

Henry County Public Service Authority
Comprehensive Annual Financial Report
Years Ended June 30, 2012 and 2011



*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
Collinsville, Virginia

We have audited the accompanying statements of net assets of Henry County Public Service Authority as of June 30, 2012 and the related statements of activities, cash flows, and fiduciary assets and liabilities for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Henry County Public Service Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Specifications for Audit of Industrial Development Authorities* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Henry County Public Service Authority, as of June 30, 2012, and the changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2012 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1 through 5 and 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Creedle, Jones & Alga, P.C.

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

South Hill, Virginia
October 26, 2012

Henry County Public Service Authority

Management's Discussion and Analysis

As of June 30, 2012

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, 2012. Please read this information in conjunction with Henry County Public Service Authority's financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

SUMMARY OF ORGANIZATION AND BUSINESS

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

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

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

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 Assets for 2012 and 2011 is presented below:

	<u>2012</u>	<u>2011</u>	<u>\$ Change</u>	<u>% Change</u>
Current Assets	\$ 7,006,810	\$ 7,138,271	\$ (131,461)	-1.84%
Net Capital Assets	73,192,890	73,247,602	(54,712)	-0.07%
Other Noncurrent Assets	<u>8,350,345</u>	<u>8,291,611</u>	<u>58,734</u>	0.71%
Total Assets	<u>\$ 88,550,045</u>	<u>\$ 88,677,484</u>	<u>\$ (127,439)</u>	-0.14%
Total Liabilities	\$ 32,465,909	\$ 35,220,884	\$ (2,754,975)	-7.82%
Net Assets				
Invested in capital assets	43,840,060	41,364,681	2,475,379	5.98%
Restricted for debt	7,791,557	7,641,614	149,943	1.96%
Unrestricted	<u>4,452,519</u>	<u>4,450,305</u>	<u>2,214</u>	0.05%
Total Net Assets	<u>56,084,136</u>	<u>53,456,600</u>	<u>2,627,536</u>	4.92%
Total Liabilities and Net Assets	<u>\$ 88,550,045</u>	<u>\$ 88,677,484</u>	<u>\$ (127,439)</u>	-0.14%

Change in Net Assets

A summary of the Authority's Statements of Revenues, Expenses, and Changes in Net Assets for 2012 and 2011 is presented below:

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

	<u>2012</u>	<u>2011</u>	<u>\$ Change</u>	<u>% Change</u>
Operating Revenues	\$ 10,797,329	\$ 11,048,543	\$ (251,214)	-2.27%
Operating Expenses	<u>(9,454,612)</u>	<u>(9,884,697)</u>	<u>430,085</u>	-4.35%
Operating Income	1,342,717	1,163,846	178,871	15.37%
Interest Income	359,540	343,548	15,992	4.65%
Gain (Loss) on Sale of Properties	3,325	16,050	(12,725)	-79.28%
Non-Operating Expense	<u>(1,596,439)</u>	<u>(1,715,083)</u>	<u>118,644</u>	-6.92%
Income (Loss) Before Contributions	109,143	(191,639)	300,782	-156.95%
Capital Contributions	<u>2,518,393</u>	<u>1,252,729</u>	<u>1,265,664</u>	101.03%
Changes in Net Assets	<u>\$ 2,627,536</u>	<u>\$ 1,061,090</u>	<u>\$ 1,566,446</u>	147.63%

During the year, the Authority's net operating income was \$1,342,717. The Authority had non-operating revenues and expenses in the form of interest income and sale of assets, which amounted to \$362,865 and interest expense amounting to \$1,596,439. Operating expenses of \$9,454,612 included all expenses necessary to operate the Authority's water and sewer facilities.

Net assets increased \$2,627,536 in 2012 as compared to an increase of \$1,061,090 in 2011.

Cash Flows

A summary of the Authority's Statements of Cash Flows for 2012 and 2011 is presented below:

Condensed Statement of Cash Flows

	<u>2012</u>	<u>2011</u>
Cash Provided by (Used in)		
Operating activities	\$ 4,712,781	\$ 4,591,532
Capital and related financing activities	(4,856,561)	(4,824,979)
Investing activities	<u>212,922</u>	<u>289,974</u>
Net Increase in Cash	<u>\$ 69,142</u>	<u>\$ 56,527</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 2012, there was an increase of \$69,142 in cash as compared to an increase of \$56,527 in 2011.

Capital Assets

As of June 30, 2012, the Authority's investment in capital assets totals \$43,840,060 which is net capital assets less related debt.

During fiscal year 2012, the Authority's net capital assets (including additions, decreases, and depreciation) decreased \$54,712 as summarized below:

Change in Capital Assets

	<u>Balance</u> <u>June 30, 2011</u>	<u>Net Additions</u> <u>and Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
Land and land improvements	\$ 456,327	\$ 41,505	\$ 497,832
Construction in progress	1,439,272	(1,267,374)	171,898
Building and leasehold improvements	1,322,911	-	1,322,911
Water and sewer system	123,737,639	3,574,708	127,312,347
Trucks and autos	1,676,187	101,253	1,777,440
Office equipment	<u>226,904</u>	<u>(28,763)</u>	<u>198,141</u>
Total Capital Assets	128,859,240	2,421,329	131,280,569
Less: Accumulated depreciation	<u>(55,611,638)</u>	<u>(2,476,041)</u>	<u>(58,087,679)</u>
Total Capital Assets, Net	<u>\$ 73,247,602</u>	<u>\$ (54,712)</u>	<u>\$ 73,192,890</u>

Long-Term Debt

As of June 30, 2012, the Authority's long-term debt totals \$30,237,591.

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

Change in Long-Term Debt

	<u>Balance June 30, 2011</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2012</u>
Long-term notes	\$ 32,532,916	\$ (2,621,299)	\$ 29,911,617
Compensated absences	<u>329,473</u>	<u>(3,499)</u>	<u>325,974</u>
	<u>\$ 32,862,389</u>	<u>\$ (2,624,798)</u>	<u>\$ 30,237,591</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, 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. The Authority is handling the construction of the water and sewer lines and will own and maintain the lines. The County is reimbursing the Authority for the construction costs. Construction to the Park for water and sewer was substantially complete at June 30, 2012. Remaining funds of approximately \$670,000 will be used for water and sewer infrastructure in the Park once grading and construction commence.

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

FINANCIAL CONDITION

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

Total assets decreased by \$127,439 or .14 percent, while net assets increased by \$2,627,536. Accounts receivable-net at year end were \$1,016,389 compared to \$1,209,102 for fiscal year 2011. The reserve for bad debts equals all accounts over 90 days past due. The bad debt charge for 2012 and 2011 was \$32,194 and \$38,780, respectively. Recovery of bad debts previously written off amounted to \$5,285 and \$15,305 in 2012 and 2011, 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 \$13,678,587 compared to \$12,660,870 last year, an 8 percent increase.

DEBT

At year end, the Authority had \$30,237,591 in long-term debt with \$2,765,304 (including the deferred amounts) coming due in 2013. More detailed information about the Authority's long-term debt is presented in Note 7 to the financial statements.

One area that demonstrates the Authority's financial ability to pay current debt service (principal and interest) is seen in its debt service coverage, which is shown below. The financing agreement covenant requires the Authority to establish rates, fees, and other charges for the use of and for services furnished by the Authority and collection procedures so that in each fiscal year net revenues and available cash reserves are not less than 1.2 times the debt service (principal and interest) for the fiscal year. Cash reserves available were \$5.47 million for 2012 and \$5.40 million for 2011. The following table calculates debt service coverage for fiscal years 2012 and 2011, including the available cash reserves:

	(In Millions of Dollars)		
	<u>2012</u>	<u>2011</u>	<u>% Change</u>
Unrestricted operating revenue	\$ 10.80	\$ 11.05	-2.3%
Unrestricted investment income	<u>0.36</u>	<u>0.36</u>	0.0%
Total revenue	11.16	11.41	-2.2%
Total operating expenses (less depreciation)	<u>6.21</u>	<u>6.34</u>	-2.1%
Net revenue	4.95	5.07	-2.4%
Unrestricted cash - beginning of year	<u>5.40</u>	<u>5.34</u>	1.1%
Available for debt service	<u>\$ 10.35</u>	<u>\$ 10.41</u>	-0.6%
Annual debt service	<u>\$ 4.05</u>	<u>\$ 4.04</u>	0.2%
Debt service coverage	<u>2.55</u>	<u>2.58</u>	-1.2%

FINAL COMMENTS

Fiscal year 2012 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 Assets

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 5,467,913	\$ 5,398,771
Accounts receivable, net	1,016,389	1,209,102
Unbilled revenue	420,473	436,970
Inventory	<u>102,035</u>	<u>93,428</u>
Total Current Assets	7,006,810	7,138,271
Capital Assets		
Nondepreciable	669,730	1,895,599
Depreciable	<u>72,523,160</u>	<u>71,352,003</u>
Net Capital Assets	73,192,890	73,247,602
Other Noncurrent Assets		
Restricted investments	7,791,557	7,641,614
Unrealized bond issue costs	<u>558,788</u>	<u>649,997</u>
Total Other Noncurrent Assets	<u>8,350,345</u>	<u>8,291,611</u>
Total Assets	<u>\$ 88,550,045</u>	<u>\$ 88,677,484</u>
Liabilities and Net Assets		
Liabilities		
Current Liabilities		
Accounts payable	\$ 296,085	\$ 374,728
Interest payable	173,317	188,572
Accrued expenses and payables	12,937	23,644
Customer deposits	607,669	590,904
Current maturities of long-term liabilities	<u>2,765,304</u>	<u>2,654,245</u>
Total Current Liabilities	3,855,312	3,832,093
Long-Term Liabilities		
Due to other governments - Pittsylvania County	1,138,310	1,180,647
Compensated absences, net of current portion	293,377	296,526
Notes payable, net of current portion	<u>27,178,910</u>	<u>29,911,618</u>
Total Long-Term Liabilities	<u>28,610,597</u>	<u>31,388,791</u>
Total Liabilities	32,465,909	35,220,884
Net Assets		
Invested in capital assets, net of related debt	43,840,060	41,364,681
Restricted		
Debt covenants	7,791,557	7,641,614
Unrestricted	<u>4,452,519</u>	<u>4,450,305</u>
Total Net Assets	<u>56,084,136</u>	<u>53,456,600</u>
Total Liabilities and Net Assets	<u>\$ 88,550,045</u>	<u>\$ 88,677,484</u>

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

Henry County Public Service Authority

Statements of Activities

Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Water and sewer charges	\$ 10,017,340	\$ 10,221,160
Fire protection fees - Henry County	406,800	406,800
Connection fees	47,650	70,493
Miscellaneous	<u>325,539</u>	<u>350,090</u>
Total Operating Revenues	10,797,329	11,048,543
Operating Expenses		
Water and sewer treatment	2,952,895	2,981,668
Depreciation	3,242,046	3,547,867
Maintenance - transmission and collection lines	1,033,825	1,082,992
Administration	915,925	940,067
Bad debts	32,194	38,780
Customer service	379,029	386,085
Engineering and mapping	308,273	303,426
Maintenance - vehicle and equipment	150,371	158,539
Management information systems	185,090	197,828
Meter reading	147,916	142,843
Service center	43,578	40,149
Safety	<u>63,470</u>	<u>64,453</u>
Total Operating Expenses	<u>9,454,612</u>	<u>9,884,697</u>
Operating Income	1,342,717	1,163,846
Non-Operating Revenues (Expenses)		
Interest income	359,540	343,548
Gain on sale of properties	3,325	16,050
Interest expense	<u>(1,596,439)</u>	<u>(1,715,083)</u>
Net Non-Operating Revenues (Expenses)	<u>(1,233,574)</u>	<u>(1,355,485)</u>
Change in Net Assets Before Contributions	109,143	(191,639)
Capital Contributions	<u>2,518,393</u>	<u>1,252,729</u>
Change in Net Assets	2,627,536	1,061,090
Total Net Assets - Beginning of Year	<u>53,456,600</u>	<u>52,395,510</u>
Total Net Assets - End of Year	<u>\$ 56,084,136</u>	<u>\$ 53,456,600</u>

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

Henry County Public Service Authority

Statements of Cash Flows

Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 11,023,304	\$ 10,878,881
Cash paid for goods and services	(4,113,078)	(4,012,677)
Cash paid to employees	<u>(2,197,445)</u>	<u>(2,274,672)</u>
Net Cash Provided by Operating Activities	4,712,781	4,591,532
Cash Flows from Capital and Related Financing Activities		
Governmental grant revenue	2,518,393	1,252,729
Money received - other governments (Due to)	(42,337)	(37,722)
Purchase of capital assets	(3,187,334)	(1,928,841)
Compensated absences	(3,499)	15,610
Bond principal payments	(2,621,299)	(2,511,683)
Bond interest payments	(1,611,694)	(1,715,083)
Bond issuance costs	<u>91,209</u>	<u>100,011</u>
Net Cash Used in Capital and Related Financing Activities	(4,856,561)	(4,824,979)
Cash Flows from Investing Activities		
Interest received	359,540	343,548
Gain on sale of properties	3,325	16,050
Net change in investments	<u>(149,943)</u>	<u>(69,624)</u>
Net Cash Provided by Investing Activities	<u>212,922</u>	<u>289,974</u>
Net Increase in Cash and Cash Equivalents	69,142	56,527
Cash and Cash Equivalents - Beginning of Year	<u>5,398,771</u>	<u>5,342,244</u>
Cash and Cash Equivalents - End of Year	<u>\$ 5,467,913</u>	<u>\$ 5,398,771</u>
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities		
Operating income	\$ 1,342,717	\$ 1,163,846
Adjustments to reconcile operating income		
Depreciation	3,242,046	3,547,867
Bad debts	32,194	38,780
Change in assets and liabilities		
Decrease (Increase) in		
Accounts receivable	160,519	(270,350)
Inventory	(8,607)	(9,215)
Unbilled revenue	16,497	35,786
Increase (Decrease) in		
Accounts payable	(78,643)	55,526
Customer deposits	16,765	26,122
Accrued expenses	<u>(10,707)</u>	<u>3,170</u>
Net Cash Provided by Operating Activities	<u>\$ 4,712,781</u>	<u>\$ 4,591,532</u>

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

Henry County Public Service Authority

Statements of Fiduciary Assets and Liabilities

Years Ended June 30, 2012 and 2011

	<u>2012</u> <u>OPEB</u> <u>Trust Fund</u>	<u>2011</u> <u>OPEB</u> <u>Trust Fund</u>
Assets		
Investment - restricted	\$ <u>51,724</u>	\$ <u>38,090</u>
Total Assets	<u>\$ 51,724</u>	<u>\$ 38,090</u>
Liabilities and Fund Balances		
Liabilities		
Amounts held for others	\$ <u>51,724</u>	\$ <u>38,090</u>
Total Liabilities	51,724	38,090
Fund Balances		
Unrestricted	<u>-</u>	<u>-</u>
Total Fund Balances	<u>-</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ 51,724</u>	<u>\$ 38,090</u>

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

Henry County Public Service Authority

Notes to Financial Statements

Year Ended June 30, 2012

1 Organization, Description of the Entity, and Its Activities

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

2 Significant Accounting Policies

Financial Statement Presentation

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

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

Basis of Accounting

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

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

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

Cash and Cash Equivalents

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

Unbilled Revenue

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

Allowance for Doubtful Accounts

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

Inventory

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

Investments

Investments are carried at fair value.

Capital Assets

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

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

Compensated Absences

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

Revenues

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

Property and Equipment

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

Use of Estimates

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

Budgets

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

Amortization

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

Net Assets

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

3 Cash Equivalents

Deposits

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

Investments

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Moody's Rating</u>
U.S. Treasuries	\$5,575,765	5 months or less	AAA
Certificates of deposit	<u>2,215,792</u>	2016	N/A
	<u>\$7,791,557</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 \$32,528 and \$34,842 as of June 30, 2012 and 2011, 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 2012 was \$42,337 leaving a balance of \$1,138,310 as of June 30, 2012.

6 Capital Assets

The following schedule shows the breakdown of capital assets by category at June 30, 2012:

	<u>Balance July 1, 2011</u>	<u>Acquired (Increased)</u>	<u>Deleted (Decreased)</u>	<u>Balance June 30, 2012</u>
Capital assets, not depreciated				
Land and land improvements	\$ 456,327	\$ 41,505	\$ -	\$ 497,832
Construction in progress				
Water	1,278,637	1,043,484	2,167,243	154,878
Sewer	160,635	2,218,024	2,361,639	17,020
Other	<u>-</u>	<u>111,553</u>	<u>111,553</u>	<u>-</u>
Total Construction in Progress	<u>1,439,272</u>	<u>3,373,061</u>	<u>4,640,435</u>	<u>171,898</u>
Total Capital Assets, Not Depreciated	1,895,599	3,414,566	4,640,435	669,730
Capital assets, depreciated				
Buildings and leasehold improvements	1,322,911	-	-	1,322,911
Water and sewer system	123,737,639	4,287,948	713,240	127,312,347
Trucks and autos	1,676,187	125,255	24,002	1,777,440
Office equipment	<u>226,904</u>	<u>-</u>	<u>28,763</u>	<u>198,141</u>
Total Capital Assets, Depreciated	126,963,641	4,413,203	766,005	130,610,839
Less: Accumulated depreciation for				
Land improvements	2,212	83	-	2,295
Buildings and leasehold improvements	688,332	71,732	-	760,064
Water and sewer system	53,262,606	3,100,835	713,240	55,650,201
Trucks and autos	1,465,969	63,230	24,002	1,505,197
Office equipment	<u>192,519</u>	<u>6,166</u>	<u>28,763</u>	<u>169,922</u>
Total Accumulated Depreciation	<u>55,611,638</u>	<u>3,242,046</u>	<u>766,005</u>	<u>58,087,679</u>
Total Capital Assets Depreciated, Net	<u>71,352,003</u>	<u>1,171,157</u>	<u>-</u>	<u>72,523,160</u>
Total Capital Assets, Net	<u>\$ 73,247,602</u>	<u>\$ 4,585,723</u>	<u>\$ 4,640,435</u>	<u>\$ 73,192,890</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, 2011</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2012</u>	<u>Due Within One Year</u>
2000 VRL Fund	\$ 246,920	\$ -	\$ 29,700	\$ 217,220	\$ 29,700
2000 Water	1,131,448	-	20,165	1,111,283	21,092
2000-A Water	751,715	-	13,122	738,593	13,724
2001 Water and Sewer Refunding	25,920,000	-	2,310,000	23,610,000	2,430,000
2004-B Water and Sewer Refunding	980,000	-	55,000	925,000	55,000
2005-A Sewer	982,056	-	13,515	968,541	14,084
2007 Bonds Payable	<u>2,366,138</u>	-	<u>104,164</u>	<u>2,261,974</u>	<u>108,310</u>
Long-Term Debt before Deferrals	32,378,277	-	2,545,666	29,832,611	2,671,910
Less: Deferred amounts					
2001 refunding	(461,040)	-	(65,662)	(395,378)	(60,228)
Imputed interest on 2000 VRL Fund	(46,929)	-	(9,754)	(37,175)	(8,744)
Unamortized premium on 2001 Water and Sewer Refunding	658,238	-	150,510	507,728	129,256
Unamortized premium on 2004-B Water and Sewer	<u>4,370</u>	-	<u>539</u>	<u>3,831</u>	<u>513</u>
Total Deferred Amounts	<u>154,639</u>	-	<u>75,633</u>	<u>79,006</u>	<u>60,797</u>
Long-Term Debt	32,532,916	-	2,621,299	29,911,617	2,732,707
Compensated absences	<u>329,473</u>	-	<u>3,499</u>	<u>325,974</u>	<u>32,597</u>
Total Long-Term Debt	<u>\$32,862,389</u>	<u>\$ -</u>	<u>\$2,624,798</u>	<u>\$ 30,237,591</u>	<u>\$2,765,304</u>

	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Final Maturity</u>	<u>Amount of Original Issue</u>	<u>Installment Payments</u>	<u>Installment Period</u>	<u>Balance June 30, 2012</u>
Bonds							
Virginia Revolving Loan Fund	0.000%	06/16/2000	2019	\$ 594,000	\$ 14,850	Semi-Annual	\$ 217,220
Water Facility Revenue	4.500%	01/28/2000	2039	1,282,840	5,889	Monthly	1,111,283
Water Facility Revenue	4.500%	06/14/2000	2040	847,400	3,890	Monthly	738,593
Water and Sewer Revenue Refunding	3.00-5.500%	11/15/2001	2019	42,470,000	1,565,000 3,540,000	Annual	23,610,000
Water and Sewer Revenue	2.35-4.475%	11/17/2004	2024	1,275,000	45,000 90,000	Annual	925,000
Sewer Facility Revenue	4.125%	07/14/2005	2045	1,030,000	4,481	Monthly	968,541
Water and Sewer Revenue Bond, Series 2007	3.910%	11/1/2007	Balloon in 2019	2,700,000	16,235	Monthly	<u>2,261,974</u>
Total Debt before Deferrals							<u>\$ 29,832,611</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Deferred Amounts</u>	<u>Total LT Debt with Deferrals</u>
2013	\$ 2,671,910	\$ 1,454,227	\$ 60,797	\$ 2,732,707
2014	2,808,413	1,314,757	45,439	2,853,852
2015	2,960,186	1,167,839	32,951	2,993,137
2016	3,117,240	1,012,703	20,963	3,138,203
2017	3,284,588	845,259	4,605	3,289,193
2018-2022	12,512,259	1,617,591	(85,990)	12,426,269
2023-2027	674,642	458,367	241	674,883
2028-2032	516,370	339,230	-	516,370
2033-2037	643,099	212,501	-	643,099
2038-2042	492,711	71,047	-	492,711
2043-2047	151,193	9,788	-	151,193
	<u>\$ 29,832,611</u>	<u>\$ 8,503,309</u>	<u>\$ 79,006</u>	<u>\$ 29,911,617</u>

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

Operating funds reserve	\$ 1,362,314
Replacement reserve	483,668
Debt service - 2000 RUS bonds	367,020
Debt service - 2001 bonds	5,545,612
Debt service - accrued interest	<u>32,943</u>
	<u>\$ 7,791,557</u>

The Authority is required to maintain a debt service coverage ratio of 120 percent (as defined in the bond Master Trust Agreement and related amendments) and to periodically obtain a consulting engineer's report to determine amounts needed to escrow for future repairs, replacements, and operating needs. The Authority received the most recent report in September 2012. The management of the Authority believes it is in compliance with all requirements.

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

8 Capital Contributions

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

<u>Source of Revenue</u>	<u>Project</u>	
County of Henry, Virginia	Commonwealth Crossing Business Center	\$2,508,533
AEP	Philpott Light Retrofit	2,155
Department of Environmental Quality	Marigold Water Extension	<u>7,705</u>
		<u>\$2,518,393</u>

9 Operating Leases

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

In addition, the Authority leases the water treatment plant from the County. The plant, with a cost of \$1,642,595, accumulated depreciation of \$1,132,317, and annual depreciation of \$40,440 is recorded on the County's financial statements. The Authority is responsible for all maintenance and operations of the plant. No payments are required. The Authority is required to retain funds in an Expansion and Replacement Fund to be applied to reasonable and necessary expenses for construction, replacement, repair, additions and/or extensions to the water and waste water facilities of the Authority. All disbursements from this fund must first be approved by the County. The lease continues until all debts of the Authority relating to water facility improvements have been satisfied.

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

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

At June 30, 2012, there were no matters of litigation involving the Authority which would materially affect the Authority's financial position should any court decision or pending matter not be favorable to the Authority.

11 Defined Benefit Pension Plan

A. *Plan Description*

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

All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

VRS administers two defined benefit plans for local government employees – Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least five years of service credit or age 50 with at least ten years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs, and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the

employer. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publications/2011-annual-report.pdf> or by writing to the System's Chief Financial Officer at P. O. Box 2500, Richmond, Virginia 23218-2500.

B. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. In addition, the Authority is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Authority's contribution rate for the fiscal year ended 2012 was 1.96 percent of annual covered payroll.

C. Annual Pension Cost

For fiscal year 2012, the Authority's annual pension cost of \$40,267 was equal to the Authority's required and actual contributions.

Three-Year Trend Information for Authority

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
June 30, 2010	\$ 37,185	100%	\$ -
June 30, 2011	40,161	100%	-
June 30, 2012	40,267	100%	-

The FY 2012 required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2009 included (a) an investment rate of return (net of administrative expenses) of **7.50%**, (b) projected salary increases ranging from **3.75% to 5.60%** per year for general government employees and **3.50% to 4.75%** for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of **2.50%** per year. Both the investment rate of return and the projected salary increases include an inflation component of **2.50%**. The actuarial value of the Authority's

assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2009 for the Unfunded Actuarial Accrued Liability (UAAL) was 20 years.

D. Funded Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the plan was 88.38 percent funded. The actuarial accrued liability for benefits was \$9,182,996, and the actuarial value of assets was \$8,116,244, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,066,752. The covered payroll (annual payroll of active employees covered by the plan) was \$2,056,050, and ratio of the UAAL to the covered payroll was 51.88 percent.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for Authority

	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AAL)	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2009	\$7,961,123	\$ 7,699,838	\$ (261,285)	103.39%	\$2,082,795	-12.54%
June 30, 2010	7,987,633	8,482,086	494,453	94.17%	2,003,384	24.68%
June 30, 2011	8,116,244	9,182,996	1,066,752	88.38%	2,056,050	51.88%

Notes to Required Supplementary Information

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

Valuation Date	June 30, 2011
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay, Open
Payroll Growth Rate	3.00%
Remaining Amortization Period (Phase-in Impact of Change in Interest Rate)	30 Years (decreasing by one each year in subsequent valuations until reaching 20 years)
Asset Valuation Method	Five-Year Smoothed Market Value
Actuarial Assumptions	
a. Investment rate of return*	7.00%
b. Projected salary increases*	
1) Non-LEO Members	3.75% to 5.60%
2) LEO Members	3.50% to 4.75%
c. Cost-of-living adjustments	
1) Plan 1 Members	2.50%
2) Plan 2 Members	2.25%

*Includes inflation of 2.50%

12 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.

Three-year trend information is as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
06/30/10	\$ 19,689	100.00%	\$ 2,754
06/30/11	14,601	100.00%	(388)
06/30/12	14,326	100.00%	(7,438)

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Plan Assets</u> (a)	<u>Accrued Liability</u> (b)	<u>Unfunded Liability</u> (b-a)	<u>Normal Cost</u> (c)	<u>Funded Ratio</u> (a)/(b)	<u>Covered Payroll</u> (d)	<u>Unfunded % of Payroll</u> (b-a)/(d)
07/01/2008 - R	\$ 19,356	\$ 253,601	\$ 234,245	\$ 4,753	7.6%	\$ 2,048,799	11.4%
07/01/2009	21,242	178,651	157,409	4,429	11.9%	2,000,174	7.9%
07/01/2009 - R	38,090	189,820	151,730	4,540	20.1%	2,050,178	7.4%

R - Roll forward of prior year results

Schedule of Contributions

<u>FYE</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>% Contributed</u>
06/30/2010	\$ 19,689	\$ 6,600	33.5%
06/30/2011	14,601	17,743	121.5%
06/30/2012	14,326	21,376	149.2%

Annual Pension OPEB Cost Summary

<u>Plan Year</u>	<u>BOY NOPEBO</u>	<u>ARC</u>	<u>Annual OPEB Costs</u>			<u>Actual Cont.</u>	<u>EOY NOPEBO</u>	<u>Interest Rate</u>	<u>Amort. Period</u>
			<u>Int.</u>	<u>Adj.</u>	<u>Total</u>				
2009-10	\$(10,335)	\$19,784	\$ (775)	\$ 680	\$19,689	\$ 6,600	\$ 2,754	7.50%	30
2010-11	2,754	14,575	207	(181)	14,601	17,743	(388)	7.50%	30
2011-12	(388)	14,330	(29)	25	14,326	21,376	(7,438)	7.50%	30

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)
		Actuarial Accrued Liability (AAL) Projected Unit Credit	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Actuarial Valuation Date	Actuarial Value of Assets					
June 30, 2009	\$ 14,886	\$ 92,758	\$ 77,872	16.05%	\$2,082,795	3.74%
June 30, 2010	24,740	101,258	76,518	24.43%	2,003,384	3.82%
June 30, 2011	30,835	108,253	77,418	28.48%	2,056,050	3.77%

Summary of Actuarial Assumptions and Methods as Interpreted for Valuation Purposes

Valuation Date	June 30, 2011
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Pay, Open
Remaining Amortization Period	30 Years
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions	
Investment rate of return ¹	7.00%
Payroll growth rate	3.00%

¹Includes inflation at 2.50%

13 Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority joined together with other local governments in the Virginia Municipal League Pool, a public entity risk pool currently operating as a common risk management and insurance program for participating local governments. The Authority pays an annual premium to the pool for substantially all of its insurance coverage. In the event of a loss creating a deficit or depletion of all available excess insurance, the pool may assist all members in the proportion that the premium of each bears to the total premiums of all members in the year in which such deficit occurs. The settled claims for 2012 and 2011 did not exceed insurance.

14 Commitments and Contingencies

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

15 Water and Sewer Purchases

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

OTHER SUPPLEMENTARY INFORMATION

Henry County Public Service Authority

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

Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Operating Revenues				
Metered water sales	\$ 6,053,960	\$ 6,053,960	\$ 6,013,784	\$ (40,176)
Waste water service charges	4,083,415	4,083,415	4,003,556	(79,859)
Miscellaneous	297,886	306,520	325,539	19,019
Fire protection fees - Henry County	406,800	406,800	406,800	-
Connection fees	<u>59,000</u>	<u>59,000</u>	<u>47,650</u>	<u>(11,350)</u>
Total Operating Revenues	10,901,061	10,909,695	10,797,329	(112,366)
Operating Expenses				
Water and sewer treatment	3,173,688	3,211,453	2,952,895	258,558
Depreciation	-	-	3,242,046	(3,242,046)
Maintenance - transmission and collection lines	1,119,532	1,125,360	1,033,825	91,535
Administration	961,852	957,730	915,925	41,805
Bad debts	39,000	39,000	32,194	6,806
Customer service	399,829	400,499	379,029	21,470
Engineering and mapping	317,608	333,409	308,273	25,136
Maintenance - vehicle and equipment	163,960	163,960	150,371	13,589
Management information systems	183,698	183,698	185,090	(1,392)
Meter reading	148,167	151,167	147,916	3,251
Service center	46,000	61,000	43,578	17,422
Safety	<u>68,569</u>	<u>68,569</u>	<u>63,470</u>	<u>5,099</u>
Total Operating Expenses	<u>6,621,903</u>	<u>6,695,845</u>	<u>9,454,612</u>	<u>(2,758,767)</u>
Operating Income (Loss)	4,279,158	4,213,850	1,342,717	(2,871,133)
Non-Operating Revenues (Expenses)				
Interest income	254,658	254,658	359,540	104,882
Gain (Loss) on sale of properties	-	-	3,325	3,325
Interest expense	<u>(1,608,173)</u>	<u>(1,608,173)</u>	<u>(1,596,439)</u>	<u>11,734</u>
Total Non-Operating Revenues (Expenses)	<u>(1,353,515)</u>	<u>(1,353,515)</u>	<u>(1,233,574)</u>	<u>119,941</u>
Change in Net Assets Before Contributions	2,925,643	2,860,335	109,143	(2,751,192)
Capital Contributions	<u>2,518,393</u>	<u>2,518,393</u>	<u>2,518,393</u>	<u>-</u>
Change in Net Assets	<u>\$ 5,444,036</u>	<u>\$ 5,378,728</u>	<u>\$ 2,627,536</u>	<u>\$ (2,751,192)</u>

OTHER INFORMATION

Henry County Public Service Authority

Revenues by Source

Last Ten Fiscal Years

<u>Fiscal Years Ended June 30</u>	<u>Water</u>	<u>Sewer</u>	<u>Other</u>	<u>Investment Earnings</u>	<u>Grants and Other Contributions</u>	<u>Connection Fees</u>	<u>Totals</u>
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
2006	5,254,066	3,659,856	1,225,266	379,168	4,400,499	70,361	14,989,216
2005	5,094,668	3,498,058	1,191,516	316,859	783,210	84,947	10,969,258
2004	4,939,862	4,250,583	1,132,135	199,727	1,488,583	59,147	12,070,037
2003	4,189,439	4,686,546	1,693,295	260,059	992,572	83,007	11,904,918

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>
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
2006	1,103,634	2,811,535	248,097	1,703,284	2,757,877	2,015,079	10,639,506
2005	952,351	3,242,408	217,864	1,665,114	2,764,511	2,084,752	10,927,000
2004	1,008,133	2,782,206	278,196	2,091,757	2,892,934	2,158,290	11,211,516
2003	972,538	2,933,592	273,849	1,724,074	2,923,447	2,304,502	11,132,002

Henry County Public Service Authority

Revenue Bond Debt Service Coverage

Last Ten Fiscal Years

<u>Fiscal Years Ended June 30</u>	<u>Unrestricted Cash Beginning of Year</u>	<u>Gross Revenues</u>	<u>Direct Operating Expenses**</u>	<u>Net Available</u>	<u>Principal</u>	<u>Amortization and Interest</u>	<u>Totals</u>	<u>Coverage</u>
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
2006	2,231,596	10,588,717	5,866,550	6,953,763	1,830,124	1,890,236	3,720,360	1.87
2005	1,497,720	10,186,048	6,077,737	5,606,031	1,724,006	1,950,806	3,674,812	1.53
2004	621,729	10,581,454	6,160,292	5,042,891	1,662,939	1,972,999	3,635,938	1.39
2003	56,656	10,912,346	5,904,053	5,064,949	1,616,918	2,096,251	3,713,169	1.36

** Excluding depreciation, interest, and amortization.

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

Henry County Public Service Authority

Schedule of Insurance in Force

June 30, 2012

<u>Type Coverage</u> <u>(Insurer)</u>	<u>Liability Limits</u>	
Commercial General Liability (Virginia Municipal Liability Pool)	\$ 1,000,000	Each Occurrence Limit
	\$ 100,000	Fire Damage Limit
	\$ 10,000	Medical Expense Limit
	\$ 10,000	No Fault Property Damage
Primary Automobile Liability (Virginia Municipal Liability Pool)	\$ 25,000	Bodily Injury Per Person
	\$ 50,000	Bodily Injury Per Accident
	\$ 20,000	Property Damage Per Accident
	\$ 1,000,000	Per Occurrence
Automobile Uninsured Motorists (Virginia Municipal Liability Pool)	\$ 25,000	Bodily Injury Per Person
	\$ 50,000	Bodily Injury Per Accident
	\$ 20,000	Property Damage Per Accident
	\$ 10,000	Automobile Medical Payments
Automobile Physical Damage (Virginia Municipal Liability Pool)	Actual	Comprehensive
	Actual	Collision
	\$ 250	Deductible/Comprehensive
	\$ 500	Deductible/Collision
Umbrella Liability (Virginia Municipal Liability Pool)	\$ 2,000,000	Per Occurrence
Commercial Property Coverage (Virginia Municipal Liability Pool)	\$45,529,820	Blanket Real and Personal Property
	\$ 100,000	Extra Expense (Monthly Limit)
	\$ 1,000	Deductible
Commercial Inland Marine Coverage (Virginia Municipal Liability Pool)	\$ 770,007	Contractor's Equipment
Boiler and Machinery Coverage (Virginia Municipal Liability Pool)	\$ 4,500,000	Direct Damage (Per Accident)
	\$ 100,000	Refrigerant
	\$ 100,000	Ammonia Contamination
	\$ 100,000	Expediting Expenses
	\$ 100,000	Hazardous Substances
	\$ 100,000	Water Damage
	\$ 100,000	Computer
	\$ 100,000	Perishable Goods
	\$ 250,000	Demolition & ICC
	\$ 250,000	Newly Acquired Location
Public Employees Dishonesty Coverage (Virginia Municipal Liability Pool)	\$ 1,000,000	Aggregate Amount
Worker's Compensation (Virginia Municipal Group Self-Insurance Association)	\$ 5,000	Deductible
	Statutory	State Statutory Provision
	\$ 1,000,000	Employer's Liability Limit
Public Official Liability (Commonwealth of Virginia - Division of Risk Management)	\$ 1,000,000	Limit of Liability
	\$ 1,000	Deductible

Henry County Public Service Authority

Raw Water Production by Source (In Million Gallons)

Last Ten Fiscal Years

Fiscal Years Ended June 30	City of Martinsville/ Eden**	Marrowbone**	Philpott	Wells	Totals
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
2006	399	-	688	19	1,106
2005	415	-	678	18	1,111
2004	416	-	672	163	1,251
2003	-	102	629	172	903

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

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

Table 6

Waste Water Treatment By Plant (In Million Gallons)

Last Ten Fiscal Years

Fiscal Years Ended June 30	City of Martinsville**	Koehler**	Lower Smith River	Totals
2012	\$ 580	\$ -	\$ -	580
2011	716	-	-	716
2010	822	-	-	822
2009	713	-	-	713
2008	710	-	-	710
2007	792	-	-	792
2006	716	-	93	809
2005	599	-	238	837
2004	446	205	381	1,032
2003	-	1,012	404	1,416

Note: Does not include waste treatment in lagoon systems.

Source: Flow Reports

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

Henry County Public Service Authority

Demographic Statistics

Last Ten Fiscal Years

Fiscal Years Ended June 30	Population (1)	Per Capita Income (2)	Median Age (3)	High School Grad. Rate (4)	School Enrollment (5)	Unemployment Rate (6)
2012	53,867	\$ 29,628	44.7	86.5%	7,427	9.8%
2011	54,151	28,773	44.7	88.3%	7,141	10.7%
2010	53,795	30,018	41.8	76.0%	7,128	13.9%
2009	53,869	27,427	41.9	73.0%	7,179	15.3%
2008	55,279	25,591	39.3	72.0%	7,237	7.8%
2007	54,506	25,312	39.3	88.0%	7,628	6.0%
2006	55,100	24,527	39.3	71.0%	7,628	4.8%
2005	55,100	23,309	39.3	74.0%	7,701	7.0%
2004	55,600	23,144	39.3	67.0%	7,805	14.0%
2003	56,500	21,447	39.3	66.7%	8,189	13.3%

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), 5) Henry County Public Schools
- 6) Virginia Workforce Connection

Henry County Public Service Authority

List of Ten Largest Customers

Year Ended June 30, 2012

<u>Customer</u>	<u>Business</u>	<u>Amount</u>	<u>Percent of Total Billings*</u>
C.P. Films, Inc.	Manufacturing	\$ 398,004	3.97%
Monogram Snacks	Manufacturing	242,730	2.42%
Henry County Schools	Public School System	153,849	1.54%
King's Grant	Retirement Community	122,682	1.22%
County of Henry, Virginia	Local Government	114,051	1.14%
Scrub Board/Bobby Nickelston	Laundries and Car Washes	93,318	0.93%
Commonwealth Laminating and Coating	Manufacturing	72,075	0.72%
Stanleytown Healthcare	Nursing Home/Rehab Center	53,956	0.54%
Dutch Inn	Hotel & Restaurant	50,712	0.51%
Pittsylvania County Service Authority	Government	<u>48,878</u>	<u>0.49%</u>
Total		<u>\$ 1,350,255</u>	<u>13.48%</u>
*Total Billings		<u>\$ 10,017,340</u>	

Henry County Public Service Authority

Miscellaneous Statistical Data

As of June 30, 2012

Type of Entity	Independent authority created pursuant to the Virginia Water and Sewer Authorities Act, Section 15.2-5100, Code of Virginia (1950), as amended.	
Date of Incorporation	1965	
Selected Information		
	Number of Employees	52
	Number of Active Water Connections	12,440
	Number of Active Sewer Connections	7,346
	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	2.80 MGD
	Average Daily Sewage Flow	1.59 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 \$26.00 per service for up to 4,000 gallons consumption. Non-Residential customers charged a minimum monthly consumption charge of \$39.00 per service for up to 4,000 gallons consumption. Institutional customers charged a minimum monthly consumption charge of \$59.50 per service for up to 6,000 gallons consumption.	
Additional Consumption	The following charges apply to each 1,000 gallons, or fractions thereof, of water consumed above mentioned minimums: Residential customers - \$4.00 per additional 1,000 gallons Non-Residential customers - \$6.00 per additional 1,000 gallons Institutional customers - \$7.00 per additional 1,000 gallons	
Exceptions	The Authority reserves the right to negotiate contracts for service charges with industrial users.	

COMPLIANCE



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

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

We have audited the statements of net assets of Henry County Public Service Authority as of June 30, 2012 and the related statements of activities, cash flows, and fiduciary assets and liabilities for the year ended June 30, 2012, which collectively comprise the Henry County Public Service Authority's basic financial statements and have issued our report thereon dated October 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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



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

South Hill, Virginia
October 26, 2012