Henry County Public Service Authority

Comprehensive Annual Financial Report

Years Ended June 30, 2014 and 2013

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

Henry County Public Service Authority

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Henry County Public Service Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Henry County Public Service Authority, as of and for the years ended June 30, 2014 and 2013, 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.

Auditor's Responsibility

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

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Henry County Public Service Authority, as of June 30, 2014 and 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated, September 29, 2014 on our consideration of the Henry County Public Service Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Henry County Public Service Authority's internal control over financial reporting and compliance.

Creedle, Jones & Alga, P.C.

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

South Hill, Virginia
September 29, 2014

Henry County Public Service Authority

Management's Discussion and Analysis

As of June 30, 2014

Our discussion and analysis of the Henry County Public Service Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2014. Please read this information in conjunction with Henry County Public Service Authority's financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Our Statements of Cash Flows disclose the flow of cash resources into and out of the Authority during the year (from fees and grants) and how we applied those funds (incentive payments and payment of expenses).

SUMMARY OF ORGANIZATION AND BUSINESS

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

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

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

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

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

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

FINANCIAL SUMMARY

Financial Position

A summary of the Authority's Statements of Net Position for 2014 and 2013 is presented below:

	2014	2013	$ Change	% Change
Current Assets	**$ 8,025,993**	$ 6,968,260	$ 1,057,733	15.18%
Net Capital Assets	**68,306,955**	70,666,839	(2,359,884)	-3.34%
Other Noncurrent Assets	**8,011,248**	7,899,115	112,133	1.42%
Total Assets	**84,344,196**	85,534,214	(1,190,018)	-1.39%
Deferred Outflow of Resources	**279,055**	335,150	(56,095)	-16.74%
Total Assets and Deferred Outflows	**$ 84,623,251**	$ 85,869,364	$ (1,246,113)	-1.45%
Total Liabilities	**$ 27,231,163**	$ 30,078,110	$ (2,846,947)	-9.47%
Net Position				
Net investment in capital assets	**43,702,840**	43,152,778	550,062	1.27%
Restricted for debt	**8,011,248**	7,896,243	115,005	1.46%
Unrestricted	**5,678,000**	4,742,233	935,767	19.73%
Total Net Position	**57,392,088**	55,791,254	1,600,834	2.87%
Total Liabilities and Net Position	**$ 84,623,251**	$ 85,869,364	$ (1,246,113)	-1.45%

Change in Net Position

A summary of the Authority's Statements of Revenues, Expenses, and Changes in Net Position for 2014 and 2013 is presented below:

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

	2014	2013	$ Change	% Change
Operating Revenues	**$ 12,279,410**	$ 10,861,991	$ 1,417,419	13.05%
Operating Expenses	**(9,839,801)**	(9,625,712)	(214,089)	2.22%
Operating Income	**2,439,609**	1,236,279	1,203,330	97.33%
Interest Income	**371,617**	366,579	5,038	1.37%
Gain on Sale of Properties	**15,564**	18,573	(3,009)	-16.20%
Non-Operating Expense	**(1,263,436)**	(1,388,264)	124,828	-8.99%
Income Before Contributions	**1,563,354**	233,167	1,330,187	570.49%
Capital Contributions	**37,480**	32,739	4,741	14.48%
Changes in Net Position	**$ 1,600,834**	$ 265,906	$ 1,334,928	502.03%

During the year, the Authority's net operating income was $2,439,609. The Authority had non-operating revenues and expenses in the form of interest income and sale of assets, which amounted to $387,181 and interest expense amounting to $1,263,436. Operating expenses of $9,839,801 included all expenses necessary to operate the Authority's water and sewer facilities.

Net position increased $1,600,834 in 2014 as compared to an increase of $265,907 in 2013.

Cash Flows

A summary of the Authority's Statements of Cash Flows for 2014 and 2013 is presented below:

Condensed Statements of Cash Flows

	2014	2013
Cash Provided by (Used in)		
Operating activities	**$ 5,514,491**	$ 4,273,074
Capital and related financing activities	**(4,828,483)**	(4,635,494)
Investing activities	**272,176**	280,466
Net Increase (Decrease) in Cash	**$ 958,184**	$ (81,954)

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

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

During fiscal year 2014, there was an increase of $958,184 in cash as compared to a decrease of $81,954 in 2013.

Capital Assets

As of June 30, 2014, the Authority's net investment in capital assets totals $43,702,840 which is net capital assets less related debt.

During fiscal year 2014, the Authority's net capital assets (including additions, decreases, and depreciation) decreased $2,359,884 as summarized below:

Change in Capital Assets

	Balance July 1, 2013	Net Additions and Deletions	Balance June 30, 2014
Land and land improvements	$ 499,744	$ 300	**$ 500,044**
Construction in progress	327,468	(7,720)	**319,748**
Building and leasehold improvements	1,322,911	-	**1,322,911**
Water and sewer system	127,188,037	286,861	**127,474,898**
Trucks and autos	2,032,059	(89,772)	**1,942,287**
Office equipment	191,162	-	**191,162**
Total Capital Assets	131,561,381	189,669	**131,751,050**
Less: Accumulated depreciation	(60,894,542)	(2,549,553)	**(63,444,095)**
Total Capital Assets, Net	$ 70,666,839	$ (2,359,884)	**$ 68,306,955**

Long-Term Debt

As of June 30, 2014, the Authority's long-term debt totals $24,951,942.

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

Change in Long-Term Debt

	Balance July 1, 2013	Net Additions and Deletions	Balance June 30, 2014
Long-term notes	$ 27,514,062	$ (2,909,947)	**$ 24,604,115**
Compensated absences	352,325	(4,498)	**347,827**
	$ 27,866,387	$ (2,914,445)	**$ 24,951,942**
Refunding on debt	$ 335,150	$ (56,095)	**$ 279,055**

GENERAL TRENDS AND SIGNIFICANT EVENTS

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

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

In fiscal year 2014, the Authority was approved by the Virginia Department of Health (VDH) for a $978,350 low interest loan and a $244,000 grant to construct a water line to the Pleasant Grove community. This area is currently serviced by a well system and this new line will allow this well system to be taken off-line and water to be provided by the Authority's Philpott water system. This will also allow for potential new customers along the route of the new water line. The water line is currently in the design phase with construction not scheduled to begin until Spring 2015.

The Authority also received a Virginia Department of Health (VDH) planning grant in the amount of $47,500 to study water line extensions for the Eastwood and Sandy Level community. The Eastwood community is currently served through a well system and the Authority purchases water from the City of Eden, North Carolina for the Sandy Level community. Results of the planning grant will be presented in fiscal year 2015.

In Fiscal Year 2014, the Authority was approved for a $1,773,200 zero percent loan from the Virginia Department of Environmental Quality (financed through Virginia Resources Authority) to run a sewer line to the Grassy Creek community. This will allow for two lagoon systems, Carver and Greenbriar, to be taken off-line and the sewage to be treated by the City of Martinsville with the potential for new sewer customers to be added to the system.

It is also anticipated that the small growth trend in customer connections will continue to increase as the amount of undeveloped land is developed.

In fiscal year 2013, the Authority decided that in order to remain financially sound and properly maintain the infrastructure, the rates charged customers needed to be evaluated. An engineering consulting firm was engaged to do a rate study and based on their recommendation, the rates were adjusted as follows beginning in June 2013:

Minimum Consumption Charge Per Service

Residential customers from $26.00 to $30.00 for up to 4,000 gallons
Non-residential customers from $39.00 to $45.00 for up to 4,000 gallons
Institutional customers from $59.50 to $68.50 for up to 6,000 gallons

Additional Consumption Charge

Residential customers from $4.00 to $4.70 for each additional 1,000 gallons
Non-residential customers from $6.00 to $7.00 for each additional 1,000 gallons
Institutional customers from $7.00 to $8.10 for each additional 1,000 gallons

The Authority anticipates this rate adjustment will allow it to meet its financial needs and loan covenants for a minimum of five years.

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

FINANCIAL CONDITION

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

Total assets decreased by $1,246,113 or 1.47 percent, while net position increased by $1,600,834. Accounts receivable, net at year end was $1,040,348 compared to $1,017,749 for fiscal year 2013. The reserve for bad debts equals all accounts over 90 days past due. The bad debt charge for 2014 and 2013 was $42,750 and $38,104, respectively. Recovery of bad debts previously written off amounted to $5,947 and $7,131 in 2014 and 2013, respectively.

RESULTS OF OPERATIONS

The Authority's main revenues fall into the categories of operating revenues, interest income, and capital contributions. Revenues, including capital contributions, totaled $12,704,071 compared to $11,279,882 last year, a 12.6 percent increase primarily due to a rate increase of 15 percent effective June 2013.

DEBT

At year end, the Authority had $24,951,942 in long-term debt with $3,079,960 (including the deferred amounts) coming due in 2015. More detailed information about the Authority's long-term debt is presented in Note 7 to the financial statements.

One area that demonstrates the Authority's financial ability to pay current debt service (principal and interest) is seen in its debt service coverage, which is shown below. The financing agreement covenant requires the Authority to establish rates, fees, and other charges for the use of and for services furnished by the Authority and collection procedures so that in each fiscal year net revenues and available cash reserves are not less than 1.2 times the debt service (principal and interest) for the fiscal year. Cash reserves available were $6.34 million for 2014 and $5.38 million for 2013. The following table calculates debt service coverage for fiscal years 2014 and 2013, including the available cash reserves:

	(In Millions of Dollars)		
	2014	**2013**	**% Change**
Unrestricted operating revenue	**$ 12.28**	$ 10.86	13.1%
Unrestricted investment income	**0.39**	0.39	0.0%
Total revenue	**12.67**	11.25	12.6%
Total operating expenses (less depreciation)	**6.78**	6.57	3.2%
Net revenue	**5.89**	4.68	25.9%
Unrestricted cash - beginning of year	**5.38**	5.47	-1.6%
Available for debt service	**$ 11.27**	$ 10.15	11.0%
Annual debt service	**$ 4.07**	$ 4.06	0.2%
Debt service coverage	**2.77**	2.50	10.8%

FINAL COMMENTS

Fiscal year 2014 continued the trend of positive financial performance by the Authority. This positive performance is needed in order for the Authority to maintain flexibility in future borrowing decisions, ensuring that there is an appropriate reserve for operating expenses, expansion, and that resources are available to provide for the effects of time and usage on the significant investment in equipment.

REQUESTS FOR INFORMATION

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

FINANCIAL STATEMENT

Exhibit A

Henry County Public Service Authority

Statements of Net Position

June 30, 2014 and 2013

	2014	2013
Assets and Deferred Outflow of Resources		
Current Assets		
Cash and cash equivalents	$ 6,344,143	$ 5,385,959
Accounts receivable, net	1,040,348	1,017,749
Unbilled revenue	484,621	475,179
Inventory	156,881	89,373
Total Current Assets	8,025,993	6,968,260
Capital Assets		
Nondepreciable	819,792	827,212
Depreciable	67,487,163	69,839,627
Total Capital Assets	68,306,955	70,666,839
Other Noncurrent Assets		
Restricted investments	8,011,248	7,896,243
Net OPEB asset	-	2,872
Total Other Noncurrent Assets	8,011,248	7,899,115
Total Assets	84,344,196	85,534,214
Deferred Outflow of Resources		
Refunding of debt	279,055	335,150
Total Assets and Deferred Outflow of Resources	$ 84,623,251	$ 85,869,364
Liabilities and Net Position		
Liabilities		
Current Liabilities		
Accounts payable	$ 344,672	$ 262,438
Interest payable	138,811	156,500
Accrued expenses and payables	30,916	32,123
Customer deposits	675,742	648,267
Current maturities of long-term liabilities	3,079,960	2,945,179
Total Current Liabilities	4,270,101	4,044,507
Long-Term Liabilities		
Due to other governments - Pittsylvania County	1,087,982	1,112,395
Net OPEB liability	1,098	-
Compensated absences, net of current portion	313,044	317,092
Notes payable, net of current portion	21,558,938	24,604,116
Total Long-Term Liabilities	22,961,062	26,033,603
Total Liabilities	27,231,163	30,078,110
Net Position		
Net investment in capital assets	43,702,840	43,152,778
Restricted		
Debt covenants	8,011,248	7,896,243
Unrestricted	5,678,000	4,742,233
Total Net Position	57,392,088	55,791,254
Total Liabilities and Net Position	$ 84,623,251	$ 85,869,364

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

Exhibit B

Henry County Public Service Authority

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended June 30, 2014 and 2013

	2014	2013
Operating Revenues		
Water and sewer charges	$ 11,485,246	$ 10,070,190
Fire protection fees - Henry County	406,800	406,800
Connection fees	41,600	47,924
Miscellaneous	345,764	337,077
Total Operating Revenues	12,279,410	10,861,991
Operating Expenses		
Water and sewer treatment	3,117,220	3,024,397
Depreciation	3,061,958	3,056,933
Maintenance - transmission and collection lines	1,124,352	1,179,544
Administration	1,164,517	1,002,769
Bad debts	42,750	38,104
Customer service	412,700	391,991
Engineering and mapping	320,103	315,279
Maintenance - vehicle and equipment	124,835	140,068
Management information systems	205,450	204,650
Meter reading	152,109	158,880
Service center	46,207	48,274
Safety	67,600	64,823
Total Operating Expenses	9,839,801	9,625,712
Operating Income	2,439,609	1,236,279
Non-Operating Revenues (Expenses)		
Interest income	371,617	366,579
Gain on sale of properties	15,564	18,573
Interest expense	(1,263,436)	(1,388,264)
Net Non-Operating Revenues (Expenses)	(876,255)	(1,003,112)
Change in Net Position Before Contributions	1,563,354	233,167
Capital Contributions	37,480	32,739
Change in Net Position	1,600,834	265,906
Total Net Position - Beginning of Year	55,791,254	56,084,136
Prior Period Adjustment	-	(558,788)
Total Net Position - End of Year	$ 57,392,088	$ 55,791,254

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

Exhibit C

Henry County Public Service Authority

Statements of Cash Flows

Years Ended June 30, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities		
Cash received from customers	$ 12,274,845	$ 10,846,523
Cash paid for goods and services	(3,761,072)	(4,333,168)
Cash paid to employees and fringes	(2,999,282)	(2,240,281)
Net Cash Provided by Operating Activities	5,514,491	4,273,074
Cash Flows from Capital and Related Financing Activities		
Governmental grant revenue	37,480	32,739
Money received - other governments (Due to)	(24,413)	(25,915)
Purchase of capital assets	(702,074)	(530,882)
Compensated absences	30,735	26,351
Bond principal payments	(2,889,086)	(2,732,706)
Bond interest payments	(1,281,125)	(1,405,081)
Net Cash Used in Capital and Related Financing Activities	(4,828,483)	(4,635,494)
Cash Flows from Investing Activities		
Interest received	371,617	366,579
Gain on sale of properties	15,564	18,573
Net change in investments	(115,005)	(104,686)
Net Cash Provided by Investing Activities	272,176	280,466
Net Increase (Decrease) in Cash and Cash Equivalents	958,184	(81,954)
Cash and Cash Equivalents - Beginning of Year	5,385,959	5,467,913
Cash and Cash Equivalents - End of Year	$ 6,344,143	$ 5,385,959
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities		
Operating income	$ 2,439,609	$ 1,236,279
Adjustments to reconcile operating income		
Depreciation	3,061,958	3,056,933
Bad debts	42,750	38,104
Change in assets and liabilities		
Decrease (Increase) in		
Accounts receivable	(65,348)	(39,464)
Inventory	(67,508)	12,662
Net OPEB asset/liability	3,970	(2,872)
Unbilled revenue	(9,442)	(54,706)
Increase (Decrease) in		
Accounts payable	82,234	(33,646)
Customer deposits	27,475	40,598
Accrued expenses	(1,207)	19,186
Net Cash Provided by Operating Activities	$ 5,514,491	$ 4,273,074

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

Henry County Public Service Authority

Statements of Fiduciary Net Position

As of June 30, 2014 and 2013

	2014 OPEB Trust Fund	2013 OPEB Trust Fund
Assets		
Investment - restricted	$ 84,935	$ 66,372
Total Assets	$ 84,935	$ 66,372
Liabilities and Net Position		
Liabilities	$ -	$ -
Total Liabilities	-	-
Net Position		
Restricted for OPEB	84,935	66,372
Total Liabilities and Net Position	$ 84,935	$ 66,372

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

1 Organization, Description of the Entity, and Its Activities

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

2 Significant Accounting Policies

Financial Statement Presentation

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

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

Basis of Accounting

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

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

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

Cash and Cash Equivalents

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

Unbilled Revenue

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

Allowance for Doubtful Accounts

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

Inventory

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

Capital Assets

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

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

Compensated Absences

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

Revenues

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

Property and Equipment

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

Use of Estimates

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

Budgets

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

Amortization

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

Net Position

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

Deferred Outflows/Inflows of Resources

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

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

3 Cash Equivalents

Deposits

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

Investments

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

Investment Type	Fair Value	Maturity	Moodys Rating
U.S. Treasuries	$5,707,809	5 months or less	AAA
Certificates of deposit	2,303,439	2016	N/A
	$8,011,248		

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

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

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

Debt Service Forward Delivery Agreements

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

4 Amount of Allowance for Uncollectible Accounts

The Authority calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. Management estimates the allowance account to be $45,684 and $38,313 as of June 30, 2014 and 2013, respectively.

5 Due to Other Governments

The Authority has entered into a long-term agreement with Pittsylvania County concerning the construction of water lines. The agreement allows the Authority to repay Pittsylvania County for the cost of these lines based on water usage by the County. The original contract amount was $1,250,000. The amount repaid for fiscal year 2014 was $24,413 leaving a balance of $1,087,982 as of June 30, 2014.

6 Capital Assets

The following schedule shows the breakdown of capital assets by category at June 30, 2014:

	Balance July 1, 2013	Acquired (Increased)	Deleted (Decreased)	Balance June 30, 2014
Capital assets, not depreciated				
Land and land improvements	$ 499,744	$ 300	$ -	$ 500,044
Construction in Progress				
Water	138,971	146,122	-	285,093
Sewer	188,497	129,534	283,376	34,655
Total Construction in Progress	327,468	275,656	283,376	319,748
Total Capital Assets, Not Depreciated	827,212	275,956	283,376	819,792
Capital assets, depreciated				
Buildings and leasehold improvements	1,322,911	-	-	1,322,911
Water and sewer system	127,188,037	633,937	347,076	127,474,898
Trucks and autos	2,032,059	75,557	165,329	1,942,287
Office equipment	191,162	-	-	191,162
Total Capital Assets, Depreciated	130,734,169	709,494	512,405	130,931,258
Less: Accumulated depreciation for				
Land improvements	2,384	89	-	2,473
Buildings and leasehold improvements	809,448	27,046	-	836,494
Water and sewer system	58,336,675	2,925,135	347,076	60,914,734
Trucks and autos	1,576,926	103,522	165,329	1,515,119
Office equipment	169,109	6,166	-	175,275
Total Accumulated Depreciation	60,894,542	3,061,958	512,405	63,444,095
Total Capital Assets Depreciated, Net	69,839,627	(2,352,464)	-	67,487,163
Total Capital Assets, Net	$ 70,666,839	$ (2,076,508)	$ 283,376	$ 68,306,955

7 Long-Term Debt

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

Details of Long-Term Indebtedness	Balance July 1, 2013	Increase	Decrease	Balance June 30, 2014	Due Within One Year
2000 VRL Fund	$ 187,520	$ -	$ 29,700	**$ 157,820**	$ 29,700
2000 Water	1,090,191	-	22,060	**1,068,131**	23,074
2000-A Water	724,869	-	14,355	**710,514**	15,014
2001 Water and Sewer Refunding	21,180,000	-	2,560,000	**18,620,000**	2,700,000
2004-B Water and Sewer Refunding	870,000	-	55,000	**815,000**	60,000
2005-A Sewer	954,457	-	14,676	**939,781**	15,293
2007 Bonds Payable	2,153,665	-	112,622	**2,041,043**	117,105
Long-Term Debt before Deferrals	27,160,702	-	2,808,413	**24,352,289**	2,960,186
Deferred Amounts					
Imputed interest on 2000 VRL Fund	(28,431)	-	(7,683)	**(20,748)**	(6,568)
Unamortized premium on 2001 Water and Sewer Refunding	378,473	-	108,731	**269,742**	91,102
Unamortized premium on 2004-B Water and Sewer	3,318	-	486	**2,832**	457
Total Deferred Amounts	353,360	-	101,534	**251,826**	84,991
Long-Term Debt	27,514,062	-	2,909,947	**24,604,115**	3,045,177
Compensated absences	352,325	-	4,498	**347,827**	34,783
Total Long-Term Debt	$ 27,866,387	$ -	$ 2,914,445	**$ 24,951,942**	$ 3,079,960

	Interest Rates	Date Issued	Final Maturity	Amount of Original Issue	Installment Payments	Installment Period	Balance June 30, 2014
Bonds							
Virginia Revolving Loan Fund	0.000%	06/16/2000	2019	$ 594,000	$ 14,850	Semi-Annual	**$ 157,820**
Water Facility Revenue	4.500%	01/28/2000	2039	1,282,840	5,889	Monthly	**1,068,131**
Water Facility Revenue	4.500%	06/14/2000	2040	847,400	3,890	Monthly	**710,514**
Water and Sewer Revenue Refunding	3.00-5.500%	11/15/2001	2019	42,470,000	1,565,000 3,540,000	Annual	**18,620,000**
Water and Sewer Revenue	2.35-4.475%	11/17/2004	2024	1,275,000	45,000 90,000	Annual	**815,000**
Sewer Facility Revenue	4.125%	07/14/2005	2045	1,030,000	4,481	Monthly	**939,781**
Water and Sewer Revenue Bond, Series 2007	3.910%	11/1/2007	Balloon in 2019	2,700,000	16,235	Monthly	**2,041,043**
Total Debt before Deferrals							**$ 24,352,289**

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

Fiscal Year	Principal	Interest	Deferred Amounts	Total LT Debt with Deferrals
2015	$ 2,960,186	$ 1,167,838	$ 84,991	$ 3,045,177
2016	3,117,240	1,012,703	68,878	3,186,118
2017	3,284,588	845,259	50,044	3,334,632
2018	3,462,240	664,992	31,465	3,493,705
2019	3,655,211	474,679	15,758	3,670,969
2020-2024	5,719,841	680,523	661	5,720,502
2025-2029	542,673	404,941	29	542,702
2030-2034	563,747	291,853	-	563,747
2035-2039	702,122	153,478	-	702,122
2040-2044	292,173	36,890	-	292,173
2045	52,268	1,169	-	52,268
	$ 24,352,289	$ 5,734,325	$ 251,826	$ 24,604,115

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

Operating funds reserve	$1,416,201
Replacement reserve	502,800
Debt service - 2000 RUS bonds	381,538
Debt service - 2001 bonds	5,674,750
Debt service - accrued interest	35,959
	$8,011,248

The Authority is required to maintain a debt service coverage ratio of 120 percent (as defined in the bond Master Trust Agreement and related amendments) and to annually obtain a consulting engineer's report to determine amounts needed to escrow for future repairs, replacements, and operating needs. The Authority received the most recent report in April 2014 for the fiscal year 2013. The management of the Authority believes it is in compliance with all requirements.

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

Advance Refunding and Deferred Amount

In 2001, the Authority issued $42,470,000 in Refunding Revenue Bonds with an average interest rate of 5.25% to advance refund $42,465,000 of outstanding 1991 Series bonds with an average interest rate of 6.25% in order to reduce the interest rate and reduce total debt service payments over the life of the loan. The net proceeds from the issuance were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1991 Series bonds and, as a result, the 1991 Series bonds are considered defeased and the liability is not reported on the Authority's financial statements, only the balance of the 2001 Series bonds. The reacquisition price of the new bonds was $42,889,650 and the carrying amount of the old bonds was $41,292,795 which resulted in a Deferred Amount on Refunding of $1,596,855. This amount is being amortized into interest expense over 19 years using the effective interest method and had an unamortized balance of $279,055 and $335,150 at June 30, 2014 and 2013, respectively. This is reported as a Deferred Outflow of Resources on the Authority's Statements of Net Position.

	Balance July 1, 2013	Increase	Decrease	Balance June 30, 2014
Details of Refunding of Debt				
2001 Refunding of Debt	$ 335,150	$ -	$ 56,095	**$ 279,055**

8 Net Investment in Capital Assets

The "net investment in capital assets" amount reported on the government-wide Statement of Net Position as of June 30, 2014 is determined as follows:

	2014	2013
Net Investment in Capital Assets		
Cost of capital assets	**$ 131,751,050**	$ 131,561,382
Less: Accumulated depreciation	**(63,444,095)**	(60,894,543)
Book value	**68,306,955**	70,666,839
Less: Capital related debt	**(24,604,115)**	(27,514,061)
Net Investment in Capital Assets	**$ 43,702,840**	$ 43,152,778

9 Capital Contributions

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

Source of Revenue	Project	
Virginia Department of Health	Eastwood and Sandy Level Water Extension	$ 27,250
Virginia Department of Health	Pleasant Grove Well System Rehab	10,230
		$ 37,480

10 Operating Leases

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

In addition, the Authority leases the water treatment plant from the County. The plant, with a cost of $1,642,595, accumulated depreciation of $1,213,197, and annual depreciation of $40,440 is recorded on the County's financial statements. The Authority is responsible for all maintenance and operations of the plant. No payments are required. The Authority is required to retain funds in an Expansion and Replacement Fund to be applied to reasonable and necessary expenses for construction, replacement, repair, additions and/or extensions to the water and waste water facilities of the Authority. All disbursements from this fund must first be approved by the County. The lease continues until all debts of the Authority relating to water facility improvements have been satisfied.

11 Contingent Liabilities (Including Federally Assisted Programs – Compliance Audits)

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

At June 30, 2014, there were no matters of litigation involving the Authority which would materially affect the Authority's financial position should any court decision or pending matter not be favorable to the Authority.

12 Pension Plan

A. *Plan Description*

Name of Plan:	Virginia Retirement System (VRS)
Identification of Plan:	Agent and Cost-Sharing Multiple-Employer Pension Plan
Administering Entity:	Virginia Retirement System (System)

All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Members earn one month of service credit for each month they are employed and they and their employer are paying contributions to VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as service credit in their plan.

Within the VRS Plan, the System administers three different benefit plans for local government employees – Plan 1, Plan 2, and Hybrid. Each plan has different eligibility and benefit structures as set out in the table below:

VRS PLAN 1

About VRS Plan 1

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

Eligible Members

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

Hybrid Opt-In Election

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

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

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

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

VRS PLAN 2

About VRS Plan 2

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

Eligible Members

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

Hybrid Opt-In Election

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

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

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

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

HYBRID RETIREMENT PLAN

About the Hybrid Retirement Plan

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

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

Eligible Members

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

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

*Non-Eligible Members
Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:

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

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

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Retirement Contributions Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	***Retirement Contributions*** Same as VRS Plan 1.	***Retirement Contributions*** A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.
Creditable Service 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 VRS 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. **Defined Contribution Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the 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 VRS 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. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. **Defined Contribution Component:** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. •After two years, a member is 50% vested and may withdraw 50% of employer contributions. •After three years, a member is 75% vested and may withdraw 75% of employer contributions. •After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70 1/2.

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Calculating the Benefit	***Calculating the Benefit***	***Calculating the Benefit***
The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier, and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	See definition under VRS Plan 1.	**Defined Benefit Component:** See definition under VRS Plan 1. **Defined Contribution Component:** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation	***Average Final Compensation***	***Average Final Compensation***
A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier	***Service Retirement Multiplier***	***Service Retirement Multiplier***
The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.	Same as Plan 1 for service earned, purchased, or granted prior to January 1, 2013. For non-hazardous duty members, the retirement multiplier is 1.65% for creditable service earned, purchased, or granted on or after January 1, 2013.	The retirement multiplier is 1.0%. For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.
Normal Retirement Age	***Normal Retirement Age***	***Normal Retirement Age***
Age 65.	Normal Social Security retirement age.	**Defined Benefit Component:** Same as VRS Plan 2. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility	***Earliest Unreduced Retirement Eligibility***	***Earliest Unreduced Retirement Eligibility***
Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	**Defined Benefit Component:** Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility	***Earliest Reduced Retirement Eligibility***	***Earliest Reduced Retirement Eligibility***
Members may retire with a reduced benefit as early as age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.	Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.	**Defined Benefit Component:** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Cost-of-Living Adjustment (COLA) in Retirement	***Cost-of-Living Adjustment (COLA) in Retirement***	***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%.	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%.	**Defined Benefit Component:** Same as VRS Plan 2 **Defined Contribution Component:** Not applicable
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.	*Eligibility:* Same as VRS Plan 1	*Eligibility:* Same as VRS Plan 1 and VRS Plan 2
Exceptions to COLA Effective Dates: The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.	*Exceptions to COLA Effective Dates:* Same as VRS Plan 1	*Exceptions to COLA Effective Dates:* Same as VRS Plan 1 and VRS Plan 2
Disability Coverage	***Disability Coverage***	***Disability Coverage***
Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased, or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	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 is earned, purchased, or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	Eligible political subdivision and school division (including VRS Plan 1 and VRS 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. State employees (including VRS Plan 1 and VRS Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Purchase of Prior Service	***Purchase of Prior Service***	***Purchase of Prior Service***
Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts towards vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	Same as VRS Plan 1	**Defined Benefit Component:** Same as VRS Plan 1 **Defined Contribution Component:** Not applicable

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at http://www.varetire.org/Pdf/Publications/2013-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

B. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be 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% member contribution. This could be phased in over a period 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. In addition, the Authority is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Authority's contribution rate for the fiscal year ended 2014 was **6.56%** of annual covered payroll.

C. Annual Pension Cost

For fiscal year 2014, Authority's annual pension cost of **$138,474 was** equal to the Authority's required and actual contributions.

Three-Year Trend Information for Authority

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2012	$ 40,787	100%	$ -
June 30, 2013	136,618	100%	-
June 30, 2014	**138,474**	**100%**	**-**

The FY 2014 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of **7.00%,** (b) projected salary increases ranging from **3.75% to 5.60%** per year for general government employees, **3.75% to 6.20%** per year for teachers, and **3.50% to 4.75%** for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of **2.50%** per year for Plan 1 employees and **2.25%** for Plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of **2.50%.** The actuarial value of the Authority's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

D. Funded Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the plan was **87.08%** funded. The actuarial accrued liability for benefits was **$9,603,489,** and the actuarial value of assets was **$8,362,298**, resulting in an unfunded actuarial accrued liability (UAAL) of **$1,241,191**. The covered payroll (annual payroll of active employees covered by the plan) was **$2,109,778**, and ratio of the UAAL to the covered payroll was **58.83%**.

The schedule of funding progress, presented as Required Supplementary Information, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for Authority

	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2011	$8,116,244	$ 9,182,996	$ 1,066,752	88.38%	$2,056,050	51.88%
June 30, 2012	8,065,540	9,551,528	1,485,988	84.44%	2,035,564	73.00%
June 30, 2013	**8,362,298**	**9,603,489**	**1,241,191**	**87.08%**	**2,109,778**	**58.83%**

This information presented in the above schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date	June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay, Closed
Payroll Growth Rate	3.00%
Remaining Amortization Period	30 Years (decreasing by one each year in subsequent valuations until reaching 0 years)
Asset Valuation Method	Five-Year Smoothed Market Value
Actuarial Assumptions	
a. Investment Rate of Return*	7.00%
b. Projected Salary Increases*	
1) Non-LEO Members	3.50% to 5.35%
2) LEO Members	3.50% to 4.75%
c. Cost-of-Living Adjustment	
1) Plan 1 Members	2.50%
2) Plan 2 Members	2.25%

*Includes inflation of 2.5%

13 Postemployment Healthcare Plan

County Sponsored

Plan Description

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

Three-year trend information is as follows:

Schedule of Funding Progress

Actuarial Valuation Date	Plan Assets (a)	Accrued Liability (b)	Unfunded Liability (b-a)	Normal Cost (c)	Funded Ratio (a)/(b)	Covered Payroll (d)	Unfunded % of Payroll (b-a)/(d)
07/01/2009	$ 21,242	$ 178,651	$ 157,409	$ 4,429	11.9%	$ 2,000,174	7.9%
07/01/2012	51,723	224,210	172,487	5,510	23.1%	2,056,948	8.4%
07/01/2012 R	**66,372**	**244,876**	**178,504**	**5,648**	**27.1%**	**2,108,372**	**8.5%**

R - Roll forward of prior year results

Schedule of Contributions and Three-Year Trend

FYE		Annual OPEB Cost		Actual Contribution	% Contributed		Net OPEB Obligation (Asset)
06/30/2012	$	14,326	$	21,376	149.2%	$	(7,438)
06/30/2013		16,565		11,999	72.4%		(2,872)
06/30/2014		**17,143**		**13,173**	**76.8%**		**1,098**

Annual Pension OPEB Cost Summary

Plan Year		Beginning of Year Net OPEB Obligation		Annual Required Contribution	Annual OPEB Costs: Interest		Annual OPEB Costs: Adjustments	Total		Actual Contribution		End of Year Net OPEB Obligation	Interest Rate	Amortization Period
2011-12	$	(388)	$	14,330	$ (29)	$	25	$14,326	$	21,376	$	(7,438)	7.50%	30
2012-13		(7,438)		16,651	(558)		472	16,565		11,999		(2,872)	7.50%	30
2013-14		**(2,872)**		**17,176**	**(215)**		**182**	**17,143**		**13,173**		**1,098**	**7.50%**	**30**

Virginia Retirement System (VRS)

Plan Description

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

Summary of Main Benefit Provisions as Interpreted for Valuation Purposes

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION
Health Insurance Credit Program
Schedule of Funding Progress for Authority

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Projected Unit Credit	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
June 30, 2011	$ 30,835	$ 108,253	$ 77,418	28.48%	$2,056,050	3.77%
June 30, 2012	31,967	112,957	80,990	28.30%	2,035,564	3.98%
June 30, 2013	**36,076**	**116,347**	**80,271**	**31.01%**	**2,109,778**	**3.80%**

Summary of Actuarial Assumptions and Methods as Interpreted for Valuation Purposes

Valuation Date	June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Pay, Closed
Remaining Amortization Period	30 Years
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions	
Investment rate of return[1]	7.00%
Payroll growth rate	3.00%

[1]Includes inflation at 2.50%

14 Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority joined together with other local governments in the Virginia Municipal League Pool, a public entity risk pool currently operating as a common risk management and insurance program for participating local governments. The Authority pays an annual premium to the pool for substantially all of its insurance coverage. In the event of a loss creating a deficit or depletion of all available excess insurance, the pool may assist all members in the proportion that the premium of each bears to the total premiums of all members in the year in which such deficit occurs. The settled claims for 2014 and 2013 did not exceed insurance.

15 Commitments and Contingencies

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

16 Water and Sewer Purchases

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

17 Prior Period Adjustment

For the restated year ended June 30, 2013, the following affected the beginning net position of the Authority:

Changes were made to reflect the effect of implementing GASB Statement No. 65 - *Items Previously Reported as Assets and Liabilities.* This statement requires that bond issue costs be shown as current-period outflows of resources (expenses).	$ 558,788

18 Subsequent Events

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

OTHER INFORMATION

Henry County Public Service Authority

Schedule of Revenues and Expenses - Budget to Actual

Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Operating Revenues				
Metered water sales	$ 6,873,448	$ 6,873,448	$ 6,828,639	$ (44,809)
Waste water service charges	4,345,028	4,399,308	4,656,607	257,299
Miscellaneous	321,956	323,956	345,764	21,808
Fire protection fees - Henry County	406,800	406,800	406,800	-
Connection fees	63,000	63,000	41,600	(21,400)
Total Operating Revenues	12,010,232	12,066,512	12,279,410	212,898
Operating Expenses				
Water and sewer treatment	3,218,949	3,301,760	3,117,220	184,540
Depreciation	-	-	3,061,958	(3,061,958)
Maintenance - transmission and collection lines	1,225,509	1,232,319	1,124,352	107,967
Administration	1,150,747	1,151,988	1,164,517	(12,529)
Bad debts	45,000	45,000	42,750	2,250
Customer service	417,907	422,707	412,700	10,007
Engineering and mapping	341,450	362,839	320,103	42,736
Maintenance - vehicle and equipment	158,557	158,557	124,835	33,722
Management information systems	210,662	210,662	205,450	5,212
Meter reading	162,334	163,260	152,109	11,151
Service center	47,000	47,000	46,207	793
Safety	71,217	71,217	67,600	3,617
Total Operating Expenses	7,049,332	7,167,309	9,839,801	(2,672,492)
Operating Income (Loss)	4,960,900	4,899,203	2,439,609	(2,459,594)
Non-Operating Revenues (Expenses)				
Interest income	344,758	344,758	371,617	26,859
Gain (Loss) on sale of properties	-	-	15,564	15,564
Interest expense	(1,336,440)	(1,336,440)	(1,263,436)	73,004
Total Non-Operating Revenues (Expenses)	(991,682)	(991,682)	(876,255)	115,427
Change in Net Position Before Contributions	3,969,218	3,907,521	1,563,354	(2,344,167)
Capital Contributions	-	-	37,480	37,480
Change in Net Position	$ 3,969,218	$ 3,907,521	$ 1,600,834	$ (2,306,687)

Table 1

Henry County Public Service Authority

Revenues by Source

Last Ten Fiscal Years

Fiscal Years Ended June 30	Water	Sewer	Other	Investment Earnings	Grants and Other Contributions	Connection Fees	Totals
2014	**$ 6,828,639**	**$ 4,656,607**	**$ 768,128**	**$ 371,617**	**$ 37,480**	**$ 41,600**	**$ 12,704,071**
2013	6,043,520	4,026,670	762,450	366,579	32,739	47,924	11,279,882
2012	6,013,784	4,003,556	735,664	359,540	2,518,393	47,650	13,678,587
2011	5,973,085	4,248,075	772,940	343,548	1,252,729	70,493	12,660,870
2010	5,974,119	4,307,681	860,959	453,285	832,967	55,077	12,484,088
2009	6,025,273	4,176,475	783,762	479,495	802,086	168,234	12,435,325
2008	6,168,866	4,328,704	971,473	495,603	1,720,265	178,999	13,863,910
2007	6,169,626	4,294,609	837,653	433,213	1,120,179	87,245	12,942,525
2006	5,254,066	3,659,856	1,225,266	379,168	4,400,499	70,361	14,989,216
2005	5,094,668	3,498,058	1,191,516	316,859	783,210	84,947	10,969,258

Table 2

Expenses by Function

Last Ten Fiscal Years

Fiscal Years Ended June 30	System Maintenance	Treatment	Engineering and Mapping	Administration and Other	Depreciation	Amortization and Interest	Totals
2014	**$ 1,249,187**	**$ 3,117,220**	**$ 320,103**	**$ 2,091,333**	**$ 3,061,958**	**$ 1,263,436**	**$ 11,103,237**
2013	1,319,612	3,024,397	315,279	1,909,491	3,056,933	1,388,263	11,013,975
2012	1,184,196	2,952,894	308,273	1,767,202	3,242,047	1,596,439	11,051,051
2011	1,241,531	2,981,668	303,426	1,810,205	3,547,867	1,715,083	11,599,780
2010	1,246,422	2,926,319	302,313	1,740,155	3,085,006	1,826,122	11,126,337
2009	1,259,964	3,073,049	298,341	1,753,201	2,966,307	1,863,496	11,214,358
2008	1,332,212	3,399,533	295,074	2,154,420	2,902,898	1,922,257	12,006,394
2007	1,178,577	2,887,702	301,523	1,521,718	2,846,141	1,998,204	10,733,865
2006	1,103,634	2,811,535	248,097	1,703,284	2,757,877	2,015,079	10,639,506
2005	952,351	3,242,408	217,864	1,665,114	2,764,511	2,084,752	10,927,000

Henry County Public Service Authority

Revenue Bond Debt Service Coverage

Last Ten Fiscal Years

Fiscal Years Ended June 30	Unrestricted Cash Beginning of Year	Gross Revenues	Direct Operating Expenses**	Net Available	Principal	Interest	Totals	Coverage
2014	**$ 5,385,959**	**$ 12,666,591**	**$ 6,777,843**	**$ 11,274,707**	**$ 2,808,413**	**$ 1,262,686**	**$ 4,071,099**	**2.77**
2013	5,467,913	11,247,143	6,568,779	10,146,277	2,671,909	1,387,513	4,059,422	2.50
2012	5,398,771	11,160,194	6,212,565	10,346,400	2,545,666	1,504,481	4,050,147	2.55
2011	5,342,244	11,408,141	6,336,830	10,413,555	2,424,671	1,614,321	4,038,992	2.58
2010	4,980,342	11,651,121	6,215,209	10,416,254	2,313,914	1,716,690	4,030,604	2.58
2009	5,501,702	11,633,239	6,384,555	10,750,386	2,203,387	1,811,566	4,014,953	2.68
2008	4,195,338	12,143,645	6,680,675	9,658,308	2,051,338	1,850,293	3,901,631	2.48
2007	2,612,586	11,822,346	5,889,520	8,545,412	1,907,742	1,868,037	3,775,779	2.26
2006	2,231,596	10,588,717	5,866,550	6,953,763	1,830,124	1,890,236	3,720,360	1.87
2005	1,497,720	10,186,048	6,077,737	5,606,031	1,724,006	1,950,806	3,674,812	1.53

** Excluding depreciation, interest, and amortization.

Henry County Public Service Authority

Schedule of Insurance in Force

June 30, 2014

Type Coverage (Insurer)		Liability Limits
Commercial General Liability	$ 1,000,000	Each Occurrence Limit
(Virginia Municipal Liability Pool)	$ 100,000	Fire Damage Limit
	$ 10,000	Medical Expense Limit
	$ 10,000	No Fault Property Damage
Primary Automobile Liability	$ 25,000	Bodily Injury Per Person
(Virginia Municipal Liability Pool)	$ 50,000	Bodily Injury Per Accident
	$ 20,000	Property Damage Per Accident
	$ 1,000,000	Per Occurrence
Automobile Uninsured Motorists	$ 25,000	Bodily Injury Per Person
(Virginia Municipal Liability Pool)	$ 50,000	Bodily Injury Per Accident
	$ 20,000	Property Damage Per Accident
	$ 10,000	Automobile Medical Payments
Automobile Physical Damage	Actual	Comprehensive
(Virginia Municipal Liability Pool)	Actual	Collision
	$ 250	Deductible/Comprehensive
	$ 500	Deductible/Collision
Excess Liability Coverage	$ 2,000,000	Per Occurrence
(Virginia Municipal Liability Pool)		
Commercial Property Coverage	$ 47,285,135	Blanket Real and Personal Property
(Virginia Municipal Liability Pool)	$ 100,000	Extra Expense (Monthly Limit)
	$ 1,000	Deductible
Commercial Inland Marine Coverage	$ 770,007	Contractor's Equipment
(Virginia Municipal Liability Pool)		
Boiler and Machinery Coverage	$ 4,500,000	Direct Damage (Per Accident)
(Virginia Municipal Liability Pool)	$ 100,000	Refrigerant
	$ 100,000	Ammonia Contamination
	$ 100,000	Expediting Expenses
	$ 100,000	Hazardous Substances
	$ 100,000	Water Damage
	$ 100,000	Computer
	$ 100,000	Perishable Goods
	$ 250,000	Demolition & ICC
	$ 250,000	Newly Acquired Location
Public Employees Dishonesty Coverage	$ 1,000,000	Aggregate Amount
(Virginia Municipal Liability Pool)	$ 5,000	Deductible
Worker's Compensation		
(Virginia Municipal Group Self-Insurance Association)	Statutory	State Statutory Provision
	$ 1,000,000	Employer's Liability Limit
Public Official Liability	$ 1,000,000	Limit of Liability
(Commonwealth of Virginia - Division of Risk Management)	$ 1,000	Deductible

Table 5

Henry County Public Service Authority

Raw Water Production by Source (In Million Gallons)

Last Ten Fiscal Years

Fiscal Years Ended June 30	City of Martinsville/ Eden	Philpott	Wells	Totals
2014	**12**	**1,023**	**11**	**1,046**
2013	14	1,021	9	1,044
2012	13	999	9	1,021
2011	13	1,014	10	1,037
2010	11	1,030	9	1,050
2009	122	833	11	966
2008	409	631	16	1,056
2007	360	645	17	1,022
2006	399	688	19	1,106
2005	415	678	18	1,111

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

Table 6

Waste Water Treatment By Plant
(In Million Gallons)

Last Ten Fiscal Years

Fiscal Years Ended June 30	City of Martinsville	Lower Smith River	Totals
2014	**590**	**-**	**590**
2013	681	-	681
2012	580	-	580
2011	716	-	716
2010	822	-	822
2009	713	-	713
2008	710	-	710
2007	792	-	792
2006	716	93	809
2005	599	238	837

Note: Does not include waste treatment in lagoon systems.

Source: Flow Reports

Henry County Public Service Authority

Demographic Statistics

Last Ten Fiscal Years

Fiscal Years Ended June 30	Population (1)	Per Capita Income (2)	Median Age (3)	Unemployment Rate (4)
2014	**53,560**	**$ 31,650**	**44.5**	**8.4%**
2013	53,889	30,097	44.7	9.3%
2012	53,867	29,628	44.7	9.8%
2011	54,151	28,773	44.7	10.7%
2010	53,795	30,018	41.8	13.9%
2009	53,869	27,427	41.9	15.3%
2008	55,279	25,591	39.3	7.8%
2007	54,506	25,312	39.3	6.0%
2006	55,100	24,527	39.3	4.8%
2005	55,100	23,309	39.3	7.0%

Sources:

1) U. S. Census, 2000 and 2010; other figures are annually adjusted estimates prepared by the University of Virginia Weldon Cooper Center for Public Service.

2) Bureau of Economic Analysis. Figures are for Martinsville and Henry County combined; Henry County only figures not available; information based on latest available data.

3) U. S. Census Bureau.

4) Virginia Workforce Connection

Henry County Public Service Authority

List of Ten Largest Customers

Year Ended June 30, 2014

Customer	Business		Amount	Percent of Total Billings*
C.P. Films, Inc.	Manufacturing	$	424,642	3.70%
Monogram Snack Martinsville, LLC	Manufacturing		238,607	2.08%
Henry County Schools	Public School System		163,695	1.43%
Commonwealth Laminating & Coating	Manufacturing		151,988	1.32%
County of Henry, Virginia	Local Government		135,453	1.18%
King's Grant	Retirement Community		129,834	1.13%
Scrub Board/Bobby Nickelston	Laundries and Car Washes		108,837	0.95%
Dutch Inn	Hotel & Restaurant		65,920	0.57%
LIC Associates	Rental Properties		56,173	0.49%
CAH Properties	Rental Properties		53,538	0.47%
Total		$	1,528,687	13.31%
*Total Billings		$	11,485,246	

Henry County Public Service Authority

Miscellaneous Statistical Data

As of June 30, 2014

Type of Entity	Independent authority created pursuant to the Virginia Water and Sewer Authorities Act, Section 15.2-5100, Code of Virginia (1950), as amended.	
Date of Incorporation	1965	
Selected Information	Number of Employees	52
	Number of Active Water Connections	12,393
	Number of Active Sewer Connections	7,318
	Miles of Water Lines	348
	Miles of Sewer Lines	240
	Number of Fire Hydrants	1,551
	Water Treatment Plant Capacity	4 MGD
	City of Martinsville, Virginia Purchased Water Capacity	2 MGD
	Sewer Treatment Plant Capacity	6 MGD
	City of Martinsville Purchased Sewer Capacity	4 MGD
	Average Daily Water Consumption	2.87 MGD
	Average Daily Sewage Flow	1.62 MGD
Bond Rating	Not rated	
Minimum Consumption Charge Per Service (Sewer charges are based on water consumption.)	Residential customers charged a minimum monthly consumption charge of $26 through May 2013, $30 effective June 2013, per service for up to 4,000 gallons consumption. Non-Residential customers charged a minimum monthly consumption charge of $39 through May 2013, $45 effective June 2013, per service for up to 4,000 gallons consumption. Institutional customers charged a minimum monthly consumption charge of $59.50, through May 2013, $68.50 effective June 2013, per service for up to 6,000 gallons consumption.	
Additional Consumption	The following charges apply to each 1,000 gallons, or fractions thereof, of water consumed above mentioned minimums: Residential customers - $4 through May 2013, $4.70 effective June 2013, per additional 1,000 gallons. Non-Residential customers - $6 through May 2013, $7 effective June 2013, per additional 1,000 gallons. Institutional customers - $7 through May 2013, $8.10 effective June 2013, per additional 1,000 gallons.	
Exceptions	The Authority reserves the right to negotiate contracts for service charges with industrial users.	

COMPLIANCE

Creedle Jones & Alga

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

To the Board of Directors
Henry County Public Service Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of Henry County Public Service Authority, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Henry County Public Service Authority's basic financial statements, and have issued our report thereon dated September 29, 2014.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Purpose of this Report

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

Creedle, Jones & Alga, P.C.

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

South Hill, Virginia
September 29, 2014