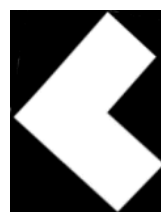


Henry County Public Service Authority
Comprehensive Annual Financial Report
Years Ended June 30, 2015 and 2014



***Creedle, Jones
& Alga, P.C.***
Certified Public Accountants

Henry County Public Service Authority

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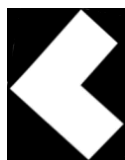
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COMPLIANCE

Independent Auditor's Report on Internal Control Over Financial Reporting and
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45-46



**Creedle
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A Professional Corporation

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Henry County Public Service Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and fiduciary fund of the Henry County Public Service Authority, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Henry County Public Service 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 6 and the schedule of changes in the political subdivision's net pension liability and related ratios, schedule of employer contributions, and notes to required supplemental information on pages 34 through 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Henry County Public Service Authority's basic financial statements. The Schedule of Revenues and Expenses – Budget to Actual and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Revenues and Expenses – Budget to Actual and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated, November 9, 2015 on our consideration of the Henry County Public Service Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Henry County Public Service Authority's internal control over financial reporting and compliance.



Creedle, Jones & Alga, P.C.
Certified Public Accountants

South Hill, Virginia
November 9, 2015

Henry County Public Service Authority

Management's Discussion and Analysis

As of June 30, 2015

Our discussion and analysis of the Henry County Public Service Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2015. Please read this information in conjunction with Henry County Public Service Authority's financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Henry County Public Service Authority (the "Authority") presents three basic financial statements. These are: (1) Statements of Net Position; (2) Statements of Revenues, Expenses, and Changes in Net Position; (3) Statements of Cash Flows; and (4) Statements of Fiduciary Net Position.

Our financial position is measured in terms of resources (assets) we own and obligations (liabilities) we owe on a given date. This information is reported on the Statements of Net Position, which reflects the Authority's assets in relation to its debt to creditors. The excess of our assets over liabilities is our equity, or net position.

Information regarding the results of our operation during the years is reported in the Statements of Revenues, Expenses, and Changes in Net Position. These statements show how much our overall net position increased or decreased during the year as a result of our operations and for other reasons.

Our Statements of Cash Flows disclose the flow of cash resources into and out of the Authority during the year and how we applied those funds.

SUMMARY OF ORGANIZATION AND BUSINESS

The Henry County Public Service Authority is a public body organized and created under the Virginia Water and Waste Authorities Act of the Code of Virginia of 1950 as amended. The Henry County Board of Supervisors created the Authority in 1965. The purpose of the Authority is to "acquire, construct, improve, extend, operate, and maintain a water and sewage disposal system."

The Authority is governed by six citizen members appointed by the Henry County Board of Supervisors to four-year staggered terms.

In 1974, the Authority and neighboring City of Martinsville (the "City") signed a service agreement in which the Authority would purchase sewage treatment from the City. In 1982, the Authority signed a service agreement with the City to purchase water treatment from the City. These agreements require the Authority to share in the annual operating costs of the plants in proportion to its actual use as measured by the volume of water used and sewage it contributed. It also allowed for the Authority to purchase capacity rights into the water and sewer plants at an agreed-upon price.

In recent years, the Authority constructed the Chestnut Knob Water Line and the 58 East Water Line. These new lines allow the Philpott Water Treatment Plant to furnish water to the 220 South and 58 East areas and have significantly reduced water purchased from the City of Martinsville, Virginia. The Authority can produce the water at a lower cost.

The Authority's infrastructure assets consist of one water treatment plant (owned by Henry County and leased to the Authority), approximately 348 miles of water lines and 240 miles of interceptor sewers, and several pump stations. The collection system, consisting of mains and laterals, is owned and maintained by the Authority. The last remaining waste water plant was converted to a pumping station and was completed in December 2005 and all waste water is now treated by the City of Martinsville.

The Authority has no taxing power. The revenues of the Authority are derived from water and sewage disposal charges based on metered and unmetered water consumption of the Authority's users of the system.

FINANCIAL SUMMARY

Financial Position

A summary of the Authority's Statements of Net Position for 2015 and 2014 is presented below:

	<u>2015</u>	<u>2014</u>	<u>\$ Change</u>	<u>% Change</u>
Current Assets	\$ 8,994,630	\$ 8,025,993	\$ 968,637	12.07%
Net Capital Assets	66,283,010	68,306,955	(2,023,945)	-2.96%
Other Noncurrent Assets	8,092,572	8,011,248	81,324	1.02%
Total Assets	83,370,212	84,344,196	(973,984)	-1.15%
Deferred Outflows of Resources	379,176	417,529	(38,353)	-9.19%
Total Assets and Deferred Outflows of Resources	<u>\$ 83,749,388</u>	<u>\$ 84,761,725</u>	<u>\$ (1,012,337)</u>	-1.19%
Total Liabilities	\$ 24,130,909	\$ 28,039,466	\$ (3,908,557)	-13.94%
Deferred Inflows of Resources	613,106	-	613,106	100.00%
Net Position				
Net investment in capital assets	44,724,072	43,702,840	1,021,232	2.34%
Restricted for debt	8,092,572	8,011,248	81,324	1.02%
Unrestricted	6,188,729	5,008,171	1,180,558	23.57%
Total Net Position	<u>59,005,373</u>	<u>56,722,259</u>	<u>2,283,114</u>	4.03%
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 83,749,388</u>	<u>\$ 84,761,725</u>	<u>\$ (1,012,337)</u>	-1.19%

Change in Net Position

A summary of the Authority's Statements of Revenues, Expenses, and Changes in Net Position for 2015 and 2014 is presented below:

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

	<u>2015</u>	<u>2014</u>	<u>\$ Change</u>	<u>% Change</u>
Operating Revenues	\$ 12,661,991	\$ 12,279,410	\$ 382,581	3.12%
Operating Expenses	(9,826,249)	(9,839,801)	13,552	-0.14%
Operating Income	2,835,742	2,439,609	396,133	16.24%
Interest Income	379,498	371,617	7,881	2.12%
Gain on Sale of Properties	23,745	15,564	8,181	52.56%
Non-Operating Expense	(1,128,956)	(1,263,436)	134,480	-10.64%
Income Before Contributions	2,110,029	1,563,354	546,675	34.97%
Capital Contributions	173,085	37,480	135,605	361.81%
Changes in Net Position	<u>\$ 2,283,114</u>	<u>\$ 1,600,834</u>	<u>\$ 682,280</u>	42.62%

During the year, the Authority's net operating income was \$2,835,742. The Authority had non-operating revenues and expenses in the form of interest income and sale of assets, which amounted to \$403,243 and interest expense amounting to \$1,128,956. Operating expenses of \$9,826,249 included all expenses necessary to operate the Authority's water and sewer facilities.

Net position increased \$2,283,114 in 2015 as compared to an increase of \$1,600,834 in 2014.

Cash Flows

A summary of the Authority's Statements of Cash Flows for 2015 and 2014 is presented below:

Condensed Statements of Cash Flows

	<u>2015</u>	<u>2014</u>
Cash Provided by (Used in)		
Operating activities	\$ 5,520,557	\$ 5,514,491
Capital and related financing activities	(5,026,736)	(4,828,483)
Investing activities	<u>321,919</u>	<u>272,176</u>
Net Increase in Cash	<u>\$ 815,740</u>	<u>\$ 958,184</u>

Cash flows from capital and related financing activities consist of purchases of fixed assets and payments related to debt.

Cash flows from operating activities consist of receipts from customers and grants less operating expenses, creating a positive cash flow.

During fiscal year 2015, there was an increase of \$815,740 in cash as compared to an increase of \$958,184 in 2014.

Capital Assets

As of June 30, 2015, the Authority's net investment in capital assets totals \$44,724,072 which is net capital assets less related debt.

During fiscal year 2015, the Authority's net capital assets (including additions, decreases, and depreciation) decreased \$2,023,945 as summarized below:

Change in Capital Assets

	<u>Balance July 1, 2014</u>	<u>Net Additions and Deletions</u>	<u>Balance June 30, 2015</u>
Land and land improvements	\$ 500,044	\$ -	\$ 500,044
Construction in progress	319,748	530,153	849,901
Building and leasehold improvements	1,322,911	15,425	1,338,336
Water and sewer system	127,474,898	401,385	127,876,283
Trucks and autos	1,942,287	(14,730)	1,927,557
Office equipment	<u>191,162</u>	<u>-</u>	<u>191,162</u>
Total Capital Assets	131,751,050	932,233	132,683,283
Less: Accumulated depreciation	<u>(63,444,095)</u>	<u>(2,956,178)</u>	<u>(66,400,273)</u>
Total Capital Assets, Net	<u>\$ 68,306,955</u>	<u>\$ (2,023,945)</u>	<u>\$ 66,283,010</u>

Long-Term Debt

As of June 30, 2015, the Authority's long-term debt totals \$21,926,239.

The Authority's long-term debt is presented as follows:

Change in Long-Term Debt

	<u>Balance</u> <u>July 1, 2014</u>	<u>Net Additions</u> <u>and Deletions</u>	<u>Balance</u> <u>June 30, 2015</u>
Long-term notes	\$ 24,604,115	\$ (3,045,177)	\$ 21,558,938
Compensated absences	<u>347,827</u>	<u>19,474</u>	<u>367,301</u>
	<u>\$ 24,951,942</u>	<u>\$ (3,025,703)</u>	<u>\$ 21,926,239</u>
Refunding on debt	<u>\$ 279,055</u>	<u>\$ (52,040)</u>	<u>\$ 227,015</u>

GENERAL TRENDS AND SIGNIFICANT EVENTS

The Authority's service area in Henry County has the potential for growth. The County is over two hundred years old and has available land that continues to be developed. Growth from new development is not expected to significantly increase the Authority's water and sewage disposal revenues in any given year.

In 2011 and 2012, Henry County secured grants and other funding in the amount of \$4,373,000 to expand water and sewer to and within its newest industrial park, Commonwealth Crossing Business Center. Construction to the Park for water and sewer was complete at June 30, 2013. Remaining funds of approximately \$670,000 will be used for water and sewer infrastructure in the Park. At the end of fiscal year 2014, the County obtained the environmental permit from the Army Corps of Engineers allowing for grading and development of this Park. Grading commenced in early fiscal year 2015 with an anticipated completion date of late fiscal year 2016.

In fiscal year 2014, the Authority was approved by the Virginia Department of Health (VDH) for a \$978,350 low interest loan (financed through Virginia Resources Authority) and a \$244,000 grant to construct a water line to the Pleasant Grove community. This area is currently serviced by a well system and this new line will allow this well system to be taken off-line and water to be provided by the Authority's Philpott water system. This will also allow for potential new customers along the route of the new water line. When bids were received on the project, they were higher than originally budgeted. VDH has tentatively approved increasing the loan and grant amounts to cover the additional costs. The closing of the loan and beginning of construction of the line is projected for December of 2015.

The Authority received a Virginia Department of Health (VDH) planning grant in the amount of \$47,500 to study water line extensions for the Eastwood and Sandy Level community. The Eastwood community is currently served through a well system and the Authority purchases water from the City of Eden, North Carolina for the Sandy Level community. The results of the study indicated the best path forward was to construct water line extensions to connect this area to the Authority's Philpott water system. This would remove the need to purchase water from the City of Eden and take the well out of service. The Virginia Department of Health (VDH) approved a low interest loan in the amount of \$1,293,500 and a grant of \$100,000. It is anticipated that the closing of the loan and the start of construction will be in December 2015.

In fiscal year 2014, the Authority was approved for a \$1,773,200 zero percent loan from the Virginia Department of Environmental Quality (financed through Virginia Resources Authority) to run a sewer line to the Grassy Creek community. This will allow for two lagoon systems, Carver and Greenbriar, to be taken off-line and the sewage to be treated by the City of Martinsville with the potential for new sewer customers to be added to the system. When bids were received on the project, they were higher than originally budgeted. The Authority is currently working on securing additional loan proceeds from the Virginia Department of Environmental Quality in order to proceed with the project. It is anticipated this will happen with a loan closing in December of 2015.

In August of 2015, the Authority refinanced with Virginia Resources Authority (VRA) the 2000 Water Facility Revenue Bond and the 2000-A Water Facility Revenue Bond as listed in Note 7 to the financial statement. The new combined loan, Series 2015, original issue amount was \$1,733,769 with an interest rate of 2.05% and semi-annual payments of \$53,054 due on February 1 and August 1 each year through the year 2035. This refinancing lowered the interest rate and shortened the terms of both original loans.

Also in August of 2015, the Authority refinanced with Virginia Resources Authority (VRA) the 2004-B Water and Sewer Refunding Bond and the 2005-A Sewer Facility Revenue Bond as listed in Note 7 to the financial statement. The new combined loan, Series 2015B, original issue amount was \$1,615,000 with an issuance premium of \$166,151 and coupon interest rates varying from 2.792% to 5.125%. Principal payments are due annually on October 1 each year and interest payments are due semi-annually on October 1 and April 1 each year. The principal payments vary from \$40,000 to \$125,000 with the final payment due in October 2035. This refinancing resulted in overall savings from lower interest and a shorter term.

Due to current water consumption and to position the Authority for future growth, the Authority is currently working on projects to increase its permitted water withdrawal from the Smith River and also the expansion of its water treatment plant to allow for increased capacity. The Authority is working with the United States Fish and Wildlife Service, United States Army Corps of Engineers, and Virginia Department of Environmental Quality on obtaining the necessary permits to increase water withdrawal. At the same time, the Authority has started all necessary planning and studies required for a future expansion of its water treatment plant from 4 million gallons per day to 6 million gallons per day.

FINANCIAL CONDITION

The Authority's financial condition remained good at year end with adequate liquid assets and a reasonable level of unrestricted net position. The current financial condition, staff capabilities, operating plans, and upgrade plans to meet future water quality requirements are well balanced and under control.

Total assets and deferred outflows of resources decreased by \$1,012,337 or 1.19 percent, while net position increased by \$2,283,114. Accounts receivable, net at year end was \$1,174,002 compared to \$1,040,348 for fiscal year 2014. The reserve for bad debts equals all accounts over 90 days past due. The bad debt charge for 2015 and 2014 was \$45,837 and \$42,750, respectively. Recovery of bad debts previously written off amounted to \$9,931 and \$5,947 in 2015 and 2014, respectively.

RESULTS OF OPERATIONS

The Authority's main revenues fall into the categories of operating revenues, interest income, and capital contributions. Revenues, including capital contributions, totaled \$13,238,319 compared to \$12,704,071 last year, a 4.2 percent increase.

DEBT

At year end, the Authority had \$21,926,239 in long-term debt with \$3,222,848 (including the deferred amounts) coming due in 2016. More detailed information about the Authority's long-term debt is presented in Note 7 to the financial statements.

One area that demonstrates the Authority's financial ability to pay current debt service (principal and interest) is seen in its debt service coverage, which is shown below. The financing agreement covenant requires the Authority to establish rates, fees, and other charges for the use of and for services furnished by the Authority and collection procedures so that in each fiscal year net revenues and available cash reserves are not less than 1.2 times the debt service (principal and interest) for the fiscal year. Cash reserves available were \$7.16 million for 2015 and \$6.34 million for 2014. The following table calculates debt service coverage for fiscal years 2015 and 2014, including the available cash reserves:

	(In Millions of Dollars)		
	<u>2015</u>	<u>2014</u>	<u>% Change</u>
Unrestricted operating revenue	\$ 12.66	\$ 12.28	3.1%
Unrestricted investment income	<u>0.41</u>	<u>0.39</u>	5.1%
Total revenue	13.07	12.67	3.2%
Total operating expenses (less depreciation)	<u>6.75</u>	<u>6.78</u>	-0.4%
Net revenue	6.32	5.89	7.3%
Unrestricted cash - beginning of year	<u>6.34</u>	<u>5.38</u>	17.8%
Available for debt service	<u>\$ 12.66</u>	<u>\$ 11.27</u>	12.3%
Annual debt service	<u>\$ 4.09</u>	<u>\$ 4.07</u>	0.5%
Debt service coverage	<u>3.10</u>	<u>2.77</u>	11.7%

FINAL COMMENTS

Fiscal year 2015 continued the trend of positive financial performance by the Authority. This positive performance is needed in order for the Authority to maintain flexibility in future borrowing decisions, ensuring that there is an appropriate reserve for operating expenses, expansion, and that resources are available to provide for the effects of time and usage on the significant investment in equipment.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. Questions concerning this report or requests for additional information should be directed to the General Manager, Henry County Public Service Authority, P. O. Box 69, Collinsville, Virginia 24078, telephone 276-634-4600.

FINANCIAL STATEMENTS

Henry County Public Service Authority

Statements of Net Position

June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	\$ 7,159,883	\$ 6,344,143
Accounts receivable, net	1,174,002	1,040,348
Unbilled revenue	489,941	484,621
Inventory	170,804	156,881
Total Current Assets	<u>8,994,630</u>	8,025,993
Capital Assets		
Nondepreciable	1,349,945	819,792
Depreciable	64,933,065	67,487,163
Total Capital Assets	<u>66,283,010</u>	68,306,955
Other Noncurrent Assets		
Restricted investments	8,092,572	8,011,248
Total Other Noncurrent Assets	<u>8,092,572</u>	8,011,248
Total Assets	<u>83,370,212</u>	84,344,196
Deferred Outflows of Resources		
Deferred outflows - pension liability	152,161	138,474
Refunding of debt	227,015	279,055
Total Deferred Outflows of Resources	<u>379,176</u>	417,529
Total Assets and Deferred Outflows of Resources	<u>\$ 83,749,388</u>	<u>\$ 84,761,725</u>
Liabilities, Deferred Inflows of Resources, and Net Position		
Liabilities		
Current Liabilities		
Accounts payable	\$ 218,778	\$ 344,672
Interest payable	120,139	138,811
Accrued expenses and payables	34,041	30,916
Customer deposits	717,771	675,742
Current maturities of long-term liabilities	3,222,848	3,079,960
Total Current Liabilities	<u>4,313,577</u>	4,270,101
Long-Term Liabilities		
Due to other governments - Pittsylvania County	1,059,466	1,087,982
Net OPEB liability	3,831	1,098
Net pension liability	50,644	808,303
Compensated absences, net of current portion	330,571	313,044
Notes payable, net of current portion	18,372,820	21,558,938
Total Long-Term Liabilities	<u>19,817,332</u>	23,769,365
Total Liabilities	<u>24,130,909</u>	28,039,466
Deferred Inflows of Resources		
Deferred inflows - pension liability	613,106	-
Net Position		
Net investment in capital assets	44,724,072	43,702,840
Restricted		
Debt covenants	8,092,572	8,011,248
Unrestricted	6,188,729	5,008,171
Total Net Position	<u>59,005,373</u>	56,722,259
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 83,749,388</u>	<u>\$ 84,761,725</u>

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

Henry County Public Service Authority

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating Revenues		
Water and sewer charges	\$ 11,764,015	\$ 11,485,246
Fire protection fees - Henry County	406,800	406,800
Connection fees	57,950	41,600
Miscellaneous	<u>433,226</u>	<u>345,764</u>
Total Operating Revenues	12,661,991	12,279,410
Operating Expenses		
Water and sewer treatment	3,183,910	3,117,220
Depreciation	3,073,959	3,061,958
Maintenance - transmission and collection lines	1,079,888	1,124,352
Administration	1,150,843	1,164,517
Bad debts	45,837	42,750
Customer service	407,272	412,700
Engineering and mapping	289,375	320,103
Maintenance - vehicle and equipment	126,893	124,835
Management information systems	199,375	205,450
Meter reading	150,474	152,109
Service center	52,405	46,207
Safety	<u>66,018</u>	<u>67,600</u>
Total Operating Expenses	<u>9,826,249</u>	<u>9,839,801</u>
Operating Income	2,835,742	2,439,609
Non-Operating Revenues (Expenses)		
Interest income	379,498	371,617
Gain on sale of properties	23,745	15,564
Interest expense	<u>(1,128,956)</u>	<u>(1,263,436)</u>
Net Non-Operating Revenues (Expenses)	<u>(725,713)</u>	<u>(876,255)</u>
Change in Net Position Before Contributions	2,110,029	1,563,354
Capital Contributions	<u>173,085</u>	<u>37,480</u>
Change in Net Position	2,283,114	1,600,834
Total Net Position - Beginning of Year (Restated)	<u>56,722,259</u>	<u>55,121,425</u>
Total Net Position - End of Year	<u>\$ 59,005,373</u>	<u>\$ 56,722,259</u>

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

Henry County Public Service Authority

Statements of Cash Flows

Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 12,565,046	\$ 12,274,845
Cash paid for goods and services	(3,935,901)	(3,761,072)
Cash paid to employees and fringes	<u>(3,108,588)</u>	<u>(2,999,282)</u>
Net Cash Provided by Operating Activities	5,520,557	5,514,491
Cash Flows from Capital and Related Financing Activities		
Governmental grant revenue	173,085	37,480
Money received - Pittsylvania County	(28,516)	(24,413)
Purchase of capital assets	(1,154,902)	(702,074)
Disposal of fixed assets	104,888	-
Compensated absences	19,474	30,735
Bond principal payments	(2,993,137)	(2,889,086)
Bond interest payments	<u>(1,147,628)</u>	<u>(1,281,125)</u>
Net Cash Used in Capital and Related Financing Activities	(5,026,736)	(4,828,483)
Cash Flows from Investing Activities		
Interest received	379,498	371,617
Gain on sale of properties	23,745	15,564
Net change in investments	<u>(81,324)</u>	<u>(115,005)</u>
Net Cash Provided by Investing Activities	<u>321,919</u>	<u>272,176</u>
Net Increase in Cash and Cash Equivalents	815,740	958,184
Cash and Cash Equivalents - Beginning of Year	<u>6,344,143</u>	<u>5,385,959</u>
Cash and Cash Equivalents - End of Year	<u>\$ 7,159,883</u>	<u>\$ 6,344,143</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 2,835,742	\$ 2,439,609
<i>Adjustments to reconcile operating income</i>		
Depreciation	3,073,959	3,061,958
Bad debts	45,837	42,750
<i>Change in assets and liabilities</i>		
Decrease (Increase) in		
Accounts receivable	(179,491)	(65,348)
Inventory	(13,923)	(67,508)
Net OPEB asset/liability	2,733	3,970
Deferred outflows - pension liability	(13,687)	-
Unbilled revenue	(5,320)	(9,442)
Increase (Decrease) in		
Accounts payable	(125,894)	82,234
Net pension liability	(757,659)	-
Deferred inflows - pension liability	613,106	-
Customer deposits	42,029	27,475
Accrued expenses	<u>3,125</u>	<u>(1,207)</u>
Net Cash Provided by Operating Activities	<u>\$ 5,520,557</u>	<u>\$ 5,514,491</u>

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

Henry County Public Service Authority

Statements of Fiduciary Net Position

As of June 30, 2015 and 2014

	<u>2015</u> <u>OPEB</u> <u>Trust Fund</u>	<u>2014</u> <u>OPEB</u> <u>Trust Fund</u>
Assets		
Investment - restricted	\$ <u>96,496</u>	\$ <u>84,935</u>
Total Assets	\$ <u>96,496</u>	\$ <u>84,935</u>
Liabilities and Net Position		
Liabilities	\$ -	\$ -
Net Position		
Restricted for OPEB	<u>96,496</u>	<u>84,935</u>
Total Liabilities and Net Position	\$ <u>96,496</u>	\$ <u>84,935</u>

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

Henry County Public Service Authority

Notes to the Financial Statements

Year Ended June 30, 2015

1 Organization, Description of the Entity, and Its Activities

The Henry County Public Service Authority (the "Authority") was formed in 1965 under the provisions of the Virginia Water and Sewer Authorities Act, Code of Virginia (1950), as amended. The Authority provides water and sewer services to communities in Henry County, Virginia (the "County"). The Authority is governed by a six-member Board of Directors who is appointed for four-year staggered terms by the Board of Supervisors of the County. Since the Board of Supervisors cannot impose its will on the Authority and since there is no potential financial benefit or burden in the relationship, the County is not financially accountable for the Authority. Accordingly, the Authority is not considered a component unit of the County.

2 Significant Accounting Policies

Financial Statement Presentation

The accompanying financial statements conform to generally accepted accounting principles (GAAP) applicable to government units promulgated by the Governmental Accounting Standards Board (GASB).

The Authority applies all GASB pronouncements as well as the Financial Accounting Standards Board (FASB) Statements and Interpretations, APB Opinions and Accounts Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

Basis of Accounting

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the Authority's financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Authority also has the option of following subsequent private-sector guidance, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for water and sewer sales. Operating expenses include the cost of water and sewer treatment, maintenance, and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash and Cash Equivalents

Cash and cash equivalents consists of cash on hand; demand, savings or money market accounts; and certificates of deposit or short-term investments with purchased maturities of three months or less.

Unbilled Revenue

Unbilled revenue consists of amounts earned as of year end, but not yet billed because billing dates do not coincide with year end.

Allowance for Doubtful Accounts

The Authority has calculated its allowance for doubtful accounts using historical collection data and specific account analysis of all accounts greater than or equal to ninety days aged.

Inventory

Inventory consists of grinder pumps, parts, and supplies on hand at year end, reported at the lower of cost (first-in, first-out) or market. Inventory is generally used for construction and for operation and maintenance work, and is not held for resale.

Capital Assets

Capital assets are recorded at original cost at the time of acquisition. Donated assets are recorded at their fair market value on the date donated. Repair and maintenance items are expensed when incurred. Depreciation is provided on the straight-line method over the following estimated useful lives:

Buildings and structures	40-50 years
Sewer system equipment	10-50 years
Water system equipment	10-40 years
Other equipment	5-20 years

Compensated Absences

The vacation policy provides for the accumulation of earned vacation leave, depending on years of service with a maximum accumulation of 240 hours. The sick leave policy provides for sick leave to be earned at the rate of eight hours per month of service with a maximum accumulation of 720 hours. Accumulated vacation is paid at 100 percent, and sick leave is paid at 25 percent, upon termination of employment. These amounts are accrued when incurred.

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.

Revenues

The Authority records water and sewer revenues as billed to its customers principally on a monthly basis. Fees charged for the privilege of connecting to the system are credited to income.

Property and Equipment

Depreciation is provided principally on the straight-line method over the estimated useful lives of the assets.

Use of Estimates

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

Budgets

The Authority adopts an annual budget for informative and fiscal planning purposes only. The budget is not intended to be a legal control on expenses. Budgets are adopted on the accrual basis of accounting with the exception that depreciation and amortization are not budgeted.

Amortization

Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Amortization of bond premiums or discounts is included in interest expense. Bonds payable are reported net of the applicable bond premium or discount. The deferred amount resulting from bond refunding is amortized over the shorter of the life of the new bond issue or the refunded issue.

Net Position

Net position is the difference between assets and liabilities. Net position invested in capital assets represent capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction, or improvement of those assets.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources until then.

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources until that time.

3 Cash Equivalents

Deposits

All cash of the Authority is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et seq. of the Code of Virginia or covered by Federal Depository Insurance.

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Investments

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, bankers acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). Investments are carried at fair value.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Moody's Rating</u>
U.S. Treasuries	\$5,744,120	5 months or less	AAA
Certificates of deposit	<u>2,348,452</u>	2016	N/A
	<u>\$8,092,572</u>		

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority purchases investments having a maturity not greater than five years from the date of purchase.

Credit Risk – In accordance with State statutes, the Authority authorized investments in obligations of the United States and agencies thereof, commercial paper, repurchase agreements which are collateralized with securities that are approved for direct investment, and LGIP.

Concentration of Credit Risk – The Authority places no limit on the amount that may be invested in any one issuer. More than 20 percent of the Authority's investments are in certificates of deposit from a single bank.

Debt Service Forward Delivery Agreements

The Authority entered into two Debt Service Forward Delivery Agreements dated May 10, 2002 (one for the Debt Service Fund and one for the Debt Service Reserve Fund) maturing November 15, 2019. Monthly, the Authority transfers cash to the bond trustee in exchange for U.S. Treasury obligations which are held by the bond trustee. These obligations mature in accordance with the debt service payment schedule.

4 Amount of Allowance for Uncollectible Accounts

The Authority calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. Management estimates the allowance account to be \$48,137 and \$45,684 as of June 30, 2015 and 2014, respectively.

5 Due to Other Governments

The Authority has entered into a long-term agreement with Pittsylvania County concerning the construction of water lines. The agreement allows the Authority to repay Pittsylvania County for the cost of these lines based on water usage by the County. The original contract amount was \$1,250,000. The amount repaid for fiscal year 2015 was \$28,516 leaving a balance of \$1,059,466 as of June 30, 2015.

6 Capital Assets

The following schedule shows the breakdown of capital assets by category at June 30, 2015:

	<u>Balance July 1, 2014</u>	<u>Acquired (Increased)</u>	<u>Deleted (Decreased)</u>	<u>Balance June 30, 2015</u>
Capital assets, not depreciated				
Land and land improvements	\$ 500,044	\$ -	\$ -	\$ 500,044
Construction in Progress				
Water	285,093	662,773	236,985	710,881
Sewer	34,655	180,050	75,685	139,020
Other	-	296,654	296,654	-
Total Construction in Progress	319,748	1,139,477	609,324	849,901
Total Capital Assets, Not Depreciated	819,792	1,139,477	609,324	1,349,945
Capital assets, depreciated				
Buildings and leasehold improvements	1,322,911	15,425	-	1,338,336
Water and sewer system	127,474,898	525,475	124,090	127,876,283
Trucks and autos	1,942,287	83,849	98,579	1,927,557
Office equipment	191,162	-	-	191,162
Total Capital Assets, Depreciated	130,931,258	624,749	222,669	131,333,338
Less: Accumulated depreciation for				
Land improvements	2,473	88	-	2,561
Buildings and leasehold improvements	836,494	27,174	-	863,668
Water and sewer system	60,914,734	2,932,771	19,203	63,828,302
Trucks and autos	1,515,119	107,760	98,578	1,524,301
Office equipment	175,275	6,166	-	181,441
Total Accumulated Depreciation	63,444,095	3,073,959	117,781	66,400,273
Total Capital Assets Depreciated, Net	67,487,163	(2,449,210)	104,888	64,933,065
Total Capital Assets, Net	\$ 68,306,955	\$ (1,309,733)	\$ 714,212	\$ 66,283,010

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7 Long-Term Debt

The following is a summary of the Authority's long-term liability activity for the year:

<u>Details of Long-Term Indebtedness</u>	<u>Balance July 1, 2014</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2015</u>	<u>Due Within One Year</u>
2000 VRL Fund	\$ 157,820	\$ -	\$ 29,700	\$ 128,120	\$ 29,700
*2000 Water	1,068,131	-	23,074	1,045,057	24,134
*2000-A Water	710,514	-	15,014	695,500	15,704
2001 Water and Sewer Refunding	18,620,000	-	2,700,000	15,920,000	2,845,000
*2004-B Water and Sewer Refunding	815,000	-	60,000	755,000	65,000
*2005-A Sewer	939,781	-	15,293	924,488	15,936
2007 Bonds Payable	2,041,043	-	117,104	1,923,939	121,766
Long-Term Debt before Deferrals	24,352,289	-	2,960,185	21,392,104	3,117,240
Deferred Amounts					
Imputed interest on 2000 VRL Fund	(20,748)	-	(6,567)	(14,181)	(5,397)
Unamortized premium on 2001 Water and Sewer Refunding	269,742	-	91,102	178,640	73,853
Unamortized premium on 2004-B Water and Sewer	2,832	-	457	2,375	422
	251,826	-	84,992	166,834	68,878
Long-Term Debt	24,604,115	-	3,045,177	21,558,938	3,186,118
Compensated absences	347,827	19,474	-	367,301	36,730
Total Long-Term Debt	<u>\$24,951,942</u>	<u>\$ 19,474</u>	<u>\$3,045,177</u>	<u>\$ 21,926,239</u>	<u>\$3,222,848</u>

*This debt was refinanced in August 2015. See the discussion on pages 4 and 5 in the Management's Discussion and Analysis.

	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Final Maturity</u>	<u>Amount of Original Issue</u>	<u>Installment Payments</u>	<u>Installment Period</u>	<u>Balance June 30, 2015</u>
Bonds							
Virginia Revolving Loan Fund	0.000%	06/16/2000	2019	\$ 594,000	\$ 14,850	Semi-Annual	\$ 128,120
Water Facility Revenue	4.500%	01/28/2000	2039	1,282,840	5,889	Monthly	1,045,057
Water Facility Revenue	4.500%	06/14/2000	2040	847,400	3,890	Monthly	695,500
Water and Sewer Revenue Refunding	3.00-5.500%	11/15/2001	2019	42,470,000	1,565,000 3,540,000	Annual	15,920,000
Water and Sewer Revenue	2.35-4.475%	11/17/2004	2024	1,275,000	45,000 90,000	Annual	755,000
Sewer Facility Revenue	4.125%	07/14/2005	2045	1,030,000	4,481	Monthly	924,488
Water and Sewer Revenue Bond, Series 2007	3.910%	11/1/2007	Balloon in 2019	2,700,000	16,235	Monthly	1,923,939
Total Debt before Deferrals							<u>\$ 21,392,104</u>

The annual requirements to amortize bond principal and related interest are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Deferred Amounts</u>	<u>Total LT Debt with Deferrals</u>
2016	\$ 3,117,240	\$ 1,012,703	\$ 68,878	\$ 3,186,118
2017	3,284,588	845,259	50,044	3,334,632
2018	3,462,240	664,992	31,465	3,493,705
2019	3,655,211	474,679	15,758	3,670,969
2020	5,092,798	248,348	42	5,092,840
2021-2025	799,811	522,541	647	800,458
2026-2030	472,979	382,621	-	472,979
2031-2035	589,044	266,556	-	589,044
2036-2040	675,895	122,560	-	675,895
2041-2045	<u>242,298</u>	<u>26,227</u>	<u>-</u>	<u>242,298</u>
	<u>\$ 21,392,104</u>	<u>\$ 4,566,486</u>	<u>\$ 166,834</u>	<u>\$ 21,558,938</u>

Required escrow funds for debt service, repairs and replacements, and operating needs were as follows:

Operating funds reserve	\$ 1,443,876
Replacement reserve	512,625
Debt service - 2000 RUS bonds	388,993
Debt service - 2001 bonds	5,711,688
Debt service - accrued interest	<u>35,390</u>
	<u>\$ 8,092,572</u>

The Authority is required to maintain a debt service coverage ratio of 120 percent (as defined in the bond Master Trust Agreement and related amendments) and to annually obtain a consulting engineer's report to determine amounts needed to escrow for future repairs, replacements, and operating needs. The Authority received the most recent report in May 2015 for the fiscal year 2014. The management of the Authority believes it is in compliance with all requirements.

Revenue bonds require all revenues and receipts derived by the Authority to be pledged as security for the bonds. In addition, a security interest in all accounts receivable for services is granted to the issuer of the bonds.

Advance Refunding and Deferred Amount

In 2001, the Authority issued \$42,470,000 in Refunding Revenue Bonds with an average interest rate of 5.25% to advance refund \$42,465,000 of outstanding 1991 Series bonds with an average interest rate of 6.25% in order to reduce the interest rate and reduce total debt service payments over the life of the loan. The net proceeds from the issuance were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1991 Series bonds and, as a result, the 1991 Series bonds are considered defeased and the liability is not reported on the Authority's financial statements, only the balance of the 2001 Series bonds. The reacquisition price of the new bonds was \$42,889,650 and the carrying amount of the old bonds was \$41,292,795 which resulted in a Deferred Amount on Refunding of \$1,596,855. This amount is being amortized into interest expense over 19 years using the effective interest method and had an unamortized balance of \$227,015 and \$279,055 at June 30, 2015 and 2014, respectively. This is reported as a Deferred Outflow of Resources on the Authority's Statements of Net Position.

	<u>Balance</u> <u>July 1, 2014</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2015</u>
<u>Details of Refunding of Debt</u>				
2001 Refunding of Debt	\$ 279,055	\$ -	\$ 52,040	\$ 227,015

8 Net Investment in Capital Assets

The "net investment in capital assets" amount reported on the Statements of Net Position as of June 30, 2015 and 2014 is determined as follows:

	<u>2015</u>	<u>2014</u>
Net Investment in Capital Assets		
Cost of capital assets	\$ 132,683,283	\$ 131,751,050
Less: Accumulated depreciation	<u>(66,400,273)</u>	<u>(63,444,095)</u>
Book value	66,283,010	68,306,955
Less: Capital related debt	<u>(21,558,938)</u>	<u>(24,604,115)</u>
Net Investment in Capital Assets	<u>\$ 44,724,072</u>	<u>\$ 43,702,840</u>

9 Capital Contributions

Capital contributions represent proceeds from federal, state, and local agencies for the following capital projects:

<u>Source of Revenue</u>	<u>Project</u>	
Virginia Department of Health	Eastwood and Sandy Level Water Extension	\$ 20,250
County of Henry, Virginia	CCBC Water Tank	152,835
		<u>\$ 173,085</u>

10 Operating Leases

The Authority leased its office space from the County for a fifteen-year term commencing November 1, 1997 and ending on October 31, 2012. The lease is renewable annually for one-year terms and has been renewed for a one-year term ending October 31, 2015. In lieu of rent, the Authority renovated a portion of the building for the County's and Authority's use. These improvements (shown as leasehold improvements) are being depreciated over the life of the lease.

In addition, the Authority leases the water treatment plant from the County. The plant, with a cost of \$1,642,595, accumulated depreciation of \$1,253,636, and annual depreciation of \$40,440 is recorded on the County's financial statements. The Authority is responsible for all maintenance and operations of the plant. No payments are required. The Authority is required to retain funds in an Expansion and Replacement Fund to be applied to reasonable and necessary expenses for construction, replacement, repair, additions and/or extensions to the water and waste water facilities of the Authority. All disbursements from this fund must first be approved by the County. The lease continues until all debts of the Authority relating to water facility improvements have been satisfied.

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11 Commitments and Contingencies

If applicable, federal programs in which the Authority participates were audited in accordance with the provisions of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Pursuant to the provisions of this circular, all major programs and certain other programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by the audit, the Federal Government may subject grant programs to additional compliance tests which may result in disallowed expenditures. In the opinion of management, any future disallowance of current grant program expenditures, if any, would be immaterial.

Special purpose grants are subject to audit to determine compliance with their requirements. Authority officials believe that if any refunds are required, they will be immaterial.

12 Litigation

At June 30, 2015, there were no matters of litigation involving the Authority which would materially affect the Authority's financial position should any court decision or pending matter not be favorable to the Authority.

13 Pension Plan

Plan Description

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

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

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RETIREMENT PLAN PROVISIONS

PLAN 1

About Plan 1

Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

Eligible Members

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

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 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 Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.

PLAN 2

About Plan 2

Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

Eligible Members

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

Hybrid Opt-In Election

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

The Hybrid Retirement Plan's effective date for eligible 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 Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.

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 Plan 1 and 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:

- Political subdivision employees*
- Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 - April 30, 2014; the plan's effective date for opt-in members was July 1, 2014

**Non-Eligible Members*

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

- 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 Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.

PLAN 1

Retirement Contributions

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

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.

PLAN 2

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.

Creditable Service

Same as Plan 1.

Vesting

Same as Plan 1.

HYBRID RETIREMENT PLAN

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. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

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.

PLAN 1

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

VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.

Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.

Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.

PLAN 2

Calculating the Benefit

See definition under 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

VRS: Same as Plan 1 for service earned, purchased, or granted prior to January 1, 2013. For non-hazardous duty members, the retirement multiplier is 1.65% for creditable service earned, purchased, or granted on or after January 1, 2013.

Sheriffs and regional jail superintendents: Same as Plan 1.

Political subdivision hazardous duty employees: Same as Plan 1.

HYBRID RETIREMENT PLAN

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 70 1/2.

Calculating the Benefit

Defined Benefit Component:

See definition under 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 Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

Service Retirement Multiplier

Defined Benefit Component:

VRS: The retirement multiplier for the defined benefit component is 1.00%.

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

Sheriffs and regional jail superintendents: Not applicable.

Political subdivision hazardous duty employees: Not applicable.

Defined Contribution Component

Not applicable.

PLAN 1
Normal Retirement Age

VRS: Age 65.

Political subdivisions hazardous duty employees:
Age 60.

Earliest Unreduced Retirement Eligibility

VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.

Political subdivisions hazardous duty employees:
Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.

Earliest Reduced Retirement Eligibility

VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.

Political subdivisions hazardous duty employees:
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.

PLAN 2
Normal Retirement Age

VRS: Normal Social Security retirement age.

Political subdivisions hazardous duty employees:
Same as Plan 1.

Earliest Unreduced Retirement Eligibility

VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.

Political subdivisions hazardous duty employees:
Same as Plan 1.

Earliest Reduced Retirement Eligibility

VRS: Age 60 with at least five years (60 months) of creditable service.

Political subdivisions hazardous duty employees:
Same as Plan 1.

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 Plan 1

**HYBRID
RETIREMENT PLAN**
Normal Retirement Age

Defined Benefit Component:

VRS: Same as Plan 2.

Political subdivisions hazardous duty employees:
Not applicable.

Defined Contribution Component:

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

Earliest Unreduced Retirement Eligibility

Defined Benefit Component:

VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

Political subdivisions hazardous duty employees:
Not applicable.

Defined Contribution Component:

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

Earliest Reduced Retirement Eligibility

Defined Benefit Component:

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

Political subdivisions hazardous duty employees:
Not applicable

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 Plan 2

Defined Contribution Component:

Not applicable

Eligibility:

Same as Plan 1 and Plan 2

PLAN 1

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 1.70% on all service, regardless of when it was earned, purchased, or granted.

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 towards 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.

PLAN 2

Exceptions to COLA Effective Dates:

Same as 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.

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 Plan 1

HYBRID RETIREMENT PLAN

Exceptions to COLA Effective Dates:

Same as Plan 1 and Plan 2

Disability Coverage

Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.

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

Purchase of Prior Service

Defined Benefit Component:

Same as 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 that 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	34
Inactive members:	
Vested inactive members	6
Non-vested inactive members	10
Inactive members active elsewhere in VRS	<u>20</u>
Total inactive members	36
Active members	<u>53</u>
Total covered employees	<u><u>123</u></u>

Contributions

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

If the employer used the certified rate: The political subdivision's contractually required contribution rate for the year ended June 30, 2015 was 7.07% 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 political subdivision were \$152,161 and \$138,474 for the years ended June 30, 2015 and June 30, 2014, respectively.

Net Pension Liability

The political subdivisions 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 – General Employees

The total pension liability for General Employees in the Political Subdivision'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 percent
Salary increases, including Inflation	3.5 percent - 5.35 percent
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation*

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

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

Largest 10 – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females 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 System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

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

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

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)	<u>Increase (Decrease)</u> Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2013	\$ 9,603,489	\$ 8,795,186	\$ 808,303
Changes for the Year			
Service cost	199,863	-	199,863
Interest	656,584	-	656,584
Differences between expected and actual experience	-	-	-
Contributions - employer	-	138,474	(138,474)
Contributions - employee	-	108,301	(108,301)
Net investment income	-	1,374,762	(1,374,762)
Benefit payments, including refunds of employee contributions	(447,437)	(447,437)	-
Administrative expenses	-	(7,503)	7,503
Other changes	-	72	(72)
Net Changes	<u>409,010</u>	<u>1,166,669</u>	<u>(757,659)</u>
Balances at June 30, 2014	<u>\$ 10,012,499</u>	<u>\$ 9,961,855</u>	<u>\$ 50,644</u>

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

The following presents the net pension liability of the political subdivision using the discount rate of 7.00%, as well as what the political subdivision's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	<u>(6.00%)</u>	<u>Rate (7.00%)</u>	<u>(8.00%)</u>
Political subdivision's			
Net Pension Liability	\$ 1,470,948	\$ 50,644	\$(1,127,280)

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

For the year ended June 30, 2015, the political subdivision recognized pension expense of \$(6,079). At June 30, 2015, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	613,106
Employer contributions subsequent to the measurement date	<u>152,161</u>	<u>-</u>
Total	<u>\$ 152,161</u>	<u>\$ 613,106</u>

\$152,161 reported as deferred outflows of resources related to pensions resulting from the political subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year Ended
June 30,**

2016	\$ (153,276)
2017	(153,276)
2018	(153,276)
2019	(153,278)
Thereafter	-

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14 Postemployment Healthcare Plan

County Sponsored

Plan Description

Henry County Public Service Authority provides postemployment health benefits in the form of medical insurance benefits to eligible retirees and their spouses.

Three-year trend information is as follows:

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Plan Assets (a)</u>	<u>Accrued Liability (b)</u>	<u>Unfunded Liability (b-a)</u>	<u>Normal Cost (c)</u>	<u>Funded Ratio (a)/(b)</u>	<u>Covered Payroll (d)</u>	<u>Unfunded % of Payroll (b-a)/(d)</u>
07/01/2012	\$ 51,723	\$ 224,210	\$ 172,487	\$ 5,510	23.1%	\$ 2,056,948	8.4%
07/01/2012 R	66,372	244,876	178,504	5,648	27.1%	2,108,372	8.5%
07/01/14	84,935	270,121	185,186	6,238	31.4%	1,838,600	10.1%

R - Roll forward of prior year results

Schedule of Contributions and Three-Year Trend

<u>FYE</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>% Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
06/30/2013	\$ 16,565	\$ 11,999	72.4%	\$ (2,872)
06/30/2014	17,143	13,173	76.8%	1,098
06/30/2015	18,224	15,491	85.0%	3,831

Annual Pension OPEB Cost Summary

<u>Plan Year</u>	<u>Beginning of Year Net OPEB Obligation</u>	<u>Annual Required Contribution</u>	<u>Annual OPEB Costs</u>		<u>Total</u>	<u>Actual Contribution</u>	<u>End of Year Net OPEB Obligation</u>	<u>Interest Rate</u>	<u>Amortization Period</u>
			<u>Interest</u>	<u>Adjustments</u>					
2012-13	\$ (7,438)	\$ 16,651	\$ (558)	\$ 472	\$ 16,565	\$ 11,999	\$ (2,872)	7.50%	30
2013-14	(2,872)	17,176	(215)	182	17,143	13,173	1,098	7.50%	30
2014-15	1,098	18,212	82	(70)	18,224	15,491	3,831	7.50%	30

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Virginia Retirement System (VRS)

Plan Description

Henry County Public Service Authority provides postemployment health benefits in the form of medical insurance benefits to eligible retirees and their spouses through the Virginia Retirement System (VRS) Health Insurance Credit Program.

Summary of Main Benefit Provisions as Interpreted for Valuation Purposes

Political subdivisions participating in the Virginia Retirement System (VRS) may elect to provide a credit toward the cost of health insurance coverage for any former employee who retired under VRS with at least 15 years of total creditable service. The amount of each monthly health insurance credit shall be \$1.50 per year of creditable service, which amount shall be paid monthly to any retired employee participating in the Health Insurance Credit Program. However, such credit shall not exceed the health insurance premium for retiree.

Disabled retirees are eligible to receive a maximum monthly credit of \$45.

If an eligible employee has worked for more than one employer in VRS, for the purpose of this valuation, their most current (or last) employer assumes full liability for that employee.

REQUIRED SUPPLEMENTARY INFORMATION

Health Insurance Credit Program

Schedule of Funding Progress for Authority

	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
		Actuarial Accrued				
Actuarial Valuation Date	Actuarial Value of Assets	Liability (AAL) Projected Unit Credit	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2012	\$ 31,967	\$ 112,957	\$ 80,990	28.30%	\$2,035,564	3.98%
June 30, 2013	36,076	116,347	80,271	31.01%	2,109,778	3.80%
June 30, 2014	41,723	120,703	78,980	34.57%	2,047,723	3.86%

Summary of Actuarial Assumptions and Methods as Interpreted for Valuation Purposes

Valuation Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Pay, Closed
Remaining Amortization Period	20 - 29 Years
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions	
Investment rate of return ¹	7.00%
Payroll growth rate	3.00%

¹Includes inflation at 2.50%

15 Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority joined together with other local governments in the Virginia Municipal League Pool, a public entity risk pool currently operating as a common risk management and insurance program for participating local governments. The Authority pays an annual premium to the pool for substantially all of its insurance coverage. In the event of a loss creating a deficit or depletion of all available excess insurance, the pool may assist all members in the proportion that the premium of each bears to the total premiums of all members in the year in which such deficit occurs. The settled claims for 2015 and 2014 did not exceed insurance.

16 Water and Sewer Purchases

In 1974, the Authority and neighboring City of Martinsville, Virginia (the "City") signed a service agreement in which the Authority would purchase water and sewage treatment from the City and share in the annual operating costs of the plants in proportion to its actual use as measured by the volume of water used and sewage it contributed. It also allowed for the Authority to purchase capacity rights into the water and sewer plants at an agreed-upon price.

17 Governmental Accounting Standards Board Statement No. 68

In June 2012, the GASB issued Statement No. 68—*Accounting and Financial Reporting for Pensions—an amendment of GASB No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions not covered by the scope of this Statement. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014.

18 Restatement of Net Position

The following table reflects the restatement of net position due to the implementation of GASB No. 68:

Restatement of Net Position

Beginning balance, June 30, 2014	\$ 57,392,088
Net pension liability, July 1	(808,303)
Affect of prior year 2014 contributions	138,474
Restated Net Position, July 1, 2014	<u>\$ 56,722,259</u>

19 Subsequent Events

We have searched for events occurring subsequent to the date of the financial statements that may impact the financial data herein presented. When such events occur, we report the event and estimate, to the best of our ability, the potential measurable impact to the financial data reported. We are not aware of any material events occurring during the period of time that is subsequent to the date of the financial statements up to and including the date of the Independent Auditor's Report.

REQUIRED SUPPLEMENTARY INFORMATION

Henry County Public Service Authority

Schedule of Changes in the Political Subdivision's Net Pension Liability and Related Ratios

Year Ended June 30, 2015

	<u>2014</u>
Total pension liability	
Service cost	\$ 199,863
Interest	656,584
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions	-
Benefit Payments, including refunds of employee contributions	(447,437)
Net change in total pension liability	409,010
Total pension liability - beginning	9,603,489
Total pension liability - ending (a)	<u>\$ 10,012,499</u>
 Plan fiduciary net position	
Contributions - employer	\$ 138,474
Contributions - employee	108,301
Net investment income	1,374,762
Benefit Payments, including refunds of employee contributions	(447,437)
Administrative expense	(7,503)
Other	72
Net change in plan fiduciary net position	1,166,669
Plan fiduciary net position - beginning	8,795,186
Plan fiduciary net position - ending (b)	<u>\$ 9,961,855</u>
 Political subdivision's net pension liability - ending (a) - (b)	<u>\$ 50,644</u>
 Plan fiduciary net position as a percentage of the total Pension liability	99.49%
 Covered--employee payroll	\$ 2,047,723
 Political subdivision's net pension liability as a percentage of covered-employee payroll	2.47%

Henry County Public Service Authority

Schedule of Employer Contributions

For the Year Ended June 30, 2015

Date	Contributions in Relation to			Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (5)
	Contractually Required Contribution (1)	Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)		
2015	\$ 152,161	\$ 152,161	\$ -	\$ 2,161,601	7.04%

For Reference Only:

Column 1 – Employer contribution rate multiplied by the employer's covered employee payroll

Column 2 – Actual employer contribution remitted to VRS

Column 3 – Employer's covered employee payroll amount for the fiscal year ended June 30, 2015

Henry County Public Service Authority

Notes to Required Supplemental Information

For the Year Ended June 30, 2015

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

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

Largest 10 – Non-LEOS:

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

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

OTHER INFORMATION

Henry County Public Service Authority

Schedule of Revenues and Expenses - Budget to Actual

Year Ended June 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Operating Revenues				
Metered water sales	\$ 6,825,640	\$ 6,825,640	\$ 6,933,471	\$ 107,831
Waste water service charges	4,504,598	4,504,598	4,830,544	325,946
Miscellaneous	329,260	456,117	433,226	(22,891)
Fire protection fees - Henry County	406,800	406,800	406,800	-
Connection fees	<u>45,500</u>	<u>45,500</u>	<u>57,950</u>	<u>12,450</u>
Total Operating Revenues	12,111,798	12,238,655	12,661,991	423,336
Operating Expenses				
Water and sewer treatment	3,502,294	3,522,843	3,183,910	338,933
Depreciation	-	-	3,073,959	(3,073,959)
Maintenance - transmission and collection lines	1,227,740	1,187,862	1,079,888	107,974
Administration	1,185,682	1,190,405	1,150,843	39,562
Bad debts	45,000	45,000	45,837	(837)
Customer service	425,553	428,647	407,272	21,375
Engineering and mapping	344,415	350,287	289,375	60,912
Maintenance - vehicle and equipment	160,928	156,706	126,893	29,813
Management information systems	210,789	213,406	199,375	14,031
Meter reading	164,903	171,112	150,474	20,638
Service center	58,000	73,335	52,405	20,930
Safety	<u>71,254</u>	<u>71,888</u>	<u>66,018</u>	<u>5,870</u>
Total Operating Expenses	<u>7,396,558</u>	<u>7,411,491</u>	<u>9,826,249</u>	<u>(2,414,758)</u>
Operating Income (Loss)	4,715,240	4,827,164	2,835,742	(1,991,422)
Non-Operating Revenues (Expenses)				
Interest income	346,372	346,372	379,498	33,126
Gain (Loss) on sale of properties	-	-	23,745	23,745
Interest expense and bond fees	<u>(1,188,407)</u>	<u>(1,188,407)</u>	<u>(1,128,956)</u>	<u>59,451</u>
Total Non-Operating Revenues (Expenses)	<u>(842,035)</u>	<u>(842,035)</u>	<u>(725,713)</u>	<u>116,322</u>
Change in Net Position Before Contributions	3,873,205	3,985,129	2,110,029	(1,875,100)
Capital Contributions	<u>-</u>	<u>-</u>	<u>173,085</u>	<u>173,085</u>
Change in Net Position	<u>\$ 3,873,205</u>	<u>\$ 3,985,129</u>	<u>\$ 2,283,114</u>	<u>\$ (1,702,015)</u>

Table 1

Henry County Public Service Authority

Revenues by Source

Last Ten Fiscal Years

<u>Fiscal Years Ended June 30</u>	<u>Water</u>	<u>Sewer</u>	<u>Other</u>	<u>Investment Earnings</u>	<u>Grants and Other Contributions</u>	<u>Connection Fees</u>	<u>Totals</u>
2015	\$ 6,933,471	\$ 4,830,544	\$ 863,771	\$ 379,498	\$ 173,085	\$ 57,950	\$ 13,238,319
2014	6,828,639	4,656,607	768,128	371,617	37,480	41,600	12,704,071
2013	6,043,520	4,026,670	762,450	366,579	32,739	47,924	11,279,882
2012	6,013,784	4,003,556	735,664	359,540	2,518,393	47,650	13,678,587
2011	5,973,085	4,248,075	772,940	343,548	1,252,729	70,493	12,660,870
2010	5,974,119	4,307,681	860,959	453,285	832,967	55,077	12,484,088
2009	6,025,273	4,176,475	783,762	479,495	802,086	168,234	12,435,325
2008	6,168,866	4,328,704	971,473	495,603	1,720,265	178,999	13,863,910
2007	6,169,626	4,294,609	837,653	433,213	1,120,179	87,245	12,942,525
2006	5,254,066	3,659,856	1,225,266	379,168	4,400,499	70,361	14,989,216

Table 2

Expenses by Function

Last Ten Fiscal Years

<u>Fiscal Years Ended June 30</u>	<u>System Maintenance</u>	<u>Treatment</u>	<u>Engineering and Mapping</u>	<u>Administration and Other</u>	<u>Depreciation</u>	<u>Amortization and Interest</u>	<u>Totals</u>
2015	\$ 1,206,781	\$ 3,183,910	\$ 289,375	\$ 2,072,224	\$ 3,073,959	\$ 1,128,956	\$ 10,955,205
2014	1,249,187	3,117,220	320,103	2,091,333	3,061,958	1,263,436	11,103,237
2013	1,319,612	3,024,397	315,279	1,909,491	3,056,933	1,388,263	11,013,975
2012	1,184,196	2,952,894	308,273	1,767,202	3,242,047	1,596,439	11,051,051
2011	1,241,531	2,981,668	303,426	1,810,205	3,547,867	1,715,083	11,599,780
2010	1,246,422	2,926,319	302,313	1,740,155	3,085,006	1,826,122	11,126,337
2009	1,259,964	3,073,049	298,341	1,753,201	2,966,307	1,863,496	11,214,358
2008	1,332,212	3,399,533	295,074	2,154,420	2,902,898	1,922,257	12,006,394
2007	1,178,577	2,887,702	301,523	1,521,718	2,846,141	1,998,204	10,733,865
2006	1,103,634	2,811,535	248,097	1,703,284	2,757,877	2,015,079	10,639,506

Henry County Public Service Authority

Revenue Bond Debt Service Coverage

Last Ten Fiscal Years

<u>Fiscal Years Ended June 30</u>	<u>Unrestricted Cash Beginning of Year</u>	<u>Gross Revenues</u>	<u>Direct Operating Expenses**</u>	<u>Net Available</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>	<u>Coverage</u>
2015	\$ 6,344,143	\$ 13,065,234	\$ 6,752,290	\$ 12,657,087	\$ 2,960,185	\$ 1,128,206	\$ 4,088,391	3.10
2014	5,385,959	12,666,591	6,777,843	11,274,707	2,808,413	1,262,686	4,071,099	2.77
2013	5,467,913	11,247,143	6,568,779	10,146,277	2,671,909	1,387,513	4,059,422	2.50
2012	5,398,771	11,160,194	6,212,565	10,346,400	2,545,666	1,504,481	4,050,147	2.55
2011	5,342,244	11,408,141	6,336,830	10,413,555	2,424,671	1,614,321	4,038,992	2.58
2010	4,980,342	11,651,121	6,215,209	10,416,254	2,313,914	1,716,690	4,030,604	2.58
2009	5,501,702	11,633,239	6,384,555	10,750,386	2,203,387	1,811,566	4,014,953	2.68
2008	4,195,338	12,143,645	6,680,675	9,658,308	2,051,338	1,850,293	3,901,631	2.48
2007	2,612,586	11,822,346	5,889,520	8,545,412	1,907,742	1,868,037	3,775,779	2.26
2006	2,231,596	10,588,717	5,866,550	6,953,763	1,830,124	1,890,236	3,720,360	1.87

** Excluding depreciation, interest, and amortization.

Henry County Public Service Authority

Schedule of Insurance in Force

June 30, 2015

Type Coverage (Insurer)	Liability Limits	
Commercial General Liability (Virginia Municipal Liability Pool)	\$ 1,000,000	Each Occurrence Limit
	\$ 100,000	Fire Damage Limit
	\$ 10,000	Medical Expense Limit
	\$ 10,000	No Fault Property Damage
Primary Automobile Liability (Virginia Municipal Liability Pool)	\$ 25,000	Bodily Injury Per Person
	\$ 50,000	Bodily Injury Per Accident
	\$ 20,000	Property Damage Per Accident
	\$ 1,000,000	Per Occurrence
Automobile Uninsured Motorists (Virginia Municipal Liability Pool)	\$ 25,000	Bodily Injury Per Person
	\$ 50,000	Bodily Injury Per Accident
	\$ 20,000	Property Damage Per Accident
	\$ 10,000	Automobile Medical Payments
Automobile Physical Damage (Virginia Municipal Liability Pool)	Actual	Comprehensive
	Actual	Collision
	\$ 250	Deductible/Comprehensive
	\$ 500	Deductible/Collision
Excess Liability Coverage (Virginia Municipal Liability Pool)	\$ 2,000,000	Per Occurrence
Commercial Property Coverage (Virginia Municipal Liability Pool)	\$48,248,986	Blanket Real and Personal Property
	\$ 100,000	Extra Expense (Monthly Limit)
	\$ 1,000	Deductible
Commercial Inland Marine Coverage (Virginia Municipal Liability Pool)	\$ 770,007	Contractor's Equipment
Boiler and Machinery Coverage (Virginia Municipal Liability Pool)	\$50,000,000	Direct Damage (Per Accident)
	\$ 100,000	Refrigerant
	\$ 100,000	Ammonia Contamination
	\$ 100,000	Expediting Expenses
	\$ 100,000	Hazardous Substances
	\$ 100,000	Water Damage
	\$ 100,000	Computer
	\$ 100,000	Perishable Goods
	\$ 250,000	Demolition & ICC
	\$ 250,000	Newly Acquired Location
Public Employees Dishonesty Coverage (Virginia Municipal Liability Pool)	\$ 1,000,000	Aggregate Amount
	\$ 5,000	Deductible
Worker's Compensation (Virginia Municipal Group Self-Insurance Association)	Statutory	State Statutory Provision
	\$ 1,000,000	Employer's Liability Limit
Public Official Liability (Commonwealth of Virginia - Division of Risk Management)	\$ 1,000,000	Limit of Liability
	\$ 1,000	Deductible

Table 5

Henry County Public Service Authority

Raw Water Production by Source (In Million Gallons)

Last Ten Fiscal Years

Fiscal Years Ended June 30	City of Martinsville/ Eden	Philpott	Wells	Totals
2015	10	1,022	10	1,042
2014	12	1,023	11	1,046
2013	14	1,021	9	1,044
2012	13	999	9	1,021
2011	13	1,014	10	1,037
2010	11	1,030	9	1,050
2009	122	833	11	966
2008	409	631	16	1,056
2007	360	645	17	1,022
2006	399	688	19	1,106

Source: Reports prepared by the Authority and submitted to the Virginia Department of Health.

Table 6

Waste Water Treatment By Plant
(In Million Gallons)

Last Ten Fiscal Years

Fiscal Years Ended June 30	City of Martinsville	Lower Smith River	Totals
2015	651	-	651
2014	590	-	590
2013	681	-	681
2012	580	-	580
2011	716	-	716
2010	822	-	822
2009	713	-	713
2008	710	-	710
2007	792	-	792
2006	716	93	809

Note: Does not include waste treatment in lagoon systems.

Source: Flow Reports

Table 7

Henry County Public Service Authority

Demographic Statistics

Last Ten Fiscal Years

Fiscal Years Ended June 30	Population (1)	Per Capita Income (2)	Median Age (3)	Unemployment Rate (4)
2015	53,273	\$ 32,546	45.0	7.3%
2014	53,560	31,650	44.5	8.4%
2013	53,889	30,097	44.7	9.3%
2012	53,867	29,628	44.7	9.8%
2011	54,151	28,773	44.7	10.7%
2010	53,795	30,018	41.8	13.9%
2009	53,869	27,427	41.9	15.3%
2008	55,279	25,591	39.3	7.8%
2007	54,506	25,312	39.3	6.0%
2006	55,100	24,527	39.3	4.8%

Sources:

- 1) U. S. Census, 2000 and 2010; other figures are annually adjusted estimates prepared by the University of Virginia Weldon Cooper Center for Public Service.
- 2) Bureau of Economic Analysis. Figures are for Martinsville and Henry County combined; Henry County only figures not available; information based on latest available data.
- 3) U. S. Census Bureau.
- 4) Virginia Workforce Connection

Henry County Public Service Authority

List of Ten Largest Customers

Year Ended June 30, 2015

<u>Customer</u>	<u>Business</u>	<u>Amount</u>	<u>Percent of Total Billings*</u>
C.P. Films, Inc.	Manufacturing	\$ 542,845	4.61%
Monogram Snack Martinsville, LLC	Manufacturing	395,332	3.36%
Henry County Schools	Public School System	174,976	1.49%
County of Henry, Virginia	Local Government	152,710	1.30%
Commonwealth Laminating & Coating	Manufacturing	147,287	1.25%
King's Grant	Retirement Community	143,216	1.22%
Scrub Board/Bobby Nickelston	Laundries and Car Washes	109,546	0.93%
CAH Properties	Rental Properties	67,197	0.57%
LIC Associates	Rental Properties	62,208	0.53%
Dayton-Chambers, Inc. (Dutch Inn)	Rental Properties	<u>61,244</u>	<u>0.52%</u>
Total		<u>\$ 1,856,561</u>	<u>15.78%</u>
*Total Billings		<u>\$ 11,764,015</u>	

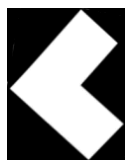
Henry County Public Service Authority

Miscellaneous Statistical Data

As of June 30, 2015

Type of Entity	Independent authority created pursuant to the Virginia Water and Sewer Authorities Act, Section 15.2-5100, Code of Virginia (1950), as amended.		
Date of Incorporation	1965		
Selected Information	Number of Employees		53
	Number of Active Water Connections		12,425
	Number of Active Sewer Connections		7,346
	Miles of Water Lines		348
	Miles of Sewer Lines		240
	Number of Fire Hydrants		1,551
	Water Treatment Plant Capacity		4 MGD
	City of Martinsville, Virginia Purchased Water Capacity		2 MGD
	Sewer Treatment Plant Capacity		6 MGD
	City of Martinsville Purchased Sewer Capacity		4 MGD
	Average Daily Water Consumption		2.85 MGD
	Average Daily Sewage Flow		1.78 MGD
Bond Rating	Not rated		
Minimum Consumption Charge Per Service (Sewer charges are based on water consumption.)	Residential customers charged a minimum monthly consumption charge of \$30 per service for up to 4,000 gallons consumption. Non-Residential customers charged a minimum monthly consumption charge of \$45 per service for up to 4,000 gallons consumption. Institutional customers charged a minimum monthly consumption charge of \$68.50 per service for up to 6,000 gallons consumption.		
Additional Consumption	The following charges apply to each 1,000 gallons, or fractions thereof, of water consumed above mentioned minimums: Residential customers - \$4.70 per additional 1,000 gallons. Non-Residential customers - \$7 per additional 1,000 gallons. Institutional customers - \$8.10 per additional 1,000 gallons.		
Exceptions	The Authority reserves the right to negotiate contracts for service charges with industrial users.		

COMPLIANCE



**Creedle
Jones
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Henry County Public Service Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities and fiduciary fund of the Henry County Public Service Authority, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Henry County Public Service Authority's basic financial statements, and have issued our report thereon dated November 9, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Creedle, Jones & Alga, P.C.
Certified Public Accountants

South Hill, Virginia
November 9, 2015