Henry County Public Service Authority

Comprehensive Annual Financial Report

Years Ended June 30, 2017 and 2016

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

Henry County Public Service Authority

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COMPLIANCE

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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, 2017 and 2016, 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, 2017 and 2016, 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.

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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 supplementary information on pages 36 through 38 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 statistical section is presented for purposes of additional analysis and is 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* 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 statistical section has 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated, September 27, 2017 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.

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

South Hill, Virginia
September 27, 2017

Henry County Public Service Authority

Management's Discussion and Analysis

As of June 30, 2017 and 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, 2017. 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 years 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 years 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 has constructed new water lines which allows the Philpott Water Treatment Plant to furnish water to the 220 South and 58 East areas and has 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, approximately 359 miles of water lines and 244 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 2017 and 2016 is presented below:

	2017	2016	$ Change	% Change
Current Assets	**$11,268,328**	$10,395,867	$ 872,461	8.39%
Net Capital Assets	**68,593,909**	68,947,987	(354,078)	-0.51%
Other Noncurrent Assets	**8,005,194**	7,827,681	177,513	2.27%
Total Assets	**87,867,431**	87,171,535	695,896	0.80%
Deferred Outflows of Resources	**840,384**	773,950	66,434	8.58%
Total Assets and Deferred Outflows of Resources	**$88,707,815**	$87,945,485	$ 762,330	0.87%
Total Liabilities	**$23,145,761**	$25,420,294	$ (2,274,533)	-8.95%
Deferred Inflows of Resources	**97,840**	269,362	(171,522)	-63.68%
Net Position				
Net investment in capital assets	**49,454,615**	47,580,078	1,874,537	3.94%
Restricted for debt	**7,998,229**	7,827,681	170,548	2.18%
Unrestricted	**8,011,370**	6,848,070	1,163,300	16.99%
Total Net Position	**65,464,214**	62,255,829	3,208,385	5.15%
Total Liabilities, Deferred Inflows of Resources, and Net Position	**$88,707,815**	$87,945,485	$ 762,330	0.87%

Change in Net Position

A summary of the Authority's Statements of Revenues, Expenses, and Changes in Net Position for 2017 and 2016 is presented below:

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

	2017	2016	$ Change	% Change
Operating Revenues	**$13,034,314**	$ 13,137,536	$ (103,222)	-0.79%
Operating Expenses	**(10,230,645)**	(10,344,970)	114,325	-1.11%
Operating Income	**2,803,669**	2,792,566	11,103	0.40%
Interest income	**340,012**	393,482	(53,470)	-13.59%
Gain on sale of properties	**2,019**	4,600	(2,581)	-56.11%
Nonoperating expense	**(833,701)**	(1,016,061)	182,360	-17.95%
Income Before Contributions	**2,311,999**	2,174,587	137,412	6.32%
Capital Contributions	**896,386**	1,075,869	(179,483)	-16.68%
Changes in Net Position	**$ 3,208,385**	$ 3,250,456	$ (42,071)	-1.29%

During the year, the Authority's net operating income was $2,803,669. The Authority had nonoperating revenues in the form of interest income and sale of assets, which amounted to $342,031 and a nonoperating expense in the form of interest expense amounting to $833,701. Operating expenses of $10,230,645 included all expenses necessary to operate the Authority's water and sewer facilities.

Net position increased $3,208,385 in 2017 as compared to an increase of $3,250,456 in 2016.

Cash Flows

A summary of the Authority's Statements of Cash Flows for 2017 and 2016 is presented below:

Condensed Statements of Cash Flows

	2017	2016
Cash Provided by (Used in)		
Operating activities	**$ 5,381,246**	$ 6,552,389
Capital and related financing activities	**(4,953,848)**	(5,831,094)
Investing activities	**171,484**	662,972
Net Increase in Cash	**$ 598,882**	$ 1,384,267

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 2017, there was an increase of $598,882 in cash as compared to an increase of $1,384,267 in 2016.

Capital Assets

As of June 30, 2017, the Authority's net investment in capital assets totals $49,454,615 which is net capital assets less related debt.

During fiscal year 2017, the Authority's net capital assets (including additions, decreases, and depreciation) decreased $354,078 as summarized below:

Change in Capital Assets

	Balance July 1, 2016	Net Additions and Deletions	Balance June 30, 2017
Land and land improvements	$ 525,044	$ 67,315	**$ 592,359**
Construction in progress	5,459,215	(3,011,056)	**2,448,159**
Building and leasehold improvements	2,955,931	38,644	**2,994,575**
Water and sewer system	128,172,909	5,613,474	**133,786,383**
Trucks and autos	1,986,894	62,426	**2,049,320**
Office equipment	91,709	-	**91,709**
Total Capital Assets	139,191,702	2,770,803	**141,962,505**
Less: Accumulated depreciation	(70,243,715)	(3,124,881)	**(73,368,596)**
Total Capital Assets, Net	$ 68,947,987	$ (354,078)	**$ 68,593,909**

Long-Term Debt

As of June 30, 2017, the Authority's long-term debt totals $19,488,964.

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

Change in Long-Term Debt

	Balance July 1, 2016	Net Additions and Deletions	Balance June 30, 2017
Long-term notes	$ 21,367,909	$ (2,228,615)	**$ 19,139,294**
Net OPEB liability	474	(7,439)	**(6,965)**
Compensated absences	384,407	(27,772)	**356,635**
	$ 21,752,790	$ (2,263,826)	**$ 19,488,964**
Refunding on debt	$ 179,100	$ (45,439)	**$ 133,661**

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 were 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 2017. This industrial park is being marketed by the County's economic development officials for new industries to the County.

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 loan, Series 2015B, was closed in December 2015 followed by project construction which was completed in fiscal year 2017. The new line allowed for two lagoon systems, Carver and Greenbriar, to be taken off-line and the sewage to be treated by the City of Martinsville.

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 loan, Series 2015C, was closed in December 2015 followed by project construction which was completed in fiscal year 2017. This area had been serviced by a well system and with the new water line the well system was taken off-line and water provided by the Authority's Philpott water system.

In fiscal years 2014 and 2015, the Authority received a Virginia Department of Health (VDH) planning grant 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. 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 fiscal year 2017. The new line removed the need to purchase water from the City of Eden and took the well out of service.

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 a grant for $185,000 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 2018.

Due to current water consumption and to position the Authority for future growth, the Authority applied for and received approval 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 $14,500,000 to upgrade the Philpott water treatment plant. The Authority has designed the project and issued bids with response to the bids due in October 2017. The closing of the loan is anticipated to occur in the Fall of 2017 with construction to begin shortly afterwards.

To position the Authority for future growth and to control future cost the Authority has decided to re-open 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 working with engineers to design the facility and has a preliminary loan offer from the Virginia Department of Environmental Quality in the amount of $23,659,400 contingent on receiving a favorable financial report and recommendation from the Virginia Resources Authority. Actual construction is not anticipated to start until fiscal year 2019.

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 $762,330 or .87 percent, while net position increased by $3,208,385 or 5.15 percent. Accounts receivable, net at year end was $1,279,687 compared to $1,217,592 for fiscal year 2016. The reserve for bad debts equals all accounts over 90 days past due. The bad debt charge for 2017 and 2016 was $47,903 and $40,028, respectively. Recovery of bad debts previously written off amounted to $6,348 and $11,020 in 2017 and 2016, 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 $14,272,731 compared to $14,611,487 last year, a 2.3 percent decrease.

DEBT

At year end, the Authority had $18,957,218 in long-term debt with $3,679,641 (before deferrals, OPEB, and compensated absences) coming due in 2018. 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 $9.14 million for 2017 and $8.54 million for 2016. The following table calculates debt service coverage for fiscal years 2017 and 2016, including the available cash reserves:

	(In Millions of Dollars)		
	2017	**2016**	**% Change**
Unrestricted operating revenue	**$ 13.04**	$ 13.14	-0.8%
Unrestricted investment income	**0.34**	0.40	-15.0%
Total revenue	**13.38**	13.54	-1.2%
Total operating expenses (less depreciation)	**7.10**	7.26	-2.2%
Net revenue	**6.28**	6.28	0.0%
Unrestricted cash - beginning of year	**8.54**	7.15	19.4%
Available for Debt Service	**$ 14.82**	$ 13.43	10.3%
Annual Debt Service	**$ 4.22**	$ 4.09	3.2%
Debt Service Coverage	**3.52**	3.28	7.3%

FINAL COMMENTS

Fiscal year 2017 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

Exhibit A

Henry County Public Service Authority
Statements of Net Position
June 30, 2017 and 2016

	2017	2016
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	$ 9,143,032	$ 8,544,150
Accounts receivable, net	1,279,687	1,217,592
Unbilled revenue	475,285	476,997
Inventory	370,324	157,128
Total Current Assets	11,268,328	10,395,867
Capital Assets		
Nondepreciable	3,040,518	5,984,259
Depreciable	65,553,391	62,963,728
Total Capital Assets	68,593,909	68,947,987
Other Noncurrent Assets		
Restricted investments	7,998,229	7,827,681
Net OPEB asset	6,965	-
Total Other Noncurrent Assets	8,005,194	7,827,681
Total Assets	87,867,431	87,171,535
Deferred Outflows of Resources		
Deferred outflows - pension	706,723	594,850
Refunding of debt	133,661	179,100
Total Deferred Outflows of Resources	840,384	773,950
Total Assets and Deferred Outflows of Resources	$ 88,707,815	$ 87,945,485
Liabilities, Deferred Inflows of Resources, and Net Position		
Liabilities		
Current Liabilities		
Accounts payable	$ 485,720	$ 892,417
Interest payable	127,191	132,389
Accrued expenses and payables	36,009	47,142
Customer deposits	787,614	757,762
Current portion of compensated absences	35,663	38,441
Current maturities of long-term liabilities	3,727,509	3,450,287
Total Current Liabilities	5,199,706	5,318,438
Long-Term Liabilities		
Due to other governments - Pittsylvania County	1,009,754	1,033,138
Net OPEB liability	-	474
Net pension liability	1,203,544	804,656
Compensated absences, net of current portion	320,972	345,966
Notes payable, net of current portion	15,411,785	17,917,622
Total Long-Term Liabilities	17,946,055	20,101,856
Total Liabilities	23,145,761	25,420,294
Deferred Inflows of Resources		
Deferred inflows - pension	97,840	269,362
Net Position		
Net investment in capital assets	49,454,615	47,580,078
Restricted		
Debt covenants	7,998,229	7,827,681
Unrestricted	8,011,370	6,848,070
Total Net Position	65,464,214	62,255,829
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 88,707,815	$ 87,945,485

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

Exhibit B

Henry County Public Service Authority

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended June 30, 2017 and 2016

	2017	2016
Operating Revenues		
Water and sewer charges	$ 12,199,230	$ 12,194,669
Fire protection fees - Henry County	406,800	406,800
Connection fees	46,292	109,850
Miscellaneous	381,992	426,217
Total Operating Revenues	13,034,314	13,137,536
Operating Expenses		
Water and sewer treatment	3,114,831	3,491,294
Depreciation	3,131,080	3,085,840
Maintenance - transmission and collection lines	1,303,816	1,183,801
Administration	1,187,627	1,141,475
Bad debts	47,903	40,028
Customer service	436,518	421,894
Engineering and mapping	362,299	323,939
Maintenance - vehicle and equipment	135,588	152,726
Management information systems	237,323	212,268
Meter reading	162,638	156,093
Service center	38,463	65,006
Safety	72,559	70,606
Total Operating Expenses	10,230,645	10,344,970
Operating Income	2,803,669	2,792,566
Non-Operating Revenues (Expenses)		
Interest income	340,012	393,482
Gain on sale of properties	2,019	4,600
Interest expense and bond costs	(833,701)	(1,016,061)
Net Non-Operating Revenues (Expenses)	(491,670)	(617,979)
Change in Net Position Before Contributions	2,311,999	2,174,587
Capital Contributions	896,386	1,075,869
Change in Net Position	3,208,385	3,250,456
Total Net Position - Beginning of Year	62,255,829	59,005,373
Total Net Position - End of Year	$ 65,464,214	$ 62,255,829

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

Exhibit C

Henry County Public Service Authority

Statements of Cash Flows

Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Cash received from customers	$ 13,003,783	$ 13,146,881
Cash paid for goods and services	(4,378,993)	(3,426,521)
Cash paid to employees and fringes	(3,243,544)	(3,167,971)
Net Cash Provided by Operating Activities	5,381,246	6,552,389
Cash Flows from Capital and Related Financing Activities		
Governmental grant revenue	896,386	1,075,869
Due to Pittsylvania County	(23,384)	(26,328)
Purchase of capital assets	(2,783,203)	(5,750,817)
Disposal of fixed assets	6,200	-
Compensated absences	(27,772)	17,106
Bond proceeds	1,221,670	6,285,035
Bond principal payments	(3,450,285)	(6,558,572)
Bond interest payments (includes debt refunding)	(793,460)	(873,387)
Net Cash Used in Capital and Related Financing Activities	(4,953,848)	(5,831,094)
Cash Flows from Investing Activities		
Interest received	340,012	393,482
Gain on sale of properties	2,019	4,600
Net change in investments	(170,547)	264,890
Net Cash Provided by Investing Activities	171,484	662,972
Net Increase in Cash and Cash Equivalents	598,882	1,384,267
Cash and Cash Equivalents - Beginning of Year	8,544,150	7,159,883
Cash and Cash Equivalents - End of Year	$ 9,143,032	$ 8,544,150
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 2,803,669	$ 2,792,566
Adjustments to reconcile operating income		
Depreciation	3,131,080	3,085,840
Bad debts	47,903	40,028
Change in assets and liabilities		
Decrease (Increase) in		
Accounts receivable	(109,998)	(83,618)
Inventory	(213,196)	13,676
Net OPEB asset/liability	(7,439)	(3,357)
Deferred outflows - pension	(111,873)	(442,689)
Unbilled revenue	1,712	12,944
Increase (Decrease) in		
Accounts payable	(406,697)	673,640
Net pension liability	398,888	754,012
Deferred inflows - pension	(171,522)	(343,744)
Customer deposits	29,852	39,991
Accrued expenses	(11,133)	13,100
Net Cash Provided by Operating Activities	$ 5,381,246	$ 6,552,389

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

Exhibit D

Henry County Public Service Authority

Statements of Fiduciary Net Position

As of June 30, 2017 and 2016

	2017 OPEB Trust Fund	2016 OPEB Trust Fund
Assets		
Investment - restricted	$ 136,336	$ 108,836
Total Assets	$ 136,336	$ 108,836
Liabilities and Net Position		
Liabilities	$ -	$ -
Net Position		
Restricted for OPEB	136,336	108,836
Total Liabilities and Net Position	$ 136,336	$ 108,836

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

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 financial statements of the Henry County Public Service Authority have been prepared in conformity with the specifications promulgated by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia, and the accounting principles generally accepted in the United States as specified by the Governmental Accounting Standards Board. The more significant of the Authority's accounting policies are described below:

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, 2017, the Authority adopted the following GASB statements:

- Statement No. 82, "*Pension Issues, an Amendment of GASB Statements No. 67, No. 68, and No. 73*

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

Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to June 30, 2017 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2017. Management has performed their analysis through September 27, 2017.

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.

Investment Type	Fair Value	Maturity	Moody's Rating
U.S. Treasuries	$5,967,888	5 months or less	AAA
Certificates of deposit	2,030,341	2021	N/A
	$7,998,229		

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 $48,233 and $42,238 as of June 30, 2017 and 2016, 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 2017 was $23,384 leaving a balance of $1,009,754 as of June 30, 2017.

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6 Capital Assets

The following schedule shows the breakdown of capital assets by category at June 30, 2017:

	Balance July 1, 2016	Acquired (Increased)	Deleted (Decreased)	Balance June 30, 2017
Capital assets, not depreciated				
Land and land improvements	$ 525,044	$ 67,315	$ -	**$ 592,359**
Construction in Progress				
Water	3,629,538	1,987,386	3,452,824	**2,164,100**
Sewer	1,829,677	884,729	2,430,347	**284,059**
Total Construction in Progress	5,459,215	2,872,115	5,883,171	**2,448,159**
Total Capital Assets, Not Depreciated	5,984,259	2,939,430	5,883,171	**3,040,518**
Capital assets, depreciated				
Buildings and leasehold improvements	2,955,931	38,644	-	**2,994,575**
Water and sewer system	128,172,909	5,619,674	6,200	**133,786,383**
Trucks and autos	1,986,894	62,426	-	**2,049,320**
Office equipment	91,709	-	-	**91,709**
Total Capital Assets, Depreciated	133,207,443	5,720,744	6,200	**138,921,987**
Less: Accumulated depreciation for				
Land improvements	2,650	88	-	**2,738**
Buildings and leasehold improvements	2,186,332	69,109	-	**2,255,441**
Water and sewer system	66,402,119	2,941,632	6,200	**69,337,551**
Trucks and autos	1,564,461	116,696	-	**1,681,157**
Office equipment	88,153	3,556	-	**91,709**
Total Accumulated Depreciation	70,243,715	3,131,081	6,200	**73,368,596**
Total Capital Assets Depreciated, Net	62,963,728	2,589,663	-	**65,553,391**
Total Capital Assets, Net	$ 68,947,987	$ 5,529,093	$ 5,883,171	**$ 68,593,909**

7 Long-Term Debt

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

Details of Long-Term Indebtedness	Balance July 1, 2016	Increase	Decrease	Balance June 30, 2017	Due Within One Year
2000 VRL Fund	$ 98,420	$ -	$ 29,700	**$ 68,720**	$ 29,700
2001 Water and Sewer Refunding	13,075,000	-	3,005,000	**10,070,000**	3,175,000
2007 Bonds Payable	1,802,172	-	126,614	**1,675,558**	131,654
2015 VRA Bond	1,510,000	-	90,000	**1,420,000**	90,000
2015A VRA Bond	1,696,709	-	71,691	**1,625,018**	73,168
2015B VRA Bond	2,400,570	-	60,014	**2,340,556**	120,029
2015C VRA Bond	1,189,280	-	-	**1,189,280**	28,784
2015D VRA Bond	1,293,500	-	-	**1,293,500**	31,306
Subtotal	23,065,651	-	3,383,019	**19,682,632**	3,679,641
Less: Unfunded Portion of Bonds					
2015B VRA Bond	(1,279,560)	-	(554,146)	**(725,414)**	-
2015C VRA Bond	(214,377)	-	(214,377)	**-**	-
2015D VRA Bond	(453,147)	-	(453,147)	**-**	-
	(1,947,084)	-	(1,221,670)	**(725,414)**	-
Long-Term Debt before Deferrals	21,118,567	-	2,161,349	**18,957,218**	3,679,641
Deferred Amounts					
Imputed interest on 2000 VRL Fund	(8,784)	-	(4,167)	**(4,617)**	(2,874)
Unamortized premium on 2001 Water and Sewer Refunding	104,786	-	53,827	**50,959**	33,992
Unamortized premium on 2015 VRA Bond	153,340	-	17,606	**135,734**	16,750
	249,342	-	67,266	**182,076**	47,868
Long-Term Debt	21,367,909	-	2,228,615	**19,139,294**	3,727,509
Net OPEB Liability (Asset)	474	-	7,439	**(6,965)**	-
Compensated absences	384,407	237,542	265,314	**356,635**	35,663
Total Long-Term Debt	$ 21,752,790	$ 237,542	$ 2,501,368	**$ 19,488,964**	$ 3,763,172

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Bonds	Interest Rates	Date Issued	Final Maturity	Amount of Original Issue	Installment Payments	Installment Period	Balance June 30, 2017
Virginia Revolving Loan Fund	0.000%	06/16/2000	2019	$ 594,000	$ 14,850	Semi-Annual	**$ 68,720**
Water and Sewer Revenue Refunding	3.00-5.500%	11/15/2001	2019	42,470,000	1,565,000 3,540,000	Annual	**10,070,000**
Water and Sewer Revenue Bond, Series 2007	3.910%	11/1/2007	Balloon in 2019	2,700,000	16,235	Monthly	**1,675,558**
Water and Sewer VRA Series 2015	3.4925%	8/19/2015	2036	1,615,000	Various	Semi-Annual	**1,420,000**
Water and Sewer VRA Series 2015A	2.050%	8/19/2015	2036	1,733,769	53,054	Semi-Annual	**1,625,018**
Water and Sewer VRA Series 2015B	0.000%	12/17/2015	2037	2,400,570	60,014	Semi-Annual	**2,340,556**
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**
							19,682,632
				Less: Unfunded Portion of Bonds			
				2015B VRA Bond			**(725,414)**
Total Bonded Debt Before Deferrals							**$ 18,957,218**

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

Fiscal Year	Principal	Interest	Deferred Amounts	Total LT Debt with Deferrals
2018	$ 3,679,641	$ 677,088	$ 47,868	$ 3,727,509
2019	3,872,749	486,039	31,244	3,903,993
2020	5,310,412	258,108	14,317	5,324,729
2021	372,075	126,703	13,370	385,445
2022	375,132	119,133	12,087	387,219
2023-2027	1,818,870	470,748	38,626	1,857,496
2028-2032	1,705,807	316,563	19,507	1,725,314
2033-2037	1,563,997	170,734	5,057	1,569,054
2038-2042	491,773	86,309	-	491,773
2043-2047	492,176	28,098	-	492,176
	$ 19,682,632	$ 2,739,523	$ 182,076	19,864,708
Less: Unfunded Portion of Bonds				
2015B VRA Bond				(725,414)
				19,139,294
Net OPEB Liability (Asset)				(6,965)
Compensated absences				356,635
				$ 19,488,964

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

Operating funds reserve	$ 1,498,225
Replacement reserve	531,921
Debt service - 2001 bonds	5,878,503
Debt service - 2015C bonds	27,694
Debt service - 2015D bonds	30,122
Debt service - accrued interest	31,764
	$ 7,998,229

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 2016 for the fiscal year 2016. 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 $133,661 and $179,100 at June 30, 2017 and 2016, respectively. This is reported as a Deferred Outflow of Resources on the Authority's Statements of Net Position.

	Balance July 1, 2016	Increase	Decrease	Balance June 30, 2017	Due Within One Year
Details of Refunding of Debt					
2001 Refunding of Debt	$ 179,100	$ -	$ 45,439	**$ 133,661**	$ 44,779

8 Net Investment in Capital Assets

The "net investment in capital assets" amount reported on the Statements of Net Position as of June 30, 2017 and 2016 is determined as follows:

	2017	2016
Net Investment in Capital Assets		
Cost of capital assets	**$ 141,962,505**	$ 139,191,702
Less: Accumulated depreciation	**(73,368,596)**	(70,243,715)
Book value	**68,593,909**	68,947,987
Less: Capital related debt	**(19,139,294)**	(21,367,909)
Net Investment in Capital Assets	**$ 49,454,615**	$ 47,580,078

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9 Capital Contributions

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

Source of Revenue	Project	
State and Local Funding		
County of Henry, Virginia	CCBC Water Tank and Waterline Extensions	$ 862,569
Total State and Local Funding		862,569
Federal Funding		
Virginia Resources Authority	Pleasant Grove	18,497
Virginia Resources Authority	Sandy Level/Eastwood	15,320
Total Federal Funding		33,817
Total Capital Contributions		$ 896,386

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, 2017. 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

Federal programs in which the Authority participates were audited in accordance with the 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). 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

The City of Martinsville, Virginia (the “City”) treats a portion of the Authority’s sewage per a January 19, 1974 Agreement between the two entities. Recent events have revealed to the City that the need for significant infrastructure repairs and replacement of a portion of the City’s sewer lines is fast approaching. The City has advised the Authority that it expects the Authority to defray some of the cost of these capital improvements and points to the Agreement as authority for its position in this regard. The cost to the City of its sewer line rehabilitation is approximated to be $30,000,000.00 over a period of years. The Authority has been requested by the City to participate in the cost of such infrastructure rehabilitation and, to that end, the City has asked the Authority to determine how much of these costs the Authority is willing to defray.

The Agreement is less than clear as to the Authority's liability in this regard. Nonetheless, the Authority has offered to contribute the sum of $2,315,282.00 to the rehabilitation of the City's sewer lines in return for indemnity against all future capital expenditures. In the opinion of the Authority's management and the Authority's legal counsel, said sum is a reasonable estimate of the Authority's responsibility under the Agreement.

As of the date of this report, the City has requested that the Authority pay them eight million dollars ($8,000,000.00) as the Authority's share of the sewer line remediation but has not offered to release the Authority from further obligations under the contract. It is anticipated that future talks will occur but, at this juncture, the Authority is unable to say what the City will say the Authority's reasonable obligations would be or to what extent they would go to attempt to enforce same. No legal action has been taken by either party as of the date of this report and no liability has been recorded by the Authority due to the uncertainty of the ultimate outcome of this matter.

13 Pension Plan

Plan Description

All full-time, salaried permanent employees of the Political Subdivision are automatically covered by a 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 electio 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	PLAN 2	HYBRID RETIREMENT PLAN
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.	***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.	***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 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.	***Creditable Service*** Same as Plan 1.	***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 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.	***Vesting*** Same as Plan 1.	***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	PLAN 2	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	***Calculating the Benefit***	***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.	See definition under Plan 1.	**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	***Average Final Compensation***	***Average Final Compensation***
A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier	***Service Retirement Multiplier***	***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%.	**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.	**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: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.	**Sheriffs and regional jail superintendents:** Same as Plan 1.	**Sheriffs and regional jail superintendents:** Not applicable.
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.	**Political subdivision hazardous duty employees:** Same as Plan 1.	**Political subdivision hazardous duty employees:** Not applicable. **Defined Contribution Component** Not applicable.

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Normal Retirement Age	***Normal Retirement Age***	***Normal Retirement Age***
VRS: Age 65. **Political subdivisions hazardous duty employees:** Age 60.	**VRS:** Normal Social Security retirement age. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**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	***Earliest Unreduced Retirement Eligibility***	***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.	**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.	**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	***Earliest Reduced Retirement Eligibility***	***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.	**VRS:** Age 60 with at least five years (60 months) of creditable service. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**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	***Cost-of-Living Adjustment (COLA) in Retirement***	***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.	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*	**Defined Benefit Component:** Same as Plan 2 **Defined Contribution Component:** Not applicable *Eligibility:* *Same as Plan 1 and Plan 2*

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
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.	*Exceptions to COLA Effective Dates:* Same as Plan 1	*Exceptions to COLA Effective Dates:* Same as Plan 1 and Plan 2
Disability Coverage	***Disability Coverage***	***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.	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.	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	***Purchase of Prior Service***	***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.	Same as Plan 1	**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, 2015 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	40
Inactive members:	
Vested	4
Non-vested	5
Active elsewhere in VRS	18
Total inactive members	27
Active members	53
Total covered employees	120

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 5.00%-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, 2017 was 6.92% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were $158,274 and $159,224 for the years ended June 30, 2017 and June 30, 2016, respectively.

Net Pension Liability

The political subdivisions net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

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, 2015, 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, 2016.

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, 2015 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:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
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	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
Inflation			2.50%
*Expected arithmetic nominal return			8.33%

*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

		Increase (Decrease)	
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2015	$ 11,096,207	$ 10,291,551	$ 804,656
Changes for the Year			
Service cost	207,152	-	207,152
Interest	761,707	-	761,707
Benefit changes	-	-	-
Differences between expected and actual experience	(130,672)	-	(130,672)
Contributions - employer	-	157,317	(157,317)
Contributions - employee	-	111,309	(111,309)
Net investment income	-	177,159	(177,159)
Benefit payments, including refunds	(429,348)	(429,348)	-
Refunds of employee contributions	-	-	-
Administrative expenses	-	(6,411)	6,411
Other changes	-	(75)	75
Net Changes	408,839	9,951	398,888
Balances at June 30, 2016	$ 11,505,046	$ 10,301,502	$ 1,203,544

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:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Political subdivision's Net Pension Liability	$2,761,230	$ 1,203,544	$(93,016)

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

For the year ended June 30, 2017, the political subdivision recognized pension expense of $271,858. At June 30, 2017, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 282,236	$ 97,840
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	266,215	-
Employer contributions subsequent to the measurement date	158,272	-
Total	$ 706,723	$ 97,840

$158,272 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, 2018. 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,	
2018	$ 122,379
2019	97,833
2020	122,921
2021	107,478
2022	-
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan's Fiduciary Net Position is also available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, Virginia 23218-2500.

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%
07/01/2016	**108,836**	**298,927**	**190,091**	**6,220**	**36.4%**	**2,222,703**	**8.6%**

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)
06/30/2015	$ 18,224	$ 15,491	85.0%	$ 3,831
06/30/2016	19,033	22,390	117.6%	474
06/30/2017	**18,510**	**25,949**	**140.2%**	**(6,965)**

Annual Pension OPEB Cost Summary

Plan Year	Beginning of Year Net OPEB Obligation	Annual Required Contribution	Annual OPEB Costs: Interest	Annual OPEB Costs: Adjustments	Total	Actual Contribution	End of Year Net OPEB Obligation	Interest Rate	Amortization Period
2014-15	$ 1,098	$ 18,212	$ 82	$ (70)	$18,224	$ 15,491	$ 3,831	7.50%	30
2015-16	3,831	18,989	287	243	19,033	22,390	474	7.50%	30
2016-17	**474**	**18,504**	**36**	**(30)**	**18,510**	**25,949**	**(6,965)**	**7.50%**	**30**

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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)
Actuarial Valuation Date	**Actuarial Value of Assets**	**Actuarial Accrued Liability (AAL) Projected Unit Credit**	**Unfunded AAL (UAAL)**	**Funded Ratio**	**Covered Payroll**	**UAAL as a Percentage of Covered Payroll**
June 30, 2014	$ 41,723	$ 120,703	$ 78,980	34.57%	$2,047,723	3.86%
June 30, 2015	43,014	124,820	81,806	34.46%	2,184,061	3.75%
June 30, 2016	**42,525**	**132,018**	**89,493**	**32.21%**	**2,280,820**	**3.92%**

Summary of Actuarial Assumptions and Methods as Interpreted for Valuation Purposes

Valuation Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Pay, Closed
Remaining Amortization Period	18 - 27 Years
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions	
Investment rate of return[1]	7.00%
Payroll growth rate	3.00%

[1]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 2017 and 2016 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.

REQUIRED SUPPLEMENTARY INFORMATION

Henry County Public Service Authority

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

	2016	2015	2014
Total pension liability			
Service cost	$ 207,152	$ 197,594	$ 199,863
Interest	761,707	687,221	656,584
Changes of benefit terms	-	-	-
Differences between expected and actual experience	(130,672)	589,016	-
Changes in assumptions	-	-	-
Benefit Payments, including refunds of employee contributions	(429,348)	(390,123)	(447,437)
Net change in total pension liability	408,839	1,083,708	409,010
Total pension liability - beginning	11,096,207	10,012,499	9,603,489
Total pension liability - ending (a)	$ 11,505,046	$ 11,096,207	$ 10,012,499
Plan fiduciary net position			
Contributions - employer	$ 157,317	$ 152,017	$ 138,474
Contributions - employee	111,309	119,286	108,301
Net investment income	177,159	454,864	1,374,762
Benefit Payments, including refunds of employee contributions	(429,348)	(390,123)	(447,437)
Administrative expense	(6,411)	(6,254)	(7,503)
Other	(75)	(94)	72
Net change in plan fiduciary net position	9,951	329,696	1,166,669
Plan fiduciary net position - beginning	10,291,551	9,961,855	8,795,186
Plan fiduciary net position - ending (b)	$ 10,301,502	$ 10,291,551	$ 9,961,855
Political subdivision's net pension liability - ending (a) - (b)	$ 1,203,544	$ 804,656	$ 50,644
Plan fiduciary net position as a percentage of the total pension liability	89.54%	92.75%	99.49%
Covered payroll	$ 2,252,132	$ 2,161,601	$ 2,047,723
Political subdivision's net pension liability as a percentage of covered payroll	53.44%	37.23%	2.47%

Henry County Public Service Authority

Schedule of Employer Contributions

For the Years Ended June 30, 2008 through 2017

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2017	**$ 158,274**	**$ 158,274**	**$ -**	**$ 2,287,191**	**6.92%**
2016	159,224	159,224	-	2,252,132	7.07%
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%

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

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 is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 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

Table 1

Henry County Public Service Authority

Revenues by Source

Last Ten Fiscal Years

Fiscal Years Ended June 30	Water	Sewer	Other	Investment Earnings	Grants and Other Contributions	Connection Fees	Totals
2017	**$ 7,103,980**	**$ 5,095,250**	**$ 790,811**	**$ 340,012**	**$ 896,386**	**$ 46,292**	**$ 14,272,731**
2016	7,001,004	5,193,665	837,617	393,482	1,075,869	109,850	14,611,487
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

Table 2

Expenses by Function

Last Ten Fiscal Years

Fiscal Years Ended June 30	System Maintenance	Treatment	Engineering and Mapping	Administration and Other	Depreciation	Amortization and Interest	Totals
2017	**$ 1,439,404**	**$ 3,114,831**	**$ 362,299**	**$ 2,183,031**	**$ 3,131,080**	**$ 833,701**	**$ 11,064,346**
2016	1,336,527	3,491,294	323,939	2,107,370	3,085,840	1,016,061	11,361,031
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

Henry County Public Service Authority

Revenue Bond Debt Service Coverage

Last Ten Fiscal Years

Fiscal Years Ended June 30	Unrestricted Cash Beginning of Year	Gross Revenues	Direct Operating Expenses**	Net Available	Principal***	Interest	Total Debt	Coverage
2017	**$ 8,544,150**	**$ 13,376,344**	**$ 7,099,565**	**$ 14,820,929**	**$ 3,383,019**	**$ 832,952**	**$ 4,215,971**	**3.52**
2016	7,159,883	13,535,618	7,259,130	13,436,371	3,138,527	955,079	4,093,606	3.28
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

**Excluding depreciation, interest, and amortization.
***Excludes debt refinancing payoffs.

Henry County Public Service Authority

Schedule of Insurance in Force

June 30, 2017

Type Coverage (Insurer)	Liability Limits	
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)	$ 48,829,969	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

Fiscal Years Ended June 30	City of Martinsville/ Eden	Philpott	Wells	Totals
2017	**6**	**1,069**	**4**	**1,079**
2016	9	1,032	9	1,050
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

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

Fiscal Years Ended June 30	City of Martinsville	Lower Smith River	Totals
2017	**767**	**-**	**767**
2016	854	-	854
2015	651	-	651
2014	590	-	590
2013	681	-	681
2012	580	-	580
2011	716	-	716
2010	822	-	822
2009	713	-	713
2008	710	-	710

Note: Does not include waste treatment in lagoon systems.

Source: Flow Reports

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)	Unemployment Rate (4)
2017	**52,352**	**34,968**	**46.0**	**5.1%**
2016	52,822	33,439	45.5	5.7%
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%

Sources:

1) U. S. Census, 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 Labor Market Information

Table 8

Henry County Public Service Authority

List of Ten Largest Customers

Year Ended June 30, 2017

Customer	Business	Amount	Percent of Total Billings*
C.P. Films, Inc.	Manufacturing	$ 779,468	6.39%
Monogram Snack Martinsville, LLC	Manufacturing	569,408	4.67%
Henry County Schools	Public School System	193,787	1.59%
Commonwealth Laminating & Coating	Manufacturing	160,259	1.31%
County of Henry, Virginia	Local Government	159,173	1.30%
King's Grant	Retirement Community	118,721	0.97%
Scrub Board/Bobby Nickelston	Laundries and Car Washes	109,796	0.90%
Dayton-Chambers, Inc. (Dutch Inn)	Hotel and Restaurant	71,114	0.58%
CAH Properties	Rental Properties	70,071	0.57%
Stanleytown Healthcare	Healthcare/Rehab Facility	68,453	0.56%
Total		$ 2,300,250	18.86%
*Total Billings		$ 12,199,230	

Henry County Public Service Authority

Miscellaneous Statistical Data

As of June 30, 2017

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	12,464
	Number of Active Sewer Connections	7,339
	Miles of Water Lines	359
	Miles of Sewer Lines	244
	Number of Fire Hydrants	1,609
	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	2.96 MGD
	Average Daily Sewage Flow	2.10 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
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James A. Allen, Jr., CPA
Nadine L. Chase, CPA

Sherwood H. Creedle, Emeritus

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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, 2017, 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 September 27, 2017.

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.

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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.

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

South Hill, Virginia
September 27, 2017

Creedle Jones & Alga

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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, 2017. 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, 2017.

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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.

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

South Hill, Virginia
September 27, 2017

Henry County Public Service Authority

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

Federal Granting Agency/Recipient State Agency/ Grant Program	Federal Catalog Number	Pass-Through Entity Identifying Number	Expenditures
Environmental Protection Agency			
Pass-Through Payments			
Virginia Department of Health			
Capitalization Grants for Drinking Water State Revolving Funds			
Loan Proceeds/Expenditures			
Series 2015C - Pleasant Grove Water Line Extension	66.468	601	$ 249,474
Series 2015D - Sandy Level/Eastwood Water Line	66.468	601	474,574
			724,048
Grant Proceeds			
Series 2015C - Pleasant Grove Water Line Extension	66.468	601	18,497
Series 2015D - Sandy Level/Eastwood Water Line	66.468	601	15,320
			33,817
Grand Totals			$ 757,865

NOTE: There were no awards passed through to subrecipients.

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, 2017

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, 2017. The information in this Schedule is presented in accordance with the 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). 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 cash 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. Indirect Cost Rate

Henry County Public Service Authority has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

4. 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	$ 33,817
Proceeds VRA Bond Series 2015C	214,377
Proceeds VRA Bond Series 2015D	453,147
Total Federal Expenditures	701,341
Plus accrual adjustment to cash basis per SEFA	56,524
Total Federal Expenditures per the Basic Financial Statements	$ 757,865
Total Federal Expenditures per the Schedule of Expenditures of Federal Awards	$ 757,865

5. Federal Loans Outstanding

Henry County Public Service Authority had the following federal loan balances outstanding at year-end:

Federal Loans Outstanding through Virginia Resources Authority

Program	Federal Catalog Number	Amount Outstanding
Virginia Department of Health		
Capitalization Grants for Drinking Water State Revolving Funds		
Loan Name		
Series 2015C - Pleasant Grove Water Line Extension	66.468	$ 1,189,280
Series 2015D - Sandy Level/Eastwood Water Line	66.468	1,293,500
Total Loans Outstanding		$ 2,482,780

Henry County Public Service Authority

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

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:

CFDA Number(s)	Name of Federal Program or Cluster
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