



COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEARS ENDED JUNE 30, 2016 AND 2015

SERVING

CHARLOTTESVILLE & ALBEMARLE COUNTY, VIRGINIA

**RIVANNA WATER & SEWER AUTHORITY
CHARLOTTESVILLE, VIRGINIA**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEARS ENDED JUNE 30, 2016 AND 2015

Prepared By:

Department of Finance and Administration

RIVANNA WATER & SEWER AUTHORITY

Comprehensive Annual Financial Report
Fiscal Years Ended June 30, 2016 and 2015

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RIVANNA WATER & SEWER AUTHORITY

Comprehensive Annual Financial Report
Fiscal Years Ended June 30, 2016 and 2015

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BOARD MEMBERS

Michael A. Gaffney, Chairman

Maurice Jones, Vice-Chairman

Thomas Foley, Secretary/Treasurer

Judith M. Mueller

Dr. Liz A. Palmer

Kathleen Galvin

Gary B. O'Connell

EXECUTIVE DIRECTOR

Lonzy E. Wood, III, CPA, Interim

DIRECTOR OF FINANCE/ADMINISTRATION

Lonzy E. Wood, III, CPA

GENERAL COUNSEL

McGuire Woods, LLP
Charlottesville, Virginia

TRUSTEE AND ESCROW AGENT

Bank of New York Mellon
New York, New York



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CHARLOTTESVILLE, VA 22902-9016
TEL: 434.977.2970
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WWW.RIVANNA.ORG

November 28, 2016

To the Board of Directors
Rivanna Water and Sewer Authority
Charlottesville, Virginia

The Comprehensive Annual Financial Report (CAFR) of the Rivanna Water and Sewer Authority (Authority) for the fiscal year ended June 30, 2016 is submitted herewith. This report has been prepared in conformity with the reporting and accounting standards promulgated by the Government Accounting Standards Board and the Financial Accounting Standards Board and with the accounting and reporting standards for enterprise funds set out by the Government Finance Officers Association of the United States and Canada, with such modifications as apply to our status as an independently chartered corporation.

Based upon a comprehensive framework of internal control that it has established for this purpose, management assumes responsibility for the completeness and reliability of the information contained in this report. The objective of internal control is to provide reasonable, rather than absolute, assurance that the financial statements are free of material misstatements, because the cost of each internal control should not outweigh the potential benefit.

Management's discussion and analysis (MD&A) immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

ORGANIZATION AND SERVICES PROVIDED

The Rivanna Water and Sewer Authority is a regional non-profit public corporation and political subdivision of the Commonwealth of Virginia chartered in 1972 under the Virginia Water and Waste Authorities Act (1950, as amended), that supplies drinking water to and treats the sewage of Charlottesville (City) and certain areas of Albemarle County (County). The Authority is a wholesale agency and bills monthly both Charlottesville and the Albemarle County Service Authority, which handle retail distribution of water and collection of sewage in their respective service areas.

The Authority is charged to acquire, finance, construct, operate and maintain facilities for the impoundment, production, storage, treatment and transmission of potable water and for the interception, treatment and discharge of wastewater. The Authority operates under the terms of a Service Agreement signed June 12, 1973 by the officers of the Charlottesville City Council, the Albemarle County Board of Supervisors, the Albemarle County Service Authority and the Rivanna Water and Sewer Authority. The Authority has determined that it is not part of the reporting entity of either the City of Charlottesville or the County of Albemarle and will not be included in the financial report of either (see Note 1 to the Financial Statements).

ORGANIZATION AND SERVICES PROVIDED: (CONTINUED)

The Authority is governed by a seven member Board of Directors (Board). The Board appoints an Executive Director, who manages Authority operations under their direction. The Authority is now organized in administration, laboratory, engineering, maintenance, water, and wastewater departments. The Authority operates and maintains five water treatment plants and three wastewater treatment plants and the associated water storage facilities, pump stations, transmission mains and interceptor sewers, as well as a hydropower generating facility. Retail distribution of water and collection of wastewater is performed by the Authority's two customers: the City of Charlottesville's Public Utilities Division and the Albemarle County Service Authority.

JOINT ADMINISTRATION

By mutual agreement of the respective Boards of Directors, the Authority currently shares administrative staff and office space with the Rivanna Solid Waste Authority, which is billed monthly for its portion of the costs. Administrative procedures were implemented to ensure proper segregation of funds, purchasing activity, personnel, and similar matters. In general, the Rivanna Solid Waste Authority adopted existing Authority administrative policies, procedures and regulations for its own use. The Authorities also agreed adopted and administer joint Safety Regulations and a joint Safety Program.

ECONOMIC CONDITION AND PROSPECTS

The University of Virginia provides a significant buffer against large swings in the economy of our service area. In addition, the Charlottesville urban area is a major retail trade center for the surrounding region. Housing growth remains steady. Although the majority of such growth occurs in County developments, infilling in Charlottesville continues. Both Charlottesville and Albemarle County enjoy low unemployment rates, steady economic growth and high bond ratings.

A ten-year compilation analysis report dated September 2016 by the Charlottesville Regional Chamber of Commerce examining employment in the Greater Charlottesville Region concluded that total jobs grew by 13.74%, or 14,759 jobs, from 2005 to 2015 to the highest overall employment level to date. The majority of jobs within the Region are located in the City of Charlottesville and Albemarle County. The report noted that private sector employment in the Greater Charlottesville Region increased by 14.46%, compared to 3.58% for the rest of Virginia.

The Charlottesville-Albemarle area attracts many visitors to its historic sites and the wine industry has been popular and has served to help benefit the tourism sector of the regional economy. The travel and tourism industry make a vital contribution to the local economy.

The University of Virginia has begun several large capital projects that will continue to be the impetus of growth for water and sewer services. Our current Capital Improvement Program, as discussed below, reflects the Authority's response to the current and projected service burden on our facilities and to the need to respond to regulatory requirements.

LONG-TERM FINANCIAL PLANNING

The Authority expects continued growth in demand for water supply and sewage disposal services as well as the ever changing regulatory environment. Our current five-year Capital Improvement Program (CIP) for Fiscal years 2016-2020 is heavily driven by regulatory changes in the future for water quality standards in particular meeting the requirements of the Disinfectant By-product Rule (DPBR). This rule regulates maximum contaminant level for total trihalomethanes (THMs) and haloacetic acids (HAAs) in drinking water. The long-term goal is to finance the majority of these projects with revenue bonds; however, the Authority has targeted using a significant portion of cash reserves to fund its current \$133 million CIP. For details, please refer to the MD&A.

MAJOR INITIATIVES

The Ragged Mountain Dam capital project was completed within the \$26.9 million budget in FY 2015. The Urban Water GAC and Water Treatment Plant Improvements project is currently the largest capital project underway in the water department, with a \$25 million capital budget targeted for completion in FY 2018. Continued construction of the Rivanna Pump Station and Tunnel over the next 2 years is the largest capital project in progress in the wastewater system, with an estimated cost of \$33 million. Other large wastewater projects expected to be in progress through 2018 include Schenks Branch Interceptor and Moores Creek AWWRF Odor Control at a cost of \$9 million each.

As mentioned previously, The DPBR regulations are requiring the water plants to undergo major capital upgrades to install Granular Activated Carbon (GAC) treatment systems. These systems carry significant capital costs as well as significant operating costs in the future. Over the past few years, the Authority has been investing many of its resources in the wastewater systems to control and reduce inflow and infiltration into the systems from heavy rain events. This was an environmental and regulatory objective which is nearly complete with the construction of the Rivanna Pump Station. Now we are addressing the water infrastructure of the Authority with many upgrades to the treatment and transmission systems planned for the next 5 to 10 years.

BUDGETARY CONTROLS AND FINANCIAL POLICIES

The Authority is required by the Service Agreement to adopt an annual budget for setting wholesale rates as well as for fiscal guidance to staff. Separate fiscal year budgets are currently prepared for six rate centers to include direct costs and allocations of administrative, engineering, maintenance, lab and debt service expenses. Until the Service Agreement was amended in August 2015, projections of flows and expenses were used to calculate rates per thousand gallons for the two Urban rate centers and flat monthly charges for the rural rate centers to cover both operating and debt service costs. Actual flows vary each year from the flows estimated when the rates were set, due to unpredictable weather conditions. Effective with the October 2015 billing, RWSA began charging a fixed monthly rate for the Urban rate center debt service costs while continuing to charge operations rates per thousand gallons. This is a very positive change, because RWSA is required to make fixed debt service payments each fiscal year, and it is important to have a fixed revenue source to pay those expenses.

A proposed budget for each fiscal year is prepared by the Authority Directors and the Executive Director and submitted to the Board of Directors, usually in February, with a public hearing held on the proposed rates in April or May. All budget items lapse at the end of the fiscal year, with the exception of encumbrances and capital commitments. It should be noted that the budget is prepared for internal use and does not reflect the accrual basis of accounting. An example of this is that principal payments on debt are shown as an expense.

Budgetary compliance is monitored and reported to the Board by the Director of Finance & Administration and the Executive Director. Projections of both revenues and expenses are understood to reflect anticipated service levels and to incorporate a variety of economic, climatic, and demographic forecasts. Variances from budget line items are examined at least monthly to assure a reasonable relation between actual costs and actual service levels, emergencies, or economic conditions.

The Authority's accounting records are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recorded when incurred, without regard to receipt or payment of cash. Current controls provide reasonable assurance that the Authority's assets are properly recorded and protected and that the financial data may be used with confidence in the preparation of historical reports and projections. Accounting control is maintained by segregation of duties and data security systems in all areas of record keeping, disbursements, and purchasing authority. All of these control systems are reviewed regularly by staff and are evaluated as part of the annual financial audit (see Annual Audit section below).

ANNUAL AUDIT

The Code of Virginia, the June 12, 1973 Service Agreement, the Trust Agreement and its Supplements require an annual audit of the books and records of the Authority. The opinion of our independent certified public accountants is included in the Financial Section.

AWARDS

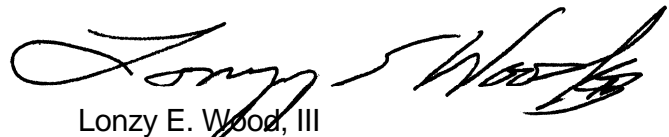
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Rivanna Water and Sewer Authority for its comprehensive annual financial report for the fiscal year ended June 30, 2015. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

The help of the Authority's staff and of our certified public accountants is gratefully acknowledged. Such help and the Board of Directors' support and commitment to financial reporting excellence are essential to the preparation of this report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Lonzy E. Wood, III". The signature is fluid and cursive, with a large initial "L" and "W".

Lonzy E. Wood, III
Director of Finance and Administration



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
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Presented to

**Rivanna Water & Sewer Authority
Virginia**

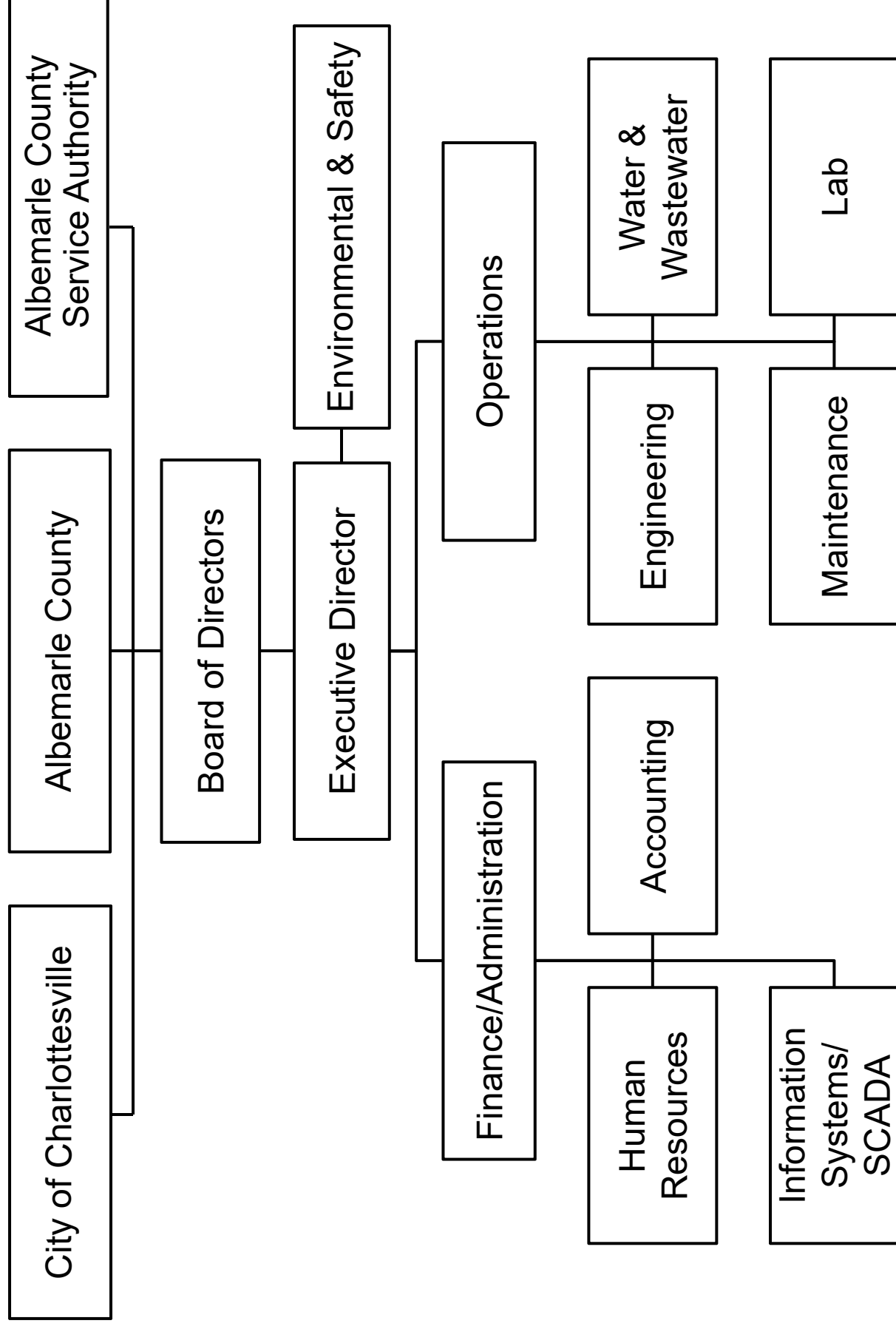
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

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Rivanna Water & Sewer Authority



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ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

To the Board of Directors
Rivanna Water & Sewer Authority
Charlottesville, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Rivanna Water & Sewer Authority, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Rivanna Water & Sewer Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

Change in Accounting Principle

As described in Note 2 to the financial statements, in 2016, the Authority adopted new accounting guidance, GASB Statement Nos. 72 Fair Value Measurement and Application, 79 Certain External Investment Pools and Pool Participants and 82 Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and schedules related to pension and OPEB funding on pages 13-23 and 77-80 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Rivanna Water & Sewer Authority's basic financial statements. The introductory section and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2016, on our consideration of Rivanna Water & Sewer Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rivanna Water & Sewer Authority's internal control over financial reporting and compliance.


Charlottesville, Virginia
November 28, 2016

Management's Discussion and Analysis

To the Board of Directors Rivanna Water & Sewer Authority Charlottesville, Virginia

As management of the Rivanna Water & Sewer Authority (the Authority), we offer readers of our financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 3 through 6 of this report.

Overview of the Financial Statements:

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. Since the Authority is engaged only in business-type activities, its basic financial statements are comprised of only two components: 1) enterprise fund financial statements and 2) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements themselves.

Enterprise fund financial statements. The enterprise fund financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The statement of net position presents information on the Authority's assets, deferred outflows of resources, liabilities, and deferred inflow of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of revenues, expenses, and changes in net position presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave).

The basic enterprise fund financial statements can be found on pages 26 through 29 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 31 through 73 of this report.

Required supplementary information. This report also includes required supplementary information concerning the Authority's progress in funding its obligation to provide pension and other postemployment benefits to its employees. It is located immediately following the notes to financial statements.

Financial Highlights:

- The assets and deferred outflows of resources of Rivanna Water & Sewer Authority exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$135.6 million (net position). Of this amount \$31.2 million (unrestricted net position) may be used to meet the Authority's normal ongoing operating obligations to customers and creditors while \$3.3 million of net position is restricted for the bondholders.

Financial Highlights: (Continued)

- The Authority's total net position increased by \$4.9 million in FY 2016 and by \$2 million in FY 2015, which is an indication of improvement in financial position.
- Total liabilities increased by \$39.5 million primarily due to the issuance of new revenue and refunding bonds.
- Wastewater revenues increased 9% this year after decreasing last year by 7% primarily due to wetter weather conditions this fiscal year.

Financial Analysis:

The largest portion of Rivanna Water and Sewer Authority's net position (75%) reflects its investment in capital assets, net of depreciation and related debt outstanding that was used to acquire those assets. The Authority uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the Authority's investment in capital assets is reported net of related debt, the resources needed to repay this debt are derived from the revenue generating capability of these capital assets and not from the capital assets themselves. At the end of the past three fiscal years, the Authority has reported positive balances in all categories of net position.

	Net Position		
	2016	2015	2014
Current and other assets	\$ 72,609,632	\$ 48,854,901	\$ 54,979,836
Capital assets	233,412,702	213,267,291	205,376,290
Total assets	<u>\$ 306,022,334</u>	<u>\$ 262,122,192</u>	<u>\$ 260,356,126</u>
Deferred outflows of resources	<u>\$ 1,298,582</u>	<u>\$ 1,389,205</u>	<u>\$ 1,020,521</u>
Noncurrent liabilities	\$ 157,803,972	\$ 122,744,653	\$ 121,346,381
Current liabilities	13,418,468	8,983,538	11,231,897
Total liabilities	<u>\$ 171,222,440</u>	<u>\$ 131,728,191</u>	<u>\$ 132,578,278</u>
Deferred inflow of resources	<u>\$ 443,880</u>	<u>\$ 1,009,264</u>	<u>\$ 1,020,521</u>
Net position:			
Net investment in capital assets	\$ 101,129,762	\$ 99,020,753	\$ 93,538,673
Restricted for bond covenants	3,335,539	2,940,314	2,870,788
Unrestricted	31,189,295	28,812,875	32,388,908
Total net position	<u>\$ 135,654,596</u>	<u>\$ 130,773,942</u>	<u>\$ 128,798,369</u>

Financial Analysis: (Continued)

Operating revenues increased \$1.6 million this year compared to a mere \$200,000 increase last year due to higher wastewater flows this year and higher debt service revenue resulting from switching to fixed monthly debt service rates rather than rates based on flows. Total operating expenses also increased by \$1.6 million this year and \$0.8 million in the prior year primarily due to increased operating and maintenance costs. Debt issuance costs were \$0.5 million higher than the prior two years due to a large debt issuance this year. It should be noted that almost 1 million of interest payments on bonded debt were capitalized to the unfinished projects this year as a cost of acquisition and \$0.5 million in the prior year. Key elements of these changes are explained further in the Review of Operations section.

	Changes in Net Position		
	2016	2015	2014
Revenues:			
Operating revenues			
Metered water sales	\$ 13,014,328	\$ 12,555,666	\$ 11,353,630
Wastewater service charges	14,799,741	13,625,855	14,620,353
Nonoperating revenues			
Investment earnings	369,675	82,083	92,839
Buck Mountain revenue	84,000	74,900	89,000
Administrative reimbursement	299,000	265,000	257,000
Other revenues	370,173	337,148	251,373
Total revenues	<u>\$ 28,936,917</u>	<u>\$ 26,940,652</u>	<u>\$ 26,664,195</u>
Expenses:			
Operating expenses			
Personnel costs	\$ 6,155,243	\$ 5,878,175	\$ 5,756,273
Professional services	602,891	473,193	418,858
Other services and charges	2,607,118	2,532,408	2,683,136
Operations and maintenance	4,710,701	3,991,590	3,543,311
Depreciation expense	5,396,029	4,983,753	4,662,094
Nonoperating expenses			
Interest expense	4,027,843	3,608,072	2,336,245
Debt issuance costs	556,438	59,273	61,081
Total expenses	<u>\$ 24,056,263</u>	<u>\$ 21,526,464</u>	<u>\$ 19,460,998</u>
Change in net position	<u>\$ 4,880,654</u>	<u>\$ 5,414,188</u>	<u>\$ 7,203,197</u>
Net position, beginning of year, as restated	<u>130,773,942</u>	<u>125,359,754</u>	<u>121,595,172</u>
Net position, end of year	<u><u>\$ 135,654,596</u></u>	<u><u>\$ 130,773,942</u></u>	<u><u>\$ 128,798,369</u></u>

Capital Asset and Debt Administration:

Capital Assets - The Authority's investment in capital assets net of accumulated depreciation increased 9% in the current year and 4% in the prior year as a result of costs incurred on major water and wastewater construction projects in both years. \$40 million of construction costs were capitalized as completed capital projects in FY 2015. Construction costs of \$25 million were incurred this year, and there are still many capital projects in progress with accumulated costs totaling \$25 million. More detailed information on the Authority's capital assets is presented in Notes 5 and 6 of the notes to the financial statements and is addressed further under the operations discussion below.

Capital Asset and Debt Administration: (Continued)

The various categories of capital assets net of depreciation at the end of the past three fiscal years are as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Land and improvements	\$ 10,604,850	\$ 10,604,850	\$ 10,557,573
Buildings and operating equipment	173,175,985	177,998,152	143,703,996
Trucks and autos	116,905	108,789	52,200
Office equipment	5,005	7,007	9,009
Construction work in progress	49,509,957	24,548,493	51,053,512
Total capital assets, net	<u>\$ 233,412,702</u>	<u>\$ 213,267,291</u>	<u>\$ 205,376,290</u>

Major capital asset activity for the current fiscal year included:

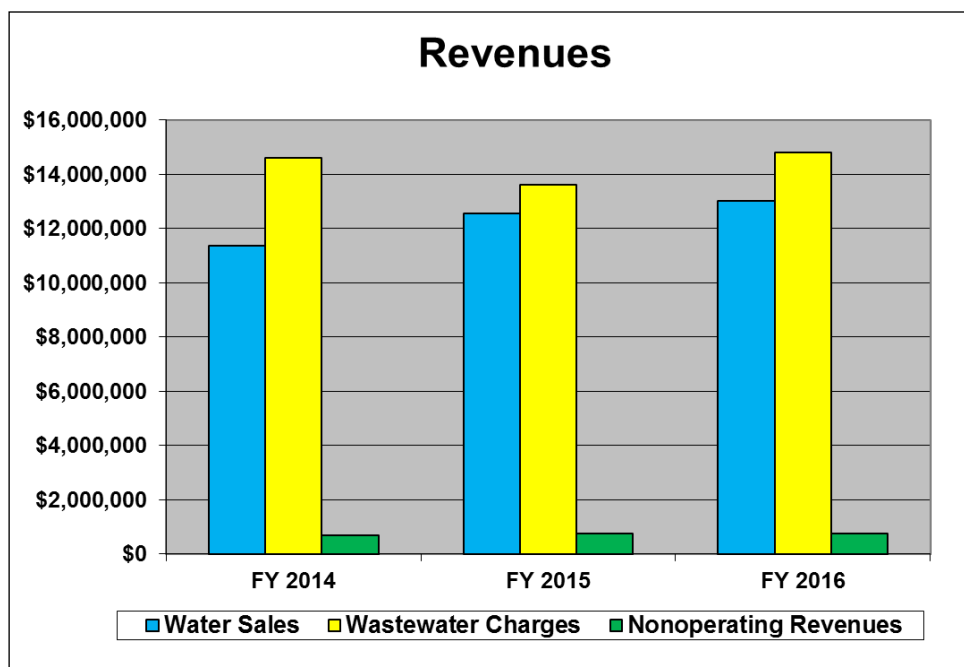
Rivanna Pump Station and Tunnel	\$ 11,818,521
Urban Water GAC/WTP Improvements	7,401,331
Schenks Branch Interceptor	1,216,838
Crozet Water GAC/ WTP Improvements	648,311
MCAWRRF Odor Control	574,904
Observatory WTP Improvements	389,253
Wholesale Water Master Metering-Urban	264,687
Scottsville Water GAC	230,898
Administration Building Repairs	168,732
Comprehensive Sanitary Sewer Model and Study Update	167,487
Meadowcreek Interceptor Improvements	152,993
Interceptor Sewer and Manhole Repair	123,330
Capitalized Interest	976,855
Retainage on Construction in Progress	975,637
Other	256,109
Total Current Year Construction Costs and Adjustments	<u>\$ 25,365,886</u>

Long-Term Debt - At the end of the current fiscal year, the Authority had \$161 million in bonds outstanding, a \$36 million increase. This change is the net of \$61 million of bond proceeds and premiums less \$20 million of bond refunding and \$5 million of principal repayments. The Authority issued the \$44 million Series 2015B Revenue and Refunding Bonds in November 2015 at a \$5 million premium to finance various water department capital projects and to refund the Series 2005B Bond. This refunding will provide an economic gain of \$3.5 million over the next 20 years. An additional \$12 million was drawn on Revenue Bond Series 2014A to help fund the Rivanna Interceptor and Pump Station projects. This bond is a Virginia Revolving Loan Fund debt instrument which acts like a construction loan where the proceeds stay with the State until the construction costs are paid to the contractor, and only the amount drawn is recognized as outstanding debt. More detailed information regarding the Authority's long-term debt is presented in Note 7 of the notes to the financial statements.

To meet the new reporting standards set forth by the Governmental Accounting Standards Board, the Authority recognized for the first time in FY 2015 the net pension liability of \$2.6 million as a long-term liability, and the balance at June 30, 2016 is 3 million. This represents the Authority's share of the Virginia Retirement System (VRS)'s actuarially determined total pension liability less plan assets or net position to pay for that liability. The actuary also determines the contribution rates needed in the future that the Authority pays directly to VRS to gradually fund this obligation. The contribution rate for FY 2015 and 2016 was 10.4% of salaries and wages and the contributions were paid into VRS along with the 5% employee contributions to meet this future obligation. More detailed information regarding the Authority's pension plan and the net pension liability is presented in Note 9 of the notes to the financial statements.

Review of Operations:

Total operating revenues increased 6 percent or \$1.6 million in Fiscal Year 2016. The budget for FY 2016 called for higher revenues for the year which were programed into the rates set by the Board of Directors. There were also more wastewater flows than anticipated that caused revenues to increase as well. Total wastewater flows were 9.5% above FY 2015 levels causing wastewater charges to increase \$1.2 million over FY 2015 but were nearly the same compared to FY 2014 wastewater revenues. Water revenues increased modestly al-though flows were down, due to increased rates. Nonoperating revenues increased



\$364,000 mainly due to investment earnings increase of \$288,000. Gradual interest rate increases, utilizing some investment opportunities within the restricted debt service fund reserves and the investment of the construction fund deposit related to the 2015A Bond helped drive that increase.

Gradual interest rate increases, utilizing some investment opportunities within the restricted debt service fund reserves and the investment of the construction fund deposit related to the 2015A Bond helped drive that increase.

The Authority has been steadily increasing rates over the decade due to the aggressive capital improvement plan revised and adopted by the Board of Directors each year (see Capital Improvement & Long-Term Trends Section). During the 2016 fiscal year, the Board adopted an amendment to the service agreement between the City of Charlottesville, Albemarle County Service Authority, the County of Albemarle and Rivanna (a.k.a. the Four Party Agreement). This amendment changed the structure of the debt service component of the rates charged to our two customers from a per 1,000 gallon rate charged on consumption to a fixed monthly charge. The Operating Rate charged did not change and remains a per 1,000 gallon rate charged to the two customers based on consumption. This affected the Urban area only because the Rural area rates were already set as a fixed monthly charge.

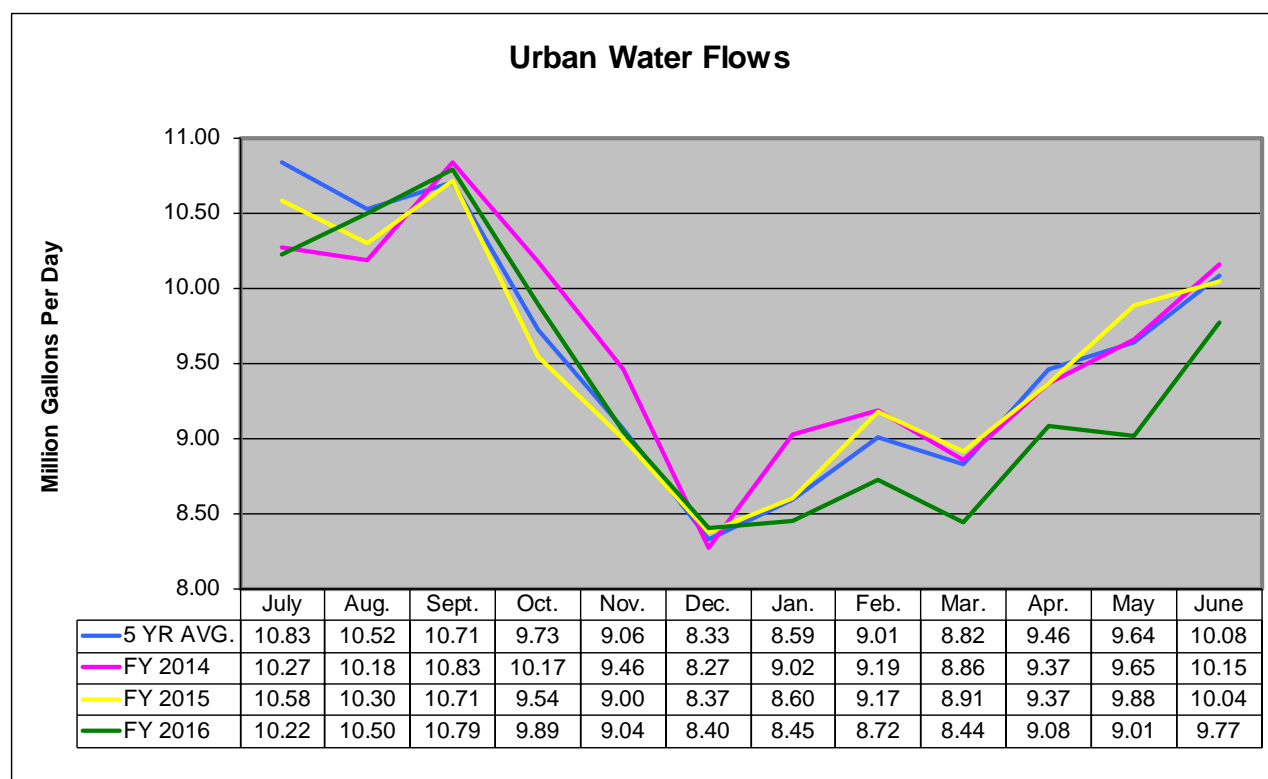
The significant debt service component of the revenue charge was targeted to change because the rate charge is governed by several cost allocation agreements to allocate out costs in differing methods depending on the project, customer usage and growth variables. Previously, the variability of the revenue charge as it relates to a hard to predict variable such as flows was also an issue that will be solved with this change, especially for wastewater charges. Weather events can and do affect the flows used in charging for debt service under the previous method of rate setting creating a level of uncertainty to the revenue projections each year that was not needed. Staff recommended this change to alleviate this uncertainty for Rivanna and for its customers.

Review of Operations: (Continued)

The capital program has been the single largest driver to our revenue requirements, especially for wastewater rates for the past several years. As shown in the chart below, FY 2014 was unique with respect to rates for several reasons. The Authority refinanced the 2001 and 2003 bonds which created savings in debt service payments that were fully realized in the FY 2014 budget year. Operating rates and related costs for water are being affected by the GAC project which has signification yearly costs for the granular carbon used in the new treatment process at all 5 plants.

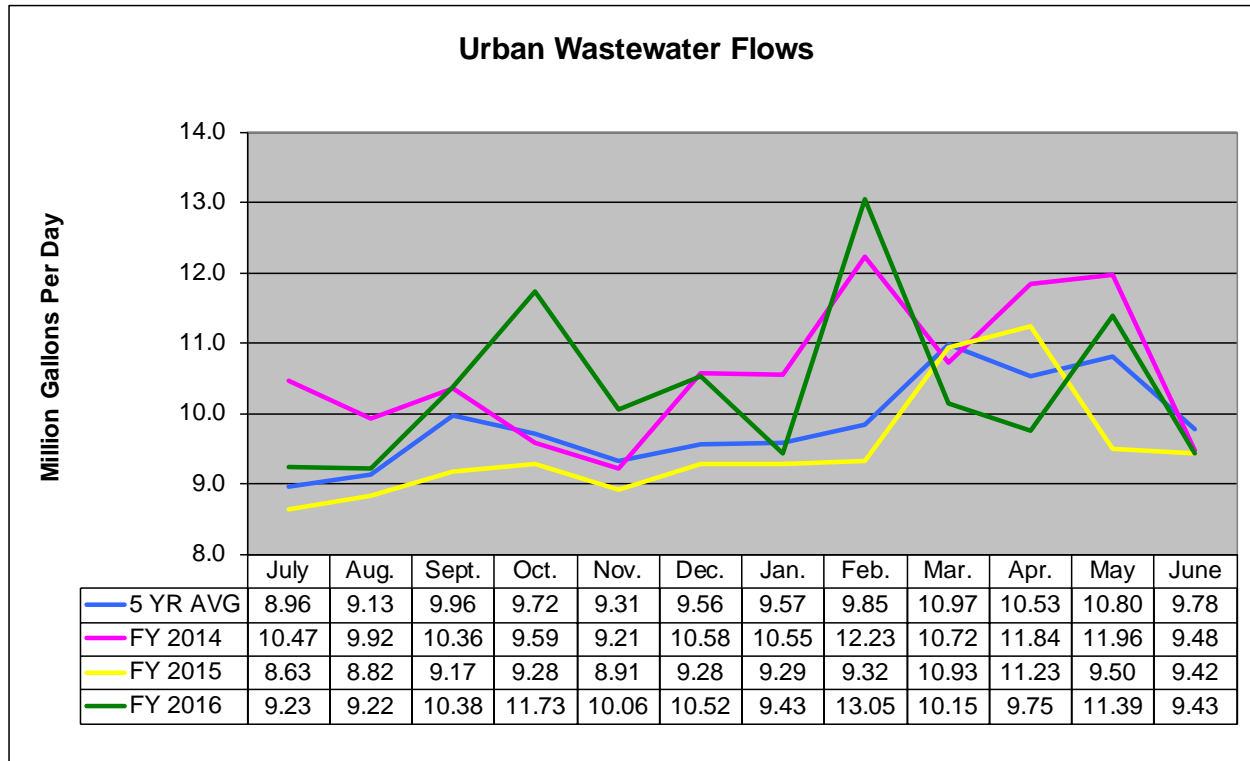
<u>Urban Rates</u>					
			<u>Water</u>		
				<u>Wastewater</u>	
Operations Rates - City & ACSA (\$ per 1,000 gallons):					
	FY 2014	\$	1.462	10.8%	\$ 1.827 -2.3%
	FY 2015	\$	1.683	15.1%	\$ 1.768 -3.2%
	FY 2016	\$	1.713	1.8%	\$ 1.789 1.2%
Debt Service Rates (\$ per month) (Note*):					
City:	FY 2014	\$	133,156	-23.2%	\$ 272,220 7.0%
	FY 2015	\$	148,549	11.6%	\$ 310,678 14.1%
	FY 2016	\$	158,099	6.4%	\$ 333,645 7.4%
ACSA:	FY 2014	\$	251,418	-10.9%	\$ 214,771 -6.0%
	FY 2015	\$	269,379	7.1%	\$ 223,598 4.1%
	FY 2016	\$	279,864	3.9%	\$ 232,493 4.0%
*Note: In FY 2016 the Board of Directors amended the Service Agreement to go from a rate per 1,000 gallons to a fixed monthly charge for all debt service costs. FY 2014 and 2015 rates have been restated to a fixed monthly charge for comparison purposes.					

Flows in the two urban rate centers are the single largest determining factor in the revenues billed to our two customers. The graphs below show the flows for the year compared to the last two years and the five-year average.



Review of Operations: (Continued)

Urban Water flows have trended close to the five-year average and are more predictable to estimate. Urban Wastewater flows (below) by comparison are much more erratic from weather patterns that can significantly affect metered flows and revenues. Because of this, it is very difficult to predict the revenues and charges to our customers for Wastewater services from one year to the next. Overall, total wastewater flows decreased 10% between FY 2015 and FY 2014, which is a good example of erratic variances from one year to the next.



Total expenses increased by \$2.5 million for FY 2016 and was capital project driven. Interest and depreciation accounted for nearly 33% of that increase in expenses. Over \$40 million in new capital assets were completed and capitalized the last two years driving these two categories of costs. Direct operating costs in certain categories experienced sharp increases in FY 2016. Health insurance costs increased \$100,000 or 19% over the previous year, and there was a 77% increase in training and travel costs. Utility line maintenance costs increased by \$315,000 over FY 2015 due to several large repairs. There were multiple large maintenance projects at the water plant pumping stations the drove an increase in general repairs and replacement costs. The Authority also stepped up efforts to maintain the SCADA systems by investing in software upgrades, maintenance agreements and programming support needs spending roughly \$100,000 more in this area of operations. The GAC project mentioned above will continue to drive costs for water operations in the near future. This project was partially required to meet the Disinfection By-Products rules established by the U. S. Environmental Protection Agency. The community process of selecting the alternative means to meet this requirement was one that provided a higher quality water process, and it was a more costly project to execute and operate. This project is still ongoing.

Change in Expenses FY 2016 vs. FY 2015:

	FY 2016	FY 2015	Change	
Direct Operating*	\$ 14,075,953	\$ 12,875,366	\$ 1,200,587	9%
Depreciation	5,396,029	4,983,753	412,276	8%
Interest	4,027,843	3,608,071	419,772	12%
Debt issuance costs	556,438	59,273	497,165	839%
	\$24,056,263	\$21,526,463	\$2,529,800	12%

* - Personnel, Chemicals, Operations & Maintenance, Utilities

Cash balances have been stable for the past few years, maintaining a strong debt service coverage ratio the past several years. (See Table 8 in the Statistical Section.) Unrestricted cash balances for FY 2016 are at \$36.5 million. This is a \$4 million increase from FY 2015 levels after decreasing \$2.4 million from FY 2014. This decrease is a direct result of using planned reserves to fund some of the capital construction costs.

Review of Operations: (Continued)

For the past decade, The Authority slowly built cash reserves for rate stabilization, unforeseen maintenance issues and support for an aggressive capital replacement program through its rate setting policies. The Board of Directors supports the need for a strong cash position to mitigate unforeseen costs in an aging infrastructure and to better handle wide fluctuations in flow. Rate stabilization reserves totaled \$2 million at June 30, 2016. Recognizing the increase in debt service obligations over the years, the executive management wisely continues to emphasize the need to maintain adequate reserves to mitigate a decline in revenues in the event of a drought and provide financial flexibility as issues are managed that periodically face the Authority. Over the last several years, financial policies have been adopted and revised as needed to formally support this philosophy. The Authority generally targets to have 60 days for working capital needs which is roughly \$4.75 million, and there is currently \$9.6 million earmarked for capital projects. The \$16 million remaining, after rate stabilization and required reserves, are considered undesignated reserves for future projects or additional rate stabilization needs as determined in the capital and operational budget setting process.

The Capital fund cash had been accumulating in previous fiscal years according to the Capital Improvement Plan; however, these past two years we have used a large portion of the capital fund to pay project costs that are not fully covered by the recently issued bonds mentioned previously. The Authority has a financial goal of using 10% cash reserves to fund our total capital program. Over the last ten years, the Authority has used capital cash to fund roughly \$25.5 million in projects.

Capital Improvements & Long-Term Trends -

The Authority generally updates the five-year projection of our Capital Improvement Plan (CIP) annually. The following table shows the changes in the CIP adopted in February 2016 compared to the previously adopted capital plan:

Changes in CIP			
2015-2019	\$	135,624,228	Previously adopted CIP
		(13,504,485)	Budgets for completed projects
		11,155,396	New project budgets added
2016-2020	\$	<u>133,275,139</u>	Current CIP

The fiscal challenges placed on the Authority with such an aggressive CIP have prompted management to target funding a portion of these capital costs with cash reserves. The total five-year CIP is estimated at \$133 million in capital needs through the year 2020. About \$47.2 million or 35% of that budget was in progress and paid for at year end. Of the \$85.8 million left to be completed, the Authority has roughly \$36.6 million in available bond proceeds on hand and has \$9.6 million in cash reserves or future cash reserves as funding sources. This would leave the remaining CIP to be funded with \$40 million in additional debt.

Several years ago, with the support of the City of Charlottesville Utilities Division and the ACSA, the Authority initiated a comprehensive study that metered dry weather and wet weather flows in the sewer system over an extended period, and then used the data to develop a computer model from which both present and future needs can be forecasted. That information, plus a significant goal developed among the three agencies to reduce rainwater inflow and infiltration into the sewer system by 25% by 2020, led to a comprehensive master plan. That plan resulted in local initiatives; a desire by the three agencies to reverse years of declining wastewater infrastructure. During this time, the Virginia Department of Environmental Quality took interest for various reasons in the problems of sanitary sewer overflows within the system. Working with the City, ACSA and Rivanna, the DEQ incorporated into a consent order the master plan to address this problem; thereby making the master plan mandatory.

Review of Operations: (Continued)

Currently, most of the projects identified within the consent order have been completed. The largest remaining renewal and replacement project for the sewer system is the replacement of the Rivanna Pump Station, with a project budget of roughly \$33.3 million. The project was started just before FY 2015 began, and today \$22.5 million of that project is in progress. The current facility is undersized and sits adjacent to the Woolen Mills neighborhood and Riverview Park. This facility will be decommissioned and replaced with a force main traveling beneath a section of the residences in the neighborhood and a railroad right of way (by way of a 1,620 foot, 8-foot diameter tunnel) and will terminate on the existing site of the Moores Creek Advanced Water Resource Recovery Facility. The termination point will be a newly constructed pump station designed to manage a peaking flow of 53 million gallons per day (mgd).

New Rivanna Pump Station Tunnel



New Rivanna Pump Station



Review of Operations: (Continued)

With the new Ragged Mountain Dam now complete, focus has turned to the treatment plants and supporting infrastructure using the raw water sources for finished water demands. The Observatory Water Treatment Plant was originally constructed in the 1950's, and very little has been replaced or upgraded in that time. Some of the transmission infrastructure leading up to that plant is early 1900's vintage. This plant will also be upgraded for the Granular Activated Carbon (GAC) project mentioned before. The GAC project will affect all 5 water treatment plants and in total is roughly a \$29 million project.

South Rivanna WTP GAC Project



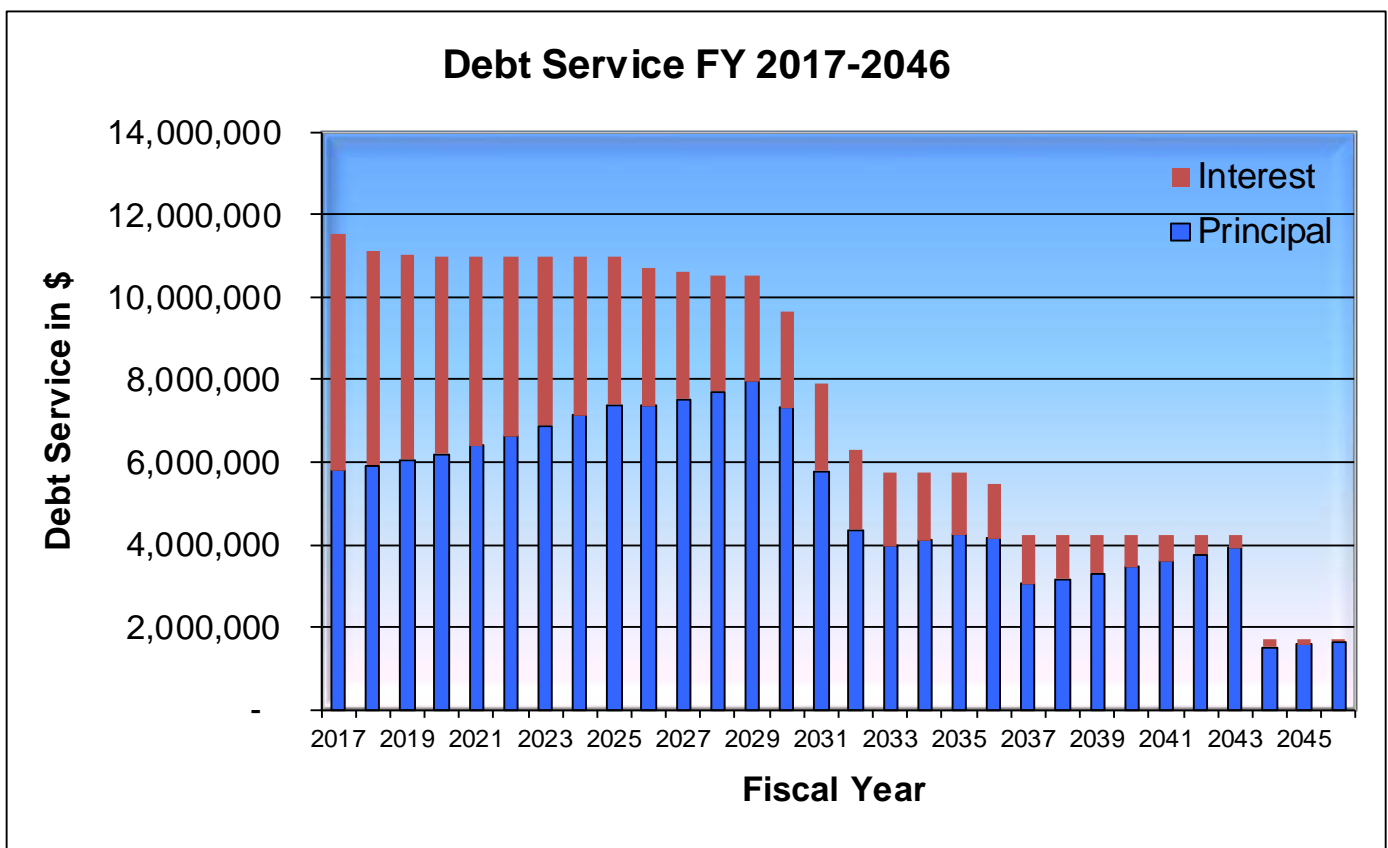
Observatory WTP GAC Project



Review of Operations: (Continued)

Other phases of the Water Supply Plan include the pipeline to be constructed in the future between the South Fork Reservoir and the Ragged Mountain Reservoir, with current efforts being focused on possible right-of-way acquisitions.

Despite the significant infrastructure needs identified in the CIP, the Authority is positioned to provide for these needs by using more cash up front for projects and having a debt and rate structure that will accommodate more debt in the future. The Authority has been slowly but consistently implementing rate increases to pay for such infrastructure needs in 5 year increments. As shown in the following graph, which represents debt service payments on existing debt, the Authority has a fairly consistent to a declining debt structure for the next 16 years with large declines thereafter. Additionally, the rates are currently programmed to generate \$13.5 million annually in debt service revenues; however, the water and wastewater capital needs will require additional rate increases in the future to maintain solid cash positions and future debt service needs.



Requests for Information:

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department at 695 Moores Creek Lane, Charlottesville, Virginia 22902-9016.

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Basic Financial Statements

Statement of Net Position
At June 30, 2016 and 2015

	At June 30,	
	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 36,488,314	\$ 32,448,097
Restricted cash and cash equivalents	29,381,783	8,021,638
Accounts receivable and interest receivable	2,413,398	2,279,429
Unbilled accounts receivable	39,900	31,330
Prepaid expenses	136,665	56,823
Total current assets	\$ 68,460,060	\$ 42,837,317
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents	\$ 3,118,649	\$ 3,063,490
Investments (Note 4)	1,030,923	2,954,094
Total restricted assets	\$ 4,149,572	\$ 6,017,584
Capital assets: (Note 5)		
Land and improvements	\$ 10,604,850	\$ 10,604,850
Buildings and operating equipment	249,745,368	249,247,363
Trucks and autos	1,176,760	1,150,595
Office equipment	93,659	93,659
Less accumulated depreciation	(77,717,892)	(72,377,669)
Subtotal net capital assets	\$ 183,902,745	\$ 188,718,798
Construction work in progress (Note 6)	49,509,957	24,548,493
Total net capital assets	\$ 233,412,702	\$ 213,267,291
Total noncurrent assets	\$ 237,562,274	\$ 219,284,875
Total assets	\$ 306,022,334	\$ 262,122,192
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	\$ 816,952	\$ 953,910
Differences between expected and actual experience	29,859	-
Post measurement date employer pension contributions	451,771	435,295
Total deferred outflows of resources	\$ 1,298,582	\$ 1,389,205

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

Statement of Net Position
At June 30, 2016 and 2015

	At June 30,	
	2016	2015
LIABILITIES		
Liabilities:		
Current liabilities:		
Accounts payable and other accrued expenses	\$ 4,349,707	\$ 2,483,054
Compensated absences - current portion (Note 7)	323,000	323,000
Revenue bonds - current portion (Note 7)	<u>2,960,396</u>	<u>2,397,061</u>
Subtotal current liabilities	<u>\$ 7,633,103</u>	<u>\$ 5,203,115</u>
Current liabilities (payable from restricted assets):		
Retainage payable	\$ 1,250,540	\$ 274,903
Accrued interest payable	1,699,286	1,065,206
Revenue bond principal - current portion (Note 7)	<u>2,835,539</u>	<u>2,440,314</u>
Subtotal current liabilities (payable from restricted assets)	<u>\$ 5,785,365</u>	<u>\$ 3,780,423</u>
Total current liabilities	<u>\$ 13,418,468</u>	<u>\$ 8,983,538</u>
Noncurrent liabilities:		
Compensated absences (net of current portion) (Note 7)	\$ 60,998	\$ 66,111
Net OPEB obligation (Note 11)	45,406	203,406
Net pension liability	2,981,253	2,642,306
Revenue bonds (net of current portion) (Note 7)	<u>154,716,315</u>	<u>119,832,830</u>
Total noncurrent liabilities	<u>\$ 157,803,972</u>	<u>\$ 122,744,653</u>
Total liabilities	<u>\$ 171,222,440</u>	<u>\$ 131,728,191</u>
DEFERRED INFLOW OF RESOURCES		
Net difference of actual and expected pension plan earnings	<u>\$ 443,880</u>	<u>\$ 1,009,264</u>
NET POSITION		
Net Position:		
Net investment in capital assets	\$ 101,129,762	\$ 99,020,753
Restricted for bond covenants	3,335,539	2,940,314
Unrestricted	<u>31,189,295</u>	<u>28,812,875</u>
Total net position	<u>\$ 135,654,596</u>	<u>\$ 130,773,942</u>

Statement of Revenues, Expenses, and Changes in Net Position
 Years Ended June 30, 2016 and 2015

	Year Ended June 30,	
	2016	2015
Operating revenues:		
Metered water sales	\$ 13,014,328	\$ 12,555,666
Wastewater service charges	<u>14,799,741</u>	<u>13,625,855</u>
Total operating revenues	\$ <u>27,814,069</u>	\$ <u>26,181,521</u>
Operating expenses:		
Personnel costs	\$ 6,155,243	\$ 5,878,175
Professional services	602,891	473,193
Other services and charges	2,607,118	2,534,253
Operations and maintenance	4,710,701	3,989,745
Depreciation	<u>5,396,029</u>	<u>4,983,753</u>
Total operating expenses	\$ <u>19,471,982</u>	\$ <u>17,859,119</u>
Operating income	\$ <u>8,342,087</u>	\$ <u>8,322,402</u>
Nonoperating revenues (expenses):		
Investment earnings	\$ 369,675	\$ 82,083
Buck Mountain revenue	84,000	74,900
Administrative reimbursement	299,000	265,000
Other revenues	370,173	337,148
Interest expense	(4,027,843)	(3,608,072)
Debt issuance costs	<u>(556,438)</u>	<u>(59,273)</u>
Total nonoperating revenues (expenses)	\$ <u>(3,461,433)</u>	\$ <u>(2,908,214)</u>
Change in net position	\$ 4,880,654	\$ 5,414,188
Net position, beginning of year, as restated	<u>130,773,942</u>	<u>125,359,754</u>
Net position, end of year	\$ <u><u>135,654,596</u></u>	\$ <u><u>130,773,942</u></u>

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

Statement of Cash Flows
Years Ended June 30, 2016 and 2015

	Year Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Receipts from customers and users	\$ 28,424,703	\$ 26,710,569
Payments to suppliers of goods and services	(7,694,114)	(7,015,271)
Payments to and on behalf of employees for services	(6,512,690)	(6,029,313)
Net cash provided by (used for) operating activities	\$ 14,217,899	\$ 13,665,985
Cash flows from capital and related financing activities:		
Additions to capital assets	\$ (22,107,171)	\$ (14,807,238)
Principal payments on bonds	(4,837,375)	(4,730,847)
Bond refunding payments	(20,455,000)	-
Proceeds of bonds, net of issue costs, premiums	56,301,462	3,974,983
Premium on bonds issued	5,329,294	
Debt issuance costs	(556,438)	(59,273)
Interest payments	(4,729,995)	(4,363,886)
Net cash provided by (used for) capital and related financing activities	\$ 8,944,777	\$ (19,986,261)
Cash flows from investing activities:		
(Purchase) of investments	\$ (3,006,550)	\$ (2,959,650)
Sale of investments	5,040,346	-
Maturity of investments	1,324	3,401
Interest and dividends received	257,725	100,077
Net cash provided by (used for) investing activities	\$ 2,292,845	\$ (2,856,172)
Increase (decrease) in cash and cash equivalents	\$ 25,455,521	\$ (9,176,448)
Cash and cash equivalents at beginning of year (including \$11,085,128 and \$17,822,237, respectively reported in restricted accounts)	43,533,225	52,709,673
Cash and cash equivalents at end of year (including \$32,500,432 and \$11,085,128, respectively reported in restricted accounts)	\$ 68,988,746	\$ 43,533,225
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income	\$ 8,342,087	\$ 8,322,402
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	5,396,029	4,983,753
Buck Mountain revenue	84,000	74,900
Other nonoperating revenues	669,173	602,148
Changes in operating assets and liabilities:		
(Increase) decrease in receivables	(142,539)	(148,001)
Increase (decrease) in net OPEB obligation	(158,000)	(154,000)
Increase (decrease) in compensated absences	(5,113)	15,815
Increase (decrease) in net pension liability	338,947	(1,224,618)
(Increase) decrease in deferred outflows of resources - pension	(46,335)	(6,986)
Increase (decrease) in deferred inflows of resources - pension	(565,384)	1,009,264
(Increase) decrease in prepaid expenses	(79,842)	34,745
Increase (decrease) in operating payables and accrued expenses	384,876	156,563
Net cash provided by (used for) operating activities	\$ 14,217,899	\$ 13,665,985
Noncash investing, capital and financing activities:		
Increase (decrease) in fair value of investments	\$ 65,915	\$ (17,991)
(Increase) decrease in retainage payable for capital projects	(975,637)	762,441

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

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RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements At June 30, 2016 and 2015

Note 1–Formation of the Rivanna Water & Sewer Authority:

In the interest of efficient water quality management for the upper Rivanna River Basin, the Rivanna Water and Sewer Authority was formed on June 7, 1972 as a joint venture of the City of Charlottesville, the Albemarle County Service Authority, and the County of Albemarle, pursuant to the Virginia Water and Waste Authorities Act (1950 as amended). The Authority is responsible for acquiring, financing, constructing and maintaining facilities for the improvement, treatment, storage and transmission of potable water, and for the interception, treatment and discharge of wastewater for the City and County. The Authority operates under the terms of a Service Agreement among the Authority, the Albemarle County Service Authority, the City of Charlottesville, and the County of Albemarle which was signed June 12, 1973.

Financial Reporting Entity

The Rivanna Water & Sewer Authority was established according to the Agreement mentioned above for the purposes stated. The participating entities are City of Charlottesville, County of Albemarle, and Albemarle County Service Authority. The City of Charlottesville and the Albemarle County Service Authority have an ongoing financial responsibility to the Authority because a covenant to pay the Authority's rates and charges is included in the operating agreement.

The Authority's governing body is comprised of three members appointed by the County, three members appointed by the City, and one member who is jointly appointed by the City and County. Therefore, none of the participants appoints a voting majority of board members.

The Authority is perpetual. No participating government has access to its resources or surpluses, nor is any participant liable for the Authority's debts or deficits. The Authority also has the ability to finance its capital projects through user charges or the sale of revenue bonds.

Based on the above representations, the Rivanna Water & Sewer Authority has been determined to be a joint venture of the City of Charlottesville, County of Albemarle and Albemarle County Service Authority. The Authority is not a component unit of any of the participating governments. There are no component units to be included within the Authority's financial statements.

For purposes of reporting entity disclosure, it should be noted that a separate entity, the Rivanna Solid Waste Authority, provides garbage and refuse transfer and disposal services to the City of Charlottesville and Albemarle County. Although certain administrative employees provide services to both Authorities, each Authority is operationally and legally independent.

Note 2–Summary of Significant Accounting Policies:

A. Basis of Accounting

Rivanna Water & Sewer Authority operates as an enterprise fund, uses the flow of economic resources measurement focus and its accounts are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned, and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash. The Authority accrues revenue for services rendered but not yet billed at the end of the fiscal year. The Authority accounts have been audited by an independent firm annually since its founding in accordance with the requirements of the Service Agreement, dated June 12, 1973, among the Authority, the City of Charlottesville, Albemarle County, and Albemarle County Service Authority.

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements

At June 30, 2016 and 2015 (Continued)

Note 2–Summary of Significant Accounting Policies: (Continued)

A. Basis of Accounting (Continued)

The Authority distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

B. Accounts Receivable

Accounts receivable are stated at book value utilizing the direct write-off method for immaterial uncollectible accounts.

C. Basic Financial Statements

Since the Authority is only engaged in business-type activities, it is required to present only the financial statements required for enterprise funds. For the Authority, the basic financial statements and required supplementary information consist of:

- Management's discussion and analysis
- Enterprise fund financial statements
 - Statement of Net Position
 - Statement of Revenues, Expenses, and Changes in Net Position
 - Statement of Cash Flows
 - Notes to the Financial Statements
- Required Supplementary Information
 - Schedule of Components of and Changes in Net Pension Liability and Related Ratios
 - Schedule of Employer Contributions
 - Notes to Required Supplementary Information
 - Schedule of OPEB Funding Progress

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements

At June 30, 2016 and 2015 (Continued)

Note 2–Summary of Significant Accounting Policies: (Continued)

D. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The Authority capitalized interest in the amount of \$976,855 and \$525,618 for the years ended June 30, 2016 and 2015, respectively.

Property, plant, equipment and infrastructure are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings & operating equipment	5 to 50
Trucks & autos	5 to 10
Office equipment	5 to 10
Data processing equipment	5

E. Cash and Cash Equivalents

The Authority's cash and cash equivalents consist of demand deposits, certificates of deposit, short-term U.S. Governmental obligations, and other investments with an original maturity of three months or less from the date of acquisition, all of which are readily convertible to known amounts of cash.

F. Investments

Money market investments, participating interest-earning investment contracts (repurchase agreements) that have a remaining maturity at time of purchase of one year or less, nonparticipating interest-earning investment contracts (nonnegotiable certificates of deposit (CDs) and external investment pools) are measured at amortized cost. All other investments are reported at fair value.

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements

At June 30, 2016 and 2015 (Continued)

Note 2–Summary of Significant Accounting Policies: (Continued)

G. Budgets and Budgetary Accounting

A budget is prepared for information, fiscal planning purposes, and to provide the basis for setting wholesale rates, in accordance with the requirements of the Service Agreement, dated June 12, 1973, among the Authority, the City of Charlottesville, Albemarle County, and the Albemarle County Service Authority. Rates charged by the six rate centers are not subjected to regulatory scrutiny but may be changed at any time by the Authority's Board of Directors, if necessary, in order to adjust revenues. None of the participating entities are required to approve the budget. The budget is adopted as a planning document and is not a legal control on expenses.

The budgets are adopted on an appropriation basis. Principally, the appropriation basis of budgeting provides for a full accrual basis of accounting, capital expenditures, and bond principal payments and partially provides for depreciation of utility plant and amortization.

H. Inventory

Consumption of materials and supplies is recorded as an expense when used. No inventory amounts are recorded as an asset, as available inventories are not significant.

I. Use of Estimates

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

J. Net Position

Net position is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, reduced by accumulated depreciation and by any outstanding debt, deferred outflows of resources and increased by deferred inflows of resources related to the acquisition, construction or improvement of those assets. Restricted net position represents restricted assets reduced by liabilities and deferred inflows of resources related to those assets. The balance in the replacement reserve is presented as restricted net position.

K. Restricted Assets

Certain proceeds of the Authority's revenue bonds and certain resources set aside for their repayment are classified as restricted assets on the statement of net position, because they are maintained in separate bank accounts, and their use is limited by applicable bond covenants. The "revenue bond general operating reserve" is used to report resources set aside to subsidize potential deficiencies from the Authority's operation that could adversely affect debt service payments. The "revenue bond payment account" is used to segregate resources accumulated for debt service payments over the next twelve months. The "debt service reserve" is used to report resources set aside to make up potential future deficiencies in the revenue bond payment account. The "repair and replacement reserve" is used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements.

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements
At June 30, 2016 and 2015 (Continued)

Note 2–Summary of Significant Accounting Policies: (Continued)

L. Long-Term Obligations

Bond premiums and discounts are amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

M. Reclassification

Certain amounts in previously issued financial statements have been restated to conform to the current year's classifications.

N. Deferred Inflows and Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority has two items that qualify for reporting in this category. One item is the deferred charge on refunding reported in the statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The other item is comprised of certain items related to the measurement of the net pension liability. It is comprised of contributions to the pension plan made during the current year and subsequent to the net pension liability measurement date, which will be recognized as a reduction of the net pension liability next fiscal year, and differences between expected and actual experience. For more detailed information on these items, reference the pension note.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has one item that qualifies for reporting in this category. Certain items related to the measurement of the net pension liability are reported as deferred inflows of resources. These include differences between expected and actual experience, change in assumptions, and the net difference between projected and actual earnings on pension plan investments. For more detailed information on these items, reference the pension note.

O. Net Position Flow Assumption

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

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements
At June 30, 2016 and 2015 (Continued)

Note 2–Summary of Significant Accounting Policies: (Continued)

P. Pensions

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 Authority's Retirement Plan and the additions to/deductions from the Authority's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Q. Adoption of Accounting Principles

Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application

The Authority implemented the provisions of the above Statement during the fiscal year ended June 30, 2016. The Statement generally requires investments to be measured at fair value. The Statement requires the Authority to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or an income approach. The Statement establishes a hierarchy of inputs used to measure fair value. There was no material impact on the Authority's financial statement as a result of the implementation of Statement No. 72. All required disclosures are located in Note 15.

Governmental Accounting Standards Board Statement No. 79, Certain External Investment Pools and Pool Participants

The Authority implemented the provisions of the above Statement during the fiscal year ended June 30, 2016. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. There was no material impact on the Authority's financial statement as a result of the implementation of Statement No. 79. All required disclosures are located in Note 4.

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

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

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements

At June 30, 2016 and 2015 (Continued)

Note 3—Acquisition of Water and Wastewater Facilities:

Under the terms of the Service Agreement (See Note 1), the Authority agreed to purchase certain water production, transmission and storage facilities and wastewater interception and treatment facilities from the City and the Albemarle County Service Authority. The agreement provides that the sale be consummated ten years from the date of the agreement or at such later time as the debts, if any, attributed to each such facility have been paid or provision is made for their payment, and that the Authority will lease the facility until such time as the sale is consummated. The purchase price is the fair value of the facilities as of June 12, 1973, as determined by all payments paid by the Authority during the term of lease applicable to the principal retired on the debt of such facilities. In accordance with generally accepted accounting principles, the aforementioned agreement has been treated as an installment purchase of the facilities, with the purchase price being discounted at an annual rate of 6% for ten years.

The following tabulation reflects the agreed upon purchase price and accounting thereof:

Fair value as of June 12, 1973:	
Facilities acquired from City of Charlottesville	\$ 6,128,124
Facilities acquired from Albemarle County Service Authority	<u>3,604,384</u>
Total purchase price	\$ 9,732,508
Add: Interest portion of rental payments not applied to principal reduction	<u>1,154,074</u>
Total contracts payable	\$ 10,886,582
Less: Interest included in contract price computed at annual rate of 6% for 10 years	<u>4,940,705</u>
Asset carrying value	\$ <u><u>5,945,877</u></u>

The contracts payable have been reduced by the amount of the annual rental payments on the facilities as outlined in the following tabulation:

	<u>City of Charlottesville</u>	<u>Albemarle County Service Authority</u>
Contracts payable, June 12, 1973	\$ <u>6,354,634</u>	\$ <u>4,531,948</u>
Rental payments and contract adjustments in prior fiscal years	\$ <u>1,760,676</u>	\$ <u>3,680,395</u>
Total rental payments	\$ <u>1,760,676</u>	\$ <u>3,680,395</u>
Final payment on facilities with no outstanding debt as of June 30, 1983	<u>4,593,958</u>	<u>851,553</u>
Total payments	\$ <u>6,354,634</u>	\$ <u>4,531,948</u>
Contracts payable, June 30, 2016	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements

At June 30, 2016 and 2015 (Continued)

Note 3–Acquisition of Water and Wastewater Facilities: (Continued)

The total annual rental payments over the initial ten year agreement were not sufficient to retire the contracts payable to the Albemarle County Service Authority. The deferred interest was amortized over the initial ten year period of the agreement and was fully amortized as of June 30, 1983.

Depreciation has been based upon the engineer's estimates of useful lives remaining as of the valuation date (June 12, 1973). Depreciation expense on these facilities amounted to \$79,399 and \$79,399 for the years ended June 30, 2016 and 2015, respectively.

Note 4–Deposits and Investments:

Deposits

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

Investments

Statutes authorize the Authority to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper and certain corporate notes, banker’s acceptances, repurchase agreements and the State Treasurer’s Local Government Investment Pool (LGIP).

The Authority does not have a formal investment policy that addresses credit risk or interest rate risk.

The Authority invests in the VML/VACo Virginia Investment Pool. The Pool limits withdrawals to two times per month.

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements

At June 30, 2016 and 2015 (Continued)

Note 4—Deposits and Investments: (Continued)

Credit Risk of Debt Securities

The Authority's rated debt investments as of June 30, 2016 were rated by Standard & Poor's and the ratings are presented below using Standard & Poor's rating scale.

Authority's Rated Debt Investments' Values

Rated Debt Investments	Fair Quality Ratings		
	AAA	AA+	AAf
U.S. Agencies Securities	\$ 10,693	\$ -	\$ -
Local Government Investment Pool	16,196,413	-	-
VML/VACo Virginia Investment Pool	-	-	10,047,798
Virginia State Non-Arbitrage Pool	25,013,326	-	-
U.S. Treasury Notes & Bonds	-	1,020,230	-
U.S. Treasury & Agency Money Market Funds	6,130,682	-	-
Total	\$ 47,351,114	\$ 1,020,230	\$ 10,047,798

Interest Rate Risk

Investment Maturities (in years)

Investment Type	Fair Value	Less Than		
		1 Year	1-5 Years	6-10 Years
U.S. Agencies Securities	\$ 10,693	\$ -	\$ -	\$ 10,693
Local Government Investment Pool	16,196,413	16,196,413	-	-
VML/VACo Virginia Investment Pool	10,047,798	10,047,798	-	-
Virginia State Non-Arbitrage Pool	25,013,326	25,013,326	-	-
U.S. Treasury & Agency Money Market Funds	6,130,682	6,130,682	-	-
U.S. Treasury Notes & Bonds	1,020,230	-	1,020,230	-
Total	\$ 58,419,142	\$ 57,388,219	\$ 1,020,230	\$ 10,693

External Investment Pools

The State Non-Arbitrage Pool (SNAP) is an open-end management investment company registered with the Securities and Exchange Commission. In May 2016, the Board voted to convert the SNAP fund to an LGIP structure, which would be managed in conformance with GASB 79. On October 3, 2016, the Prime Series became a government money market fund and the name was changed to Government Select Series. The Government Select Series has a policy of investing at least 99.5% of its assets in cash, U.S. government securities (including securities issued or guaranteed by the U.S. government or its agencies or instrumentalities) and/or repurchase agreements that are collateralized fully.

The fair value of the positions in the external investment pools (Local Government Investment Pool and State Non-Arbitrage Pool) is the same as the value of the pool shares. As LGIP is not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury. LGIP and SNAP are amortized cost basis portfolios under the provisions of GASB Statement No. 79. There are no withdrawal limitations or restrictions imposed on participants.

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements

At June 30, 2016 and 2015 (Continued)

Note 5—Capital Assets:

Details of changes in capital assets for the year ended June 30, 2016 are as follows:

	Balance July 1, 2015	Increases	Decreases	Transfers	Balance June 30, 2016
Capital assets not being depreciated:					
Land and improvements	\$ 10,604,850	\$ -	\$ -	\$ -	\$ 10,604,850
Construction in progress	<u>24,548,493</u>	<u>25,365,886</u>	<u>404,422</u>	<u>-</u>	<u>49,509,957</u>
Total capital assets not being depreciated	<u>\$ 35,153,343</u>	<u>\$ 25,365,886</u>	<u>\$ 404,422</u>	<u>\$ -</u>	<u>\$ 60,114,807</u>
Other capital assets:					
Buildings & operating equipment:					
Water system	\$ 91,393,588	\$ 249,414	\$ -	\$ -	\$ 91,643,002
Wastewater system	157,453,373	216,535	55,806	-	157,614,102
Support departments	<u>400,402</u>	<u>87,862</u>	<u>-</u>	<u>-</u>	<u>488,264</u>
Subtotal	\$ 249,247,363	553,811	\$ 55,806	\$ -	\$ 249,745,368
Accumulated depreciation	<u>(71,249,211)</u>	<u>(5,375,978)</u>	<u>(55,806)</u>	<u>-</u>	<u>(76,569,383)</u>
Total	<u>\$ 177,998,152</u>	<u>\$ (4,822,167)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 173,175,985</u>
Trucks and autos:					
Water system	\$ 165,254	\$ 26,165	\$ -	\$ (16,694)	\$ 174,725
Wastewater system	179,255	-	-	-	179,255
Support departments	<u>806,086</u>	<u>-</u>	<u>-</u>	<u>16,694</u>	<u>822,780</u>
Subtotal	\$ 1,150,595	\$ 26,165	\$ -	\$ -	\$ 1,176,760
Accumulated depreciation	<u>(1,041,806)</u>	<u>(18,049)</u>	<u>-</u>	<u>-</u>	<u>(1,059,855)</u>
Total	<u>\$ 108,789</u>	<u>\$ 8,116</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 116,905</u>
Office equipment:					
Water system	\$ 2,715	\$ -	\$ -	\$ -	\$ 2,715
Wastewater system	2,714	-	-	-	2,714
Support departments	<u>88,230</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>88,230</u>
Subtotal	\$ 93,659	\$ -	\$ -	\$ -	\$ 93,659
Accumulated depreciation	<u>(86,652)</u>	<u>(2,002)</u>	<u>-</u>	<u>-</u>	<u>(88,654)</u>
Other capital assets, net	<u>\$ 7,007</u>	<u>\$ (2,002)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,005</u>
Capital assets, net	<u>\$ 213,267,291</u>	<u>\$ 20,549,833</u>	<u>\$ 404,422</u>	<u>\$ -</u>	<u>\$ 233,412,702</u>

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements

At June 30, 2016 and 2015 (Continued)

Note 5—Capital Assets: (Continued)

Details of changes in capital assets for the year ended June 30, 2015 are as follows:

	Balance July 1, 2014	Increases	Decreases	Transfers	Balance June 30, 2015
Capital assets not being depreciated:					
Land and improvements	\$ 10,557,573	\$ 47,277	\$ -	\$ -	\$ 10,604,850
Construction in progress	51,053,512	13,363,017	39,868,036	-	24,548,493
Total capital assets not being depreciated	\$ 61,611,085	\$ 13,410,294	\$ 39,868,036	\$ -	\$ 35,153,343
Other capital assets:					
Buildings & operating equipment:					
Water system	\$ 60,501,921	\$ 30,891,667	\$ -	\$ -	\$ 91,393,588
Wastewater system	149,125,252	8,329,171	-	(1,050)	157,453,373
Support departments	296,555	27,333	13,461	89,975	400,402
Subtotal	\$ 209,923,728	39,248,171	\$ 13,461	\$ 88,925	\$ 249,247,363
Accumulated depreciation	(66,219,732)	(4,954,565)	(13,461)	88,375	(71,249,211)
Total	\$ 143,703,996	\$ 34,293,606	\$ -	\$ 550	\$ 177,998,152
Trucks and autos:					
Water system	\$ 143,609	\$ 21,645	\$ -	\$ -	\$ 165,254
Wastewater system	179,255	-	-	-	179,255
Support departments	832,331	62,680	-	(88,925)	806,086
Subtotal	\$ 1,155,195	\$ 84,325	\$ -	\$ (88,925)	\$ 1,150,595
Accumulated depreciation	(1,102,995)	(27,186)	-	(88,375)	(1,041,806)
Total	\$ 52,200	\$ 57,139	\$ -	\$ (550)	\$ 108,789
Office equipment:					
Water system	\$ 2,715	\$ -	\$ -	\$ -	\$ 2,715
Wastewater system	2,714	-	-	-	2,714
Support departments	88,230	-	-	-	88,230
Subtotal	\$ 93,659	\$ -	\$ -	\$ -	\$ 93,659
Accumulated depreciation	(84,650)	(2,002)	-	-	(86,652)
Other capital assets, net	\$ 9,009	\$ (2,002)	\$ -	\$ -	\$ 7,007
Capital assets, net	\$ 205,376,290	\$ 47,759,037	\$ 39,868,036	\$ -	\$ 213,267,291

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements

At June 30, 2016 and 2015 (Continued)

Note 6—Construction Work in Progress:

Details of construction work in progress for the year ended June 30, 2016 are as follows:

	Balance July 1, 2015	Cost of Construction	Expense/ Transfer to Capital Assets	Balance June 30, 2016
Administration Building Repairs	\$ 183,998	\$ 168,732	\$ 352,730	\$ -
Albemarle-Berkley Interceptor	-	24,706	24,706	-
Beaver Creek Dam Alterations	133,886	-	-	133,886
Capitalized Interest	1,084,803	976,855	-	2,061,658
Comprehensive Sanitary Sewer Model and Study Update	180,640	167,487	-	348,127
Crozet Water GAC/WTP Improvements	286,734	648,311	-	935,045
Crozet Ground Storage Tank Repairs and Upgrades	3,609	27,312	-	30,921
Crozet Interceptor	126,826	53,889	-	180,715
Interceptor Sewer & Manhole Repair	-	123,330	-	123,330
MCAWRRF Second Centrifuge	-	12,399	-	12,399
MCAWRRF Odor Control-Phase 2	352,476	574,904	-	927,380
Meadowcreek Interceptor Improvements	3,790,178	152,993	-	3,943,171
Moore's Creek Bridge Repairs	10,490	20,251	-	30,741
New Rivanna Pump Station and Tunnel	10,684,001	11,818,521	-	22,502,522
Observatory Water Treatment Plant Improvements	33,725	389,253	-	422,978
Retainage on Construction in Progress	274,903	975,637	-	1,250,540
Route 29 Pipeline	-	1,235	-	1,235
Route 29 Pumping Station	450,747	15,669	-	466,416
Scottsville Water GAC	99,767	230,898	-	330,665
Scottsville WRRF Solids Processing Improvements	26,986	-	26,986	-
Shenks Branch Interceptor	3,474,381	1,216,838	-	4,691,219
South Fork Hydropower Plant Rehabilitation	1,598	56,954	-	58,552
South Fork Reservoir to Ragged Mtn Pipeline R/W	24,859	390	-	25,249
South Fork Rivanna Reservoir Dredging	127,558	-	-	127,558
Stillhouse Tank Repairs and System Improvements	8,094	43,304	-	51,398
Urban Water GAC/WTP Improvements	2,705,797	7,401,331	-	10,107,128
Wholesale Water Master Metering-Urban	482,437	264,687	-	747,124
	<u>\$ 24,548,493</u>	<u>\$ 25,365,886</u>	<u>\$ 404,422</u>	<u>\$ 49,509,957</u>

Cost of construction includes interest capitalized during the fiscal year, where applicable. For the years ended June 30, 2016 and 2015, capitalized interest was \$976,855 and \$525,618, respectively.

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements

At June 30, 2016 and 2015 (Continued)

Note 6–Construction Work in Progress: (Continued)

Details of construction work in progress for the year ended June 30, 2015 are as follows:

	Balance July 1, 2014	Cost of Construction	Expense/ Transfer to Capital Assets	Balance June 30, 2015
Pantops Tank Repairs	\$ 6,426	\$ 66,162	\$ 72,588	\$ -
Mitigation Plan Implementation	-	47,277	47,277	-
South Fork Reservoir to Ragged Mtn Pipeline R/W	24,859	-	-	24,859
Ragged Mountain Dam Construction	24,339,465	2,507,487	26,846,952	-
Route 29 Pumping Station	443,976	6,771	-	450,747
Alderman Road Pump Station Improvements	138,715	439,503	578,218	-
Stillhouse Tank Repairs and System Improvements	60	8,034	-	8,094
Crozet Ground Storage Tank Repairs and Upgrades	-	3,609	-	3,609
Meadowcreek Interceptor Improvements	3,406,568	383,610	-	3,790,178
Shenks Branch Interceptor	3,424,772	49,609	-	3,474,381
Albemarle-Berkley Interceptor	525,978	241,415	767,393	-
New Rivanna Pump Station and Tunnel	6,193,835	4,490,166	-	10,684,001
Observatory Water Treatment Plant Improvements	13,327	20,398	-	33,725
Interceptor Sewer & Manhole Repair	612,612	2,157	614,769	-
Wholesale Water Master Metering-Urban	50,239	432,198	-	482,437
Crozet Water Treatment Plant Improvements	56,235	(56,235) **	-	-
Crozet Pump Station Two Automatic Bar Screens	64,950	-	64,950	-
MCAWRRF Odor Control-Phase 2	70,376	282,100	-	352,476
*Administration Building Repairs	18,850	165,148	-	183,998
North Fork Water Treatment Plant Improvements	47,983	(47,983) **	-	-
South Fork Hydropower Plant Rehabilitation	1,598	-	-	1,598
South Fork Rivanna Reservoir Dredging	127,558	-	-	127,558
*Crozet Water GAC/WTP Improvements	230,482	56,252 **	-	286,734
Partial Transite Pipe Replacement	140,928	1,667,146	1,808,074	-
*Scottsville Water GAC	99,355	412	-	99,767
Crozet Interceptor	126,826	-	-	126,826
Moore's Creek Bridge Repairs	10,490	-	-	10,490
MCWWTP Digester Upgrades	5,667,271	431,130	6,098,401	-
*Urban Water GAC/WTP Improvements	1,288,159	1,417,638 **	-	2,705,797
Beaver Creek Dam Alterations	129,548	4,338	-	133,886
South Fork Rivanna Dam Safety Improvements	-	209,643	209,643	-
South Fork Rivanna Water Treatment Plant Improvements	198,212	(198,212) **	-	-
Scottsville WRRF Solids Processing Improvements	-	26,986	-	26,986
Comprehensive Sanitary Sewer Model and Study Update	-	180,640	-	180,640
Capitalized Interest	2,556,516	525,618	1,997,331	1,084,803
Retainage on Construction in Progress	1,037,343	-	762,440	274,903
	<u>\$ 51,053,512</u>	<u>\$ 13,363,017</u>	<u>\$ 39,868,036</u>	<u>\$ 24,548,493</u>

*Note-Project name changed

**Note-Certain prior year construction costs were reclassified from one project to another.

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements
At June 30, 2016 and 2015 (Continued)

Note 7—Long-Term Obligations:

A. Changes in Long-Term Obligations

The following is a summary of long-term obligation transactions for the year ended June 30, 2016:

	(Restated) Balance July 1, 2015	Issuances	Retirements	Refunded	Balance June 30, 2016	Due Within One Year
Revenue bonds payable	\$ 120,923,549	\$ 56,301,462	\$ (4,837,375)	\$ (20,455,000)	\$ 151,932,636	\$ 5,795,935
Add (less) amounts:						
For issuance premiums	<u>3,746,656</u>	<u>5,329,294</u>	<u>(496,336)</u>	<u>-</u>	<u>8,579,614</u>	<u>-</u>
Total revenue bonds	<u>\$ 124,670,205</u>	<u>\$ 61,630,756</u>	<u>\$ (5,333,711)</u>	<u>\$ (20,455,000)</u>	<u>\$ 160,512,250</u>	<u>\$ 5,795,935</u>
Net OPEB obligation	<u>\$ 203,406</u>	<u>\$ (135,000)</u>	<u>\$ (23,000)</u>	<u>\$ -</u>	<u>\$ 45,406</u>	<u>\$ -</u>
Compensated absences	<u>\$ 389,111</u>	<u>\$ 350,806</u>	<u>\$ (355,919)</u>	<u>\$ -</u>	<u>\$ 383,998</u>	<u>\$ 323,000</u>
Net pension liability	<u>\$ 2,642,306</u>	<u>\$ 1,759,091</u>	<u>\$ (1,420,144)</u>	<u>\$ -</u>	<u>\$ 2,981,253</u>	<u>\$ -</u>
Totals	<u>\$ 127,905,028</u>	<u>\$ 63,605,653</u>	<u>\$ (7,132,774)</u>	<u>\$ (20,455,000)</u>	<u>\$ 163,922,907</u>	<u>\$ 6,118,935</u>

The following is a summary of long-term obligation transactions for the year ended June 30, 2015:

	(Restated) Balance July 1, 2014	Issuances	Retirements	Balance June 30, 2015	Due Within One Year
Revenue bonds payable	\$ 121,679,413	\$ 3,974,983	\$ (4,730,847)	\$ 120,923,549	\$ 4,837,375
Add (less) amounts:					
For issuance premiums	<u>4,001,113</u>	<u>-</u>	<u>(254,457)</u>	<u>3,746,656</u>	<u>-</u>
Total revenue bonds	<u>\$ 125,680,526</u>	<u>\$ 3,974,983</u>	<u>\$ (4,985,304)</u>	<u>\$ 124,670,205</u>	<u>\$ 4,837,375</u>
Net OPEB obligation	<u>\$ 357,406</u>	<u>\$ (125,000)</u>	<u>\$ (29,000)</u>	<u>\$ 203,406</u>	<u>\$ -</u>
Compensated absences	<u>\$ 373,296</u>	<u>\$ 333,127</u>	<u>\$ (317,312)</u>	<u>\$ 389,111</u>	<u>\$ 323,000</u>
Net pension liability	<u>\$ 3,866,924</u>	<u>\$ 1,664,581</u>	<u>\$ (2,889,199)</u>	<u>\$ 2,642,306</u>	<u>\$ -</u>
Totals	<u>\$ 130,278,152</u>	<u>\$ 5,847,691</u>	<u>\$ (8,220,815)</u>	<u>\$ 127,905,028</u>	<u>\$ 5,160,375</u>

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements
At June 30, 2016 and 2015 (Continued)

Note 7-Long-Term Obligations: (Continued)

B. Details of Long-Term Obligations

	<u>Total Amount</u>	<u>Amount Due Within One Year</u>
<u>Revenue Bonds</u>		
Water and Sewer System Revenue Bonds - Series of 2005A - On November 10, 2005, the Authority issued \$2,340,929 in bonds for purposes of financing the Moores Creek wastewater pre-treatment project. These bonds are secured by a supplemental trust agreement between the Authority and trustee for the bondholders. This agreement states that these obligations will be repaid from revenue generated by the Authority and are backed by a restricted cash account.		
The bond resolution provides a redemption schedule with an interest only payment due in April 2007 and semi-annual payments of principal and interest from October 2007 through October 2026. The bonds bear interest at 3%.	\$ 1,426,097	\$ 117,430
\$24,000,000 Regional Water and Sewer System Revenue Bond - Series 2009A - On August 1, 2009 the Authority issued \$24,000,000 in bonds for purposes of financing the Moores Creek Wastewater Treatment Plant upgrades, including the Enhanced Nutrient Removal project. These bonds are secured by a supplemental trust agreement between the Authority and trustee for the bondholders. This agreement states that the obligation will be repaid from revenue generated by the Authority and is backed by a restricted cash account.		
The bond resolution provides a redemption schedule with an interest only payment due in April 2011 and semi-annual payments of principal and interest of \$843,077 from October 2011 through October 2030. The bonds bear interest at 3.35%.	19,209,122	1,102,412
\$15,179,718 Regional Water and Sewer System Revenue Bond - Series 2010A - On June 29, 2010 the Authority issued \$15,179,718 in bonds for purposes of financing the acquisition, construction and equipping of improvements to the Authority's water and sewer system, including the replacement of the Meadow Creek Sanitary Sewer Interceptor together with related expenses. These bonds are secured by a supplemental trust agreement between the Authority and trustee for the bondholders. This agreement states that the obligation will be repaid from revenue generated by the Authority and is backed by a restricted cash account.		
The bond resolution provides a redemption schedule with an interest only payment due in April 2012 and semi-annual payments of principal and interest of \$513,715 from October 2012 through October 2031. The bonds bear interest at 2.93%.	12,000,433	680,767

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements

At June 30, 2016 and 2015 (Continued)

Note 7—Long-Term Obligations: (Continued)

B. Details of Long-Term Obligations (Continued)

	<u>Total Amount</u>	<u>Amount Due Within One Year</u>
\$6,982,662 Regional Water and Sewer System Revenue Bond - Series 2011A - on March 17, 2011 the Authority issued \$6,982,662 in bonds for purposes of financing the acquisition, construction and equipping of improvements to the Authority's sewer system including improvements necessary to address the wet weather flows at the Moores Creek Wastewater Treatment Plant. These bonds are secured by a supplemental trust agreement between the Authority and trustee for the bondholders. This agreement states that the obligation will be repaid from revenue generated by the Authority and is backed by a restricted cash account.		
The bond resolution provides a redemption schedule with an interest only payment due in April 2012 and semi-annual payments of principal and interest of \$236,308 from October 2012 through October 2031. The bonds bear interest at 2.93%.	\$ 5,853,950	\$ 303,302
\$1,017,338 Regional Water and Sewer System Revenue Bond - Series 2011B - on March 17, 2011 the Authority issued \$1,017,338 in bonds for purposes of financing the acquisition, construction and equipping of improvements to the Authority's sewer system including improvements necessary to address the wet weather flows at the Moores Creek Wastewater Treatment Plant. These bonds are secured by a supplemental trust agreement between the Authority and trustee for the bondholders. This agreement states that the obligation will be repaid from revenue generated by the Authority and is backed by a restricted cash account.		
The bond resolution provides a redemption schedule with an interest only payment due in April 2012 and semi-annual payments of principal and interest of \$34,429 from October 2012 through October 2031. The bonds bear interest at 2.93%.	836,419	44,676
\$4,241,488 Regional Water and Sewer System Revenue Bond - Series 2011D - on September 9, 2011 the Authority issued \$4,241,488 in bonds for purposes of financing the acquisition, construction and equipping of improvements to the Authority's water and sewer system. These bonds are secured by a supplemental trust agreement between the Authority and trustee for the bondholders. This agreement states that the obligation will be repaid from revenue generated by the Authority and is backed by a restricted cash account.		
The bond resolution provides a redemption schedule with an interest only payment due in October 2012 and semi-annual payments of principal and interest of \$143,541 from April 2013 through April 2032. The bonds bear interest at 2.93%.	3,646,001	181,575

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements
At June 30, 2016 and 2015 (Continued)

Note 7-Long-Term Obligations: (Continued)

B. Details of Long-Term Obligations (Continued)

	<u>Total Amount</u>	<u>Amount Due Within One Year</u>
\$443,937 Regional Water and Sewer System Revenue Bond - Series 2011E - on September 9, 2011 the Authority issued \$443,937 in bonds for purposes of financing the acquisition, construction and equipping of improvements to the Authority's water and sewer system. These bonds are secured by a supplemental trust agreement between the Authority and trustee for the bondholders. This agreement states that the obligation will be repaid from revenue generated by the Authority and is backed by a restricted cash account.		
The bond resolution provides a redemption schedule with an interest only payment due in October 2012 and semi-annual payments of principal and interest of \$15,024 from April 2013 through April 2032. The bonds bear interest at 2.93%.	\$ 379,589	\$ 19,064
\$25,100,000 Water and Sewer System Revenue and Refunding Bonds, Series 2012A - On June 13, 2012, the Authority issued \$25,100,000 in Revenue and Refunding Bonds for purposes of financing various water and sewer capital projects and to refund Series 2001 bond with an outstanding amount of \$5,490,000 and Series 2003 bond with an outstanding amount of \$4,827,000. The bonds were issued at a premium in the amount of \$3,706,939.		
The bond resolution provides a redemption schedule with interest due semi-annually and principal due annually from October 1, 2012 through October 1, 2042. The bonds bear interest at an annual rate ranging from 2.125% to 5.125%. The Authority refunded the 2001 and 2003 Series bonds to reduce its total debt service payments over the next 13 years by \$4.93 million and to obtain a net economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,079,384 after applying existing reserve funds of \$3.55 million.	20,845,000	1,090,000

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements

At June 30, 2016 and 2015 (Continued)

Note 7—Long-Term Obligations: (Continued)

B. Details of Long-Term Obligations (Continued)

	<u>Total Amount</u>	<u>Amount Due Within One Year</u>
\$26,240,000 Water and Sewer System Revenue and Refunding Bonds, Series 2012B - On October 30, 2012, the Authority issued \$26,240,000 in Revenue and Refunding Bonds for purposes of financing various water and sewer capital projects including the design, development and construction of a new dam; the implementation of wetlands and streambank mitigation plans and costs of issuance. The bonds were issued at a premium in the amount of \$646,250.		
The bond resolution provides a redemption schedule with interest due semi-annually and principal due annually from April 1, 2013 through October 1, 2042. The bonds bear interest at an annual rate ranging from 2.125% to 4.0%. The bonds are subject to federal arbitrage regulations. Total annual payments range from \$1,337,000 to \$1,342,000.	\$ 24,555,000	\$ 595,000
\$29,043,290 Water and Sewer Revenue Bonds, Series 2014A - On March 28, 2014, the Authority issued \$29,043,290 in revenue bonds for purposes of financing capital improvements and capacity upgrades of the Rivanna Interceptor and pump station at Moores Creek Wastewater Treatment Plant.		
The bond resolution provides a redemption schedule with interest and principal due semi-annually from April 1, 2017 through April 1, 2036. An interest only payment is due on October 1, 2016. The bonds bear interest at an annual rate of 2.45%. As of June 30, 2016 the Authority has requested draw down of bond proceeds in the amount of \$18,411,072	18,411,072	370,616

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements
At June 30, 2016 and 2015 (Continued)

Note 7—Long-Term Obligations: (Continued)

B. Details of Long-Term Obligations (Continued)

	<u>Total Amount</u>	<u>Amount Due Within One Year</u>
\$1,189,672 Water and Sewer Revenue Bonds, Series 2015A - On June 17, 2015, the Authority issued \$1,189,672 in revenue bonds for purposes of financing capital improvements including replacing the final phase of the Schenks Branch Interceptor.		
The bond resolution provides a redemption schedule with interest and principal payments of \$35,296.24 due semi-annually from April 1, 2017 through April 1, 2036. An interest only payment is due on October 1, 2016. The bonds bear interest at an annual rate of 1.5%. As of June 30, 2016 the Authority has requested draw down of bond proceeds in the amount of \$274,953.	\$ 274,953	\$ 6,093
\$44,495,000 Taxable Water and Sewer System Revenue and Refunding Bonds, Series 2015B - On November 18, 2015, the Authority issued \$44,495,000 in Revenue and Refunding Bonds for purposes of financing various water capital projects and to refund Series 2005B bond with an outstanding amount of \$20,455,000. The bonds were issued at a premium in the amount of \$5,329,294.		
The bond resolution provides a redemption schedule with interest due semi-annually and principal due annually from April 1, 2016 through October 1, 2045. The bonds bear interest at an annual rate ranging from 3.094% to 5.125%. The Authority refunded the 2005B Series bonds to reduce its total debt service payments over the next 20 years by \$4.45 million and to obtain a net economic gain (difference between the present values of the debt service payments on the old and new debt) of \$3.51 million.	44,495,000	1,285,000
Total Revenue Bonds	\$ 151,932,636	\$ 5,797,935
Issuance premiums (discounts)	\$ 8,579,614	\$ -
Other post employment benefits	\$ 45,406	\$ -
Compensated Absences	\$ 383,998	\$ 323,000
Net pension liability	\$ 2,981,253	\$ -
Total	\$ 163,922,907	\$ 6,118,935

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements
At June 30, 2016 and 2015 (Continued)

Note 7—Long-Term Obligations: (Continued)

C. Annual Amortization of Long-Term Debt

The annual requirements to amortize all long-term debt outstanding as of June 30, 2016 are as follows:

Year Ending June 30,	Revenue Bonds	
	Principal	Interest
2017	\$ 5,795,935	5,727,279
2018	5,925,769	5,195,715
2019	6,060,865	4,985,244
2020	6,198,447	4,770,353
2021	6,408,582	4,556,834
2022-2026	35,409,376	19,147,605
2027-2031	36,314,096	12,861,515
2032-2036	20,819,566	8,154,128
2037-2041	16,580,000	4,615,522
2042-2046	12,420,000	1,135,553
Total	\$ 151,932,636	\$ 71,149,748

D. Prior Year Defeasance of Debt

In prior years, the Authority defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements.

Note 8—Compensated Absences:

Authority employees earn vacation leave each month at a scheduled rate in accordance with the years of service and sick leave at the rate of eight hours per month. Accumulated unpaid vacation leave amounts are accrued when incurred. At June 30, 2016 and 2015, the liability for accrued vacation leave was \$383,998 and \$389,111, respectively.

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements

At June 30, 2016 and 2015 (Continued)

Note 9—Pension Plan:

Plan Description

Name of Plan: Virginia Retirement System (VRS)
 Identification of Plan: Agent Multiple-Employer Pension Plan
 Administering Entity: Virginia Retirement System (VRS)

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 pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and, Hybrid. Each of these benefit structures has 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 formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements
At June 30, 2016 and 2015 (Continued)

Note 9—Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1 (Cont.)</p>	<p>About Plan 2 (Cont.)</p>	<p>About the Hybrid Retirement Plan (Cont.)</p> <ul style="list-style-type: none"> • 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 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 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"> • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. <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.

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements
At June 30, 2016 and 2015 (Continued)

Note 9—Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>*Non-Eligible Members (Cont.) Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>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.</p>	<p>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.</p>

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements
At June 30, 2016 and 2015 (Continued)

Note 9—Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p>Creditable Service Same as Plan 1.</p>	<p>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 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>

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements
At June 30, 2016 and 2015 (Continued)

Note 9—Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<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>

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements

At June 30, 2016 and 2015 (Continued)

Note 9—Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting (Cont.)	Vesting (Cont.)	Vesting (Cont.) <u>Defined Contributions Component: (Cont.)</u> Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
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.	Calculating the Benefit See definition under Plan 1.	Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements
At June 30, 2016 and 2015 (Continued)

Note 9—Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Calculating the Benefit (Cont.) 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.	Calculating the Benefit (Cont.)	Calculating the Benefit (Cont.) <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.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.	Service Retirement Multiplier VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. Sheriffs and regional jail superintendents: Same as Plan 1. Political subdivision hazardous duty employees: Same as Plan 1.	Service Retirement Multiplier <u>Defined Benefit Component:</u> VRS: The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. Sheriffs and regional jail superintendents: Not applicable. Political subdivision hazardous duty employees: Not applicable. Defined Contribution Component: Not applicable.

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements
At June 30, 2016 and 2015 (Continued)

Note 9—Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Normal Retirement Age VRS: Age 65.</p> <p>Political subdivisions hazardous duty employees: Age 60.</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</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: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</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: Same as Plan 1.</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 10 years of creditable service.</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: Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p>

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements
At June 30, 2016 and 2015 (Continued)

Note 9—Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Reduced Retirement Eligibility (Cont.)</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>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>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>

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements
At June 30, 2016 and 2015 (Continued)

Note 9—Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements

At June 30, 2016 and 2015 (Continued)

Note 9—Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<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>
<p>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.</p>	<p>Purchase of Prior Service Same as Plan 1.</p>	<p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions:</p> <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. <p><u>Defined Contribution Component:</u> Not applicable.</p>

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements
At June 30, 2016 and 2015 (Continued)

Note 9—Pension Plan: (Continued)

Plan Description (Continued)

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

Employees Covered by Benefit Terms

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

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	48
Inactive members:	
Vested inactive members	13
Non-vested inactive members	21
Inactive members active elsewhere in VRS	<u>36</u>
Total inactive members	70
Active members	<u>73</u>
Total covered employees	<u><u>191</u></u>

Contributions

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

Authority's contractually required contribution rate for the year ended June 30, 2016 was 10.40% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were \$451,771 and \$435,295 for the years ended June 30, 2016 and June 30, 2015, respectively.

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements
At June 30, 2016 and 2015 (Continued)

Note 9–Pension Plan: (Continued)

Net Pension Liability

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

Actuarial Assumptions – General Employees

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

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

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

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

- Largest 10 – Non-LEOS:
 - Pre-Retirement:
 - RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years
 - Post-Retirement:
 - RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year
 - Post-Disablement:
 - RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements

At June 30, 2016 and 2015 (Continued)

Note 9—Pension Plan: (Continued)

Actuarial Assumptions – General Employees (Continued)

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Largest 10 – Non-LEOS:

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

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

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

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements
At June 30, 2016 and 2015 (Continued)

Note 9—Pension Plan: (Continued)

Long-Term Expected Rate of Return

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

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

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

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements
At June 30, 2016 and 2015 (Continued)

Note 9—Pension Plan: (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Rivanna Water & Sewer Authority 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, 2014	\$ 19,052,005	\$ 16,409,699	\$ 2,642,306
Changes for the year:			
Service cost	\$ 397,302	\$ -	\$ 397,302
Interest	1,308,253	-	1,308,253
Differences between expected and actual experience	43,130	-	43,130
Contributions - employer	-	434,762	(434,762)
Contributions - employee	-	230,505	(230,505)
Net investment income	-	754,877	(754,877)
Benefit payments, including refunds of employee contributions	(725,341)	(725,341)	-
Administrative expenses	-	(10,246)	10,246
Other changes	-	(160)	160
Net changes	\$ 1,023,344	\$ 684,397	\$ 338,947
Balances at June 30, 2015	\$ 20,075,349	\$ 17,094,096	\$ 2,981,253

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements

At June 30, 2016 and 2015 (Continued)

Note 9—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 Authority's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	Rate		
	(6.00%)	(7.00%)	(8.00%)
Rivanna Water & Sewer Authority			
Net Pension Liability	\$ 5,533,517	\$ 2,981,253	\$ 849,114

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

For the year ended June 30, 2016, the Authority recognized pension expense of \$178,466. At June 30, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 29,859	\$ -
Net difference between projected and actual earnings on pension plan investments	-	443,880
Employer contributions subsequent to the measurement date	451,771	-
Total	\$ 481,630	\$ 443,880

\$451,771 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30

2017	\$ 160,778
2018	160,778
2019	170,732
2020	78,267
Thereafter	-

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements

At June 30, 2016 and 2015 (Continued)

Note 10–Risk Management:

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority joined together with other local governments in the Commonwealth to form the Virginia Municipal Group Self Insurance Association, a public entity risk pool currently operating as a common risk management and insurance program for member governments. The Authority pays an annual premium to the pool for its workers compensation coverage. For property and liability insurance the Authority joined together with other local governments in the State to form the Virginia Association of Counties Group Self-Insurance Pool, a public entity risk pool. The Agreements for Formation of the associations provide that the associations will be self-sustaining through member premiums. Settled claims have not exceeded pool coverage in any of the past three fiscal years.

Note 11–Other Postemployment Benefits–Health Insurance:

Background

In fiscal year 2009 the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 45 for other postemployment benefits (OPEB) offered to retirees. This standard addresses how governmental reporting entities should account for and report their costs related to postemployment healthcare and non-pension benefits, such as the Authority's retiree health benefit. Historically, the Authority's subsidy was funded on a pay-as-you-go basis, but GASB Statement No. 45 requires that the Authority accrue the cost of the retiree health subsidy and other postemployment benefits during the period of the employees' active employment, while the benefits are being earned, and disclose the unfunded actuarial accrued liability in order to accurately account for the total future cost of postemployment benefits and the financial impact on the Authority. This funding methodology mirrors the funding approach used for pension benefits.

Plan Description

In addition to the pension benefits described in Note 9, the Authority previously provided post-retirement healthcare benefits for employees who were eligible under a single-employer defined benefit plan. The Plan and benefits have been terminated except for a closed group of retirees, who will continue to receive benefits under the previous plan policy. The Authority permitted retirees to participate and purchase medical benefits under the Authority's existing plan for current employees. Retirees were responsible for the entire cost of the benefits. Benefits were available for a period of five years or until age 65, whichever came first. The OPEB Plan does not issue separate audited financial statements.

Eligible employees must have met the age and service criteria for unreduced retirement benefits from VRS and been covered by the Authority's group health plan for active employees at retirement or been eligible for reduced retirement benefits at age 50 and employed by the Authority in a benefits-eligible position for 10 years.

Funding Policy

The retirees pay and participate in the same plan for medical benefits as current employees creating an implicit rate subsidy liability for the Authority. The Authority determines how the liability will be funded each year, whether it will partially or fully fund the liability. Eligibility under the plan ceases when retirees reach the age of 65. Participating dependents are also entitled to continue coverage under the plan after the death of the retiree.

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements

At June 30, 2016 and 2015 (Continued)

Note 11—Other Postemployment Benefits—Health Insurance: (Continued)

Annual Required Contribution (ARC)

The annual cost of other postemployment benefits (OPEB) under GASB 45 is called the annual required contribution or ARC. Based on an actuarial valuation dated July 1, 2013, the estimated pay-as-you-go cost for OPEB benefits is (\$135,000) for fiscal year 2016. The Authority has paid an estimated \$23,000 towards this obligation during the fiscal year. The Authority is required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance within the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of three years.

Annual OPEB Cost and Net OPEB Obligation

The estimated contributions are based on projected medical premium payments and credit for the implicit rate subsidy made during the year for the retirees by the Authority. The following table depicts the components of the Authority's annual OPEB cost for the year, the estimated annual contributions to the plan and changes in the Authority's net OPEB obligation.

Annual required contribution	\$	69,000
Interest on net OPEB obligation		8,000
Adjustment to annual required contribution		<u>(212,000)</u>
Annual OPEB cost (expense)	\$	(135,000)
Contributions made		<u>(23,000)</u>
Decrease in net OPEB obligation	\$	(158,000)
Net OPEB obligation, beginning of year		<u>203,406</u>
Net OPEB obligation, end of year	\$	<u><u>45,406</u></u>

For fiscal year 2016, the Authority's expected cash payment of \$23,000 was more than the OPEB cost (the Plan was previously terminated). The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016, and the preceding two years are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2014	\$ (114,000)	n/a	\$ 357,406
June 30, 2015	(125,000)	n/a	203,406
June 30, 2016	(135,000)	n/a	45,406

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements

At June 30, 2016 and 2015 (Continued)

Note 11—Other Postemployment Benefits—Health Insurance: (Continued)

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2013, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 119,000
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	\$ 119,000
Funded ratio (actuarial value of plan assets / AAL)	0%
Covered payroll (active plan members)	\$ n/a
UAAL as a percentage of covered payroll	n/a

The required schedule of funding progress for the other postemployment benefits plan, presented as Required Supplementary Information immediately following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future.

Cost Method

The projected unit credit cost method was used to determine the plan's funding liabilities with costs prorated to the date of benefit commencement. The valuation of the liabilities is based on a closed group of retirees only. Under the projected unit credit method the liability is projected from the date of the actuarial valuation to the expected end date of benefits. The liability is computed by measuring each unit of benefit during the period of obligation.

Assumptions

Interest/Discount rate (unfunded)	4.00%
Inflation rate	2.80%
Amortization period	3 years - level percentage of projected payroll on a closed basis
Healthcare cost trend rate	6.40% - 4.30%
Payroll growth rate	3.00%

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements

At June 30, 2016 and 2015 (Continued)

Note 12—Related Parties:

Rivanna Solid Waste Authority (RSWA) and Rivanna Water and Sewer Authority (RWSA) share office space and administrative staff. Procedures are in place to ensure proper segregation of funds, purchasing activity, personnel and similar matters. RSWA pays RWSA monthly for its share of joint administrative expenses, which totaled \$299,000 in FY 2016 and \$265,000 in FY 2015 and for leachate acceptance and treatment of \$1,974 in FY 2016 and \$2,394 in FY 2015. Rivanna Solid Waste Authority billed Rivanna Water & Sewer Authority \$60,875 for hauling and tipping fees in FY 2016 and \$89,751 in the previous year. RSWA owed RWSA \$19,187 and \$22,502 at June 30, 2016 and 2015, respectively.

Note 13—Construction Commitments:

Rivanna Water and Sewer Authority had the following significant construction contract commitments for capital projects as of June 30, 2016:

Project	Paid to Date	Remaining Commitment
Rivanna Pump Station and Tunnel	\$ 16,888,822	\$ 9,242,779
Urban & Rural GAC/WTP Improvements	6,951,059	17,815,736
Wholesale Water Master Metering	-	2,036,281
MCAWRRF Odor Control - Phase 2 and MCAWRRF Bridge Repairs	-	6,796,000

These contracts give the Authority the right to terminate the contract for any reason.

Note 14—Adoption of Accounting Principles:

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*:

The Authority implemented the financial reporting provisions of the above Statements for the fiscal year ended June 30, 2015. These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense related to pensions. Note disclosure and required supplementary information requirements about pensions are also addressed. The requirements of these Statements will improve financial reporting by improving accounting and financial reporting by state and local governments for pensions. The implementation of these Statements resulted in the following restatement of net position:

Net Position as reported at June 30, 2014	\$ 128,798,369
Implementation of GASB 68	<u>(3,438,615)</u>
Net Position as restated at June 30, 2014	<u>\$ 125,359,754</u>

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements

At June 30, 2016 and 2015 (Continued)

Note 15—Fair Value Measures:

Fair value for investments is determined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The three-level fair value hierarchy prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Significant observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 — Significant unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The Authority is providing the following information related to its investments:

Fair Value Measurements at Reporting Date Using

	Total June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Agencies Securities	\$ 10,693	\$ 10,693	\$ -	\$ -
U.S. Treasury Notes & Bonds	<u>1,020,230</u>	<u>1,020,230</u>	<u>-</u>	<u>-</u>
Total by fair value level	<u>\$ 1,030,923</u>	<u>\$ 1,030,923</u>	<u>\$ -</u>	<u>\$ -</u>

Investments measured at the net asset value (NAV)

VML/VACo Virginia Investment Pool	\$ <u>10,047,798</u>
Total measured at the NAV	\$ <u>10,047,798</u>
Total investments measured at fair value	\$ <u>11,078,721</u>

RIVANNA WATER & SEWER AUTHORITY

Notes to the Financial Statements

At June 30, 2016 and 2015 (Continued)

Note 16–Upcoming Financial Reporting Pronouncements:

The primary objective of statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

The primary objective of statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB*. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

The primary objective of statement No. 81, *Irrevocable Split-Interest Agreements*, is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.

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Required Supplementary Information

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RIVANNA WATER & SEWER AUTHORITY

Schedule of Components of and Changes in Net Pension Liability and Related Ratios For the Year Ended June 30, 2016

	2015	2014
Total pension liability		
Service cost	\$ 397,302	\$ 408,618
Interest	1,308,253	1,243,939
Differences between expected and actual experience	43,130	-
Benefit payments, including refunds of employee contributions	(725,341)	(742,220)
Net change in total pension liability	\$ 1,023,344	\$ 910,337
Total pension liability - beginning	19,052,005	18,141,668
Total pension liability - ending (a)	\$ 20,075,349	\$ 19,052,005
Plan fiduciary net position		
Contributions - employer	\$ 434,762	\$ 428,309
Contributions - employee	230,505	204,334
Net investment income	754,877	2,256,556
Benefit payments, including refunds of employee contributions	(725,341)	(742,220)
Administrative expense	(10,246)	(12,143)
Other	(160)	119
Net change in plan fiduciary net position	\$ 684,397	\$ 2,134,955
Plan fiduciary net position - beginning	16,409,699	14,274,744
Plan fiduciary net position - ending (b)	\$ 17,094,096	\$ 16,409,699
Authority's net pension liability - ending (a) - (b)	\$ 2,981,253	\$ 2,642,306
Plan fiduciary net position as a percentage of the total pension liability	85.15%	86.13%
Covered payroll	\$ 4,232,146	\$ 4,087,146
Authority's net pension liability as a percentage of covered payroll	70.44%	64.65%

This schedule is intended to report information for 10 years. Fiscal year 2015 is the first year for this presentation, no other data is available. Additional years will be included when available.

RIVANNA WATER & SEWER AUTHORITY

Schedule of Employer Contributions For the Year Ended June 30, 2016

Fiscal Year	Contributions in Relation to			Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
	Contractually Required Contribution (1)	Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)		
2016	\$ 451,771	\$ 451,771	\$ -	\$ 4,403,204	10.26%
2015	435,295	435,295	-	4,232,146	10.29%
2014	428,317	428,317	-	4,087,133	10.48%
2013	426,490	426,490	-	4,078,576	10.46%
2012	308,088	308,088	-	3,885,089	7.93%
2011	297,182	297,182	-	3,747,565	7.93%
2010	237,625	237,625	-	3,765,849	6.31%
2009	236,823	236,823	-	3,753,142	6.31%
2008	356,111	356,111	-	3,557,554	10.01%
2007	334,188	334,188	-	3,309,790	10.10%

RIVANNA WATER & SEWER AUTHORITY

Notes to Required Supplementary Information For the Year Ended June 30, 2016

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

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

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

RIVANNA WATER & SEWER AUTHORITY

Schedule of OPEB Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAL as % of Covered Payroll (b - a) / (c)
07/01/08	\$ -	\$ 1,355,828	\$ 1,355,828	0.00%	\$ 3,486,972	38.88%
07/01/10	-	1,767,166	1,767,166	0.00%	3,880,191	45.54%
07/01/13	-	119,000	119,000	0.00%	n/a	n/a
07/01/14	-	92,000	92,000	0.00%	n/a	n/a
07/01/15	-	66,000	66,000	0.00%	n/a	n/a

The amounts reported on the schedule for the valuation dates of 7/1/14 and 7/1/15 are prepared from a roll forward of the complete valuation prepared as of 7/1/13.

Statistical Section

Contents

Tables

Financial Trends

These tables contain trend information to help the reader understand how the the Authority's financial performance has changed over time.

1-2

Revenue, Rates and Useage Information

These tables contain information to help the reader assess the factors affecting the Authority's change in revenues and its ability to generate revenues.

3-5

Expenses

This table contains comparative information about the Authority's expenses.

6

Debt Capacity

These tables present information to help the reader assess the affordability of the Authority's current levels of outstanding debt and the Authority's ability to issue debt in the future.

7-8

Demographic and Economic Information

These tables offer demographic and economic indicators to help the reader understand the environment within which the Authority's financial activities take place and to help make comparisons over time.

9-10

Operating Information

These tables contain information about the Authority's operations and resources to help the reader understand how the Authority's financial information relate to the activities it performs.

11-12

Other Information

These tables contain miscellaneous data such as insurance coverage and data from related organizations, Albemarle County Service Authority and City of Charlottesville.

13-15

Sources:

Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial reports for the relevant year.

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RIVANNA WATER & SEWER AUTHORITY

Table 1

Net Position by Component
Last Ten Fiscal Years

	Fiscal Years Ended June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Net investment in capital assets	\$ 101,129,762	\$ 99,020,753	\$ 93,538,673	\$ 87,302,949	\$ 86,135,840	\$ 77,662,172	\$ 62,172,653	\$ 47,324,770	\$ 40,935,774	\$ 36,586,542
Restricted	3,335,539	2,940,314	2,870,788	2,782,090	3,173,804	3,048,111	2,522,530	3,230,185	3,124,165	3,030,350
Unrestricted	31,189,295	28,812,875	32,388,908	31,510,133	24,483,936	23,156,625	26,697,587	20,419,274	20,840,956	19,431,938
Total net position	<u>\$ 135,654,596</u>	<u>\$ 130,773,942</u>	<u>\$ 128,798,369</u>	<u>\$ 121,595,172</u>	<u>\$ 113,793,580</u>	<u>\$ 103,866,908</u>	<u>\$ 91,392,770</u>	<u>\$ 70,974,229</u>	<u>\$ 64,900,895</u>	<u>\$ 59,048,830</u>

RIVANNA WATER & SEWER AUTHORITY
Table 2

Changes in Net Position
Last Ten Fiscal Years

	Fiscal Years Ended June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Operating revenues:										
Metered water sales	\$ 13,014,328	\$ 12,555,666	\$ 11,353,630	\$ 11,728,840	\$ 11,058,083	\$ 10,895,551	\$ 10,746,260	\$ 9,867,555	\$ 9,826,958	\$ 10,114,752
Wastewater service charges	14,799,741	13,625,855	14,620,353	13,889,105	12,807,628	11,069,488	12,701,859	9,671,122	8,211,378	8,143,177
Total operating revenues	\$ 27,814,069	\$ 26,181,521	\$ 25,973,983	\$ 25,617,945	\$ 23,865,711	\$ 21,965,039	\$ 23,448,119	\$ 19,538,677	\$ 18,038,336	\$ 18,257,929
Operating expenses:										
Personnel costs	\$ 6,155,243	\$ 5,878,175	\$ 5,756,273	\$ 5,928,994	\$ 5,879,080	\$ 5,525,332	\$ 5,428,691	\$ 5,449,513	\$ 5,224,525	\$ 4,939,525
Professional services	602,891	473,193	418,858	282,427	336,166	338,814	238,975	210,710	215,377	211,370
Other services and charges	2,607,118	2,532,408	2,683,136	2,430,718	2,463,176	2,341,123	2,137,741	2,291,946	2,054,600	1,666,178
Operations and maintenance	4,710,701	3,991,590	3,543,311	3,383,574	3,201,971	2,415,211	2,412,752	2,515,504	2,366,111	2,233,192
Depreciation	5,396,029	4,983,753	4,662,094	3,601,730	2,965,612	2,962,912	2,966,823	2,906,351	2,702,333	2,572,143
Total operating expenses	\$ 19,471,982	\$ 17,859,119	\$ 17,063,672	\$ 15,627,443	\$ 14,846,005	\$ 13,583,392	\$ 13,184,982	\$ 13,374,024	\$ 12,562,946	\$ 11,622,408
Operating income	\$ 8,342,087	\$ 8,322,402	\$ 8,910,311	\$ 9,990,502	\$ 9,019,706	\$ 8,381,647	\$ 10,263,137	\$ 6,164,653	\$ 5,475,390	\$ 6,635,521
Nonoperating revenues (expenses):										
Investment earnings	\$ 369,675	\$ 82,083	\$ 92,839	\$ 157,526	\$ 124,832	\$ 120,623	\$ 149,587	\$ 418,585	\$ 1,169,571	\$ 1,350,896
Non-capital grant revenue	-	-	-	-	-	-	-	-	-	21,000
Buck Mountain revenue	84,000	74,900	89,000	78,000	68,200	52,400	93,300	90,300	120,300	128,900
Administrative reimbursement	299,000	265,000	257,000	257,000	276,000	277,000	418,000	420,000	419,001	399,800
Other revenues	370,173	337,148	251,373	225,034	214,908	256,541	110,396	140,205	104,582	59,139
Interest expense	(4,027,843)	(3,608,072)	(2,336,245)	(2,552,331)	(1,830,696)	(2,607,502)	(2,107,381)	(2,090,583)	(2,213,064)	(2,347,443)
Debt issuance costs	(556,438)	(59,273)	(61,081)	(580,404)	-	-	(39,525)	(39,995)	(33,768)	(34,071)
Amortization expense	-	-	-	-	-	(86,827)	(39,525)	(39,995)	(33,768)	(34,071)
Total nonoperating revenues (expenses)	\$ (3,461,433)	\$ (2,908,214)	\$ (1,707,114)	\$ (2,415,175)	\$ (1,146,756)	\$ (1,987,765)	\$ (1,375,623)	\$ (1,061,488)	\$ (433,378)	\$ (421,779)
Income before capital grants and contributions	\$ 4,880,654	\$ 5,414,188	\$ 7,203,197	\$ 7,575,327	\$ 7,872,950	\$ 6,393,882	\$ 8,887,514	\$ 5,103,165	\$ 5,042,012	\$ 6,213,742
Capital grants	\$ -	\$ -	\$ -	\$ 226,265	\$ 3,003,552	\$ 6,080,256	\$ 11,531,027	\$ 970,169	\$ 810,053	\$ -
Change in net position	\$ 4,880,654	\$ 5,414,188	\$ 7,203,197	\$ 7,801,592	\$ 10,876,502	\$ 12,474,138	\$ 20,418,541	\$ 6,073,334	\$ 5,852,065	\$ 6,213,742

RIVANNA WATER & SEWER AUTHORITY

Table 3

Revenues by Source
Last Ten Fiscal Years

Fiscal Years Ended June 30,	Operating Revenues				Nonoperating Revenues				Other	
	Wastewater		Total Operating Revenues	Investment Earnings	Buck		Non-capital Grant Revenue	Total Nonoperating Revenues	Capital Grants and Contributions	Total Revenues
	Water Sales	Service Charges			Mountain Revenue	Other Revenue				
2007	\$ 10,114,752	\$ 8,143,177	\$ 18,257,929	\$ 1,350,896	\$ 128,900	\$ 458,939	\$ 21,000	\$ 1,959,735	\$ -	\$ 20,217,664
2008	9,826,958	8,211,378	18,038,336	1,169,571	120,300	523,583	-	1,813,454	810,053	20,661,843
2009	9,867,555	9,671,122	19,538,677	418,585	90,300	560,205	-	1,069,090	970,169	21,577,936
2010	10,746,260	12,701,859	23,448,119	149,587	93,300	528,396	-	771,283	11,531,027	35,750,429
2011	10,895,551	11,069,488	21,965,039	120,623	52,400	533,541	-	706,564	6,080,256	28,751,859
2012	11,058,083	12,807,628	23,865,711	124,832	68,200	490,908	-	683,940	3,003,552	27,553,203
2013	11,728,840	13,889,105	25,617,945	157,526	78,000	482,034	-	717,560	226,265	26,561,770
2014	11,353,630	14,620,353	25,973,983	92,839	89,000	508,373	-	690,212	-	26,664,195
2015	12,555,666	13,625,855	26,181,521	82,083	74,900	602,148	-	759,131	-	26,940,652
2016	13,014,328	14,799,741	27,814,069	369,675	84,000	669,173	-	1,122,848	-	28,936,917

RIVANNA WATER & SEWER AUTHORITY

Table 4

Water and Wastewater Rates and Flows
Last Ten Fiscal Years

Rates:	Fiscal Years Ended June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
*Note 1 (7/1-10/31/15)										
Urban Water - City (per 1000 gallons)	\$ 2,756	\$ 2,663	\$ 2,341	\$ 2,443	\$ 2,403	\$ 2,438	\$ 2,461	\$ 2,285	\$ 2,226	\$ 2,149
Urban Water - ACSA (per 1000 gallons)	\$ 3,795	\$ 3,687	\$ 3,333	\$ 3,465	\$ 3,439	\$ 3,305	\$ 3,320	\$ 2,983	\$ 2,912	\$ 2,717
Crozet Water (per month)	\$ 111,330	\$ 91,942	\$ 84,630	\$ 82,916	\$ 60,853	\$ 50,712	\$ 52,315	\$ 50,226	\$ 43,372	\$ 43,587
Scottsville Water (per month)	\$ 49,012	\$ 41,343	\$ 41,047	\$ 36,280	\$ 31,665	\$ 32,834	\$ 32,089	\$ 31,421	\$ 34,127	\$ 31,227
Urban Wastewater - City (per 1000 gallons)	\$ 3,954	\$ 3,822	\$ 3,593	\$ 3,565	\$ 3,179	\$ 2,878	\$ 2,784	\$ 2,466	\$ 2,233	\$ 1,865
Urban Wastewater - ACSA (per 1000 gallons)	\$ 3,560	\$ 3,435	\$ 3,463	\$ 3,732	\$ 3,348	\$ 3,048	\$ 3,063	\$ 2,722	\$ 2,460	\$ 2,101
Glenmore Wastewater (per month)	\$ 25,211	\$ 24,451	\$ 24,189	\$ 23,436	\$ 23,246	\$ 21,806	\$ 22,968	\$ 24,606	\$ 19,726	\$ 18,772
Scottsville Wastewater (per month)	\$ 21,425	\$ 28,879	\$ 28,295	\$ 27,619	\$ 26,579	\$ 25,603	\$ 25,216	\$ 25,968	\$ 24,897	\$ 24,022

*Note 1:

The Fiscal Year 2016 Urban Water and Urban Wastewater rates were revised from the above stated rates to the following rates, effective 11/1/15-6/30/16:

Urban Water:
Operations - City & ACSA (per 1,000 gallons) \$ 1,713
Debt Service - City (per month) \$ 158,099
Debt Service - ACSA (per month) \$ 279,864
Urban Wastewater:
Operations - City & ACSA (per 1,000 gallons) \$ 1,789
Debt Service - City (per month) \$ 333,645
Debt Service - ACSA (per month) \$ 232,493

Flows (in million gallons per day):	Fiscal Years Ended June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Urban Water	9.384	9.540	9.618	9.647	9.454	9.569	9.352	9.344	9.546	10.435
Crozet Water	0.542	0.546	0.566	0.503	0.450	0.436	0.420	0.384	0.378	0.386
Scottsville Water	0.048	0.049	0.056	0.053	0.049	0.056	0.077	0.077	0.087	0.108
	9.974	10.135	10.240	10.203	9.953	10.060	9.848	9.805	10.011	10.929
Urban Wastewater	10.381	9.481	10.566	9.719	10.014	9.442	11.158	9.307	8.553	10.047
Glenmore Wastewater	0.108	0.101	0.114	0.121	0.122	0.137	0.125	0.115	0.117	0.123
Scottsville Wastewater	0.072	0.050	0.066	0.050	0.054	0.054	0.083	0.064	0.060	0.087
	10.561	9.632	10.746	9.890	10.190	9.632	11.367	9.486	8.730	10.257

RIVANNA WATER & SEWER AUTHORITY

Table 5

Ten Largest Customers
Current Year and Nine Years Ago

	Fiscal Year 2016 (Current Year)			
	Water Revenue		Wastewater Revenue	
	Amount	%	Amount	%
Albemarle County Service Authority	\$ 8,117,962	62.38%	\$ 6,677,681	45.12%
City of Charlottesville	\$ 4,896,366	37.62%	\$ 7,676,282	51.87%
Others	\$ -	0.00%	\$ 445,778	3.01%
	<u>\$ 13,014,328</u>	<u>100.00%</u>	<u>\$ 14,799,741</u>	<u>100.00%</u>
Fiscal Year 2007 (Nine Years Ago)				
	Water Revenue		Wastewater Revenue	
	Amount	%	Amount	%
Albemarle County Service Authority	\$ 5,835,829	57.70%	\$ 3,997,418	49.09%
City of Charlottesville	\$ 4,278,923	42.30%	\$ 3,839,871	47.15%
Others	\$ -	0.00%	\$ 305,889	3.76%
	<u>\$ 10,114,752</u>	<u>100.00%</u>	<u>\$ 8,143,177</u>	<u>100.00%</u>

Note: The Authority's two wholesale customers, which are both governmental entities, provided 100% of water revenue and 97% of wastewater revenue in FY 2016 and 96% in FY 2007. The remaining wastewater revenue came from septage acceptance customers in FY 2016 and also from compost sales in FY 2007. Due to lack of materiality, the number of customers by type that provide that revenue is not presented here.

RIVANNA WATER & SEWER AUTHORITY

Table 6

Expenses by Type
Last Ten Fiscal Years

Fiscal Years Ended June 30,	Operations		Depreciation		Interest and Amortization		Bond Issuance Costs		Total
2007	\$	9,050,265	\$	2,572,143	\$	2,381,514	\$	-	14,003,922
2008		9,860,613		2,702,333		2,246,832		-	14,809,778
2009		10,467,673		2,906,351		2,130,578		-	15,504,602
2010		10,218,159		2,966,823		2,146,906		-	15,331,888
2011		10,620,480		2,962,912		2,694,329		-	16,277,721
2012		11,880,393		2,965,612		1,830,696		-	16,676,701
2013		12,025,713		3,601,730		2,552,331		580,404	18,760,178
2014		12,401,578		4,662,094		2,336,245		61,081	19,460,998
2015		12,875,366		4,983,753		3,608,072		59,273	21,526,464
2016		14,075,953		5,396,029		4,027,843		556,438	24,056,263

RIVANNA WATER & SEWER AUTHORITY

Table 7

Outstanding Debt by Type
Last Ten Fiscal Years

	Fiscal Years Ended June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Revenue bonds payable	\$ 160,512,250	\$ 124,670,205	\$ 125,680,526	\$ 127,548,686	\$ 103,834,145	\$ 73,831,274	\$ 57,250,353	\$ 44,350,079	\$ 47,765,367	\$ 51,009,997
Total outstanding debt	<u>\$ 160,512,250</u>	<u>\$ 124,670,205</u>	<u>\$ 125,680,526</u>	<u>\$ 127,548,686</u>	<u>\$ 103,834,145</u>	<u>\$ 73,831,274</u>	<u>\$ 57,250,353</u>	<u>\$ 44,350,079</u>	<u>\$ 47,765,367</u>	<u>\$ 51,009,997</u>
Debt per capita	\$ 1,069.50	\$ 830.68	\$ 848.58	\$ 870.34	\$ 718.89	\$ 517.17	\$ 405.67	\$ 318.58	\$ 349.81	\$ 378.08
Debt as a percentage of personal income	1.82%	1.42%	1.49%	1.53%	1.36%	1.05%	0.85%	0.63%	0.70%	0.80%

Notes:

Debt per capita was calculated based on population figures for the calendar year (CY) ending within the fiscal year (FY) obtained from U.S. Department of Commerce - Bureau of Economic Analysis for the City of Charlottesville and County of Albemarle. See Table 9.

Debt as a percentage of personal income was calculated based on personal income for the CY ending within the FY obtained from U.S. Department of Commerce - Bureau of Economic Analysis for the City of Charlottesville and County of Albemarle. See Table 9.

RIVANNA WATER & SEWER AUTHORITY

Table 8

Revenue Bond Debt Service Coverage
Last Ten Fiscal Years

Fiscal Years Ended June 30,	Gross Revenue (1)	Direct Operating Expense (2)	Net Available	Required Debt Service Payments (3)	Coverage
2007	\$ 20,196,664	\$ 9,050,265	\$ 11,146,399	5,526,143	2.0X
2008	19,851,790	9,860,613	9,991,177	5,603,277	1.8X
2009	20,607,767	10,467,673	10,140,094	5,591,120	1.8X
2010	24,219,402	10,218,159	14,001,243	5,592,641	2.5X
2011	22,671,603	10,620,480	12,051,123	6,962,703	1.7X
2012	24,549,651	11,880,393	12,669,258	6,724,261	1.9X
2013	26,335,505	12,025,713	14,309,792	8,234,169	1.7X
2014	26,664,195	12,401,578	14,262,617	9,089,702	1.6X
2015	26,940,652	12,875,366	14,065,286	9,094,732	1.5X
2016	28,936,917	14,075,953	14,860,964	9,567,370	1.6X

(1) Excluding grant revenue

(2) Excluding depreciation expense

(3) Including payments on revenue bonds and contracts payable and excluding any refunding and early payoffs since the payments were not required to be made in that year.

Table 9

RIVANNA WATER AND SEWER AUTHORITY

Demographic Data for the Service Area
 City of Charlottesville & Albemarle County, Virginia
 Last Ten Calendar Years

Calendar Year	Population (2)	Personal Income (thousands of \$) (2)	Per Capita Personal Income (\$) (2)	Unemployment Rate (1)
2006	134,918	6,386,472	47,336	2.7%
2007	136,547	6,823,322	49,971	2.5%
2008	139,211	7,038,250	50,558	3.4%
2009	141,125	6,742,806	47,779	5.8%
2010	142,760	7,014,795	49,137	6.5%
2011	144,437	7,609,998	52,687	5.9%
2012	146,551	8,350,340	56,979	5.5%
2013	148,107	8,420,079	56,851	5.0%
2014	150,082	8,795,194	58,603	4.5%
2015	not available	not available	not available	3.6%

(1) Virginia Employment Commission - Virginia Workforce Connection - for Charlottesville Metropolitan Service Area

(2) U.S. Department of Commerce - Bureau of Economic Analysis - for City of Charlottesville and Albemarle County

RIVANNA WATER & SEWER AUTHORITY

Table 10

Principal Employers in the Charlottesville Area
Current Year and Nine Years Ago

Employer	Fourth Quarter of 2015		Fourth Quarter of 2006	
	Number of Employees	Rank	Number of Employees	Rank
University of Virginia/ Blue Ridge Hospital	1,000 & over	1	1,000 & over	1
University of Virginia Medical Center	1,000 & over	2	1,000 & over	2
County of Albemarle	1,000 & over	3	1,000 & over	3
Sentara Health Care	1,000 & over	4		
Martha Jefferson Hospital			1,000 & over	4
UVA Health Services Foundation	1,000 & over	5	1,000 & over	7
City of Charlottesville	1,000 & over	6	1,000 & over	5
State Farm Mutual Automobile Insurance	1,000 & over	7	1,000 & over	6
Charlottesville City School Board	500-999	8	500-999	8
U.S. Department of Defense	500-999	9		
Fluvanna County Public School Board	500-999	10		
Northrop Grumman Corporation			500-999	9
Aramark Campus			500-999	10

Source: Virginia Employment Commission, Quarterly Census of Employment and Wages
- for Charlottesville Metropolitan Service Area (MSA)

Each employer's percentage of total employment is not available.

RIVANNA WATER & SEWER AUTHORITY

Table 11

Number of Employees by Identifiable Activity Last Ten Fiscal Years

	Fiscal Years Ended June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Number of budgeted full-time equivalent positions:										
Water	23	23	22	23	23	23	23	27	27	27
Wastewater	17	17	17	18	18	15	16	25	25	26
Maintenance (1)	17	17	17	16	16	15	14			
Grounds crew maintenance (2)								2	2	4
Operations Management	2	2	2	2	2	2	2	2	2	2
Administration (3)	13	12	12	12	12	12	13	13	12	12
Laboratory	3	3	3	3	3	3	3	3	3	3
Engineering	9	9	9	9	9	9	11	11	10	7
Total	84	83	82	83	83	79	82	83	81	81

(1) Maintenance includes mechanics and maintenance workers for Water and Wastewater.

(2) Grounds crew maintenance positions worked approximately 60% on wastewater department maintenance and 40% on water department maintenance. Beginning in FY 2010, grounds crew maintenance positions are included in Maintenance.

(3) Administration staff is shared with Rivanna Solid Waste Authority.

RIVANNA WATER & SEWER AUTHORITY

Table 12

Operating and Capital Indicators
Last Ten Fiscal Years

	Fiscal Years Ended June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Water										
Size of watershed (square miles)	766	766	766	766	766	766	766	766	766	766
Raw water safe yield (mgd)										
Urban system	19.10	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
Rural system	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.00
Miles of pipelines	64.30	64.30	64.30	64.30	64.30	64.30	64.30	64.30	64.30	64.30
Number of treatment plants	5	5	5	5	5	5	5	5	5	5
Number of pumping stations	7	7	7	7	7	7	7	7	7	7
Number of reservoirs	4	4	4	4	4	4	4	4	4	4
Number of finished water storage tanks	11	11	11	11	11	11	11	11	11	11
Maximum treatment capacity (mgd)	22.750	22.750	22.750	22.750	22.750	22.750	22.750	22.750	22.750	22.750
Water treated (mgd)	9.974	10.135	10.240	10.203	9.953	10.060	9.984	9.805	10.011	10.929
Unused capacity (mgd)	12.776	12.615	12.510	12.547	12.797	12.690	12.766	12.945	12.739	11.821
Percentage of capacity utilized	43.84%	44.55%	45.01%	44.85%	43.75%	44.22%	43.89%	43.10%	44.00%	48.04%
Wastewater										
Miles of pipelines	37	37	37	37	37	37	37	37	37	37
Number of treatment plants	4	4	4	4	5	5	5	5	5	5
Number of pumping stations	7	7	7	7	7	7	7	7	7	7
Maximum treatment capacity (mgd)	15.945	15.945	15.945	15.945	15.945	15.945	15.945	15.945	15.945	15.945
Wastewater treated (mgd)	10.561	9.632	10.746	9.890	10.190	9.632	8.730	9.486	8.730	10.257
Unused capacity (mgd)	5.384	6.313	5.199	6.055	5.755	6.313	7.215	6.459	7.215	5.688
Percentage of capacity utilized	66.23%	60.41%	67.39%	62.03%	63.91%	60.41%	54.75%	59.49%	54.75%	64.33%

Notes: mgd = millions of gallons per day
Safe yield is a measure of raw water resources during a drought of record.

RIVANNA WATER & SEWER AUTHORITY

Table 13

Schedule of Insurance in Force
June 30, 2016

<u>Type Coverage/Company Name</u>	<u>Coverage</u>	<u>Annual Premium</u>
<u>Commercial Property</u> Virginia Association of Counties 07/01/15-07/01/16	\$ 181,693,198 Property Value and Business Income/ Extra Expense	\$ 86,105
<u>Worker's Compensation</u> Virginia Municipal Group Self Insurance Association 07/01/15-07/01/16	\$ 1,000,000 Each Occurrence	\$ 59,392
<u>Comprehensive Automobile</u> Virginia Association of Counties 07/01/15-07/01/16	\$ 10,000,000	\$ 22,158
<u>General Liability</u> Virginia Association of Counties 07/01/15-07/01/16	\$ 10,000,000 Each Occurrence	\$ 21,869
<u>Public Officials Liability</u> Virginia Association of Counties 07/01/15-07/01/16	\$ 5,000,000 Each Occurrence	\$ 10,595
<u>Crime Coverage</u> Virginia Association of Counties 07/01/15-07/01/16	\$ 500,000	\$ 1,640

RIVANNA WATER & SEWER AUTHORITY

Table 14

Miscellaneous Statistical Data
Albemarle County Service Authority

Year of Incorporation: 1964

Type of Entity:

Independent authority created pursuant to the "Virginia Water & Waste Authorities Act",
Section 15.1-1239, Code of Virginia (1950), as amended

Number of water connections	18,801
Number of sewer connections	16,168
Miles of water lines	339
Miles of sewer lines	282
Number of fire hydrants	2,511

Rates (effective FY 2016) per 1,000 gallons metered consumption

Water

Residential Water Rates and all irrigation usage:

Level 1 (0-3,000 gallons per month)	\$3.80
Level 2 (3,001-6,000 gallons per month)	\$7.60
Level 3 (6,001-9,000 gallons per month)	\$11.40
Level 4 (over 9,000 gallons per month)	\$15.20

Non-Residential and Multi-Family Residential Water Rate
(except irrigation water)

	\$7.33
	\$8.10

Wastewater

Ten Largest Customers in FY 2016

	Water			Wastewater		
	Billed (in gallons)	Rank	Percentage of Total	Billed (in gallons)	Rank	Percentage of Total
County of Albemarle	23,768,900	1	1.48%	15,019,700	9	1.11%
University of Virginia	23,763,600	2	1.47%	22,245,700	1	1.65%
Southwood Mobile Homes	20,674,000	3	1.28%			
Trophy Chase Apartments	20,018,400	4	1.24%	20,018,400	2	1.49%
Martha Jefferson Hospital	19,754,000	5	1.23%			0.00%
Old Salem Apartments	19,664,600	6	1.22%	19,664,600	3	1.46%
Albemarle/Charlottesville Reg. Jail	18,307,000	7	1.14%	18,307,000	4	1.36%
Abbingdon Crossing	18,254,600	8	1.13%	18,254,600	5	1.35%
Four Seasons Apartments	17,770,000	9	1.10%	17,770,000	6	1.32%
Westminster Canterbury	17,650,000	10	1.10%	17,129,000	8	1.27%
Turtle Creek Apartments				17,301,000	7	1.28%
Westgate Apartments				13,489,000	10	1.00%
	199,625,100		12.39%	179,199,000		13.30%

Miscellaneous Statistical Data
City of Charlottesville, Virginia

Date of incorporation 1888
Date present charter adopted 1976
Form of government Council Manager

Area 10.4 square miles
Miles of streets 157

Number of water customers 14,652
Number of sewer customers 14,511
Miles of water lines 180.8
Miles of sanitary sewer lines 170
Number of fire hydrants 1031

Bond Rating AAA/Aaa

Rates FY 2016 per 1,000 cubic feet:

Water	
May - Sept.	\$ 60.31
Oct. - Apr.	\$ 46.39
Wastewater	\$ 70.44

Ten Largest Customers in Fiscal Year 2016:

	Water			Wastewater		
	Water Consumption (in cubic feet)	Billed Revenue	Percentage of Total Revenue	Wastewater Treated (in cubic feet)	Billed Revenue	Percentage of Total Revenue
University of Virginia	64,679,482	\$ 1,681,969	15.90%	47,306,538	\$ 2,577,005	20.04%
Pepsi Cola	4,200,150	230,391	2.18%	1,159,150	80,715	0.63%
Charlottesville Redevelopment and Housing	2,569,015	134,525	1.27%	2,569,015	180,996	1.41%
Woodard Properties	1,913,693	113,202	1.07%	1,900,235	135,844	1.06%
City of Charlottesville	1,909,538	107,807	1.02%	1,443,921	101,808	0.79%
Omni Charlottesville Hotel	1,560,600	87,847	0.83%	1,316,664	91,815	0.71%
Blue Atlantic	1,431,300	78,648	0.74%	1,408,320	98,705	0.77%
City Schools	1,248,846	67,648	0.64%	1,101,606	77,690	0.60%
EDR Charlottesville	1,121,800	61,862	0.58%	1,121,800	78,632	0.61%
Neighborhood Properties	1,032,895	59,411	0.56%	1,022,836	72,610	0.56%
	81,667,319	\$ 2,623,310	24.80%	60,350,085	\$ 3,495,820	27.19%

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ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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*

**To the Board of Directors
Rivanna Water & Sewer Authority
Charlottesville, Virginia**

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of Rivanna Water & Sewer Authority as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Rivanna Water & Sewer Authority's basic financial statements and have issued our report thereon dated November 28, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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.

Robinson, Turner, Co. Associates

Charlottesville, Virginia

November 28, 2016

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report on Compliance For Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Directors
Rivanna Water & Sewer Authority
Charlottesville, Virginia

Report on Compliance for Each Major Federal Program

We have audited the Rivanna Water & Sewer Authority's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Rivanna Water & Sewer Authority's major federal programs for the year ended June 30, 2016. Rivanna Water & Sewer 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Rivanna Water & Sewer 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 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 Rivanna Water & Sewer 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 Rivanna Water & Sewer Authority's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

Management of the Rivanna Water & Sewer 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 Rivanna Water & Sewer 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 Rivanna Water & Sewer Authority's internal control over compliance.

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

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

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

Robinson, Farmer, & Associates

Charlottesville, Virginia

November 28, 2016

RIVANNA WATER & SEWER AUTHORITY

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Environmental Protection Agency			
Pass-through payment:			
Virginia Department of Environmental Quality			
Capitalization Grants for Clean Water State Revolving Funds	66.458	Unknown	\$ <u>11,603,309</u>
Total Environmental Protection Agency			\$ <u>11,603,309</u>
Total expenditures of federal awards			\$ <u><u>11,603,309</u></u>

RIVANNA WATER & SEWER AUTHORITY

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

Note 1- Basis of Presentation:

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

Note 2 – Basis of Accounting

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pass-through entity identifying numbers were not available for presentation.

Note 3 – Relationship to Financial Statements

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

Loan proceeds	\$ <u>11,603,309</u>
Total federal expenditures per the Schedule of Expenditures of Federal Awards	\$ <u>11,603,309</u>

RIVANNA WATER & SEWER AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None Reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	No

Identification of major programs:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
66.458	Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	No

Section II - Financial Statement Findings

There are no financial statement findings to report.

Section III - Federal Award Findings and Questioned Costs

There are no federal award findings and questioned costs to report.

Section IV - Prior Year Audit Findings

There were no prior year audit findings.

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