

Wise County
Public Service Authority
Norton, Virginia



AUDIT REPORT
Year Ended June 30,
2017

**WISE COUNTY PUBLIC SERVICE AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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INTRODUCTORY SECTION



WISE COUNTY PUBLIC SERVICE AUTHORITY

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September 29, 2017

Board of Directors
Wise County Public Service Authority
Norton, VA 24273

LETTER OF TRANSMITTAL

I am pleased to present the Annual Financial Report of the Wise County Public Service Authority for the fiscal year ended June 30, 2017. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rest with the Authority. I believe the data, as presented, is accurate in all material respects: that it is presented in a manner designed to fairly set forth the financial position and results of operations of the Authority as measured by the financial activity of its proprietary fund: and that all disclosures necessary to enable the reader to gain the maximum understanding of the Authority's financial affairs have been included.

THE REPORTING ENTITY AND ITS SERVICES

The Authority was established on September 9, 1969 for the purpose of providing drinking water and wastewater utilities to the residents of Wise County. An eight member board governs the PSA, with the members being appointed by the Wise County Board of Supervisors. The staff consists of 25 full-time employees and 1 part-time employee who maintain the daily operations of water treatment, line maintenance, and clerical duties.

The Authority operates a widespread water distribution system throughout the County of Wise providing water for residents outside town and city limits. This system consists of over 150 miles of water line (ranging in size from 2" to 14"), 15 booster pump stations, and 19 water storage tanks. Water to the system is provided by a 2.0 MGD water treatment plant, which is currently at approximately 51% capacity, and interconnections to several nearby town and city water systems. At the end of June 30, 2017, the Authority had 4,562 active water customers.

Due to the need and demand for public sewer service in various areas of the County, the Authority has acquired and completed several new sewer system projects throughout the County over the past two years. At the end of June 30, 2017, the Authority had approximately 807 active sewer customers (see notes below on customer numbers).

For financial reporting purposes and in accordance with the Governmental Accounting Standards Board (GASB), Statement 14, "The Financial Reporting Entity," the Authority has been identified as a discretely presented component unit of the County of Wise, Virginia. The GASB statement established the criteria used in making this determination. Discretely presented component units are reported in a separate column in the combined financial statements of the County of Wise, Virginia to emphasize that they are legally separate from the primary government and to differentiate their financial position and results of its operations from those of the primary government.

INTERNAL CONTROL STRUCTURE AND BUDGETARY CONTROLS

The management of the Authority is responsible for establishing and maintaining an internal control structure to ensure the protection of the Authority. In developing and evaluating the Authority's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. I believe that the Authority's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions. The Authority has a small finance staff, as a result, there is always concern relating to segregation of duties. As part of the Authority's internal control procedures, the Executive Director signs off on payroll reports, accounts payable reports, and bank reconciliations. Given the small staff, duties are divided to the extent possible.

In addition to the internal accounting controls noted above, the Authority also maintains budgetary controls. These budgetary controls ensure compliance with provisions embodied in the annual appropriated budget approved by the Board. As a recipient of federal and state financial assistance, the Authority is also responsible for ensuring that adequate internal controls are in place to ensure and document compliance with applicable laws and regulations. The audit for the fiscal year ended June 30, 2015 has been completed and no material internal control weaknesses or material violations of laws and regulations have been found.

ECONOMIC CONDITIONS AND OUTLOOK

Overall, the Authority's customer base is primarily residential customers, representing more than 95% of the accounts billed. The Authority's customer base for water services showed a increase of 30 customers in FY17. FY16 showed a decrease of 6 customers. We therefore believe that we have seen a leveling of prior FY customer declines. We will continue to monitor this, particularly as we prepare the FY19 budget and the next 5 year CIP and fiscal plan.

The number of sewer accounts decreased by 38 customers in FY17. When we took over direct billing of Appalachia water customers, we found that our estimate of the number of Appalachia sewer users was too high. This did not affect revenue as we had simply used payment history to estimate revenue. We have increase customers with new projects and the numbers for FY18 should be up substantially.

MAJOR INITIATIVES AND ACCOMPLISHMENTS

- **Coal Severance** – Coal severance revenues were just under anticipated budget for FY16 (about \$3500 short). Per discussions with the County, there is an anticipated increase in severance. However, we have continued the planned “stepdown” of anticipated revenue to zero, although we are stretching it out by at least another year to FY21. We will continue to monitor coal severance revenue with the County and budget accordingly.
- **Water Customer Numbers & Usage** – As mentioned above, customer numbers appear to have stabilized. However, per capita water usage has decreased. Water use per residential customer was projected at 3129 gallons per month. Actual use has been around 3010 gallons per month. The lower than expected per capita usage outweighed the slight increase in customer numbers. Residential water revenue was projected using only 3000 gallons per month per customer. We will continue to monitor per capita water usage in FY18 and make further adjustments in FY19 and beyond as appropriate. The continued use of base rate increases over incremental rate increases should also help mitigate this issue.
- **Sewer Customer Numbers** – Sewer revenue was also lower than expected. We believe that part of the issue was an overestimation of the number of active sewer accounts in the Appalachia service area, particularly in Derby. We believe that we had estimated approximately 45 customers more than are actually using sewer. Overall sewer usage is somewhat tied to water usage, although the fact that much of our customer base is on other water systems and has different demographics (particularly the Appalachia service area) will affect our usages. We used a substantially lower number for per capita sewer usage for the FY18 budget (2751 gallons per month) and an even lower projection for new connections in the Appalachia service area (2573 gallons per month). We will continue to monitor this and make adjustments as needed for the FY19 budget.
- **Rates** – Rates for FY18 were increased approximately 4.2% for water and 8.0% for sewer. The sharper sewer rate increase is expected to continue in the near future to achieve a proper ratio of sewer to water rates, to allow the sewer budget to have a proper surplus, and to hopefully allow for more PSA contribution to CNW charges. The main need for rate increases was again not driven by operating cost increases, but by debt service. For FY18, the full debt service for Banner/Bull Run project, partial debt service on Roda and Stonega sewer projects, and starting debt service on the Raw Water Intake were the increases. For FY19, the debt service is projected to increase to account for full payments on Roda, Stonega, Raw Water Intake, and some smaller

projects. Although the Roda and Stonega projects are paid for by new customers, the Banner/Bull Run and Raw Intake projects are not. Combined with the projected decline in coal severance, customer rates are being relied upon more to fund debt service. In addition, VRA is now requiring us to have our rates actually approved for three fiscal years if we are relying on future rates to meet debt service needs. Previously, we had used projected rates. This means that we will have to advertise future projected rate increases for three fiscal years, not just the year being approved. However, we expect to adjust planned rates moving forward in the future and re-set rates in the outer two fiscal years that have been approved as we move forward in time. We will continue to look closely at capital needs each year in light of revenue issues and rate impact.

- Upper Exeter WWTP – The improvements to the plant to enable it to meet VPDES permit limits for DO and ammonia were put on line in the late summer of 2014. The plant responded well to the changes and started meeting the limits. Since that time, we have seen an increase on TSS numbers and have had to increase the blower rate to maximum to keep up with oxygen needs. We believe this is due to steady buildup of solids in the treatment units as there is currently no way to waste solids on a regular basis. In addition, the existing generator is insufficiently sized to run the blower and there is no redundant blower capacity, which is required per state regulations. We engaged Lane Group to develop a PER and funding package for plant improvements to address these issues. The estimated cost for the plant upgrades were approximately \$600,000. An analysis of anticipate future operations and debt service costs for a plant upgrade versus replacement with a \$1.4M pump station and forcemain (sending wastewater through Appalachia to Big Stone Gap for treatment) revealed that the total annual cost for the station and forcemain were approximately the same as for the plant upgrade. Therefore, we are pursuing the station option. DEQ approved an application for funding and also provided us with \$250,000 in principal forgiveness. Design is underway and the project should be ready for bid in fall 2017
- Roda/Osaka Sewer Project – The project is in cleanup phase and all connections have been made.
- Stonega Sewer Project - The project is underway and should be complete by the end of 2017.
- Banner/Bull Run/Emergency Generator Project – The project was completed in late fall 2016. Some warranty items are currently being addressed.
- Master Plan/CIP Planning – We have completed the Master Plan with T&L. Staff is now updating this annually to use for CIP planning. A separate sewer Master Plan update was done by Lane, focusing on expansion of the existing system using/updating projects and data from the 2009 Wise County Sewer Study done through LENOWISCO. We are working with our engineers and LENOWISCO and other likely funding agencies to update our CIP annually.

- Eisenhower Road Sewer – This project was completed in spring 2017.
- Wells-Adams Sewer – This project will connect approximately 21 homes along Wells-Adams Road and Guest River Road near the intersection with Wells-Adams. This project will be using LENOWISCO and CDBG funds under the “construction-ready” process. Due to issues with changes to CDBG calculations on LMI percentages, we were unsure if this project would be viable. Now that we have the numbers, we have commissioned T&L for design and will be seeking application in January 2018.
- Tacoma Sewer – This project will serve a minimum of 48 homes. We have solicited funding from ARC, CDBG, and LENOWISCO. LENOWISCO has approved funding, ARC funding is pending, and we are awaiting our CDBG application. Once we have secured all funding, Lane Group will proceed with final design.
- Raw Water Intake Improvements – The raw water intake structure was discovered to be compromised due to siltation of the intake and inadequate protection against debris intrusion. This has caused numerous issues with the raw water pumps, including several repairs during FY14, and FY15, and FY17. The project has been bid and awarded. The cost was higher than originally anticipated and VDH has revised our funding offer to \$940,000, of which \$250,000 is grant. The remaining loans is 30 years at 2.65%. Notice to Proceed is anticipated for October 2017 with project completion anticipated in January 2018.
- Carriage Hill Waterline Improvements – Phase 2 is underway and should be complete in September 2017.
- Hix Orchard Water Improvement Project – This project was completed and put in service winter 2017.
- Arbor Rd Waterline Improvements – This project is anticipated to use additional available funds from VDH realized from cost savings on Carriage Hill Phase 2 and Hix Orchard. Work should commence in October 2017 and be completed in about 2 months.
- Rock Switch Rd Waterline Improvements – This project is to replace a “bottleneck” in our system where the water feed from the eastern end of our service area to the western end is constricted by a size reduction from 8” to 6”. This line will increase the pipe size to 8”. Original planning was for this project to be 100% loan. However, VDH has provided 100% principal forgiveness for \$137,000. Design is nearly complete and the project should be ready to advertise by fall 2017.
- Water Plant Flocculator Replacement – This project is to replace the three mechanical flocculators at the water plant, along with several slide gates and mud valves in the

flocculation basin. It also will provide additional flow ports in the concrete wall between the flocc basin and the sedimentation basin. Original planning was for this project to be 100% loan. However, VDH has provided principal forgiveness for \$217,000 with another 47,600 in loan at 2.65% for 30 years. Design is underway and the project should be ready to advertise by spring 2018.

OTHER INFORMATION

Management's Discussion and Analysis

Generally accepted accounting principles require management to provide narrative introductions, overview, and analysis to accompany the basis financial statements in the form of the Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

SUMMARY

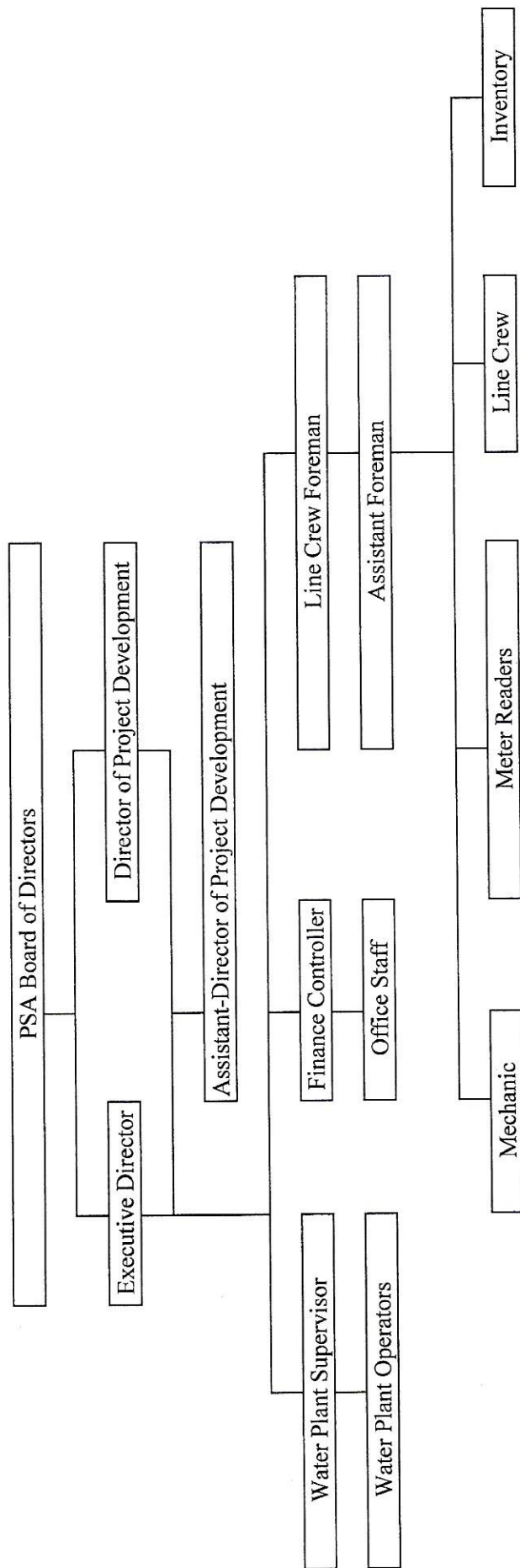
The Wise County Public Service Authority is facing the challenge of needing to upgrade its water system and expand sewer service, while at the same time realizing reduced (or eliminated) coal severance funds, a more competitive grant climate, and a shrinking customer base. These challenges will require innovative thought to meet and may require deferral of certain projects due to the pressing needs of others. An economic turnaround may help with customer numbers but we must be conservative with our planning to ensure the economic viability of the Authority. To that end, we will continue to work with our engineering firms on efforts like the Master Plan to properly prioritize projects, and with funding agencies to obtain the best offers possible. We will also continue to pursue fiscal policies that support our efforts, particularly in the area of designation of reserve funds.

Sincerely,

A handwritten signature in black ink, appearing to read 'L. Alan Harrison', written over the word 'Sincerely,'.

L. Alan Harrison, P.E.
Executive Director

**WISE COUNTY PUBLIC SERVICE AUTHORITY
ORGANIZATIONAL CHART**



WISE COUNTY PUBLIC SERVICE AUTHORITY

BOARD MEMBERS

Ralph Gilley, Chairperson
Fred Luntsford, Vice-Chairperson
J.H. Rivers, Treasurer

Bob Adkins
Hibert Tackett
Worley Smith

Ruthie Rainey
Dana Kilgore

Executive Director
Finance Controller

Alan Harrison
Bella Phipps

FINANCIAL SECTION

LARRY D. STURGILL, P. C.

LARRY D. STURGILL

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

CERTIFIED PUBLIC ACCOUNTANT
P. O. BOX 2080 WISE, VIRGINIA 24293-2080
TELEPHONE (276) 328-9593 FAX (276) 328-2131
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MEMBER
TENNESSEE & VIRGINIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Honorable Members of the Board
Wise County Public Service Authority
Wise, Virginia 24293

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Wise County Public Service Authority (a component unit of the County of Wise, Virginia), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the 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 and 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 of 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, each major fund, and the aggregate remaining fund information of the Wise County Public Service Authority, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12-15 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. The Schedule of Changes in Net Pension Liability and Related Ratios on page 44 is also required to be presented to supplement the basic financial statements. 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.

The Honorable Members of the Board
Wise County Public Service Authority
Wise, Virginia 24293
Page 3

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Wise County Public Service Authority's basic financial statements. The accompanying 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 not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2017, on our consideration of the Wise County Public Service Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Wise County Public Service Authority's internal control over financial reporting and compliance.



Larry D. Sturgill, P.C.
Wise, Virginia
September 29, 2017



WISE COUNTY PUBLIC SERVICE AUTHORITY

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Management's Discussion and Analysis

As management of the Wise County Public Service Authority, we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2017. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Authority's financial statements, which follow this narrative.

Financial Highlights

- The assets and deferred outflows of resources of the Authority exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$42,638,897 (*net position*). Approximately 97 percent of this amount is either restricted or non-spendable.
- The government's total net position increased by \$3,712,803, primarily due to increases to capital contributions for major water and sewer projects.
- The Authority's total debt increased by \$768,704 (12%) during the current fiscal year. The key factor in this increase was due to seven new project loans for water and sewer projects, as well as entering leases for automobiles.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements consist of the following components: 1) Statement of Net Position, 2) Statement of Revenues, Expenses, and Changes in Net Position, 3) Statement of Cash Flows, and 4) Notes to the financial statements. In addition to the basic financial statements, this report contains other required supplementary information that will enhance the reader's understanding of the financial condition of the Wise County Public Service Authority.

Basic Financial Statements

The Authority's basic financial statements are designed to provide the reader with a broad overview of the Authority's finances, similar in format to a financial statement of a private-sector business. The statements provide short and long-term information about the Authority's financial status as a whole. The statements are designed to display the financial position of the Authority's business-type activities that reflect charges to customers for the water and sewer services offered by the Authority.

Both the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report the Authority's net position and how it has changed. Net position is the difference between the Authority's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the Authority's financial condition. These statements can be seen on pages 16 and 17 of this report.

For the purpose of the Statement of Cash Flows, cash and cash equivalents are defined as short-term highly liquid investments that are readily convertible to known amounts of cash and investments with maturities of 90 days or less. The Statement of Cash Flows is presented on pages 18 and 19 of this report.

The Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements begin on page 20 of this report.

In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Authority's progress in funding its obligation to provide retirement benefits to its employees.

Financial Analysis

Wise County Public Service Authority's Net Position

	<u>2017</u>	<u>2016</u>
Current Assets	\$ 1,711,548	\$ 1,440,760
Cash and cash equivalent, restricted	1,701,899	1,327,351
Net Pension Assets	136,025	161,930
Capital Assets, net	<u>46,875,047</u>	<u>43,218,639</u>
Total Assets	<u>50,424,519</u>	<u>46,148,680</u>
Deferred Outflows-Pension Plan	121,453	77,368
Current Liabilities	1,100,736	2,673,717
Noncurrent Liabilities	<u>6,686,428</u>	<u>4,506,370</u>
Total Liabilities	<u>7,787,164</u>	<u>7,180,087</u>
Deferred Inflows-Pension Plan	119,911	119,866
Net investment in capital assets	39,922,064	37,034,360
Restricted for capital improvements	1,701,899	1,327,351
Unrestricted	<u>1,014,934</u>	<u>564,383</u>
Total Net Position	<u>\$ 42,638,897</u>	<u>\$ 38,926,094</u>

As noted earlier, net position may serve over time as one useful indicator of financial condition. The assets and deferred outflows of the Authority exceeded liabilities and deferred inflows by \$42,638,897 as of June 30, 2017. The Authority's net position increased by \$3,712,803 from the fiscal year ended June 30, 2016. However, the largest portion of the Authority's net position (93%) reflects its investment in capital assets (e.g. land, buildings, equipment, infrastructure), less any related debt used to acquire those assets. The Authority used these capital assets to provide water and sewer services to citizens, and consequently, these assets are not available for future spending. Although the Authority's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Authority's net position, \$1,701,899, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,014,934 is unrestricted.

Wise County Public Service Authority's Changes in Net Position

	2017	2016
Operating Revenues	\$ 2,982,019	\$ 2,849,090
Operating Expenses	(2,748,884)	(2,675,458)
Depreciation	<u>(1,230,484)</u>	<u>(1,195,996)</u>
Operating Income (Loss)	(997,349)	(1,022,364)
Non-Operating Revenue (Expenses)	<u>176,947</u>	<u>(80,792)</u>
Net Income (Loss) Before Capital Contributions	(820,402)	(1,103,156)
Capital Contributions	4,533,206	685,626
Bond Defeasance Costs	<u>(0)</u>	<u>(0)</u>
Change in Net Position	(3,712,803)	(417,531)
Net Position, Beginning	<u>38,926,094</u>	<u>39,343,625</u>
Net Position, Ending	<u>\$ 42,638,897</u>	<u>\$ 38,926,094</u>

The Authority recognized a positive change in net position of \$3,712,803. Total contributions amounted to \$4,533,206 for water line and sewer line construction, primarily from federal, coal road, state, and other miscellaneous funding sources.

Capital and Debt Administration

Capital assets. The Authority's investment in capital assets for its business-type activities as of June 30, 2017, totals \$39,922,064 (net of accumulated depreciation). These assets include buildings, land, infrastructure, and equipment.

Major capital asset transactions during the year included \$4,773,925 in additional water and sewer system construction.

Capital Assets (Net of Accumulated Depreciation & Amortization)

Land	\$ 202,881
Plant/Building	728,437
Utility Plant and Lines	
-Water Plant/Lines	28,680,089
-Sewer Plant/Lines	<u>12,647,277</u>
Total Utility Plant & Lines	41,327,366
Equipment	
-Water Equipment	271,065
-Sewer Equipment	<u>111,285</u>
Total Equipment	382,350
Construction in Progress	<u>4,234,013</u>
Total Net Capital Assets	<u>\$ 46,875,047</u>

Additional information on the Authority's capital assets can be found in Note 5 of the Basic Financial Statements.

Long-Term Debt. As of June 30, 2017, the Authority had total bonds indebtedness of \$6,604,462, representing bonds secured solely by specified revenue sources (e.g. revenue bonds). This was a decrease of \$2,152,793 from the prior year amount of \$4,451,669. The key factor in this increase was

from the Authority entering seven new loans during the fiscal year. Additional information related to outstanding debt is located in Note 6 of the Basic Financial Statements.

Economic Factors and Rates

The following key economic indicators affect the potential growth and prosperity of the Authority:

- **Decline in the Coal industry.** The fluctuations in the coal industry have a direct impact on the economy of Wise County and the surrounding regions. The decline in mining facilities not only affects the amount of coal road severance funding that is received by the Authority, but also the loss of jobs decreases the ability of customers to pay their utility bills. The coal road funding decreased from \$144,420 in 2016 to \$106,537 in 2017, a difference of \$37,883.
- **High Unemployment.** The June 2017 unemployment rate for the local area was 7.3% percent, which is a decrease from a rate of 8.3% percent a year ago. This is higher than the state's average unemployment rate of 3.7% percent by 3.6 percent and higher than the national average rate of 4.4% by 2.9 percent.
- **Water Rates.** The water rates for the Authority that are charged on a monthly basis for residential/commercial, and industrial customers for 2017 are \$19.00 and \$28.00 for the 1st 1500 gallons, respectively; then \$13.00 and \$8.00 for every 1000 gallons thereafter, respectively.
- **Sewer Rates.** The sewer rates for the Authority that are charged on a monthly basis for 2017 are \$27.25 for the 1st 1500 gallons, then \$13.00 for every 1000 gallons thereafter. The flat rate for unmetered customers due to well water is \$44.00 per month.

Requests for Information

This report is designed to provide an overview of the Authority's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be addressed to the Director, Wise County Public Service Authority, Post Office Box 3388, Wise, VA 24293.

BASIC FINANCIAL STATEMENTS

WISE COUNTY PUBLIC SERVICE AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2017

EXHIBIT 1
PAGE 1

ASSETS	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents	\$ 623,226	\$ 105,857	\$ 729,083
Restricted cash and cash equivalents	433,513	8,067	441,580
Interest receivable	1,965	345	2,310
Due from other funds	19,051	(19,051)	-
Due from other governmental units	33,320	43,499	76,819
Due from others	38,203	3,000	41,203
Accounts receivable-net	347,826	72,727	420,553
Total current assets	<u>1,497,104</u>	<u>214,444</u>	<u>1,711,548</u>
Noncurrent assets:			
Restricted cash and cash equivalents	1,379,963	321,936	1,701,899
Net Pension Assets	117,376	18,649	136,025
Capital assets:			
Land and construction in progress	643,173	3,793,722	4,436,895
Other capital assets, net of depreciation	29,679,590	12,758,562	42,438,152
Total capital assets	<u>30,322,763</u>	<u>16,552,284</u>	<u>46,875,047</u>
Total noncurrent assets	<u>31,820,102</u>	<u>16,892,869</u>	<u>48,712,971</u>
Total assets	<u>33,317,206</u>	<u>17,107,313</u>	<u>50,424,519</u>
DEFERRED OUTFLOWS			
Pension Plan	104,450	17,003	121,453
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	101,986	189,000	290,986
Accrued wages payable and taxes	19,854	3,137	22,991
Compensated absences	39,611	6,449	46,060
Accrued interest payable	17,521	3,872	21,393
Customer deposits payable	406,035	4,200	410,235
Lease and contractual liabilities	19,601	16,625	36,226
Bonds and notes payable	208,234	64,611	272,845
Total current liabilities	<u>812,842</u>	<u>287,894</u>	<u>1,100,736</u>
Noncurrent liabilities:			
Compensated absences	36,564	5,952	42,516
Lease and contractual liabilities	71,239	241,056	312,295
Bonds and notes payable	4,725,459	1,606,158	6,331,617
Total noncurrent liabilities	<u>4,833,262</u>	<u>1,853,166</u>	<u>6,686,428</u>
Total liabilities	<u>5,646,104</u>	<u>2,141,060</u>	<u>7,787,164</u>
DEFERRED INFLOWS			
Pension Plan	103,123	16,788	119,911
NET POSITION			
Net investment in capital assets	25,298,230	14,623,834	39,922,064
Restricted for:			
Coal road funds	1,252,660	321,936	1,574,596
Dominion replacement funds	127,303	-	127,303
Unrestricted	994,236	20,698	1,014,934
Total net position	<u>\$ 27,672,429</u>	<u>\$ 14,966,468</u>	<u>\$ 42,638,897</u>

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

WISE COUNTY PUBLIC SERVICE AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017

EXHIBIT 2

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
OPERATING REVENUES:			
Charges for Services	\$ 2,391,953	\$ 443,327	\$ 2,835,280
Other operating revenues	132,551	14,188	146,739
Total operating revenues	2,524,504	457,515	2,982,019
OPERATING EXPENSES:			
Operation and maintenance	1,528,838	375,718	1,904,556
Administration and general	703,387	138,830	842,217
Other operating expenses	2,013	98	2,111
Total operating expenses	2,234,238	514,646	2,748,884
DEPRECIATION AND AMORTIZATION	937,619	292,865	1,230,484
OPERATING INCOME (LOSS)	(647,353)	(349,996)	(997,349)
NON-OPERATING REVENUE (EXPENSES):			
Interest income	6,172	1,153	7,325
Interest expense	(90,693)	(13,350)	(104,043)
Settlement income	212,784	40,530	253,314
Gain/(loss) on asset disposal	20,351	-	20,351
Total non-operating revenue (expenses)	148,614	28,333	176,947
NET INCOME (LOSS)-			
BEFORE CONTRIBUTIONS & TRANSFERS	(498,740)	(321,663)	(820,402)
CAPITAL CONTRIBUTIONS			
Federal grants	1,368,967	2,037,442	3,406,409
County of Wise, Virginia	89,491	17,046	106,537
Other - Dominion	161,364	-	161,364
Other state agencies	164,927	442,001	606,928
Other agencies	15,000	236,968	251,968
Contributions Expense	-	-	-
Total capital contributions	1,799,749	2,733,457	4,533,206
TRANSFERS	(130,000)	130,000	-
CHANGE IN NET POSITION	1,171,009	2,541,794	3,712,803
NET POSITION- Beginning of year	26,501,420	12,424,674	38,926,094
NET POSITION- End of year	\$ 27,672,429	\$ 14,966,468	\$ 42,638,897

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

WISE COUNTY PUBLIC SERVICE AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

EXHIBIT 3
PAGE 1

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	2,393,094	426,122	\$ 2,819,216
Cash payments to suppliers for goods & services	(1,190,811)	(165,822)	(1,356,633)
Cash payments to employees for services	(1,347,520)	(254,755)	(1,602,275)
Other operating revenues	132,551	14,188	146,739
Net cash provided by (used in) operating activities	(12,686)	19,733	7,047
CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES:			
In(De)crease in customer deposits	13,915	2,800	16,715
Cash provided from litigation	212,784	40,530	253,314
Net cash provided by (used in) non-capital financing activities	226,699	43,330	270,029
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
(Inc)/Dec in due from other governmental units	1,886	(43,499)	(41,613)
(Inc)/Dec in due from funds	(19,051)	19,051	-
(Inc)/Dec in due from others	(17,578)	16,841	(737)
Acquisition of capital assets	(1,702,016)	(3,184,877)	(4,886,893)
Proceeds from issuance of debt	1,904,631	580,167	2,484,798
Gain from Asset Disposal	20,351	-	20,351
Interfund Transfer	(130,000)	130,000	-
Principal paid on debt	(1,641,104)	(74,990)	(1,716,094)
Interest paid on revenue bonds & equipment contracts	(80,612)	(9,884)	(90,496)
Contributions and grants	1,799,749	2,733,457	4,533,206
Net cash provided by (used in) capital and related financing activities	136,256	166,266	302,522
CASH FLOW FROM INVESTING ACTIVITIES:			
Interest on Investments	6,953	1,255	8,208
Net cash provided by (used in) investing activities	6,953	1,255	8,208
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	357,222	230,584	587,806
CASH AND CASH EQUIVALENTS - Beginning of year	2,079,480	205,276	2,284,756
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 2,436,702</u>	<u>\$ 435,860</u>	<u>\$ 2,872,562</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:			
Transfer of capital assets	-	-	\$ -

(Continued)

WISE COUNTY PUBLIC SERVICE AUTHORITY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2017

EXHIBIT 3
PAGE 2

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating loss	\$ (647,353)	\$ (349,996)	\$ (997,349)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	937,619	292,865	1,230,484
Changes in asset, liabilities, & deferred resources (net):			
Provision for uncollectible accounts	381	(202)	179
Provision for compensated absences	10,783	1,756	12,539
(In)Decrease in accounts receivable	760	(17,003)	(16,243)
In(De)crease in accounts payable	(270,134)	99,231	(170,903)
In(De)crease in wages/taxes payable	(28,751)	(4,774)	(33,525)
In(De)crease in net pension liability	21,884	4,021	25,905
In(De)crease in pension deferrals	(37,875)	(6,165)	(44,040)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ (12,686)</u>	<u>\$ 19,733</u>	<u>\$ 7,047</u>

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

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation

The financial statements of the 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 Wise County Public Service Authority was established on September 09, 1969 pursuant to Title 15.1, Chapter 28, Sections 15.1 – 1239 to 15.1 – 1270 of the Code of Virginia (1950) and as amended. The Authority's purpose is to provide drinking water and wastewater utilities to the residents of Wise County.

The Authority is governed by an eight member Board appointed by The County of Wise, Virginia Board of Supervisors. The Board is responsible for appointing the Director and Director of Project Development. The Authority provides water and sewer services for its customers throughout Wise County and is continuing to expand its customer base for sewer services.

Legally, the Authority is a separate governmental entity that has considerable legal, financial, and administrative autonomy. However, as the governing board is not elected but is entirely appointed by the county, the Authority cannot be a primary government. Instead, it qualifies as a discretely presented component unit of Wise County, Virginia (the primary government).

Basis of Accounting

The Authority recovers the costs of providing services, including capital costs, through user charges. Accordingly, the Authority uses enterprise funds and the accrual basis of accounting. Consequently, revenues are recognized when earned and expenses are recorded as incurred. The Authority defines operating revenues and expenses as those directly related to providing water and/or sewer services. Operating revenues consist of charges to Authority users. Operating expenses include personnel, materials and supplies, services purchased from other local jurisdictions, and depreciation and amortization of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses; these include, bond issue costs, gain (loss) on disposal of capital assets, and interest on outstanding debt.

Use of Estimates

The preparation of financial statements in conformity with U.S. 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.

Tax Status

The Authority, as part of a local government, is not subject to federal, state, or local income taxes, and accordingly, no provision for income taxes is made.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Service Charges

The major sources of revenue for the Authority are sales to existing customers for continuing water and sewer services. Customers are charged for service based on metered water usage in addition to a base charge. Water and sewer charges are designed to recover the costs of operation and maintenance of the system, as well as debt service and capital project costs attributable to supporting or improving water and wastewater treatment services to the Authority's customers. Water and sewer service charges are recorded as operating revenue.

Unbilled Service Charges

An estimated amount has been recorded for services rendered but not yet billed as of the close of the fiscal year. This estimated receivable is calculated by prorating water consumption and billings for certain prior months.

Investments

The Authority currently has no investments. Certificate of deposits and short-term repurchase agreements are reported in the accompanying financial statements as cash and cash equivalents.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Authority considers cash and cash equivalents (including restricted cash and cash equivalents) to be currency on hand, demand deposits with banks and liquid investments with a maturity of 90 days or less. Cash and cash equivalents are included in both unrestricted as well as restricted assets.

All cash of the Wise County Public Service 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.

Capital Assets

Capital assets that individually cost \$5,000 or more with a useful life of more than one year are capitalized and recorded at cost. Contributed capital assets are recorded at their estimated acquisition value on the date of donation. Capital assets are depreciated/amortized over their estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Water/Sewer System Infrastructure	50 Years
Buildings & Improvements	30 Years
Equipment	3-25 Years
Automobiles	5 Years

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Capital Assets (continued)

For constructed assets, all costs necessary to bring such assets to the condition and location necessary for the intended use, including interest on related debt, are initially treated as construction in progress and subsequently as buildings, equipment, or utility plant and lines once the assets are substantially complete. Depreciation and amortization on constructed assets begin when the assets are substantially ready for their intended use.

Compensated Absences

In accordance with NCGA Statement 4 "Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences", the Authority has accrued the liability arising from outstanding claims and judgments and compensated absences. The Wise County Public Service Authority employees earn vacation and sick leave at various rates. No pay is received for unused sick leave upon termination; however, total benefits are paid in the event of employee death. Vacation is earned on a calendar year and no employee is permitted to accumulate more than a total of six weeks of vacation time during their employment. All vacation time not taken prior to December 31st of the calendar year in which the vacation time was earned, with the exception of the carryover vacation time, shall be forfeited. At June 30, 2017, the Authority accrued \$88,576 for such compensated absences.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. In addition to liabilities, the statement of financial position can also 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 and so will not be recognized as revenue until then. .

Net Position

Net position is classified as net investment in capital assets, restricted, and unrestricted. Restricted net position represents constraints on resources that are either a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through State statute.

When an expense is incurred for purposes for which both restricted and unrestricted resources are available, the Authority uses restricted resources first, then unrestricted assets when needed.

WISE COUNTY PUBLIC SERVICE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

2. CASH AND INVESTMENTS

Cash and cash equivalents for the Wise County Public Service Authority, including restricted and unrestricted balances, were comprised of the following at June 30, 2017:

	<u>Amount</u>
Cash	\$ 1,607,885
Cash Equivalents	<u>1,264,677</u>
Total Cash and Equivalents	<u>\$ 2,872,562</u>

3. RESTRICTED ASSETS

Customer deposits are restricted and refunded to customers upon termination of their respective water hookup. The Authority maintains various other restricted cash accounts, including the following: a Dominion replacement account, which is restricted to future replacement of equipment needed for the Dominion raw waterline system; a Capital Improvement account that is used for the purchase of capital and for construction projects and consists of local coal and gas road funds; and a certificate of deposit being held as a reserve which is also funded from local coal and gas road funds.

The Authority receives a portion of *Local coal and gas road improvement and Virginia Coalfield Economic Development Authority tax* as per Section 58.1-3713 of the Code of Virginia. This allocation of the Coal and Gas Road Improvement Fund may be used to fund the construction of new water and/or sewer systems and lines.

Total restricted cash held by the Wise County Public Service Authority at June 30, 2017 is as follows:

	<u>Amount</u>	<u>Total</u>
Coal Road Improvement Funds:		
Capital Improvement Fund	\$ 574,555	
MEB CD # 14434	<u>1,000,041</u>	
Total Coal Road Funds		1,574,596
Customer Deposit Account	410,235	
Dominion Replacement Funds	<u>127,303</u>	
Total Other Funds		<u>537,538</u>
Total Restricted Cash		<u>\$ 2,112,134</u>

4. ACCOUNTS RECEIVABLE

Customers are charged for water based on metered water usage. The majority of sewer customers are also charged based on their metered water usage, however, the non-public sewer customers are charged a flat rate monthly fee. An estimated amount has been recorded for services rendered but not yet billed as of the close of the fiscal year. This unbilled receivable is calculated from the meter usage from the last reading date in early June through the end of the month. Accounts receivable for water and collection fees amount to the following:

	<u>Amount</u>
Accounts Receivable	\$ 422,480
Unbilled Water/Sewer Service	158,384
Less: Allowance for Doubtful Accounts	<u>(160,132)</u>
Net Accounts Receivable	<u>\$ 420,553</u>

WISE COUNTY PUBLIC SERVICE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 is as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Water Fund				
Capital assets, non-depreciable:				
Land	\$ 202,881	\$ -	\$ -	\$ 202,881
Construction in Progress	2,265,655	1,571,165	3,396,529	440,291
Capital assets, depreciable/amortizable:				
Plant Building	949,281	-	-	949,281
Utility Plant	38,365,053	3,414,412	-	41,779,465
Equipment	581,465	9,759	-	591,224
Automobiles	421,911	103,208	122,959	402,160
Office Furniture/Equipment	135,877	-	-	135,877
Total capital assets	42,922,123	5,098,544	3,519,488	44,501,179
Accumulated depreciation/amortization for:				
Plant Building	(178,895)	(41,949)	-	(220,844)
Utility Plant	(12,274,957)	(824,419)	-	(13,099,376)
Equipment	(434,444)	(29,324)	-	(463,768)
Automobiles	(373,001)	(34,515)	(122,959)	(284,557)
Office Furniture/Equipment	(102,459)	(7,412)	-	(109,871)
Total accumulated depreciation/amortization	(13,363,756)	(937,619)	(122,959)	(14,178,416)
Total capital assets, net	\$ 29,558,367	\$ 4,160,925	\$ 3,396,529	\$ 30,322,763
Sewer Fund				
Capital assets, non-depreciable:				
Construction in Progress	\$ 608,845	\$ 3,184,877	\$ -	\$ 3,793,722
Capital assets, depreciable/amortizable:				
Utility Plant	13,629,220	-	-	13,629,220
Equipment	147,224	-	-	147,224
Automobiles	48,750	-	-	48,750
Total capital assets	14,434,039	3,184,877	-	17,618,916
Accumulated depreciation/amortization for:				
Utility Plant	(708,643)	(273,300)	-	(981,943)
Equipment	(33,436)	(9,815)	-	(43,251)
Automobiles	(31,688)	(9,750)	-	(41,438)
Total accumulated depreciation/amortization	(773,767)	(292,865)	-	(1,066,632)
Total capital assets, net	\$ 13,660,272	\$ 2,892,012	\$ -	\$ 16,552,284
TOTAL ALL FUNDS	\$ 43,218,639	\$ 7,052,937	\$ 3,396,528	\$ 46,875,047

WISE COUNTY PUBLIC SERVICE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

6. BONDS AND NOTES OUTSTANDING

The following is a summary of changes in the Authority's long-term obligations for the fiscal year ended June 30, 2017:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017	Due Within One Year
Revenue Bonds-Water systems					
Series 2001, VRA	\$ 54,786	\$ -	\$ 3,535	\$ 51,251	\$ 3,535
Series 2001, VRA	186,517	-	12,034	174,483	12,034
Series 2004, VRA	330,615	-	18,367	312,248	18,368
Series 2004, VRA	612,752	-	42,614	570,138	43,041
Series 2006, VRA	270,665	-	13,533	257,132	13,533
Series 2007, VRA	63,869	-	2,970	60,899	2,971
Series 2008, VRA	131,250	-	5,833	125,417	5,833
Series 2009-A, BBT	1,336,843	-	70,902	1,265,941	74,567
Series 2010-A, VRA	150,340	-	6,136	144,204	6,136
Series 2010-C, VRA	165,066	-	6,877	158,189	6,878
Series 2016, RD	-	1,760,000	-	1,760,000	20,083
Series 2017, VRA	-	52,291	-	52,291	644
Series 2017, VRA	-	1,500	-	1,500	611
Total Bonds-Water Systems	3,302,703	1,813,791	182,801	4,933,693	208,234
Revenue Bonds-Sewer systems					
Series 2010 B, VRA	683,896	-	47,165	636,731	47,165
Series 2014, RD	465,071	-	11,200	453,871	9,714
Series 2016, VRA	-	232,598	-	232,598	5,749
Series 2016, RD	-	276,000	-	276,000	-
Series 2017, VRA	-	22,569	-	22,569	1,983
Series 2017, RD	-	49,000	-	49,000	-
Total Bonds-Sewer Systems	1,148,967	580,167	58,365	1,670,769	64,611

Details of Bonds & Notes Outstanding

\$106,131 Mill Creek Water Project. Water and Sewer Revenue Bond, Series 2001, Virginia Resources Authority issued April 25, 2002, due in semi-annually installments of \$1,767 through September 01, 2031, interest payable at 0%. \$51,251

\$361,000 Bean Gap Water Project. Water and Sewer Revenue Bond, Series 2001, Virginia Resources Authority issued July 10, 2001, due in semi-annually installments of \$6,017 through January 01, 2032, interest payable at 0%. 174,483

WISE COUNTY PUBLIC SERVICE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

6. BONDS AND NOTES OUTSTANDING (continued)

\$551,025 Bull Run Water Project. Water and Sewer Revenue Bond, Series 2001, Virginia Resources Authority issued January 22, 2004, due in semi-annually installments of \$9,184 through May 01, 2034, interest payable at 0%.	312,248
\$1,054,490 South Fork Water Project. Water and Sewer Revenue Bond, Virginia Resources Authority issued February 27, 2004, due in annual installments ending on December 1, 2029, interest payable semi-annually at 1.00%.	570,138
\$417,379 North Fork Water Project. Water and Sewer Revenue Bond, Virginia Resources Authority issued June 30, 2006, due in semi-annual installments of \$6,767 through July 1, 2036, interest payable at 0%.	257,132
\$89,337 Banner/Sandy Ridge Interconnect. Water and Sewer Revenue Bond, Virginia Resources Authority issued June 15, 2007, due in semi-annual installments of \$1,485 through August 1, 2037, interest payable at 0%.	60,899
\$175,000 Dunbar Water Project. Water and Sewer Revenue Bond, Virginia Resources Authority issued August 29, 2008, due in semi-annual installments of \$2,917 through September 1, 2038, interest payable at 0%.	125,417
\$1,720,000 Dominion Project. Water Revenue Bond, BB&T Bank issued, 12/15/2009, due in monthly installments beginning on January 15, 2010 and ending on 12/15/2029, interest payable monthly at the nominal annual rate of 5.05%.	1,265,941
\$184,090 Disinfection By-Product Abatement. ARRA, Virginia Resources Authority issued February 16, 2010, due in semi-annual installments of \$3,068 ending on October 1, 2040, interest payable at 0%.	144,204
\$206,333 Lower Birchfield/Rt. 72. Water and Sewer Revenue Bond, Virginia Resources Authority issued June 17, 2010, due in semi-annual installments of \$3,439 through June 1, 2040, interest payable at 0%.	158,189
\$943,655 Stephens/Guest River Sewer. Water and Sewer Revenue Bond, Virginia Resources Authority issued 06/04/2010, due in semi-annual \$23,758 through December 1, 2030, interest payable at 0%.	636,731
\$549,000 Stephens Extension Project. Sewer Revenue Bond, Rural Utilities Service (Rural Development) issued June 19, 2014, interest 2.125%. The payments due the first 24 months will consist of interest only And will be paid annually on the first and second anniversaries of the bond. Payments for the remaining 38 years will be due in equal amortized monthly installments.	453,871
\$1,760,000 Banner/Bull Run/Emergency Generators. Water Revenue Bond, Series 2016, Rural Utilities Service (Rural Development) issued November 22, 2016, due in monthly installments of \$4,876 ending on October 22, 2056, interest payable at 1.375%.	1,760,000

WISE COUNTY PUBLIC SERVICE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

6. BONDS AND NOTES OUTSTANDING (continued)

\$54,929 Hix Orchard. Water and Sewer Revenue Bond, Series 2017, Virginia Resource Authority issued February 23, 2017, due in semi-annual installments of \$1,441.52 ending on July 1, 2014, interest payable at 2.75%.	52,291
\$55,000 Carriage Hill Phase 2. Water Revenue Bond, Virginia Resource Authority issued June 1, 2017, due in semi-annual installments of \$1,366.96 ending on December 1, 2047, interest payable at 0%.	1,500
\$344,964 Roda/Osaka/Stonega Phase 1. Water and Sewer Revenue Bond, Series 2016, Virginia Resource Authority issued July 28, 2016, due in semi-annual installments of \$5,749.40 ending on August 1, 2047, interest payable at 0%.	232,598
\$276,000 Roda/Osaka. Sewer Revenue Bond, Series 2016, Rural Utilities Service (Rural Development) issued July 19, 2016, due in monthly installments of \$815.00 ending on June 19, 2056, interest payable at 1.625%.	276,000
\$118,966 Stonega Sewer. Water and Sewer Revenue Bond, Series 2017, Virginia Resource Authority issued March 30, 2017, due in semi-annual installments of \$1,982.95 ending on March 1, 2047, interest payable at 0%.	22,569
\$49,000 Stonega Sewer. Sewer Revenue Bond, Series 2017, Rural Utilities Service (Rural Development) issued March 23, 2017, due in monthly installments of \$154.00 ending on March 23, 2057, interest payable at 2.0%.	<u>49,000</u>
TOTAL BONDS & NOTES INDEBTEDNESS	<u>\$ 6,604,462</u>

WISE COUNTY PUBLIC SERVICE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

6. BONDS AND NOTES OUTSTANDING (continued)

Annual requirements to amortize long-term debt and related interest are as follows:

PERIOD ENDED JUNE 30,	LONG-TERM BONDS & NOTES		
	PRINCIPAL	INTEREST	TOTAL
2018	272,845	100,250	373,095
2019	305,848	105,772	411,620
2020	311,369	100,076	411,445
2021	316,922	94,523	411,445
2022	322,713	88,732	411,445
2023-2027	1,694,550	347,568	2,042,118
2028-2032	1,312,923	182,394	1,495,317
2033-2037	594,717	133,271	727,988
2038-2042	426,251	105,001	531,252
2043-2047	390,597	74,036	464,633
2048-2052	369,282	39,044	408,326
2053-2057	286,445	8,849	295,294
TOTALS	\$ 6,604,462	\$ 1,379,516	7,983,978

7. LEASE LIABILITY

Wise County Public Service Authority has financed the acquisition of automobiles by entering into lease agreements. Per GASB 87, the rights to use the automobiles are being recognized as intangible assets. The balance of these intangible assets, net of amortization, the future minimum lease payments, and the present value of the minimum lease payments as of June 30, 2017 are as follows:

	Total
Intangible assets, at cost	\$ 103,208
Accumulated amortization	(13,488)
Total intangible assets, net	<u>\$ 89,720</u>
	Future Minimum
<u>Fiscal year</u>	<u>Lease Payments</u>
2018	\$ 25,923
2019	25,923
2020	25,923
2021	22,135
2022	<u>7,169</u>
Total minimum lease payments	107,073
Less: Portion representing interest	<u>(16,232)</u>
Present value of minimum lease payments	<u>\$ 90,841</u>

8. CONTRACTUAL LIABILITY

The Town of Appalachia transferred ownership of four different sewer systems to the Wise County PSA in 2013, one of which, the Upper Exeter Sewer System, has an assigned loan through the Virginia Resources Authority (VRA) for the construction of the project. The agreement between the Town of Appalachia and the Authority states that all loans obtained through the Virginia Department of Environmental Quality for the Upper Exeter sewer project will be assigned to the Authority. The PSA is responsible for \$332,492 of the VRA financed loan, payable in semi-annual installments of \$8,312 at 0% interest, with a maturity date of August 1, 2032.

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017	Due Within One Year
Contractual Liability-					
VRA Loan #C-515446G-02	\$ 274,305	\$ -	\$ 16,624	\$ 257,681	\$ 16,625
Total	\$ 274,305	\$ -	\$ 16,624	\$ 257,681	\$ 16,625

9. CLAIMS AND JUDGMENTS

In regard to litigation involving the Wise County Public Service Authority at June 30, 2017, the Authority's legal counsel informed us that there are no unasserted claims or assessments against the Authority.

The Authority entered into a Settlement Agreement along with the Commonwealth of Virginia and multiple other states and localities based on pipe purchases and other information, receiving \$253,314 for its share of the settlement.

10. INTEREST PAID

Cash paid interest expense relating to debt for the period ending June 30, 2017 amounted to \$90,496.

11. CAPITAL CONTRIBUTIONS

Contributions received from organizations or other governmental units which are used to defray a part of all of the cost of installing a portion of the utility plant are credited investments in capital assets. Contributions from governmental entities and others were received in the form of cash, property, sanitary sewer lines, pumping stations, manholes, and equipment. These amounts are reflected as income on the accompanying Statement of Revenues, Expenses, and Changes in Net Position.

The Board of Directors approved Amendment 1 to the Original Water Option Purchase Agreement with Virginia Electric and Power Company (Dominion Power Plant) in the 2012 fiscal year. This agreement requires the power plant to make monthly payments to reimburse the Wise County PSA for the debt payments, small fixed and variable operational costs, and equipment replacement reserve. Dominion Power Plant Income for the period ending June 30, 2017 was \$165,960 and is also reflected as income on the accompanying Statement of Revenues, Expenses, and Changes in Net Position.

12. PENSION PLAN

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 Wise County Public Service Authority's (Authority) Retirement Plan and the additions to/deductions from the Authority'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.

Plan Description – All full-time, salaried permanent employees of the Authority are automatically covered by VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer are paying 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 a 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>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.</p>	<p>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.</p>	<p>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")</p> <ul style="list-style-type: none"> The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a

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		<p>formula.</p> <ul style="list-style-type: none"> • 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.
<p>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</p> <p>Hybrid Opt-In Election</p> <p>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>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.</p> <p>Hybrid Opt-In Election</p> <p>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>Eligible Members 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"> • Wise County Public Service Authority 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. <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees

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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.	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.	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.
Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. The Authority 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	Creditable Service Same as Plan 1	Creditable Service <u>Defined Benefit Component:</u> 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

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<p>insurance credit.</p>		<p>toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>
<p>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.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting Same as Plan 1</p>	<p>Vesting <u>Defined Benefit Component:</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>Defined Contributions Component:</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> <p>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"> • After two years, a member is 50% vested and may

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		<p>withdraw 50% of employer contributions.</p> <ul style="list-style-type: none"> • 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. <p>Distribution is not required by law until age 70½.</p>
<p>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.</p> <p>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>Calculating the Benefit See definition under Plan 1</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1</p> <p><u>Defined Contribution Component:</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>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p>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%</p>	<p>Service Retirement Multiplier VRS: The 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>Service Retirement Multiplier <u>Defined Benefit Component:</u> VRS: 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</p>

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<p>Sheriffs and regional jail superintendents: Not Applicable</p> <p>Political Subdivision hazardous duty employees: Not Applicable</p>	<p>Sheriffs and regional jail superintendents: Not Applicable</p> <p>Political Subdivision hazardous duty employees: Not Applicable</p>	<p>retirement benefit for service credited in those plans.</p> <p>Sheriffs and regional jail superintendents: Not Applicable</p> <p>Political Subdivision hazardous duty employees: Not Applicable</p>
<p>Normal Retirement Age VRS: Age 65</p> <p>Political subdivision hazardous duty employees: Age 60 (Not applicable)</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age.</p> <p>Political subdivisions hazardous duty employees: Not applicable</p>	<p>Normal Retirement Age <u>Defined Benefit Component:</u> VRS: Same as Plan 2.</p> <p>Political subdivisions hazardous duty employees: Not applicable</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>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.</p> <p>Political Subdivisions hazardous duty employees: Not Applicable</p>	<p>Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political Subdivisions hazardous duty employees: Not Applicable</p>	<p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</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>Political Subdivisions hazardous duty employees: Not Applicable</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least</p>	<p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Age Members may retire with a reduced benefit as early</p>

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<p>10 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: Not Applicable</p>	<p>Political subdivisions hazardous duty employees: Not Applicable</p>	<p>as age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Not Applicable</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>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%.</p> <p><u>Eligibility:</u> 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><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"> The member is within five years of qualifying for an unreduced retirement 	<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u>Eligibility:</u> Same as Plan 1</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2</p> <p><u>Defined Contribution Component:</u> Not applicable</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2</p>

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<p>benefit as of January 1, 2013.</p> <ul style="list-style-type: none"> • 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. 		
<p>Disability Coverage 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>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>Disability Coverage Employees of political subdivisions (Including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</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>

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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 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.	Purchase of Prior Service Same as Plan 1	Purchase of Prior Service Defined Benefit Component: Same as Plan 1, with the following exceptions: <ul style="list-style-type: none"> • 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
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Employees Covered by Benefit Terms – As of June 30, 2015 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	<u>2</u>
Inactive Members:	
Vested Inactive Members	2
Non-vested Inactive Members	2
Active Elsewhere in VRS	<u>2</u>
Total Inactive Members	6
Active Members	<u>23</u>
Total Covered Employees	<u>31</u>

Contributions – The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to the Authority 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.

12. PENSION PLAN (continued)

The Authority's contractually required contribution rate for the year ended June 30, 2017 was 4.88% of covered employee compensation. This rate was based on a actuarially determined rate from an actuarial valuation as of June 30, 2015. This rate, when combined with the 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 \$47,445 and \$53,965 for the years ended June 30, 2017 and June 30, 2016, respectively.

Net Pension Liability – The Authority's 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 Authority'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%
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation*

*Administrative expenses as a percent of market value of assets for the last experience study we 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.

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12. PENSION PLAN (continued)

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 Date	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%

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12. PENSION PLAN (continued)

*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 rate 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 Authority's 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	\$ 1,177,248	\$ 1,339,178	\$ (161,930)
Changes for the year:			
Service Cost	99,613		99,613
Interest	81,776		81,776
Differences between expected and actual experience	(31,760)		(31,760)
Contributions – Employer		53,506	(53,506)
Contributions – Employee		45,043	(45,043)
Net Investment Income		25,962	(25,962)
Benefit payments, including refunds of employee contributions	(18,040)	(18,040)	0
Administrative Expenses		(776)	776
Other Changes	0	(11)	11
Net Changes	131,589	105,684	25,905
Balances at June 30, 2016	\$ 1,308,837	\$ 1,444,862	\$ (136,025)

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12. PENSION PLAN (continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the Authority 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.

	<u>1% Decrease (6.00%)</u>	<u>Current Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Wise County Public Service Authority's Net Pension Liability	\$ 100,736	\$ (136,025)	\$ (328,079)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – For the year ended June 30, 2017, the Authority recognized pension expense of \$28,851. At June 30, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 0	\$ 84,720
Changes in assumptions	0	0
Net differences between projected and actual earnings on plan investments	38,817	0
Employer contributions subsequent to the measurement date	<u>47,445</u>	<u>0</u>
Total	<u>\$ 86,262</u>	<u>\$ 84,720</u>

\$47,445 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 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 as follows:

<u>Year Ended June 30:</u>	<u>Amount</u>
2018	\$ (11,750)
2019	(11,749)
2020	5,845
2021	(5)
2022	(14,119)
Thereafter	(14,125)

12. **PENSION PLAN (continued)**

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans 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, VA, 23218-2500.

Payables to the Pension Plan

As of June 30, 2017, the Authority reported a payable of \$7,941 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

13. **OTHER INFORMATION**

Accounting Change

The Authority implemented *GASB Statement No. 87 Leases* during the fiscal year ended June 30, 2017. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019; however, earlier application is/was encouraged.

WISE COUNTY PUBLIC SERVICE AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
VIRGINIA RETIREMENT SYSTEM
RETIREMENT PLAN
JUNE 30, 2017

**Schedule of Changes in the Wise County Public Service Authority's
Net Pension Liability and Related Ratios**

	2016	2015	2014
Total pension liability			
Service cost	\$ 99,613	\$ 101,437	\$ 91,624
Interest	81,776	75,845	65,477
Changes of benefit terms	-	-	-
Differences between expected and actual experience	(31,760)	(76,900)	-
Changes in assumptions	-	-	-
Benefit Payments, including refunds of employee contributions	(18,040)	(13,280)	(4,688)
Net change in total pension liability	131,589	87,102	152,413
Total pension liability-beginning	1,177,248	1,090,146	937,733
Total pension liability-ending (a)	<u>\$ 1,308,837</u>	<u>\$ 1,177,248</u>	<u>\$ 1,090,146</u>
Plan fiduciary net position			
Contributions-employer	\$ 53,506	\$ 50,849	\$ 62,966
Contributions-employee	45,043	42,875	42,432
Net investment income	25,962	57,662	157,575
Benefit Payments, including refunds of employee contributions	(18,040)	(13,280)	(4,688)
Administrative expense	(776)	(696)	(754)
Other	(11)	(14)	8
Net change in plan fiduciary net position	105,684	137,396	257,539
Plan fiduciary net position-beginning	1,339,178	1,201,782	944,243
Plan fiduciary net position-ending (b)	<u>\$ 1,444,862</u>	<u>\$ 1,339,178</u>	<u>\$ 1,201,782</u>
Wise County Public Service Authority's			
Net pension liability-ending (a) - (b)	<u>\$ (136,025)</u>	<u>\$ (161,930)</u>	<u>\$ (111,636)</u>
Plan fiduciary net position as a percentage of the total			
Pension liability	110.4%	113.8%	110.2%
Covered payroll	\$ 910,027	\$ 857,486	\$ 1,025,323
Wise County Public Service Authority's net pension liability			
As a percentage of covered payroll	-14.9%	-18.9%	-10.9%

WISE COUNTY PUBLIC SERVICE AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
VIRGINIA RETIREMENT SYSTEM
RETIREMENT PLAN
JUNE 30, 2017

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 Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (5)
2017	47,445	47,445	0	972,239	4.88%
2016	53,965	53,965	0	910,027	5.93%
2015	50,849	50,849	0	1,040,652	4.8%
2014	62,966	62,966	0	1,025,323	6.1%
2013	59,422	59,422	0	803,004	7.4%
2012	43,768	43,768	0	740,578	5.91%
2011	41,118	41,118	0	695,742	5.91%
2010	34,929	34,929	0	717,225	4.87%
2009	33,923	33,923	0	696,572	4.87%
2008	43,933	43,933	0	723,775	6.07%

WISE COUNTY PUBLIC SERVICE AUTHORITY
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
VRS RETIREMENT PLAN
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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, 2016 are 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

COMPLIANCE SECTION

LARRY D. STURGILL, P. C.

LARRY D. STURGILL

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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

The Honorable Board Members of the
Wise County Public Service Authority
Wise, VA 24293

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and with 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, each major fund, and the aggregate remaining fund information of the Wise County Public Service Authority (a component unit of the County of Wise, Virginia) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 29, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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.

The Honorable Members of the Board
Wise County Public Service Authority
Wise, Virginia 24293
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Wise 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.



Larry D. Sturgill, P.C.
Wise, VA
September 29, 2017

LARRY D. STURGILL, P. C.

LARRY D. STURGILL

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

The Honorable Members of the Board
Wise County Public Service Authority
Wise, Virginia 24293

Report on Compliance for Each Major Federal Program

We have audited The Wise County Public Service Authority's (a component unit of the County of Wise, Virginia) 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 Authority's major federal program for the year ended June 30, 2017. The Wise County Public Service Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Wise 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; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and the Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Wise 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 Wise County Public Service Authority's compliance.

The Honorable Members of the Board
Wise County Public Service Authority
Wise, Virginia 24293
Page 2

Opinion on Each Major Federal Program

In our opinion, The Wise 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 its major federal program for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of The Wise 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 Wise 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 Wise 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.

This 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.



Larry D. Sturgill, P.C.
Wise, Virginia
September 29, 2017

WISE COUNTY PUBLIC SERVICE AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

FEDERAL GRANTING AGENCY/ RECIPIENT STATE AGENCY/ GRANT PROGRAM	FEDERAL CATALOG NUMBER	PROGRAM CLUSTERS	SUB-RECIPIENT PAYMENTS	FEDERAL EXPENDITURES
ENVIRONMENTAL PROTECTION AGENCY: Passed Through the Commonwealth of Virginia: Department of Health Capitalization Grant for Drinking Water State Revolving Fund	66,468	N/A	-	\$ 13,396
APPALACHIAN REGIONAL COMMISSION: Passed Through the Commonwealth of Virginia: <u>Department of Housing and Community Development</u> Appalachian Area Development	23,002	N/A	-	366,142
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT: Passed Through the Commonwealth of Virginia: Department of Housing and Community Development Community Development Block Grant (CDBG)	14,228	N/A	-	881,920
U.S. DEPARTMENT OF AGRICULTURE * Direct Payments: Water and Waste Disposal Systems for Rural Communities	10,760	N/A	-	<u>4,234,379</u>
Total expenditures of federal awards				<u>\$ 5,495,837</u>

*Major program

See accompanying notes to schedule of expenditures of federal awards.

See accompanying independent auditors' report.

WISE COUNTY PUBLIC SERVICE AUTHORITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards (the Schedule of SEFA) includes all federal grant activity of the Wise County Public Service Authority. The Wise County Public Service Authority's reporting entity is defined in Note 1 of the Wise County Public Service Authority's basic financial statements. All federal financial assistance that passed through other government agencies or not-for-profit organizations is included on the Schedule.

2. BASIS OF ACCOUNTING

The Schedule is presented in the accrual basis of accounting for the proprietary funds, as described in Note 1 to the Wise County Public Service Authority's basic financial statements. 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). Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. For the year ended June 30, 2017, the Wise County Public Service Authority participated in the following federal programs in which non-cash benefits were provided through the State to eligible participants

3. RELATIONSHIP TO THE FINANCIAL STATEMENTS

Federal expenditures are reported in the reporting entity financial statements as follows:

Revenue from the Federal government – financial statements	\$	3,406,408
Loan Proceeds from the Federal government – financial statements		2,089,429
Add (subtract) Federal Awards revenue recognized:		
In prior fiscal years, spent this fiscal year		-0-
In current fiscal years, but not spent		-0-
Expenditures of Federal awards	\$	<u>5,495,837</u>

4. SUB-RECIPIENT PAYMENTS

The Authority did not expend any funds to a subrecipient during the fiscal year ended June 30, 2017.

5. INDIRECT COST RATE

The Authority has not elected to use the 10% de minimus indirect cost rate discussed in UG Section 200.414.

WISE COUNTY PUBLIC SERVICE AUTHORITY
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2017

A. Summary of Auditor's Results

1. The type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles. **UNMODIFIED**
2. Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
 - Material weaknesses: **NO**
 - Significant deficiencies: **NONE REPORTED**
3. Noncompliance, which is material to the financial statements: **NO**
4. Internal control deficiencies over major programs disclosed by the audit:
 - Material weaknesses: **NO**
 - Significant deficiencies: **NONE REPORTED**
5. The type of report issued on compliance for major programs: **UNMODIFIED**
6. Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **NO**
7. Major programs:
 - U.S. Department of Agriculture: Water and Waste Disposal Systems for Rural Communities – CFDA No. 10.760
8. Dollar threshold to distinguish between Type A and B Programs: **\$750,000**
9. Auditee qualified as a low-risk auditee: **NO**

B. Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

NONE

C. Findings and Questioned Costs Relating to Federal Awards

NONE

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