscal Years

<b>Fiscal Years Ended June 30</b>	<b>City of Martinsville/ Eden</b>	<b>Philpott</b>	<b>Wells</b>	<b>Totals</b>
<b>2016</b>	<b>9</b>	<b>1,032</b>	<b>9</b>	<b>1,050</b>
2015	10	1,022	10	1,042
2014	12	1,023	11	1,046
2013	14	1,021	9	1,044
2012	13	999	9	1,021
2011	13	1,014	10	1,037
2010	11	1,030	9	1,050
2009	122	833	11	966
2008	409	631	16	1,056
2007	360	645	17	1,022

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

Table 6

Waste Water Treatment By Plant  
(In Million Gallons)

Last Ten Fiscal Years

<b>Fiscal Years Ended June 30</b>	<b>City of Martinsville</b>	<b>Lower Smith River</b>	<b>Totals</b>
<b>2016</b>	<b>854</b>	<b>-</b>	<b>854</b>
2015	651	-	651
2014	590	-	590
2013	681	-	681
2012	580	-	580
2011	716	-	716
2010	822	-	822
2009	713	-	713
2008	710	-	710
2007	792	-	792

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

**Source:** Flow Reports

Table 7

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>Unemployment Rate (4)</b>
<b>2016</b>	<b>52,822</b>	<b>\$ 33,439</b>	<b>45.5</b>	<b>5.7%</b>
2015	53,273	32,546	45.0	7.3%
2014	53,560	31,650	44.5	8.4%
2013	53,889	30,097	44.7	9.3%
2012	53,867	29,628	44.7	9.8%
2011	54,151	28,773	44.7	10.7%
2010	53,795	30,018	41.8	13.9%
2009	53,869	27,427	41.9	15.3%
2008	55,279	25,591	39.3	7.8%
2007	54,506	25,312	39.3	6.0%

Sources:

- 1) U. S. Census, 2000 and 2010; other figures are annually 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 Bureau.
- 4) Virginia Workforce Connection.

## Henry County Public Service Authority

## List of Ten Largest Customers

Year Ended June 30, 2016

<u>Customer</u>	<u>Business</u>	<u>Amount</u>	<u>Percent of Total Billings*</u>
C.P. Films, Inc.	Manufacturing	\$ 692,765	5.68%
Monogram Snack Martinsville, LLC	Manufacturing	608,386	4.99%
Henry County Schools	Public School System	180,786	1.48%
County of Henry, Virginia	Local Government	150,457	1.23%
Commonwealth Laminating & Coating	Manufacturing	135,634	1.11%
King's Grant	Retirement Community	113,775	0.93%
Scrub Board/Bobby Nickelston	Laundries and Car Washes	110,261	0.90%
CAH Properties	Rental Properties	69,829	0.57%
Stanleytown Healthcare	Healthcare/Rehab Facility	69,392	0.57%
Dayton-Chambers, Inc. (Dutch Inn)	Hotel and Restaurant	<u>61,748</u>	<u>0.51%</u>
Total		<u>\$ 2,193,033</u>	<u>17.98%</u>
*Total Billings		<u>\$ 12,194,669</u>	

## Henry County Public Service Authority

## Miscellaneous Statistical Data

As of June 30, 2016

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	53
	Number of Active Water Connections	12,467
	Number of Active Sewer Connections	7,368
	Miles of Water Lines	348
	Miles of Sewer Lines	240
	Number of Fire Hydrants	1,551
	Water Treatment Plant Capacity	4 MGD
	City of Martinsville, Virginia Purchased Water Capacity	2 MGD
	Sewer Treatment Plant Capacity	6 MGD
	City of Martinsville Purchased Sewer Capacity	4 MGD
	Average Daily Water Consumption	2.88 MGD
Average Daily Sewage Flow	2.34 MGD	
Bond Rating	Not rated	
Minimum Consumption Charge Per Service (Sewer charges are based on water consumption.)	Residential customers charged a minimum monthly consumption charge of \$30 per service for up to 4,000 gallons consumption. Non-Residential customers charged a minimum monthly consumption charge of \$45 per service for up to 4,000 gallons consumption. Institutional customers charged a minimum monthly consumption charge of \$68.50 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 - \$4.70 per additional 1,000 gallons. Non-Residential customers - \$7 per additional 1,000 gallons. Institutional customers - \$8.10 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*

*Robin B. Jones, CPA, CFP  
David V. Alga, CPA, CVA, CFF  
Denise C. Williams, CPA, CSEP  
Scott A. Thompson, CPA, CGMA  
Kimberly W. Jackson, CPA*

*James A. Allen, Jr., CPA  
Nadine L. Chase, CPA  
Sherwood H. Creedle, Emeritus*

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

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

To the Board of Directors  
Henry County Public Service Authority

We have audited, in accordance with the 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, and the *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities and fiduciary fund of the Henry County Public Service Authority, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Henry County Public Service Authority's basic financial statements, and have issued our report thereon dated October 14, 2016.

### **Internal Control Over Financial Reporting**

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

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

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

### Compliance and Other Matters

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

### Purpose of this Report

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



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

South Hill, Virginia  
October 14, 2016





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**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors  
Henry County Public Service Authority

**Report on Compliance for Each Major Federal Program**

We have audited the Henry County Public Service Authority’s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Henry County Public Service Authority’s major federal programs for the year ended June 30, 2016. 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.

*Management’s Responsibility*

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

*Auditor’s Responsibility*

Our responsibility is to express an opinion on compliance for each of the Henry County Public Service Authority’s major federal programs based on our audit of the types of compliance requirements referred to above. 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; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards, the Uniform Guidance, 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 the 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Henry County Public Service Authority’s compliance.

*Opinion on Each Major Federal Program*

In our opinion, the Henry County Public Service Authority, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

### Report on Internal Control over Compliance

Management of the Henry County Public Service Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Henry County Public Service Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 the Henry County Public Service Authority's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



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

South Hill, Virginia  
October 14, 2016

**Henry County Public Service Authority**

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2016

<b>Federal Granting Agency/Recipient State Agency/ Grant Program</b>	<b>Federal Catalog Number</b>	<b>State Agency Number</b>	<b>Expenditures</b>
<b>Environmental Protection Agency</b>			
<b>Pass-Through Payments</b>			
<i>Virginia Resources Authority</i>			
Capitalization Grants for Drinking Water State Revolving Funds			
Bonds Proceeds			
Series 2015A - Refinancing Loan	66.468	N/A	\$ 1,733,769
Series 2015C - Pleasant Grove Water Line Extension	66.468	N/A	974,903
Series 2015D - Sandy Level/Eastwood Water Line	66.468	N/A	<u>840,353</u>
			3,549,025
Grant Proceeds			
Series 2015C - Pleasant Grove Water Line Extension	66.468	N/A	278,823
Series 2015D - Sandy Level/Eastwood Water Line	66.468	N/A	<u>84,679</u>
			<u>363,502</u>
 Grand Totals			 <u><u>\$ 3,912,527</u></u>

See accompanying notes to schedule of expenditures of federal awards.

## Henry County Public Service Authority

### Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2016

#### 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the Federal award activity of Henry County Public Service Authority under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Henry County Public Service Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of Henry County Public Service Authority.

#### 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

#### 3. Relationship to Financial Statements

Federal expenditures, revenues and capital contributions are reported in the Authority's basic financial statements as follows:

#### Intergovernmental Federal Revenues per the Basic Financial Statements

##### Primary Government

Capital Contributions - Note 9 - federal portion	\$ 363,502
Loan Proceeds - Note 7 - loans 2015A, 2015C, and 2015D	<u>3,549,025</u>
Total Federal Expenditures per Basic Financial Statements	<u>\$ 3,912,527</u>
Total Federal Expenditures per the Schedule of Expenditures of Federal Awards	<u>\$ 3,912,527</u>

**Henry County Public Service Authority**

Schedule of Findings and Questioned Costs

Year Ended June 30, 2016

**SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: Unmodified

*Internal control over financial reporting:*

Material weakness(es) identified? No

Significant deficiencies identified? None Reported

Noncompliance material to financial statements noted? No

**Federal Awards**

*Internal control over major programs:*

Material weakness(es) identified? No

Significant deficiencies identified? None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance 2 CFR section 200.516(a)? No

*Major programs:*

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.468	Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? No