HARRISONBURG-ROCKINGHAM REGIONAL SEWER AUTHORITY

FINANCIAL REPORT
YEARS ENDED JUNE 30, 2017 AND 2016

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Independent Auditors' Report

Board of Directors
Harrisonburg-Rockingham Regional Sewer Authority
Mt. Crawford, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the Harrisonburg-Rockingham Regional Sewer Authority, as of and for the years ended June 30, 2017 and 2016, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 Harrisonburg-Rockingham Regional Sewer Authority, as of June 30, 2017 and 2016, and the changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 11 to the financial statements, in 2017, the Authority adopted new accounting guidance, GASB Statement Nos. 74 Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, 78 Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans, and 80 Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14. Our opinion is not modified with respect to this matter.

As described in Note 11 to the financial statements, in 2016, the Authority adopted new accounting guidance, GASB Statement No. 72 Fair Value Measurement and Application; GASB Statement No. 79, Certain External Investment Pools and Pool Participants; GASB Statement Nos. 82 Pension Issues – an amendment of GASB Statements No. 67, No 68, and No.73. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules related to pension and OPEB funding on pages 4-8 and 50-53 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 Harrisonburg-Rockingham Regional Sewer 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 supporting schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 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 August 31, 2017, on our consideration of Harrisonburg-Rockingham Regional Sewer Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Harrisonburg-Rockingham Regional Sewer Authority's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
August 31, 2017

To the Board of Directors
Harrisonburg-Rockingham Regional Sewer Authority
Mt. Crawford, Virginia

As management of the Harrisonburg-Rockingham Regional Sewer Authority, (the Authority), we offer readers of our financial statements this narrative and overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2017.

Overview of the Financial Statements

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

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

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

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

The basic enterprise fund financial statements can be found on pages 9 through 12 of this report.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 13 through 49 of this report. Required supplementary information concerning the Authority's progress in funding its obligation to provide pension benefits and OPEB to its employees is located immediately following the notes to the financial statements.

Financial Highlights

- The assets and deferred outflows of resources of the Authority exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by $37,169,941 (net position). Of this amount $4,642,307 (unrestricted net position) may be used to meet the Authority's ongoing obligations to customers and creditors.

- The Authority's total net position increased by $1,402,906.

- The Authority's total debt decreased by $2,279,961 during the current fiscal year. This decrease in debt is due to scheduled principal payments on the Authority’s bonds in excess of new borrowings.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of an Authority's financial position. In the case of the Authority, assets and deferred outflows exceeded liabilities and deferred inflows by $37,169,941 at the close of the most recent fiscal year.

By far the largest portion of the Authority's net position (85 percent) reflects its investment in capital assets, less any related outstanding debt used to acquire those assets. The Authority uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Net Position		
	2017	2016	2015
Current, restricted, and other assets	$ 9,844,693	$ 9,415,087	$ 8,421,751
Capital assets	90,347,561	91,213,797	90,410,696
Total assets	$ 100,192,254	$ 100,628,884	$ 98,832,447
Total deferred outflows of resources	$ 759,781	$ 594,214	$ 677,328
Current liabilities	$ 6,125,012	$ 5,244,713	$ 4,954,458
Long-term liabilities	57,634,432	60,015,875	59,242,676
Total liabilities	$ 63,759,444	$ 65,260,588	$ 64,197,134
Total deferred inflows of resources	$ 22,652	$ 195,475	$ 358,270
Net position:			
Net investment in capital assets	$ 31,674,317	$ 30,216,674	$ 30,134,615
Restricted	853,317	847,042	828,984
Unrestricted	4,642,307	4,703,319	3,990,772
Total net position	$ 37,169,941	$ 35,767,035	$ 34,954,371

Financial Analysis: (continued)

At the end of the current fiscal year, the Authority is able to report positive balances in all categories of net position. The same situation held true for the prior two fiscal years.

	Change in Net Position		
	2017	2016	2015
Revenues:			
Operating revenues	$ 5,249,216	$ 5,458,817	$ 5,522,621
Debt Service revenue	5,624,260	5,541,545	5,443,505
Investment income	32,863	12,497	3,990
Other revenue	102,712	46,655	33,468
Total revenues	$ 11,009,051	$ 11,059,514	$ 11,003,584
Expenses:			
Operating expenses (excluding depreciation)	$ 4,323,977	$ 4,365,420	$ 4,255,568
Depreciation expense	4,409,740	4,737,715	4,726,560
Interest expense	1,589,390	1,702,124	1,870,932
Other	334,550	376,799	81,224
Total expenses	$ 10,657,657	$ 11,182,058	$ 10,934,284
Income before capital contributions	$ 351,394	$ (122,544)	$ 69,300
Capital contributions	1,051,512	935,208	829,603
Increase (decrease) in net assets	$ 1,402,906	$ 812,664	$ 898,903
Net position—July 1	35,767,035	34,954,371	34,055,468
Net position—June 30	$ 37,169,941	$ 35,767,035	$ 34,954,371

The Authority's net position increased by $1,402,906 during the current year. Operating revenues decreased by $209,601 while operating expenses decreased $41,443 from FY 2016 levels. Key elements of these changes are explained in greater detail under the Review of Operations section.

Capital Asset and Debt Administration

Capital Assets - The Authority's investment in capital assets as of June 30, 2017 amounts to $90,347,561 (net of accumulated depreciation). Investment in capital assets decreased by approximately .9% during the year, due to depreciation in excess of new capital assets. Below is a comparison of the items that make up capital assets as of June 30, 2017 with that of June 30, 2016 and 2015.

	2017	2016	2015
Land	$ 193,392	$ 193,392	$ 193,392
Plant	74,899,528	72,863,916	74,700,813
Machinery and equipment	14,021,115	15,737,789	12,345,438
Vehicles and equipment	143,898	164,079	225,630
Construction in progress	1,089,628	2,254,621	2,945,423
Total capital assets	$ 90,347,561	$ 91,213,797	$ 90,410,696

More detailed information on the Authority’s capital assets is presented in Note 4 of the Notes to the financial statements.

Long-Term Debt - At the end of the current fiscal year, the Authority had $61,014,180 in bonds outstanding versus $63,294,141 last year, a decrease of 3.6%. The decrease is due to scheduled payments of debt in excess new borrowings.

Capital Asset and Debt Administration: (continued)

Other long-term obligations of the Authority include accrued vacation pay and other postemployment benefits. More detailed information on the Authority's long-term liabilities is presented in Note 5 of the notes to the financial statements.

Review of Operations

Operating Revenues: A comparison of FY 2017 actual to budgeted revenue is shown on Schedule 1 – Schedule of Income and Expenses – By Fund. Operating revenues of $5,249,216 were received in FY 2017 – a 3.9% decrease of $209,601 over the prior year. The decrease is partly due to lower member locality and industrial solids revenue. The Authority's member jurisdictions were provided a credit of $130,156 in FY 2017. In addition, revenue from industrial solids and septage treatment totaled $708,431 as compared to $780,114 in FY 2016. Nevertheless, the total revenue received exceeded the FY 2017 budgeted amount by $233,416.

Operating Expenses: A comparison of FY 2017 actual and budgeted expenses is found on Schedule 2 – Schedule of Operating Expenses – Budget and Actual. Operating and maintenance (O&M) expenses were $4,323,977 in FY 2017 – a 9.5% decrease of $41,443 than in FY 2016. The decrease in O&M expenses is attributed to lower wastewater flows resulting in decreased chemical usage and other related expenses in FY 2017. Wastewater flows were 14.3% lower in FY 2017 as compared to FY 2016 (11.10 MGD v. 12.95 MGD).

Another factor that has contributed to lower O&M expenses is decreased sewage treatment plant power costs. Operating expenses for electrical power were $265,143 under budget in FY 2017. The large difference between actual and budgeted expenses is attributed to cost savings from the operation of a new 2.1 MW peak load shedding generator system which has allowed the Authority, as of January 1, 2017, to realize the full benefits of the Shenandoah Valley Electric Cooperative's (SVEC) PC-3 coincident peak power rate schedule. The SVEC's PC-3 rate schedule provides a discount for power demand charges for customers who are able to load shed during time periods that are coincident with SVEC's peak costs for wholesale power. Further cost saving from the PC-3 rate schedule are anticipated in FY 2018.

Capital Improvement Projects

FY 2017 Project Overview: The total amount of projects completed and capitalized during FY 2017 was $4,708,497; expense projects totaled $334,550. As of June 30, 2017, the value of construction in progress totaled $1,089,628. Significant projects included in these totals were the Fine Screen Preplacement Project as well as the Energy Efficiency Improvements and Enhanced Biosolids Reuse and Reduction (EBRR) Projects, which are discussed in more detail below. There were also several other smaller projects at the North River WWTF and on the Authority's interceptor system that were undertaken and completed in FY 2017.

Energy Efficiency Improvements Project: The Authority completed the construction of the Energy Efficiency Improvements Project during FY 2017. The project consisted of the construction of three key components with significant energy and/or energy recovery savings. These components included the installation of a 2.1 MW peak load shedding/emergency generator system which as discussed above allowed the Authority to realize significant cost savings from utilization of coincident peak load shedding power rate schedule; replacement of anaerobic digester boilers/heat exchangers and waste gas flare with more modern equipment to support biogas recovery and reuse for future sludge drying; and construction of aeration system improvements which included the installation of energy efficient high speed turbo blowers, construction of a new blower building, improvements to SAT basin mixing; diffuser upgrades and additional instrumentation to automate dissolved oxygen control to improve energy efficiency in the bioreactor basins.

Capital Improvement Projects: (Continued)

Project funding was obtained through the Virginia Clean Water Revolving Loan Fund (VCWRLF) program which is administered by the Virginia Department of Environmental Quality (DEQ) and secured by a pledge of sewer system revenues. The Authority's project loan amount of $8,665,505 was approved for 20-year financing at an interest rate of 1.2%. With the completion of the project in FY 2017, the first construction interest payment of $127,679 was made on May 1, 2017 and the first of 39 semi-annual principal and interest payments of $249,865 is due on November 1, 2017.

Enhanced Biosolids Reuse and Reduction (EBRR) Project: The EBRR Project was formerly known as sludge dryer component of the Energy Efficiency Improvements Project. It was carved out of the Energy Efficiency Improvements Project because there were insufficient funds to construct the project under the $8.665 million loan.

The EBRR Project objective is to recover the biogas which is not currently needed for digester heating to use as fuel for a sludge dryer. The sludge dryer will provide additional dewatering of Class B 15% biosolids cake solids to produce a product that is greater than 90% solids. The ability to achieve greater than 90% solids allows reclassification of the biosolids cake to Class A Exceptional Quality (EQ) biosolids, as defined by the EPA. Meeting the Class A EQ biosolids standard affords more reuse options including potential markets for sale of the dried product. In addition, there are significant O&M cost savings from the reduction in biosolids hauling and related expenses associated with this project.

The EBRR project scope includes the construction of a new sludge dryer building to enclose the dryer system under the existing biosolids storage pavilion, a conveyor system to transport sludge from the dewatering building to the new sludge dryer building, spiral heat exchangers for sludge dryer heat recovery and digester heating to be located in the existing digester building. The project also includes the installation of additional dewatering equipment.

The Authority selected the engineering firm of Rummel, Klepper & Kahl (RK&K) of Baltimore, Maryland to design the project in November 2017 and received DEQ approval of VCWRLF funding for the project in December 2016. At the close of FY 2017, RK&K was nearing completion of design and the Authority had begun the solicitation of proposals for biosolids dryer system equipment suppliers.

RK&K's estimate of probable project costs for the dryer portion of the project with soft costs for administration and engineering is currently estimated at approximately $12 million. The project cash flow analysis indicates that the project will be self-funded through the cost savings achieved by reducing the volume of Class B biosolids that is currently hauled and disposed with the increased revenue that is currently being received through treatment of industrial solids. Construction of the project is expected to commence in January 2018 and be complete and operational by November 2019.

Capacity, Management, Operation and Maintenance (CMOM) Plan: In FY 2017, the Authority began to sharpen its focus on its interceptor system in order to increase reliability of sanitary sewer conveyance service to our member jurisdictions. Efforts included the adoption of a CMOM Plan which has become the planning tool to inform decisions concerning repair, replacement and upgrade of the Authority's interceptor sewer system. The Authority also completed a Level of Service (LOS) Evaluation which identified sections of its Blacks Run and Lower Cooks Creek interceptors that will need increased capacity to support future growth and to provide a 10-year level of service. The Authority is currently in the early stages of preliminary engineering to evaluate alternatives for phased construction of these improvements.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, at P.O. Box 8, Mount Crawford, VA 22841.

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- Financial Statements -

HARRISONBURG-ROCKINGHAM REGIONAL SEWER AUTHORITY

Statement of Net Position
At June 30, 2017 and 2016

ASSETS	**2017**	**2016**
Current Assets		
Cash and cash equivalents	$ 5,050,023	$ 5,218,232
Accounts receivable	592,435	90,733
Prepaid items	20,599	19,206
Total Current Assets	$ 5,663,057	$ 5,328,171
Noncurrent Assets		
Restricted Assets (Note 2)		
Cash and temporary investments	$ 853,317	$ 847,042
Cash and temporary investments held by trustee	2,518,125	2,447,273
Total Restricted Assets	$ 3,371,442	$ 3,294,315
Other Assets		
Patronage equities	$ 810,194	$ 792,601
Total Other Assets	$ 810,194	$ 792,601
Capital Assets		
Land	$ 193,392	$ 193,392
Plant	123,767,451	119,230,016
Machinery, equipment and vehicles	28,626,893	28,472,368
Office furniture and equipment	153,482	153,482
Computer equipment	139,051	122,514
	$ 152,880,269	$ 148,171,772
Accumulated depreciation	63,622,336	59,212,596
	$ 89,257,933	$ 88,959,176
Construction in progress	1,089,628	2,254,621
Net Capital Assets	$ 90,347,561	$ 91,213,797
Total Noncurrent Assets	$ 94,529,197	$ 95,300,713
Total Assets	$ 100,192,254	$ 100,628,884
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	$ 400,340	$ 480,408
Net difference of actual and expected pension asset returns	146,642	-
Net difference of actual and expected pension asset experience	119,152	-
Post measurement date employer pension contributions	93,647	113,806
Total Deferred Outflows of Resources	$ 759,781	$ 594,214

HARRISONBURG-ROCKINGHAM REGIONAL SEWER AUTHORITY

Statement of Net Position
At June 30, 2017 and 2016 (continued)

LIABILITIES	**2017**	**2016**
Current Liabilities		
Accounts payable	$ 999,023	$ 628,382
Accrued expenses	42,668	50,619
Current maturities of long-term debt	2,326,495	1,897,767
Compensated absences	238,701	220,672
Total Current Liabilities	$ 3,606,887	$ 2,797,440
Current Liabilities Payable From Restricted Assets		
Current maturities of long-term debt	$ 2,023,725	$ 1,933,987
Accrued interest payable	494,400	513,286
Total Current Liabilities Payable From Restricted Assets	$ 2,518,125	$ 2,447,273
Noncurrent Liabilities		
Net OPEB obligation	$ 87,153	$ 73,537
Net pension liability	800,190	362,574
Revenue bonds (net of unamortized premiums)	56,747,089	59,579,764
Total Noncurrent Liabilities	$ 57,634,432	$ 60,015,875
Total Liabilities	$ 63,759,444	$ 65,260,588
DEFERRED INFLOWS OF RESOURCES		
Net difference of actual and expected pension asset returns	$ -	$ 161,826
Net difference of actual and expected pension asset experience	22,652	33,649
Total Deferred Inflows of Resources	$ 22,652	$ 195,475
Net Position		
Net investment in capital assets	$ 31,674,317	$ 30,216,674
Restricted for debt service and bond covenants	853,317	847,042
Unrestricted	4,642,307	4,703,319
Total Net Position	$ 37,169,941	$ 35,767,035

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

HARRISONBURG-ROCKINGHAM REGIONAL SEWER AUTHORITY

Statement of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2017 and 2016

		2017		2016
Operating Revenue				
Operations and maintenance	$	4,425,644	$	4,542,744
Septage/waste treatment		708,431		780,114
Pretreatment		51,695		38,049
Nutrient credit sales		63,446		97,910
Total Operating Revenue	$	5,249,216	$	5,458,817
Operating Expenses				
Power	$	635,155	$	810,991
Operations and maintenance		344,636		316,152
Sewage treatment		437,372		555,188
Biosolids expenses		506,920		497,000
Professional expenses		111,904		93,684
Personnel		2,156,599		1,957,253
Administrative		131,391		135,152
Total Operating Expenses	$	4,323,977	$	4,365,420
Operating Income Before Depreciation	$	925,239	$	1,093,397
Depreciation		4,409,740		4,737,715
Operating income (loss)	$	(3,484,501)	$	(3,644,318)
Nonoperating Revenues (Expenses)				
Debt service revenue	$	5,624,260	$	5,541,545
Investment income		32,863		12,497
Patronage refunds and miscellaneous		102,712		46,655
Interest expense and bond fees		(1,589,390)		(1,702,124)
Planning and repair expenses		(334,550)		(376,799)
Nonoperating revenues (expenses)	$	3,835,895	$	3,521,774
Income (loss) before capital contributions	$	351,394	$	(122,544)
Capital contributions		1,051,512		935,208
Change in Net Position	$	1,402,906	$	812,664
Net Position, Beginning of Year		35,767,035		34,954,371
Net Position, End of Year	$	37,169,941	$	35,767,035

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

HARRISONBURG-ROCKINGHAM REGIONAL SEWER AUTHORITY

Statement of Cash Flows
Years Ended June 30, 2017 and 2016

		2017		2016
Cash flows from operating activities:				
Receipts from customers and users	$	4,804,794	$	5,527,045
Payments to suppliers		(1,798,130)		(2,190,182)
Payments to and on behalf of employees		(2,113,747)		(2,070,095)
Net cash provided by (used for) operating activities	$	892,917	$	1,266,768
Cash flows from noncapital financing activities:				
Planning and major repair outlays	$	(334,550)	$	(376,799)
Cash flows from capital and related financing activities:				
Purchase of capital assets	$	(3,526,175)	$	(5,540,817)
Proceeds from localities-debt service revenues		5,624,260		5,541,545
Proceeds from localities-capital contributions		1,051,512		935,208
Proceeds from issuance of bonds		1,551,792		4,556,810
Principal payments on bonds		(3,831,754)		(3,717,191)
Interest and fees paid on bonds		(1,579,787)		(1,696,762)
Net cash provided by (used for) capital and related financing activities	$	(710,152)	$	78,793
Cash flows from investing activities:				
Interest income	$	32,863	$	12,497
Patronage refunds		27,840		23,360
Net cash provided by (used for) investing activities	$	60,703	$	35,857
Net Increase (Decrease) in cash and cash equivalents	$	(91,082)	$	1,004,619
Cash and cash equivalents, beginning of year (including $3,294,315 and $3,152,318, respectively reported in restricted accounts)		8,512,547		7,507,928
Cash and cash equivalents, end of year (including $3,371,442 and $3,294,315, respectively reported in restricted accounts)	$	8,421,465	$	8,512,547
Reconciliation of operating income to net cash provided by (used for) operating activities:				
Operating income (loss)	$	(3,484,501)	$	(3,644,318)
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation		4,409,740		4,737,715
Miscellaneous revenues		57,280		5,706
Changes in operating assets and liabilities:				
(Increase) decrease in accounts receivable		(501,702)		28,873
(Increase) decrease in prepaid items		(1,393)		-
Increase (decrease) in accounts payable		370,641		217,985
(Increase) decrease in pension deferred outflows of resources		(245,635)		3,046
Increase (decrease) in pension deferred inflows of resources		(172,823)		(162,795)
Increase (decrease) in net pension liability		437,616		59,814
Increase (decrease) in accrued expenses		(7,951)		(25,517)
Increase (decrease) in compensated absences		18,029		18,251
Increase (decrease) in net OPEB obligation		13,616		28,008
Net cash flows from operating activities	$	892,917	$	1,266,768

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

NOTE 1 - FORMATION OF THE HARRISONBURG-ROCKINGHAM REGIONAL SEWER AUTHORITY:

The Harrisonburg-Rockingham Regional Sewer Authority ("HRRSA") is a public body politic and corporate organized and existing under the provisions of the Virginia Water and Waste Authorities Act, Chapter 51, Title 15.2 of the Code of Virginia of 1950, as amended (the "Enabling Act"), and Chapter 61, 1971 Va. Acts of Assembly (the "HRRSA Enabling Act"). HRRSA was created by concurrent resolutions adopted by the governing bodies of the Member Jurisdictions and was chartered by the State Corporation Commission on July 15, 1970. The SCC charter was extended for fifty years on September 13, 2005. The purpose for which HRRSA was formed is to acquire, finance, construct, operate and maintain facilities for the collection and treatment of sewage within its service area.

The Enabling Act provides that HRRSA is authorized, among other things (a) to acquire, construct, improve, operate and maintain any sewer system or sewage disposal system, (b) to issue revenue bonds of HRRSA, payable solely from revenues, to pay all or any part of the cost of a sewer system or sewage disposal system, (c) to fix, revise, charge and collect rates, fees and charges for the use of and for the services furnished by any system operated by HRRSA, and (d) to enter into contracts with any counties, towns and cities, providing for or relating to the furnishing of services and facilities or to the use of any sewer system or sewage disposal system of HRRSA, including the provision of charges therefore. The Enabling Act also provides that HRRSA is subject in all respects to the jurisdiction of the Virginia State Water Control Board under the provisions of the State Water Control Law.

Financial Reporting Entity:

The member jurisdictions are the City of Harrisonburg, the County of Rockingham and the Towns of Bridgewater, Dayton and Mt. Crawford. These governmental entities have an ongoing financial responsibility to the Authority because a covenant to pay the Authority's rates and charges is included in the service contract.

The Authority's governing body is composed of four members appointed by the City of Harrisonburg and one member each appointed by the other member jurisdictions. Therefore, none of the participants appoints a voting majority of board members.

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

Based on the above representations, the Harrisonburg-Rockingham Regional Sewer Authority has been determined to be a joint venture of its member jurisdictions. The Authority is not a component unit of any of the participating governments. There are no component units to be included within the Authority's financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Basis of Accounting:

The Harrisonburg-Rockingham Regional Sewer Authority operates as an enterprise fund or business-type activity and its accounts are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned, and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash. The Authority accrues revenue for services rendered but not yet billed at the end of the fiscal year. The Authority follows all applicable Governmental Accounting Standards Board (GASB) pronouncements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

A. Basis of Accounting: (Continued)

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

B. Allowance for Doubtful Accounts:

The Authority bills the member jurisdictions for substantially all of its services and consequently no provision for doubtful accounts is considered necessary.

C. Basic Financial Statements:

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

D. Capital Assets:

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

D. Capital Assets: (Continued)

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

Assets	Years
Sewage treatment plant and equipment	10 to 50
Machinery and equipment	3 to 25
Office furniture and equipment	10
Automotive	5

E. Interest on Indebtedness:

Interest expense applicable to that portion of indebtedness, the proceeds of which are used to construct new facilities, is capitalized during the period of construction as part of the cost of such facilities. Other interest costs of the Authority are treated as nonoperating expenses. Such capitalized interest totaled $145,010 and $0 for the years ended June 30, 2017 and 2016, respectively.

F. Cash and Cash Equivalents:

The Authority's cash and cash equivalents consist of demand deposits, investments in the Virginia State Treasurer's Local Government Investment Pool, and investments in United States Government Securities money market mutual funds, all of which have original maturities of three months or less from the date of acquisition.

G. Investments:

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

H. Budgets and Budgetary Accounting:

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

I. Inventory:

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

J. Use of Estimates:

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

K. 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 has several items that qualify for reporting in this category. One item is the deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Another item is comprised of contributions to the pension plan made during the current year and subsequent to the net pension liability measurement date, which will be recognized as a reduction of the net pension liability next fiscal year. 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.

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 outflows 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.

L. 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.

M. Net Position Flow Assumption:

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

N. 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.

O. Restricted Assets:

The Authority maintains a number of restricted accounts which are required by contract with the users, by bond resolution, or by the Board of Directors. At June 30, 2017 and 2016 restricted assets consisted of the following:

	2017	2016
Restricted Assets:		
Cash and temporary investments held by Authority:		
O & M Reserve Account	$ 853,317	$ 847,042
Cash and temporary investments held by Trustee:		
Bond Service fund	$ 2,518,125	$ 2,447,273
Total	$ 2,518,125	$ 2,447,273
Restricted asset balance June 30	$ 3,371,442	$ 3,294,315
Board designated accounts, included in current assets:		
Special reserve account	$ 255,995	$ 254,113
Planning and repair account	2,818,152	2,230,636
Capital outlay escrow	61,139	60,689
Total	$ 3,135,286	$ 2,545,438

Special Reserve Account: The purpose of this account is to hold monies in reserve for the financing of special unanticipated repairs, maintenance, additions, and/or improvements as designated by the Board.

Operating and Maintenance (O & M) Reserve Account: This account is required by contract to equal two months of operations and maintenance expenses under the current budget. This fund is to be used for current operations and maintenance if there are insufficient monies in the operation and maintenance account (unrestricted) caused by extraordinary maintenance and repairs and for capital expenditures.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

O. Restricted Assets: (Continued)

Planning and Repair Account: This account, held by the Authority, may be used to pay costs or expenses related to the construction, replacement, renewal, or improvement of the Authority's sewage disposal system.

Bond Service Fund: This account, established by the 1992 and 1998 Bond Resolutions, is held in trust and is to be used by the trustee to pay all interest and principal requirements of the bonds. The Authority covenants that it will pay to the Trustee, on a monthly basis, funds sufficient to service the current interest and principal requirements of the Sewer Revenue Bonds.

Capital Outlay Escrow: This account was established by the Board and is used to accumulate funds for capital outlay purchases, such as vehicles.

P. Long-Term Obligations:

Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

NOTE 3 - 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 institution 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.

The Authority has no formal deposit and investment policy.

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).

NOTE 3 - DEPOSITS AND INVESTMENTS: (CONTINUED)

Credit Risk of Debt Securities

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

Authority's Rated Debt Investments' Values

Rated Debt Investments		Fair Quality Ratings AAAm
Local Government Investment Pool	$	4,393,859
Money market - Federated Automated Money Trust		2,518,125
Total deposits and investments	$	6,911,984

Interest Rate Risk:

Investment Maturities (in Years)

		Fair Value		Less Than 1 Year
Local Government Investment Pool	$	4,393,859	$	4,393,859
Money market - Federated Automated Money Trust		2,518,125		2,518,125
	$	6,911,984	$	6,911,984

External Investment Pools

The 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 portfolio under the provisions of GASB Statement No. 79. There are no withdrawal limitations or restrictions imposed on participants.

NOTE 4 - CAPITAL ASSETS:

Details of changes in capital assets for the year ended June 30, 2017 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 193,392	$ -	$ -	$ 193,392
Construction in progress	2,254,621	3,399,393	4,564,386	1,089,628
Total capital assets not being depreciated	$ 2,448,013	$ 3,399,393	$ 4,564,386	$ 1,283,020
Capital assets being depreciated:				
Plant	$ 119,230,016	$ 4,537,435	$ -	$ 123,767,451
Machinery and equipment	28,026,183	129,973	-	28,156,156
Vehicles	446,185	24,552	-	470,737
Office furniture and equipment	153,482	-	-	153,482
Computer equipment	122,514	16,537	-	139,051
Total capital assets being depreciated	$ 147,978,380	$ 4,708,497	$ -	$ 152,686,877
Accumulated depreciation:				
Plant	$ (46,366,100)	$ (2,501,823)	$ -	$ (48,867,923)
Machinery and equipment	(12,288,394)	(1,846,647)	-	(14,135,041)
Vehicles	(366,804)	(34,922)	-	(401,726)
Office furniture and equipment	(99,275)	(14,744)	-	(114,019)
Computer equipment	(92,023)	(11,604)	-	(103,627)
Total accumulated depreciation	$ (59,212,596)	$ (4,409,740)	$ -	$ (63,622,336)
Total capital assets, being depreciated, net	$ 88,765,784	$ 298,757	$ -	$ 89,064,541
Total capital assets net	$ 91,213,797	$ 3,698,150	$ 4,564,386	$ 90,347,561

NOTE 4 - CAPITAL ASSETS: (CONTINUED)

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 193,392	$ -	$ -	$ 193,392
Construction in progress	2,945,423	5,594,575	6,285,377	2,254,621
Total capital assets not being depreciated	$ 3,138,815	$ 5,594,575	$ 6,285,377	$ 2,448,013
Capital assets being depreciated:				
Plant	$ 118,105,485	$ 1,124,531	$ -	$ 119,230,016
Machinery and equipment	22,926,794	5,099,389	-	28,026,183
Vehicles	446,185	-	-	446,185
Office furniture and equipment	153,482	-	-	153,482
Computer equipment	114,815	7,699	-	122,514
Total capital assets being depreciated	$ 141,746,761	$ 6,231,619	$ -	$ 147,978,380
Accumulated depreciation:				
Plant	$ (43,404,672)	$ (2,961,428)	$ -	$ (46,366,100)
Machinery and equipment	(10,581,356)	(1,707,038)	-	(12,288,394)
Vehicles	(324,120)	(42,684)	-	(366,804)
Office furniture and equipment	(84,530)	(14,745)	-	(99,275)
Computer equipment	(80,202)	(11,821)	-	(92,023)
Total accumulated depreciation	$ (54,474,880)	$ (4,737,716)	$ -	$ (59,212,596)
Total capital assets, being depreciated, net	$ 87,271,881	$ 1,493,903	$ -	$ 88,765,784
Total capital assets net	$ 90,410,696	$ 7,088,478	$ 6,285,377	$ 91,213,797

NOTE 5 - LONG-TERM OBLIGATIONS:

A. Changes in Long-Term Obligations:

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

	Beginning Balance	Issuances/ Additions	Retirements/ Reductions	Ending Balance	Due Within One Year
Revenue bonds	$ 63,294,141	$ 1,551,792	$ (3,831,753)	$ 61,014,180	$ 4,350,220
Unamortized issuance premiums	117,377	-	(34,248)	83,129	-
Total revenue bonds	$ 63,411,518	$ 1,551,792	$ (3,866,001)	$ 61,097,309	$ 4,350,220
Net OPEB obligation	73,537	22,846	(9,230)	87,153	-
Net pension liability	362,574	722,527	(284,911)	800,190	-
Compensated absences	220,672	18,029	-	238,701	238,701
Totals	$ 64,068,301	$ 2,315,194	$ (4,160,142)	$ 62,223,353	$ 4,588,921

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

	Beginning Balance	Issuances/ Additions	Retirements/ Reductions	Ending Balance	Due Within One Year
Revenue bonds	$ 62,454,522	$ 4,556,810	$ (3,717,191)	$ 63,294,141	$ 3,831,754
Unamortized issuance premiums	157,056	-	(39,679)	117,377	-
Total revenue bonds	$ 62,611,578	$ 4,556,810	$ (3,756,870)	$ 63,411,518	$ 3,831,754
Net OPEB obligation	45,529	37,644	(9,636)	73,537	-
Net pension liability	302,760	560,808	(500,994)	362,574	-
Compensated absences	202,421	18,251	-	220,672	220,672
Totals	$ 63,162,288	$ 5,173,513	$ (4,267,500)	$ 64,068,301	$ 4,052,426

NOTE 5 - LONG-TERM OBLIGATIONS: (CONTINUED)

B. Annual Amortization of Long-Term Obligations:

The annual requirements to amortize all long-term obligations outstanding as of June 30, 2017 are as follows:

Year Ending June 30,	Revenue Bonds Principal	Revenue Bonds Interest
2018	$ 4,350,220	1,553,096
2019	4,478,559	1,427,208
2020	4,599,033	1,296,690
2021	4,741,700	1,156,786
2022	4,886,616	1,012,002
2023	3,808,841	891,693
2024	3,903,433	797,100
2025	4,000,456	700,078
2026	4,099,973	600,561
2027	4,202,049	498,485
2028	4,306,751	393,783
2029	4,414,147	286,387
2030	4,524,309	176,225
2031	2,536,906	63,226
2032	469,308	30,421
2033	474,957	24,773
2034	480,673	19,056
2035	486,459	13,271
2036	249,790	3,763
Total	$ 61,014,180	$ 10,944,604

NOTE 5 - LONG-TERM OBLIGATIONS: (CONTINUED)

C. Details of Long-Term Obligations:

Revenue Bonds:

$12,650,000 Series 2008A Sewer Revenue and Refunding Bonds dated June 19, 2008 bearing interest at rates ranging from 2.95% to 4.8%, principal payable annually on October 1 and interest payable semi-annually on April 1 and October 1, final maturity October 1, 2021.	$	5,433,129
$30,000,000 Series 2007 Sewer Revenue Bond dated December 20, 2007 bearing interest at 2.52%, due in semi-annual installments of combined principal and interest of $984,273, final maturity September 1, 2030.		22,408,444
$33,219,297 Series 2008B Sewer Revenue Bond dated November 25, 2008 bearing interest at 2.72%, due in semi-annual installments of combined principal and interest of $1,116,129, final maturity September 1, 2030.		25,081,130
$8,665,505 Series 2015 Sewer Revenue Bond dated February 27, 2015 with allonge dated September 22, 2015 bearing interest at 1.20%, due in semi-annual installments beginning November 1, 2017 of combined principal and interest of $249,865, final maturity November 1, 2036, amount borrowed to date.		8,174,606
Total Revenue Bonds	$	61,097,309
Net OPEB obligation		87,153
Net pension liability		800,190
Compensated absences		238,701
Total Long-Term Obligations	$	62,223,353

NOTE 5 - LONG-TERM OBLIGATIONS: (CONTINUED)

D. Presentation of Long-Term Debt:

The following is a summary of long-term debt accounts:

	June 30, 2017	June 30, 2016
Revenue Bonds:		
2008A Series	$ 5,350,000	$ 6,285,000
Unamortized issuance premium	83,129	117,377
Current portion	(980,000)	(935,000)
	$ 4,453,129	$ 5,467,377
2007 Series	$ 22,408,444	$ 23,786,203
Current portion	(1,412,697)	(1,377,759)
	$ 20,995,747	$ 22,408,444
2008B Series	$ 25,081,130	$ 26,600,125
Current portion	(1,560,592)	(1,518,995)
	$ 23,520,538	$ 25,081,130
2015 Series	$ 8,174,606	$ 6,622,813
Current portion	(396,931)	-
	$ 7,777,675	$ 6,622,813
Revenue Bonds	$ 56,747,089	$ 59,579,764

E. Revenue Covenants:

The Authority is required to establish, charge and collect rates and enter into agreements with the Units contracting with the Authority for use of its services and facilities. Under the contracts, net revenues will in each fiscal year be sufficient to provide, together with any other funds available, an amount at least equal to the sum of 100% of the principal and interest requirements on account of all the bonds then outstanding under the Resolution.

NOTE 6 - COMPENSATED ABSENCES:

Effective July 1, 2014, the Authority combined its annual and sick leave plans into a single Paid Time Off (PTO) leave plan. Employee accumulated annual leave balances as of June 30, 2014 were converted to PTO leave and accumulated sick leave was converted to frozen sick leave. As of July 1, 2014, Authority employees earn Paid Time Off (PTO) leave each month in accordance with the years of service. Accumulated unpaid PTO and other compensatory leave amounts are accrued when incurred. Accumulated sick leave which was converted to frozen sick leave was accrued when incurred. At June 30, 2017 and 2016 the liability for accrued leave (including frozen sick leave) was $238,701 and $220,672 respectively.

NOTE 7 - PENSION PLAN:

Plan Description

All full-time, salaried permanent employees of the Authority are automatically covered by VRS Retirement Plan upon employment. This 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 7 - 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></td><td></td><td>• 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.</td></tr>
<tr><td>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.</td><td>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.</td><td>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.</td></tr>
</table>

NOTE 7 - 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 7 - 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 7 - 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 7 - PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Vesting (Cont.)	**Vesting (Cont.)**	**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 7 - PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Calculating the Benefit (Cont.) An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	**Calculating the Benefit (Cont.)**	**Calculating the Benefit (Cont.)** **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 7 - 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 7 - 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 7 - 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 7 - 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>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.</td><td>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.</td><td>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.</td></tr>
<tr><td>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.</td><td>Purchase of Prior Service
Same as Plan 1.</td><td>Purchase of Prior Service
<u>Defined Benefit Component:</u>
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.

<u>Defined Contribution Component:</u>
Not applicable.</td></tr>
</table>

NOTE 7 - PENSION PLAN: (CONTINUED)

Plan Description (Continued)

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	22
Inactive members:	
Vested inactive members	3
Non-vested inactive members	3
Inactive members active elsewhere in VRS	7
Total inactive members	13
Active members	29
Total covered employees	64

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 6.48% 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 $93,647 and $113,806 for the years ended June 30, 2017 and June 30, 2016, respectively.

NOTE 7 - 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

NOTE 7 - PENSION PLAN: (CONTINUED)

Actuarial Assumptions – General Employees (Continued)

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 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

NOTE 7 - PENSION PLAN: (CONTINUED)

Long-Term Expected Rate of Return

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

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

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

NOTE 7 - PENSION PLAN: (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Authority 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	$ 6,248,649	$ 5,886,075	$ 362,574
Changes for the year:			
Service cost	$ 134,331	$ -	$ 134,331
Interest	427,006	-	427,006
Differences between expected and actual experience	157,464	-	157,464
Contributions - employer	-	113,630	(113,630)
Contributions - employee	-	70,370	(70,370)
Net investment income	-	100,911	(100,911)
Benefit payments, including refunds of employee contributions	(297,123)	(297,123)	-
Administrative expenses	-	(3,683)	3,683
Other changes	-	(43)	43
Net changes	$ 421,678	$ (15,938)	$ 437,616
Balances at June 30, 2016	$ 6,670,327	$ 5,870,137	$ 800,190

NOTE 7 - PENSION PLAN: (CONTINUED)

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

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

	Rate		
	(6.00%)	(7.00%)	(8.00%)
Authority			
Net Pension Liability	$ 1,645,476	$ 800,190	$ 94,214

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 $13,700. 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	$ 119,152	$ 22,652
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	146,642	-
Employer contributions subsequent to the measurement date	93,647	-
Total	$ 359,441	$ 22,652

$93,647 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 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	$ 25,871
2019	25,873
2020	125,778
2021	65,620
Thereafter	-

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS–HEALTH INSURANCE:

The costs of postemployment health care benefits (OPEB), like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the period in which it will be paid. The Authority adopted the provisions of GASB Statement No. 45 during the year ended June 30, 2010. Pursuant to that statement, the Authority recognizes the costs of postemployment health care and the related liability in the year when employee services are rendered. The entire liability related to OPEB will be phased in over a thirty year period from the date on which Statement No. 45 is implemented.

A. Plan Description:

The Authority administers a single-employer healthcare plan ("the Retiree Plan"). The plan provides for participation by eligible retirees of the Authority and their dependents in the health insurance programs available to Authority employees. The Retiree Health Plan will provide retiring employees the option to continue health insurance offered by the Authority. An eligible Authority retiree may receive this benefit until the retiree is eligible to receive Medicare. Participants in the Harrisonburg-Rockingham Regional Sewer Authority (Authority) must meet the eligibility requirements based on service earned with the Authority to be eligible to receive benefits upon retirement. Participants who do not retire directly from active service are not eligible for a benefit. Participants must meet one of the following criteria to be eligible for benefits:

- Participants must attain the age of 50 with at least 30 years of service with the Virginia Retirement System, have 15 years of service with the Authority and must have participated in the health plan for the last 5 years prior to retirement.

- Participants must attain the age of 55 with at least 15 years of service with the Authority and must have participated in the health plan for the last 5 years prior to retirement.

Health benefits include medical, dental, and vision coverage. Retirees under the age of 65 may elect the Anthem BCBS (PPO) medical option and a separate dental option. Retirees may elect to cover a spouse until the earliest of any of the following conditions: the retiree reaches age 65; the spouse reaches age 65 or the spouse becomes eligible for Medicare.

Retirees who are aged 65 and older may elect the Medicare supplement offered by Anthem BCBS (PPO). Medicare eligible spouses are not eligible for this supplement.

All benefits cease upon the death of the retiree.

The benefits, employee contributions and the employer contributions are governed by the Board of Directors of the Harrisonburg-Rockingham Regional Sewer Authority and can be amended through Board action. The Retiree Health Plan does not issue a publicly available financial report.

B. Funding Policy:

The Authority currently pays for postemployment health care benefits on a pay-as-you-go basis for four (4) retirees. The Authority currently has 28 employees that are eligible for the program.

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS–HEALTH INSURANCE: (CONTINUED)

B. Funding Policy: (Continued)

Coverage is for the retiree and eligible dependents. The monthly premiums below are for the year beginning July 1, 2015. Vision is included in the medical premium.

	Retiree	Retiree & Child	Retiree & Children	Retiree & Spouse	Family
Anthem BCBS (PPO)	$ 530.42	$ 776.34	$ 1,107.26	$ 1,162.80	$ 1,634.84
Dental	28.60	62.89	62.89	58.27	101.36

Employer Contributions

- Non-Medicare Eligible retirees (Under Age 65) – The Authority contributes $7.00 per month towards the retiree's elected medical option for each year of service with the Authority, up to a maximum of $250.00 per month. Retirees contribute the remainder of the premium cost for medical coverage. Retirees pay 100% of the premium cost for their elected dental coverage.

- Medicare Eligible retirees (Age 65+) – Retirees contribute 100% of the premium cost for retiree coverage.

C. Annual OPEB Cost and Net OPEB Obligation:

The Authority's annual OPEB cost (expense) 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 shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the Authority's net OPEB obligation:

Annual required contribution	$ 24,400
Interest on net OPEB obligation	1,427
Adjustment to annual required contribution	(2,981)
Annual OPEB cost (expense)	$ 22,846
Contributions made	(9,230)
Increase in net OPEB obligation	$ 13,616
Net OPEB obligation–beginning of year	73,537
Net OPEB obligation–end of year	$ 87,153

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS–HEALTH INSURANCE: (CONTINUED)

C. Annual OPEB Cost and Net OPEB Obligation: (Continued)

For 2017, the Authority's contribution of $9,230 did not equal the annual OPEB cost (expense) of $22,846. The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016, 2015, and 2014 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2017	$ 22,846	40%	$ 87,153
6/30/2016	37,644	26%	73,537
6/30/2015	10,500	66%	45,529

D. Funded Status and Funding Progress:

The funded status of the Plan as of January 1, 2016, was as follows:

Actuarial accrued liability (AAL)	$ 250,600
Actuarial value of plan assets	$ -
Unfunded actuarial accrued liability (UAAL)	$ 250,600
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	$ 1,440,800
UAAL as a percentage of covered payroll	17.39%

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.

E. 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.

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS–HEALTH INSURANCE: (CONTINUED)

E. Actuarial Methods and Assumptions: (Continued)

In the January 1, 2016 actuarial valuation, the projected unit credit actuarial cost method and a level dollar amortization method were used. Under this method, future benefits are projected and the present value of such benefits is allocated from date of hire to date of eligibility. The actuarial assumptions included: an investment rate of return at 3.5%, and a health care trend rate of 3.7% graded to 4.4% over 77 years. The UAAL is being amortized as a level percentage over the remaining amortization period, which at January 1, 2016, was 8.4 years.

NOTE 9 - RISK MANAGEMENT:

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

The Authority provides employee health and accident insurance through participation in the City of Harrisonburg's health insurance pool. The Authority pays a monthly premium to the pool for health insurance coverage. Settled claims resulting from these risks have not exceeded pool insurance coverage in any of the past three fiscal years.

NOTE 10 - 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.

NOTE 10 - UPCOMING PRONOUNCEMENTS: (CONTINUED)

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.

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.

NOTE 11 - ADOPTION OF ACCOUNTING PRINCIPLES:

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

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

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

The Authority implemented the provisions of the above Statement during the fiscal year ended June 30, 2016. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. There was no material impact on the Authority's financial statement as a result of the implementation of Statement No. 79. All required disclosures are located in Note 3.

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

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

In 2017, the Authority adopted new accounting guidance, GASB Statement Nos. 74 Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, 78 Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans, and 80 Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14. There was no material impact on the Authority's financial statements as a result of the implementation of these standards.

NOTE 12 - CONSTRUCTION COMMITMENTS:

The Authority has active construction projects as of June 30, 2017. The projects are part of the Authority's Energy Efficiency Improvements Projects and will be funded by a future bond issue. At year end the Authority's commitments with contractors are as follows:

Project	Spent-to-Date	Remaining Commitment
North River WWTF Primary Clarifier Replacement	$ 93,147	$ 794,853
Control Building Vestibule Addition	-	82,249
Engineering and Design:		
Enhanced Biosolids Reuse and Reduction Project	445,852	346,697
Tertiary Filter Expansion	110,533	28,468
Various	1,816,754	413,009

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- Required Supplementary Information -

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Harrisonburg-Rockingham Regional Sewer Authority

Schedule of Components of and Changes in Net Pension Liability and Related Ratios
Year Ended June 30, 2017

	2016	2015	2014
Total pension liability			
Service cost	$ 134,331	$ 141,510	$ 140,711
Interest	427,006	415,446	399,558
Changes of benefit terms	-	-	-
Differences between expected and actual experience	157,464	(44,646)	-
Changes in assumptions	-	-	-
Benefit payments, including refunds of employee contributions	(297,123)	(397,209)	(229,374)
Net change in total pension liability	$ 421,678	$ 115,101	$ 310,895
Total pension liability - beginning	6,248,649	6,133,548	5,822,653
Total pension liability - ending (a)	$ 6,670,327	$ 6,248,649	$ 6,133,548
Plan fiduciary net position			
Contributions - employer	$ 113,630	$ 116,681	$ 131,211
Contributions - employee	70,370	72,522	77,714
Net investment income	100,911	267,145	800,801
Benefit payments, including refunds of employee contributions	(297,123)	(397,209)	(229,374)
Administrative expense	(3,683)	(3,796)	(4,294)
Other	(43)	(56)	42
Net change in plan fiduciary net position	$ (15,938)	$ 55,287	$ 776,100
Plan fiduciary net position - beginning	5,886,075	5,830,788	5,054,688
Plan fiduciary net position - ending (b)	$ 5,870,137	$ 5,886,075	$ 5,830,788
Political subdivision's net pension liability - ending (a) - (b)	$ 800,190	$ 362,574	$ 302,760
Plan fiduciary net position as a percentage of the total pension liability	88.00%	94.20%	95.06%
Covered payroll	$ 1,471,161	$ 1,466,601	$ 1,503,498
Political subdivision's net pension liability as a percentage of covered payroll	54.39%	24.72%	20.14%

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.

Harrisonburg-Rockingham Regional Sewer Authority

Schedule of Employer Contributions
Year Ended June 30, 2017

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2017	$ 93,647	$ 93,647	$ -	$ 1,544,856	6.06%
2016	113,806	113,806	-	1,471,161	7.74%
2015	116,852	116,852	-	1,466,601	7.97%
2014	129,908	129,908	-	1,501,832	8.65%
2013	120,283	120,283	-	1,390,556	8.65%
2012	40,016	40,016	-	1,238,871	3.23%
2011	37,290	37,290	-	1,154,499	3.23%
2010	48,264	48,264	-	1,143,695	4.22%
2009	47,523	47,523	-	1,126,127	4.22%
2008	93,065	93,065	-	1,067,262	8.72%

Amounts for fiscal years ended June 30, 2016 and 2015 are from Authority records and prior year contributions are from the VRS actuarial valuation performed each year.

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

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

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

Largest 10 – Non-LEOS:

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

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

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

HARRISONBURG-ROCKINGHAM REGIONAL SEWER AUTHORITY

Schedule of OPEB Funding Progress
Year Ended June 30, 2017

Retiree Health Insurance Plan:

Actuarial Valuation Date		(a) Actuarial Value of Assets		(b) Actuarial Accrued Liability (AAL)		(b-a) Unfunded Actuarial Accrued Liability (UAAL)	(a/b) Funded Ratio		(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
1/1/2016	$	-	$	250,600	$	250,600	0.00%	$	1,440,800	17.39%
1/1/2013		-		116,500		116,500	0.00%		1,396,200	8.34%
1/1/2010		-		159,600		159,600	0.00%		1,175,300	13.58%

- Other Supplementary Information -

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- Supporting Schedules -

HARRISONBURG-ROCKINGHAM REGIONAL SEWER AUTHORITY

Schedule of Income and Expenses - By Fund
Years Ended June 30, 2017 and 2016

	Budgeted Operating	Unrestricted Operating	Special Reserve	Debt Service
Operating Revenue				
Operations and maintenance	$ 4,555,800	$ 4,425,644	$ -	$ -
Septage/waste treatment	410,000	708,431	-	-
Pretreatment	40,000	51,695	-	-
Nutrient credit sales	10,000	63,446	-	-
Total Operating Revenue	$ 5,015,800	$ 5,249,216	$ -	$ -
Operating Expenses				
Power	$ 949,050	$ 635,155	$ -	$ -
Operations and maintenance	358,000	344,636	-	-
Sewage treatment	521,500	437,372	-	-
Biosolids expenses	716,000	506,920	-	-
Professional expenses	92,720	111,904	-	-
Personnel	2,225,530	2,156,599	-	-
Administrative	153,000	131,391	-	-
Total Operating Expenses	$ 5,015,800	$ 4,323,977	$ -	$ -
Operating Income Before Depreciation	$ -	$ 925,239	$ -	$ -
Depreciation		4,409,740	-	-
Operating income (loss)		$ (3,484,501)	$ -	$ -
Nonoperating Revenues (Expenses)				
Debt service revenue		$ -	$ -	$ 5,624,260
Investment income		2,006	1,883	1,419
Patronage refunds and miscellaneous		102,712	-	-
Transfers		(566,686)	-	-
Interest expense and bond fees		-	-	(1,589,390)
Planning & repair expenses		-	-	-
Nonoperating revenues (expenses)		$ (461,968)	$ 1,883	$ 4,036,289
Income (loss) before capital contributions		$ (3,946,469)	$ 1,883	$ 4,036,289
Capital contributions		1,051,512	-	-
Change in Net Position		$ (2,894,957)	$ 1,883	$ 4,036,289

O & M Reserve	Planning & Repair	Capital Outlay Escrow	2017 Actual Total	2016 Actual Total
$ -	$ -	$ -	$ 4,425,644	$ 4,542,744
-	-	-	708,431	780,114
-	-	-	51,695	38,049
-	-	-	63,446	97,910
$ -	$ -	$ -	$ 5,249,216	$ 5,458,817
$ -	$ -	$ -	$ 635,155	$ 810,991
-	-	-	344,636	316,152
-	-	-	437,372	555,188
-	-	-	506,920	497,000
-	-	-	111,904	93,684
-	-	-	2,156,599	1,957,253
-	-	-	131,391	135,152
$ -	$ -	$ -	$ 4,323,977	$ 4,365,420
$ -	$ -	$ -	$ 925,239	$ 1,093,397
-	-	-	4,409,740	4,737,715
$ -	$ -	$ -	$ (3,484,501)	$ (3,644,318)
$ -	$ -	$ -	$ 5,624,260	$ 5,541,545
6,275	20,831	450	32,864	12,497
-	-	-	102,712	46,655
-	566,686	-	-	-
-	-	-	(1,589,390)	(1,702,124)
-	(334,550)	-	(334,550)	(376,799)
$ 6,275	$ 252,967	$ 450	$ 3,835,896	$ 3,521,774
$ 6,275	$ 252,967	$ 450	$ 351,395	$ (122,544)
-	-	-	1,051,512	935,208
$ 6,275	$ 252,967	$ 450	$ 1,402,907	$ 812,664

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Schedule of Operating Expenses - Budget and Actual
Year Ended June 30, 2017

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance with Final Budget
Power costs:				
Plant	$ 840,000	$ 840,000	$ 618,707	$ 221,293
Bridgewater pumping station	18,700	18,700	14,892	3,808
Metering	2,550	2,550	1,556	994
Total Power Costs	$ 861,250	$ 861,250	$ 635,155	$ 226,095
Operation and Maintenance:				
Sewage treatment equipment	$ 215,000	$ 215,000	$ 201,764	$ 13,236
Generator	87,800	87,800	43,950	43,850
Bridgewater pumping station	9,000	9,000	3,904	5,096
Sewer lines	9,000	9,000	2,707	6,293
Buildings	40,000	40,000	21,589	18,411
Grounds	40,000	40,000	35,361	4,639
Vehicles	45,000	45,000	35,361	9,639
Total Operation and Maintenance	$ 445,800	$ 445,800	$ 344,636	$ 101,164
Sewage Treatment:				
Chemicals	$ 400,000	$ 400,000	$ 332,413	$ 67,587
Laboratory	76,000	76,000	83,587	(7,587)
Pretreatment	16,000	16,000	10,496	5,504
Lubricants	8,000	8,000	2,444	5,556
Tools/other	6,500	6,500	3,034	3,466
Environmental/safety	15,000	15,000	5,398	9,602
Total Sewage Treatment	$ 521,500	$ 521,500	$ 437,372	$ 84,128
Biosolids Expenses:				
Chemicals	$ 160,000	$ 160,000	$ 158,673	$ 1,327
Laboratory	7,000	7,000	5,853	1,147
Equipment	24,000	24,000	7,638	16,362
Contract hauling - liquid	125,000	125,000	-	125,000
Contract hauling - dewatered	400,000	400,000	334,756	65,244
Total Biosolids Expenses	$ 716,000	$ 716,000	$ 506,920	$ 209,080
Professional Expenses:				
Board members expense	$ 10,720	$ 10,720	$ 9,518	$ 1,202
Legal	22,000	22,000	38,287	(16,287)
Other	60,000	60,000	64,099	(4,099)
Total Professional Expenses	$ 92,720	$ 92,720	$ 111,904	$ (19,184)

Schedule of Operating Expenses - Budget and Actual
Year Ended June 30, 2017 (continued)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance Favorable (Unfavorable)
Personnel Expenses:				
Salaries	$ 1,667,000	$ 1,667,000	$ 1,613,387	$ 53,613
Payroll taxes	127,530	127,530	121,077	6,453
Virginia Retirement System	125,000	125,000	140,155 *	(15,155)
Health and disability insurance	270,000	270,000	261,548	8,452
Uniform service	15,000	15,000	11,787	3,213
Travel & training	16,000	16,000	7,662	8,338
Miscellaneous	5,000	5,000	983	4,017
Total Personnel Expenses	$ 2,225,530	$ 2,225,530	$ 2,156,599	$ 68,931
Administrative:				
Insurance - regular	$ 83,000	$ 83,000	$ 75,684	$ 7,316
Office supplies	16,000	16,000	13,109	2,891
Dues and subscriptions	15,000	15,000	14,685	315
Licenses	20,000	20,000	10,983	9,017
Telephone/internet/security	17,000	17,000	14,477	2,523
Advertising	2,000	2,000	2,453	(453)
Total Administrative	$ 153,000	$ 153,000	$ 131,391	$ 21,609
Total Operating Expenses	$ 5,015,800	$ 5,015,800	$ 4,323,977	$ 691,823

* - Actual employer payments to the Virginia Retirement System were $120,997 during the year.

Insurance Coverage
June 30, 2017

Insurance Company	Policy Number	Dates	Type	Policy Limits
Virginia Municipal Liability Pool	Member #301	7/1/16-7/1/17	Workmen's Compensation and Employer's Liability	$ 1,000,000
		7/1/16-7/1/17	Automobile Contribution	1,000,000
			Values per policy	177,552,008
			Fidelity/Crime Contribution	100,000
			Comprehensive general liability	1,000,000
			Excess umbrella liability	5,000,000
			Boiler: Machinery Contribution	1,000,000
		7/1/16-7/1/17	Local government liability	1,000,000

Average Daily Flow and Revenue by Locality

		Fiscal Year 2017		Fiscal Year 2016
City of Harrisonburg:				
Average Daily Flow (mgd)		5.803		8.176
Operation & Maintenance Payments	$	2,653,927	$	2,820,298
Capital Outlay Payments		135,667		151,135
Pretreatment Payments		34,200		23,915
Projects		495,529		429,318
Debt Service Payments		2,850,472		2,803,927
Total Payments	$	6,169,795	$	6,228,593
Town of Dayton:				
Average Daily Flow (mgd)		1.601		1.522
Operation & Maintenance Payments	$	571,636	$	581,803
Capital Outlay Payments		29,185		31,250
Pretreatment Payments		6,603		412
Projects		106,600		88,769
Debt Service Payments		692,199		680,895
Total Payments	$	1,406,223	$	1,383,129
Town of Bridgewater:				
Average Daily Flow (mgd)		0.730		0.771
Operation & Maintenance Payments	$	280,134	$	281,263
Capital Outlay Payments		14,297		15,089
Pretreatment Payments		9,892		13,378
Projects		52,220		42,863
Debt Service Payments		499,241		492,178
Total Payments	$	855,784	$	844,771
Rockingham County:				
Average Daily Flow (mgd)		2.400		2.419
Operation & Maintenance Payments	$	910,442	$	847,914
Capital Outlay Payments		46,371		45,401
Pretreatment Payments		999		344
Projects		169,373		128,968
Debt Service Payments		1,576,441		1,558,926
Total Payments	$	2,703,626	$	2,581,553
Town of Mount Crawford:				
Average Daily Flow (mgd)		0.025		0.028
Operation & Maintenance Payments	$	9,504	$	11,466
Flow Exceedence Surcharge		-		-
Capital Outlay Payments		488		629
Projects		1,782		1,787
Debt Service Payments		5,908		5,618
Total Payments	$	17,682	$	19,500
TOTAL DAILY AVERAGE FLOW (mgd)		10.559		12.916

- Compliance -

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

Board of Directors
Harrisonburg-Rockingham Regional Sewer Authority
Mt. Crawford, 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 Harrisonburg-Rockingham Regional Sewer Authority as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Harrisonburg-Rockingham Regional Sewer Authority's basic financial statements and have issued our report thereon dated August 31, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
August 31, 2017

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY *CERTIFIED PUBLIC ACCOUNTANTS*

Independent Auditors' Report on Compliance with Bond Covenants

Board of Directors
Harrisonburg-Rockingham Regional Sewer Authority
Mt. Crawford, Virginia

We have audited in accordance with auditing standards generally accepted in the United States of America, the statement of net position of the Harrisonburg-Rockingham Regional Sewer Authority as of June 30, 2017, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and have issued our report thereon dated August 31, 2017.

In connection with our audits, nothing came to our attention that caused us to believe that the Authority failed to comply with the financial terms, covenants, provisions, or conditions of the Series 2007, Series 2008A, Series 2008B and Series 2015 bonds insofar as they relate to accounting matters. Also, nothing came to our attention that caused us to believe that the Authority failed to apply monies received in accordance with the provisions of the bond resolution; expenditures for current expenses did not exceed the total amount provided for in the annual budget; and that all operations and maintenance, debt service and other payments required by contract were made. The Authority satisfied the Rate Covenant included in the Series 2007, Series 2008A, Series 2008B and Series 2015 bonds issued through the Virginia Resources Authority. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Board of Directors and management of the Harrisonburg-Rockingham Regional Sewer Authority and is not intended to be and should not be used by anyone other than these specified parties.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
August 31, 2017

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