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RAPPAHANNOCK COUNTY WATER AND SEWER AUTHORITY

Sperryville, Virginia

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2016

ROBINSON, FARMER, COX ASSOCIATES

*A PROFESSIONAL LIMITED LIABILITY COMPANY      CERTIFIED PUBLIC ACCOUNTANTS*

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CHARLOTTESVILLE   □   RICHMOND   □   FREDERICKSBURG   □   STAUNTON   □   BLACKSBURG   □   LOUISA



RAPPAHANNOCK COUNTY WATER AND SEWER AUTHORITY

Sperryville, Virginia

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2016

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# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Rappahannock County Water and Sewer Authority  
Sperryville, Virginia

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Rappahannock County Water and Sewer Authority, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Rappahannock County Water and Sewer 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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion 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 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 auditors' 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 opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Rappahannock County Water and Sewer Authority, as of June 30, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Change in Accounting Principle*

As described in Note 11 to the financial statements, in 2016, The Authority adopted new accounting guidance, GASB Statement No. 82 Pension Issues - an amendment of GASB Statements No. 67, No. 68. And No. 73. Our opinion is not modified with respect to this matter.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the schedules related to pension funding on pages 27-29 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by the missing information.

#### *Report on Summarized Comparative Information*

We have previously audited Rappahannock County Water and Sewer Authority's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 16, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2017 on our consideration of Rappahannock County Water and Sewer 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 Rappahannock County Water and Sewer Authority's internal control over financial reporting and compliance.

*Robinson, Fawcett, Cox Associates*

Charlottesville, Virginia  
October 13, 2017

- Basic Financial Statements -

**RAPPAHANNOCK COUNTY  
WATER AND SEWER AUTHORITY**

**Statement of Net Position  
As of June 30, 2016  
With Comparative Totals for 2015**

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (Note 3)	\$ 329,310	\$ 274,490
Petty cash	380	380
Accounts receivable, net (Note 4)	<u>58,243</u>	<u>56,720</u>
Total current assets	<u>\$ 387,933</u>	<u>\$ 331,590</u>
Capital assets, net of accumulated depreciation (Note 5)	<u>\$ 36,081</u>	<u>\$ 99,737</u>
Total assets	<u>\$ 424,014</u>	<u>\$ 431,327</u>
<b>Deferred outflows of resources</b>		
Pension contributions subsequent to measurement date	<u>\$ 6,205</u>	<u>\$ 5,682</u>
<b>Liabilities and Net Position</b>		
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	\$ 19,702	\$ 17,511
Unearned revenue	<u>-</u>	<u>-</u>
Total current liabilities	\$ 19,702	\$ 17,511
Long-term liabilities:		
Net pension liability	<u>31,825</u>	<u>25,939</u>
Total liabilities	<u>\$ 51,527</u>	<u>\$ 43,450</u>
<b>Deferred inflows of resources</b>		
Items related to measurement of net pension liability	<u>\$ 5,679</u>	<u>\$ 7,912</u>
<b>Net position:</b>		
Investment in capital assets	\$ 36,081	\$ 99,737
Unrestricted	<u>336,932</u>	<u>285,910</u>
Total net position	<u><u>\$ 373,013</u></u>	<u><u>\$ 385,647</u></u>

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

**RAPPAHANNOCK COUNTY  
WATER AND SEWER AUTHORITY**

**Statement of Revenues, Expenses and Changes in Net Position  
Year Ended June 30, 2016  
With Comparative Totals for 2015**

	<u>2016</u>	<u>2015</u>
<b>Operating revenue:</b>		
Sewer service charges	\$ 227,245	\$ 221,977
Other charges	<u>167</u>	<u>167</u>
Total operating revenue	<u>\$ 227,412</u>	<u>\$ 222,144</u>
<b>Operating expenses:</b>		
Plant operator and related benefits	\$ 118,491	\$ 106,182
Bookkeeping/accounting	4,669	4,381
Legal	6,025	5,625
Telephone	1,906	1,769
Electric power	13,515	10,015
Laboratory and management support	8,186	7,952
Plant and system maintenance	29,793	35,470
Miscellaneous and other	4,114	13,733
Depreciation	<u>63,656</u>	<u>64,048</u>
Total operating expenses	<u>\$ 250,355</u>	<u>\$ 249,175</u>
<b>Operating loss</b>	<u>\$ (22,943)</u>	<u>\$ (27,031)</u>
<b>Nonoperating revenue:</b>		
Interest income	\$ 1,320	\$ 577
Connection charges	<u>8,989</u>	<u>3,750</u>
Net nonoperating revenue (expenses)	<u>\$ 10,309</u>	<u>\$ 4,327</u>
<b>Change in net position</b>	<u>\$ (12,634)</u>	<u>\$ (22,704)</u>
<b>Net position, beginning of year , as restated</b>	<u>385,647</u>	<u>408,351</u>
<b>Net position, end of year</b>	<u><u>\$ 373,013</u></u>	<u><u>\$ 385,647</u></u>

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

**RAPPAHANNOCK COUNTY  
WATER AND SEWER AUTHORITY**

**Statement of Cash Flows  
Year Ended June 30, 2016  
With Comparative Totals for 2015**

	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities:</b>		
Receipts from customers	\$ 225,890	\$ 230,839
Payments to suppliers	(66,017)	(189,365)
Payments to and for employees	(115,362)	-
Net cash flows provided by (used for) operating activities	<u>\$ 44,511</u>	<u>\$ 41,474</u>
<b>Cash flows from capital and related financing activities:</b>		
Capital asset purchases	\$ -	\$ (3,599)
Connection fees	8,989	3,750
Net cash flows provided by (used for) capital and related financing activities	<u>\$ 8,989</u>	<u>\$ 151</u>
<b>Cash flows from investing activities:</b>		
Interest income	\$ 1,320	\$ 577
<b>Increase (decrease) in cash and cash equivalents</b>	<b>\$ 54,820</b>	<b>\$ 42,202</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>274,870</b>	<b>232,668</b>
<b>Cash and cash equivalents, end of year</b>	<b><u>\$ 329,690</u></b>	<b><u>\$ 274,870</u></b>
<b>Reconciliation of net operating income (loss) to net cash flows provided by (used for) operating activities:</b>		
Operating loss	\$ (22,943)	\$ (27,031)
Adjustments to reconcile operating (loss) to net cash provided by (used for) operating activities:		
Depreciation	63,656	64,048
Pension contributions subsequent to measurement date	(523)	(5,682)
Pension expense per GASB 68 calculation	-	3,916
(Increase) decrease in accounts receivable	(1,523)	8,695
Increase (decrease) in net pension liability	5,886	-
Increase (decrease) in accounts payable and accrued expenses	2,191	6,528
Increase (decrease) in deferred inflows of resources	(2,233)	-
Increase (decrease) in unearned revenue	-	(9,000)
Net cash flows provided by (used for) operating activities	<u>\$ 44,511</u>	<u>\$ 41,474</u>

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



# RAPPAHANNOCK COUNTY WATER AND SEWER AUTHORITY

## Notes to Financial Statements As of June 30, 2016

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### NOTE 1 - NATURE OF BUSINESS AND REPORTING ENTITY:

#### Nature of Business:

The Authority is a Virginia Corporation organized and existing under the provisions of the Virginia Water and Sewer Authorities Act, Sec. 15.1-1239 et seq., *Code of Virginia*, 1950 (as amended). As such, the Authority is in business to acquire, construct, operate and maintain facilities for providing water and sewage treatment services. At June 30, 2016, the Authority was not involved in the treatment and distribution of water. Its sole operations consisted of providing sewage treatment services for the Sperryville Community.

#### Financial Reporting Entity:

The Authority is considered a related organization of the County of Rappahannock, Virginia for financial reporting purposes. The Authority's Board members are appointed by the County of Rappahannock Board of Supervisors; however, the County exercises no oversight responsibility and the Authority's Board approves its own budget and appoints management. The County accountability for the Authority does not extend beyond making the appointments to the Board. No other entities are included in this report since the Board has no oversight or management control over any other entities.

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

#### Financial Reporting:

The financial statements of the Authority are prepared as an "enterprise" commercial unit to conform to financial reporting practices as recommended in *Water Utility Accounting* published jointly by the Governmental Finance Officers Association and the American Water Works Association.

#### Basis of Accounting:

The accrual basis of accounting is used to account for all funds. Revenues are recognized when earned, and expenses are recorded as liabilities when incurred.

#### Cash and Cash Equivalents:

For purposes of reporting cash flows, cash and cash equivalents includes cash on hand and in banks and all highly liquid investments with a maturity of three months or less from the date of acquisition to be cash equivalents.

#### Capital Assets:

Major improvements and additions that equal or exceed \$1,500 are capitalized at cost in the year incurred. Normal repairs and maintenance are expensed as incurred. Any gain or loss on the sale or disposition of property is recognized currently. Projects not in service are carried as construction in progress. Interest is capitalized on construction costs, where applicable. No interest was capitalized in fiscal year 2016. Donated capital assets are recorded at their acquisition value as of the date of donation.

# RAPPAHANNOCK COUNTY WATER AND SEWER AUTHORITY

## Notes to Financial Statements As of June 30, 2016 (continued)

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### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

#### Capital Assets: (continued)

The Authority depreciates property and equipment in service, using the straight-line method, over the following estimated useful lives:

Wastewater treatment facility	30 Years
System improvements and components	5 to 20 Years
Equipment	5 Years

#### 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 (expense) until then. The Authority only has one item that qualifies for reporting in this category. It is comprised of contributions to the pension plan made during the current year and subsequent to the net pension liability measurement date, which will be recognized as a reduction of the net pension liability next fiscal year. For more detailed information on this item, reference the pension note.

In addition to liabilities, the statement of financial position may 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 (revenue) until that time. The Authority has one type of item that qualified for reporting in this category. Certain items related to the measurement of the net pension liability are reported as deferred inflows of resources. These include the net difference between projected and actual earnings on pension plan investments. For more detailed information on this item, reference the pension note.

#### Operating and Nonoperating Revenues and Expenses:

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses consist primarily of charges for sewage treatment services and expenses related to the providing of those services. Charges are billed on a quarterly basis, using a fixed rate which is based on the estimated amount of effluent that the customer discharges. Nonoperating revenues and expenses consist of capital and noncapital and related financing expenses.

#### 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 these estimates.

#### Comparative Totals:

Comparative totals are presented for informational purposes only. Certain reclassifications of prior year expenses have been made to be comparable to the current year presentation.

## RAPPAHANNOCK COUNTY WATER AND SEWER AUTHORITY

### Notes to Financial Statements As of June 30, 2016 (continued)

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#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

##### Net Position:

Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

##### Net Position Flow Assumption:

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted net position to have been depleted or used before unrestricted net position is applied.

#### NOTE 3 - DEPOSITS AND INVESTMENTS:

##### Deposits:

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Deposits Act (the "Act") Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

##### Investments:

Statutes authorize the Authority to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). The Authority had no investments during the year.

#### NOTE 4 - ACCOUNTS RECEIVABLE:

Accounts receivable consist of sewage treatment charges due from customers. A provision of \$436 has been made for uncollectible accounts as of June 30, 2016. This allowance is based upon specific account analysis. Liens have been placed on accounts which are substantially in arrears which totaled \$13,358 and \$23,206 at June 30, 2016 and 2015, respectively.

# RAPPAHANNOCK COUNTY WATER AND SEWER AUTHORITY

## Notes to Financial Statements As of June 30, 2016 (continued)

### NOTE 5 - CAPITAL ASSETS:

Capital assets consist of the following:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital assets not being depreciated:				
Land	\$ 10,550	\$ -	\$ -	\$ 10,550
Capital assets being depreciated:				
Wastewater treatment facility and system improvements	\$ 1,838,875	\$ -	\$ -	\$ 1,838,875
Equipment	5,716	-	-	5,716
Total capital assets being depreciated	\$ 1,844,591	\$ -	\$ -	\$ 1,844,591
Accumulated depreciation				
Wastewater treatment facility and system improvements	\$ 1,749,821	\$ 63,525	\$ -	\$ 1,813,346
Equipment	5,583	131	-	5,714
Total accumulated depreciation	\$ 1,755,404	\$ 63,656	\$ -	\$ 1,819,060
Net capital assets being depreciated	\$ 89,187	\$ (63,656)	\$ -	\$ 25,531
Net capital assets	\$ 99,737	\$ (63,656)	\$ -	\$ 36,081

Depreciation expense was \$63,656 and \$64,048 for the years ended June 30, 2016 and 2015, respectively.

### NOTE 6 - RISK MANAGEMENT:

The Authority insures for the risk of loss through the purchase of insurance through commercial insurance carriers. The risk of loss is generally confined to the amount of deductibles and co-insurance. There have been no reductions in insurance coverage or settlements in excess of insurance coverage for the past three years.

### NOTE 7 - RELATED PARTY TRANSACTIONS:

The Authority reimburses the County of Rappahannock, Virginia for personnel costs incurred in the operation and maintenance of the sewage treatment facility. The amount of these costs for fiscal years 2016 and 2015 totaled \$119,051 and \$106,182, respectively. Amounts owed to Rappahannock County at June 30, 2016 and 2015 were \$9,977 and \$9,016, respectively. Rappahannock County also assumes the cost of the Authority's annual independent audit, and property and related insurance costs.

# RAPPAHANNOCK COUNTY WATER AND SEWER AUTHORITY

## Notes to Financial Statements As of June 30, 2016 (continued)

### NOTE 8 - PENSION PLAN:

#### *Plan Description*

All full-time, salaried permanent employees of Rappahannock County Water and Sewer Authority are automatically covered by the County of Rappahannock, Virginia Retirement Plan upon employment. This is an agent multiple-employer plan 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:

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>About Plan 1</b> 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.</p>	<p><b>About Plan 2</b> 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.</p>	<p><b>About the Hybrid Retirement Plan</b> 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")</p> <ul style="list-style-type: none"> <li>• The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</li> <li>• 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.</li> </ul>

RAPPAHANNOCK COUNTY WATER AND SEWER AUTHORITY

Notes to Financial Statements  
As of June 30, 2016 (continued)

**NOTE 8 - PENSION PLAN: (Continued)**

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
About Plan 1 (Cont.)	About Plan 2 (Cont.)	<p>About the Hybrid Retirement Plan (Cont.)</p> <ul style="list-style-type: none"> <li>• 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.</li> </ul>
<p><b>Eligible Members</b> Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b> 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.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p><b>Eligible Members</b> 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.</p> <p><b>Hybrid Opt-In Election</b> 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.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p><b>Eligible Members</b> Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> <li>• Political subdivision employees*</li> <li>• 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.</li> </ul> <p><b>*Non-Eligible Members</b> Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> <li>• Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.</li> </ul>

RAPPAHANNOCK COUNTY WATER AND SEWER AUTHORITY

Notes to Financial Statements  
As of June 30, 2016 (continued)

**NOTE 8 - PENSION PLAN: (Continued)**

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Hybrid Opt-In Election (Cont.)</b> 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.</p>	<p><b>Hybrid Opt-In Election (Cont.)</b> 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.</p>	<p><b>*Non-Eligible Members (Cont.)</b> 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.</p>
<p><b>Retirement Contributions</b> 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.</p>	<p><b>Retirement Contributions</b> 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.</p>	<p><b>Retirement Contributions</b> 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.</p>



RAPPAHANNOCK COUNTY WATER AND SEWER AUTHORITY

Notes to Financial Statements  
As of June 30, 2016 (continued)

**NOTE 8 - PENSION PLAN: (Continued)**

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Creditable Service</b> 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.</p>	<p><b>Creditable Service</b> Same as Plan 1.</p>	<p><b>Creditable Service</b> <b><u>Defined Benefit Component:</u></b> 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.</p> <p><b><u>Defined Contributions Component:</u></b> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>



RAPPAHANNOCK COUNTY WATER AND SEWER AUTHORITY

Notes to Financial Statements  
As of June 30, 2016 (continued)

**NOTE 8 - PENSION PLAN: (Continued)**

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Vesting</b> 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.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p><b>Vesting</b> Same as Plan 1.</p>	<p><b>Vesting</b> <u><b>Defined Benefit Component:</b></u> 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.</p> <p><u><b>Defined Contributions Component:</b></u> 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.</p> <p>Members are always 100% vested in the contributions that they make.</p>

RAPPAHANNOCK COUNTY WATER AND SEWER AUTHORITY

Notes to Financial Statements  
As of June 30, 2016 (continued)

**NOTE 8 - PENSION PLAN: (Continued)**

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting (Cont.)	Vesting (Cont.)	<p>Vesting (Cont.)  <u>Defined Contributions Component: (Cont.)</u>                      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.</p> <ul style="list-style-type: none"> <li>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.</li> <li>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.</li> <li>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</li> </ul> <p>Distribution is not required by law until age 70½.</p>
<p><b>Calculating the Benefit</b>                      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.</p>	<p><b>Calculating the Benefit</b>                      See definition under Plan 1.</p>	<p><b>Calculating the Benefit</b>  <u>Defined Benefit Component:</u>                      See definition under Plan 1.</p>

RAPPAHANNOCK COUNTY WATER AND SEWER AUTHORITY

Notes to Financial Statements  
As of June 30, 2016 (continued)

**NOTE 8 - PENSION PLAN: (Continued)**

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Calculating the Benefit (Cont.)</b> 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.</p>	<p><b>Calculating the Benefit (Cont.)</b></p>	<p><b>Calculating the Benefit (Cont.)</b> <u><b>Defined Contribution Component:</b></u> 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.</p>
<p><b>Average Final Compensation</b> A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b> A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b> Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p><b>Service Retirement Multiplier</b> <b>VRS:</b> 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%.</p> <p><b>Sheriffs and regional jail superintendents:</b> The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p> <p><b>Political subdivision hazardous duty employees:</b> 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.</p>	<p><b>Service Retirement Multiplier</b> <b>VRS:</b> 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.</p> <p><b>Sheriffs and regional jail superintendents:</b> Same as Plan 1.</p> <p><b>Political subdivision hazardous duty employees:</b> Same as Plan 1.</p>	<p><b>Service Retirement Multiplier</b> <u><b>Defined Benefit Component:</b></u> <b>VRS:</b> The retirement multiplier for the defined benefit component is 1.00%.</p> <p>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.</p> <p><b>Sheriffs and regional jail superintendents:</b> Not applicable.</p> <p><b>Political subdivision hazardous duty employees:</b> Not applicable.</p> <p><u><b>Defined Contribution Component:</b></u> Not applicable.</p>

RAPPAHANNOCK COUNTY WATER AND SEWER AUTHORITY

Notes to Financial Statements  
As of June 30, 2016 (continued)

**NOTE 8 - PENSION PLAN: (Continued)**

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Normal Retirement Age</b> VRS: Age 65.</p> <p><b>Political subdivisions hazardous duty employees:</b> Age 60.</p>	<p><b>Normal Retirement Age</b> VRS: Normal Social Security retirement age.</p> <p><b>Political subdivisions hazardous duty employees:</b> Same as Plan 1.</p>	<p><b>Normal Retirement Age</b> <u><b>Defined Benefit Component:</b></u> VRS: Same as Plan 2.</p> <p><b>Political subdivisions hazardous duty employees:</b> Not applicable.</p> <p><u><b>Defined Contribution Component:</b></u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Earliest Unreduced Retirement Eligibility</b> 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.</p> <p><b>Political subdivisions hazardous duty employees:</b> Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b> VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p><b>Political subdivisions hazardous duty employees:</b> Same as Plan 1.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b> <u><b>Defined Benefit Component:</b></u> 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.</p> <p><b>Political subdivisions hazardous duty employees:</b> Not applicable.</p> <p><u><b>Defined Contribution Component:</b></u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Earliest Reduced Retirement Eligibility</b> VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p>	<p><b>Earliest Reduced Retirement Eligibility</b> VRS: Age 60 with at least five years (60 months) of creditable service.</p>	<p><b>Earliest Reduced Retirement Eligibility</b> <u><b>Defined Benefit Component:</b></u> VRS: Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p>

RAPPAHANNOCK COUNTY WATER AND SEWER AUTHORITY

Notes to Financial Statements  
As of June 30, 2016 (continued)

**NOTE 8 - PENSION PLAN: (Continued)**

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Earliest Reduced Retirement Eligibility (Cont.)</b></p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p>	<p><b>Earliest Reduced Retirement Eligibility (Cont.)</b></p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p><b>Earliest Reduced Retirement Eligibility (Cont.)</b></p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><b><u>Defined Contribution Component:</u></b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> 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%.</p> <p><b><u>Eligibility:</u></b> 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.</p> <p>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.</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> 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%.</p> <p><b><u>Eligibility:</u></b> Same as Plan 1.</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> <b><u>Defined Benefit Component:</u></b> Same as Plan 2.</p> <p><b><u>Defined Contribution Component:</u></b> Not applicable.</p> <p><b><u>Eligibility:</u></b> Same as Plan 1 and Plan 2.</p>

RAPPAHANNOCK COUNTY WATER AND SEWER AUTHORITY

Notes to Financial Statements  
As of June 30, 2016 (continued)

**NOTE 8 - PENSION PLAN: (Continued)**

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> <li>• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.</li> <li>• The member retires on disability.</li> <li>• The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).</li> <li>• 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.</li> <li>• 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.</li> </ul>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

RAPPAHANNOCK COUNTY WATER AND SEWER AUTHORITY

Notes to Financial Statements  
As of June 30, 2016 (continued)

**NOTE 8 - PENSION PLAN: (Continued)**

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Disability Coverage</b> Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p><b>Disability Coverage</b> 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.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p><b>Disability Coverage</b> 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.</p> <p>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.</p>
<p><b>Purchase of Prior Service</b> 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 toward 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.</p>	<p><b>Purchase of Prior Service</b> Same as Plan 1.</p>	<p><b>Purchase of Prior Service</b> <u><b>Defined Benefit Component:</b></u> Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> <li>•Hybrid Retirement Plan members are ineligible for ported service.</li> <li>•The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.</li> <li>•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.</li> </ul> <p><u><b>Defined Contribution Component:</b></u> Not applicable.</p>

The System issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2015-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.



# RAPPAHANNOCK COUNTY WATER AND SEWER AUTHORITY

## Notes to Financial Statements As of June 30, 2016 (continued)

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### NOTE 8 - PENSION PLAN: (Continued)

#### *Contributions*

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

The Authority's contractually required contribution rate for the year ended June 30, 2016 was 12.41% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were \$6,205 and \$5,682 for the years ended June 30, 2016 and June 30, 2015, respectively.

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

At June 30, 2016, the Authority reported a liability of \$31,825 for its proportionate share of the net pension liability. The Authority's net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015. The Authority's proportionate share of the same was calculated using creditable compensation as of June 30, 2015 and 2014 as a basis for allocation. At June 30, 2015 and 2014, the Authority's proportion was 1.62% and 1.47%, respectively.

#### *Actuarial Assumptions - General Employees*

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

Inflation	2.5%
Salary increases, including inflation	3.5% - 5.35%
Investment rate of return	7.0%, 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.



RAPPAHANNOCK COUNTY WATER AND SEWER AUTHORITY

Notes to Financial Statements  
As of June 30, 2016 (continued)

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**NOTE 8 - PENSION PLAN: (Continued)**

*Actuarial Assumptions - General Employees (Continued)*

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 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 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 Morality Table Projected to 2020 with males set back 3 years and no provision for future morality improvement

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

Largest 10 - Non-LEOS:

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

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

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

# RAPPAHANNOCK COUNTY WATER AND SEWER AUTHORITY

## Notes to Financial Statements As of June 30, 2016 (continued)

### NOTE 8 - PENSION PLAN: (Continued)

#### *Long-Term Expected Rate of Return*

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

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

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

# RAPPAHANNOCK COUNTY WATER AND SEWER AUTHORITY

## Notes to Financial Statements As of June 30, 2016 (continued)

### NOTE 8 - PENSION PLAN: (Continued)

#### *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 County of Rappahannock 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.

#### *Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The following presents the Authority's proportionate share of the net pension liability using the discount rate of 7.00%, as well as what the Authority'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:

	Rate		
	6.00%	7.00%	8.00%
Authority's proportionate share of the County of Rappahannock Retirement Plan Net Pension Liability	\$ 61,113	\$ 31,825	\$ 7,496

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

For the year ended June 30, 2016, the Authority recognized pension expense of \$3,130.

At June 30, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 5,679
Employer contributions subsequent to the measurement date	6,205	-
Total	\$ 6,205	\$ 5,679

# RAPPAHANNOCK COUNTY WATER AND SEWER AUTHORITY

## Notes to Financial Statements As of June 30, 2016 (continued)

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### NOTE 8 - PENSION PLAN: (Continued)

#### *Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)*

\$6,205 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	
2017	\$ (1,552)
2018	(1,552)
2019	(1,552)
2020	(1,549)
Thereafter	-

### NOTE 9 - COMMITMENTS/CONTINGENCIES:

The Authority is in the process of evaluating the maintenance and/or replacement of the sewage treatment plant tanks and related equipment. Preliminary estimates to perform repair and maintenance on six tanks range up to an aggregate total of \$200,000. The repairs and maintenance project would be completed over a two year period.

The Authority has also considered an evaluation of possible replacement of the plant facilities, the cost of which is currently estimated to approximate \$1 million. The expected life of the plant at June 30, 2016 is estimated to range between 10 and 15 years replacement costs in the 10 to 15 year time frame are estimated to range from \$1.5 million to \$2.5 million.

Funding for these projects is anticipated to be derived from state and/or federal grants and increases in the quarterly sewage charges.

### NOTE 10 - OTHER POST-EMPLOYMENT BENEFITS:

The Authority participates in the County of Rappahannock, Virginia health insurance plan. Full-time Authority employees are eligible to participate in the plan and are included in the County's other post-employment benefits plan. The amount of the Authority's obligation in the County's other post-employment plan is not known at June 30, 2016. Management believes the amount of the obligation is not material.

RAPPAHANNOCK COUNTY WATER AND SEWER AUTHORITY

Notes to Financial Statements  
As of June 30, 2016 (continued)

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**NOTE 11 - ADOPTION OF ACCOUNTING PRINCIPLES:**

Governmental Accounting Standards Board Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*.

The Authority early implemented provisions of the above Statement during the fiscal year ended June 30, 2016. The objective of this Statement is to address certain issues that have been raises with respect to Statements No. 67, *Financial Reporting of Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. No restatement was required as result of this implementation.

- Required Supplementary Information -

RAPPAHANNOCK COUNTY  
WATER AND SEWER AUTHORITY

Schedule of Authority's Proportionate Share of the Net Pension Liability  
As of June 30, 2016

Date (1)	Proportion of the Net Pension Liability (NPL) (2)	Proportionate Share of the NPL (3)	Covered Payroll (4)	Proportionate Share of the NPL as a Percentage of Covered Payroll (3)/(4) (5)	Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (6)
2014	1.4700%	\$ 25,939	\$ 44,050	58.89%	86.48%
2015	1.6200%	31,825	45,525	69.91%	85.75%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

RAPPHANNOCK COUNTY  
WATER AND SEWER AUTHORITY

Schedule of Employer Contributions  
Year Ended June 30, 2016

Date	Contributions in Relation to			Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
	Contractually Required Contribution (1)	Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)		
2015	\$ 5,682	\$ 5,682	\$ -	\$ 45,525	12.48%
2016	6,205	6,205	-	50,000	12.41%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.



RAPPAHANNOCK COUNTY  
WATER AND SEWER AUTHORITY

Notes to Required Supplementary Information  
As of June 30, 2016

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In 2015, Covered Employee Payroll (as defined by GASB 68) included the total payroll for employees covered under the pension plan whether that payroll is subject to pension coverage or not. This definition was modified in GASB Statement No. 82 and now is the payroll on which contributions to a pension plan are based. The ratios presented use the same measure.

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

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

**Largest 10 - Non-LEOS:**

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

**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

- Compliance -

# ROBINSON, FARMER, COX ASSOCIATES

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CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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## INDEPENDENT AUDITORS' 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*

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TO THE BOARD OF DIRECTORS  
RAPPAHANNOCK COUNTY WATER AND SEWER AUTHORITY  
SPERRYVILLE, VIRGINIA

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 of Rappahannock County Water and Sewer Authority, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Rappahannock County Water and Sewer Authority's basic financial statements and have issued our report thereon dated October 13, 2017.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rappahannock County Water and Sewer 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rappahannock County Water and Sewer Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Rappahannock County Water and Sewer Authority's internal control.

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

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

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rappahannock County Water and Sewer 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 Rappahannock County Water and Sewer Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rappahannock County Water and Sewer Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Robinson, Fawcett, Cox Associates*

Charlottesville, Virginia  
October 13, 2017