



BVU AUTHORITY
FINANCIAL STATEMENTS
2015

BVU AUTHORITY
(A COMPONENT UNIT OF THE CITY OF BRISTOL, VIRGINIA)

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2015

BVU AUTHORITY
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June 30, 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
BVU Authority
Bristol, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of BVU Authority (the Authority), a discretely presented component unit of the City of Bristol, Virginia, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Joint Sewerage System, which represents 3.8% of the assets of the Authority. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Joint Sewerage System, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for 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, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority as of June 30, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2015, the Authority adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*. 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, schedule of changes in the Authority's net pension liability (asset), schedule of employer contributions, notes to required supplementary information, and analysis of funding progress for other post-employment benefits on pages 4-13 and 52-55 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 and other auditors 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 the Authority's basic financial statements. The supplementary information and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The other supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2015, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.


BLACKBURN, CHILDERS & STEAGALL, PLC
Johnson City, Tennessee

October 22, 2015

**BVU AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015**

BVU Authority (BVU) is comprised of the following divisions: Electric, Water, Wastewater and Telecommunication and Advanced Fiber-Optic Broadband Division branded as OptiNet (Divisions). BVU is reported as a component unit in the financial statements of the City of Bristol, Virginia. BVU is a utility that provided services to over 65,974 accounts in an 1,039 square-mile area that includes the City of Bristol, Virginia, and parts of Bland, Buchanan, Dickenson, Russell, Scott, Smyth, Tazewell, Washington, and Wythe Counties, Virginia. BVU is governed by a nine-member Board of Directors.

This discussion and analysis section is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of BVU's financial activity, (c) identify major changes in BVU financial position, and (d) identify any financial concerns.

The Management's Discussion and Analysis (MD & A) focuses on the year ending June 30, 2015 activities, resulting changes and current known facts. It should be read in conjunction with BVU's financial statements.

System Highlights

As of June 30, 2015 BVU served 65,974 accounts. A total of 828 new accounts were added during the fiscal year 2015. This represented a growth of 1.27 percent in total accounts.

Electric sales volumes were down across all rate classes for fiscal year 2015. In February 2015 colder winter temperatures resulted in a new BVU electric system peak of 149 MW. The total volume declined only 0.23 percent as compared to fiscal year 2014. Fiscal year 2015 sales were down \$0.51 million as compared to fiscal year 2014.

Water sales volumes were lower in fiscal year 2015 by 16.7 percent. This decrease was due in large part from the termination of the 1995 wholesale water purchase agreement between BVU and the Washington County Service Authority (WCSA) during the 2014 fiscal year. Residential, commercial and industrial sales volumes were down 3.48 percent compared to fiscal year 2014. Operating expenses for the fiscal year was down 8.1 percent from fiscal year 2014 expenses. This lower expense activity was the result of decreased spending at the filter plant and continued cost control management.

Wastewater sales were lower by 6.27 percent in fiscal year 2015 as compared to fiscal year 2014. Commercial and industrial usage was down 9 percent and residential usage was down 4 percent. Sewer surcharge revenues increased nearly 14 percent as compared to fiscal year 2014. Total operating expenses were 7 percent lower than during fiscal year 2014.

OptiNet customer accounts grew by nearly 2 percent in fiscal year 2015. OptiNet sales increased 0.56 percent above fiscal year 2014 results. This growth came from both existing service area expansion and new service expansion. The new service area expansion included connections from the completed 366-mile NTIA / BTOP Federal and State Grant. The grant deployed middle mile broadband infrastructure to unserved and underserved areas of Southwest Virginia. This asset was placed in service in September 2014.

**BVU AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015**

During fiscal year 2015 there were no new rate increases for Electric, Water, Wastewater, or OptiNet. There was a 5 percent CATV retail rate increase in August of fiscal year 2014.

During fiscal year 2015, BVU continued to deploy its electric system Automated Meter Infrastructure (AMI), outfitting electric meters with this technology of automated reading, time of day energy statistics and load profile management enhancements. Major improvements began during the fiscal year to service and replace critical motors at the water treatment plant and the raw water intake facility at South Holston Lake. A nearly million dollar project to replace high service electric panels at the water treatment plant will span over the next fiscal year. During the fiscal year, aged wastewater lines were repaired and replaced. Other efforts to fix defective sewer line services were also undertaken. OptiNet continued to bring new and additional services to its customer base, specifically deploying services with broadband channels of delivery and improving and upgrading capacity to outside plant infrastructure.

National Telecommunications and Information Administration Broadband Technology Opportunities Program (NTIA / BTOP)

In June 2010, BVU was awarded a \$22,698,010 grant from the NTIA / BTOP fund to construct a Southwest Virginia Middle Mile Project. This project added 366-miles of middle mile fiber to BVU's existing 900-mile network. As a local match to the NTIA / BTOP grant, BVU received a \$5,659,503 grant from the Virginia Tobacco Indemnification and Community Revitalization Commission (VTC). BVU was able to leverage approximately \$7,863,023 of existing OptiNet network investments to facilitate the expansion under this grant. The middle mile network serves to bring middle mile connectivity to a rural, eight-county region of Southwest Virginia, providing access to middle mile broadband connectivity for unserved and / or underserved businesses and residents. BVU completed the project in fiscal year 2014. The project was completed on time and under budget. In fiscal year 2015 and fiscal year 2014, BVU invested free cash flow from OptiNet operations to build last mile facilities from this middle mile network to deliver 1 Gig broadband speeds to end users. BVU will continue to expand into these areas as economic conditions allow. In September 2014, these middle mile assets were placed in service and have accumulated depreciation of \$1.34 million.

Financial Highlights

BVU's net position increased \$3.77 million in fiscal year 2015. Included in this amount is a \$1.849 prior period adjustment related to the implementation of GASB 68. There was a \$5.56 million increase in fiscal year 2014.

Operating revenue decreased \$0.82 million or almost 1 percent. This decline is the result of decreased electric, water and wastewater sales volumes compared to fiscal year 2014.

Operating expenses increased almost \$1.14 million or roughly 1.4 percent. The electric, water and wastewater operating divisions saw a year over year decrease in operating expenses of \$1.11 million while OptiNet's operating costs rose \$2.27 million.

**BVU AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015**

The fiscal year 2015 rise in OptiNet operating costs resulted, primarily, from the non-cash depreciation increase of \$1.34 million from the in-service of the NTIA / BTOP assets. OptiNet cost of goods sold increased 8 percent over fiscal year 2015, all attributable to higher CATV content programming cost. Administrative and general expenses decreased \$0.81 million over fiscal year 2014 expenses.

Capital contributions decreased \$1.69 million. This was a direct result of the completion of the NTIA / BTOP project.

Plant assets (net) decreased 0.62 percent during the 2015 fiscal year. This was due to the increased accumulated depreciation of 8.96 percent. The increase can be attributed to the NTIA / BTOP assets that were placed into service in September 2014.

Long-term debt represented 23.94 percent of BVU's capital structure, compared to 24.81 percent in prior year. Capital structure equals long-term debt (including the current position of revenue bonds and notes, as applicable) plus net position.

BVU Financial Statements

BVU's financial performance is reported under two basic financial statements: the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position.

Statement of Net Position

BVU reports its assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position in the Statement of Net Position. Assets are classified as current, restricted, plant in service, or other assets.

Liabilities are classified as current or long-term. Net position tells the user what BVU has done with its accumulated earnings, not just the balance.

Debt Administration

As of June 30, 2015, BVU had \$43.92 million in outstanding debt (including the current portion of revenue bonds and other notes) compared to the \$45.47 million last year, a decrease of \$1.55 million.

During the fiscal year, there was no new long term debt added.

**BVU AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015**

City of Bristol, Virginia Economic Development Expenditures

Under the terms of a November 2009 Transition Agreement between the City of Bristol, VA and Bristol Virginia Utilities Board, BVU Authority is required to budget \$0.50 million from the electric division each fiscal year for economic development projects located in the City of Bristol, VA. The September 29, 2006 TVA Power Contract authorizes the use of electric funds for this purpose. The projects are developed by City Management and recommended to BVU by the City's Economic Development Committee. The BVU Board of Directors reviews the proposed project(s) and either approves, modifies, or rejects the project(s) funding requests. The projects are subject to various rules and regulations from both TVA and BVU. In 2014, \$0.50 million was allocated for economic development expenditures. \$0.07 million of that amount was an accrual for a future project in fiscal year 2015. The total expenditures in fiscal year 2014 was \$0.43 million. In fiscal year 2015, the total expenditure was \$0.50 million. The amount recorded in fiscal year 2015 reflects reversal of unspent fiscal years 2013 and 2014 project accruals.

Statement of Revenues, Expenses and Changes in Net Position

BVU reports its revenues and expenses (both operating and non-operating) on the Statement of Revenues, Expenses and Changes in Net Position. In addition, any capital contributions or assets granted by state and federal programs are reported on this statement.

Total revenues less total expenses equals the change in net position for the reporting period. Net position at the beginning of the period is increased or decreased, as applicable, by the change in net position for the reporting period. The change in net position for the reporting period is added to the net position segment of the Statement of Net Position.

BVU AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

Condensed Financial Statements

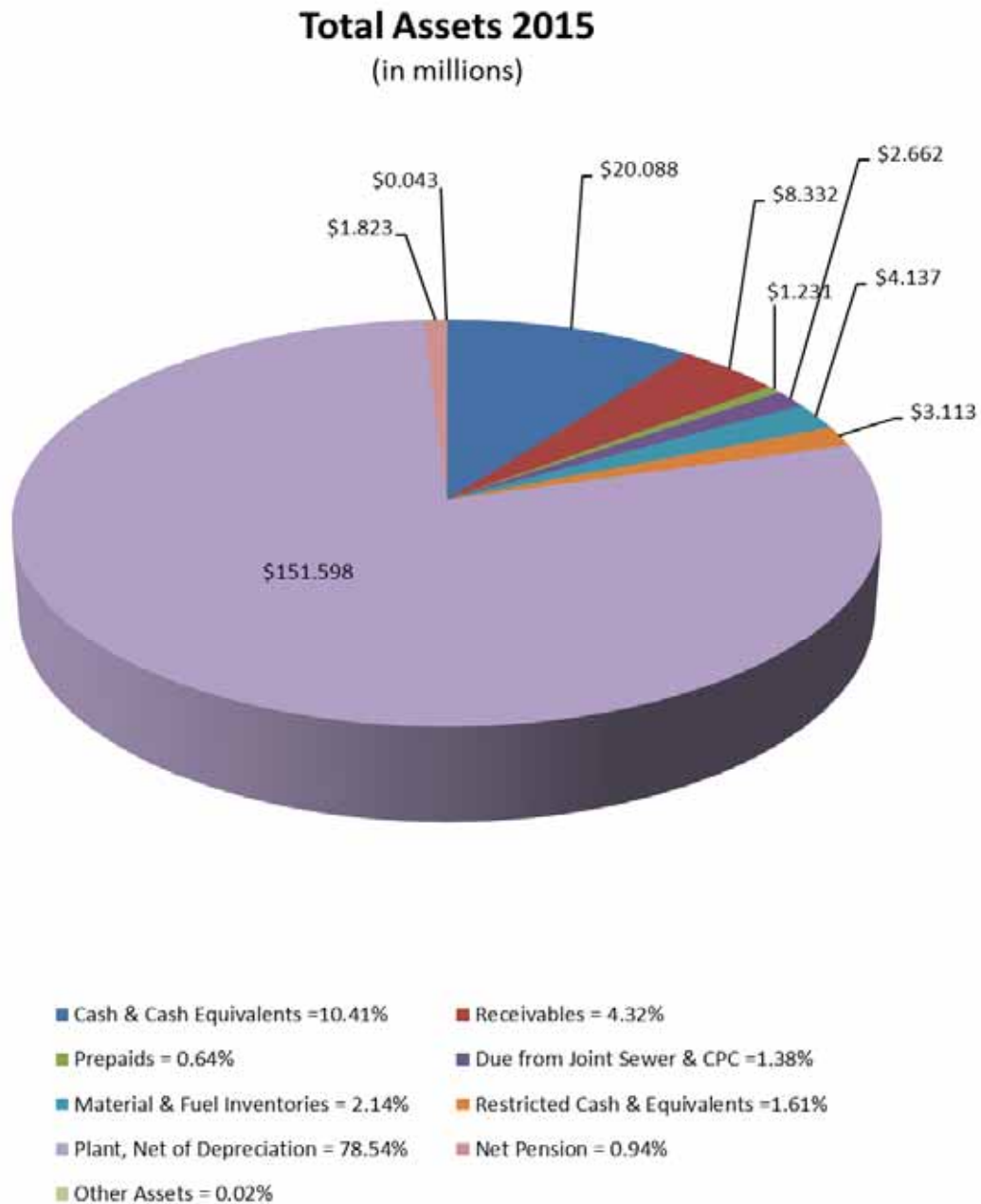
Statement of Net Position

The following table reflects the condensed Statement of Net Position for BVU compared to the prior fiscal year.

Statements of Net Position			
As of June 30			
(In thousands of dollars)			
Assets	2015	2014	
Current Assets	\$ 35,619	\$ 34,727	
Non-Current Assets	5,810	3,512	
Net Plant	151,598	152,597	
Total Assets	193,027	190,836	
Deferred Outflows	6,012	5,810	
Liabilities			
Current Liabilities	11,586	11,731	
Non-Current Liabilities	45,555	47,116	
Total Liabilities	57,141	58,847	
Deferred Inflows	324	-	
Net Position			
Net Investment in Capital Assets	113,130	112,939	
Unrestricted	28,444	24,860	
Total Net Position	\$ 141,574	\$ 137,799	

BVU AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

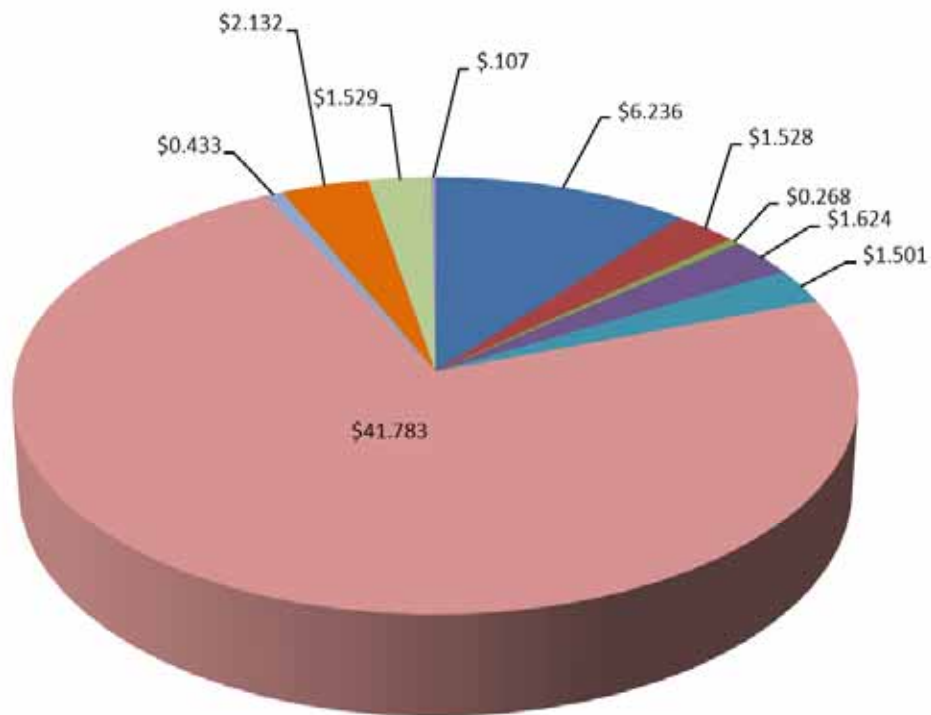
Statement of Net Position (Continued)



BVU AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

Statement of Net Position (Continued)

Total Liabilities 2015
(in millions)



Accounts Payable = 10.91%	Customer Deposits = 2.67%
Other Current Liabilities = 0.47%	Employee Leave Liability = 2.84%
Deferred Income = 2.63%	Bonds Payable = 73.12%
Accrued Bond Interest = 0.76%	Notes Payable = 3.73%
OPEB Liability = 2.68%	Due to Primary Government = 0.19%

**BVU AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015**

Statement of Net Position (Continued)

Current and Other Assets

Current and other assets increased \$0.893 million or 2.6 percent. Cash and cash equivalents increased \$1.670 million, due in part to improved project planning of capital expenditures during the fiscal year and an increase in the Board of Directors approved restricted reserves to establish 100-day and 245-days cash on hand reserves for utility operations. At June 30, 2015, \$16.92 million was the balance in the days-on-hand cash reserve account. This amount is \$4.04 million below the Board approved target balance of \$20.95 million. Accounts receivable was \$0.454 million lower than last fiscal year. This is due to implemented controls for improved collections.

Capital Assets

Capital assets (net) decreased \$0.999 million or 0.65 percent. Plant in service increased 15.87 percent this included \$33.06 million for the OptiNet division, \$1.51 million for the electric division, \$0.26 million for the water division and \$0.41 million for the wastewater division. Accumulated depreciation increased 8.96% during the 2015 fiscal year. This increase is related directly to the NTIA / BTOP assets being placed into service during fiscal year 2015.

Current Liabilities

Current and other liabilities decreased 1.23 percent or 0.145 million in fiscal year 2015. No new debt was added in the 2015 fiscal year.

Non-Current Liabilities

Non-current liabilities decreased by \$1.56 million. During the fiscal year, \$1.33 million of bond debt was repaid and \$0.11 million of water division Virginia Department of Health debt was repaid. There was no new debt added in the 2015 fiscal year.

Net Position

Net position increased by \$3.77 million in this fiscal year with an ending net position balance of \$141.57 million compared to fiscal year 2014 net position balance of \$137.80 million.

BVU AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

Statement of Revenues, Expenses and Changes in Net Position

The following table reflects the condensed Statement of Revenues, Expenses and Changes in Net Position for BVU compared to the prior year.

Statement of Revenues, Expenses and Changes in Net Position			
As of June 30			
(in thousands of dollars)			
	2015		2014
Revenues			
Total Sales Revenue	\$ 79,549	\$	79,998
Management and consulting fees	142		902
Rent from property	360		372
Forfeited discounts and penalties	521		570
Connections and transfers	238		265
Income from CPC Operations	2,020		1,757
Other	423		207
Total Operating Revenue	\$ 83,253	\$	84,071
Operating Expenses			
Purchase power	\$ 40,696	\$	40,718
Power and pumping	1,506		1,519
Purification & collection system	690		710
Telecommunications COGS	9,071		8,399
Transmission & Distribution	2,230		2,349
Billing and collection	5,132		5,218
Sales promotion	389		500
General and administrative	9,096		9,909
Depreciation	11,176		9,528
Total Expenses	\$ 79,986	\$	78,850
Operating Income	\$ 3,267	\$	5,221
Nonoperating revenues Expenses)			
Other Income (Deductions)	(203)		(125)
Other Deductions	(1,520)		(1,610)
Total Non-operating expenses	\$ (1,723)	\$	(1,735)
Capital Contributions	382		2,076
Net position at July 1	137,799		132,958
Prior period adjustment	1,849		(721)
Net position at July 1, as restated	139,648		132,237
Change in net position	1,926		5,562
Net position at June 30	\$ 141,574	\$	137,799

**BVU AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015**

Current Year Impacts and Analysis

BVU's net position increased \$3.77 million in fiscal year 2015. Included in this amount is a \$1.849 prior period adjustment related to the implementation of GASB 68. Total Operating revenue decreased \$0.82 million, representing less than a 1 percent decrease from the 2014 fiscal year. Sales revenues decreased \$0.45 million due to customers becoming more energy efficient and less processing demand for commercial and industrial customers. Other revenue, including income from CPC operations, increased by \$0.26 million or 15 percent, primarily due to increased earnings from CPC OptiNet operations, a joint venture with Cumberland Plateau Planning Commission for the deployment of FTTP services in parts of Buchanan, Dickenson, Russell and Tazewell Counties, Virginia. Operating expenses increased \$1.14 million or 1.44 percent. The telecommunications cost of goods sold increased \$0.67 million or 8 percent, directly associated with increased CATV programming cost. Depreciation increased \$1.65 million, resulting from work in progress items placed into service during the fiscal year, specifically from the NTIA / BTOP project. There was also a decrease in capital contributions of \$1.69 million due to the completion of the NTIA / BTOP project.

Prior Period Adjustment

BVU implemented GASB (Governmental Accounting Standards Board) No. 68 and GASB No. 71 during fiscal year 2015. GASB 68's primary objective is to improve accounting and financial reporting by state and local government for pensions. The effect of this implementation resulted in BVU posting a prior period adjustment to report a net pension liability (asset). This adjustment was made to the financial statements for fiscal year ended June 30, 2014 and resulted in a net pension asset of \$1,849,000, increasing BVU's net position.

BVU AUTHORITY
STATEMENT OF NET POSITION
June 30, 2015

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 20,087,615
Accounts Receivable, Net of Allowance	7,385,332
Notes Receivable	337,032
Other Receivables	135,828
Due from Other Governmental Units	2,661,898
Prepays	830,751
Inventories, Net of Allowance	4,137,360
Other Current Assets	42,669

Total Current Assets	<u>35,618,485</u>
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Noncurrent Assets

Restricted Cash - Customer Deposits	1,527,736
Restricted Cash - Bonds	1,585,590
Notes Receivable	473,743
Prepays	400,000
Net Pension Asset	1,823,000
Capital Assets, Net	151,597,946

Total Noncurrent Assets	<u>157,408,015</u>
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TOTAL ASSETS	<u>193,026,500</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Loss on Refunding, Net	5,446,994
Contributions Subsequent to Pension Measurement Date	<u>565,450</u>

TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>6,012,444</u>
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(Continued)

BVU AUTHORITY
STATEMENT OF NET POSITION
June 30, 2015

LIABILITIES

Current Liabilities

Accounts Payable and Accrued Liabilities	6,235,594
Accrued Interest Payable	433,086
Accrued Payroll and Related Liabilities	264,266
Customer Security Deposits	1,527,736
Due to Primary Government	106,596
Unearned Revenue	721,973
Bonds Payable	1,375,000
Notes Payable	118,744
Compensated Absences	803,089
Total Current Liabilities	<u>11,586,084</u>

Noncurrent Liabilities

Bonds Payable	40,408,275
Notes Payable	2,013,292
Compensated Absences	820,856
Unearned Revenue	779,564
OPEB Liability	1,529,700
Retirement Benefits Payable	3,659
Total Noncurrent Liabilities	<u>45,555,346</u>

TOTAL LIABILITIES	<u>57,141,430</u>
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DEFERRED INFLOWS OF RESOURCES

Net Difference between Projected and Actual Earnings on Pension Plan Investments	<u>324,000</u>
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NET POSITION

Net Investment in Capital Assets	113,129,629
Unrestricted	<u>28,443,885</u>

TOTAL NET POSITION	<u>\$ 141,573,514</u>
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See accompanying notes to the financial statements.

BVU AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended June 30, 2015

OPERATING REVENUES

Charges for Services	\$ 79,548,565
Management and Consulting Fees	142,219
Rent from Property	359,748
Forfeited Discounts and Penalties	521,319
Connections and Transfers	238,495
Income from CPC Operations	2,019,780
Other	422,767

TOTAL OPERATING REVENUES

83,252,893

OPERATING EXPENSES

Power and Pumping	1,505,748
Purification and Collection System	690,180
Transmission and Distribution	2,229,767
Telephone, Broadband and CATV	9,070,919
Billing and Collection	5,132,043
City of Bristol, VA Economic Development	389,409
Purchase of Electricity	40,695,776
Administrative and General	9,095,690
Depreciation	11,176,532

TOTAL OPERATING EXPENSES

79,986,064

OPERATING INCOME

3,266,829

(Continued)

BVU AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended June 30, 2015

NONOPERATING REVENUES (EXPENSES)	
Amortization	(245,127)
Interest Income	91,563
Interest Expense	(1,519,855)
Loss on Disposal of Assets	<u>(49,335)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(1,722,754)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	1,544,075
CAPITAL CONTRIBUTIONS	<u>381,314</u>
Change in Net Position	<u>1,925,389</u>
NET POSITION, JULY 1, 2014	137,799,125
Prior Period Adjustment	<u>1,849,000</u>
NET POSITION, JULY 1, 2014, RESTATED	<u>139,648,125</u>
NET POSITION, JUNE 30, 2015	<u><u>\$ 141,573,514</u></u>

See accompanying notes to the financial statements.

BVU AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers and Users	\$ 83,561,160
Receipt of Customer Deposits	86,590
Payments to Suppliers	(59,595,517)
Payments to Employees	<u>(9,852,230)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>14,200,003</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Sale of Equipment	244,515
Capital Contributions and Grants	381,314
Acquisition and Construction of Capital Assets	(10,163,556)
Principal Paid on Capital Debt	(1,434,997)
Interest Paid on Capital Debt	<u>(1,534,423)</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(12,507,147)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Received	<u>91,563</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>91,563</u>
Net Increase in Cash and Cash Equivalents	1,784,419
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>21,416,522</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 23,200,941</u></u>
RECONCILIATION TO THE STATEMENT OF NET POSITION	
Cash and Cash Equivalents	\$ 20,087,615
Restricted Cash - Customer Deposits	
Restricted Cash - Bonds	<u>3,113,326</u>
	<u><u>\$ 23,200,941</u></u>

(Continued)

BVU AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2015

RECONCILIATION OF OPERATING INCOME TO NET	
CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	\$ 3,266,829
Adjustments to Reconcile Operating Income	
to Net Cash Provided by Operating Activities:	
Depreciation Expense	11,176,532
(Increase) Decrease in Assets	
Net Accounts Receivable	7,036
Notes Receivable	182,148
Other Receivables	264,719
Due from Other Governmental Units	(48,565)
Prepays	(294,958)
Net Inventories	(76,683)
Other Current Assets	156
Net Pension Asset	350,000
(Increase) Decrease in Deferred Outflows of Resources	(489,822)
Increase (Decrease) in Liabilities	
Accounts Payable and Accrued Liabilities	(344,235)
Accrued Payroll and Related Liabilities	23,064
Customer Security Deposits	86,590
Due to Other Governmental Units	(1,317)
Due to Primary Government	(5,617)
Unearned Revenue	(58,909)
Potential Development Credits	(37,000)
OPEB Liability	223,362
Retirement Benefits Payable	(11,431)
Compensated Absences	(11,896)
	<u>14,200,003</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 14,200,003</u>
NONCASH CAPITAL AND FINANCING ACTIVITIES	
Amortization of Bond Premium and Deferred Refunding	<u>\$ 245,127</u>
Capitalized Interest	<u>\$ 242,202</u>
Implementation of GASB Statement No. 68 for Pensions	<u>\$ 1,849,000</u>

See accompanying notes to the financial statements.

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

As of July 1, 2010, BVU Authority (the Authority) was created from the separately managed and financed division of the City of Bristol, Virginia, formerly known as Bristol Virginia Utilities, by an act of the General Assembly of the Commonwealth of Virginia. The Authority is governed by a Board of Directors consisting of nine members. The Board of Directors consists of a chairman, vice chairman, and seven other Board members. Bristol, Virginia City Council appoints two council members to the Board as well as electing three citizen members of the Board, which gives it a voting majority of the Board. Based on these facts, the City of Bristol, Virginia (the City) reports the Authority as a discretely presented component unit.

The basic financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Joint Venture

The Authority, along with the City of Bristol, Tennessee, established a jointly-owned wastewater facility located in Bristol, Tennessee. The two are joint equitable owners of the facility. A six member Sewer Oversight Committee has advisory authority with respect to the facility. Each equitable owner appoints three members to the Oversight Committee. Separate financial statements of the Joint Sewerage System are available and may be obtained by writing to BVU Authority at 15022 Lee Highway, Bristol, Virginia 24202.

B. Measurement Focus and Basis of Accounting

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

The Authority distinguishes *operating* revenues and expenses from *non-operating* 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. The Authority also recognizes as operating revenue the portion of availability charges intended to recover the cost of connecting new customers to the system. 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.

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus and Basis of Accounting (Continued)

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Joint Administration

The Authority utilizes a joint administrative department for the Electric, Water, Wastewater and OptiNet operations, which includes accounting, administration, billings, and collections. The shared administration, customer service, and other general expenses are allocated monthly based on the number of customers serviced by each division, operating revenues of each division, and plant in service of each division. For the year ended June 30, 2015, the expenses of this department were allocated 41.3% to the electric system, 10.9% to the water system, 11.2% to the wastewater system, and 36.6% to the OptiNet system.

D. Cash and Cash Equivalents and Investments

The Authority considers all highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

E. Accounts Receivable

Billings for services rendered by the electric, water and wastewater systems are handled by Central Service Association (CSA). CSA provides separate revenue billings for each system, but is unable to render separate detailing of accounts receivable. As a result, the electric division "purchases" the accounts receivable from the water and wastewater divisions monthly. Accounts deemed uncollectible attributable to the water or wastewater systems are charged back against those systems as bad debt expense. Billings for the OptiNet system are maintained by the Authority.

F. Allowance for Uncollectible Accounts

The Authority provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The estimate is based on historical collection data and specific account analysis. It is reasonably possible that the estimate of the allowance for doubtful accounts will change. Accounts receivable are presented net of an allowance for doubtful accounts of \$360,455 at June 30, 2015.

G. Inventories

Inventories, consisting of materials and supplies, are valued at the lower of average unit acquisition price or market. Inventory is presented net of an allowance for obsolete inventory of \$824,786 at June 30, 2015.

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Capital Assets

Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market 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 asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Utility Systems	25 – 50 years
Buildings	8 – 50 years
Equipment, Machinery and Vehicles	3 – 20 years
Fiber	25 years

I. Capitalization of Interest

The Authority capitalizes interest costs incurred on funds used to construct property, plant, and equipment. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Interest cost capitalized was \$242,202 in the year ended June 30, 2015.

J. Unearned Revenue

The Authority recognizes revenue on leases ratably over the term of the lease. Amounts billed and collected before the applicable lease periods are deferred.

K. Compensated Absences

The Authority has policies which allow for the accumulation and vesting of limited amounts of vacation and sick leave until termination or retirement. Amounts of such absences are accrued when incurred.

L. Advertising Cost

Advertising and marketing costs are expensed as incurred. Advertising expense totaled approximately \$483,325 for the year ended June 30, 2015.

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Potential Development Credits

The electric division has a program through which real estate developers may be reimbursed for a portion of the cost of materials and installation of utility services. As developers pay for the services, a portion of their payments is set aside rather than being applied against the fund's cost. If developed properties are sold within a stipulated period of time, a pro-rata portion of the amounts set aside are returned to the developer. If developed properties are not sold within the stipulated time, the set aside payments remaining are retained and recorded as revenue.

N. Deferred Outflows/Inflows 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. Deferred bond refunding costs result 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. Contributions subsequent to the pension measurement date are equivalent to the Authority's pension contributions made to VRS during the year ended June 30, 2015, and will be recognized as an addition reduction to the net pension asset in the following measurement period.

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 which is required to be reported as deferred inflows for the year ended June 30, 2015. The net difference between projected and actual earnings on plan investments of the Authority's agent multiple-employer defined pension plan is recognized as deferred inflows of resources and is amortized over a fixed five-year period.

O. Estimates

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

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Pensions

For purposes of measuring the net pension liability (asset), 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. Accounting Changes

In the year ended June 30, 2015, the Authority implemented the provisions of two new Governmental Accounting Standards Board (GASB) Statements. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, collectively recognized the initial establishment of a net pension asset at July 1, 2013.

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits

All cash and certificates of deposit of the Authority are maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. Seq. of the Code of Virginia or covered by federal depository insurance.

Investments

Statutes authorize 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).

There was no investment activity during the year other than certificates of deposit.

Restricted assets consist primarily of customer deposits and reserve accounts related to revenue and refunding bonds.

The Authority does not have any formally adopted deposit and investment policies that limit allowable deposits or investments.

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 3 - NOTES RECEIVABLE

The Authority has a program whereby qualifying homeowners may obtain interest-bearing loans to pay for energy conservation measures in their homes. The customer repays the loan over a period of up to ten years at a stated interest rate of 9.25%. Payments are made with the customers' regular monthly bills. Loans are secured by the related real property. The balance of the energy conservation loans as of June 30, 2015 was \$810,775.

NOTE 4 - PAYMENTS TO CITY OF BRISTOL, VIRGINIA

The Authority submits tax equivalent payments to the City of Bristol, Virginia based on an agreement between the two entities. The in-lieu of tax payment related to non-electric division property of \$100,000 per year for ten years was paid in its entirety in fiscal year 2011; therefore, \$100,000 was recognized in the current year and the remaining \$500,000 is considered prepaid as of June 30, 2015. The amount of tax equivalent payments recognized in the current year totaled \$507,540.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
Capital Assets, Not Depreciated					
Land	\$ 1,568,878	-	-	-	1,568,878
Construction in Progress	32,736,920	1,122,045	(28,145,850)	-	5,713,115
Total Capital Assets, Not Depreciated	34,305,798	1,122,045	(28,145,850)	0	7,281,993
Capital Assets, Being Depreciated					
Distribution System	50,527,294	1,297,221	(325,258)	(16,246)	51,483,011
General Plant	50,549,921	675,577	-	(4,167)	51,221,331
Fiber	94,845,543	31,796,935	(770,410)	(35,560)	125,836,508
Buildings	12,676,267	1,795,398	-	(3,203)	14,468,462
Equipment, Furnitures and Fixtures	6,832,220	436,644	(46,871)	(6,458)	7,215,535
Transportation Equipment	5,006,625	693,177	(295,811)	(9,995)	5,393,996
Total Capital Assets, Being Depreciated	220,437,870	36,694,952	(1,438,350)	(75,629)	255,618,843
Less Accumulated Depreciation For					
Distribution System	(23,496,012)	(1,515,803)	257,787	-	(24,754,028)
General Plant	(28,533,866)	(1,237,430)	50,013	-	(29,721,283)
Fiber	(40,148,104)	(7,216,100)	611,395	824,786	(45,928,023)
Buildings	(2,740,578)	(259,377)	-	-	(2,999,955)
Equipment, Furnitures and Fixtures	(4,525,955)	(417,480)	46,871	-	(4,896,564)
Transportation Equipment	(2,701,809)	(530,342)	229,114	-	(3,003,037)
Total Accumulated Depreciation	(102,146,324)	(11,176,532)	1,195,180	824,786	(111,302,890)
Total Capital Assets Being Depreciated, Net	118,291,546	25,518,420	(243,170)	749,157	144,315,953
Capital Assets, Net	\$ 152,597,344	26,640,465	(28,389,020)	749,157	151,597,946

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 5 - CAPITAL ASSETS (CONTINUED)

Idle property in the amount of \$24,175 was held at June 30, 2015.

The Authority received contributions in aid of construction of \$939,290 for 2015. This amount is reported as a reduction in costs of the related assets.

Depreciation expense for the year ended June 30, 2015 was \$11,176,532.

NOTE 6 - LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended June 30, 2015 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Series 2010 Revenue and Refunding Bonds	\$ 40,930,000	-	1,320,000	39,610,000	1,375,000
Bond Premiums	2,291,281	-	118,006	2,173,275	-
VRA Loans	2,024,260	-	107,050	1,917,210	110,503
SERCAP Loan	222,773	-	7,947	214,826	8,241
Compensated Absences	1,635,841	798,965	810,861	1,623,945	803,089
Totals	<u>\$ 47,104,155</u>	<u>798,965</u>	<u>2,363,864</u>	<u>45,539,256</u>	<u>2,296,833</u>

Series 2010 Revenue and Refunding Bonds

Revenue and refunding bonds of \$44,545,000 were issued by the Authority in 2010. Proceeds from the Series 2010 bonds issued were used to refund prior utility system bonds of the City. The bonds were issued in the form of fixed rate revenue bonds to mature on October 1, 2033. The fixed interest rate on the bonds ranges between 2.35% and 6.14% depending on the bond maturity date. The revenue of the Authority is pledged as security for the bonds.

Virginia Resources Authority Loans Payable

In September 2008, the Authority entered into two separate agreements with the Virginia Resources Authority (VRA). Money for these agreements is provided by the Drinking Water State Revolving Funds.

The Bristol View Connector RLF loan was issued in the amount of \$1,289,511, of which \$1,002,512 was outstanding as of June 30, 2015. The Hassan Heights Water Tank RLF loan was issued in the amount of \$1,176,557, of which \$914,698 was outstanding as of June 30, 2015. Each note has a 20-year term and a 3.20% interest rate with principal and interest payments through April 2029.

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

The debt service requirements for the Authority's bonds and notes are as follows:

Year Ended June 30	Revenue and Refunding Bonds		VRA RLFs		SERCAP	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 1,375,000	2,105,266	110,503	60,474	8,241	7,683
2017	1,445,000	2,041,866	114,067	56,909	8,546	7,378
2018	1,515,000	1,972,916	117,747	53,229	8,863	7,062
2019	1,595,000	1,895,166	121,544	49,432	9,191	6,734
2020	1,685,000	1,813,166	125,465	45,511	9,531	6,393
2021-2025	9,550,000	7,737,967	690,705	164,177	170,454	19,919
2026-2030	11,465,000	4,968,399	637,179	46,726	-	-
2031-2034	10,980,000	1,339,293	-	-	-	-
	<u>\$ 39,610,000</u>	<u>23,874,039</u>	<u>1,917,210</u>	<u>476,458</u>	<u>214,826</u>	<u>55,169</u>

Details of long-term indebtedness are as follows:

	Interest Rates	Issue Date	Final Maturity Date	Original Issue	Amount Outstanding
Series 2010 Revenue and Refunding Bonds	2.35 - 6.14%	10-10	10-33	\$ 44,545,000	\$ 39,610,000
VRA RLF Loans	3.20	09-08	04-29	2,466,068	1,917,210
SERCAP Note Payable	3.64	12-13	02-24	226,000	214,826
					<u>\$ 41,742,036</u>

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 7 - PENSION PLAN

Plan Description

All full-time, salaried permanent employees of the Authority are automatically covered by VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer are paying contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
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.	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.	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")

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 7 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

		<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. • 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>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>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.

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 7 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

<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>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>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>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</p> <p>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 <p>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</p> <p>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.</p>	<p>Retirement Contributions</p> <p>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</p> <p>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.</p>

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 7 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

<p>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>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>
<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 Contribution Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 7 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

<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 Contribution 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>
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BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 7 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

		<p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may 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. <p>Distribution is not required by law until age 70½.</p>
<p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p>Calculating the Benefit See definition under Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1.</p> <p><u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 7 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

<p>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p>Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p> <p>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.</p>	<p>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.</p> <p>Political subdivision hazardous duty employees: Same as Plan 1.</p>	<p>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.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p>
<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>

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 7 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

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

**BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

NOTE 7 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

<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>Eligibility: For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</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>Exceptions to COLA Effective Dates: The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</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>Eligibility: Same as Plan 1.</p> <p>Exceptions to COLA Effective Dates: 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>Eligibility: Same as Plan 1 and Plan 2.</p> <p>Exceptions to COLA Effective Dates: Same as Plan 1 and Plan 2.</p>
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BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 7 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

<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>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>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>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>

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NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 7 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	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>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 Defined Benefit Component: 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>Defined Contribution Component: Not applicable.</p>

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 7 - PENSION PLAN (CONTINUED)

Employees Covered by Benefit Terms

As of the June 30, 2013 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	7
Inactive members:	
Vested inactive members	12
Non-vested inactive members	29
Inactive members active elsewhere in VRS	<u>1</u>
Total inactive members	42
Active members	156
Total Covered Employees	<u><u>205</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 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The Authority's contractually required contribution rate for the year ended June 30, 2015 was 5.76% of covered employee compensation. This rate was adopted by the Virginia Retirement System Board of Trustees in 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 \$828,434 and \$1,161,398 for the years ended June 30, 2015 and June 30, 2014, respectively.

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NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 7 - PENSION PLAN (CONTINUED)

Net Pension Liability (Asset)

The Authority's net pension liability (asset) was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation performed as of June 30, 2013, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

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, 2013, 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, 2014.

Inflation	2.50%
Salary increases, including inflation	3.50% - 5.35%
Investment rate of return	7.00%, 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 7.00%. However, since the difference was minimal, and a more conservative 7.00% 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 7.00% to simplify preparation of pension liabilities.

Mortality rates: 14.00% of deaths are assumed to be service related.

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 7 - PENSION PLAN (CONTINUED)

Actuarial Assumptions – General Employees (Continued)

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2013 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

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 7 - 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%.

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NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 7 - 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 Authority's Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability (Asset)

		Increase (Decrease)	
	Total Pension Liability	Plan Fiduciary Net	Net Pension
	(a)	Position	Liability (Asset)
		(b)	(a) - (b)
Balance at June 30, 2013	\$ 2,987,145	4,074,410	(1,087,265)
Changes for the Year:			
Service Cost	944,947	-	944,947
Interest	206,470	-	206,470
Contributions - Employer	-	762,024	(762,024)
Contributions - Employees	-	399,374	(399,374)
Net Investment Income	-	728,746	(728,746)
Benefit Payments, Including Refunds of			
Employee Contributions	(75,133)	(75,133)	-
Administrative Expense	-	(2,960)	2,960
Other Changes	-	(32)	32
Net Changes	<u>1,076,284</u>	<u>1,812,019</u>	<u>(735,735)</u>
Balance at June 30, 2014	<u>\$ 4,063,429</u>	<u>5,886,429</u>	<u>(1,823,000)</u>

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

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

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NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 7 - PENSION PLAN (CONTINUED)

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate (Continued)

	<u>(6.00%)</u>	<u>Rate (7.00%)</u>	<u>(8.00%)</u>
Authority's Net Pension Liability (Asset)	\$ (1,085,447)	\$ (1,823,000)	\$ (2,415,654)

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

For the year ended June 30, 2015, the Authority recognized pension expense of \$350,715. At June 30, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -	324,000
Employer contributions subsequent to the measurement date	565,450	-
Total	<u>\$ 565,450</u>	<u>324,000</u>

\$565,450 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 (addition to) the net pension liability (asset) in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30</u>	
2016	\$ (81,000)
2017	(81,000)
2018	(81,000)
2019	(81,000)
Thereafter	0

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NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 8 - OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The Authority administers a single-employer defined benefit healthcare plan. The plan provides healthcare insurance for eligible retirees and their spouses through the Authority's group health insurance plan, which covers both active and retired members. The Authority allows retirees to continue on health and dental insurance until they reach the age of 65. If the retiree has their spouse covered on the insurance plan, the insurance continues until the spouse reaches the age of 65. The policy rates go from employee/spouse rates to a single member rate once one of the individuals reaches the age of 65. If the retiree has completed 30 years of service, the Authority pays the entire health insurance premium. If the retiree has less than 20 years of service, they must pay the entire health insurance premium. If years of service are between 20 and 30 years, the Authority pays a portion of insurance based on years of service. The amount paid by the Authority is 3.00% per year of service.

Funding Policy

The funding policy of the Authority is to contribute to the plan the premiums assessed during the year.

Annual OPEB Cost and Net OPEB Obligation

The Authority's other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined. 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 not to exceed thirty years.

The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Authority's OPEB obligation.

Annual Required Contribution (ARC)	\$	329,700
Interest on Net OPEB Obligation		55,500
Adjustment to the ARC		(56,200)
Annual OPEB Cost		<u>329,000</u>
Annual Employer Contribution		<u>(105,600)</u>
Change in Net OPEB Obligation		223,400
Net OPEB Obligation - Beginning of the Year		<u>1,306,300</u>
Net OPEB Obligation - End of Year	\$	<u><u>1,529,700</u></u>

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 8 - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current year and each of the two preceding years are as follows:

<u>Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2015	\$ 329,000	32.1%	\$ 1,529,700
June 30, 2014	369,000	33.3%	1,306,300
June 30, 2013	351,700	17.5%	1,060,300

Funded Status and Funding Progress

As of June 30, 2014, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$4,141,100. The covered payroll was \$7,453,700, and the ratio of the UAAL to the covered payroll was 55.56%.

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 revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information 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

The Entry Age Normal cost method is used to determine the plan's funding liabilities and costs. Under this cost method, the actuarial present value of projected benefits of every active participant as if the plan's provisions on the valuation date had always been in effect, is determined as a level percentage of expected annual earnings for each future year of expected service. A normal cost for each year from the assumed entry date is determined by applying this level percentage of pay to the assumed earnings for that year.

Under these methods, inactive participants have no normal cost, and their actuarial liability is the present value of the plan benefits to which they and their beneficiaries are entitled. The plan's total annual normal cost and actuarial liability are the sum of the individual participant amounts.

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 8 - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Actuarial Methods and Assumptions (Continued)

An experience gain or loss is a decrease or increase in the unfunded actuarial liability attributable to actual experience that differed from that expected by the actuarial assumptions. Such gains or losses are explicitly recognized under this method. Liabilities and costs shown are net of any retiree contributions.

In the June 30, 2014 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 4.25% investment rate of return and an annual healthcare cost trend rate of 8.00%, decreasing at a rate of 0.50% per year until an ultimate rate of 5.00% is reached. The UAAL is being amortized as a level percentage over 30 years.

NOTE 9 - SERVICE CONTRACTS

In September 2006, the Authority entered into an agreement with the Tennessee Valley Authority for the purchase of wholesale power for distribution. This contract began on January 1, 2008 and will end December 31, 2027. For the year ended June 30, 2015, \$40,695,776 was expensed under this contract.

NOTE 10 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; injuries to employees and natural disasters. The risk management programs utilized by the Authority are as follows:

Workmens' Compensation Insurance

Insurance is provided through VACORP, which is a Commonwealth of Virginia pooled plan. Benefits are those afforded through the Commonwealth of Virginia, as outlined in the *Code of Virginia* Section 65.2-100; premiums are based upon covered payroll, job rates and claims experience.

General Liability and Other

The Authority maintains general liability and other insurance coverage through VACORP, which is a Commonwealth of Virginia pooled plan.

Healthcare

Healthcare insurance coverage is provided to the Authority's employees through a policy with Local Choice/Anthem, which is a Commonwealth of Virginia pooled plan. Partial premiums are withheld from the employee's earnings and remaining premiums are paid by the Authority. Retired employees and dependents of employees are also covered by the program provided they pay the premium.

There were no significant reductions in insurance coverage from the prior year and no settlements that exceeded the amount of insurance coverage during the last three years.

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NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 11 - DUE FROM OTHER GOVERNMENTS

Jointly-Owned Wastewater Facility

In 1979, the City of Bristol, Virginia and the City of Bristol, Tennessee entered into a contract for operation of a jointly-owned wastewater facility. The City of Bristol, Virginia's ownership interest in the facility moved to the Authority upon its creation. The two are joint equitable owners in the facility, with ownership percentages determined by usage. Usage is determined by a cost-sharing formula included in the contract. The share of future principal payments is determined yearly to reflect usage of the facility by each of the two cities during the year. The Authority's share of debt applicable to the facility at June 30, 2015 was approximately 45.00%. The plant's operating expenses are allocated between the two cities based on usage.

Audits of the facility are performed each year. At that time, amounts due to or from each are determined based on the yearly expenses allocated to each and the contributions made by each.

The Authority's portion of the Joint Sewerage System is included in the wastewater division on the statement of net position as follows:

Due from other governmental units:

Contributions in Excess of Allocated Capital Outlays	\$ 1,770,131
Due from Joint Sewerage System	260,642
	<u>\$ 2,030,773</u>

Due from Joint Sewerage System consisted of the following:

Contributions to Joint Wastewater	\$ 1,542,419
Other Income	1,863
Total Contributions and Other Income	<u>1,544,282</u>
Expenditures - The Authority's Portion	<u>(1,283,640)</u>
	<u>\$ 260,642</u>

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 11 - DUE FROM OTHER GOVERNMENTS (CONTINUED)

Jointly-Owned Wastewater Facility (Continued)

Capital assets of the Joint Sewerage System reported in the Wastewater Fund are as follows:

Land	\$ 181,015
Construction in Progress	119,831
Equipment, Treatment, and Composting Plant	15,178,729
Accumulated Depreciation	<u>(10,108,758)</u>
Net Capital Assets	<u><u>\$ 5,370,817</u></u>

Telecommunication System

In August of 2007 and later amended effective July 1, 2011, the Authority entered into a five-year contract with a telecommunications system in North Carolina to manage and maintain the telecommunications system. The management agreement resulted in a net receivable to the OptiNet fund at June 30, 2015 of \$120,308.

The Authority and the Cumberland Plateau Commission have an agreement to provide telecommunications infrastructure in areas of Southwest Virginia. The management agreement resulted in net receivables to the Electric and OptiNet divisions, respectively, at June 30, 2015, of \$635 and \$478,044.

NOTE 12 - LEASES

OptiNet leases network fiber optic cable to others. The leases are non-cancelable operating leases with terms of ten to thirty years. The lease terms required the entire lease amount to be paid on acceptance of the fiber. Receipts under these agreements have totaled approximately \$1,639,530 as of June 30, 2015.

NOTE 13 - CAPITAL CONTRIBUTIONS

Capital contributions consist of grants from the Virginia Tobacco Community Revitalization Commission for fiber optic infrastructure expansion in Southwest Virginia.

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 14 - COMMITMENTS AND CONTINGENCIES

The Authority is subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition or results of operations of the Authority.

Economic Development Performance Agreement

In April 2010, the Authority entered into an agreement with a Company for a Jobs Creation and Capital Investment Grant, paid from its Economic Development Funds, for the promotion of economic development within the City. Annual payments will be made over 11 years from 2011 through 2021. Payments subsequent to June 30, 2015 are as follows:

2016	\$ 283,356
2017 - 2021	\$ 83,356

The Company has constructed a building in the City of Bristol, Virginia where it will locate its corporate headquarters, employees, and corporate operations. All payments are expressly subject to the Company achieving certain milestones on capital investment and employment obligations through the end of the payment period. Under the agreement, the Authority has installed underground electric, water, wastewater and fiber-optical lines to the constructed building. The Authority has incurred the cost for the installation of these services.

NOTE 15 - PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2015, the Authority implemented GASB Statement No. 68 and GASB Statement No. 71 which recognized the initial establishment of a net pension liability (asset) at July 1, 2013. Accordingly, the Authority restated its financial statements for the year ended June 30, 2014. The effect of the restatement was to increase the Authority's net position by \$1,849,000.

NOTE 16 - INVESTIGATIONS AND INQUIRIES

The Authority's main campus is located in Washington County, Virginia. In October 2013, the Commonwealth's Attorney for Washington County, Virginia opened an investigation into certain Authority financial transactions with an emphasis on Authority employee credit card expenditures. Various financial and operational data were subpoenaed. The data was examined by investigators from the Washington County Sheriff's Department. The Authority's management team has supplied all requested information. The Authority has cooperated and intends to cooperate in the future with this investigation.

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 16 - INVESTIGATIONS AND INQUIRIES (CONTINUED)

In March 2014, the U.S. Attorney for the Western District of Virginia, Abingdon Division located in Washington County, issued various subpoenas to the Authority related to financial and operational data. The Authority's management team has supplied all requested information. The Authority has cooperated and intends to cooperate in the future with the inquiry.

As of the date the financial statements are available to be issued, no charges have been filed by the Commonwealth's Attorney for Washington County.

As of the date the financial statements are available to be issued, a total of five individuals have been found guilty of various charges resulting from the U.S. Attorney's investigation. Three of the individuals were former BVU employees and two individuals were former BVU independent contractors.

Potential adverse financial results from such allegations include the legal costs of defense, fines, and criminal charges. Management concludes that the outcome remains uncertain at this time.

REQUIRED SUPPLEMENTARY INFORMATION

BVU AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE AUTHORITY'S NET PENSION LIABILITY (ASSET)
AND RELATED RATIOS

	<u>2014</u>
Total Pension Liability	
Service Cost	\$ 944,947
Interest	206,470
Changes in Benefit Terms	-
Differences between Expected and Actual Experience	-
Changes in Assumptions	-
Benefit Payments, including Refunds of Employee Contributions	(75,133)
Net Change in Total Pension Liability	<u>1,076,284</u>
Total Pension Liability - Beginning	<u>2,987,145</u>
Total Pension Liability - Ending (a)	<u><u>\$ 4,063,429</u></u>
 Plan Fiduciary Net Position	
Contributions - Employer	\$ 762,024
Contributions - Employee	399,374
Net Investment Income	728,746
Benefit Payments, including Refunds of Employee Contributions	(75,133)
Administrative Expense	(2,960)
Other Changes	(32)
Net Change in Plan Fiduciary Net Position	<u>1,812,019</u>
Plan Fiduciary Net Position - Beginning	<u>4,074,410</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 5,886,429</u></u>
 Authority's Net Pension Liability (Asset) - Ending (a) - (b)	<u><u>\$ (1,823,000)</u></u>
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	144.86%
 Covered-Employee Payroll	\$ 7,873,956
 Authority's Net Pension Liability (Asset) as a Percentage of Covered-Employee Payroll	-23.15%

See Independent Auditors' Report.

BVU AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
For the Year Ended June 30, 2015

<u>Year</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Employer's Covered Employee Payroll</u>	<u>Contributions as a % of Covered Employee Payroll</u>
2015	\$ 565,450	\$ 565,450	\$ -	\$ 7,740,429	5.76%

This is a 10-Year Schedule; however, the information in this Schedule is not required to be presented retroactively. Years will be added to this Schedule in future years until 10 years of information is available.

See Independent Auditors' Report.

BVU AUTHORITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2015

Changes of Benefit Terms

There have been no significant changes to the System benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013 and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

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

See Independent Auditors' Report.

BVU AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS
For the Year Ended June 30, 2015

	(a)	(b)	(b) - (a) Unfunded Actuarial Accrued Liability (UAAL)	(a) / (b) Funded Ratio	(c) Annual Covered Payroll	((b) - (a)) / (c) UAAL as a Percentage of Covered Payroll
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)				
June 30, 2014	\$ -	\$ 4,141,100	\$ 4,141,100	0.00%	\$ 7,453,700	55.56%
June 30, 2012	-	3,701,100	3,701,100	0.00%	8,290,100	44.64%
June 30, 2010	-	3,410,200	3,410,200	0.00%	8,654,000	39.41%

See Independent Auditors' Report.

SUPPLEMENTARY INFORMATION

BVU AUTHORITY
COMBINING STATEMENT OF NET POSITION
June 30, 2015

	Electric	Water	Wastewater	OptiNet	Totals	Combining Entries	Combined Total
ASSETS							
Current Assets							
Cash and Cash Equivalents	\$ 12,843,534	1,981,089	3,040,618	2,222,374	20,087,615	-	20,087,615
Accounts Receivable, Net of Allowance	5,812,754	204,547	275,579	1,092,452	7,385,332	-	7,385,332
Notes Receivable	337,032	-	-	-	337,032	-	337,032
Other Receivables	87,441	182	-	48,205	135,828	-	135,828
Due from Other Governmental Units	635	-	2,062,911	598,352	2,661,898	-	2,661,898
Internal Balances	394,300	-	-	3,018	397,318	(397,318)	-
Prepays	250,107	50,817	136,196	414,556	851,676	(20,925)	830,751
Inventories, Net of Allowance	1,330,695	224,375	28,961	2,553,329	4,137,360	-	4,137,360
Other Current Assets	(1,119)	4,030	2,765	36,993	42,669	-	42,669
Total Current Assets	21,055,379	2,465,040	5,547,030	6,969,279	36,036,728	(418,243)	35,618,485
Noncurrent Assets							
Restricted Cash - Customer Deposits	1,412,511	-	-	115,225	1,527,736	-	1,527,736
Restricted Cash - Bonds	667,974	117,738	-	799,878	1,585,590	-	1,585,590
Notes Receivable	473,743	-	-	-	473,743	-	473,743
Prepays	-	-	400,000	-	400,000	-	400,000
Net Pension Asset	753,628	198,525	203,811	667,036	1,823,000	-	1,823,000
Capital Assets, Net	38,643,924	14,525,088	8,641,724	89,787,210	151,597,946	-	151,597,946
Total Noncurrent Assets	41,951,780	14,841,351	9,245,535	91,369,349	157,408,015	0	157,408,015
TOTAL ASSETS	63,007,159	17,306,391	14,792,565	98,338,628	193,444,743	(418,243)	193,026,500
DEFERRED OUTFLOWS OF RESOURCES							
Deferred Loss on Refunding, Net	2,347,407	476,193	-	2,623,394	5,446,994	-	5,446,994
Contributions Subsequent to Pension Measurement Date	241,613	62,249	62,431	199,157	565,450	-	565,450
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,589,020	538,442	62,431	2,822,551	6,012,444	0	6,012,444

(Continued)

BVU AUTHORITY
COMBINING STATEMENT OF NET POSITION
June 30, 2015

	Electric	Water	Wastewater	OptiNet	Totals	Combining Entries	Combined Total
LIABILITIES							
Current Liabilities							
Accounts Payable and Accrued Liabilities	4,053,730	53,381	10,310	2,118,173	6,235,594	-	6,235,594
Accrued Interest Payable	153,557	42,843	-	236,686	433,086	-	433,086
Accrued Payroll and Related Liabilities	112,651	25,767	17,639	108,209	264,266	-	264,266
Customer Security Deposits	1,412,511	-	-	115,225	1,527,736	-	1,527,736
Internal Balances	2,549	232	237	394,300	397,318	(397,318)	-
Due to Primary Government	106,596	-	-	-	106,596	-	106,596
Unearned Revenue	-	-	-	742,898	742,898	(20,925)	721,973
Bonds Payable	505,000	90,000	-	780,000	1,375,000	-	1,375,000
Notes Payable	-	110,503	8,241	-	118,744	-	118,744
Compensated Absences	318,159	82,715	87,105	315,110	803,089	-	803,089
Total Current Liabilities	6,664,753	405,441	123,532	4,810,601	12,004,327	(418,243)	11,586,084
Noncurrent Liabilities							
Bonds Payable	14,865,545	2,660,122	-	22,882,608	40,408,275	-	40,408,275
Notes Payable	-	1,806,707	206,585	-	2,013,292	-	2,013,292
Compensated Absences	353,180	94,133	94,452	279,091	820,856	-	820,856
Unearned Revenue	2,172	-	-	777,392	779,564	-	779,564
OPEB Liability	681,775	177,163	178,984	491,778	1,529,700	-	1,529,700
Retirement Benefits Payable	-	3,659	-	-	3,659	-	3,659
Total Noncurrent Liabilities	15,902,672	4,741,784	480,021	24,430,869	45,555,346	0	45,555,346
TOTAL LIABILITIES	22,567,425	5,147,225	603,553	29,241,470	57,559,673	(418,243)	57,141,430

(Continued)

BVU AUTHORITY
COMBINING STATEMENT OF NET POSITION
June 30, 2015

	Electric	Water	Wastewater	OptiNet	Totals	Combining Entries	Combined Total
DEFERRED INFLOWS OF RESOURCES							
Net Difference between Projected and Actual Earnings on Pension Plan Investments	133,942	35,283	36,223	118,552	324,000	-	324,000
NET POSITION							
Net Investment in Capital Assets	25,620,787	10,333,948	8,426,898	68,747,996	113,129,629	-	113,129,629
Unrestricted	17,274,025	2,328,377	5,788,322	3,053,161	28,443,885	-	28,443,885
TOTAL NET POSITION	\$ 42,894,812	12,662,325	14,215,220	71,801,157	141,573,514	0	141,573,514

See Independent Auditors' Report.

BVU AUTHORITY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended June 30, 2015

	Electric	Water	Wastewater	OptiNet	Totals	Combining Entries	Combined Total
OPERATING REVENUES							
Charges for Services	\$ 52,311,347	3,256,664	4,101,543	20,622,071	80,291,625	(743,060)	79,548,565
Management and Consulting Fees	-	-	-	142,219	142,219	-	142,219
Rent from Property	595,765	84,877	-	-	680,642	(320,894)	359,748
Forfeited Discounts and Penalties	361,217	26,899	29,976	103,227	521,319	-	521,319
Connections and Transfers	196,495	35,690	6,310	-	238,495	-	238,495
Income from CPC Operations	-	-	-	2,019,780	2,019,780	-	2,019,780
Other	147,082	100,000	-	175,685	422,767	-	422,767
TOTAL OPERATING REVENUES	53,611,906	3,504,130	4,137,829	23,062,982	84,316,847	(1,063,954)	83,252,893
OPERATING EXPENSES							
Power and Pumping	-	339,373	1,166,375	-	1,505,748	-	1,505,748
Purification and Collection System	-	496,912	201,447	-	698,359	(8,179)	690,180
Transmission and Distribution	2,062,555	334,714	-	-	2,397,269	(167,502)	2,229,767
Telephone, Broadband and CATV	-	-	-	9,122,577	9,122,577	(51,658)	9,070,919
Billing and Collection	1,288,327	393,289	330,337	3,194,065	5,206,018	(73,975)	5,132,043
City of Bristol, VA Economic Development	389,409	-	-	-	389,409	-	389,409
Purchase of Electricity	40,695,776	-	-	-	40,695,776	-	40,695,776
Administrative and General	4,573,395	1,002,301	1,105,500	3,177,134	9,858,330	(762,640)	9,095,690
Depreciation	2,488,288	693,147	631,064	7,364,033	11,176,532	-	11,176,532
TOTAL OPERATING EXPENSES	51,497,750	3,259,736	3,434,723	22,857,809	81,050,018	(1,063,954)	79,986,064
Operating Income	2,114,156	244,394	703,106	205,173	3,266,829	0	3,266,829

(Continued)

BVU AUTHORITY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended June 30, 2015

	Electric	Water	Wastewater	OptiNet	Totals	Combining Entries	Combined Total
NONOPERATING REVENUES (EXPENSES)							
Amortization	(112,754)	(23,866)	-	(108,507)	(245,127)	-	(245,127)
Interest Income	78,813	2,319	4,395	6,036	91,563	-	91,563
Interest Expense	(586,840)	(143,579)	(7,977)	(781,459)	(1,519,855)	-	(1,519,855)
Gain (Loss) on Disposal of Assets	486	(55,557)	-	5,736	(49,335)	-	(49,335)
TOTAL NONOPERATING REVENUES (EXPENSES)	(620,295)	(220,683)	(3,582)	(878,194)	(1,722,754)	0	(1,722,754)
Income (Loss) Before Capital Contributions and Transfers	1,493,861	23,711	699,524	(673,021)	1,544,075	-	1,544,075
CAPITAL CONTRIBUTIONS	-	-	-	381,314	381,314	-	381,314
TRANSFERS IN (OUT)	-	1,142,620	(1,142,620)	-	-	-	-
Change in Net Position	1,493,861	1,166,331	(443,096)	(291,707)	1,925,389	0	1,925,389
NET POSITION, JULY 1, 2014	40,636,574	11,294,638	14,451,598	71,416,315	137,799,125	-	137,799,125
Prior Period Adjustment	764,377	201,356	206,718	676,549	1,849,000	-	1,849,000
NET POSITION, JULY 1, 2014, RESTATED	41,400,951	11,495,994	14,658,316	72,092,864	139,648,125	0	139,648,125
NET POSITION, JUNE 30, 2015	\$ 42,894,812	12,662,325	14,215,220	71,801,157	141,573,514	0	141,573,514

See Independent Auditors' Report.

BVU AUTHORITY
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2015

	Electric	Water	Wastewater	OptiNet	Totals	Combining Entries	Combined Total
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from Customers and Users	\$ 54,105,002	3,487,712	3,880,643	23,151,757	84,625,114	(1,063,954)	83,561,160
Receipt of Customer Deposits	75,873	-	-	10,717	86,590	-	86,590
Payments to Suppliers	(45,070,182)	(1,415,563)	(2,011,973)	(12,161,753)	(60,659,471)	1,063,954	(59,595,517)
Payments to Employees	(4,392,517)	(1,173,870)	(786,499)	(3,499,344)	(9,852,230)	-	(9,852,230)
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,718,176	898,279	1,082,171	7,501,377	14,200,003	0	14,200,003
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Transfers (to) from Other Divisions	-	1,142,620	(1,142,620)	-	-	-	-
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	0	1,142,620	(1,142,620)	0	0	0	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Proceeds from Sale of Equipment	134,889	3,009	-	106,617	244,515	-	244,515
Capital Contributions and Grants	-	-	-	381,314	381,314	-	381,314
Acquisition and Construction of Capital Assets	(1,598,190)	(1,486,726)	(215,709)	(6,862,931)	(10,163,556)	-	(10,163,556)
Principal Paid on Capital Debt	(480,000)	(197,050)	(7,947)	(750,000)	(1,434,997)	-	(1,434,997)
Interest Paid on Capital Debt	(591,826)	(145,370)	(7,977)	(789,250)	(1,534,423)	-	(1,534,423)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(2,535,127)	(1,826,137)	(231,633)	(7,914,250)	(12,507,147)	0	(12,507,147)

(Continued)

BVU AUTHORITY
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2015

	Electric	Water	Wastewater	OptiNet	Totals	Combining Entries	Combined Total
CASH FLOWS FROM INVESTING ACTIVITIES							
Interest Received	78,813	2,319	4,395	6,036	91,563	-	91,563
NET CASH PROVIDED BY INVESTING ACTIVITIES	78,813	2,319	4,395	6,036	91,563	0	91,563
Net Increase (Decrease) in Cash and Cash Equivalents	2,261,862	217,081	(287,687)	(406,837)	1,784,419	0	1,784,419
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	12,662,157	1,881,746	3,328,305	3,544,314	21,416,522	-	21,416,522
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 14,924,019</u>	<u>2,098,827</u>	<u>3,040,618</u>	<u>3,137,477</u>	<u>23,200,941</u>	<u>0</u>	<u>23,200,941</u>
RECONCILIATION TO THE STATEMENT OF NET POSITION							
Cash and Cash Equivalents	\$ 12,843,534	1,981,089	3,040,618	2,222,374	20,087,615	-	20,087,615
Restricted Cash - Customer Deposits	1,412,511	-	-	115,225	1,527,736	-	1,527,736
Restricted Cash - Bonds	667,974	117,738	-	799,878	1,585,590	-	1,585,590
	<u>\$ 14,924,019</u>	<u>2,098,827</u>	<u>3,040,618</u>	<u>3,137,477</u>	<u>23,200,941</u>	<u>0</u>	<u>23,200,941</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES							
Operating Income	\$ 2,114,156	244,394	703,106	205,173	3,266,829	-	3,266,829
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:							
Depreciation Expense	2,488,288	693,147	631,064	7,364,033	11,176,532	-	11,176,532
(Increase) Decrease in Assets							
Net Accounts Receivable	92,109	(1,843)	10,893	(94,123)	7,036	-	7,036
Notes Receivable	182,148	-	-	-	182,148	-	182,148
Other Receivables	109,488	(13,275)	-	168,506	264,719	-	264,719
Due from Other Governmental Units	23,099	-	(268,360)	196,696	(48,565)	-	(48,565)

(Continued)

BVU AUTHORITY
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2015

	Electric	Water	Wastewater	OptiNet	Totals	Combining Entries	Combined Total
RECONCILIATION OF OPERATING INCOME (CONTINUED)							
(Increase) Decrease in Assets (Continued)							
Internal Balances	144,731	-	-	18,417	163,148	-	163,148
Prepays	(167,543)	(34,468)	64,675	(157,622)	(294,958)	-	(294,958)
Net Inventories	15,242	(1,350)	5,126	(95,701)	(76,683)	-	(76,683)
Other Current Assets	(4,998)	315	1,689	3,150	156	-	156
Net Pension Asset	144,690	38,115	39,130	128,065	350,000	-	350,000
(Increase) Decrease in Deferred Outflows of Resources	(211,063)	(59,146)	(60,826)	(158,787)	(489,822)	-	(489,822)
Increase (Decrease) in Liabilities							
Accounts Payable and Accrued Liabilities	(296,933)	30,661	(62,572)	(15,391)	(344,235)	-	(344,235)
Accrued Payroll and Related Liabilities	7,884	1,398	1,083	12,699	23,064	-	23,064
Customer Security Deposits	75,873	-	-	10,717	86,590	-	86,590
Due to Other Governmental Units	-	-	-	(1,317)	(1,317)	-	(1,317)
Internal Balances	(15,394)	(1,615)	(1,408)	(144,731)	(163,148)	-	(163,148)
Due to Primary Government	(5,617)	-	-	-	(5,617)	-	(5,617)
Unearned Revenue	(1,086)	-	-	(57,823)	(58,909)	-	(58,909)
Potential Development Credits	(37,000)	-	-	-	(37,000)	-	(37,000)
OPEB Liability	92,338	24,324	24,972	81,728	223,362	-	223,362
Retirement Benefits Payable	-	(11,431)	-	-	(11,431)	-	(11,431)
Compensated Absences	(32,236)	(10,947)	(6,401)	37,688	(11,896)	-	(11,896)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 4,718,176	898,279	1,082,171	7,501,377	14,200,003	0	14,200,003
NONCASH CAPITAL AND FINANCING ACTIVITIES							
Amortization of Bond Premium and Deferred Refunding	\$ 112,754	23,866	-	108,507	245,127	-	245,127
Capitalized Interest	\$ 35,794	30,484	2,683	173,241	242,202	-	242,202
Implementation of GASB Statement No. 68 for Pensions	\$ 764,377	201,357	206,718	676,548	1,849,000	-	1,849,000

See Independent Auditors' Report.

OTHER SUPPLEMENTARY INFORMATION SECTION
(UNAUDITED)

BVU AUTHORITY
WATER SYSTEM REVENUE STATISTICS (UNAUDITED)
June 30, 2015 and 2014

	2015			
	Average Number of Customers Per Month	Revenue Per Customer	Gallons (000's) Sold	Revenue Per 1,000 Gallons
Residential	6,842	\$ 285.59	290,302	\$ 6.73
Commercial and Industrial	1,064	1,222.56	270,345	4.81
Totals	7,906	411.69	560,647	5.81

	2014			
	Average Number of Customers Per Month	Revenue Per Customer	Gallons (000's) Sold	Revenue Per 1,000 Gallons
Residential	6,865	\$ 288.69	297,231	\$ 6.67
Commercial and Industrial	1,067	1,265.77	283,626	4.76
Other Water Authorities	3	92,492.33	92,400	3.00
Totals	7,935	454.93	673,257	5.36

	2015 (000's)	2014 (000's)
Total Gallons Pumped	813,624	962,961
Gallons Used in Operations	9,514	13,482
Gallons Available for Sale	804,110	949,479
Total Gallons Sold	560,646	673,257
Gallons Lost	243,464	276,222
Loss as a Percentage of Gallons Pumped	29.92%	28.68%

See Independent Auditors' Report.

BVU AUTHORITY
ELECTRIC SYSTEM REVENUE AND PURCHASED POWER STATISTICS (UNAUDITED)
June 30, 2015 and 2014

<u>REVENUES</u>								
	<u>\$</u>	<u>%</u>	<u>Average Number of Customers per Month</u>	<u>%</u>	<u>Revenue per Customer</u>	<u>Kilowatt Hours Sold</u>	<u>Revenue per Kilowatt Hour</u>	
<u>Residential</u>								
2015	\$ 22,115,052	41.63%	13,627	78.54%	\$ 1,622.88	207,969,958	\$ 0.1063	
2014	22,336,026	41.84%	13,656	78.62%	1,635.62	210,410,023	0.1062	
<u>Commercial</u>								
2015	4,515,108	8.50%	2,226	12.83%	2,028.35	37,231,807	0.1213	
2014	4,583,726	8.59%	2,230	12.84%	2,055.48	37,996,296	0.1206	
<u>Large Commercial & Industrial</u>								
2015	25,304,158	47.63%	323	1.86%	78,341.05	286,970,054	0.0882	
2014	25,273,689	47.34%	315	1.81%	80,233.93	284,900,300	0.0887	
<u>Street and Outdoor Lighting</u>								
2015	1,187,102	2.23%	1,175	6.77%	1,010.30	5,717,871	0.2076	
2014	1,192,476	2.23%	1,169	6.73%	1,020.08	5,828,021	0.2046	
<u>Total</u>								
2015	53,121,420	100.00%	17,351	100.00%	3,061.58	537,889,690	0.0988	
2014	53,385,917	100.00%	17,370	100.00%	3,073.46	539,134,640	0.0990	
<u>PURCHASED POWER</u>								
	<u>Cost</u>					<u>Kilowatt Hours Purchased</u>	<u>Cost per Kilowatt Hour</u>	
2015	\$ 40,695,776					559,840,691	\$ 0.0727	
2014	40,717,621					560,711,607	0.0726	

See Independent Auditors' Report.

INTERNAL CONTROL AND COMPLIANCE SECTION

**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
BVU Authority
Bristol, Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and *Specifications for 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 BVU Authority (the Authority), a discretely presented component unit of the City of Bristol, Virginia, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 22, 2015. Our report includes a reference to other auditors who audited the financial statements of the Joint Sewerage System, as described in our report on the Authority's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

Board of Directors
BVU Authority
Report on Internal Control and on Compliance
and Other Matters

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency: 15-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

The Authority's Response to the Finding

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.


BLACKBURN, CHILDERS & STEAGALL, PLC
Johnson City, Tennessee

October 22, 2015

**BVU AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2015**

SECTION I – FINANCIAL STATEMENT AUDIT FINDINGS

15-01 Significant Deficiency: Employee Handbook

Condition: During the audit, it was noted that the employee handbook had not been updated in over ten years. The process to review and update the employee handbook was started but not completed before the end of the fiscal year.

Criteria: A comprehensive and up-to-date employee handbook can help communicate, and encourage adherence to, Authority policies; prevent possible confusion, inconsistent treatment, or misunderstandings among personnel; and provide a measure of liability protection to the Authority in case of employee legal challenges of Authority actions.

Effect: The lack of updated personnel policies leaves the Authority vulnerable and susceptible to issues such as fraud and negligence.

Recommendation: The Board did formally acknowledge the update of the revised employee handbook in electronic format at its September 28, 2015 board meeting. The personnel policies should continue to be reviewed and updated on a regular basis.

Management Response: Management has reviewed all policies found in the 2002 Employee Handbook and provided updates to each, where applicable. The updated Employee Handbook is now in digital format and is available to BVU Authority Board of Directors via their Dropbox[®] access. The revised Employee Handbook will also be made available to all employees in the digital format. The Human Resources department will keep paper copies if employees require such.

SECTION II – PRIOR YEAR FINDINGS IMPLEMENTED

14-01 – No Formal Written Accounting Policies and Procedures