WASHINGTON COUNTY SERVICE AUTHORITY

Financial Statements

For the Year Ended June 30, 2017

Washington County Service Authority
Financial Statements
For the Year Ended June 30, 2017
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Independent Auditors' Report

To the Board of Directors
Washington County Service Authority
Abingdon, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Washington County Service Authority, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Washington County Service Authority, as of June 30, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 4-6 and schedules related to pension and OPEB funding on pages 45-48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Washington County Service Authority's basic financial statements. The supporting schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* and is also not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2017, on our consideration of the Washington County 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 Washington County Service Authority's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
September 17, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

Washington County Service Authority's ("WCSA") discussion and analysis of the financial statements is designed to (a) assist the reader in understanding the significant financial issues, (b) provide an overview of the Authority's financial activity, (c) identify changes in the financial position and its ability to address subsequent year issues, (d) point out material deviations from the approved budget, and (e) identify individual fund issues or concerns.

Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities and facts and must be read in conjunction with the financial statements so that this report may be understood in its entirety.

Financial Highlights

The following comparisons relate WCSA's current position at June 30, 2016 to its position at June 30, 2017. WCSA's total assets increased by $2,775,581 (2.19%). Unrestricted cash and cash equivalents increased by $2,654,199 (32.28%). Inventory held for use decreased by $44,252. Capitalized assets (excluding accumulated depreciation) increased by $29,031 (.03%).

Total liabilities increased by $1,067,847 (1.49%).

The Authority's operating revenues increased $924,501 (5.87%), while operating expenses increased by $368,360 (2.83%). Operating net income increased by $556,141 (20.46% increase over 2016). Activities increased net position for the year by $2,139,054.

A discussion of significant department operating expense differences from the 2016-2017 budget follows:

Revenue for the water fund was over budget in the amount of $237,111. Total operating expenses for the Water Fund were under budget by $728,283. Revenue for the sewer fund was over budget in the amount of $237,707. Total operating expenses for the Sewer Fund were under budget by $327,862.

Interest expenses were under budget by $458,659, as well as, interest income was over budget by $14,450. While WCSA is aggressive in seeking the best return on its investment, it has no control over market rates.

Required Financial Statements

The financial statements of the Authority report information of the Authority using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Position includes all of the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). It also provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the Authority.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the successes of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and noncapital and capital financing activities and provides answers to such as where did the cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

NET POSITION

	FY 2017	FY 2016	Dollar Change	Total Percent Change
ASSETS				
Current and other assets	$ 15,822,107	$ 13,075,557	$ 2,746,550	21.01%
Capital assets	113,795,321	113,766,290	29,031	0.03%
TOTAL ASSETS	**$ 129,617,428**	**$ 126,841,847**	**$ 2,775,581**	**2.19%**
DEFERRED OUTFLOWS OF RESOURCES	**$ 527,497**	**$ 258,573**	**$ 268,924**	**104.00%**
LIABILITIES				
Long-term debt outstanding	$ 69,969,779	$ 68,400,299	$ 1,569,480	2.29%
Other liabilities	2,990,835	3,492,468	(501,633)	-14.36%
TOTAL LIABILITIES	**$ 72,960,614**	**$ 71,892,767**	**$ 1,067,847**	**1.49%**
DEFERRED INFLOWS OF RESOURCES	**$ 193,987**	**$ 356,383**	**$ (162,396)**	**-45.57%**
NET POSITION				
Invested in capital assets net of related debt	$ 44,364,554	$ 45,365,991	$ (1,001,437)	-2.21%
Restricted	-	1,281,012	(1,281,012)	-100.00%
Unrestricted	12,625,770	8,204,267	4,421,503	53.89%
TOTAL NET POSITION	**$ 56,990,324**	**$ 54,851,270**	**$ 2,139,054**	**3.90%**

As can be seen from the table above, net position increased $2,139,054 to $56,990,324 in 2017 up from $54,851,270 in 2016. The increase in net position was primarily due to a decrease in other liabilities. The increase in current and other assets is largely due to an increase in reserves.

	FY 2017	FY 2016	Dollar Change	Total Percent Change
REVENUES				
Operating revenues	$ 16,678,828	$ 15,754,327	$ 924,501	5.87%
Non-operating revenues	165,607	846,080	(680,473)	-80.43%
TOTAL REVENUES	**$ 16,844,435**	**$ 16,600,407**	**$ 244,028**	**1.47%**
EXPENSES				
Depreciation expense	$ 3,681,602	$ 3,720,594	$ (38,992)	-1.05%
Other operating expenses	9,722,345	9,314,993	407,352	4.37%
Non-operating expenses	1,301,434	1,374,437	(73,003)	-5.31%
TOTAL EXPENSES	**$ 14,705,381**	**$ 14,410,024**	**$ 295,357**	**2.05%**
Net income	$ 2,139,054	$ 2,190,383	$ (51,329)	
Beginning net position	$ 54,851,270	$ 52,660,887		
Ending net position	$ 56,990,324	$ 54,851,270		

While the Statement of Net Position shows the change in financial position of the net position, the Statement of Revenue, Expenses, and Changes in Net Position provides answers as to the nature and source of these changes. As can be seen in the schedule above, the current year's net income of $2,139,054 was the source of the increase in net position for 2017.

The Authority's net income decreased by $51,329 to $2,139,054 in 2017 from $2,190,383 in 2016 with operating expenses being slightly over budget. Non-operating revenues decreased by $680,473 in 2017. This decrease is primarily due to reduction in grant funds and increased operating expenses.

Capital & Operating Highlights

The Authority has continued with its Capital Improvements Plan that includes planned departmental expenditures to update and add infrastructure, computer information systems, machinery and equipment, furniture and fixtures and automobiles.

WCSA has continued to focus on replacing failing and inadequate sized infrastructure and extending service to unserved residents in Washington County.

WCSA has continued to focus labor and financial resources towards continuous improvement efforts in all areas of its operations. The Authority has invested time and money in assessing the vulnerability of our operations and implementing procedures and devices that increase the safety and reliability of our system. WCSA is in the eighth year of replacing substandard waterlines. WCSA also continues to focus on training in an effort to ensure that in all areas of service to our customers. WCSA employees have the best training and resources to excel in their positions.

BASIC FINANCIAL STATEMENTS

Exhibit 1

Washington County Service Authority
Statement of Net Position
Proprietary Funds
June 30, 2017

	Business-type Activities Enterprise Funds		
	Water	Sewer	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	$ 7,076,887	$ 3,800,833	$ 10,877,720
Investments	425,410	-	425,410
Due From Other Governments	1,186	-	1,186
Accounts Receivable (net of allowance for doubtful accounts)	1,599,554	353,283	1,952,837
Settlement Receivable (current portion)	73,375	-	73,375
Inventories	507,088	-	507,088
Prepaid items	155,800	7,829	163,629
Total Current Assets	$ 9,839,300	$ 4,161,945	$ 14,001,245
Noncurrent Assets:			
Settlement Receivable (net of current portion)	$ 231,637	$ -	$ 231,637
Restricted:			
Cash and Cash Equivalents	1,490,654	98,571	1,589,225
Capital Assets:			
Land	958,326	272,865	1,231,191
Construction in Process	2,232,096	1,996,648	4,228,744
Water Tanks	6,940,525	-	6,940,525
Lines	76,727,200	20,600,865	97,328,065
Buildings	31,806,535	6,137,251	37,943,786
Improvements	3,845,752	230,368	4,076,120
Automobiles	1,503,953	421,063	1,925,016
Equipment	7,557,080	435,583	7,992,663
Furniture and Fixtures	140,355	28,259	168,614
Computers and Telemetry	1,280,596	90,605	1,371,201
Accumulated Depreciation	(40,862,158)	(8,548,446)	(49,410,604)
Total Capital Assets, Net of Accumulated Depreciation	$ 92,130,260	$ 21,665,061	$ 113,795,321
Total Noncurrent Assets	$ 93,852,551	$ 21,763,632	$ 115,616,183
Total Assets	$ 103,691,851	$ 25,925,577	$ 129,617,428
DEFERRED OUTFLOWS OF RESOURCES			
Items Related to Measurement of Net Pension Liability	$ 288,079	$ 24,513	$ 312,592
Pension Contributions Subsequent to Measurement Date	200,917	13,988	214,905
Total Deferred Outflows of Resources	$ 488,996	$ 38,501	$ 527,497
LIABILITIES			
Current Liabilities:			
Accounts Payable	$ 298,709	$ 153,715	$ 452,424
Accrued Liabilities	163,947	18,168	182,115
Accrued Interest Payable	105,108	13,288	118,396
Compensated Absences (current portion)	165,772	4,519	170,291
Bonds and Notes Payable (current portion)	1,715,310	352,299	2,067,609
Total Current Liabilities	$ 2,448,846	$ 541,989	$ 2,990,835
Noncurrent Liabilities:			
Compensated Absences (net of current portion)	$ 663,090	$ 18,075	$ 681,165
Net OPEB Obligation	591,380	51,709	643,089
Net Pension Liability	1,175,398	106,969	1,282,367
Bonds and Notes Payable (net of current portion)	58,630,711	8,732,447	67,363,158
Total Noncurrent Liabilities	$ 61,060,579	$ 8,909,200	$ 69,969,779
Total Liabilities	$ 63,509,425	$ 9,451,189	$ 72,960,614
DEFERRED INFLOWS OF RESOURCES			
Items Related to Measurement of Net Pension Liability	$ 159,955	$ 34,032	$ 193,987
NET POSITION			
Net Investment in Capital Assets	$ 31,784,239	$ 12,580,315	$ 44,364,554
Unrestricted	8,727,228	3,898,542	12,625,770
Total Net Position	$ 40,511,467	$ 16,478,857	$ 56,990,324

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

Exhibit 2

Washington County Service Authority
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2017

	Business-type Activities Enterprise Funds		
	Water	**Sewer**	**Total**
Operating Revenues	$ 14,068,394	$ 2,610,434	$ 16,678,828
Operating Expenses			
Nondepartmental	$ 3,630,315	$ 821,709	$ 4,452,024
Commissioners	32,952	-	32,952
Administration	930,112	-	930,112
Customer Service	849,322	-	849,322
Maintenance	2,709,548	17,362	2,726,910
Production	1,993,799	858,224	2,852,023
Water Distribution	740,772	-	740,772
Meter Department	428,084	-	428,084
Chilhowie Regional Treatment Plant	273,764	-	273,764
Damascus	-	117,984	117,984
Total Operating Expenses	$ 11,588,668	$ 1,815,279	$ 13,403,947
Operating Income (Loss)	$ 2,479,726	$ 795,155	$ 3,274,881
Nonoperating Revenues (Expenses)			
Interest income	$ 72,485	$ 65	$ 72,550
Interest expense	(1,060,439)	(240,995)	(1,301,434)
Gain (loss) on Disposal of Assets	27,800	-	27,800
Income (Loss) Before Capital Contributions and Transfers	$ (960,154)	$ (240,930)	$ (1,201,084)
Transfers In (Out)	(67)	67	-
Capital contributions - State and federal grants	65,257	-	65,257
Total Nonoperating Revenues (Expenses)	$ (894,964)	$ (240,863)	$ (1,135,827)
Increase (Decrease) in Net Position	$ 1,584,762	$ 554,292	$ 2,139,054
Net Position - beginning	38,926,705	15,924,565	54,851,270
Net Position - ending	$ 40,511,467	$ 16,478,857	$ 56,990,324

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

Exhibit 3

Washington County Service Authority
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2017

	Business-type Activities Enterprise Funds		
	Water	Sewer	Total
Cash Flows from Operating Activities:			
Receipts from Customers	$ 13,967,906	$ 2,564,354	$ 16,532,260
Payments to Suppliers	(3,099,671)	(659,261)	(3,758,932)
Payments to Employees	(5,431,663)	(378,503)	(5,810,166)
Net Cash Provided by (Used for) Operating Activities	$ 5,436,572	$ 1,526,590	$ 6,963,162
Cash Flows from Noncapital Financing Activities:			
Transfers from (to) other funds	$ (67)	$ 67	$ -
Net Cash Flows Provided by (Used for) Noncapital Financing Activities	$ (67)	$ 67	$ (395,597)
Cash Flows from Capital and Related Financing Activities:			
Purchase of Property, Plant and Equipment	$ (2,779,968)	$ (1,350,101)	$ (4,130,069)
Capital Contributions From Other Governments	183,058	-	183,058
Proceeds from Settlement	76,197	-	76,197
Sale of Land Purchase Options	1,000	167,500	168,500
Proceeds from Sale of Assets	27,800	-	27,800
Principal Paid on Bonds	$ (1,780,388)	$ (281,658)	$ (2,062,046)
Proceeds from Bonds	2,003,020	1,089,494	3,092,514
Interest Paid on Bonds	(1,184,579)	(241,486)	(1,426,065)
Net Cash Flows Provided by (Used for) Capital and Related Financing Activities	$ (3,453,860)	$ (1,182,601)	$ (3,674,514)
Cash Flows from Investing Activities:			
Interest Income	$ 69,296	$ 65	$ 69,361
Net Cash Flows Provided by (Used for) Investing Activities	$ 69,296	$ 65	$ 69,361
Net Increase (Decrease) in Cash and Cash Equivalents	$ 2,051,941	$ 344,121	$ 2,396,062
Cash and Cash Equivalents at Beginning of Year (includes restricted amounts of $1,195,247 and $85,765 for the water and sewer fund, respectively)	6,515,600	2,988,933	9,504,533
Cash and Cash Equivalents at End of Year (includes restricted amounts of $1,490,654 and $98,571 for the water and sewer fund, respectively)	$ 8,567,541	$ 3,333,054	$ 11,900,595
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:			
Operating Income (Loss)	$ 2,479,726	$ 795,155	$ 3,274,881
Adjustments to reconcile operating income (loss) to net cash provided (used) for operating activities:			
Depreciation Expense	$ 2,890,980	$ 790,622	$ 3,681,602
(Increase) Decrease in Assets and Deferred Outflows of Resources:			
Accounts Receivable	(100,488)	(46,080)	(146,568)
Inventory	44,252	-	44,252
Prepaid Items	(43,483)	2,352	(41,131)
Deferred Outflows of Resources	(251,992)	(16,932)	(268,924)
Increase (Decrease) in Liabilities and Deferred Inflows of Resources:			
Accounts Payable	41,311	(1,377)	39,934
Net OPEB Obligation	60,828	(3,307)	57,521
Net Pension Liability	396,256	15,503	411,759
Accrued Liabilities	35,027	3,511	38,538
Compensated Absences	39,655	(5,961)	33,694
Deferred Inflows of Resources	(155,500)	(6,896)	(162,396)
Total Adjustments	$ 2,956,846	$ 731,435	$ 3,688,281
Net Cash Provided by (Used for) Operating Activities	$ 5,436,572	$ 1,526,590	$ 6,963,162
Schedule of non-cash capital and related financing activities:			
Purchase of property, plant and equipment included in accounts payable	$ 5,816	$ 101,615	$ 107,431

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Authority conform to generally accepted accounting principles (GAAP) applicable to governmental units promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies.

Financial Reporting Entity

The Washington County Service Authority, (the "Authority") was created pursuant to the Water and Sewer Authorities Act, Chapter 28, Title 15.1, Code of Virginia of 1950, as amended by the action of the Board of Supervisors of Washington County. The State Corporation Commission chartered the Authority on March 25, 1953, as the Goodson-Kinderhook Water Authority. Its name was changed to Washington County Service Authority in 1976. As presently chartered, the Authority is authorized to acquire, finance, construct, operate, and maintain one or more water systems; one or more sewer systems; one or more sewage disposal systems, or any combination thereof; and provide garbage and refuse collection and disposal systems in Washington County and counties adjacent thereto. The Authority does not currently provide garbage refuse collection and disposal services.

The Authority currently provides a full range of water services to the more densely populated areas of Washington County and to the Towns of Abingdon, Damascus and Glade Spring, Virginia. The Authority also provides water services to sections of the Town of Saltville, Virginia; the City of Bristol, Tennessee; Sullivan County, Tennessee; and Smyth County, Virginia. A seven-member board of commissioners who are appointed by the Board of Supervisors of Washington County governs the Authority.

The Authority currently provides sewer services to customers in the Emory-Meadowview, Glade Spring, Oak Park, Westwood, West Central, Virginian, Sinking Creek and Damascus sections and other small portions of Washington County, Virginia.

The Authority extends credit to its customers in the normal course of business and this credit is limited to the geographic area surrounding the Authority and is considered a concentration of credit in one geographic area.

The accounting policies of the Authority relating to the funds included in the accompanying financial statements conform to generally accepted accounting principles applicable to governmental units. The Authority complies with generally accepted accounting principles and applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The Authority complies with GASB Statement No. 14, *The Financial Reporting Entity.* This statement establishes standards for defining and reporting on the financial reporting entity. It defines component units as legally separate organizations for which the elected officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity financial statements to be misleading or incomplete.

The Authority considered all potential component units in determining what organizations should be included in the financial statements. Based on these criteria, there are no component units to include in the Authority's financial statements.

Basic Financial Statements

The Authority's financial statements are prepared in accordance with GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments. As a result, the financial statements include a Management's Discussion and Analysis (MD&A) section, providing an analysis of the Authority's overall financial position and results of operations.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basic Financial Statements (Continued)

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

- Management's Discussion and Analysis
- Enterprise fund financial statements
  - Statement of Net Position
  - Statement of Revenues, Expenses and Changes in Net Position
  - Statement of Cash Flows
  - Notes to Financial Statements

- Required supplementary information
  - Schedule of OPEB Funding Progress
  - Schedule of Changes in Net Pension Liability and Related Ratios
  - Schedule of Employer Contributions
  - Notes to Required Supplementary Information

Basis of Presentation

The Authority's funds are enterprise funds. Enterprise funds are proprietary funds used to account for business like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus applied.

The proprietary funds utilize an *economic resources* measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's enterprise funds are charges to customers for sales and service. The Authority also recognizes as operating revenue the portion of tap fees intended to recover a portion of growth related expenses of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary Fund Revenue and Expense Classifications

Operating revenues include activities that have the characteristics of exchange transactions, such as charges to customers for water service and other revenue generated from operations.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, including gifts, and other revenue sources that are defined as nonoperating revenues by GASB.

GASB Statement 9 – Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting, and GASB Statement 34, such as state appropriations and interest and other investment income.

Nonoperating expenses include interest on debt related to the purchase of capital assets, losses on the disposal of capital assets, and depreciation of contributed assets. All other expenses are classified as operating expenses.

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 (expense) until then. The Authority's deferred outflows of resources is comprised of certain items related to the measurement of the net pension liability. These include differences between expected and actual experience, change in assumptions, and the net difference between projected and actual earnings on pension plan investments. It is also comprised of contributions to the pension plan made during the current year and subsequent to the net pension liability measurement date, which will be recognized as a reduction of the net pension liability next fiscal year. For more detailed information on these items, reference the pension note.

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 (revenue) until that time. The Authority has one type of item that qualifies for reporting in this category. Certain items related to the measurement of the net pension liability are reported as deferred inflows of resources. These include differences between expected and actual experience, change in assumptions, and the net difference between projected and actual earnings on pension plan investments. For more detailed information on these items, reference the pension note.

Net Position

Net position is the difference between a) assets and deferred outflows of resources and b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position Flow Assumption

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

Investments

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

Inventory

The Authority maintains inventories of maintenance materials and supplies, including pipe and meters, for use in day-to-day operations. Inventories of materials and supplies are stated at the lower of cost (first-in, first-out) or market.

Property, Plant and Equipment

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. During the year, interest costs incurred in the Water fund totaled $1,346,627 of which $286,188 was capitalized. The Sewer Fund incurred interest costs of $240,995 during the year of which $0 was capitalized.

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

Waterlines, sewer systems and reservoirs	40 years
Buildings and improvements	10 – 40 years
Machinery and equipment	5 – 7 years
Office equipment	5 – 10 years

Interest expense that relates to the cost of acquiring or constructing capital assets is capitalized. Interest expense incurred in connection with construction of capital assets has been reduced by interest earned on the investment funds borrowed for construction. The amount of interest cost to be capitalized is based on the weighted average amount of accumulated expenditures for the period multiplied by the interest rate of the obligation incurred specifically to finance the construction of the capital asset or an average interest rate or outstanding obligations when the construction was not financed.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from these amounts.

Compensated Absences

The Authority's employees earn vacation and sick pay based on their length of service. Vacation and sick pay may either be taken or accumulated and paid upon retirement or termination. Accumulation of vacation pay is limited to 30 days, or days accumulated. Sick pay, based on 25% of sick days accumulated, is paid upon retirement or termination or 50% is paid at 20 years of service. There is no limit on the number of sick days that may be accumulated.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, cash and cash equivalents are defined as cash on hand, demand deposits, and short-term highly liquid investments that are readily convertible to known amounts of cash and investments with maturities of three months or less from the acquisition date.

Allowance for Uncollectible Accounts

The Authority calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately $274,976 and $45,424 at June 30, 2017 for the water and sewer fund, respectively.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the statement of net position.

Reclassifications

Certain reclassifications have been made in the current year's financial statements. There was no effect on prior year combined net income or combined net position as a result of reclassifications.

Advertising Costs

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-term Obligations

Long-term obligations are reported as liabilities in the Authority's statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount.

NOTE 2 DEPOSITS AND INVESTMENTS

Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. seq. of the Code of Virginia.

Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments

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

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's only investment, the Local Government Investment Pool (LGIP) is not exposed to custodial credit risk because its existence is not evidenced by securities that exist in physical or book entry form.

Credit Risk of Debt Securities

The Authority's rated debt investments as of June 30, 2017 were rated by Standard and Poor's and the ratings are presented below using the Standard and Poor's rating scale.

Authority's Rated Debt Investments' Values

Rated Debt Investments	Fair Quality Ratings
	AAAm
LGIP	$ 425,410

Concentration of Credit Risk

At June 30, 2017 the Authority did not have any investments meeting the GASB 40 definition requiring concentration of credit risk disclosures that exceeded 5% of total investments.

NOTE 2 DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk

All Authority investments must be in securities maturing within five years.

External Investment Pools

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

NOTE 3 CAPITAL ASSETS

Water fund:	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not being depreciated:				
Land	$ 958,326	$ -	$ -	$ 958,326
Construction in Progress	11,452,582	2,307,927	11,528,413	2,232,096
Total capital assets, not being depreciated	$ 12,410,908	2,307,927	$11,528,413	$ 3,190,422
Capital assets being depreciated:				
Buildings, Improvements, Waterlines	$108,019,041	$11,300,971	$ -	$ 119,320,012
Machinery and Equipment	10,386,586	192,878	97,480	10,481,984
Total capital assets, being depreciated	$118,405,627	$11,493,849	$ 97,480	$ 129,801,996
Accumulated depreciation:				
Buildings, Improvements, Waterlines	$ 29,248,298	$ 2,569,334	$ -	$ 31,817,632
Machinery and Equipment	8,820,360	321,646	97,480	9,044,526
Total accumulated depreciation	$ 38,068,658	$ 2,890,980	$ 97,480	$ 40,862,158
Total capital assets being depreciated, net	$ 80,336,969	$ 8,602,869	$ -	$ 88,939,838
Total water fund	$ 92,747,877	$10,910,796	$11,528,413	$ 92,130,260

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NOTE 3 CAPITAL ASSETS (Continued)

Sewer fund:	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not being depreciated:				
Land	$ 26,935	$ 245,930	$ -	$ 272,865
Construction in Progress	857,415	1,139,233	-	1,996,648
Total capital assets, not being depreciated	$ 884,350	$ 1,385,163	$ -	$ 2,269,513
Capital assets being depreciated:				
Buildings, Improvements, Waterlines	$26,968,484	$ -	$ -	$26,968,484
Machinery and Equipment	923,401	52,109	-	975,510
Total capital assets, being depreciated	$27,891,885	$ 52,109	$ -	$27,943,994
Accumulated depreciation:				
Buildings, Improvements, Waterlines	$ 7,219,974	$ 686,983	$ -	$ 7,906,957
Machinery and Equipment	537,850	103,639	-	641,489
Total accumulated depreciation	$ 7,757,824	$ 790,622	$ -	$ 8,548,446
Total capital assets being depreciated, net	$20,134,061	$ (738,513)	$ -	$19,395,548
Total sewer fund	$21,018,411	$ 646,650	$ -	$21,665,061

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NOTE 3 CAPITAL ASSETS (Continued)

A list of projects completed during the year and still in progress at June 30, 2017 follows:

Water Fund Construction in Progress	Beginning Balance	Additions	Transfers	Ending Balance
Abingdon Water Storage Tank	$ 20,413	$ 20,502	$ -	$ 40,915
Childress Hollow	12,951	-	12,951	-
Galvanized Line Phase II	9,902,449	1,378,926	11,281,375	-
Galvanized Line Phase III	332,400	481,033	-	813,433
Haskell Station	1,152	118,672	-	119,824
Hidden Valley Study	1,615	16,259	1,615	16,259
Mid Mountain Water Study	15,000	-	-	15,000
Mill Creek	851,544	-	215,955	635,589
Monte Vista Drive	49,478	-	-	49,478
Route 58 Water Supply Study	111,710	52,198	-	163,908
Small projects	7,976	70,044	13,004	65,016
Smyth Chapel Study	7,500	-	-	7,500
Southfork Intake - non-reimbursable	410	-	-	410
Southfork Intake - reimbursable	63,735	156,496	3,513	216,718
TOC Interconnection	29,165	-	-	29,165
VDOT Exit 14 Water Project	84	-	-	84
Western Washington County	45,000	-	-	45,000
Walmart Exit 19	-	1,428	-	1,428
Rich Valley West	-	163	-	163
Rattle Creek	-	420	-	420
Ritchi Road	-	11,786	-	11,786
Total water fund	$ 11,452,582	$ 2,307,927	$ 11,528,413	$ 2,232,096

Sewer Fund Construction in Progress	Beginning Balance	Additions	Transfers	Ending Balance
Damascus Wastewater Study	$ 51,045	$ -	$ -	$ 51,045
Exit 13 Phase II	149,337	1,102,166	-	1,251,503
Exit 13 Phase III	80,536	32,642	-	113,178
Larwood Acres Sewer Study	30,000	-	-	30,000
Meadowview Emory	85,994	-	-	85,994
Sewer Study	179,162	-	-	179,162
Western Washington Co Sewer	281,341	-	-	281,341
Small Projects	-	4,425	-	4,425
Total sewer fund	$ 857,415	$ 1,139,233	$ -	$ 1,996,648

NOTE 4 SEGMENT INFORMATION

The Authority maintains two enterprise funds which provide water and sewer services.

	Water	Sewer	Combined
Operating Revenues	$ 14,068,394	$ 2,610,434	$ 16,678,828
Operating Expenses:			
Depreciation	$ 2,890,980	$ 790,622	$ 3,681,602
Other	8,697,688	1,024,657	9,722,345
Total Operating Expenses	$ 11,588,668	$ 1,815,279	$ 13,403,947
Operating Income (Loss)	$ 2,479,726	$ 795,155	$ 3,274,881
Interest Income	$ 72,485	$ 65	$ 72,550
State and Federal Grants	65,257	-	65,257
Interest Expense	(1,060,439)	(240,995)	(1,301,434)
Transfers In (Out)	(67)	67	-
Gain (Loss) on Disposal of Assets	27,800	-	27,800
Net Income (Loss)	$ (894,964)	$ (240,863)	$ (1,135,827)
Bonds Payable	$ 60,346,021	$ 9,084,746	$ 69,430,767
Net Working Capital	$ 7,390,454	$ 3,619,956	$ 11,010,410
Acquisition of Capital Assets	$ 2,273,363	$ 1,437,272	$ 3,710,635
Total Assets	$ 103,691,851	$25,925,577	$129,617,428
Total Deferred Outflows of Resources	$ 488,996	$ 38,501	$ 527,497
Total Liabilities	$ 63,509,425	$ 9,451,189	$ 72,960,614
Total Deferred Inflows of Resources	$ 159,955	$ 34,032	$ 193,987
Total Net Position	$ 40,511,467	$16,478,857	$ 56,990,324

NOTE 5 LONG-TERM OBLIGATIONS

The following is a summary of long-term obligation transactions for the year ended June 30, 2017:

	Beginning Balances	Increases/ Issuances	Decreases/ Retirements	Ending Balances
Water fund:				
Bonds payable	$60,123,389	$ 2,003,020	$ 1,780,388	$60,346,021
Compensated absences	789,207	197,496	157,841	828,862
Net OPEB obligation	530,552	77,374	16,546	591,380
Net pension liability	779,142	1,094,363	698,107	1,175,398
Total water fund	$62,222,290	$ 3,372,253	$ 2,652,882	$62,941,661

	Beginning Balances	Increases/ Issuances	Decreases/ Retirements	Ending Balances
Sewer fund:				
Bonds payable	$ 8,276,910	$ 1,089,494	$ 281,658	$ 9,084,746
Compensated absences	28,555	-	5,961	22,594
Net OPEB obligation	55,016	6,765	10,072	51,709
Net pension liability	91,466	97,880	82,377	106,969
Total water fund	$ 8,451,947	$ 1,194,139	$ 380,068	$ 9,266,018

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NOTE 5 LONG-TERM OBLIGATIONS (Continued)

The following is a summary of principal and interest payment requirements to amortize long-term debt:

Fiscal	Water Fund		Sewer Fund		Combined	
Year	Principal	Interest	Principal	Interest	Principal	Interest
2018	$ 1,715,310	$ 1,360,429	$ 352,299	$ 231,556	$ 2,067,609	$ 1,591,985
2019	1,769,381	1,345,330	360,836	223,020	2,130,217	1,568,350
2020	1,768,901	1,304,378	369,670	214,186	2,138,571	1,518,564
2021	1,763,565	1,263,026	378,812	205,043	2,142,377	1,468,069
2022	1,807,957	1,221,339	388,275	195,580	2,196,232	1,416,919
2023-2027	9,339,741	5,469,667	2,095,405	823,873	11,435,146	6,293,540
2028-2032	8,785,624	4,413,320	2,387,553	531,724	11,173,177	4,945,044
2033-2037	8,156,422	3,469,183	1,157,350	270,592	9,313,772	3,739,775
2038-2042	9,072,134	2,463,389	674,222	166,316	9,746,356	2,629,705
2043-2047	9,884,939	1,334,549	547,209	91,671	10,432,148	1,426,220
2048-2052	6,022,187	270,575	531,465	27,078	6,553,652	297,653
2053-2055	318,079	8,388	-	-	318,079	8,388
Total	60,404,240	23,923,573	9,243,096	2,980,639	69,647,336	26,904,212
Less amounts not yet drawn down	(58,219)	-	(158,350)	-	(216,569)	-
Payable Within One Year	(1,715,310)	(1,360,429)	(352,299)	(231,556)	(2,067,609)	(1,591,985)
Long-Term Amounts Due After One Year	$ 58,630,711	$ 22,563,144	$ 8,732,447	$ 2,749,083	$ 67,363,158	$ 25,312,227

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NOTE 5 LONG-TERM OBLIGATIONS (Continued)

Details of the Authority's long-term obligations at June 30, 2017 are as follows:

	Interest Rates	Issue Date	Maturity Date	Original Amount	Balance at 6/30/2017	Due Within One Year
Water Fund:						
EPA DDW RLF Loan #WSL-04-98	3.00%	7/26/1999	8/1/2019	$ 1,308,928	$ 212,315	$ 83,034
EPA DW RLF Loan #WSL-18-98	2.00%	9/22/2000	1/1/2026	231,900	93,523	10,099
EPA DW RLF Loan #WSL-11-99	0.00%	8/31/2001	3/1/2032	83,388	41,685	2,779
EPA DW RLF Loan #WSL-17-99	0.00%	9/25/2001	8/1/2032	2,248,791	1,153,195	74,400
Series 2002A PLBP #2	3.10%	6/6/2002	4/1/2022	640,000	220,000	40,000
DWSRF Hanger Line	0.00%	9/1/2002	10/1/2022	395,215	210,819	13,174
DWSRF Providence Road	0.00%	6/30/2003	9/1/2033	153,114	84,064	5,095
DWSRF Goldenview Drive	0.00%	10/15/2003	10/15/2034	382,195	210,207	12,740
Blackhollow Road 15-04	3.00%	6/30/2005	1/1/2025	545,503	276,938	29,062
DWSRF Logan Creek	3.00%	11/26/2005	11/1/2026	193,021	107,973	9,982
EPA DW RLF Loan #WSL-03-06	3.00%	1/18/2007	4/1/2027	891,158	521,035	45,403
EPA DW RLF Loan #WSL-24-06	3.00%	3/1/2007	8/1/2027	156,290	95,272	7,845
Mendota Road Phase 1	3.00%	12/2/2008	12/1/2029	231,380	157,805	11,105
Walker Mtn Road/Lime Hill	3.05%	12/2/2008	12/1/2029	690,012	463,857	32,643
VRA Loan WSL #07-09	2.45%	2/9/2010	2/1/2031	647,003	479,496	30,003
Tumbling Creek	3.00%	2/11/2010	2/10/2031	62,563	43,675	3,037
RD WTP 91-19	2.50%	5/27/2010	5/27/2050	9,000,000	8,226,827	163,386
RD Route 58 Loan No. 20	2.38%	7/29/2010	7/29/2050	5,360,000	4,874,407	40,825
RD Whites Mill Loan No. 21	2.25%	12/1/2010	12/1/2050	3,000,000	2,600,204	59,828
RD WTP 91-20	2.25%	12/1/2010	12/1/2050	9,000,000	8,278,147	168,483
RD WTP 91-18	2.25%	12/1/2010	12/1/2050	8,580,000	7,829,562	162,170
VRA Loan WSL #19-08	3.05%	12/9/2010	7/1/2050	802,670	621,928	35,675
Reedy Creek WSL 23-10	2.25%	12/9/2010	7/1/2050	3,259,531	2,550,157	187,462
RD Galvanized Line 1-1	2.25%	12/15/2010	12/15/2050	4,000,000	3,683,013	74,858
RD Galvanized Line 1-2	2.25%	12/15/2010	12/15/2050	6,000,000	5,454,387	113,876
RD Galvanized Line 2-1	2.38%	12/15/2010	12/15/2050	6,000,000	5,360,603	114,401
RD Galvanized Line 2-2	2.38%	12/15/2010	12/15/2050	4,000,000	3,949,425	67,247
VRA Loan WSL #22-06	3.00%	12/28/2010	2/1/2031	304,774	235,880	13,784
WTP 4 91-29	2.13%	8/1/2013	8/1/2051	1,462,000	46,884	46,884
Nordyke WSL #03-11	3.00%	12/4/2013	7/1/2044	387,829	347,079	9,157
VRA Rich Valley Whites Mill WSL #05-1	3.00%	12/4/2013	8/1/2044	1,394,102	1,348,846	31,313
Tumbling Creek South WSL #04-11	3.00%	5/21/2014	8/1/2044	72,911	69,731	1,662
Hidden Valley Rd WSL 003-14	2.00%	5/28/2015	1/1/2046	296,475	257,929	7,849
Childress Hollow	2.50%	12/31/2015	10/1/2046	220,172	183,363	6,049
Haskell Station	2.00%	4/20/2017	10/1/2047	114,009	55,790	-
Total Bonds Payable					$ 60,346,021	$ 1,715,310
Compensated Absences	N/A	N/A	N/A	N/A	828,862	165,772
Net OPEB Obligation	N/A	N/A	N/A	N/A	591,380	-
Net Pension Liability	N/A	N/A	N/A	N/A	1,175,398	-
Total Water Fund					$ 62,941,661	$ 1,881,082

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NOTE 5 LONG-TERM OBLIGATIONS (Continued)

	Interest Rates	Issue Date	Maturity Date	Original Amount	Balance at 6/30/2017	Due Within One Year
Sewer Fund:						
2008 Series Refunding Bond	3.09%	5/6/2008	12/15/2032	$ 4,100,000	$ 3,007,135	$ 144,831
Exit 13 P1 - Loan 1 91-14	2.25%	12/15/2011	12/15/2051	1,579,000	1,482,722	28,902
Exit 13 P1 - Loan 1 91-28	2.25%	12/15/2011	12/15/2051	1,677,000	1,573,637	30,716
Exit 13 P1 Force Main	1.00%	8/30/2012	4/1/2033	1,383,334	1,150,287	66,637
Damascus	4.50%	8/15/2012	2/15/2042	973,000	781,471	18,821
Exit Phase IIA	0.00%	10/11/2016	5/1/2037	1,247,843	1,089,494	62,392
Total Bonds Payable					$ 9,084,746	$ 352,299
Compensated Absences	N/A	N/A	N/A	N/A	22,594	4,519
Net OPEB Obligation	N/A	N/A	N/A	N/A	51,709	-
Net Pension Liability	N/A	N/A	N/A	N/A	106,969	-
Total Sewer Fund					$ 9,266,018	$ 356,818

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NOTE 6 PENSION PLAN

Plan Description

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

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

RETIREMENT PLAN PROVISIONS		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	**About Plan 2** Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members") • 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.

NOTE 6 PENSION PLAN (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
		• 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 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.	**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.	**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.

NOTE 6 PENSION PLAN (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	**Hybrid Opt-In Election (Cont.)** Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	***Non-Eligible Members (Cont.)** Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
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 are paying the full 5% as of July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	**Retirement Contributions** Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees are paying the full 5% as of July 1, 2016.	**Retirement Contributions** A member’s retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee’s creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

NOTE 6 PENSION PLAN (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
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.	**Creditable Service** Same as Plan 1.	**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.

NOTE 6 PENSION PLAN (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
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.	**Vesting** Same as Plan 1.	**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.

NOTE 6 PENSION PLAN (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
		Vesting (Cont.) **Defined Contributions Component: (Cont.)** Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** **Defined Benefit Component:** See definition under Plan 1

NOTE 6 PENSION PLAN (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Calculating the Benefit (Cont.) An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.		**Calculating the Benefit (Cont.)** **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 A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier **VRS:** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. **Sheriffs and regional jail superintendents:** The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. **Political subdivision hazardous duty employees:** The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.	**Service Retirement Multiplier** **VRS:** Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. **Sheriffs and regional jail superintendents:** Same as Plan 1. **Political subdivision hazardous duty employees:** Same as Plan 1.	**Service Retirement Multiplier** **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.

NOTE 6 PENSION PLAN (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Normal Retirement Age **VRS:** Age 65. **Political subdivisions hazardous duty employees:** Age 60.	**Normal Retirement Age** **VRS:** Normal Social Security retirement age. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**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 **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 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 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 **VRS:** Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.	**Earliest Reduced Retirement Eligibility** **VRS:** Age 60 with at least five years (60 months) of creditable service.	**Earliest Reduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

NOTE 6 PENSION PLAN (Continued)

Plan Description (Continued)

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

NOTE 6 PENSION PLAN (Continued)

Plan Description (Continued)

<table>
<tr><th colspan="3">RETIREMENT PLAN PROVISIONS (CONTINUED)</th></tr>
<tr><th>PLAN 1</th><th>PLAN 2</th><th>HYBRID RETIREMENT PLAN</th></tr>
<tr>
<td>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)

<u>Exceptions to COLA Effective Dates:</u>
The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:
• 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.</td>
<td>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)

<u>Exceptions to COLA Effective Dates:</u>
Same as Plan 1.</td>
<td>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)

<u>Exceptions to COLA Effective Dates:</u>
Same as Plan 1 and Plan 2.</td>
</tr>
</table>

NOTE 6 PENSION PLAN (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	**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.	**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 Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **Defined Benefit Component:** Same as Plan 1, with the following exceptions: • 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.

NOTE 6 PENSION PLAN (Continued)

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Employees Covered by Benefit Terms

As of the June 30, 2015 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	32
Inactive members:	
Vested inactive members	5
Non-vested inactive members	7
Inactive members active elsewhere in VRS	5
Total inactive members	17
Active members	71
Total covered employees	120

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.

The Authority's contractually required contribution rate for the year ended June 30, 2017 was 6.29% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were $214,905 and $258,598 for the years ended June 30, 2017 and June 30, 2016, respectively.

NOTE 6 PENSION PLAN (Continued)

Net Pension Liability

The Authority's net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Authority's Retirement Plan was based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

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

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

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

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

NOTE 6 PENSION PLAN (Continued)

Actuarial Assumptions – General Employees (Continued)

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

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NOTE 6 PENSION PLAN (Continued)

Long-Term Expected Rate of Return

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

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

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

NOTE 6 PENSION PLAN (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Authority Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a) - (b)**
Balances at June 30, 2015	$ 11,851,921	$ 10,981,313	$ 870,608
Changes for the year:			
Service cost	$ 348,934	$ -	$ 348,934
Interest	817,665	-	817,665
Differences between expected and actual experience	(135,635)	-	(135,635)
Contributions - employer	-	258,598	(258,598)
Contributions - employee	-	170,269	(170,269)
Net investment income	-	197,137	(197,137)
Benefit payments, including refunds of employees contributions	(341,979)	(341,979)	-
Administrative expenses	-	(6,717)	6,717
Other changes	-	(82)	82
Net changes	$ 688,985	$ 277,226	$ 411,759
Balances at June 30, 2016	$ 12,540,906	$ 11,258,539	$ 1,282,367

NOTE 6 PENSION PLAN (Continued)

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

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

	Rate		
	(6.00%)	(7.00%)	(8.00%)
Authority			
Net Pension Liability (Asset)	$ 3,056,341	$ 1,282,367	$ (188,493)

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

For the year ended June 30, 2017, the Authority recognized pension expense of $195,369. At June 30, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 176,055
Change in proportionate shares	17,932	17,932
Net difference between projected and actual earnings on pension plan investments	294,660	-
Employer contributions subsequent to the measurement date	214,905	-
Total	$ 527,497	$ 193,987

$214,905 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30	
2018	$ (36,265)
2019	(36,267)
2020	121,345
2021	80,762
Thereafter	(10,970)

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS - HEALTH INSURANCE

Plan Description

The Washington Service Authority Post-Retirement Medical Plan (WSAPRMP) is a single-employer defined benefit healthcare plan administered by the Authority. WSAPRMP provides health, dental, and vision insurance benefits to eligible retirees and their spouses. To be eligible, employees must meet the age and service criteria for immediate retirement benefits under VRS, which requires that the employee be age 65 with 5 years of service. The benefit provisions, including employer and employee contributions, are governed by the Board of Supervisors and can be amended through board action. The WSAPRMP does not issue a publicly available financial report.

Funding Policy

The Authority establishes employer medical contribution rates for all medical plan participants as part of the budgetary process each year. The Authority also determines how the plan will be funded each year, whether it will be partially funded or fully funded in the upcoming fiscal year. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the Authority. For fiscal year 2017, the Authority did not make contributions for current premiums or prefunding amounts.

For retirees of the Authority, 100 percent of premiums for the employee, spouse, and dependents are the responsibility of the retiree. Surviving spouses may remain on the plan.

Annual OPEB Cost and Net OPEB Obligation

The Authority's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation:

Annual required contribution	$ 69,500
Interest on net OPEB obligation	14,639
Adjustment to annual required contribution	(26,617)
Annual OPEB cost (expense)	$ 57,522
Contributions made	-
Increase in net OPEB obligation	$ 57,522
Net OPEB obligation - beginning of year	585,568
Net OPEB obligation - end of year	$ 643,090

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS - HEALTH INSURANCE (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2017 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2015	61,770	0%	525,787
6/30/2016	59,781	0%	585,568
6/30/2017	57,522	0%	643,090

Funded Status and Funding Progress

The funded status of the Plan as of June 30, 2015, the most recent actuarial valuation, was as follows:

Actuarial accrued liability (AAL)	$	539,498
Actuarial value of plan assets		-
Unfunded actuarial accrued liability (UAAL)	$	539,498
Funded ratio (actuarial value of plan assets/AAL)		0.00%
Covered payroll (active plan members)	$	3,393,687
UAAL as a percentage of covered payroll		15.90%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

In the June 30, 2015 actuarial valuation, the most recent valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 2.50 percent investment rate of return per annum and an inflation rate of 2.50 percent. Assumptions also included an annual healthcare and pharmacy cost trend rate of 9.00 initially and fluctuating by varying amounts until an ultimate 4.70 percent is reached in year 10. The UAAL is being amortized as a level percentage of payroll over the remaining amortization period, which at June 30, 2015 was 24 years.

NOTE 8 RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omission; injuries to employees; and natural disasters. The Authority joined together with other local governments in the Commonwealth to form the Virginia Municipal League Self Insurance Risk Pool, a public entity risk pool currently operating as a common risk management and insurance program for member governments. The Authority pays an annual premium to the pool for its workers compensation insurance. The Agreement for Formation of the pool provides that the pool will be self-sustaining through member premiums. Settled claims have not exceeded pool coverage in any of the past three years. The Authority has purchased its general liability and public employees' liability insurance through other commercial insurance providers.

NOTE 9 SETTLEMENT RECEIVABLE

In 2013, the Authority settled pending litigation and in accordance with the terms of the settlement, will receive $600,000 commencing with the fiscal year ended June 30, 2013 and ending July, 2021. As of June 30, 2017, there was a balance due of $305,012. This amount is expected to be received by management and no allowance has been recorded.

NOTE 10 COMMITMENTS AND CONTINGENCIES

At June 30, 2017, the Authority had several major projects underway, which are presented in the financial statements as construction in progress. Presented below is a list of major projects, contract amounts, expenditures to date, and balances of contracts remaining:

Project	Contract Amount	Expenditures to Date	Balance of Contract
Galvanized Line - Phase 2	$ 1,542,367	$ 1,180,064	$ 362,303
Galvanized Line - Phase 3	996,000	635,760	360,240
Haskell Station Road Water	214,034	110,513	103,521

NOTE 12 UPCOMING PRONOUNCEMENTS

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

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

Statement No. 83, Certain Asset Retirement Obligations, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

NOTE 12 UPCOMING PRONOUNCEMENTS (Continued)

Statement No. 84, Fiduciary Activities, establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 86, Certain Debt Extinguishment Issues, improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

Statement No. 87, Leases, increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

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

REQUIRED SUPPLEMENTARY INFORMATION

Exhibit 4

WASHINGTON COUNTY SERVICE AUTHORITY
SCHEDULE OF OPEB FUNDING PROGRESS
For the Year Ended June 30, 2017

Post-Retirement Medical Plan:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3)-(2)	Funded Ratio Assets as % of AAL (2)/(3)	Covered Payroll	UAAL as a % of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
June 30, 2009	$ -	$ 606,498	$ 606,498	0.00%	$ 2,478,075	24.47%
June 30, 2012	-	624,563	624,563	0.00%	3,017,539	20.70%
June 30, 2015	-	539,498	539,498	0.00%	3,393,681	15.90%

Washington County Service Authority
Schedule of Changes in Net Pension Liability and Related Ratios
For the Years Ended June 30, 2015 through June 30, 2017

	2016	2015	2014
Total Pension Liability			
Service cost	$ 348,934	$ 344,820	$ 303,720
Interest	817,665	770,771	726,494
Difference between expected and actual experience	(135,635)	(102,805)	-
Benefit payments, including refunds of employee contributions	(341,979)	(343,770)	(451,577)
Net change in pension liability	688,985	669,016	578,637
Total pension liability - beginning	11,851,921	11,182,905	10,604,268
Total pension liability - ending (a)	$ 12,540,906	$ 11,851,921	$ 11,182,905
Plan Fiduciary Net Position			
Contributions - employer	$ 258,598	$ 260,877	$ 239,588
Contributions - employee	170,269	172,019	164,990
Net investment income	197,137	481,447	1,419,775
Benefit payments, including refunds of employee contributions	(341,979)	(343,770)	(451,577)
Administrative expense	(6,717)	(6,403)	(7,647)
Other	(82)	(103)	75
Net change in plan fiduciary net position	277,226	564,067	1,365,204
Plan Fiduciary Net Position - beginning	10,981,313	10,417,246	9,052,042
Plan Fiduciary Net Position - ending (b)	$ 11,258,539	$ 10,981,313	$ 10,417,246
Authority's net pension liability - ending (a) - (b)	$ 1,282,367	$ 870,608	$ 765,659
Plan fiduciary net position as a percentage of the total pension liability	89.77%	92.65%	93.15%
Covered payroll	$ 3,428,140	$ 3,446,371	$ 3,300,771
Authority's net pension liability as a percentage of covered-employee payroll	37.41%	25.26%	23.20%

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

Exhibit 6

Washington County Service Authority
Schedule of Employer Contributions
For the Years Ended June 30, 2008 through June 30, 2017

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (1) - (2) (3)	Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (2)/(4) (5)
2017	$ 214,905	$ 214,905	$ -	$ 3,462,831	6.21%
2016	258,598	258,598	-	3,428,140	7.54%
2015	260,877	260,877	-	3,446,371	7.57%
2014	239,579	239,579	-	3,300,771	7.26%
2013	232,703	232,703	-	3,205,279	7.26%
2012	134,090	134,090	-	2,889,888	4.64%
2011	132,113	132,113	-	2,847,258	4.64%
2010	115,074	115,074	-	2,701,272	4.26%
2009	113,376	113,376	-	2,661,418	4.26%
2008	161,561	161,561	-	2,433,141	6.64%

Current year contributions are from the Authority's records and prior year contributions are from the VRS actuarial valuation performed each year.

Washington County Service Authority
Note to Required Supplementary Information
For the Year Ended June 30, 2017

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 are not material.

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

Largest 10 – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 – LEOS:
- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – LEOS:
- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

OTHER SUPPLEMENTARY INFORMATION

SUPPORTING SCHEDULES

Schedule 1

Washington County Service Authority
Schedule of Revenues and Expenses-Budget and Actual
Water Fund
For the Year Ended June 30, 2017

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget- Over (Under)
Operating Revenues	$ 13,831,283	$ 14,068,394	$ 237,111
Operating Expenses			
Nondepartmental	$ 3,858,300	$ 3,630,315	$ (227,985)
Commissioners	30,666	32,952	2,286
Administration	1,058,532	930,112	(128,420)
Customer Service	887,877	849,322	(38,555)
Maintenance	2,875,201	2,709,548	(165,653)
Production	2,123,232	1,993,799	(129,433)
Water Distribution	735,131	740,772	5,641
Meter Department	469,470	428,084	(41,386)
Chilhowie Regional Treatment Plant	278,542	273,764	(4,778)
Total Operating Expenses	$ 12,316,951	$ 11,588,668	$ (728,283)
Operating Income (Loss)	$ 1,514,332	$ 2,479,726	$ 965,394
Nonoperating Revenues (Expenses)			
Interest Income	$ 58,031	$ 72,485	$ 14,454
Interest Expense	(1,518,849)	(1,060,439)	458,410
Gain (loss) on Disposal of Assets	-	27,800	27,800
Income (Loss) Before Capital Contributions and Transfers	$ (1,460,818)	$ (960,154)	$ 500,664
Transfers In (Out)	-	(67)	(67)
Capital contributions - State and federal grants	-	65,257	65,257
Total Nonoperating Revenues (Expenses)	$ (1,460,818)	$ (894,964)	$ 565,854
Increase (Decrease) in Net Position	$ 53,514	$ 1,584,762	$ 1,531,248
Net Position - beginning	38,926,705	38,926,705	-
Net Position - ending	$ 38,980,219	$ 40,511,467	$ 1,531,248

Note: The Authority does not budget beginning and ending net position

Schedule 2

Washington County Service Authority
Schedule of Revenues and Expenses-Budget and Actual
Sewer Fund
For the Year Ended June 30, 2017

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget- Over (Under)
Operating Revenues	$ 2,372,727	$ 2,610,434	$ 237,707
Operating Expenses			
Nondepartmental	$ 838,970	$ 821,709	$ (17,261)
Maintenance	176,063	17,362	(158,701)
Production	945,461	858,224	(87,237)
Damascus	182,647	117,984	(64,663)
Total Operating Expenses	$ 2,143,141	$ 1,815,279	$ (327,862)
Operating Income (Loss)	$ 229,586	$ 795,155	$ 565,569
Nonoperating Revenues (Expenses)			
Interest income	$ 69	$ 65	$ (4)
Interest expense	(241,244)	(240,995)	249
Income (Loss) Before Capital Contributions and Transfers	$ (241,175)	$ (240,930)	$ 245
Transfers In (Out)	-	67	67
Total Nonoperating Revenues (Expenses)	$ (241,175)	$ (240,863)	$ 312
Increase (Decrease) in Net Position	$ (11,589)	$ 554,292	$ 565,881
Net Position - beginning	15,924,565	15,924,565	-
Net Position - ending	$ 15,912,976	$ 16,478,857	$ 565,881

Note: The Authority does not budget beginning and ending net position.

COMPLIANCE SECTION

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Washington County Service Authority
Abingdon, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of Washington County Service Authority as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Washington County Service Authority's basic financial statements and have issued our report thereon dated September 17, 2017.

Internal Control over Financial Reporting

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

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
September 17, 2017

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

To the Board of Directors
Washington County Service Authority
Abingdon, Virginia

Report on Compliance for Each Major Federal Program

We have audited Washington County Service Authority's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Washington County Service Authority's major federal programs for the year ended June 30, 2017. Washington County Service Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Washington County Service Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Washington County Service Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Washington County Service Authority's compliance.

Opinion on Major Federal Program

In our opinion, Washington County Service Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of Washington County Service Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Washington County Service Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Washington County Service Authority's internal control over compliance.

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

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

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

Robinson, Farmer, Cox Associates
Blacksburg, Virginia
September 17, 2017

Washington County Service Authority
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number		Federal Expenditures
DEPARTMENT OF AGRICULTURE:				
Direct Payments:				
Water and Waste Disposal Systems for Rural Communities	10.760	N/A	$	1,769,308
Total Expenditures of Federal Awards			$	1,769,308

Notes to the Schedule of Expenditures of Federal Awards

NOTE A--BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Washington County Service Authority under programs of the federal government for the year ended June 30, 2017. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) The Authority did not elect the 10% de minimus indirect cost rate because they only request direct costs for reimbursement.

NOTE C--OUTSTANDING BALANCE OF FEDERAL LOANS

The Authority has received federal funding through loans. At June 30, 2017, the outstanding balance of these loans was: $54,141,289

NOTE D--SUBRECIPIENTS

The Authority did not have any subrecipients for the year ended June 30, 2017.

NOTE E--RELATIONSHIP TO THE FINANCIAL STATEMENTS

Federal expenditures, revenues, and capital contributions are reported in the Washington County Public Service Authority's basic financial statements as follows:

Intergovernmental state and federal revenues per the basic financial statements:		
Statement of Revenues, Expenses and Changes in Net Position:	$	65,257
Reconciling items:		
State revenues	$	(65,257)
Loan proceeds		1,769,308
Total reconciling items	$	1,704,051
Total federal expenditures per basic financial statements	$	1,769,308
Total federal expenditures per the Schedule of Expenditures of Federal Awards	$	1,769,308

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2017

Section I – Summary of Auditors' Results

Financial Statements

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

Federal Awards

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

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.760	Water and Waste Disposal System for Rural Communities

Dollar threshold used to distinguish between A and B Programs:	$750,000
Auditee qualified as a low risk auditee?	Yes

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

Section IV – Prior Year Findings

None