

# Dinwiddie County Water Authority

A Component Unit of Dinwiddie County, Virginia



Financial Statements as of and for the  
Years Ended June 30, 2015 and 2014, and  
Independent Accountants' Compilation Report

## **BOARD OF DIRECTORS**

Norman C. Olgers, Jr, Chairman

Joseph R. Patterson, Vice-Chairman

Gene R. Witt., Secretary and Treasurer

John Larry Harvell

F. Edward Pearson, II

# **Dinwiddie County Water Authority**

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## **Independent Auditors' Report**

Board of Directors  
Dinwiddie County Water Authority  
Dinwiddie, Virginia

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Dinwiddie County Water Authority, a component unit of Dinwiddie County, Virginia, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Dinwiddie County Water Authority's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Dinwiddie County Water Authority as of June 30, 2015 and 2014, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Change in Accounting Principle*

As discussed in Notes 2 and 3 to the financial statements, the financial statements as of and the year ended June 30, 2014 were *restated* due to the implementation of 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, in 2015. Our opinion is not modified with respect to these changes.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 – 6 and schedule of changes in net pension liability and related ratios and schedule of contributions on pages 31 – 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Auditing Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the 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.

### *Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Dinwiddie County Water Authority's basic financial statements. The accompanying financial information, listed as supplementary information in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

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

In accordance with Government Auditing Standards, we have also issued our report dated October 26, 2015, on our consideration of Dinwiddie County Water Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Dinwiddie County Water Authority's internal control over financial reporting and compliance.

*Dixon Hughes Goodman LLP*

Chester, Virginia  
October 26, 2015

## Dinwiddie County Water Authority

### Management's Discussion and Analysis

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#### June 30, 2015 and 2014

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As management of the Dinwiddie County Water Authority, we offer readers of the Dinwiddie County Water Authority's financial statements this narrative overview and analysis of the financial activities of Dinwiddie County Water Authority for the fiscal years ended June 30, 2015 and 2014.

#### Summary of Dinwiddie County Water Authority Operations

The Dinwiddie County Water Authority (DCWA or the Authority) staff consists of 10 employees including the executive director, and 2 part-time employees. DCWA maintains two water distribution pump stations, 24 wastewater pump stations, 5 elevated water tanks (4 on DCWA and 1 in McKenney), one well system (Lew Jones - approximately 26 customers), one wastewater treatment plant, approximately 81 miles of water lines, and approximately 65 miles of wastewater collection lines.

Water is purchased from the Appomattox River Water Authority (ARWA) and distributed to the Authority's customers through the Main Water Pump Station on Ferndale Avenue (across from the Ferndale Park) and Booster Water Pump Station located on Central State's property on the north side of Boydton Plank Road then through the Authority's pipe network. The Lew Jones subdivision is served by a community well. Water service is also provided to a few customers adjacent to the County of Prince George by the County of Prince George and near the Town of McKenney by the Town of McKenney.

Wastewater service in the north end of the Dinwiddie County is collected in the Authority's gravity collection system and various wastewater pump stations and sent through two metering stations, one on Piney Beach and one near the City of Petersburg along Rohoic Creek. The Authority pays the City of Petersburg for the right to "transport" wastewater through their collection system to the South Central Wastewater Authority (SCWWA). The Authority then pays SCWWA to treat the wastewater.

Wastewater service to the Courthouse area is provided by a small collection system around the Courthouse area. Wastewater is also collected by various pump stations from the Route 85 rest stops, Dinwiddie Middle School, Dinwiddie High School, Dinwiddie Fire Department, and twenty five (25) residential and commercial connections. In the Courthouse area itself, there are some additional pump stations that serve the Pamplin building, Dinwiddie Grocery Store and elementary school. The wastewater collected is then sent to the Authority's Courthouse Wastewater Treatment Plant for treatment and discharge to Stony Creek.

#### Financial Highlights

- Selected financial information for 2015, 2014, and 2013 is as follows:

	2015	(As Restated) 2014	2013
Total capital assets	\$ 18,858,397	\$ 19,404,671	\$ 20,045,741
Total assets and deferred outflows of resources	27,896,082	28,047,668	28,695,576
Total long-term liabilities	6,632,776	7,227,245	7,585,305
Total liabilities and deferred inflows of resources	7,573,411	8,104,925	8,573,351
Total operating revenues	3,189,702	3,087,414	3,135,536
Total operating expenses, excluding depreciation	2,474,607	2,545,012	2,720,029
Change in net position	379,928	(66,365)	(151,170)
Net position:			
Net investment in capital assets	15,612,515	15,750,116	15,917,286
Restricted	409,020	394,862	377,157
Unrestricted	4,301,136	3,797,765	3,827,782
<b>Total net position – end of year</b>	<b>\$ 20,322,671</b>	<b>\$ 19,942,743</b>	<b>\$ 20,122,225</b>

- Operating revenues increased from fiscal year 2014 to fiscal year 2015 by \$102,288 or approximately 3%. The net sewer charges are up from FY14 to FY15 approximately 4%. The majority of the increase in revenue is a result of increased water sales also resulting in an increase in sewer revenue. Sewer revenue is calculated on a one to one basis on the amount of water that is consumed.
- Contributions from the County for FY15 increased by \$100,566 which is approximately 23% above FY14. The majority of this increase is a result of three items added to the Fund 80 budget: carryover from FY14 underpayment of approximately \$45,000, new capital improvement line item for water line rehabilitation with an annual budget amount of \$20,000, and a new capital improvement line item for pump station rehabilitation with an annual budget amount of \$20,000.
- The Authority's activities are divided into three operating funds; the Operating (Main System) Fund, the Courthouse Fund, and the Church Road Fund. Total operating expenses excluding depreciation are \$70,405 or approximately 3% lower in fiscal year 2015 than fiscal year 2014. This reduction is primarily attributed to lower wholesale water rates, reduced costs related to sewage pump station improvements completed in FY14, and fewer water line breaks in FY15 as compared to FY14 that required outside resources to repair.
- The Courthouse Fund operating expenses, excluding depreciation, decreased by \$4,207 or approximately 2% from FY14. This small decrease is a result of a reduced sewer pump station upgrades required during FY15 as the majority of those upgrades occurred in FY14.

The Church Road System Fund, Fund 80, realized a \$45,096 or approximately 19% decrease in operating expenses. This reduction is a result of decreased wholesale water rates and a reduction in water line repair costs. In FY14, there was a 24" water line leak which required outside resources to be brought in to make the repairs. There were no water line leaks in FY15 on the Church Road System.

- During 2015, the Authority's liabilities decreased. The reduction in liabilities is the result of continuing to make payments on the Authority's bonds.
- The Authority has agreed by resolution with financial support from Dinwiddie County to participate in the required nutrient improvements for the South Central Wastewater Authority (SCWWA) and the off river storage project for the Appomattox River Water Authority (ARWA). The estimated cost of the nutrient improvements is \$60 million with Dinwiddie County responsible for 10% and the estimated cost of the off river storage is \$85 million with Dinwiddie County responsible for 6.75%.

The Board of Directors for SCWWA has agreed to purchase nutrient credits for nitrogen and phosphorous through 2016. It has not been determined when the actual construction will begin for the nutrient project. It is also anticipated that the nutrient project may qualify for approximately \$15 million in grant funding. It is not known if the grant funding will be available at the time of construction. The Authority will be responsible for the operating costs of the new system and Dinwiddie County will be responsible for the debt service and interest for their portion, 6.75%, for construction of the nutrient project. Dinwiddie County has included the nutrient project in their Capital Improvement Program and is currently budgeting for the nutrient credit costs on an annual basis. SCWWA is currently determining operating costs to purchase future nutrient credits and determine what capital improvement projects will be necessary as a result of delaying the nutrient project through 2021.

The Appomattox River Water Authority is investigating alternative solutions for providing additional capacity and sustainability for Lake Chesdin. The goal for this project is to have an off river storage facility in service by 2040.

- The Authority participated with the developer of the Lake Jordan Subdivision to oversize the water line through the development adjacent to Route 1 from 8" to 16" in FY07. The oversizing cost of the water line is being reimbursed to the developer through reduced water connection fees for the developer per the Authority's Rules and Regulations. This reimbursement is still in effect for FY15. During FY15, there was only one connection that met the criteria for developer reimbursement. To date, the subdivision has not been completed.
- The current cash and cash equivalents increased by \$182,580. In April 2014, the Authority paid off the refinanced Fund 10 bond with SunTrust with a final debt service payment of approximately \$200,000. FY15 is the first full fiscal year without this debt payment which resulted in the increase in cash and cash equivalents.

- The change in net position increased from FY14 to FY15. This is a result of decreases in the Authority's long term liabilities (bonds) and reduction in accrued interest.
- The Authority continues to pay off debt service and interest on the existing bonds. This is illustrated by a reduction from FY14 to FY15 in long-term and total liabilities.

#### **Authority Highlights for 2015**

- Purchased asset management software for meters, valves and fire hydrants.
- Purchased a new 4X4 construction truck for field staff.
- Successfully renewed the VPDES permit for the Courthouse Wastewater Treatment Plant. In the permit we were successful in reducing the required staffing from eight (8) hours a day, seven (7) days a week to four (4) hours a day, seven (7) days a week with the potential to go to four (4) hours a day, five (5) days a week.
- With a grant from the Virginia Health Department, brought in a computer consultant to perform a cybersecurity audit for water assets. This scope included the Water SCADA system and billing system.
- Developed a Remote Board Member Participation Policy for Authority Board Members.
- Replaced all computer servers and desktop work stations. Upgraded the servers to Windows Servers 2012 and desktops to Windows 7.
- Replaced the control cabinet at the Middle School WWPS.
- Added a rotary screen to the headworks at the Courthouse Wastewater Treatment Plant.
- Developed a Memorandum of Understanding with the Town of McKenney to read the radio read meters for the Town of McKenney. Purchased the radio read meters for the Town for which the Authority was reimbursed through a State grant.
- Additional clearing and maintenance of wastewater easements.
- Added seven (7) new water and sewer residential connections and three (3) new commercial connections.
- Updated and calibrated the Water Model to support economic development and emergency planning scenarios.
- Initiated a formal Rate Study to ensure fair and equitable rates through all customer classes as well as ensuring Authority remains a sustainable business. Scheduled implementation for rate increases is August 2015.
- Successful USDA audit for the Rural Development bond used to purchase wastewater capacity at the South Central Wastewater Authority.
- Successful FY14 annual audit.
- Upgraded financial system and added purchase order tracking system for purchases by field staff.
- Added an automatic flushing station in Lake Jordan to maintain water quality at the end of the existing water distribution system. Flushing station discharges to the sanitary collection system to avoid any impact on adjacent private lake and environment.

#### **Overview of the Financial Statements**

The Authority's basic financial statements are comprised of two components: (1) financial statements and (2) notes to the financial statements. Additionally, supplementary combining information by fund accounts is included.



The financial statements of the Authority offer short and long-term financial information about its activities. The statement of net position provides information about the nature and amounts of the Authority's cash, investments and receivables (assets), and its obligations to creditors (liabilities). All of the Authority's current fiscal year revenues and expenses are accounted for in the statement of revenues, expenses and changes in net position. These statements measure whether the Authority successfully recovered all of its costs through user charges from its customers. The statement of cash flows provides information on the Authority's cash receipts, cash payments, and net changes in cash resulting from operating, investing, capital, and non-capital financial activities. It also provides insight on the source of cash, the use of cash, and cash changes during the reporting period.

### **Economic Conditions**

The Authority continues to operate under sound management. Overall finances for the Authority for fiscal year 2015 as viewed by management, including the Board of Directors, is considered sound.

# Dinwiddie County Water Authority

## Statements of Net Position

June 30,	(As Restated)	
	2015	2014
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,147,623	\$ 965,043
Accounts receivable - net	440,548	442,870
Due from County	20,067	36,381
Prepaid expenses	60,331	18,885
<b>Total current assets</b>	<b>1,668,569</b>	<b>1,463,179</b>
<b>Restricted assets</b>		
Cash and cash equivalents	409,020	394,862
<b>Property, plant and equipment - net</b>		
Property, plant and equipment - net of accumulated depreciation	18,858,397	19,404,671
<b>Other assets</b>		
Cash and cash equivalents - rate stabilization fund	602,981	601,476
Cash and cash equivalents - board designated	2,310,147	1,964,113
Net pension asset	31,201	-
Unamortized sewer contract costs	3,924,303	4,111,167
<b>Total other assets</b>	<b>6,868,632</b>	<b>6,676,756</b>
<b>Total assets</b>	<b>27,804,618</b>	<b>27,939,468</b>
<b>Deferred Outflow of Resources</b>		
<b>Deferred amount on bond refunding</b>	48,673	58,065
<b>Deferred pension contributions</b>	42,791	50,135
<b>Total assets</b>	<b>91,464</b>	<b>108,200</b>
	<b>\$ 27,896,082</b>	<b>\$ 28,047,668</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 193,542	\$ 257,611
Accrued interest payable	19,565	28,846
Bonds payable - current portion	481,042	464,094
Unearned connection fees	16,979	17,712
<b>Total current liabilities</b>	<b>711,128</b>	<b>768,263</b>
<b>Current liabilities payable from restricted assets</b>		
Customer deposits	123,575	109,417
<b>Long-term liabilities</b>		
Net pension liability	-	113,117
Bonds payable - less current portion	6,632,776	7,114,128
<b>Total long-term liabilities</b>	<b>6,632,776</b>	<b>7,227,245</b>
<b>Total liabilities</b>	<b>7,467,479</b>	<b>8,104,925</b>
<b>Deferred Inflow of Resources</b>		
<b>Deferred pension investment experience</b>	105,932	-
<b>Net Position</b>		
<b>Net investment in capital assets</b>	15,612,515	15,750,116
<b>Restricted</b>	409,020	394,862
<b>Unrestricted</b>	4,301,136	3,797,765
<b>Total net position</b>	<b>20,322,671</b>	<b>19,942,743</b>
	<b>\$ 27,896,082</b>	<b>\$ 28,047,668</b>

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

# Dinwiddie County Water Authority

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

Years Ended June 30,	(As Restated)	
	2015	2014
<b>Revenues</b>		
Operating revenues:		
Sewer charges	\$ 1,427,743	\$ 1,369,044
Sale of water	1,354,230	1,324,983
County use and operation fees	260,660	241,814
Penalty and service charges	92,938	98,461
Fire hydrant rental	1,066	1,113
Miscellaneous	53,065	51,999
<b>Total operating revenues</b>	<b>3,189,702</b>	<b>3,087,414</b>
<b>Operating expenses, other than depreciation</b>		
Water - source of supply	416,539	528,489
Water - pumping	41,758	42,119
Water - transmission and distribution	85,100	99,173
Sewage - pumping	81,987	130,678
Sewage - treatment	752,709	640,021
Sewage - transmission and distribution	82,546	109,795
Maintenance shop	140,214	158,893
Customer accounts	316,694	318,292
Administrative	557,060	517,552
<b>Total operating expenses, other than depreciation</b>	<b>2,474,607</b>	<b>2,545,012</b>
<b>Operating income before depreciation</b>	<b>715,095</b>	<b>542,402</b>
<b>Depreciation</b>	<b>(965,725)</b>	<b>(966,208)</b>
<b>Operating loss</b>	<b>(250,630)</b>	<b>(423,806)</b>
<b>Nonoperating revenues (expenses)</b>		
Interest earned	8,637	9,665
Contributions from the County	538,312	437,746
Service and connection fees	142,460	120,693
Interest expense	(282,886)	(303,658)
<b>Total nonoperating revenues</b>	<b>406,523</b>	<b>264,446</b>
<b>Income (loss) before contributed capital</b>	<b>155,893</b>	<b>(159,360)</b>
<b>Contributed capital - developer paid infrastructure</b>	<b>224,035</b>	<b>92,995</b>
<b>Change in net position</b>	<b>379,928</b>	<b>(66,365)</b>
<b>Net position - beginning of year</b>	<b>19,942,743</b>	<b>20,009,108</b>
<b>Net position - end of year</b>	<b>\$ 20,322,671</b>	<b>\$ 19,942,743</b>

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

**Dinwiddie County Water Authority**  
**Statements of Cash Flows**

	<b>(As Restated)</b>	
<b>Years Ended June 30,</b>	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities</b>		
Cash receipts from customers	\$ 3,138,954	\$ 3,075,719
Cash receipts from other income	53,065	51,999
Cash payments to employees for services	(553,118)	(548,493)
Cash payments for water related services and supplies	(520,650)	(648,042)
Cash payments for sewage related services and supplies	(674,782)	(693,429)
Cash payments for shop maintenance expenses	(104,780)	(125,505)
Cash payments for customer accounts expenses	(152,735)	(153,614)
Cash payments for administrative expenses	(397,272)	(200,207)
<b>Net cash from operating activities</b>	<b>788,682</b>	<b>758,428</b>
<b>Cash flows from noncapital financing activities</b>		
Service and connection fees	141,727	120,693
Change in customer deposits	14,158	18,205
<b>Net cash from noncapital financing activities</b>	<b>155,885</b>	<b>138,898</b>
<b>Cash flows from capital and related financing activities</b>		
Acquisition and construction of capital assets	(195,416)	(232,143)
County contributions	533,668	441,710
Interest paid	(282,775)	(296,831)
Principal retired	(464,404)	(649,387)
<b>Net cash from capital and related financing activities</b>	<b>(408,927)</b>	<b>(736,651)</b>
<b>Cash flows from investing activities</b>		
Interest received	8,637	9,665
<b>Net change in cash and cash equivalents</b>	<b>544,277</b>	<b>170,340</b>
<b>Cash and cash equivalents - beginning of year</b>	<b>3,925,494</b>	<b>3,775,154</b>
<b>Cash and cash equivalents - end of year</b>	<b>\$ 4,469,771</b>	<b>\$ 3,945,494</b>
<b>Cash and cash equivalents, as shown on statements of net position</b>		
Cash and cash equivalents - current assets	\$ 1,147,623	\$ 965,043
Cash and cash equivalents - restricted assets	409,020	394,862
Cash and cash equivalents - rate stabilization fund	602,981	601,476
Cash and cash equivalents - board designated	2,310,147	1,964,113
	<b>\$ 4,469,771</b>	<b>\$ 3,925,494</b>
<b>Reconciliation of operating loss to net cash from operating activities</b>		
Operating loss	\$ (250,630)	\$ (423,806)
Adjustments to reconcile to net cash from operating activities:		
Depreciation	965,725	966,208
Amortization of sewer contract costs	186,864	186,864
Change in:		
Accounts receivable - trade	2,322	43,477
Due from County	20,958	(20,958)
Prepaid expenses	(41,446)	3,831
Accounts payable - trade	(64,069)	52,947
Decrease in net pension asset/liability and related deferred inflows/outflows of resources	(31,042)	(50,135)
<b>Net cash from operating activities</b>	<b>\$ 788,682</b>	<b>\$ 758,428</b>
<b>Supplemental disclosure of noncash financing and investing activities</b>		
Contributed capital	\$ 224,035	\$ 92,995

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

# **Dinwiddie County Water Authority**

## **Notes to Financial Statements**

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**June 30, 2015 and 2014**

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### **1. Organization and Nature of Business**

Dinwiddie County Water Authority (Authority) was created by the Board of Supervisors of Dinwiddie County, Virginia under the provisions of the Virginia Water and Sewer Authorities Act. The Act provides that the Authority is subject in all respects to the jurisdiction of the Virginia State Water Control Board pursuant to the provisions of the State Water Control Law. The Authority was established for the purpose of providing and maintaining water and sewer facilities to residential and commercial customers within Dinwiddie County and is constantly improving and expanding its facilities to serve a greater number of residents and businesses.

### **2. Summary of Significant Accounting Policies**

#### **Reporting Entity**

The Authority is considered a component unit of Dinwiddie County (County) for governmental accounting standards purposes. The criteria for including the Authority within the County's reporting entity, as set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, and amended by GASB Statement No. 61, The Financial Reporting Entity: Omnibus an amendment of GASB Statement No. 14 and No. 34, is financial accountability. Financial accountability is defined as appointment of a voting majority of the component unit's board and either the ability to impose the primary government's will or the possibility that the component unit will provide a financial benefit to, or impose a financial burden on, the primary government. The Authority's Board of Directors is appointed by the Board of Supervisors of Dinwiddie County. The Authority and Dinwiddie County have Support Agreements, whereby the County will, subject to appropriation, pay the Authority budgeted amounts for debt service of the Series 2005 and Series 2006 Water and Sewer Revenue Bonds and Series 2012 Water System Revenue Refunding Bond, for operation and maintenance of the Courthouse System and Church Road System, and for deficiencies in the operating revenues of the Authority's main water and sewer system. The Support Agreements also require the Director of the Authority to notify the County Administrator if in any month the Authority is unable to make its required debt service payment, and to request an appropriation from the Board of Directors to make up any deficiency. The existence of these Support Agreements satisfies the criteria of "imposing a financial burden on the primary government," thus making the County financially accountable for the Authority.

#### **Basis of Accounting**

The Authority utilizes the economic resources management focus and the accrual basis of accounting in preparing its financial statements where revenues are recognized when earned and expenses when incurred.

#### **Fund Accounting**

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity as displayed in the supplementary information. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues and expenses as appropriate. The following funds are included in the supplementary information:

##### **Operating Fund**

The Operating Fund is used to account for activities which are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the Authority's business activities are accounted for through the Operating Fund. The measurement focus is upon determination of net income, financial position and cash flows.

### **Courthouse Fund**

The Courthouse Fund accounts for the operations of the courthouse facilities in accordance with the Series 2004 Water and Sewer Revenue Refunding Bond Trust Agreement, which also governs the Series 2005 and Series 2006 Water and Sewer Revenue Bonds. The Series 2004 Water and Sewer Revenue Refunding Bonds were paid off in FY11.

### **Church Road System Fund**

The Church Road System Fund accounts for the operations of the Church Road Water System facilities in accordance with the Series 1999 Water System Revenue Bond (replaced in fiscal year 2014 with the Series 2012 Water System Revenue Refunding Bond) Trust Agreement.

### **Reserve Fund**

The Reserve Fund is used to account for the reserve of assets in accordance with the regulations established by the Rural Utility Service Bonds issued in 1996. The amount in the Reserve Fund allocable to the required amount for the Rural Utility Service Bonds is \$286,000.

### **Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Some cash and cash equivalents have been designated by the board to offset the impact of future rate changes for customers, and also to fund future capital improvements.

### **Accounts Receivable**

The Authority evaluates its accounts receivable individually. A charge to income to absorb possible credit losses is provided when, in the opinion of management, it is appropriate. At June 30, 2015 and 2014, \$31,155 of accounts receivable were not considered collectible and, as such, an allowance has been recorded.

### **Unbilled Receivables**

Unbilled receivables represent an estimate of the amount of July billings subsequent to year end that relate to service provided prior to year end. At June 30, 2015 and 2014, unbilled receivables of \$279,224 and \$222,096, respectively, were included in Accounts receivable – trade on the statement of net position. These amounts are considered to be fully collectible and, as such, no allowance has been recorded.

### **Property, Plant and Equipment**

Property, plant and equipment are stated at cost and are depreciated using the straight-line method based on estimated useful lives of 5 to 50 years. When assets are disposed, the related costs and accumulated depreciation are removed from the respective accounts and any profit or loss on disposition is recognized currently.

Developer paid infrastructure is capitalized when ownership is transferred to the Authority. Such contributions are recognized at the estimated fair market value and are included as contributed capital on the statement of revenues, expenses, and changes in net position and are depreciated using the straight-line method based on estimated lives of 50 years.

Depreciable lives are as follows:

Buildings	40 years
Equipment	5 to 15 years
Infrastructures	20 to 50 years

Maintenance and ordinary repairs are charged to expense as incurred. Expenditures which materially increase values, change capacities or extend useful lives are capitalized.

#### **Unamortized Sewer Contract Costs**

Unamortized sewer contract costs are being amortized over forty years using the straight-line method. The amortization of \$186,864 for both fiscal years 2015 and 2014 is included in sewage-treatment expense.

#### **Unamortized Deferred Amount on Refunding**

The deferred amount on refunding, resulting from the advance refunding of the Series 1999 Revenue Bonds is being amortized using the effective interest method over the life of the Series 2012 Bond. The amortization of \$9,392 and \$10,135 is included in interest expense for fiscal year 2015 and 2014, respectively.

#### **Compensated Absences**

All salaried and full time hourly employees are granted vacation benefits in varying amounts to specified maximums depending on length of service with the Authority. There is no accumulation of vacation from fiscal year to fiscal year. Sick leave is earned each month and may be accumulated without limit. Employees who retire from the Authority will be paid for 25% of sick leave accumulated, up to a maximum of \$2,500.

#### **Operating Revenues and Expenses**

The Authority's policy is to report all revenues and expenses resulting from providing and maintaining water and sewer facilities to residential and commercial customers as operating revenues and expenses.

#### **Credit Risk**

Financial instruments that potentially subject the Authority to concentrations of credit risk consist principally of cash, cash equivalents, and trade accounts receivable. The Authority places its cash and cash equivalents with high credit quality financial institutions whose credit ratings are monitored by management to minimize credit risk. The concentration of credit risk for accounts receivable is limited due to the mixture of customers between commercial and residential, and support agreements with Dinwiddie County.

The Authority has an agreement with the Commonwealth of Virginia, Department of Mental Health, Mental Retardation and Substance Abuse Services (DMHMRSAS) for the acceptance of wastewater generated at DMHMRSAS facilities. DMHMRSAS shall reimburse the Authority for the costs of all changes and improvements for the purposes of metering their flow. DMHMRSAS will pay the Authority, on a monthly basis, in accordance with the Authority's published service rates. The agreement shall remain in effect until 2016, with an option for an additional 20 years. Revenues of \$110,990 and \$97,328 for the years ended June 30, 2015 and 2014, respectively, are included in sewer charges on the statement of revenues, expenses and changes in net assets.

#### **GASB Accounting Pronouncement**

The Authority implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* ("GASB No. 68") and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* ("GASB No. 71") during fiscal year 2015. GASB No. 68 provides accounting and financial reporting guidance for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions and related disclosures. GASB No. 71 provides accounting and financial reporting guidance for contributions, if any, made by the employer to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The accounting changes required by GASB No. 68 and No. 71 are applied retroactively by reclassifying the statement of net position, balance sheet information, and results of operations.

## Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Political Subdivision's Retirement Plan and the additions to/deductions from the Political Subdivision's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

## Risk Management

The Authority carries commercial insurance for various risks of loss including property, workers' compensation, theft, general liability, errors and omissions, employee health and accident, and public officials' liability. There have been no claims which have exceeded the amount insured resulting from these risks during the current year and there was no reduction in coverage during fiscal years 2015 and 2014.

## Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses and disclosure of contingent assets and liabilities for the reported periods. Actual results could differ from those estimates and assumptions.

## Subsequent Events

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through October 26, 2015, the date the financial statements were issued.

### 3. Retrospective Application of a Change in Accounting Principle

The following table summarizes the effects of the implementation of GASB No. 68 and No. 71 in the statements of net position as of June 30, 2015 and 2014:

	(As Previously Reported) June 30, 2014	Record Effects of GASB 68	(As Adjusted) June 30, 2014
Total assets	\$ 27,939,468	\$ -	\$ 27,939,468
Deferred outflows of resources	58,065	50,135	108,200
Total liabilities	7,991,808	113,117	8,104,925
Deferred inflows of resources	-	-	-
Net position:			
Net investment in capital assets	15,750,116	-	15,750,116
Restricted	394,862	-	394,862
Unrestricted	3,860,747	(62,982)	3,797,765
Total net position	\$ 20,005,725	\$ (62,982)	\$ 19,942,743



The following table summarizes the effects of the implementation of GASB No. 68 and No. 71 in the statements of net position as of June 30, 2015 and 2014:

	(As Previously Reported) June 30, 2014	Record Effects of GASB 68	(As Adjusted) June 30, 2014
Total operating revenues	\$ 3,087,414	\$ -	\$ 3,087,414
Total operating expenses	2,595,147	(50,135)	2,545,012
Operating income before provision for depreciation	492,267	50,135	542,402
Provision for depreciation	966,208	-	966,208
Operating loss	(473,941)	50,135	(423,806)
Nonoperating revenues, net	264,446	-	264,446
Loss before capital contributions	(209,495)	50,135	(159,360)
Capital contributions	92,995	-	92,995
Decrease in net position	(116,500)	50,135	(66,365)
Total net position – beginning of year	20,122,225	(113,117)	20,009,108
Total net position – end of year	\$ 20,005,725	\$ (62,982)	\$ 19,942,743

#### 4. Cash, Cash Equivalents and Investments

##### Deposits

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

##### Investments

##### Investment Policy

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

In addition, any money held by the Trustee in any fund or account under any indenture may be invested and reinvested by the Trustee in any of the following investments:

- a. direct obligations of, or obligations the payment of the principal and interest on which are unconditionally guaranteed by, the United States of America (government obligations);
- b. bonds, notes and other evidences of indebtedness upon which there is no default (i)(A) to which the full faith and credit of the Commonwealth of Virginia or any of its political subdivisions are pledged for the payment of their principal and interest or, (B) which are issued by the Commonwealth of Virginia or any of its agencies, political subdivisions, districts, authorities or other political bodies, and (ii) that are rated in one of the two highest categories by Standard & Poor’s Corporation;

- c. certificates representing ownership of United States Treasury bond principal at maturity or coupons for accrual periods, which bonds or coupons are held by certain domestic banks or trust companies in the capacity of custodian, independent of the sellers of such certificates (Government Certificates);
- d. bonds, notes, debentures, participation and other obligations issued by the Federal National Mortgage Association, Federal Home Loan Bank, Farm Credit System, Farm Credit System Financial Assistance Corporation, Student Loan Marketing Association, Resolution Funding Corporation, Federal Home Loan Mortgage Corporation, Tennessee Valley Authority and Government National Mortgage Association;
- e. commercial paper that (i) has a maturity of 270 days or less, (ii) is rated by Standard & Poor's Corporation within its ratings of A-1 and (iii) complies with the requirements of Section 2.1-328.1 of the Code of Virginia (1950), as amended, or any subsequent provision of law applicable thereto;
- f. savings accounts, time deposits, certificates of deposit or other interest bearing accounts of any commercial bank located in the Commonwealth of Virginia, including the Trustee, provided that (i) such deposits are (A) secured in the manner required by the Virginia Security for Public Deposits Act or any successor provision of law or, (B) fully insured by the Federal Deposit Insurance Corporation or other federal insurance agency and (ii) no deposits made under this subsection will be made for a period in excess of five years;
- g. savings accounts, time deposits and certificates of deposit of savings and loan associations that are under supervision of the Commonwealth of Virginia, and federal associations located in the Commonwealth of Virginia and under federal supervision, provided that (i) such deposits are (A) fully insured by the Federal Deposit Insurance Corporation or other federal insurance agency or, (B) secured in the manner required by the Virginia Security for Public Deposits Act or any successor provision of law and (ii) no deposits made under this subsection will be made for a period in excess of five years;
- h. provided that it is rated in one of the two highest rating categories by Standard & Poor's Corporation, any other investment permitted for the type of money to be invested by (i) the Investment of Public Funds Act (Chapter 18, Title 2.1, Code of Virginia (1950), as amended), or (ii) Section 62.1-221 of the Act; and
- i. Virginia State Non-Arbitrage Program securities.

Notwithstanding the foregoing, money held in a Revenue Fund or a Bond Fund may not be invested in the investments described in subparagraphs (e) and (i) above.

The Trustee may purchase any investments described in subparagraphs (a), (b) or (c) above under an overnight term or open repurchase agreement complying with the provisions of the indenture. In addition, investments in a money market or other fund, investments of which fund are exclusively in obligations or securities described in subparagraphs (a) and (c) above, are considered investments in obligations in subparagraphs (a) and (c) respectively.

Any such investments will be held by or under the Trustee's control and while so held shall be deemed a part of the fund or account in which such money was originally held, and the interest accruing thereon and any profit realized from such investments, including realized discounts on obligations purchased, shall be credited to such fund or account, and any loss resulting from such investments shall be charged to such fund or account.

### **Concentration of Credit Risk**

The Policy establishes limitations on portfolio composition by issuer in order to control concentration of credit risk. No more than 5% of the Authority's portfolio will be invested in the securities of any one issuer with the exception of: (1) the U.S. government or agencies thereof, (2) fully insured/collateralized certificates of deposit or repurchase agreements that are collateralized by the U.S. government or agencies thereof, and (3) mutual funds whereby the portfolio is limited to U.S. government or agency securities.

## Interest Rate Risk

As of June 30, 2015 and 2014, the Authority had the following investments, which are considered cash equivalents, and maturities:

### Short-Term Investments

Investment Type	2015 Investment Maturities (in Years)				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
Certificate of deposit	\$ 602,981	\$ 602,981	\$ -	\$ -	\$ -

### Short-Term Investments

Investment Type	2014 Investment Maturities (in Years)				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
Certificate of deposit	\$ 601,476	\$ 601,476	\$ -	\$ -	\$ -

The Authority has no formal investment policy regarding interest rate risk; however, the Authority's investment portfolio consists of investments with maturities of less than twelve months which limits its exposure to fair value losses arising from rising interest rates.

## Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. As of June 30, 2015 and 2014, \$602,981 and \$601,476, respectively, of the authority's bank balance of \$4,507,910 and \$3,922,063 respectively, including petty cash of \$800, was exposed to custodial credit risk as follows:

	2015	2014
Uninsured and collateral held by pledging bank's trust department not in the Authority's name	\$ 602,981	\$ 601,476

## 5. Property, Plant and Equipment

Property, plant and equipment owned by the Authority consist of the following:

	Balance June 30, 2014	Increases	Decreases	Balance June 30, 2015
Operating fund:				
Capital assets not being depreciated:				
Land and improvements	\$ 321,244	\$ -	\$ -	\$ 321,244
Other capital assets:				
Buildings	219,092	-		219,092
Equipment	1,349,178	70,002	-	1,419,180
Infrastructure	21,138,016	239,254	-	21,377,270
<b>Total other capital assets at historical cost</b>	<b>22,706,286</b>	<b>309,256</b>	<b>-</b>	<b>23,015,542</b>
Less accumulated depreciation for:				
Buildings	(151,251)	(4,098)	-	(159,349)
Equipment	(650,740)	(74,813)	-	(725,533)
Infrastructure	(10,420,785)	(475,952)	-	(10,896,737)
<b>Total accumulated depreciation</b>	<b>(11,226,776)</b>	<b>(554,863)</b>	<b>-</b>	<b>(11,781,639)</b>
Operating capital assets - net	11,800,754	(245,607)	-	11,555,147

Courthouse Fund:				
Capital assets not being depreciated:				
Construction in progress	30,764	-	30,764	-
Other capital assets:				
Buildings	2,604,168	-	-	2,604,168
Equipment	257,369	104,461	-	361,830
Infrastructure	4,327,774	26,498	-	4,354,272
<b>Total other capital assets at historical cost</b>	<b>7,189,311</b>	<b>130,959</b>	<b>30,764</b>	<b>7,320,270</b>
Less accumulated depreciation for:				
Buildings	(1,372,566)	(74,154)	-	(1,446,720)
Equipment	(58,270)	(10,224)	-	(68,494)
Infrastructure	(1,233,666)	(192,365)	-	(1,426,031)
<b>Total accumulated depreciation</b>	<b>(2,664,502)</b>	<b>(276,743)</b>	<b>-</b>	<b>(2,941,245)</b>
Courthouse Fund capital assets - net	4,555,573	(145,784)	30,764	4,379,025
Church Road System Fund:				
Other capital assets:				
Buildings	1,025,547	-	-	1,025,547
Equipment	-	10,000	-	10,000
Infrastructure	3,838,575	-	-	3,838,575
<b>Total other capital assets at historical cost</b>	<b>4,864,122</b>	<b>10,000</b>	<b>-</b>	<b>4,874,122</b>
Less accumulated depreciation for:				
Buildings	(301,116)	(21,266)	-	(322,382)
Equipment	-	(833)	-	(833)
Infrastructure	(1,514,662)	(112,020)	-	(1,626,682)
<b>Total accumulated depreciation</b>	<b>(1,815,778)</b>	<b>(134,119)</b>	<b>-</b>	<b>(1,949,897)</b>
Church Road System Fund capital assets - net	3,048,344	(124,119)	-	2,924,225
	<b>\$ 19,404,671</b>	<b>\$ (515,510)</b>	<b>\$ (30,764)</b>	<b>\$ 18,858,397</b>

## 6. Advance Refunding

On August 1, 2012, the Authority issued \$2.64 million in Revenue Bonds with a coupon rate ranging between 2.1 and 2.7 percent to advance refund \$3.055 million of outstanding bonds with an interest rate of 5.8 percent. The \$2,584,505 in net proceeds (after a bond discount of \$7,491 and payment of \$48,004 in underwriting fees and other issuance costs), along with \$546,575 in existing reserves, was used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. These bonds were discharged in September 2012.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$76,080. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to the Authority's operations through the year 2025 using the effective-interest method. The Authority completed the advance refunding to reduce its total debt service payments over the next 12 years by approximately \$1.3 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$1 million.

## 7. Bonds Payable

Bonds payable consist of the following issues:

Description	Original Amount	Amount Outstanding June 30,	
		2015	2014
Series 1996 Water and Sewer Revenue Bonds – Rural Utility Service: Installment bond in monthly payments of \$23,835, including interest at 4.5%, beginning July 1997, for forty years or until paid in full. The bonds are collateralized on a parity basis with the other Rural Utility Service bonds and note payable. The revenues of the Authority's Water and Sewer System, exclusive of the Courthouse and Church Road System Funds, are pledged to pay the principal and interest of the bonds. A debt service reserve of \$286,000 is required and is included in restricted assets on the statement of net assets.	\$ 5,250,000	\$ 3,819,263	\$ 3,923,667
Series 2005 Water and Sewer Revenue Bonds: Serial Bonds - \$1,750,000 due in annual installments ranging from \$86,376 to \$149,976, through 2020, bearing a 3.85% interest. The revenues of the Authority's Courthouse Fund are pledged to pay the principal and interest of the bonds. No debt service reserve is required.	\$ 1,750,000	819,555	939,571
Series 2006 Water and Sewer Revenue Bonds: Serial Bonds - \$550,000 due in annual installments ranging from \$25,000 to \$50,000, through 2021, bearing a 4.65% interest. The revenues of the Authority's Courthouse Fund are pledged to pay the principal and interest of the bonds. No debt service reserve is required.	\$ 550,000	265,000	304,984
Series 2012 Water System Revenue Refunding Bond \$2,640,000 due in annual installments ranging from \$195,000 to \$240,000, through 2025, with an interest rate ranging between 2.7% and 2.1%. The revenues of the Authority's Church Road System Fund are pledged to pay the principal and interest of the bond. No debt service reserve is required.	\$ 2,640,000	2,210,000	2,410,000
<b>Total bonds payable</b>		<u>\$ 7,113,818</u>	<u>\$ 7,578,222</u>
Bonds payable – current		\$ 481,042	\$ 464,094
Bonds payable – noncurrent		<u>6,632,776</u>	<u>7,114,128</u>
		<u>\$ 7,113,818</u>	<u>\$ 7,578,222</u>

Activity in the bonds payable and related accounts for fiscal year 2015 follows:

Description	Balance June 30, 2014	Issued	Retired	Balance June 30, 2015	Amount Due Within One Year
Total bonds outstanding	\$ 7,578,222	\$ -	\$ (464,404)	\$ 7,113,818	\$ 481,042

Activity in the bonds payable and related accounts for fiscal year 2014 follows:

<b>Description</b>	<b>Balance June 30, 2013</b>	<b>Issued</b>	<b>Retired</b>	<b>Balance June 30, 2014</b>
Total bonds outstanding	\$ 8,227,609	\$ -	\$ (649,387)	\$ 7,578,222

Future principal and interest obligations related to bond indebtedness are as follows:

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2016	\$ 481,042	\$ 259,839	\$ 740,881
2017	490,962	243,611	734,573
2018	511,301	226,907	738,208
2019	527,080	209,420	736,500
2020	543,315	191,368	734,683
2021 – 2025	2,121,673	714,828	2,836,940
2026 – 2030	960,891	446,394	1,407,285
2031 – 2035	1,202,839	204,445	1,407,284
2036	274,715	6,741	281,456
	<b>\$ 7,113,818</b>	<b>\$ 2,503,553</b>	<b>\$ 9,617,810</b>

#### **8. Restricted Net Position**

Restricted net position represent the portion of total net position held for customer deposits in the reserve fund that were established by bond issue trust agreements and expendable for the purposes enlisted therein.

#### **9. Defined Benefit Pension Plan**

The Authority contributes to the Virginia Retirement System (VRS), an agent, multiple-employer defined benefit pension plan administered by the VRS.

##### ***Plan Description***

All full-time, salaried permanent (professional) 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. The Political Subdivision Retirement Plans are an agent, multiple-employer plan. Members earn one month of service credit for each month they are employed and they and their employer are paying contributions to VRS. Members are eligible to purchase prior public 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 below:

##### **VRS PLAN 1**

##### **About VRS Plan 1**

VRS 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 VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

##### **Eligible Members**

Employees are in VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

**Hybrid Opt-In Election**

VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.

**Retirement Contributions**

Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment. Beginning July 1, 2012, the Authority opted for employees to pay the entire 5% member contribution.

**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.

**Vesting**

Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.

Members are always 100% vested in the contributions that they make.

**Calculating the Benefit**

The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.

An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

**Average Final Compensation**

A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.

**Service Retirement Multiplier**

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 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.

**Normal Retirement Age**

Age 65. Political subdivisions hazardous duty employees: Age 60.

**Earliest Unreduced Retirement Eligibility**

Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.

Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.

**Earliest Reduced Retirement Eligibility**

Members who are not in hazardous duty positions may retire with a reduced benefit as early as age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.

Hazardous duty members are eligible for a reduced retirement benefit at age 50 with at least five years of creditable service.

**Cost-of-Living Adjustment (COLA) in Retirement**

The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.

**Eligibility**

For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.

For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.

**Exceptions to COLA Effective Dates**

The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.
- The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
- The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

**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.

Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

**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.



## **VRS PLAN 2**

### **About VRS Plan 2**

VRS 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 VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

### **Eligible Members**

Employees are in VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

### **Hybrid Opt-In Election**

VRS Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible VRS Plan 2 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and have prior service under VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.

### **Retirement Contributions**

Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Beginning July 1, 2012, the Authority opted for employees to pay the entire 5% member contribution.

### **Creditable Service**

Same as VRS Plan 1.

### **Vesting**

Same as VRS Plan 1.

### **Calculating the Benefit**

See definition under VRS Plan 1.

### **Average Final Compensation**

A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.

### **Service Retirement Multiplier**

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. The retirement multiplier for sheriffs and regional jail superintendents and for hazardous duty employees is the same as Plan 1.

### **Normal Retirement Age**

Normal Social Security retirement age. Political subdivisions hazardous duty employees: same as Plan 1.

### **Earliest Unreduced Retirement Eligibility**

Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.

**Earliest Reduced Retirement Eligibility**

Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

Hazardous duty members are eligible for a reduced retirement benefit at age 50 with at least five years of creditable service.

**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%.

**Eligibility**

Same as VRS Plan 1

**Exceptions to COLA Effective Dates**

Same as VRS Plan 1

**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.

Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

**Purchase of Prior Service**

Same as VRS Plan 1.

**HYBRID RETIREMENT PLAN****About the Hybrid Retirement Plan**

The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window. (See "Eligible Members")

- The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.
- The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
- In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

**Eligible Members**

Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:

- State employees\*
- School division employees
- Political subdivision employees\*
- Judges appointed or elected to an original term on or after January 1, 2014
- Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014

#### \*Non-Eligible Members

Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:

- Members of the State Police Officers' Retirement System (SPORS)
- Members of the Virginia Law Officers' Retirement System (VaLORS)
- Political subdivision employees who are covered by enhanced benefits for hazardous duty employees

Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.

#### **Retirement Contributions**

A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

#### **Creditable Service**

##### **Defined Benefit Component:**

Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

##### **Defined Contributions Component:**

Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

#### **Vesting**

##### **Defined Benefit Component:**

Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

##### **Defined Contributions Component:**

Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.

Members are always 100% vested in the contributions that they make.

Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.

- After two years, a member is 50% vested and may withdraw 50% of employer contributions.
- After three years, a member is 75% vested and may withdraw 75% of employer contributions.
- After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.

Distribution is not required by law until age 70½.

## **Calculating the Benefit**

### **Defined Benefit Component:**

See definition under VRS Plan 1

### **Defined Contribution Component**

The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

## **Average Final Compensation**

Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

## **Service Retirement Multiplier**

The retirement multiplier is 1.0%.

For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

## **Normal Retirement Age**

### **Defined Benefit Component**

Same as VRS Plan 2.

### **Defined Contribution Component**

Members are eligible to receive distributions upon leaving employment, subject to restrictions.

## **Earliest Unreduced Retirement Eligibility**

### **Defined Benefit Component**

Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

### **Defined Contribution Component**

Members are eligible to receive distributions upon leaving employment, subject to restrictions.

## **Earliest Reduced Retirement Eligibility**

### **Defined Benefit Component**

Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

### **Defined Contribution Component:**

Members are eligible to receive distributions upon leaving employment, subject to restrictions.

## **Cost-of-Living Adjustment (COLA) in Retirement**

### **Defined Benefit Component**

Same as VRS Plan 2.

### **Defined Contribution Component**

Not applicable.

### **Eligibility**

Same as VRS Plan 1 and VRS Plan 2.

### **Exceptions to COLA Effective Dates**

Same as VRS Plan 1 and VRS Plan 2.

**Disability Coverage**

Eligible political subdivision and school division (including VRS Plan 1 and VRS Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members.

State employees (including VRS Plan 1 and VRS Plan2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

**Purchase of Prior Service****Defined Benefit Component**

Same as VRS Plan 1, with the following exceptions:

- Hybrid Retirement Plan members are ineligible for ported service.
- The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.
- Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After than one-year period, the rate for most categories of service will change to actuarial cost.

**Defined Contribution Component**

Not applicable.

**Employees Covered by Benefit Terms**

As of the June 30, 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	<u>7</u>
Inactive members:	
Vested	3
Non-vested	10
Active elsewhere in VRS	<u>5</u>
Total inactive members	<u>18</u>
Active members	<u>10</u>
Total	<u>35</u>

**Contributions**

The contributions 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 political subdivision's contractually required contribution rate for the year ended June 30, 2015 was 8.68% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were \$42,791 and \$50,132 for the years ended June 30, 2015 and 2014, respectively.

### Net Pension Liability

The Authority's net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability 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

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	2.5%
Salary increases, including inflation	3.5% - 5.35%
Investment rate of return	7.0%, net of pension plan investment expenses, Including inflation*

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

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

#### Largest 10 – Non-LEOS:

##### Pre-Retirement:

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

##### Post-Retirement:

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

##### Post-Disablement:

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

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

##### Pre-Retirement:

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

##### Post-Retirement:

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

##### Post-Disablement:

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

The actuarial assumptions used in the June 30, 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

**Long-Term Expected Rate of Return**

The long-term expected rate of return on pension 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 investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

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

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

**Discount Rate**

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-

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

#### Changes in Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2013	\$1,596,902	\$1,483,785	\$113,117
Changes for the year:			
Service cost	57,001	-	57,001
Interest	110,002	-	110,002
Contributions – employer	-	50,135	(50,135)
Contributions – employee	-	25,321	(25,321)
Net investment income	-	237,097	(237,097)
Benefit payments, including refunds of employee contributions	(50,876)	(50,876)	-
Administrative expense	-	(1,244)	1,244
Other changes	-	12	(12)
Net changes	116,124	260,445	(144,318)
Balances at June 30, 2014	\$1,713,029	\$1,744,230	\$(31,201)

#### Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following represents the net pension liability calculated using the stated discount rate, as well as what the net position liability would be if it were calculated using a stated discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Plan's Net Pension Liability	\$228,640	\$(31,201)	\$(247,044)

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

For the year ending June 30, 2015 and 2014, the Authority recognized pension expense of \$11,749 and \$-. At June 30, 2015 and 2014, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>June 30, 2015</u>		
Employer contributions made subsequent to measurement date	\$ 42,791	\$ -
Net difference between projected and actual earnings on plan investments	-	105,932
	<u>\$ 42,791</u>	<u>\$ 105,932</u>
<u>June 30, 2014</u>		
Contributions made subsequent to measurement date	\$ 50,135	\$ -



Amounts reported as deferred inflows of resources related to pensions as of June 30, 2015, will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ 26,483
2017	26,483
2018	26,483
2019	26,483
Total	<u>\$ 105,932</u>

#### **10. Purchase Agreements and Other Commitments**

The County of Dinwiddie has a contract with the Appomattox River Water Authority (ARWA) for the purchase of an adequate supply of filtered water for the inhabitants of Dinwiddie County. That amount is then, by agreement, billed to the Authority. Water purchases for resale under this agreement for the years ended June 30, 2015 and 2014, totaled \$393,428 and \$510,394, respectively. ARWA is in the initial stages of an approximately \$75,000,000 improvement which will be financed through the issuance of bonds. The County of Dinwiddie will be responsible for 6.75% of the debt service costs, which are expected to be passed on to the Authority.

The Authority has an agreement with the Town of McKenney for the supply of water and sewage disposal for customers of the Authority located around the Town. This agreement is automatically renewed annually unless either party gives notice of termination. For the years ended June 30, 2015 and 2014, water purchases for resale totaled \$12,504 and \$6,779, respectively, and sewage disposal charges totaled \$11,207 and \$6,332, respectively.

The Authority and Dinwiddie County along with the City of Petersburg, the City of Colonial Heights, Chesterfield County, and Prince George County are the members of the South Central Wastewater Authority (SCWWA). The SCWWA is a regional authority created to own and operate the existing 20 million gallon wastewater treatment facility located in the City of Petersburg. This agreement is in effect until the SCWWA's RLF Bond, the City of Petersburg's debt and any other SCWWA bonds have been paid or are deemed no longer outstanding and, all incorporating subdivisions have unanimously agreed to such termination.

The agreement with SCWWA for wastewater conveyance expires July 2036. Sewage disposal charges totaled \$485,414 and \$399,250 for the years ended June 30, 2015 and 2014, respectively. These amounts are subject to final adjustment, which is not known until the following fiscal year; therefore, the final adjustment is not reflected in these financial statements. However, the impact is not expected to be significant. The Authority's cost of \$7,389,111 for ten percent of sewer treatment capacity and the connection fee to SCWWA are being amortized over forty years. The SCWWA is in the initial stages of an approximately \$55,000,000 improvement which will be financed through the issuance of bonds. Dinwiddie County will be responsible for 10% of the debt service costs.

#### **11. Related Parties**

A Director of the Authority is the Chairman of the Board of The Bank of Southside Virginia, which provides banking services to the Authority. Also, the Executive Director serves as Assistant Treasurer of ARWA's Board as well as Chairman of SCWWA's Board.

\* \* \* \* \*

**Dinwiddie County Water Authority**  
**Required Supplementary Information**

**Dinwiddie County Water Authority****Schedule of Changes in Net Pension Liability and Related Ratios****Year Ended June 30, 2015**

Total pension liability	
Service cost	\$ 57,001
Interest	110,002
Benefit payments	<u>(50,876)</u>
Net change in total pension liability	116,127
Total pension liability - beginning	<u>1,596,902</u>
Total pension liability - ending (a)	<u><u>\$ 1,713,029</u></u>
Plan fiduciary net position	
Contributions - employer	\$ 50,135
Contributions - employee	\$ 25,321
Net investment income	237,097
Benefit payments	(50,876)
Administrative expenses	(1,244)
Other changes	<u>12</u>
Net change in plan fiduciary net position	260,445
Plan fiduciary net position - beginning	<u>1,483,785</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 1,744,230</u></u>
Authority's net pension liability (asset) - ending (a) - (b)	<u><u>\$ (31,201)</u></u>
Plan fiduciary net position as a percentage of the total pension liability	101.8%
Covered-employee payroll	\$ 555,094
Net pension liability as a percentage of covered- employee payroll	-5.6%

Note: Information in this schedule is presented for the year in which information is available. Information will be added each year until a full 10-year trend is presented.

See accompanying notes and independent auditors' report.

**Dinwiddie County Water Authority**  
**Schedule of Contributions**

<b>Year Ended June 30,</b>	<b>2015</b>	<b>2014</b>
Actuarially determined contribution	\$ 42,791	\$ 50,135
Contributions in relation to the actuarially determined contribution	42,791	50,135
Contribution deficiency (excess)	\$ -	\$ -
Covered-employee payroll	\$ 555,094	\$ 552,723
Contributions as a percentage covered-employee payroll	7.7%	9.1%

**Notes to Schedule**

Actuarily determined contribution rates are based on the most recent valuation date, which was June 30, 2013. Methods and assumptions used to determine contribution rates are as follows:

Actuarial cost method	Entry age normal
Amortization method	Level percent closed
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	5-years for investment gains and losses
Investment rate of return*	7.00%
Projected salary increases*	3.50% - 5.35%
Cost-of-living adjustments	2.25% - 2.50%
*Includes inflation at	2.50%

Note: Information in this schedule is presented for the year in which information is available. Information will be added each year until a full 10-year trend is presented.

See accompanying notes and independent auditors' report.

# **Dinwiddie County Water Authority**

## **Notes to Required Supplementary Information**

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**Year Ended June 30, 2015**

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### **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

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All Others (Non 10 Largest) - LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

See accompanying notes and independent auditors' report.

**Dinwiddie County Water Authority**  
**Supplementary Information**

**Dinwiddie County Water Authority**  
**Combining Statement of Net Position**  
**June 30, 2015**  
**(Next Pages)**

**Dinwiddie County Water Authority**  
**Combining Statement of Net Position**

<b>June 30, 2015</b>	<b>Operating Fund</b>	<b>Courthouse Fund</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 575,436	\$ 203,204
Accounts receivable - net	394,243	5,126
Due from County	-	-
Prepaid expenses	36,527	11,404
<b>Total current assets</b>	<b>1,006,206</b>	<b>219,734</b>
<b>Restricted assets</b>		
Cash and cash equivalents	123,000	-
<b>Property, plant and equipment - net</b>		
Property, plant and equipment - net of accumulated depreciation	11,555,147	4,379,025
<b>Other assets</b>		
Cash and cash equivalents - rate stabilization fund	602,981	-
Cash and cash equivalents - board designated	1,645,148	275,360
Net pension asset	27,100	4,101
Unamortized sewer contract costs	3,924,303	-
<b>Total other assets</b>	<b>6,199,532</b>	<b>279,461</b>
<b>Total assets</b>	<b>18,883,885</b>	<b>4,878,220</b>
<b>Deferred Outflows of Resources</b>		
<b>Deferred amount on bond refundings</b>	-	-
<b>Deferred pension contributions</b>	37,167	5,624
<b>Total deferred outflows of resources</b>	<b>37,167</b>	<b>5,624</b>
	<b>\$ 18,921,052</b>	<b>\$ 4,883,844</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 131,944	\$ 12,448
Accrued interest payable	942	5,893
Bonds payable - current portion	111,879	164,163
Unearned connection fees	16,979	-
<b>Total current liabilities</b>	<b>261,744</b>	<b>182,504</b>
<b>Current liabilities payable from restricted assets</b>		
Customer deposits	123,000	575
<b>Long-term liabilities</b>		
Bonds payable - less current portion	3,707,384	920,392
<b>Total liabilities</b>	<b>4,092,128</b>	<b>1,103,471</b>
<b>Deferred Inflows of Resources</b>		
<b>Deferred pension investment experience</b>	92,010	13,922
<b>Net Position</b>		
<b>Net investment in capital assets</b>	11,555,147	3,294,470
<b>Restricted</b>	123,000	-
<b>Unrestricted</b>	3,058,767	471,981
<b>Total net position</b>	<b>14,736,914</b>	<b>3,766,451</b>
	<b>\$ 18,921,052</b>	<b>\$ 4,883,844</b>



Church Road System Fund	Reserve Fund	Total
\$ 368,983	\$ -	\$ 1,147,623
41,179	-	440,548
20,067	-	20,067
12,400	-	60,331
<u>442,629</u>	<u>-</u>	<u>1,668,569</u>
-	286,020	409,020
<u>2,924,225</u>	<u>-</u>	<u>18,858,397</u>
-	-	602,981
389,639	-	2,310,147
-	-	31,201
-	-	3,924,303
<u>389,639</u>	<u>-</u>	<u>6,868,632</u>
<u>3,756,493</u>	<u>286,020</u>	<u>27,804,618</u>
48,673	-	48,673
-	-	42,791
<u>48,673</u>	<u>-</u>	<u>91,464</u>
<u>\$ 3,805,166</u>	<u>\$ 286,020</u>	<u>\$ 27,896,082</u>
\$ 49,150	\$ -	\$ 193,542
12,730	-	19,565
205,000	-	481,042
-	-	16,979
<u>266,880</u>	<u>-</u>	<u>711,128</u>
-	-	123,575
<u>2,005,000</u>	<u>-</u>	<u>6,632,776</u>
<u>2,271,880</u>	<u>-</u>	<u>7,467,479</u>
-	-	105,932
762,898	-	15,612,515
-	286,020	409,020
<u>770,388</u>	<u>-</u>	<u>4,301,136</u>
<u>1,533,286</u>	<u>286,020</u>	<u>20,322,671</u>
<u>\$ 3,805,166</u>	<u>\$ 286,020</u>	<u>\$ 27,896,082</u>

See independent auditors' report.

**Dinwiddie County Water Authority**  
**Combining Statement of Revenues, Expenses and Changes in Net Position**  
**Year Ended June 30, 2015**  
**(Next Page)**

**Dinwiddie County Water Authority****Combining Statement of Revenues, Expenses and Changes in Net Position**

<b>Year Ended June 30, 2015</b>	<b>Operating Fund</b>	<b>Courthouse Fund</b>
<b>Revenues</b>		
Operating revenues:		
Sewer charges	\$ 1,405,613	\$ 22,130
Sale of water	998,449	-
County use and operation fees	-	260,660
Penalty and service charges	92,938	-
Fire hydrant rental	1,066	-
Miscellaneous	52,515	550
<b>Total operating revenues</b>	<b>2,550,581</b>	<b>283,340</b>
<b>Operating expenses</b>		
Water - source of supply	262,032	-
Water - pumping	22,598	-
Water - transmission and distribution	84,301	-
Sewage - pumping	56,906	25,081
Sewage - treatment	685,245	67,464
Sewage - transmission and distribution	80,436	2,110
Maintenance shop	64,558	75,656
Customer accounts	306,004	8,399
Administrative	462,373	80,322
<b>Total operating expenses, other than depreciation</b>	<b>2,024,453</b>	<b>259,032</b>
<b>Operating income before depreciation</b>	<b>526,128</b>	<b>24,308</b>
<b>Depreciation</b>	<b>(554,863)</b>	<b>(276,743)</b>
<b>Operating gain (loss)</b>	<b>(28,735)</b>	<b>(252,435)</b>
<b>Nonoperating revenues (expenses)</b>		
Interest earned	6,123	1,219
Contributions from the County	-	232,995
Service and connection fees	142,460	-
Interest expense	(174,425)	(47,087)
<b>Total nonoperating revenues (expenses)</b>	<b>(25,842)</b>	<b>187,127</b>
<b>Income (loss) before contributed capital</b>	<b>(54,577)</b>	<b>(65,308)</b>
<b>Contributed capital - developer paid infrastructure</b>	<b>224,035</b>	<b>-</b>
<b>Change in net position</b>	<b>169,458</b>	<b>(65,308)</b>
<b>Net position - beginning of year, as restated (see Note 3)</b>	<b>14,567,456</b>	<b>3,831,759</b>
<b>Net position - end of year</b>	<b>\$ 14,736,914</b>	<b>\$ 3,766,451</b>

Church Road System Fund	Reserve Fund	Total
\$ -	\$ -	\$ 1,427,743
355,781	-	1,354,230
-	-	260,660
-	-	92,938
-	-	1,066
-	-	53,065
<u>355,781</u>	<u>-</u>	<u>3,189,702</u>
154,507	-	416,539
19,160	-	41,758
799	-	85,100
-	-	81,987
-	-	752,709
-	-	82,546
-	-	140,214
2,291	-	316,694
14,365	-	557,060
<u>191,122</u>	<u>-</u>	<u>2,474,607</u>
164,659	-	715,095
(134,119)	-	(965,725)
<u>30,540</u>	<u>-</u>	<u>(250,630)</u>
1,295	-	8,637
305,317	-	538,312
-	-	142,460
(61,374)	-	(282,886)
<u>245,238</u>	<u>-</u>	<u>406,523</u>
275,778	-	155,893
-	-	224,035
<u>275,778</u>	<u>-</u>	<u>379,928</u>
1,257,508	286,020	19,942,743
<u>\$ 1,533,286</u>	<u>\$ 286,020</u>	<u>\$ 20,322,671</u>

See independent auditors' report.

**Dinwiddie County Water Authority**  
**Combining Statement of Cash Flows**  
**Year Ended June 30, 2015**  
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**Dinwiddie County Water Authority**  
**Combining Statement of Cash Flows**

<b>Year Ended June 30, 2015</b>	<b>Operating Fund</b>	<b>Courthouse Fund</b>
<b>Cash flows from operating activities</b>		
Cash receipts from customers	\$ 2,471,563	\$ 282,989
Cash receipts from other income	52,515	550
Cash payments to employees for services	(479,956)	(70,980)
Cash payments for water related services and supplies	(348,366)	-
Cash payments for sewage related services and supplies	(582,680)	(92,102)
Cash payments for shop maintenance expenses	(50,712)	(54,068)
Cash payments for customer accounts expenses	(143,912)	(6,532)
Cash payments for administrative expenses	(290,175)	(59,418)
<b>Net cash from operating activities</b>	<b>628,277</b>	<b>439</b>
<b>Cash flows from noncapital financing activities</b>		
Service and connection fees	141,727	-
Change in customer deposits	14,158	-
<b>Net cash from noncapital financing activities</b>	<b>155,885</b>	<b>-</b>
<b>Cash flows from capital and related financing activities</b>		
Acquisition and construction of capital assets	(85,221)	(100,195)
County contributions	-	232,995
Interest paid	(181,707)	(48,024)
Principal retired	(104,404)	(160,000)
<b>Net cash from capital and related financing activities</b>	<b>(371,332)</b>	<b>(75,224)</b>
<b>Cash flows from investing activities</b>		
Interest received	6,123	1,219
<b>Net change in cash and cash equivalents</b>	<b>418,953</b>	<b>(73,566)</b>
<b>Cash and cash equivalents - beginning of year</b>	<b>2,527,612</b>	<b>552,130</b>
<b>Cash and cash equivalents - end of year</b>	<b>\$ 2,946,565</b>	<b>\$ 478,564</b>
<b>Cash and cash equivalents, as shown on statements of net position</b>		
Cash and cash equivalents - current assets	\$ 575,436	\$ 203,204
Cash and cash equivalents - restricted assets	123,000	-
Cash and cash equivalents - rate stabilization fund	602,981	-
Cash and cash equivalents - board designated	1,645,148	275,360
	<b>\$ 2,946,565</b>	<b>\$ 478,564</b>
<b>Reconciliation of operating income (loss) to net cash from operating activities</b>		
Operating income (loss)	\$ (28,735)	\$ (252,435)
Adjustments to reconcile to net cash from operating activities:		
Depreciation	554,863	276,743
Amortization	186,864	-
Change in:		
Accounts receivable - trade	(26,498)	199
Due from County	20,958	-
Prepaid expenses	(17,642)	(11,404)
Accounts payable - trade	(34,572)	(8,583)
Decrease in net pension asset/liability and related deferred inflows/outflows of resources	(26,961)	(4,081)
<b>Net cash from operating activities</b>	<b>\$ 628,277</b>	<b>\$ 439</b>
<b>Supplemental Disclosure of noncash financing and investing activities:</b>		
Contributed capital	\$ 224,035	\$ -

Church Road System Fund	Reserve Fund	Total
\$ 384,402	\$ -	\$ 3,138,954
-	-	53,065
(2,182)	-	(553,118)
(172,284)	-	(520,650)
-	-	(674,782)
-	-	(104,780)
(2,291)	-	(152,735)
(47,679)	-	(397,272)
159,966	-	788,682
-	-	141,727
-	-	14,158
-	-	155,885
(10,000)	-	(195,416)
300,673	-	533,668
(53,044)	-	(282,775)
(200,000)	-	(464,404)
37,629	-	(408,927)
1,295	-	8,637
198,890	-	544,277
559,732	286,020	3,925,494
\$ 758,622	\$ 286,020	\$ 4,469,771
\$ 368,983	\$ -	\$ 1,147,623
-	286,020	409,020
-	-	602,981
389,639	-	2,310,147
\$ 758,622	\$ 286,020	\$ 4,469,771
\$ 30,540	\$ -	\$ (250,630)
134,119	-	965,725
-	-	186,864
28,621	-	2,322
-	-	20,958
(12,400)	-	(41,446)
(20,914)	-	(64,069)
-	-	(31,042)
\$ 159,966	\$ -	\$ 788,682
\$ -	\$ -	\$ 224,035

See independent auditors' report.

**Dinwiddie County Water Authority**  
**Schedule of Operating Expenses - Operating Fund**  
**Year Ended June 30, 2015**  
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**Dinwiddie County Water Authority****Schedule of Operating Expenses - Operating Fund**

<b>Year Ended June 30, 2015</b>	<b>Water Source of Supply</b>	<b>Water Pumping</b>	<b>Water Transmission and Distribution</b>	<b>Sewage Pumping</b>
Salaries	\$ -	\$ 1,842	\$ 18,723	\$ 14,692
Cost of sewage treatment	-	-	-	-
Cost of purchased water	262,032	-	-	-
Amortization	-	-	-	-
Payroll taxes and fringe benefits	-	439	4,457	3,498
Repairs and maintenance	-	-	55,847	11,771
Supplies and tools	-	5,846	2,900	-
Office expense	-	-	-	-
Utilities	-	14,471	628	19,915
Professional services	-	-	1,746	-
Vehicle expense	-	-	-	-
Postage	-	-	-	-
Insurance	-	-	-	-
Telephone	-	-	-	7,030
Uniform rental	-	-	-	-
Payroll service	-	-	-	-
Bad debts	-	-	-	-
Dues and subscription	-	-	-	-
	<b>\$ 262,032</b>	<b>\$ 22,598</b>	<b>\$ 84,301</b>	<b>\$ 56,906</b>

<b>Sewage Treatment</b>	<b>Sewage Transmission and Distribution</b>	<b>Maintenance Shop</b>	<b>Customer Accounts</b>	<b>Administrative</b>	<b>Total</b>
\$ -	\$ 17,393	\$ 13,846	\$ 162,087	\$ 256,325	\$ 484,908
498,381	21,153	-	-	-	519,534
-	-	-	-	-	262,032
186,864	-	-	-	-	186,864
-	4,140	3,295	38,591	61,031	115,451
-	-	18,746	-	28,538	114,902
-	37,123	4,547	4,637	-	55,053
-	-	-	54,158	20,363	74,521
-	627	-	-	9,838	45,479
-	-	-	-	64,616	66,362
-	-	23,699	-	-	23,699
-	-	-	26,929	670	27,599
-	-	425	6,983	13,013	20,421
-	-	-	6,013	-	13,043
-	-	-	5,708	-	5,708
-	-	-	-	5,739	5,739
-	-	-	898	-	898
-	-	-	-	2,240	2,240
<b>\$ 685,245</b>	<b>\$ 80,436</b>	<b>\$ 64,558</b>	<b>\$ 306,004</b>	<b>\$ 462,373</b>	<b>\$ 2,024,453</b>

See independent auditors' report.

**Dinwiddie County Water Authority**  
**Schedule of Operating Expenses - Courthouse Fund**  
**Year Ended June 30, 2015**  
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**Dinwiddie County Water Authority****Schedule of Operating Expenses - Courthouse Fund**

<b>Year Ended June 30, 2015</b>	<b>Sewage Pumping</b>	<b>Sewage Treatment</b>	<b>Sewage Transmission and Distribution</b>
Salaries	\$ 2,553	\$ -	\$ -
Supplies and tools	9,434	13,134	2,110
Payroll taxes and fringe benefits	1,023	-	-
Utilities	4,998	-	-
Repairs and maintenance	-	33,172	-
Cost of sewage treatment	-	18,316	-
Professional services	-	-	-
Vehicle expense	-	-	-
Insurance	4,338	-	-
Telephone	2,735	2,842	-
Office expense	-	-	-
Uniform rental	-	-	-
	<b>\$ 25,081</b>	<b>\$ 67,464</b>	<b>\$ 2,110</b>

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Maintenance Shop	Customer Accounts	Administrative	Total
\$ 21,588	\$ 1,867	\$ 41,996	\$ 68,004
110	846	-	25,634
8,655	1,539	18,677	29,894
22,365	-	-	27,363
14,508	-	-	47,680
-	-	-	18,316
-	-	19,441	19,441
8,430	-	-	8,430
-	2,291	-	6,629
-	-	-	5,577
-	748	208	956
-	1,108	-	1,108
<hr/>			
\$ 75,656	\$ 8,399	\$ 80,322	\$ 259,032

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See independent auditors' report.

**Dinwiddie County Water Authority**  
**Schedule of Operating Expenses – Church Road System Fund**  
**Year Ended June 30, 2015**

**Dinwiddie County Water Authority****Schedule of Operating Expenses - Church Road System Fund**

<b>Year Ended June 30, 2015</b>	<b>Water Source of Supply</b>	<b>Water Pumping</b>	<b>Water Transmission and Distribution</b>	<b>Customer Accounts</b>	<b>Administrative</b>	<b>Total</b>
Cost of purchased water	\$ 154,507	\$ -	\$ -	\$ -	\$ -	\$ 154,507
Supplies and tools	-	5,845	799	-	-	6,644
Utilities	-	10,966	-	-	-	10,966
Professional services	-	-	-	-	8,620	8,620
Insurance	-	-	-	2,291	4,338	6,629
Office expense	-	-	-	-	1,407	1,407
Salaries	-	2,182	-	-	-	2,182
Payroll taxes and fringe benefits	-	167	-	-	-	167
	<b>\$ 154,507</b>	<b>\$ 19,160</b>	<b>\$ 799</b>	<b>\$ 2,291</b>	<b>\$ 14,365</b>	<b>\$ 191,122</b>

See independent auditors' report.

**Dinwiddie County Water Authority**  
**Compliance Report**





## **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**

Board of Directors  
Dinwiddie County Water Authority  
Dinwiddie, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the accompanying financial statements of the business-type activities of Dinwiddie County Water Authority as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, and have issued our report thereon dated October 26, 2015.

### **Internal Control over Financial Reporting**

In planning and performing our audits of the financial statements, we considered Dinwiddie County Water Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Dinwiddie County Water Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Dinwiddie County Water 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses 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. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control (see IC 15-01).

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Dinwiddie County Water 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.

**Dinwiddie County Water Authority's Response to Findings**

Dinwiddie County Water Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Dinwiddie County Water 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.

*Dixon Hughes Goodman LLP*

Chester, Virginia  
October 26, 2015

## Dinwiddie County Water Authority

### Schedule of Findings and Questioned Costs – Financial Statements

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Years Ending June 30, 2015 and 2014

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#### Finding No. IC 15-01

<b>Comment</b>	Management relies on the auditors to prepare financial statements and related disclosures that are compliant with generally accepted accounting principles (GAAP), and does not have a formal procedure to perform risk assessment on a regular basis.
<b>Condition and Criteria</b>	<p>Auditors assist in the preparation of GAAP financial statements and footnotes. These are reviewed and approved by management; however, auditors feel that this review would only detect material misstatements, and that a misstatement that is more than inconsequential may not be prevented or detected.</p> <p>In addition, management does not have a formal procedure to analyze risks related to material misstatement of the financial statements. However, management and those charged with governance review financial information regularly and consult with auditors as needed regarding accounting issues.</p>
<b>Effect</b>	Financial statements and related disclosures may be misstated by an amount that is more than inconsequential.
<b>Cause</b>	Due to the small size of the Authority, there is a limited accounting staff, which does not allow for the hiring of an accountant with the background needed to prepare GAAP compliant financial statements and related disclosures, or perform risk assessment on a regular basis.
<b>Recommendation</b>	Management will meet regularly with the auditors to keep up to date on changes in GAAP and continue to review the draft GAAP financial statements and related disclosures prior to issuance.
<b>View of Management and Planned Corrective Action</b>	Recommendations made by auditors will be implemented.

See independent auditors' report.