

The logo for Albemarle County Service Authority features the text "Albemarle County" in a teal, sans-serif font above "Service Authority" in a larger, dark blue, sans-serif font. A stylized water drop icon is integrated into the letter "o" of "Authority". Below the text is a graphic of three concentric, horizontal ellipses representing ripples in water.

Albemarle County
Service Authority

Serving  Conserving

Comprehensive Annual Financial Report

The background of the report cover is a scenic photograph of a calm lake at dawn or dusk. A long, dark metal pier with railings extends from the left side into the water. The water is still, reflecting the sky and the pier. In the distance, misty mountains are visible under a soft, hazy sky. The overall mood is peaceful and serene.

*For the Fiscal Year Ended
June 30, 2016*

Charlottesville, Virginia



*Cover photo taken at Beaver Creek Lake
in Crozet, Virginia by A.C.S.A. staff*

ALBEMARLE COUNTY SERVICE AUTHORITY
CHARLOTTESVILLE, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

*For the Fiscal Year Ended
June 30, 2016*

Prepared by:

Department of Finance
168 Spotnap Road
Charlottesville, Virginia 22911
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ALBEMARLE COUNTY SERVICE AUTHORITY

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INTRODUCTORY SECTION



October 17, 2016

Board of Directors
Albemarle County Service Authority
Charlottesville, Virginia

Ladies and Gentlemen:

The Comprehensive Annual Financial Report (CAFR) of the Albemarle County Service Authority (Authority) is submitted herewith. With such modifications as apply to our status as an enterprise fund of governmental units, and as an independently chartered corporation, this report has been prepared in conformity with the reporting and accounting standards promulgated by the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association's (GFOA) *Governmental Accounting, Auditing, and Financial Reporting*.

Based upon a comprehensive framework of internal control that has been established for this purpose, the Authority management assumes full responsibility for the accuracy of the data and for the completeness and reliability of the information contained in this report. The information in this report is believed by Authority management to be sufficient to fully represent the financial result of the Authority's operations for the year ended June 30, 2016 and to provide an accurate and useful picture of the Authority's status as of that date.

State law and outstanding bond resolutions require an annual audit of the books and records of the Authority. This requirement has been satisfied by the engagement of independent certified public accountants, Brown, Edwards and Company, LLP, whose opinion is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A), which provides a narrative introduction, overview, and analysis of the basic financial statements immediately follows the independent auditors' report. The MD&A complements this letter of transmittal, and should be read in conjunction with it.

Organization and Function

Located in central Virginia, 100 miles southwest of Washington, DC and less than 65 miles west of Richmond, the Authority was established in 1964, pursuant to the *Virginia Water and Waste Authorities Act*, to provide water and sewer service to those jurisdictional areas in the County of Albemarle (County) designated by the County's Board of Supervisors. The current service areas include the urbanized ring around the City of Charlottesville (City), the communities of Crozet and Scottsville, and the Village of Rivanna. A six-member Board of Directors, appointed by the County Supervisors for renewable four-year terms, appoints the Executive Director and governs Authority operations and policies. We have determined, after an examination of the factors involved in the Governmental Accounting Standards Board's definition of "component unit" for financial reporting purposes, that we are not a component unit of the County of Albemarle and will not be included in their financial report. Justification for this decision is outlined in Note 1 to the financial statements.

In June 1973, the Authority and the City entered into a Service Agreement with the Rivanna Water and Sewer Authority, which wholesales finished water and sewer treatment services to the Authority and to the City. In 1975, the Authority purchased from the City the facilities to serve all current water and sewer customers outside the City limits; since then it has been the sole public retailer of these services in the County.

In addition to retailing finished water distribution and sewer collection services, the Authority constructs pumping stations and line extensions; purchases, connects to the system, and upgrades private water systems; installs water supply and sewage collector systems; inspects water delivery and sanitary sewage systems installed and contributed to it by developers; and maintains these constructed and contributed facilities.

Economic Conditions

In the Albemarle Community Profile⁽¹⁾ update, the Virginia Employment Commission's Economic Information Services Division (VEC) reported a slight decrease in the County's 2015 unemployment rate of 3.9% as compared to Virginia (4.4%) and to the Country (5.3%) as a whole. The total number of jobs in Albemarle County was 53,188. The relative stability of the local economy is attributed to positive trends in the unemployment rate and raises in a key economic indicator such as sales tax revenues (5.1% increase). It should be noted that other economic indicators trended negatively such as food and beverage taxes (2.5% decrease) and in transient occupancy taxes (hotel/lodging, 2.6% decrease)⁽²⁾. The housing market is showing continued recovery, with home sales up 17.2% compared to a year earlier, and median home sale prices were up 4.7% from one year ago⁽³⁾.

⁽¹⁾Virginia Community Profile – Albemarle County, Virginia Employment Commission, updated September 21, 2016

⁽²⁾The Albemarle Quarterly Economic Vitality Indicators, April 11, 2016 (comparison of 3rd quarters of fiscal years 2015 and 2016)

⁽³⁾CAAR (Charlottesville Area Association of REALTORS) 2016 2nd Quarter and Mid-Year Market Report

Residential and commercial growth within the Authority's Urban and Crozet service areas usually mirrors the economic indicators of the County. In fact, the County's economic indicators play a large role in forecasting and projecting the Authority's revenues and expenses each year; the customer buy-in and connection fee revenues projected for fiscal year 2016 provided no exception. There has been a rebound in the number of new connections for the past three years (2014 – 314 connections, 2015 – 334 connections, 2016 – 335 connections), with a continuing growth each year; averaging a 3.1% increase in connections in 2014, 2015 and 2016⁽⁴⁾. We continue to be conservative in the estimate of revenues derived from growth as both 2009 (204 new connections) and 2011 (233 new connections) showed a slowdown to indicate a need to be cautious in revenue projections. We believe though that future years will likely see continuing increases in the number of new Authority connections which would coincide with the Albemarle County Community Development Department's reported⁽⁵⁾ increases in the issuance of building permits. The County reported 449 new residential building permits in 2015, with the total value of building permits growing from year 2013 (\$198,079,000), to 2014 (\$295,671,332), to 2015 (\$306,736,957). If the number of prepaid (unearned) connection fees, and the rise in the number of new connections are reliable indicators, as we believe them to be, we will continue to see a small growth each year in total new connections.

Major Initiatives and Accomplishments

- ◆ Developed an operating and capital improvement budget for fiscal year 2016 that was both in keeping with our strategic plan and mindful of the area's economic recovery. To that end, our goals were 1) to meet anticipated operating and capital improvement expenses by responsibly increasing water and sewer volume charges which were based upon a formal rate study, and to ensure that current operating expenses will be paid with current operating revenues; 2) to keep customer buy-in and connection fees constant while maintaining our policy of "growth paying for growth;" and 3) to maintain, to improve, and to extend system infrastructure through capital investments.
- ◆ The Board approved a number of capital projects for fiscal year 2016, including waterline replacements and wastewater line rehabilitations. The completion of the Ivy-Flordan Water Connection and Ednam Pump Station, the Crozet Water Main Replacement, the Ashcroft Water System Project, and significant progress on the Key West Water Main Replacement accounted for much of the Authority's current year investment in capital assets.
- ◆ The Authority successfully implemented phase one of an Enterprise Resource Planning (ERP) solution during the fiscal year. The new system has allowed the ACSA to more efficiently and effectively capture financial information. The second and final phase is scheduled to be completed in fiscal year 2017.

⁽⁴⁾Albemarle County Service Authority Annual Financial Report 2014, 2015, 2016, Table 11

⁽⁵⁾County of Albemarle, Community Development Department, 2015 Year End Building Report

Operations

For Fiscal Year 2016, Operating Revenues (\$23,790,065) from water and sewer sales and service connection fees increased by 3.6% as compared to Fiscal Year 2015. Associated operating expenses (\$24,816,613) reflected an increase of 6.2% as compared to Fiscal Year 2015, primarily driven by an increase in the cost of bulk water purchases and wastewater treatment.

Unlike the revenues derived from customer buy-in and connection fees, the difference in projected and actual operating revenues and expenses is more predictable except for treatment plant charges. While weather conditions can play a large role in discretionary use of water, such as irrigation usage, domestic usage is typically more predictable. Actual water, sewer and service charge revenues were more than the prior year due to the planned increase in the water/sewer rate charged to customers in Fiscal Year 2016 (increase of water and sewer rate by 3.0% and 3.1%, respectively, effective for Fiscal Year 2016). Please refer to Page 5 for detailed information related to operating and non-operating revenues and expenses.

Accounting, Budgetary Controls, and Long-term Financial Planning

Although no cost-effective set of accounting controls can guarantee complete freedom from unauthorized use of assets or errors in financial data, we believe that our current procedures provide reasonable assurance that assets are properly recorded and protected and that financial data can be confidently relied upon in the preparation of reports, historical summaries and projections. Because the Authority is designed to be a self-supporting, self-sustaining entity, the measurement focus of its financial accounting system is on the preservation of assets. The Authority uses the full accrual basis of accounting, in which revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred, regardless of the actual receipt or disbursement of cash.

The Authority employs a basic system of accounting controls involving full segregation of duties: employees with the authority to disburse funds are not involved in the preparation or recording of checks, and those who prepare disbursements submit batch total reports to the Director of Finance for approval. Two signatures (the Executive Director's and the Director of Finance's) are required for all checks except petty cash, and all bank accounts are reconciled monthly. As mentioned briefly in the preceding paragraph, there is no cost-effective set of accounting controls that can guarantee complete freedom from unauthorized use of assets, freedom from the risk of managerial over-ride, freedom from the risk of collusion, or errors in financial data; we believe, however, that because these controls are subject to constant review and evaluation, the internal control framework of the Authority is sound. All of these control systems are reviewed regularly by staff and are evaluated as part of the annual financial audit.

The Authority is required by Trust Agreements for its Bond to prepare and adopt an annual operating budget. On a fiscal year basis, department heads prepare preliminary operating budgets and submit them to the Executive Director for consideration. Rates are established based upon required revenue projections and associated costs, which include operating expenses, debt service, capital projects, and reserves. An adequate operating reserve is important to furnish funds for unplanned minor repairs or other significant repairs; it can also be utilized during unusually wet years, when anticipated revenues are reduced due to lesser than anticipated consumption levels. An adequate repair, replacement, and rehabilitation reserve (3R) is important to furnish funds for unexpected major repairs, as well as planned replacement or rehabilitation of equipment or other major capital assets. The Executive Director submits a proposed budget and rate recommendation to the Board of Directors for adoption.

After adoption, increases or decreases to the budget are made only upon Board approval, and the budget lapses at the end of the fiscal year for all accounts except multi-year construction projects and specific re-appropriations for funds committed at year-end for which goods and/or services have not been received. Department heads and the Board of Directors receive monthly reports on revenues and expenses.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Albemarle County Service Authority for its comprehensive annual financial report for the fiscal year ended June 30, 2015. This was the thirty-fourth consecutive year that the Authority has received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the help of the entire staff of the Finance Department and the Leadership and Management team at the ACSA; their hard work and dedication is very much appreciated. We would like to especially express our gratitude and appreciation to Accounting Technicians, Tonya Foster and Jennifer Bryant, Accountants Barbara Klendworth and Amy Rankin, and Customer Service Supervisor Terri Knight, who have each made significant contributions to the CAFR, and to the Board of Directors for their interest in, and support of, the Authority's pursuit of financial reporting excellence.

Sincerely,



Gary B. O'Connell
Executive Director



Quin G Lunsford
Director of Finance



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Albemarle County Service Authority
Virginia**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

ALBEMARLE COUNTY SERVICE AUTHORITY

DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2016

BOARD MEMBERS

Mr. Clarence W. Roberts, Chairman

Mr. Bill Kittrell, Vice-Chairman

Mr. Richard Armstrong

Ms. Jennifer Sulzberger

Ms. Kimberly Swanson

Mr. Charles Tolbert

EXECUTIVE DIRECTOR

Mr. Gary B. O'Connell

DIRECTOR OF FINANCE

Mr. Quin G Lunsford

TRUSTEE

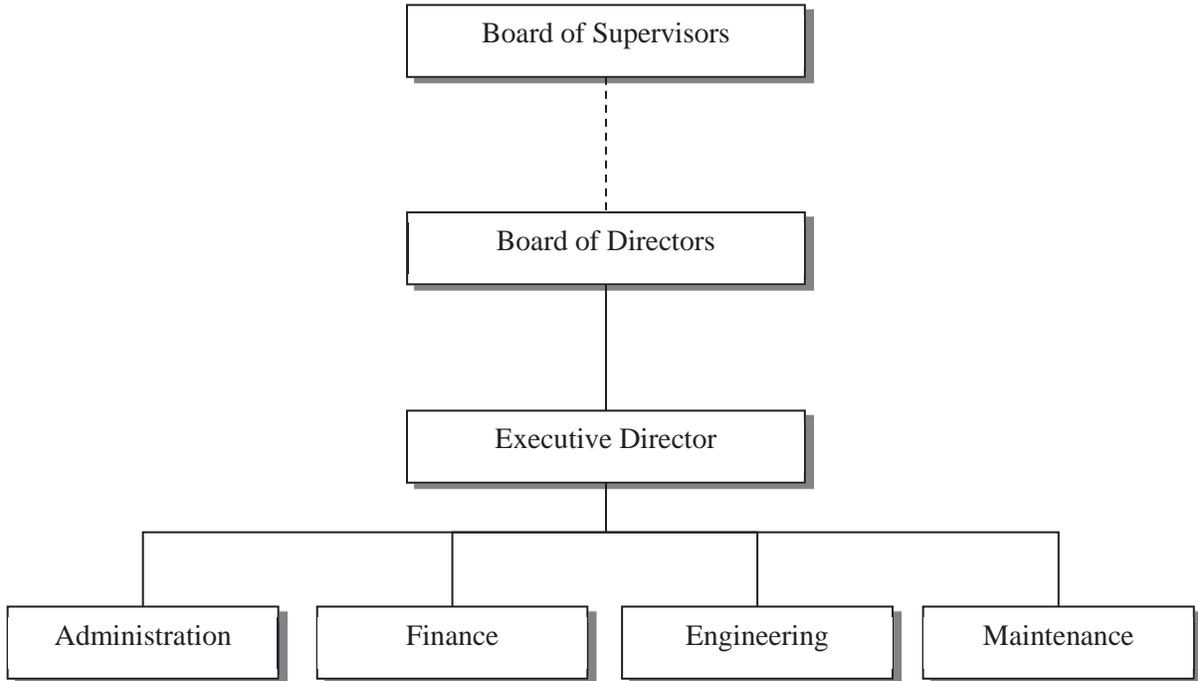
Bank of New York Mellon

INDEPENDENT AUDITORS

Brown, Edwards & Company, L.L.P.

ALBEMARLE COUNTY SERVICE AUTHORITY

ORGANIZATIONAL CHART



FINANCIAL SECTION

**Financial Section contains the
Basic Financial Statements.**



INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the Board of Directors
Albemarle County Service Authority
Charlottesville, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the Albemarle County Service Authority (the "Authority") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2016, and the changes in its financial position and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Authority's 2015 financial statements, on which, in our report dated October 30, 2015, we expressed an unmodified opinion. The 2015 financial information is provided for comparative purposes only.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2016 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Brown, Edwards & Company, S. L. P.

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
October 17, 2016

Management's Discussion and Analysis

The management of the Albemarle County Service Authority presents this analysis of the Authority's financial performance during the fiscal year ended June 30, 2016 as a supplement to the Authority's basic financial statements. This analysis should be read in conjunction with the basic financial statements that follow, as well as the Letter of Transmittal, which can be found on pages i through v of this financial report.

Overview of the Financial Statements

The CAFR is presented in four sections: introductory, financial, statistical, and compliance.

The introductory section includes a letter of transmittal submitted by the Authority's Executive Director and Director of Finance, a listing of the Authority's Board of Directors and organizational chart as of the end of the past fiscal year, and a copy of the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting that has been awarded to the Authority for the fiscal year ended June 30, 2015.

The financial section consists of the Independent Auditor's Report, Management's Discussion and Analysis, and the Authority's basic financial statements, including notes to the statements and required supplementary information, which are discussed below.

The *Statement of Net Position* reports the Authority's assets and deferred outflows of resources and liabilities and deferred inflows of resources, providing information about the nature and amounts of investments in resources (assets), consumption of net position applicable to future periods (deferred outflows), obligations to creditors (liabilities), and acquisition of net position applicable to future periods (deferred inflows). These statements may be used to evaluate the capital structure, liquidity, and financial flexibility of the Authority. The *Statement of Revenues, Expenses and Changes in Fund Net Position* reflect revenue and expense activity of the Authority for the fiscal year. This statement allows the user to measure the Authority's profitability and credit worthiness by the financial performance of the Authority's operations, and to determine whether the Authority has successfully recovered its operating costs through user fees and other charges. The *Statement of Cash Flows* presents the Authority's inflows and outflows of cash during the financial reporting period, by reporting cash receipts, cash payments, and the net changes in cash. Cash flows are categorized by operating, non-capital financing, capital and related financing, and investing activities. The *Notes to the Financial Statements* and the *Required Supplementary Information* provide necessary disclosures that are essential to a full understanding of the data provided in the aforementioned basic financial statements.

The statistical section includes selected financial, operational, and demographic information presented on a multi-year basis.

The Authority operates as an enterprise fund. Enterprise funds are a type of proprietary fund and function similar to a private business in that user charges and fees are expected to cover costs. The Authority's basic financial statements are presented using the accrual basis of accounting, which provides for revenue recognition in the period in which water and reclamation services are provided and expense recognition when goods and services are received. Additionally, the Authority's basic financial statements utilize the flow of economic resources measurement focus, in which all assets and liabilities are reflected on the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position includes all transactions, such as revenues and expenses that increase or decrease net position.

Financial Highlights

- The assets and deferred outflows of resources of the Authority exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$151,702,917 (*net position*). Of this amount \$24,664,507 (*unrestricted net position*) may be used to meet the ACSA's ongoing obligations to customers and creditors.
- The Authority's total net position increased during the fiscal year by \$8,731,764, which represents a 6.11% increase over the prior year ending balance.
- The Authority's total liabilities as a percentage of net position decreased from 11.25% at June 30, 2015 to 9.89% at June 30, 2016. The decrease is attributable to changes in unearned connection fees and reductions in long-term debt.
- Fiscal year 2016 operating revenues increased 3.57% to \$23,790,065 as compared to fiscal year 2015 while operating expenses increased 6.23% to \$24,816,613 during the same period.

Financial Analysis

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position report information about the Authority's activities to determine if, overall, the financial position improved over the year. These two statements report the net position of the Authority and changes in them. Analyzing the Authority's net position is one way to measure financial health. Non-financial factors such as economic conditions, population growth and new or changed government legislation need to be considered as well. The Authority improved its financial position in 2016.

Net Position

The Authority's net position increased by \$8,731,764 during fiscal year 2016, which represents a 6.11% increase from the prior fiscal year ending net position. At June 30, 2016, total net position was \$151,702,917 as compared to \$142,971,153 the previous year.

FINANCIAL ANALYSIS (continued)

The following table depicts the Authority's condensed summary of net position at June 30, 2016 and 2015.

Condensed Statement of Net Position	2016	2015
Current Assets	\$ 28,084,341	\$ 26,915,742
Investments	4,161,070	3,978,110
Capital assets, net	134,793,102	128,548,358
Total Assets	167,038,513	159,442,210
Deferred Outflows of Resources	337,705	311,615
Current Liabilities	4,276,743	4,736,919
Long-term Liabilities	10,725,411	11,341,135
Total Liabilities	15,002,154	16,078,054
Deferred Outflows of Resources	671,147	704,618
Net investment in capital assets	127,038,410	120,460,048
Unrestricted	24,664,507	22,511,105
Total Net Position	\$ 151,702,917	\$ 142,971,153

FINANCIAL ANALYSIS (continued)

The following table summarizes changes in revenues and expenses between fiscal year 2016 and 2015.

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

	<u>2016</u>	<u>2015</u>
Revenues:		
Operating Revenues:		
Water Sales	\$ 12,564,711	\$ 12,173,073
Sewer Service	10,895,970	10,468,470
Other	329,384	328,862
Non-operating Revenue:		
Investment income	215,035	102,469
Rental income	27,645	33,437
Miscellaneous revenues	335,384	314,255
Fed. Subsidy, Build America Bonds	128,838	134,592
Total Revenues	<u><u>\$ 24,496,967</u></u>	<u><u>\$ 23,555,158</u></u>
Expenses:		
Operating Expenses:		
Purchase of bulk water	\$ 8,117,962	\$ 7,659,583
Purchase of sewer treatment	6,677,681	6,242,149
Depreciation	3,177,311	3,026,916
Administration	1,410,202	1,396,887
Finance	1,556,550	1,333,036
Engineering	1,382,882	1,346,594
Maintenance	2,494,025	2,356,597
Non-operating Expenses:		
Interest Expense	395,056	414,813
Miscellaneous expenses	22,163	193,203
Total Expenses	<u><u>\$ 25,233,832</u></u>	<u><u>\$ 23,969,778</u></u>
Loss before capital contributions	\$ (736,865)	\$ (414,620)
Capital Contributions	9,468,629	7,466,312
Change in net position	8,731,764	7,051,692
Net position – beginning of year	142,971,153	135,919,461
Net position – end of year	<u><u>\$ 151,702,917</u></u>	<u><u>\$ 142,971,153</u></u>

Operating Revenues

Operating revenues totaled \$23,790,065 in fiscal year 2016, an increase of \$819,660 from 2015. This change can be attributed to an increase in the water and sewer rates that took effect July 2015. Operating expenses totaled \$24,816,613 in 2016, an increase of \$1,454,851 mainly due to an increase in purchased water cost and an increase in sewer treatment costs.

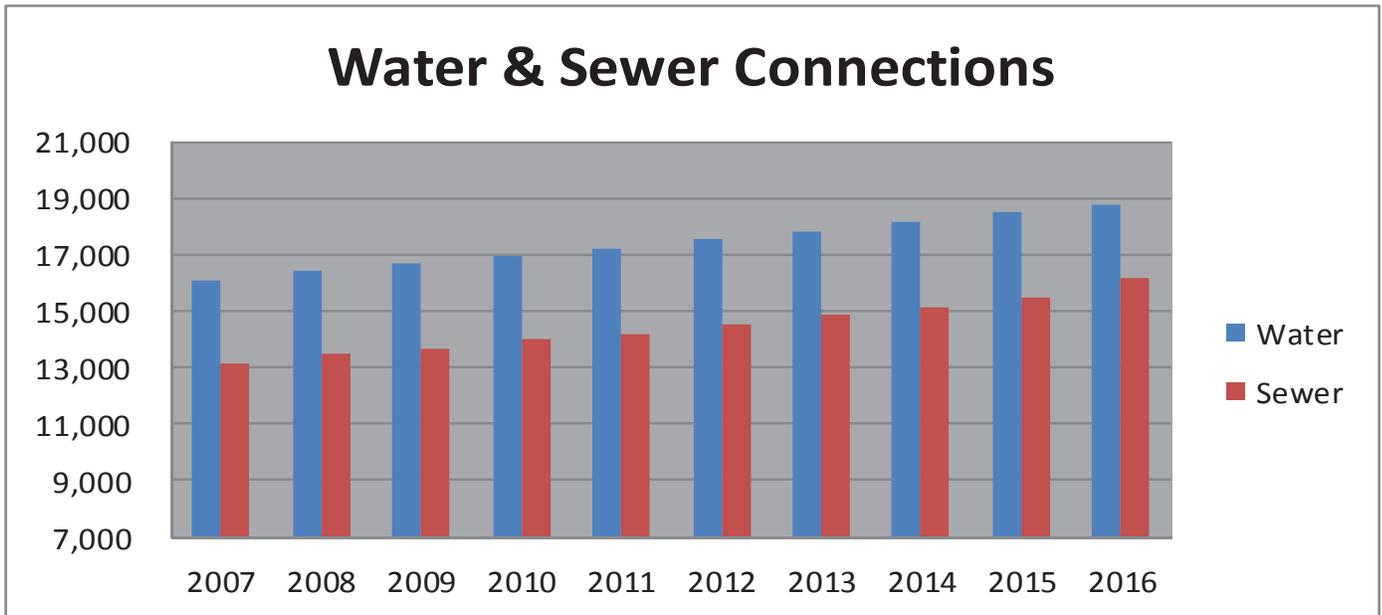
Income Before Capital Contributions

The net loss before capital contributions increased by \$322,245 mainly due to an increase in purchased water and wastewater treatment costs in the current year.

Review of Operations

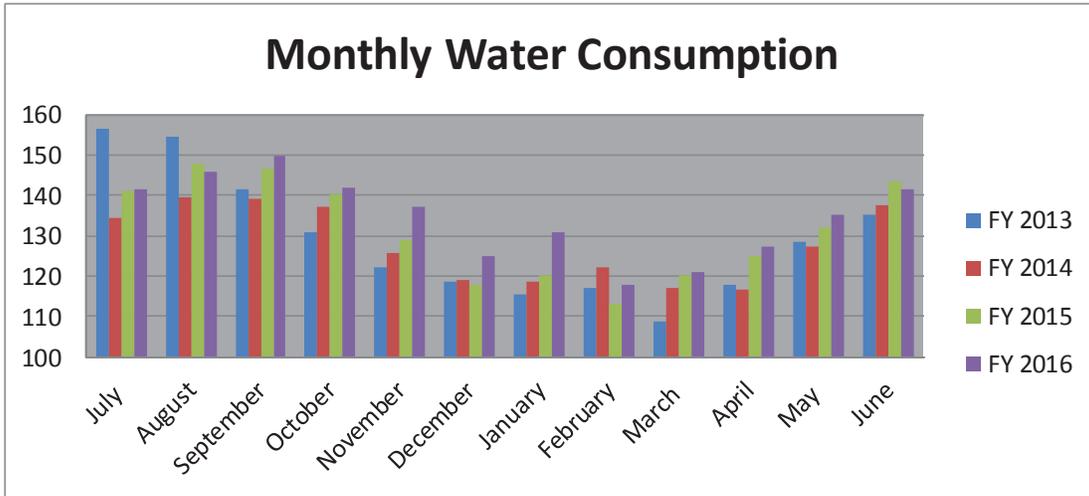
The Authority's water customer base grew to 18,801 accounts by the end of the 2016 fiscal year, an increase from the prior year total of 18,466. Considering multiple units behind master meters, as in apartment complexes, the Authority now serves approximately 30,165 housing units, businesses, industries and institutions, which is an increase of 1.08%.

The 335 new connections for fiscal year 2016 compares favorably to the five year average annual increase in new connections of 316 per year, or the ten year increase (which was heavily affected by the development "boom" year of 2007) of 310 annual new connections.

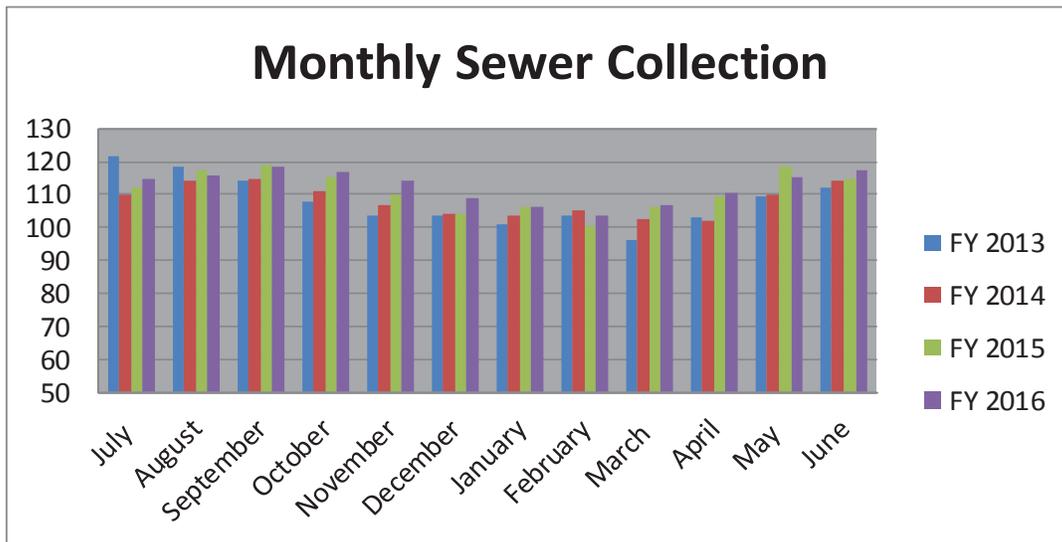


Review of Operations (Continued)

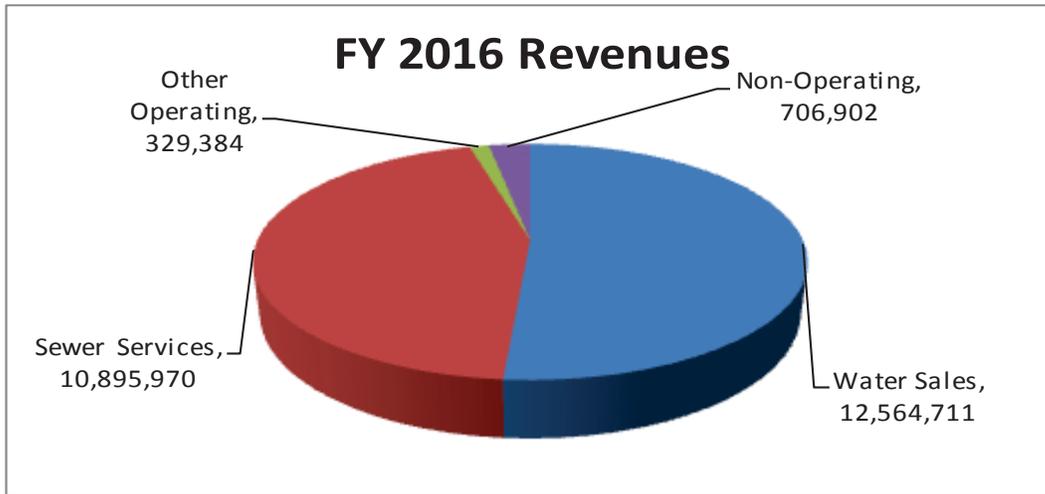
Billed water usage in fiscal year 2016 increased by 35 million gallons as compared to fiscal year 2015. Billed water usage in fiscal year 2016 was 1.61 billion gallons, and was 2.23% greater than billed water usage in fiscal year 2015, and is 4.99% greater than 2014 (1.53 billion gallons). The seasonal variations can be seen in the chart below.



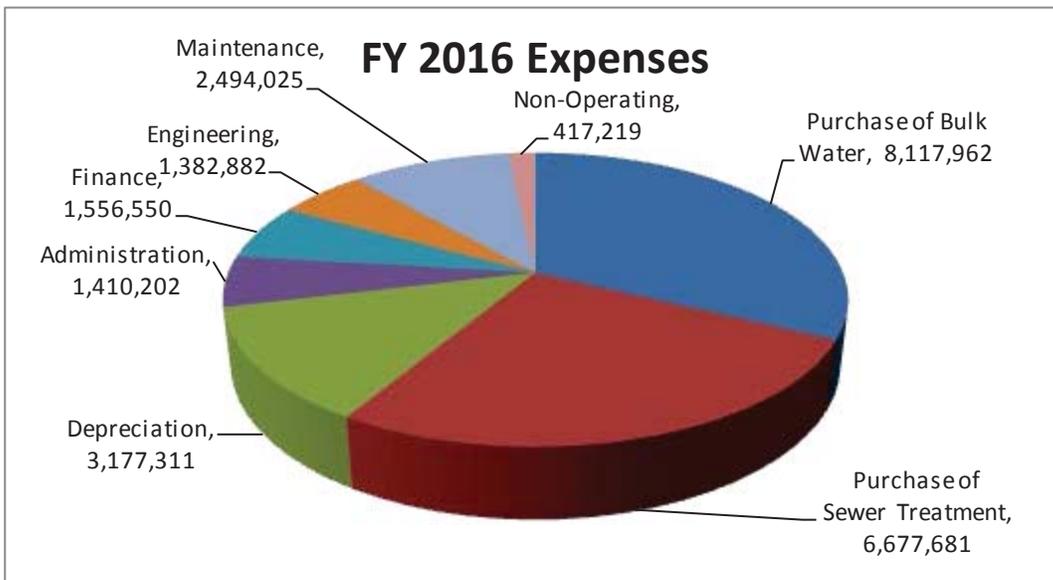
Much like water, the Authority’s sewer customer base grew to 16,168 by the end of the fiscal year, up from 15,508 connections at the end of the fiscal year 2015. Billed sewer collections remain steady at 1.35 billion gallons for fiscal year 2016 which is comparable with both fiscal years 2015 and 2014 (1.33 and 1.30 billion gallons respectively).



Revenues. Revenues for fiscal year 2016 increased in comparison with fiscal year 2015. Total revenues for 2016 were \$24,496,967 as compared to \$23,555,158 in 2015, a 4.00% increase year to year.



Expenses. Total expenses for fiscal year 2016 were \$25,233,832 as compared to \$23,969,778 in 2015, a 5.27% increase, which was primarily due to increases in purchased water from the Rivanna Water and Sewer Authority, and an increase in sewer treatment costs in the current year. In 2016 the total cost of purchased water and sewer treatment was \$14,795,643, which is 6.43% greater than the 2015 total of \$13,901,732. This change is a combination of an increase in purchased water and sewer treatment costs. These costs are based on a variety of factors and can vary significantly based upon these factors including Authority consumption for a given period and the Authority’s proportional allocation of costs based on our flow in comparison to the Authority’s water/sewer treatment provider’s other customer.



CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The Authority's investment in capital assets as of June 30, 2016 amounted to \$134,793,102 (net of accumulated depreciation). This investment in capital assets includes land, structures and improvements, equipment, and construction in progress. The total increase in the Authority's investment in capital assets for the current fiscal year was 4.86%. Additional information related to capital assets can be located in Note 4.

Capital Assets

	<u>2016</u>	<u>2015</u>
Land (including easements)	\$ 1,914,876	\$ 1,987,224
Structures and improvements	165,090,474	155,781,943
Equipment	4,266,450	4,202,731
Construction in progress	<u>8,420,418</u>	<u>8,531,307</u>
Total book value	179,692,218	170,503,205
Less accumulated depreciation	<u>(44,899,116)</u>	<u>(41,954,847)</u>
Net capital assets	<u>\$ 134,793,102</u>	<u>\$ 128,548,358</u>

Long-Term Debt. Outstanding debt includes one Water and Sewer System Revenue Bond (Taxable – Build America Bond) that was issued in November of 2010 for \$10,357,000. Revenue bond coverage, the ratio of gross revenues less direct operational expenses to debt service requirements, was 14.83 in fiscal year 2016. The minimum coverage required by outstanding bond indentures is 1.20. At June 30, 2016, outstanding long-term debt, including the current amount payable, totaled \$8,352,000. Details of this indebtedness may be found in Note 5 of the financial statements.

RESERVES

Operating Reserve. The Authority has established an operating reserve to provide funds for unplanned minor repairs or significant cash outlays. This type of reserve is also valuable when less than anticipated water consumption occurs, during unusually wet years (less outdoor watering occurs), which generally results in less revenue. As part of the budgeting process, a review of the reserve is performed. This reserve is to maintain a minimum equal to three months of operating expenses as calculated from the previous fiscal year. Water and wastewater rates are to be set accordingly to ensure the Operating and Maintenance reserve fund maintains the three month target.

Capital Costs and 3R Reserve. The Authority has established a Repair, Replacement and Rehabilitation (3R) Reserve to provide funds to pay for unexpected major repairs and planned replacement or rehabilitation of equipment or other major capital assets. This reserve is calculated based on the estimated useful life and replacement cost of equipment held by the Authority. For fiscal year 2016, the Authority budgeted \$300,000 for this purpose.

LONG-TERM TRENDS

Operations. Careful planning and budgeting in combination with the use of established reserves has been a stabilizing factor in our rate-setting process for many years. This process has allowed our customers (through the

years) to enjoy relatively low rates for the provision of their water and sewer service, particularly as compared to other regional utilities.

With new development, in combination with aging infrastructure, comes the challenge of meeting both the water supply and the sewer treatment needs and requirements of the growing Albemarle community. Since the Authority employs a “pay-as-you-go” methodology of recovering the costs of operations and most capital projects, increased costs will be passed on to our customers through higher rates and fees. Current customers bear the current cost of operations, with future customers, through new development, bearing the cost of expansion through connection, development, and capacity fees.

Capital Program. Water capital improvement project cost projections per year for the next five years range from \$3,000,000 to \$5,500,000 and sewer capital improvement project cost projections per year for the next five years range from \$5,200,000 to \$6,700,000. The Authority intends to fund these projects through the use of established reserves.

Requests for Information. This financial report is designed to provide a general overview of the Albemarle County Service Authority’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department at 168 Spotnap Road, Charlottesville, Virginia 22911, through our website www.serviceauthority.org or by telephone (434) 977-4511.

**BASIC
FINANCIAL STATEMENTS**

ALBEMARLE COUNTY SERVICE AUTHORITY

STATEMENT OF NET POSITION
June 30, 2016

	2016	(For Comparative Purposes Only) 2015
ASSETS		
Current assets		
Cash and cash equivalents (Note 2)	\$ 22,911,297	\$ 21,933,278
Accounts receivable (Note 3)	3,239,258	2,992,651
Inventory	348,713	342,315
Prepays	128,659	113,808
Cash and cash equivalents, restricted (Note 1)	1,456,414	1,533,690
Total current assets	<u>28,084,341</u>	<u>26,915,742</u>
Noncurrent assets		
Investments (Note 2)	4,161,070	3,978,110
Capital assets: (Note 4)		
Nondepreciable	10,335,294	10,446,183
Depreciable, net	<u>124,457,808</u>	<u>118,102,175</u>
Total noncurrent assets	<u>138,954,172</u>	<u>132,526,468</u>
Total assets	<u>167,038,513</u>	<u>159,442,210</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension contributions subsequent to measurement date (Note 7)	<u>337,705</u>	<u>311,615</u>
LIABILITIES		
Current liabilities		
Accounts payable	2,242,788	1,841,673
Accrued liabilities	58,312	38,152
Customer deposits	416,822	387,955
Interest payable	176,088	185,280
Compensated absences (Note 5)	61,836	55,723
Unearned connection fees (Note 5)	871,897	1,792,136
Current maturities of long-term debt (Note 5)	<u>449,000</u>	<u>436,000</u>
Total current liabilities	<u>4,276,743</u>	<u>4,736,919</u>
Long-term liabilities		
Compensated absences (Note 5)	321,754	334,411
Unearned connection fees (Note 5)	47,465	34,021
Net pension liability (Note 7)	1,957,802	2,165,586
Other post-employment benefits (Note 8)	495,390	455,117
Long-term debt – due in more than one year (Note 5)	<u>7,903,000</u>	<u>8,352,000</u>
Total long-term liabilities	<u>10,725,411</u>	<u>11,341,135</u>
Total liabilities	<u>15,002,154</u>	<u>16,078,054</u>
DEFERRED INFLOWS OF RESOURCES		
Pension related deferred inflows (Note 7)	<u>671,147</u>	<u>704,618</u>
NET POSITION		
Net investment in capital assets	127,038,410	120,460,048
Unrestricted	<u>24,664,507</u>	<u>22,511,105</u>
Total net position	<u>\$ 151,702,917</u>	<u>\$ 142,971,153</u>

The Notes to Financial Statements are
an integral part of this statement.

ALBEMARLE COUNTY SERVICE AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
Year Ended June 30, 2016

	2016	(For Comparative Purposes Only) 2015
OPERATING REVENUES		
Water sales	\$ 12,564,711	\$ 12,173,073
Sewer service	10,895,970	10,468,470
Other	211,656	231,870
Water and sewer connection fees	117,728	96,992
	<u>23,790,065</u>	<u>22,970,405</u>
OPERATING EXPENSES		
Purchase of bulk water	8,117,962	7,659,583
Purchase of sewer treatment	6,677,681	6,242,149
Depreciation	3,177,311	3,026,916
Administration	1,410,202	1,396,887
Finance	1,556,550	1,333,036
Engineering	1,382,882	1,346,594
Maintenance	2,494,025	2,356,597
	<u>24,816,613</u>	<u>23,361,762</u>
Total operating revenues	23,790,065	22,970,405
Total operating expenses	24,816,613	23,361,762
Operating loss	<u>(1,026,548)</u>	<u>(391,357)</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	215,035	102,469
Rental income	27,645	33,437
Miscellaneous revenues	335,384	314,255
Federal subsidy, Build America Bonds	128,838	134,592
Bond interest charges	(395,056)	(414,813)
Miscellaneous expenses	(22,163)	(193,203)
	<u>289,683</u>	<u>(23,263)</u>
Total nonoperating revenues (expenses)	289,683	(23,263)
Loss before capital contributions	(736,865)	(414,620)
CAPITAL CONTRIBUTIONS (Note 6)	<u>9,468,629</u>	<u>7,466,312</u>
Change in net position	8,731,764	7,051,692
NET POSITION – BEGINNING AT JULY 1	<u>142,971,153</u>	<u>135,919,461</u>
NET POSITION – ENDING AT JUNE 30	<u>\$ 151,702,917</u>	<u>\$ 142,971,153</u>

ALBEMARLE COUNTY SERVICE AUTHORITY

STATEMENT OF CASH FLOWS
Year Ended June 30, 2016

	2016	(For Comparative Purposes Only) 2015
OPERATING ACTIVITIES		
Cash received from customers	\$ 23,573,883	\$ 22,710,142
Cash paid for goods and services	(16,562,365)	(15,505,775)
Cash paid to employees	(5,175,097)	(4,796,549)
Other receipts	340,866	342,880
Net cash provided by operating activities	<u>2,177,287</u>	<u>2,750,698</u>
CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributed by developers, customers, and local governments	4,609,247	5,331,749
Repair, replacement, rehabilitation expenses (including capital)	(5,235,533)	(4,832,871)
Principal paid on long-term borrowings	(436,000)	(424,000)
Interest paid on long-term borrowings	(404,248)	(423,753)
Federal subsidy, Build America Bonds	128,838	134,592
Proceeds from sale of capital assets	29,077	22,349
Net cash used in capital and related financing activities	<u>(1,308,619)</u>	<u>(191,934)</u>
INVESTING ACTIVITIES		
Purchase of investment securities	(2,089,753)	(1,050,922)
Proceeds from sale and maturity of investment securities	2,074,879	1,045,406
Interest received	46,949	17,485
Net cash provided by (used in) investing activities	<u>32,075</u>	<u>11,969</u>
Net increase (decrease) in cash and cash equivalents	900,743	2,570,733
CASH AND CASH EQUIVALENTS		
Beginning at July 1	<u>23,466,968</u>	<u>20,896,235</u>
Ending at June 30	<u>\$ 24,367,711</u>	<u>\$ 23,466,968</u>
RECONCILIATION TO STATEMENT OF NET POSITION		
Cash and cash equivalents	\$ 22,911,297	\$ 21,933,278
Cash and cash equivalents, restricted	<u>1,456,414</u>	<u>1,533,690</u>
	<u>\$ 24,367,711</u>	<u>\$ 23,466,968</u>

(Continued)

ALBEMARLE COUNTY SERVICE AUTHORITY

STATEMENT OF CASH FLOWS
Year Ended June 30, 2016

	<u>2016</u>	<u>(For Comparative Purposes Only) 2015</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	\$ (1,026,548)	\$ (391,357)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	3,177,311	3,026,916
Other revenues	340,866	342,880
Pension expense net of employer contributions	(267,345)	(151,437)
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(246,607)	(317,772)
Inventory	(6,398)	(58,009)
Prepays	(14,851)	(41,719)
Increase (decrease) in:		
Accounts payable	136,545	186,724
Accrued liabilities	20,160	11,576
Customer deposits	28,867	57,433
Compensated absences	(6,544)	33,387
Unearned connection fees	1,558	76
Other post-employment benefits	40,273	52,000
Net cash provided by operating activities	<u>\$ 2,177,287</u>	<u>\$ 2,750,698</u>
SCHEDULE OF NON-CASH ACTIVITIES		
Contributions of capital assets	<u>\$ 3,951,029</u>	<u>\$ 3,023,394</u>
Capital asset additions financed by accounts payable	<u>\$ 730,682</u>	<u>\$ 466,112</u>
Increase in fair value of investments	<u>\$ 168,086</u>	<u>\$ 84,984</u>

ALBEMARLE COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1. Summary of Significant Accounting Policies

(a) Reporting Entity

The Albemarle County Service Authority (the Authority) was created by a resolution of the Board of Supervisors (BOS) of Albemarle County, Virginia (the County) in April 1964. The Authority is chartered by the State Corporation Commission and is an independent public body responsible for undertaking projects as may be specified for the distribution and sale of potable water to retail customers and for the collection of wastewater from retail customers and delivery of such wastewater to the Rivanna Water and Sewer Authority (RWSA). The management of the Authority is vested in a board of six members appointed by the County's BOS.

To determine the appropriate reporting entity for the Authority, its relationship with the County was considered. Although the members of the Authority's Board of Directors are appointed by the Board of County Supervisors, the County is not financially accountable for the Authority. In addition, there is no potential for the Authority to provide specific financial benefits to, or impose specific financial burdens on, the County, and the Authority is not fiscally dependent on the County. Accordingly, based on these criteria, the Authority is not included as a component unit in the County's financial statements.

The following is a summary of the Authority's significant accounting policies:

(b) Basis of Presentation and Accounting

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to enterprise funds of governmental units. An enterprise fund is a proprietary type fund used to account for operations that are financed and operated in a manner similar to private business enterprises. The Authority's intent is that the costs of providing goods or services to customers on a continuing basis be financed or recovered primarily through user charges. Periodic determination of revenues earned, expenses incurred, and/or changes in net position is appropriate for capital maintenance, public policy, management control and accountability.

The Authority follows the accrual basis of accounting. Under this basis of accounting, revenue is recognized when earned and expenses are recorded when incurred. Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Authority. Operating revenues consist primarily of charges for water consumption and wastewater treatment. Operating expenses consist of bulk water purchases, sewer treatment, administrative expenses, and depreciation of capital assets. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing type activities and result from non-exchange transactions or ancillary services.

When an expense is incurred for purposes in which both restricted and unrestricted net assets are available, it is the Authority's policy to first apply restricted resources.

ALBEMARLE COUNTY SERVICE AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

Note 1. Summary of Significant Accounting Policies (Continued)

(c) Cash and Investments

Cash and temporary investments include amounts in demand deposits as well as short-term investments with an original maturity of three months or less.

Restricted cash and temporary investments include amounts held in money market funds as well as short-term investments with an original maturity of three months or less. These amounts consist of reserves for debt service and deposits from customers for service.

Investments include United States government and agency obligations of the Commonwealth of Virginia and its subdivisions. All investments are stated at fair value. Interest income from investments is recorded in the year earned.

(d) Fair Value Measurements

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and are described as follows:

- Level 1 inputs are quoted prices in active markets for identical assets;
- Level 2 inputs are significant other observable inputs;
- Level 3 inputs are significant unobservable inputs.

(e) Accounts Receivable

All continuing service receivables are recognized when earned with no allowance for uncollectibles, as delinquent accounts attach as an enforceable lien on property if not collected within a certain period of time once notification has been given to the owner.

An estimated amount has been recorded for services rendered but not yet billed as of the close of the fiscal year.

(f) Inventory

Inventory is valued using the weighted-average method. Inventories are recorded as an operating expense when consumed rather than when purchased.

(g) Restricted Assets

Restricted assets represent resources designated for specific purposes and include developers' advances and customer deposits.

ALBEMARLE COUNTY SERVICE AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

Note 1. Summary of Significant Accounting Policies (Continued)

(h) Capital Assets

The Authority capitalizes all property and permanent right-of-way easements, equipment, and infrastructure assets with a cost greater than \$5,000 and an estimated useful life of more than one year.

Capital assets are stated at historical cost. Donated assets are recorded at fair market value at the time received. Expenses for repairs and upgrading which materially add to the value or life of an asset are capitalized. Other maintenance and repair costs are expensed as incurred.

Depreciation and amortization for both purchased and contributed assets is recorded as depreciation and amortization expense on a straight-line basis over the following estimated useful lives:

Land improvements	10-20 years
Structures and improvements	10-60 years
Equipment	3-10 years

Interest is capitalized on qualifying construction in progress projects until they have reached the point of substantial completion. For those projects financed with tax-exempt debt, the amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing to finance the project and the interest earned from temporary investment of the debt proceeds. Capitalized interest is amortized using the straight-line method over the useful life of the asset. There are no projects currently financed with tax-exempt debt thus, no interest was capitalized for the year ended June 30, 2016.

(i) Construction in Progress

Construction in progress includes design and construction costs that accumulate until completion of the respective project, at which time the total cost is transferred to depreciable capital assets. When applicable, interest and other carrying costs are capitalized to construction in progress.

(j) Compensated Absences

Authority employees are granted annual leave in varying amounts based on years of service. In the event of termination, an employee is reimbursed for accumulated annual leave in full. Annual leave is considered a liability and is accrued as earned. The Authority does not accrue sick pay when earned since its employees do not have vested rights to receive such pay except to the extent of time not worked due to sickness.

(k) Unearned Connection Fees

Unearned connection fees consist of advances to the Authority under prescribed conditions by developers in exchange for credit vouchers to be used to pay facility fees (both water and sewer) in order to connect to the Authority's system. The Authority recognizes the revenue when the credit voucher is redeemed.

ALBEMARLE COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

(l) Deferred outflows/inflows of resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position applicable to future periods, so will not be recognized as an outflow of resources (expense) until then. The Authority has only one item that qualifies for reporting in this category, which consists of contributions subsequent to the measurement date for pensions; this will be applied to the net pension liability in the next fiscal year.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position applicable to future periods, and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has only one item that qualifies for reporting in this category, which is pension related deferred outflows that consist of differences between projected and actual earnings and expected and actual experience. This difference will be recognized in pension expense over a closed five year period.

(m) Pensions

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

(n) Net Position

Net position is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction, or improvement of those assets. Net investment in capital assets excludes unspent debt proceeds. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

(o) Capital Contributions

Capital contributions are recorded for the receipt of funds, property, lines and improvements by developers, customers or other governments.

ALBEMARLE COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

(p) Comparative Information

The basic financial statements include certain prior year summarized comparative information in total, but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Authority's financial statements for the prior year from which the summarized information was derived.

(q) Estimates

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

(r) Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pensions* improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and

ALBEMARLE COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73* addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement will be effective for the year ending June 30, 2017, except for certain provisions regarding assumptions for plans with a measurement date that differs from the employer's reporting date – those provisions are effective for the year ending June 30, 2018.

ALBEMARLE COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 2. Deposits and Investments

Deposits

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

Investments

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

The fair value of the position in LGIP is the same as the value of the pool shares. As the pool is not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury. LGIP maintains a policy to operate in a manner consistent with SEC Rule 2a-7. Due to the nature of LGIP, it is considered a cash and cash equivalent on the Statement of Net Position.

The Authority's investments are subject to interest rate, credit, concentration of credit, and custodial credit risk as described herein.

The Authority has recurring fair value measurements as of June 30, 2016. Those include U. S. Bonds classified in Level 1 of the fair value hierarchy and are valued using prices quoted in active markets for those bonds.

Interest rate risk: Interest rate risk is the risk that the fair value of the securities in the portfolio will decline due to rising interest rates. As a means of limiting this exposure, the Authority's investment guidelines restrict duration of maturity to 24 months without approval of the Executive Director.

Credit risk: Credit risk is the risk of loss due to the failure of the security issuer or backer to repay its obligations, and may also apply where there is a loss of fair value of the investment due to a deterioration of an issuer's credit rating.

Concentration of credit risk: Concentration of credit risk is the risk of loss attributed to the magnitude of investments held from a single issuer. The Authority's investment portfolio as of June 30, 2016 is concentrated in securities issued by the Federal Home Loan Bank (FHLB) (49.8%), the Federal National Mortgage Association (FNMA) (24.7%), and the Federal Farm Credit Bank (FFCB) (25.5%).

ALBEMARLE COUNTY SERVICE AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

Note 2. Deposits and Investments (Continued)

Investments (Continued)

The table below details the fair value and rating as determined by Standard & Poor's for each issuer of the Authority's investments as of June 30, 2016:

Rated Debt Investment Value and Quality Ratings			
	AA+	AAAm	A-1+
U. S. Agencies	\$ 4,161,070	\$ -	\$ -
Local Government Investment Pool	-	15,590,419	-
U.S. Treasury Money Market Reserves	-	-	562,402
	\$ 4,161,070	\$ 15,590,419	\$ 562,402
Investment Type	Investment Maturities		
	Fair Value	1-5 Years	6-10 Years
U.S. Agencies	\$ 4,161,070	\$ 2,042,210	\$ 2,118,860

Custodial credit risk: Custodial credit risk is the risk that the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside custodial party. All of the securities purchased by the Authority are held in safekeeping by a third party custodial bank or institution in the Authority's name, and therefore, the Authority is not exposed to custodial credit risk.

The Authority has recurring fair value measurements as of June 30, 2016. Those include U.S. bonds classified in Level 1 of the fair value hierarchy and are valued using prices quoted in active markets for those bonds.

Note 3. Accounts Receivable

Accounts receivable consist of the following:

	Billed	Unbilled	Total
Receivables, current:			
Water	\$ 901,524	\$ 746,447	\$ 1,647,971
Sewer	733,415	601,062	1,334,477
Other	256,810	-	256,810
	\$ 1,891,749	\$ 1,347,509	\$ 3,239,258

ALBEMARLE COUNTY SERVICE AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

Note 4. Capital Assets

Changes in capital assets for the year are as follows:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Reductions/ Reclassifications</u>	<u>Balance June 30, 2016</u>
Capital assets, not being depreciated				
Land and land rights	\$ 1,914,876	\$ -	\$ -	\$ 1,914,876
Construction in progress	8,531,307	5,504,477	(5,615,366)	8,420,418
Total capital assets, not being depreciated	<u>10,446,183</u>	<u>5,504,477</u>	<u>(5,615,366)</u>	<u>10,335,294</u>
Capital assets, being depreciated				
Land improvements	72,348	-	(72,348)	-
Structures and improvements	155,781,943	3,702,366	5,606,165	165,090,474
Equipment	4,202,731	235,207	(171,488)	4,266,450
Total capital assets, being depreciated	<u>160,057,022</u>	<u>3,937,573</u>	<u>5,362,329</u>	<u>169,356,924</u>
Less accumulated depreciation for:				
Land improvements	(72,348)	-	72,348	-
Structures and improvements	(39,179,727)	(2,787,472)	1,420	(41,965,779)
Equipment	(2,702,772)	(389,839)	159,274	(2,933,337)
Total accumulated depreciation	<u>(41,954,847)</u>	<u>(3,177,311)</u>	<u>233,042</u>	<u>(44,899,116)</u>
Total capital assets being depreciated, net	<u>118,102,175</u>	<u>760,262</u>	<u>5,595,371</u>	<u>124,457,808</u>
Total capital assets, net	<u>\$ 128,548,358</u>	<u>\$ 6,264,739</u>	<u>\$ (19,995)</u>	<u>\$ 134,793,102</u>

Construction commitments:

The Authority's active construction projects as of June 30 are as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Wastewater line rehabilitations or relinings	\$ 865,343	\$ 703,843
Water line replacements	2,405,466	1,061,922
	<u>\$ 3,270,809</u>	<u>\$ 1,765,765</u>

ALBEMARLE COUNTY SERVICE AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

Note 5. Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2016 was as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Amounts Due Within One Year
Revenue bond	\$ 8,788,000	\$ -	\$ (436,000)	\$ 8,352,000	\$ 449,000
Compensated absences	390,134	248,329	(254,873)	383,590	61,836
Other post-employment benefits	455,117	126,736	(86,463)	495,390	-
Unearned connection fees	<u>1,826,157</u>	<u>3,262,815</u>	<u>(4,169,610)</u>	<u>919,362</u>	<u>871,897</u>
	<u>\$ 11,459,408</u>	<u>\$ 3,637,880</u>	<u>\$ (4,946,946)</u>	<u>\$ 10,150,342</u>	<u>\$ 1,382,733</u>

A single revenue bond for \$10,357,000 was issued as a Build America Bond (BAB) on November 1, 2010. Proceeds from the sale were used to (1) provide new money funding for the North Fork Regional Pump Station project and to (2) pay the cost of issuance. All water and sewer revenues are pledged equally and ratably to secure payment of the principal and interest on the revenue bond. This Bond bears interest at the rate of 4.6%, payable semiannually. The true interest cost, after application of the BAB subsidy, is 2.98%.

The revenue bond debt service requirements to maturity are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Anticipated BAB Subsidy	Net Interest
2017	\$ 449,000	\$ 384,192	\$ (134,467)	\$ 249,725
2018	463,000	363,538	(127,238)	236,300
2019	477,000	342,240	(119,784)	222,456
2020	491,000	320,298	(112,104)	208,194
2021	506,000	297,712	(104,199)	193,513
2022-2026	2,764,000	1,125,390	(393,887)	731,503
2027-2031	<u>3,202,000</u>	<u>450,616</u>	<u>(157,716)</u>	<u>292,900</u>
	<u>\$ 8,352,000</u>	<u>\$ 3,283,986</u>	<u>\$ (1,149,395)</u>	<u>\$ 2,134,591</u>

Federal arbitrage regulations:

The Authority is required to adhere to the rebate and reporting requirements of the federal tax code pertaining to arbitrage. The Authority is in compliance with federal arbitrage regulations. Any potential liabilities arising from arbitrage have been deemed immaterial in relation to the financial statements.

ALBEMARLE COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 6. Capital Contributions

Capital contributions for the year are summarized as follows:

Developer and customer contributions of capital assets	\$ 3,951,029
Crozet water and sewer – System/capacity fees	1,377,530
Urban water and sewer – System/capacity fees	<u>4,140,070</u>
	<u>\$ 9,468,629</u>

Note 7. Defined Benefit Pension Plan

Plan Description

All full-time, salaried permanent employees of Albemarle County Service Authority, (the “Political Subdivision”) are automatically covered by VRS Retirement Plan upon employment. This plan is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. The *Code of Virginia*, as amended, assigns the authority to establish and amend benefit provisions to the Virginia General Assembly. The system issues a publicly available comprehensive annual financial report for VRS. A copy of that report may be downloaded from the VRS website at <http://www.varetire.org/PDF/Publications/2015-annual-report.pdf>.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these benefits structures has a different eligibility criteria. The specific information for each plan is as follows:

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

- **Hybrid Opt-In Election** - VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan’s effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.
- **Retirement Contributions** - Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% 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

ALBEMARLE COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 7. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 1 (Continued)

separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.

- **Creditable Service** - Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.
- **Vesting** - Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.
- **Calculating the Benefit** - The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier, and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.
- **Average Final Compensation** - A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.
- **Service Retirement Multiplier** - The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. 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 1.70% or 1.85% as elected by the employer.
- **Normal Retirement Age** - Age 65 or age 60 for hazardous duty employees.
- **Earliest Unreduced Retirement Eligibility** - Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service, for hazardous duty employees.
- **Earliest Reduced Retirement Eligibility** - Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. 50 with at least five years of creditable service for hazardous duty employees.
- **Cost-of-Living Adjustment (COLA) in Retirement** - The Cost-of-Living Adjustment (COLA) matches the first 3.00% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4.00%) up to a maximum COLA of 5.00%.
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(Continued)

ALBEMARLE COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 7. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 1 (Continued)

- **Disability Coverage** for members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased, or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.

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

- **Hybrid Opt-In Election** - Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.
- **Retirement Contributions** - Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016.
- **Creditable Service** - Same as Plan 1.
- **Vesting** - Same as Plan 1.
- **Calculating the Benefit** - See definition under Plan 1.
- **Average Final Compensation** - A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.
- **Service Retirement Multiplier** - Same as Plan 1 for service earned, purchased, or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased, or granted on or after January 1, 2013. Sheriffs, regional jail superintendents, and hazardous duty employees are same as Plan 1.
- **Normal Retirement Age** - Normal Social Security retirement age. Hazardous duty employees are the same as Plan 1.
- **Earliest Unreduced Retirement Eligibility** - Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. Hazardous duty employees are the same as Plan 1.
- **Earliest Reduced Retirement Eligibility** - Age 60 with at least five years (60 months) of creditable service. Hazardous duty employees are the same as Plan 1.
- **Cost-of-Living Adjustment (COLA) in Retirement** - The Cost-of-Living Adjustment (COLA) matches the first 2.00% increase in the CPI-U and half of any additional increase (up to 2.00%), for a maximum COLA of 3.00%.
- **Disability Coverage** - Same as Plan 1 except that the retirement multiplier is 1.65%.

(Continued)

ALBEMARLE COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 7. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan - The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. The defined benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

- **Eligible Members** - Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes political subdivision employees; members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.
- **Non-Eligible Members** - Some employees are not eligible to participate in the Hybrid Retirement Plan. They include political subdivision employees who are covered by enhanced benefits for hazardous duty employees and those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
- **Retirement Contributions** - A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.
- **Creditable Service** –
 - **Defined Benefit Component:** Under the defined benefit component of the plan, creditable service includes active service and is generally subject to the same terms as in Plans 1 and 2.
 - **Defined Contributions Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
- **Vesting** –
 - **Defined Benefit Component:** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.
 - **Defined Contributions Component:** Defined contribution vesting refers to the

ALBEMARLE COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 7. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.

After two years, a member is 50% vested and may withdraw 50% of employer contributions. After three years, a member is 75% vested and may withdraw 75% of employer contributions. After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.

- **Calculating the Benefit -**
 - **Defined Benefit Component:** See definition under Plan 1.
 - **Defined Contribution Component:** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
- **Average Final Compensation -** Same as Plan 2 for the defined benefit component of the plan.
- **Service Retirement Multiplier –** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. This is not applicable to sheriffs, regional jail superintendents, or hazardous duty employees.
- **Normal Retirement Age –**
 - **Defined Benefit Component:** Same as Plan 2, however, not applicable for hazardous duty employees.
 - **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Earliest Unreduced Retirement Eligibility –**
 - **Defined Benefit Component:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. This is not applicable to hazardous duty employees.
- **Earliest Unreduced Retirement Eligibility –**
 - **Defined Benefit Component:** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. This is not applicable to hazardous duty employees.
 - **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Cost-of-Living Adjustment (COLA) in Retirement**
 - **Defined Benefit Component:** Same as Plan 2.

ALBEMARLE COUNTY SERVICE AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

Note 7. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Disability Coverage** - Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
- **Purchase of Prior Service** – As with Plans 1 and 2, members may choose to purchase prior service credits subject to the Plan provisions.

Employees Covered by Benefit Terms

As of the June 30, 2014 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	28
Inactive members:	
Vested inactive members	6
Non-vested inactive members	13
Inactive members active elsewhere in VRS	11
Total inactive members	30
Active members	70
Total covered employees	128

Contributions

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

ALBEMARLE COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 7. Defined Benefit Pension Plan (Continued)

The political subdivision's contractually required contribution rate for the year ended June 30, 2016 was 9.21% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$337,705 and \$311,615 for the years ended June 30, 2016 and June 30, 2015, respectively.

Net Pension Liability

The political subdivision's net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Actuarial Assumptions

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Inflation	2.50%
Salary increases, including inflation	3.50 – 5.35%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation*

Mortality rates: General employees – 14% of deaths are assumed to be service related. Mortality is projected using the applicable RP-2000 Mortality Table Projected to 2020 with various setbacks or set forwards for both males and females.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

General Employees - Largest 10 – Non-LEOS and all Others (Non 10 Largest): Update mortality table; decrease in rates of service retirement; decrease in rates of disability retirement; and reduce rates of salary increase by 0.25% per year.

ALBEMARLE COUNTY SERVICE AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

Note 7. Defined Benefit Pension Plan (Continued)

Long-Term Expected Rate of Return

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

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

Discount Rate

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

ALBEMARLE COUNTY SERVICE AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

Note 7. Defined Benefit Pension Plan (Continued)

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

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2014	\$ 13,717,254	\$ 11,551,668	\$ 2,165,586
Changes for the year:			
Service cost	319,994	-	319,994
Interest	945,438	-	945,438
Differences between expected and actual experience	(456,292)	-	(456,292)
Contributions – employer	-	317,575	(317,575)
Contributions – employee	-	171,283	(171,283)
Net investment income	-	535,330	(535,330)
Benefit payments, including refunds of employee contributions	(421,994)	(421,994)	-
Administrative expenses	-	(7,154)	7,154
Other changes	-	(110)	(110)
Net changes	387,146	594,930	(207,784)
Balances at June 30, 2015	\$ 14,104,400	\$ 12,146,598	\$ 1,957,802

ALBEMARLE COUNTY SERVICE AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

Note 7. Defined Benefit Pension Plan (Continued)

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

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

	<u>1.00% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1.00% Increase (8.00%)</u>
Political subdivision's net pension liability	\$ 3,864,372	\$ 1,957,802	\$ 377,195

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

For the year ended June 30, 2016, the political subdivision recognized pension expense of \$76,320. At June 30, 2016, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 362,981
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	308,166
Employer contributions subsequent to the measurement date	<u>337,705</u>	<u>-</u>
Total	<u>\$ 337,705</u>	<u>\$ 671,147</u>

ALBEMARLE COUNTY SERVICE AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

Note 7. Defined Benefit Pension Plan (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The \$337,705 reported as deferred outflows of resources related to pensions resulting from the Political Subdivision’s contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Reduction to Pension Expense</u>
2017	\$ (214,390)
2018	(214,390)
2019	(214,392)
2020	(27,975)
2021	-
Thereafter	-

Payables to the Pension Plan

At June 30, 2016, there were no amounts payable to the Virginia Retirement System.

Note 8. Other Post-Employment Benefits

Plan description:

The Authority offers other post-employment benefits (OPEB) under a single employer plan by allowing qualifying retirees to continue to participate in the Authority’s health insurance plan. Retirees must pay the cost of the premium but receive an implicit rate subsidy by virtue of participating in the Authority’s plan.

The Authority’s Voluntary Early Retirement Incentive Program (VERIP) provides an additional health insurance subsidy for up to five years for employees who retire and meet the requirements of the plan. VERIP participants may choose to apply this subsidy to Authority sponsored health insurance premiums or to purchase other insurance. For fiscal year 2016, the Authority’s health and benefit contribution was \$750 per month. VERIP benefits are paid monthly for a period of five years after retirement or until age 65, whichever comes first.

Participants in the Authority’s VERIP must meet the following requirements: employees must be eligible for early or full retirement under the provisions of the VRS, must have been employed by the Authority for 10 years prior to retirement, and must be at least 50 years of age. Any employees retiring under the disability provisions of VRS and/or Social Security will not be eligible for VERIP.

ALBEMARLE COUNTY SERVICE AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

Note 8. Other Post-Employment Benefits (Continued)

Funding policy:

The Authority establishes employer health and benefit contribution rates as part of the budgetary process each year. Benefits are funded on a pay-as-you go basis.

Annual required contribution (ARC):

The annual cost of OPEB is called the annual required contribution or ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Annual OPEB cost and net OPEB obligation:

The estimated contributions are based on the projected implicit rate subsidy covered during the year for the retirees by the Authority. Changes to the Authority's net OPEB obligation were as follows:

Annual required contribution	\$ 131,546
Interest on OPEB obligation	15,929
Adjustment to ARC	<u>(20,739)</u>
Annual OPEB cost	126,736
Estimated contributions made	<u>(86,463)</u>
Increase in net OPEB obligation	40,273
Net OPEB obligation at beginning of year	<u>455,117</u>
Net OPEB obligation at end of year	<u><u>\$ 495,390</u></u>

Annual OPEB cost and net OPEB obligation:

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the past three years is as follows:

	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2014	\$ 94,000	43%	\$ 403,117
June 30, 2015	\$ 100,000	48%	\$ 455,117
June 30, 2016	\$ 126,736	68%	\$ 495,390

ALBEMARLE COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 8. Other Post-Employment Benefits (Continued)

Funded status and funding progress:

The actuarial accrued liability for benefits was \$1,398,058 as of July 1, 2015, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,398,058. The covered payroll (annual payroll of active employees covered by the plan) was \$3,671,117 and the ratio of the UAAL to the covered payroll was 38.10%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future and reflect a long-term perspective. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial methods and assumptions:

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

The July 1, 2015 actuarial valuation used the projected unit credit method, with linear pro-ration to decrement. The unfunded liability is amortized over 30 years (closed) as a level percentage of pay. The remaining amortization period as of June 30, 2016 is 23 years. The actuarial assumptions included continuation of the flat dollar VERIP subsidy of \$810 per month to increase 6% annually in the future, an investment/discount rate of 3.5%, a payroll growth rate of 3%, and a rate of inflation of 3.0%.

Note 9. Service Contracts

The Authority purchases all water and sewage treatment services from RWSA. These purchases amounted to \$8,117,962 for water and \$6,677,681 for sewage treatment services for the current year.

ALBEMARLE COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 9. Service Contracts (Continued)

RWSA was formed in 1972 as a joint venture of the City of Charlottesville, the County of Albemarle, and the Authority. The RWSA operates under the terms of a Service Agreement which was signed in 1973 and is expected to continue indefinitely. Under the terms of the agreement, as well as several supplemental agreements since that time, the City of Charlottesville and the Authority have covenanted to purchase water and sewer services from RWSA. RWSA constructs and maintains the capital assets necessary to provide these water and sewer services, and has issued debt to fund these projects. RWSA's charges to the Authority included a component for operations as well as a component for current and future estimated debt service.

In the current year, the charges that were associated with debt service were \$6,849,211.

Note 10. Risk Management

The Risk Management Programs of the Authority are as follows:

The Authority is a member of the VML Insurance program. The liability coverage includes: local government liability, auto, property, boiler/machinery, fidelity/crime, workers compensation and general liability coverage's. VML Insurance program is a self-administered risk pool which, for premiums paid, protects Virginia State and local government entities. Settlement amount under these policies have not exceeded insurance coverage for the last three fiscal years.

The limits of the pools' liability to the Authority are as follows:

- Local Government Liability – \$1,000,000
- Auto – \$1,000,000
- Property – \$18,637,197
- Boiler/Machinery – \$15,000,000
- Fidelity/Crime – \$250,000
- General Liability – \$5,000,000
- Workers Compensation – Specific excess limits as per statute, aggregate excess limits up to the limits of the Aggregate Excess Loss Fund. Employers' Liability: \$1,000,000 for each bodily injury accident for each employee.

The Authority continues to carry commercial insurance for all other risks of loss, namely employee health insurance. Claims have not exceeded coverage for the last three fiscal years.

ALBEMARLE COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 11. Deferred Compensation Plan

Since 1988 the Authority has offered its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all Authority employees, permits them to defer a maximum of 100% of their salary or \$18,000 per year, whichever is less. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Note 12. Contingency – Off-Site Extensions

Off-site extensions of water and/or sanitary sewer lines to serve new developments shall be the responsibility of the developer. An off-site extension is defined as an extension of a water and/or sanitary sewer line by a developer from the developer's property boundary as determined by the Authority to existing Authority facilities. Under specific circumstances, upon completion of the project and acceptance into the Authority's system, the Authority shall enter into a written agreement granting the developer credit against future water and/or sewer system development charges. The credit can only be used for the property for which the off-site extension is constructed. The credit does not constitute a priority for water or sewer service. As water and/or sewer connections are made, the developer must use its existing credit first. The credit shall expire ten years after acceptance of the off-site water and/or sewer line extension into the Authority's system. If all requirements for use of credits are met, the total amount of unrecorded but potential credits is \$90,618 at June 30, 2016.

**REQUIRED SUPPLEMENTARY
INFORMATION**

ALBEMARLE COUNTY SERVICE AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
June 30, 2016

	<u>2015</u>	<u>2014</u>
Total Pension Liability		
Service cost	\$ 319,994	\$ 303,515
Interest on total pension liability	945,438	891,399
Difference between expected and actual experience	(456,292)	-
Benefit payments, including refunds of employee contributions	<u>(421,994)</u>	<u>(423,861)</u>
Net change in total pension liability	387,146	771,053
Total pension liability – beginning	<u>13,717,254</u>	<u>12,946,201</u>
Total pension liability – ending	<u>14,104,400</u>	<u>13,717,254</u>
Plan Fiduciary Net Position		
Contributions – employer	317,575	326,450
Contributions – employee	171,283	170,882
Net investment income	535,330	1,576,735
Benefit payments, including refunds of employee contributions	(421,994)	(423,861)
Administrative expenses	(7,154)	(8,347)
Other	<u>(110)</u>	<u>84</u>
Net change in plan fiduciary net position	594,930	1,641,943
Plan fiduciary net position – beginning	<u>11,551,668</u>	<u>9,909,725</u>
Plan fiduciary net position – ending	<u>12,146,598</u>	<u>11,551,668</u>
Net pension liability – ending	<u>\$ 1,957,802</u>	<u>\$ 2,165,586</u>
Plan fiduciary net position as a percentage of total pension liability	<u>86%</u>	<u>84%</u>
Covered employee payroll	<u>\$ 3,474,178</u>	<u>\$ 3,355,469</u>
Net pension liability as a percentage of covered employee payroll	<u>56%</u>	<u>65%</u>

The plan years above are reported in the entity's financial statements in the fiscal year following the plan year - i.e., plan year 2014 information was presented in the entity's fiscal year 2015 financial report.

This schedule is intended to show information for 10 years. Since fiscal year 2015 (plan year 2014) was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

ALBEMARLE COUNTY SERVICE AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS

June 30, 2016

Year Ended June 30	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a percentage of Covered Payroll
2015	\$ 311,615	\$ 311,615	\$ -	\$ 3,474,178	8.97%
2016	337,705	337,705	-	3,635,900	9.29%

Schedule is intended to show information for 10 years. Since 2015 was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

ALBEMARLE COUNTY SERVICE AUTHORITY

SCHEDULE OF OPEB FUNDING PROGRESS

June 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
July 1, 2013	\$ -	\$ 945,000	\$ 945,000	- %	\$ N/A	N/A %
July 1, 2014	-	995,000	995,000	-	N/A	N/A
July 1, 2015	-	1,398,058	1,398,058	-	3,671,117	38.1

ALBEMARLE COUNTY SERVICE AUTHORITY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2016

Note 1. Changes of Benefit Terms

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

Note 2. Changes of Assumptions

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

Largest 10 – Non-LEOS:

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

Largest 10 –LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All Others (Non 10 Largest) – LEOS:

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

STATISTICAL SECTION

The statistical section of the Authority's comprehensive annual financial report presents detailed information as a context for understanding what the information presented in the financial statements, note disclosures and required supplementary information say about the Authority's overall financial health. This information has not been audited by the independent auditor.

Contents

Financial Trends

Tables 1-4

These schedules contain trend information to help the reader understand how the Authority's financial performance and well-being have changed over time.

Revenue Capacity

Tables 5-6

These schedules contain information to help the reader assess the Authority's most significant revenue sources.

Debt Capacity

Table 7

These schedules present information to help the reader assess the affordability of the Authority's current level of outstanding debt and the Authority's ability to issue additional debt in the future.

Demographic and Economic Information

Tables 8-9

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Authority's financial activities take place.

Operating Information

Tables 10-17

These schedules contain information about the Authority's operations and resources to help the reader understand how the Authority's financial information relates to the services the Authority provides.

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

Table 1

ALBEMARLE COUNTY SERVICE AUTHORITY
NET POSITION
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015*	2016
Business-type activities										
Net investment in capital assets	\$ 79,695,637	\$ 85,602,877	\$ 92,181,771	\$ 96,191,023	\$ 101,013,464	\$ 105,620,650	\$ 108,233,265	\$ 115,617,250	\$ 120,460,048	\$ 127,038,410
Restricted for debt service	157,601	157,601	157,601	157,601	-	-	-	-	-	-
Unrestricted	12,512,905	12,668,284	12,773,883	14,974,733	14,796,257	19,429,475	22,100,955	23,012,237	22,511,105	24,664,507
Total business-type activities net position	\$ 92,366,143	\$ 98,428,762	\$ 105,113,255	\$ 111,323,357	\$ 115,809,721	\$ 125,050,125	\$ 130,334,220	\$ 138,629,487	\$ 142,971,153	\$ 151,702,917

* GASB Statement No. 68 was adopted in fiscal year 2015.

Table 2

ALBEMARLE COUNTY SERVICE AUTHORITY
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Operating expenses										
Operating expenses:										
Water	\$ 8,353,895	\$ 8,499,109	\$ 8,786,314	\$ 9,391,666	\$ 9,592,501	\$ 9,981,754	\$ 10,686,931	\$ 10,262,354	\$ 11,204,103	\$ 11,872,889
Sewer	5,895,662	6,132,189	7,018,888	8,401,774	7,751,031	8,822,189	9,490,588	10,111,833	9,130,743	9,766,413
Other	1,983,604	2,153,004	2,275,108	2,382,631	2,469,557	2,501,718	2,556,232	2,819,633	3,026,916	3,177,311
Total operating expenses	\$ 16,233,161	\$ 16,784,302	\$ 18,080,310	\$ 20,176,071	\$ 19,813,089	\$ 21,305,661	\$ 22,733,751	\$ 23,193,820	\$ 23,361,762	\$ 24,816,613
Operating revenues										
Charges for services:										
Water	\$ 8,440,152	\$ 9,114,653	\$ 10,151,345	\$ 10,248,876	\$ 10,952,033	\$ 10,651,869	\$ 10,701,103	\$ 10,665,192	\$ 12,173,073	\$ 12,564,711
Sewer	5,583,776	6,788,262	8,645,944	8,839,336	9,251,466	9,280,346	9,611,718	9,588,948	10,468,470	10,895,970
Connection	235,339	184,056	167,218	91,726	69,869	94,442	550,967	296,724	328,862	329,384
Total operating revenues	\$ 14,259,267	\$ 16,086,971	\$ 18,964,507	\$ 19,179,938	\$ 20,273,368	\$ 20,026,657	\$ 20,863,788	\$ 20,550,864	\$ 22,970,405	\$ 23,790,065
Net (expense) revenue	\$ (1,973,894)	\$ (697,331)	\$ 884,197	\$ (996,133)	\$ 460,279	\$ (1,279,004)	\$ (1,869,963)	\$ (2,642,956)	\$ (391,357)	\$ (1,026,548)
Other revenues and changes in net assets										
Investment earnings	\$ 436,257	\$ 633,377	\$ 220,234	\$ 219,634	\$ 52,937	\$ 68,431	\$ 19,745	\$ 110,135	\$ 102,469	\$ 215,035
Miscellaneous revenues	479,473	523,143	476,447	421,664	545,294	565,472	218,389	310,340	347,692	363,029
Capital contributions	5,970,862	5,706,636	5,176,757	6,646,082	4,615,713	9,036,424	7,680,924	10,739,627	7,466,312	9,468,629
Other expenses	(111,081)	(103,208)	(73,141)	(81,145)	(1,187,859)	(310,417)	(765,000)	(221,879)	(473,424)	(288,381)
Total other revenues and changes in net position	\$ 6,775,511	\$ 6,759,948	\$ 5,800,297	\$ 7,206,235	\$ 4,026,085	\$ 9,359,910	\$ 7,154,058	\$ 10,938,223	\$ 7,443,049	\$ 9,758,312
Change in net position	\$ 4,801,616	\$ 6,062,617	\$ 6,684,494	\$ 6,210,102	\$ 4,486,364	\$ 8,080,906	\$ 5,284,095	\$ 8,295,267	\$ 7,051,692	\$ 8,731,764

Table 3

**ALBEMARLE COUNTY SERVICE AUTHORITY
WATER AND SEWER SOLD BY TYPE OF CUSTOMER
LAST TEN FISCAL YEARS
(IN MILLIONS OF GALLONS)**

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Type of Water Customer										
Single-family residential	809.10	720.70	725.80	705.40	740.60	710.70	709.20	704.40	715.80	714.07
Multi-family residential	386.50	357.00	347.00	347.20	350.40	354.10	360.10	370.00	376.30	379.59
Commercial (Offices)	48.20	41.60	48.30	44.80	52.90	51.10	49.10	47.40	49.20	64.97
Commercial (Other)	284.70	257.10	259.80	253.20	270.00	245.40	246.40	238.10	246.40	240.93
Industrial	30.80	24.80	20.90	20.50	20.10	17.50	18.30	20.30	16.20	21.59
Institutional	151.80	142.50	143.90	143.80	152.60	179.90	164.80	154.40	172.10	189.99
TOTAL WATER SOLD	1,711.10	1,543.70	1,545.70	1,514.90	1,586.60	1,558.70	1,547.90	1,534.60	1,576.00	1,611.14
Residential & irrigation 0-3,000	\$3.37	\$3.62	\$3.86	\$3.32	\$3.31	\$3.31	\$3.44	\$3.33	\$3.69	\$3.80
3,001-6,000	\$4.04	\$5.43	\$6.10	\$6.64	\$6.62	\$6.62	\$6.88	\$6.66	\$7.38	\$7.60
6,001-9,000	\$7.22	\$9.67	\$10.90	\$9.96	\$9.93	\$9.93	\$10.32	\$9.99	\$11.07	\$11.40
Over 9,000	N/A	N/A	N/A	\$13.28	\$13.24	\$13.24	\$13.76	\$13.32	\$14.76	\$15.20
Multi-family & non-residential	\$4.29	\$5.33	\$6.04	\$6.19	\$6.19	\$6.19	\$6.43	\$6.43	\$7.12	\$7.33
Type of Sewer Customer										
Single-family residential	582.40	541.70	538.90	537.00	556.40	548.90	553.00	556.90	565.35	570.61
Multi-family residential	363.20	328.30	315.00	314.20	322.50	324.60	332.90	339.80	347.75	355.89
Commercial (Offices)	36.70	33.80	39.20	36.20	43.50	44.40	41.90	41.40	42.53	58.43
Commercial (Other)	229.70	217.40	211.90	213.80	220.00	203.00	202.40	202.60	209.61	204.30
Industrial	27.30	21.20	17.60	17.70	20.90	14.70	16.70	15.40	15.49	17.45
Institutional	121.10	114.30	117.60	116.20	128.60	157.40	148.00	141.80	152.28	140.99
TOTAL SEWER SOLD	1,360.40	1,256.70	1,240.20	1,235.10	1,291.90	1,293.00	1,294.90	1,297.90	1,333.01	1,347.67
Rate per 1,000 gallons	\$4.11	\$5.41	\$7.00	\$7.21	\$7.21	\$7.21	\$7.49	\$7.49	\$7.86	\$8.10

Table 4

**ALBEMARLE COUNTY SERVICE AUTHORITY
WATER AND SEWER RATES
LAST TEN FISCAL YEARS**

Fiscal Year	Monthly Service Charge	Water Volume/Period	Rate per 1,000 Gallons	Sewer Volume/Period	Rate per 1,000 Gallons
2007	\$ 4.82	Single-family Residential and all Irrigation: 0-3,000 3,001-6,000 Over 6,000 Multi-family and Non-Residential: All Metered Consumption	\$ 3.37 4.04 7.22 4.29	Metered Water Consumption	\$ 4.11
2008	\$ 5.11	Single-family Residential and all Irrigation: 0-3,000 3,001-6,000 Over 6,000 Multi-family and Non-Residential: All Metered Consumption	\$ 3.62 5.43 9.67 5.33	Metered Water Consumption	\$ 5.41
2009	\$ 5.27	Single-family Residential and all Irrigation: 0-3,000 3,001-6,000 Over 6,000 Multi-family and Non-Residential: All Metered Consumption	\$ 3.86 6.10 10.90 6.04	Metered Water Consumption	\$ 7.00
2010	\$ 6.15 Varies with Meter Size	Single-family Residential and all Irrigation: 0-3,000 3,001-6,000 6,001-9,000 Over 9,000 Multi-family and Non-Residential: All Metered Consumption	\$ 3.32 6.64 9.96 13.28 6.19	Metered Water Consumption	\$ 7.21
2011 and 2012	\$ 6.15 Varies with Meter Size	Single-family Residential and all Irrigation: 0-3,000 3,001-6,000 6,001-9,000 Over 9,000 Multi-family and Non-Residential: All Metered Consumption	\$ 3.31 6.62 9.93 13.24 6.19	Metered Water Consumption	\$ 7.21
2013	\$ 6.15 Varies with Meter Size	Single-family Residential and all Irrigation: 0-3,000 3,001-6,000 6,001-9,000 Over 9,000 Multi-family and Non-Residential: All Metered Consumption	\$ 3.44 6.88 10.32 13.76 6.43	Metered Water Consumption	\$ 7.49
2014	\$ 6.15 Varies with Meter Size	Single-family Residential and all Irrigation: 0-3,000 3,001-6,000 6,001-9,000 Over 9,000 Multi-family and Non-Residential: All Metered Consumption	\$ 3.33 6.66 9.99 13.32 6.43	Metered Water Consumption	\$ 7.49
2015	\$ 7.18 Varies with Meter Size	Single-family Residential and all Irrigation: 0-3,000 3,001-6,000 6,001-9,000 Over 9,000 Multi-family and Non-Residential: All Metered Consumption	\$ 3.69 7.38 11.07 14.76 7.12	Metered Water Consumption	\$ 7.86
2016	\$ 7.40 Varies with Meter Size	Single-family Residential and all Irrigation: 0-3,000 3,001-6,000 6,001-9,000 Over 9,000 Multi-family and Non-Residential: All Metered Consumption	\$ 3.80 7.60 11.40 15.20 7.33	Metered Water Consumption	\$ 8.10

Table 5

**ALBEMARLE COUNTY SERVICE AUTHORITY
TOP TEN REVENUE PAYERS
CURRENT YEAR AND NINE YEARS AGO**

Customer	Fiscal Year 2016			Fiscal Year 2007		
	Water Billed (in gallons)	Rank	Percent of Total Water Sales	Water Billed (in gallons)	Rank	Percent of Total Water Sales
County of Albemarle	23,768,900	1	1.48 %	-		- %
University of Virginia	23,763,600	2	1.47	-		-
Southwood Mobile Homes	20,674,000	3	1.28	30,080,000	1	1.76
Trophy Chase Apartments	20,018,400	4	1.24	-		-
Martha Jefferson Hospital	19,754,000	5	1.23	-		-
Old Salem Apartments	19,664,600	6	1.22	19,414,600	4	1.13
Alb./Charlottesville Regional Jail	18,307,000	7	1.14	21,210,000	3	1.24
Abbingtion Crossing (Squire Hill)	18,254,600	8	1.13	18,618,200	5	1.09
Four Seasons Apartments	17,770,000	9	1.10	26,544,500	2	1.55
Westminster Canterbury	17,650,000	10	1.10	-		-
Turtle Creek Apartments	17,357,400		1.08	16,610,000	7	0.97
Marriott "The Colonnades"	11,629,200		0.72	14,734,500	8	0.86
Westgate Apartments	13,504,000		0.84	17,885,000	6	1.05
Eldercare Gardens	-		0.00	10,295,000	10	0.60
Hyosung (tire factory)	-		0.00	11,687,000	9	0.68
	<u>242,115,700</u>		<u>15.03%</u>	<u>187,078,800</u>		<u>10.93%</u>
Total water consumption:	<u>1,611,141,900</u>			<u>1,711,080,474</u>		

Customer	Fiscal Year 2016			Fiscal Year 2007		
	Sewer Billed (in gallons)	Rank	Percent of Total Sewer Sales	Sewer Billed (in gallons)	Rank	Percent of Total Sewer Sales
University of Virginia	22,245,700	1	1.65 %			- %
Trophy Chase Apartments	20,018,400	2	1.49			-
Old Salem Apartments	19,664,600	3	1.46	19,414,600	4	1.43
Alb./Charlottesville Regional Jail	18,307,000	4	1.36	21,210,000	3	1.56
Abbingtion Crossing (Squire Hill)	18,254,600	5	1.35	18,618,200	5	1.37
Four Seasons Apartments	17,770,000	6	1.32	26,544,500	2	1.95
Turtle Creek Apartments	17,301,000	7	1.28	16,610,000	7	1.22
Westminster Canterbury	17,129,000	8	1.27			-
County of Albemarle	15,019,700	9	1.11			-
Westgate Apartments	13,489,000	10	1.00	17,204,100	6	1.26
Southwood Mobile Homes	12,848,341		0.95	27,745,716	1	2.04
Marriott "The Colonnades"	9,951,200		0.74	12,168,900	8	0.89
Hyosung (tire factory)	-		-	10,795,900	9	0.79
Eldercare Gardens	-		-	10,295,000	10	0.76
	<u>201,998,541</u>		<u>14.99%</u>	<u>180,606,916</u>		<u>13.28%</u>
Total sewer usage:	<u>1,347,671,169</u>			<u>1,360,400,000</u>		

Table 6

**ALBEMARLE COUNTY SERVICE AUTHORITY
OUTSTANDING DEBT PER CONNECTION, PER CAPITA,
AND DEBT PER CAPITA AS A PERCENTAGE OF INCOME PER CAPITA
LAST TEN FISCAL YEARS**

Fiscal Year	Outstanding Debt	Number of ¹ Connections	Debt per Connection (3) = (1)/(2)	Estimated ² Population Served (4) = (2) * 2.5	Debt per Capita (5) = (1)/(4)	Income ³ per Capita (6)	Debt per Capita as a % Income per Capita (7) = (5)/(6)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
2007	1,514,900	16,098	94.11	40,245	37.64	43,738	0.0861 %
2008	1,051,400	16,466	63.85	41,165	25.54	47,336	0.0540
2009	709,200	16,670	42.54	41,675	17.02	49,971	0.0341
2010	364,100	16,974	21.45	42,435	8.58	50,558	0.0170
2011	10,357,000	17,207	601.91	43,018	240.76	47,779	0.5039
2012	10,022,000	17,512	572.29	43,780	228.92	49,137	0.4659
2013	9,623,000	17,802	540.56	44,505	216.22	52,687	0.4104
2014	9,212,000	18,132	508.05	45,330	203.22	56,979	0.3567
2015	8,788,000	18,466	475.90	46,165	190.36	56,851	0.3348
2016	8,352,000	18,801	444.23	47,003	177.69	58,603	0.3032

¹ Connections from Table 12

² The Virginia Department of Health estimates 2.5 residents per connection; this number is used in lieu of the population data in Table 8 which is representative of the entire county.

³ Per capita income data from Table 8 (Source: U.S. Bureau of Economic Analysis, Charlottesville-Albemarle Area)

Note: The Authority is not subject to legal debt limitations, and has issued no debt which is overlapping with other jurisdictions during the last ten fiscal years.

Table 7

**ALBEMARLE COUNTY SERVICE AUTHORITY
PLEDGED-REVENUE COVERAGE
LAST TEN FISCAL YEARS**

Fiscal Year	Gross Revenue	Direct Operating Expense¹	Net Revenue Available for Debt Service	Principal	Interest	Total	Coverage
2007	21,068,559	14,249,556	6,819,004	463,500	45,938	509,438	13.39
2008	22,877,727	14,631,298	8,246,428	342,200	34,658	376,858	21.88
2009	24,786,044	15,805,202	8,980,841	345,100	25,036	370,136	24.26
2010	26,404,819	17,793,440	8,611,379	357,500	15,200	372,700	23.11
2011	25,590,487	17,343,532	8,246,955	364,100	295,636	659,736	12.50
2012	29,649,584	18,803,943	10,845,641	335,000	476,307	811,307	13.37
2013	28,935,078	20,177,519	8,757,559	399,000	452,600	851,600	10.28
2014	31,851,830	20,374,187	11,477,643	411,000	443,993	854,993	13.42
2015	31,021,470	20,334,846	10,686,624	424,000	414,813	838,813	12.74
2016	33,965,596	21,639,302	12,326,294	436,000	395,056	831,056	14.83

¹Excluding depreciation and amortization

Table 8

**ALBEMARLE COUNTY SERVICE AUTHORITY
COUNTY DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS**

Calendar Year	Population ¹	Personal Income ²	Per Capita Income ²	Per Capita Income as		School Enrollment ³	Unemployment Rate ⁴
				Percent (%) of U.S. Average ²	U.S. Average ²		
2006	92,035	5,785,403,000	43,738	122	12,766	2.5	
2007	93,117	6,386,472,000	47,336	124	12,803	2.2	
2008	94,075	6,823,322,000	49,971	126	12,830	3.0	
2009	96,247	7,038,250,000	50,558	123	13,035	5.1	
2010	99,150	6,742,806,000	47,779	121	13,222	5.1	
2011	98,970	7,014,795,000	49,137	122	13,222	5.1	
2012	102,251	7,609,998,000	52,687	124	13,122	5.2	
2013	103,000	8,350,340,000	56,979	129	13,263	5.4	
2014	104,489	8,420,079,000	56,851	128	13,677	4.7	
2015	105,703	8,795,194,000	58,603	127	13,737	3.7	

¹ U.S. Census Bureau (estimates based on July 1)

² U.S. Bureau of Economic Analysis, Charlottesville-Albemarle Area, Personal Income, Population, Per Capita Personal Income

³ County of Albemarle, Department of Education

⁴ Virginia Labor Market Information, www.virginialmi.com

Table 9

**ALBEMARLE COUNTY SERVICE AUTHORITY
TEN LARGEST EMPLOYERS (ALBEMARLE COUNTY)
CURRENT YEAR AND NINE YEARS AGO**

Employer	Estimated Product/Service	Estimated Employment in 2016	Rank in 2016	Estimated Employment in 2007	Rank in 2007
University of Virginia/Blue Ridge Hospital	Higher education	1,000 - over	1	1,000 - over	1
County of Albemarle	Local government	1,000 - over	2	1,000 - over	2
Sentara Healthcare/Martha Jefferson Hospital	Health care	1,000 - over	3	-	
State Farm Mutual Automobile Insurance	Insurance services	1,000 - over	4	1,000 - over	3
U.S. Department of Defense	National security	500 - 999	5	500 - 999	6
Northrop Grumman Corporation	Computer & electronic mfg.	500 - 999	6	500 - 999	5
Piedmont Virginia Community College	Higher education	500 - 999	7	500 - 999	10
Wal Mart	Department store	250 - 499	8	-	
Crutchfield Corporation	Electronics retailer	250 - 499	9	250 - 499	8
University of Virginia Medical Center	Health care	500 - 999	10	-	
GE Fanuc Automation North Corporation	Computer & electronic mfg.	250 - 499		250 - 499	7
UVA Health Services Foundation	Health care	250 - 499		1,000 - over	4
Americare Plus	Health care	-		250 - 499	9

Table 10

**ALBEMARLE COUNTY SERVICE AUTHORITY
FULL-TIME EMPLOYEES
LAST TEN FISCAL YEARS**

Department	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Administration	6	8	8	8	9	9	9	10	10	10
Finance	13	13	14	14	14	14	15	15	16	16
Engineering	15	15	15	15	15	15	16	16	16	16
Maintenance	25	28	30	30	30	30	28	31	32	33
Total	59	64	67	67	68	68	68	72	74	75

Table 11

**ALBEMARLE COUNTY SERVICE AUTHORITY
OPERATING INDICATORS
LAST TEN FISCAL YEARS**

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
New connections	413	368	204	304	233	305	306	314	334	335
Water meters read ¹	195,020	202,192	204,587	210,320	212,916	217,029	219,483	223,195	227,435	231,275
Service orders processed ²	9,503	11,011	10,618	11,208	9,909	11,925	11,707	11,823	12,116	12,405
Water main breaks	18	20	8	13	15	8	14	14	16	6
Sewer overflows	10	6	6	4	10	3	-	11	2	3
Sewer blockages	6	35	11	5	5	5	5	7	5	3

¹ Number of meters read for billing.

² Includes new service requests, requests for disconnection, meter installations & exchanges, investigations, and miscellaneous customer requests.

Table 12

**ALBEMARLE COUNTY SERVICE AUTHORITY
CAPITAL ASSET STATISTICS
LAST TEN FISCAL YEARS**

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Number of water connections	16,098	16,466	16,670	16,974	17,207	17,512	17,818	18,132	18,466	18,801
Number of sewer connections	13,112	13,474	13,671	13,972	14,202	14,549	14,840	15,168	15,508	16,168
Miles of water lines	318.66	328.63	334.16	336.39	339.59	341.90	346.55	351.76	355.00	338.52
Miles of sewer lines	231.11	239.86	240.49	243.46	246.75	248.48	252.81	258.40	261.10	281.67
Fire hydrants	2,193	2,260	2,370	2,149	2,167	2,230	2,302	2,330	2,375	2,511
Water pumping stations	11	11	10	11	11	11	10	9	9	9
Sewer pumping stations	11	11	11	11	11	11	12	12	12	12
Water storage tanks	8	8	8	8	9	9	8	7	7	8

Table 13

**ALBEMARLE COUNTY SERVICE AUTHORITY
REVENUES BY SOURCE
LAST TEN FISCAL YEARS**

Fiscal Year	Service Charges	Connection Charges	Rental Income	Interest Earnings	Other	Total
2007	14,023,928	235,339	58,839	436,257	420,634	15,174,997
2008	15,902,915	184,056	44,713	633,377	478,430	17,243,491
2009	18,797,289	167,218	39,972	220,234	436,474	19,661,188
2010	19,088,212	91,726	39,972	219,634	381,692	19,821,236
2011	20,203,499	69,869	39,972	52,937	608,497	20,974,774
2012	19,932,215	94,442	32,294	68,431	699,885	20,827,267
2013	20,312,821	102,275	43,656	19,745	836,157	21,314,654
2014	20,254,140	92,788	33,810	110,135	621,330	21,112,203
2015	22,641,543	96,992	33,437	102,469	680,717	23,555,158
2016	23,460,681	117,728	27,645	215,035	675,878	24,496,967

Table 14

**ALBEMARLE COUNTY SERVICE AUTHORITY
EXPENSES BY FUNCTION
LAST TEN FISCAL YEARS**

Fiscal Year	Water & Sewer Costs	Departmental Operation Expenses	Bond Interest Charges	Depreciation	Other	Total
2007	9,831,896	4,417,661	40,531	1,983,604	70,550	16,344,242
2008	9,692,393	4,938,905	30,666	2,153,004	72,542	16,887,510
2009	10,315,905	5,489,297	21,010	2,275,108	52,131	18,153,451
2010	12,149,203	5,644,236	11,029	2,382,631	70,116	20,257,215
2011	11,560,006	5,783,526	295,636	2,469,557	995,398	21,104,123
2012	12,824,548	5,979,395	275,791	2,501,718	201,333	21,782,785
2013	14,027,324	6,150,195	152,232	2,556,232	825,500	23,711,483
2014	13,849,536	6,524,651	360,711	2,819,633	2,032	23,556,563
2015	13,901,732	6,433,114	414,813	3,026,916	193,203	23,969,778
2016	14,795,643	6,843,659	395,056	3,177,311	22,163	25,233,832

Table 15

**ALBEMARLE COUNTY SERVICE AUTHORITY
SCHEDULE OF INSURANCE IN FORCE
June 30, 2016**

Insurer	Type of Coverage	Policy Number	Policy Period		Annual Premium
			From	To	
Virginia Municipal Group Self Insurance Association	Local Government Liability Boiler & Machinery General Business Policy: Auto General Liability Property Fidelity & Crime Workers' Compensation	P-2014-2015-VML- 0107-1	7/1/2015	6/30/2016	\$87,717

Table 16

**ALBEMARLE COUNTY SERVICE AUTHORITY
BILLED SERVICES AND CONNECTIONS
LAST TEN FISCAL YEARS**

Fiscal Year	Water Connections	Water Billions Gallons	Consumption Ratio Water/Sewer	Sewer Billions Gallons	Sewer Connections
2007	16,098	1.71	1.3	1.36	13,112
2008	16,466	1.54	1.2	1.30	13,474
2009	16,670	1.55	1.3	1.24	13,671
2010	16,974	1.51	1.2	1.24	13,972
2011	17,207	1.59	1.2	1.29	14,202
2012	17,512	1.56	1.2	1.29	14,549
2013	17,802	1.55	1.1	1.30	14,840
2014	18,132	1.53	1.2	1.30	15,168
2015	18,466	1.57	1.2	1.33	15,508
2016	18,801	1.61	1.2	1.35	16,168

Table 17

**ALBEMARLE COUNTY SERVICE AUTHORITY
CONSTRUCTION ACTIVITY, PROPERTY VALUE, AND CASH EQUIVALENTS
LAST TEN FISCAL YEARS**

Fiscal Year	Construction	Property Value	Cash & Cash Equivalents
2007	\$ 1,667,991	\$ 79,285,437	\$ 7,536,191
2008	4,626,055	82,043,522	6,312,069
2009	9,699,696	83,203,674	6,826,191
2010	5,487,584	91,067,539	15,581,689
2011	11,194,733	90,835,523	26,087,350
2012	20,811,567	92,313,712	22,953,823
2013	19,677,628	97,096,463	21,163,973
2014	5,832,585	118,282,983	20,896,235
2015	8,531,307	120,017,051	23,466,968
2016	8,420,418	126,372,684	24,367,711

COMPLIANCE SECTION

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 Honorable Members of the Board of Directors
Albemarle County Service Authority
Charlottesville, Virginia

We have audited, 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, the financial statements of the Albemarle County Service Authority (the “Authority”), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements, and have issued our report thereon dated October 17, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority’s internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control as Item 13-1 that we consider to be a significant deficiency.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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*.**

Albemarle County Service Authority's Response to Finding

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
October 17, 2016

ALBEMARLE COUNTY SERVICE AUTHORITY

**SUMMARY OF COMPLIANCE MATTERS
Year Ended June 30, 2016**

As more fully described in the 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*, we performed tests of the Authority's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia

Cash and Investment Laws

Local Retirement Systems

Debt Provisions

Procurement Laws

Uniform Disposition of Unclaimed Property Act

Conflicts of Interest

ALBEMARLE COUNTY SERVICE AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended June 30, 2016

A. FINDING – FINANCIAL STATEMENT AUDIT

13-1: Segregation of Duties (Significant Deficiency)

Condition:

An important aspect of any internal control system is the segregation of duties. Not all duties at the Authority have been adequately segregated. In an ideal system, no individual would perform more than one duty in connection with any transaction or series of transactions. With limited staff, sufficiently separating duties can be difficult or even impossible. As with all areas of internal control, management and those charged with governance should make careful decisions about the cost versus benefit of any internal control.

Recommendation:

During fiscal year 2016, improvements were made to eliminate certain conflicting duties. Continued steps should be taken to eliminate performance of conflicting duties where possible or to implement effective compensating controls.

Management's Response:

While the Authority's staff size is limited, we agree that duties should be segregated to the extent that their costs do not outweigh their benefit. During the fiscal year, the Authority completed the first phase of a modern Enterprise Resource Planning (ERP) system implementation which replaced the outdated financial reporting solution. This implementation significantly improved the Authority's ability to establish user permissions or access rights to effectively segregate duties and improve staff efficiency. Upon completion of the second and final phase, which is expected to be complete in fiscal year 2017, the Authority will complete the establishment of user rights. The improved segregation of duties is one of the many benefits the Authority anticipates upon successful implementation.

A lign

Values

We align ourselves with our core values of honesty, trust, integrity, mutual respect, open communication, and employee empowerment.

C ommit

Community

We commit to provide responsive customer service, to collaborate fully with our community partners, and to promote conservation and environmental stewardship.

S trive

Internal Focus

We strive for professional excellence by maintaining consistent and fair policies across the organization, and encouraging and recognizing pride and dedication to ensure a healthy working environment.

A spire

Future

We aspire to practice strategic foresight and fiscal responsibility while embracing innovation.

Vision

Serve and conserve today, sustain for tomorrow, and protect our resources forever.

Mission

With pride and dedication we serve our customers by providing clean safe water, exemplary wastewater services, and fire protection infrastructure. Together with our community partners we maintain and improve our utility system in a timely, cooperative, and financially responsible manner.