



**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**



South Fork Rivanna Reservoir

ALBEMARLE COUNTY SERVICE AUTHORITY
CHARLOTTESVILLE, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

*For the Fiscal Year Ended
June 30, 2014*

Prepared by:

Department of Finance
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ALBEMARLE COUNTY SERVICE AUTHORITY

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ALBEMARLE COUNTY SERVICE AUTHORITY

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INTRODUCTORY SECTION



October 21, 2014

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, 2014 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 management 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 sold all water and sewer treatment and major water distribution and sewer collection facilities to the newly-formed 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 2013 unemployment rate of 4.6% as compared to Virginia (5.5%) and to the Country (7.4%) as a whole. The total number of jobs in Albemarle County grew to 52,371, a 4% increase in employment. The relative stability in employment, and a recovering local economy, bolstered the County's economic vitality, with a raise in key economic indicators such as sales tax revenues (4.92% increase), meals taxes (3.1% increase) and in transient occupancy taxes (hotel/lodging, 0.7% decrease)⁽²⁾. The housing market is showing a continuing recovery, with home sales up 5.0% compared to a year earlier, and median home sale prices were up 0.6% from one year ago⁽³⁾.

⁽¹⁾Virginia Community Profile – Albemarle County, Virginia Employment Commission, updated October 3, 2014

⁽²⁾The Albemarle Quarterly Economic Vitality Indicators, February 5, 2014 (comparison of 3rd quarters of calendar years 2012 and 2013)

⁽³⁾CAAR (Charlottesville Area Association of REALTORS) 2014 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 2014 provided no exception. There has been a rebound in the number of new connections for the past three years (2012 – 305 connections, 2013 – 306 connections, 2014 – 314 connections), with a continuing growth each year; averaging a 1.8% increase in connections in 2012, 2013 and 2014⁽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 468 new residential building permits in 2013, with the total value of building permits growing from year 2011 (\$188,612,000), to 2012 (\$201,999,000), to 2013 (\$198,079,000). 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 2014 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 without increasing water and sewer volume charges, 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 2014, including waterline replacements, and a significant amount of wastewater line rehabilitations or relining's that were completed during the year. The completion of the North Fork Regional Sewer Pump Station, the Buckingham Circle Waterline Replacement Project, the Oak Hill sewer installation, the Hollymeade Water Main Replacement, and the St. George Avenue/Buck Road Water Main Replacement accounted for much of the Authority's \$5 million investment in capital assets this fiscal year.

⁽⁴⁾Albemarle County Service Authority Annual Financial Report 2012, 2013, 2014, Table 11

⁽⁵⁾County of Albemarle, Community Development Department, 2013 Year End Building Report

Operations

For Fiscal Year 2014, Operating Revenues (\$20,550,864) from water and sewer sales and service connection fees decreased by 1.50% as compared to Fiscal Year 2013. Associated operating expenses (\$23,193,820) reflected an increase of 2.02% as compared to Fiscal Year 2013, primarily driven by an increase in depreciation expense on significant projects placed in service during Fiscal Year 2014. The increase can be attributed to multiple large projects, most specifically the North Fork Regional Pump Station, being placed in service and depreciated during Fiscal Year 2014.

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 (as in this fiscal year) 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 less than the prior year partially due to the reduction in the water/sewer rate charged to customers in Fiscal Year 2014 (reduction of 3% in the metered water consumption volume rate effective for Fiscal Year 2014). 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, 2013. This was the thirty-second 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 Terri Knight, Customer Service Supervisor, and Accountants, Emily Shifflett and Barbara Klendworth, who have worked tirelessly on this annual financial report, 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 Lunsford
Director of Finance



Government Finance Officers Association

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

Presented to

**Albermarle County
Service Authority, Virginia**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

ALBEMARLE COUNTY SERVICE AUTHORITY

DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2014

BOARD MEMBERS

Mr. Clarence W. Roberts, Chairman

Mr. Bill Kittrell, Vice-Chairman

Ms. Holly Hueston

Ms. Jennifer Sulzberger

Ms. Kimberly Swanson

Mr. Charles Tolbert

EXECUTIVE DIRECTOR

Mr. Gary B. O'Connell

DIRECTOR OF FINANCE

Mr. Quin G Lunsford

TRUSTEE

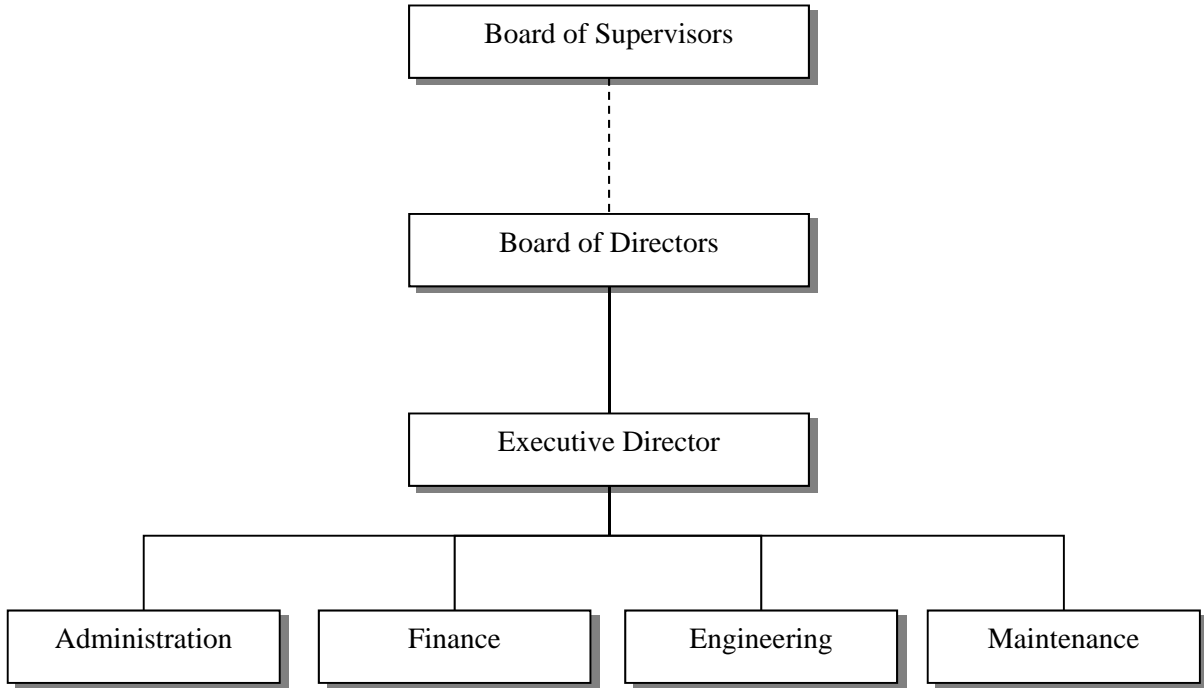
Bank of New York Mellon

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, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents. The prior year comparative information has been derived from the Authority's 2013 financial statements on which, in our report dated November 7, 2013, we expressed an unmodified opinion.

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 Albemarle County Service Authority, as of June 30, 2014, and the changes in its financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section and statistical section 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 21, 2014 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, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
October 21, 2014

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, 2014 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, 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, 2013.

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 liabilities, providing information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). 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 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 Net Position includes all transactions, such as revenues and expenses that increase or decrease net position.

Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$138,629,487 (*net position*). Of this amount \$23,012,237 (*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 \$8,295,267, which represents a 6.36% increase over the prior year ending balance.
- The Authority's total liabilities as a percentage of net position decreased from 11.17% at June 30, 2013 to 9.59% at June 30, 2014.
- Fiscal year 2014 operating revenues decreased 1.50% to \$20,550,864 as compared to fiscal year 2013 while operating expenses increased 2.02% to \$23,193,820 during the same period.

Financial Analysis

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in 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 2014.

Net Position

The Authority's net position increased by \$8,295,267 during fiscal year 2014, which represents a 6.36% increase from the prior fiscal year ending net position. At June 30, 2014, total net position was \$138,629,487 as compared to \$130,334,220 the previous year.

The following table depicts the Authority's condensed summary of net position at June 30, 2014 and 2013.

Condensed Statement of Net Position

	<u>2014</u>	<u>2013</u>
Current Assets	\$ 23,927,509	\$ 24,244,128
Investments and other	3,887,610	3,872,640
Capital assets, net	<u>124,115,568</u>	<u>116,774,203</u>
Total Assets	<u>151,930,687</u>	<u>144,890,971</u>
Current Liabilities	3,714,305	4,593,148
Long-term debt	<u>9,586,895</u>	<u>9,963,603</u>
Total Liabilities	<u>13,301,200</u>	<u>14,556,751</u>
Net investment in capital assets	115,617,250	108,233,265
Unrestricted	<u>23,012,237</u>	<u>22,100,955</u>
Total Net Position	<u>\$ 138,629,487</u>	<u>\$ 130,334,220</u>

FINANCIAL ANALYSIS (continued)

The following table summarizes changes in revenues and expenses between fiscal year 2014 and 2013.

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

	<u>2014</u>	<u>2013</u>
Revenues:		
Operating Revenues:		
Water Sales	\$ 10,665,192	\$ 10,701,103
Sewer Service	9,588,948	9,611,718
Other	296,724	550,967
Non-operating Revenue:		
Investment income	110,135	19,745
Rental income	33,810	43,656
Miscellaneous revenues	276,530	174,733
Fed. Subsidy, Build America Bonds	140,864	152,232
Total Revenues	<u><u>\$ 21,112,203</u></u>	<u><u>\$ 21,254,154</u></u>
Expenses:		
Operating Expenses:		
Purchase of bulk water	\$ 6,975,927	\$ 7,181,320
Purchase of sewer treatment	6,873,609	6,846,004
Depreciation	2,819,633	2,556,232
Administration	1,483,335	1,328,146
Finance	1,444,619	1,342,772
Engineering	1,361,909	1,320,619
Maintenance	2,234,788	2,158,658
Non-operating Expenses:		
Interest Expense	360,711	152,232
Miscellaneous expenses	2,032	-
Contributions to RWSA	-	765,000
Total Expenses	<u><u>\$ 23,556,563</u></u>	<u><u>\$ 23,650,983</u></u>
Loss before capital contributions	\$ (2,444,360)	\$ (2,396,829)
Capital Contributions	<u>10,739,627</u>	<u>7,680,924</u>
Changes in net position	8,295,267	5,284,095
Net position – beginning of year	<u>130,334,220</u>	<u>125,050,125</u>
Net position – end of year	<u><u>\$ 138,629,487</u></u>	<u><u>\$ 130,334,220</u></u>

Operating Revenues

Operating revenues totaled \$20,550,864 in fiscal year 2014, a decrease of \$312,924 from 2013. This change can be attributed to a decrease in the residential water rates that took effect the first quarter of 2014 and more timely collections which resulted in fewer late penalty assessments in fiscal year 2014 compared to fiscal year 2013. Operating expenses totaled \$23,193,820 in 2014, an increase of \$460,069 mainly due to an increase in depreciation expense.

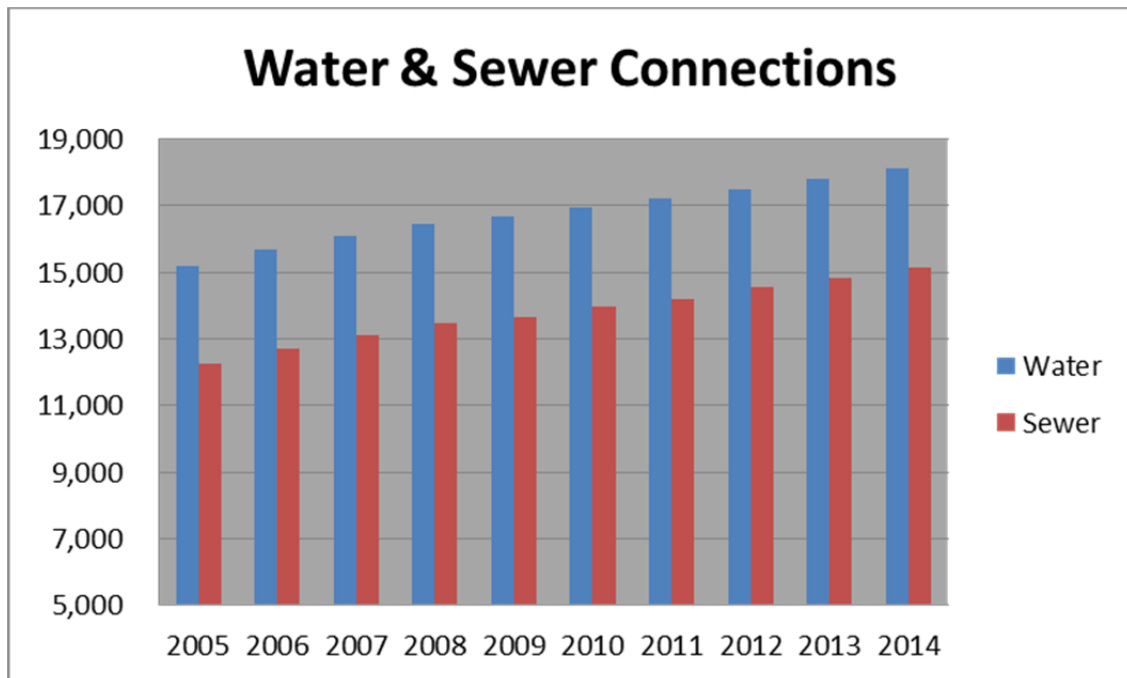
Income Before Capital Contributions

The net loss before capital contributions increased by \$47,531 mainly due to an increase in depreciation expense in the current year, a decrease in the residential water rates in the current year which offset the contribution to the RWSA and the City of Charlottesville in the prior year.

Review of Operations

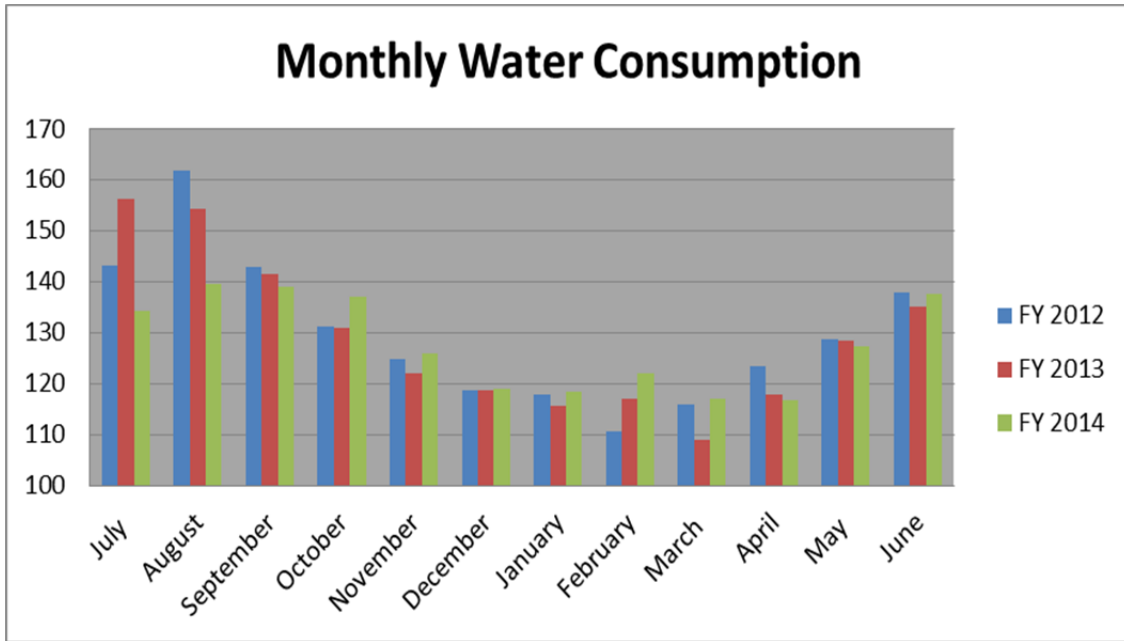
The Authority's water customer base grew to 18,132 accounts by the end of the 2014 fiscal year, an increase from the prior year total of 17,818. Considering multiple units behind master meters, as in apartment complexes, the Authority now serves approximately 29,508 housing units, businesses, industries and institutions, which is an increase of 2.76%.

The 314 new connections for fiscal year 2014 compares to the five year average annual increase in new connections of 292 per year, or the ten year increase (which was heavily affected by the development "boom" years in 2005-2007) of 345 annual new connections.

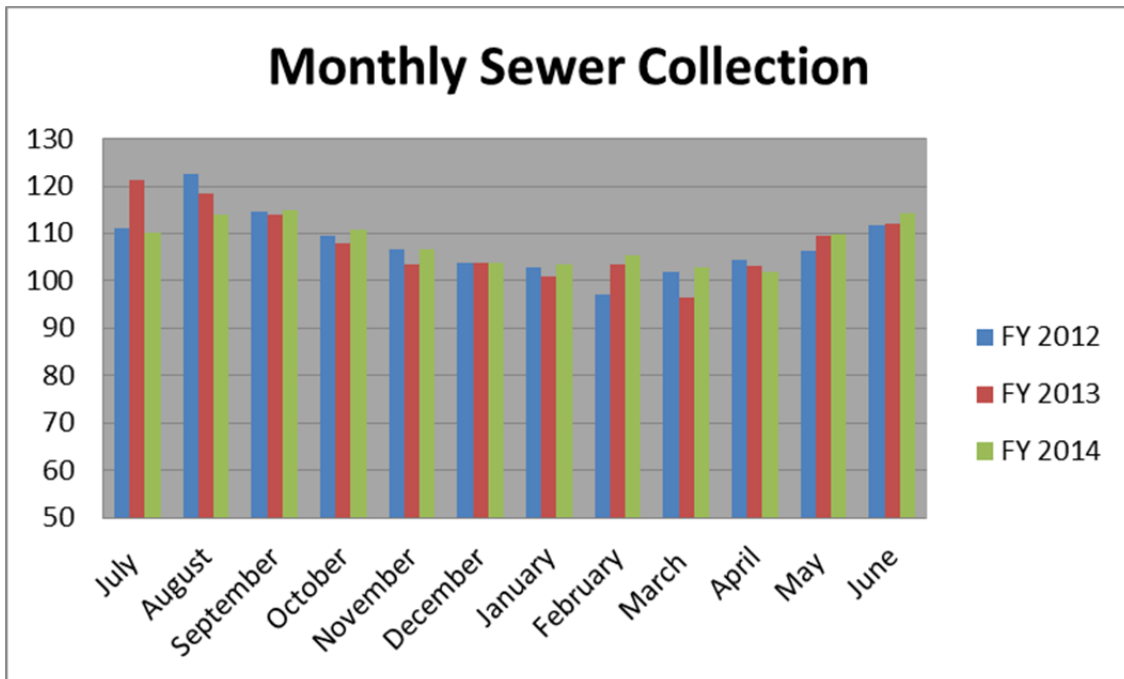


Review of Operations (Continued)

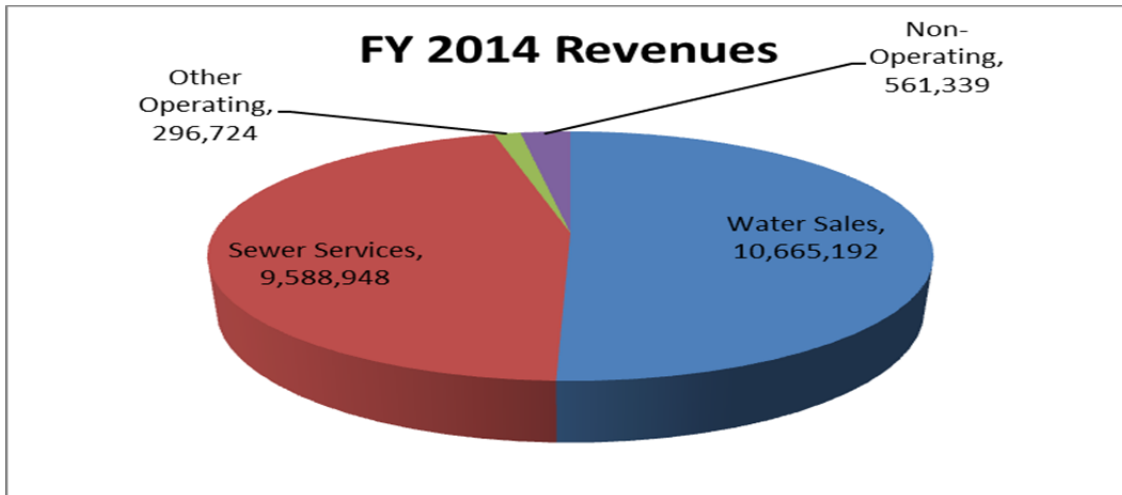
Billed water usage in fiscal year 2014 declined by 20 million gallons as compared to fiscal year 2013. Billed water usage in fiscal year 2014 was 1.53 billion gallons, and was 1.29% lower than billed water usage in fiscal year 2013, and is 1.92% lower than 2012 (1.56 billion gallons). The seasonal variations can be seen in the chart below.



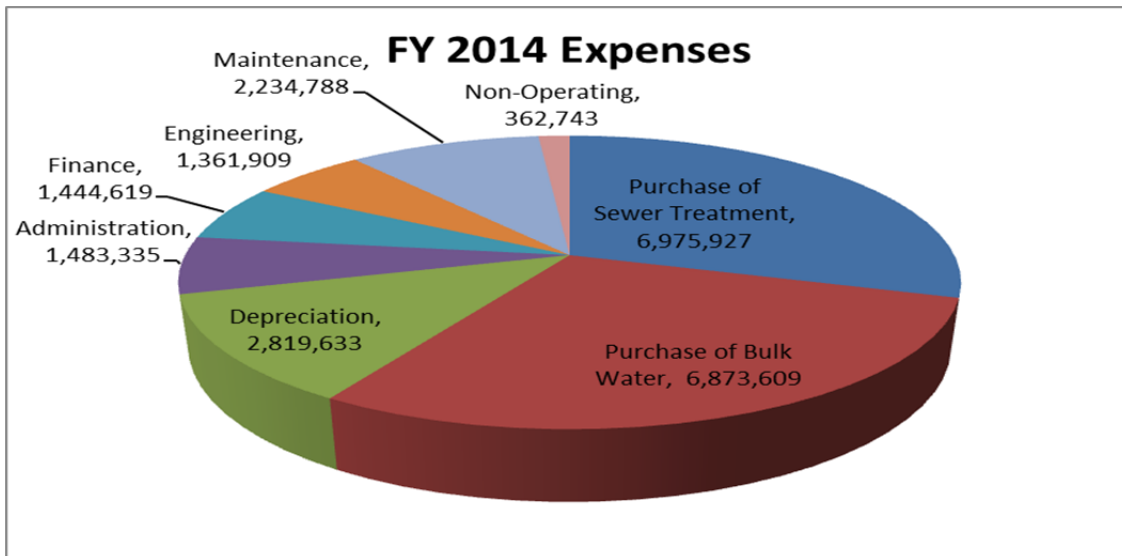
Much like water, the Authority’s sewer customer base grew to 15,168 by the end of the fiscal year, up from 14,840 connections at the end of the fiscal year 2013. Billed sewer collections remain steady at 1.30 billion gallons for fiscal year 2014 which is comparable with both fiscal years 2013 and 2012 (1.30 and 1.29 billion gallons respectively).



Revenues. Revenues for fiscal year 2014 were generally consistent with fiscal year 2013. Total revenues for 2014 were \$21,112,203 as compared to \$21,254,154 in 2013, a 0.67% decrease year to year.



Expenses. Total expenses for fiscal year 2014 were \$23,556,563 as compared to \$23,650,983 in 2013, a 0.40% decrease, which was primarily due to decreases in purchased water and sewer from the Rivanna Water and Sewer Authority, an increase in depreciation expense in the current year, and no contribution to the RWSA/City of Charlottesville in the current year. In 2014 the total for purchased water and sewer treatment was \$13,849,536, which is 1.27% less than the 2013 total of \$14,027,324.



At the end of the current fiscal year, the Authority was able to report positive balances in total net position. The same situation held true for the prior fiscal year. At the end of the two most current fiscal years, the Authority had positive balances in unrestricted net position.

During the current fiscal year the Authority’s net position increased by \$8,295,267.

Operating revenues decreased by \$312,924 or 1.50% and operating expenses increased by \$460,069 or 2.02%.

Key elements of these changes are as follows:

- Decreasing water and sewer charges paid by the Authority of \$177,788 and a decrease in rates charged to customers;
- Capital contributions of \$10,739,924 (Note 6);
- An increase in current year depreciation expense due in large part to the North Fork Pump Station being placed in service during the fiscal year.
- The contribution in fiscal year 2013 of \$765,000 to the RWSA and the City of Charlottesville with no comparable contribution in fiscal year 2014.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The Authority's investment in capital assets as of June 30, 2014 amounted to \$124,115,568 (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 6.29%. Additional information related to capital assets can be located in Note 4.

Capital Assets

	<u>2014</u>	<u>2013</u>
Land (including easements)	\$ 1,802,224	\$ 1,804,224
Structures and improvements	151,820,780	128,207,151
Equipment	3,726,778	3,660,874
Construction in progress	<u>5,832,585</u>	<u>19,677,628</u>
Total book value	163,182,366	153,349,877
Less accumulated depreciation	<u>(39,066,798)</u>	<u>(36,575,673)</u>
Net capital assets	<u>\$ 124,115,568</u>	<u>\$ 116,774,203</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 13.42 in fiscal year 2014. The minimum coverage required by outstanding bond indentures is 1.20. At June 30, 2014 outstanding long-term debt, including the current amount payable, totaled \$9,212,000. 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, operating reserves are usually set at 2% of anticipated operating costs. For fiscal year 2014, the Authority budgeted \$319,033 for this purpose.

Capital Costs and 3R Reserves. 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 as a percentage of the system's book value. For fiscal year 2014, the Authority budgeted \$1,000,000 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 \$2,600,000 to \$4,600,000 and sewer capital improvement project cost projections per year for the next five years range from \$1,000,000 to \$2,200,000. 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, 2014

	2014	(For Comparative Purposes Only) 2013
ASSETS		
Current assets		
Cash and cash equivalents (Note 2)	\$ 19,401,504	\$ 19,379,705
Cash and cash equivalents, restricted (Note 2)	1,494,731	1,784,268
Accounts receivable (Note 3)	2,674,879	2,709,955
Inventory	284,306	293,147
Prepays	72,089	77,053
Total current assets	<u>23,927,509</u>	<u>24,244,128</u>
Noncurrent assets		
Investments (Note 2)	3,887,610	3,872,640
Capital assets: (Note 4)		
Nondepreciable	7,562,461	21,409,504
Depreciable, net	<u>116,553,107</u>	<u>95,364,699</u>
Total noncurrent assets	<u>128,003,178</u>	<u>120,646,843</u>
Total assets	<u>151,930,687</u>	<u>144,890,971</u>
LIABILITIES		
Current liabilities		
Accounts payable	1,840,768	2,563,388
Accrued liabilities	26,576	28,891
Customer deposits	330,522	249,066
Interest payable	194,220	202,885
Compensated absences (Note 5)	49,981	44,737
Unearned connection fees (Note 5)	848,238	1,093,181
Current maturities of long-term debt (Note 5)	<u>424,000</u>	<u>411,000</u>
Total current liabilities	<u>3,714,305</u>	<u>4,593,148</u>
Long-term liabilities		
Compensated absences (Note 5)	306,766	289,942
Unearned connection fees (Note 5)	89,012	112,544
Other post-employment benefits (OPEB) (Note 8)	403,117	349,117
Long-term debt – due in more than one year (Note 5)	<u>8,788,000</u>	<u>9,212,000</u>
Total long-term liabilities	<u>9,586,895</u>	<u>9,963,603</u>
Total liabilities	<u>13,301,200</u>	<u>14,556,751</u>
NET POSITION		
Net investment in capital assets	115,617,250	108,233,265
Unrestricted	<u>23,012,237</u>	<u>22,100,955</u>
Total net position	<u>\$ 138,629,487</u>	<u>\$ 130,334,220</u>

ALBEMARLE COUNTY SERVICE AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year Ended June 30, 2014

	2014	(For Comparative Purposes Only) 2013
OPERATING REVENUES		
Water sales	\$ 10,665,192	\$ 10,701,103
Sewer service	9,588,948	9,611,718
Other	203,936	448,692
Water and sewer connection fees	92,788	102,275
Total operating revenues	<u>20,550,864</u>	<u>20,863,788</u>
OPERATING EXPENSES		
Purchase of bulk water	6,975,927	7,181,320
Purchase of sewer treatment	6,873,609	6,846,004
Depreciation	2,819,633	2,556,232
Administration	1,483,335	1,328,146
Finance	1,444,619	1,342,772
Engineering	1,361,909	1,320,619
Maintenance	2,234,788	2,158,658
Total operating expenses	<u>23,193,820</u>	<u>22,733,751</u>
Operating loss	<u>(2,642,956)</u>	<u>(1,869,963)</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	110,135	19,745
Rental income	33,810	43,656
Miscellaneous revenues	276,530	174,733
Federal subsidy, Build America Bonds	140,864	152,232
Bond interest charges	(360,711)	(152,232)
Miscellaneous expenses	(2,032)	-
Contributions to RWSA and City of Charlottesville	-	(765,000)
Total nonoperating revenues (expenses)	<u>198,596</u>	<u>(526,866)</u>
Loss before capital contributions	(2,444,360)	(2,396,829)
CAPITAL CONTRIBUTIONS (Note 6)	<u>10,739,627</u>	<u>7,680,924</u>
Change in net position	8,295,267	5,284,095
NET POSITION – BEGINNING AT JULY 1	<u>130,334,220</u>	<u>125,050,125</u>
NET POSITION – ENDING AT JUNE 30	<u><u>\$ 138,629,487</u></u>	<u><u>\$ 130,334,220</u></u>

ALBEMARLE COUNTY SERVICE AUTHORITY

STATEMENT OF CASH FLOWS
Year Ended June 30, 2014

	2014	(For Comparative Purposes Only) 2013
OPERATING ACTIVITIES		
Cash received from customers	\$ 20,664,893	\$ 20,858,105
Cash paid for goods and services	(15,637,415)	(15,292,882)
Cash paid to employees	(4,742,841)	(4,493,871)
Other receipts	308,309	362,366
Net cash provided by operating activities	592,946	1,433,718
CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributed by developers, customers, and local government	4,648,512	3,527,983
Repair, replacement, rehabilitation expenses (including capital)	(4,891,567)	(4,558,335)
Principal paid on long-term borrowings	(411,000)	(399,000)
Interest paid on long-term borrowings	(442,658)	(461,012)
Federal subsidy, Build America Bonds	140,864	152,232
Proceeds from sale of capital assets	-	20,473
Net cash used in capital and related financing activities	(955,849)	(1,717,659)
NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Contributions to RWSA and City of Charlottesville	-	(765,000)
Net cash used in noncapital and related financing activities	-	(765,000)
INVESTING ACTIVITIES		
Purchase of investment securities	(996,611)	(4,975,844)
Proceeds from sale and maturity of investment securities	1,075,800	4,215,190
Interest received	15,976	19,745
Net cash provided by (used in) investing activities	95,165	(740,909)
Net decrease in cash and cash equivalents	(267,738)	(1,789,850)
CASH AND CASH EQUIVALENTS		
Beginning at July 1	21,163,973	22,953,823
Ending at June 30	\$ 20,896,235	\$ 21,163,973
RECONCILIATION TO STATEMENT OF NET POSITION		
Cash and cash equivalents	\$ 19,401,504	\$ 19,379,705
Cash and cash equivalents, restricted	1,494,731	1,784,268
	\$ 20,896,235	\$ 21,163,973

(Continued)

ALBEMARLE COUNTY SERVICE AUTHORITY

STATEMENT OF CASH FLOWS
Year Ended June 30, 2014

	<u>2014</u>	<u>(For Comparative Purposes Only) 2013</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	\$ (2,642,956)	\$ (1,869,963)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	2,819,633	2,556,232
Other revenues	308,309	362,366
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	35,076	(122,567)
Inventory	8,841	(2,430)
Prepays	4,964	(39,785)
Increase (decrease) in:		
Accounts payable	(93,626)	346,631
Accrued liabilities	(2,315)	(11,785)
Customer deposits	81,456	131,764
Compensated absences	22,068	38,136
Unearned connection fees	(2,504)	(14,881)
Other post-employment benefits	54,000	60,000
Net cash provided by operating activities	<u>\$ 592,946</u>	<u>\$ 1,433,718</u>
SCHEDULE OF NON-CASH ACTIVITIES		
Contributions of capital assets	<u>\$ 5,825,144</u>	<u>\$ 1,379,546</u>
Capital asset additions financed by accounts payable	<u>\$ 651,931</u>	<u>\$ 1,280,925</u>
Increase(decrease) in fair value of assets	<u>\$ 94,159</u>	<u>\$ (164,484)</u>

ALBEMARLE COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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, 2014

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.

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) 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.

(e) Inventory

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

(f) Restricted Assets

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

(g) 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.

ALBEMARLE COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

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. Interest capitalized, net of the Build America Bond subsidy, for the year ended June 30, 2014, was \$73,282.

(h) 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.

(i) 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. Annual leave is considered a liability and is accrued as earned.

(j) 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.

(k) Net Position

Net position is the difference between assets and liabilities. 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.

ALBEMARLE COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

(l) Capital Contributions

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

(m) Comparative Information and Reclassifications

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. Certain prior year amounts have been reclassified to conform to the current year presentation.

(n) 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.

(o) Accounting Pronouncements

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

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* replaces the requirements of *GASB Statements No. 27 and No. 50* as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. The Statement requires governments providing defined benefit pensions to recognize the long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability. This Statement will be effective for the year ending June 30, 2015.

ALBEMARLE COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* was issued to provide governmental guidance on governmental combinations and disposals of governmental operations that does not conflict with GASB Statement No. 34. The objective of this Statement is to improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. A disposal of a government's operations results in the removal of specific activities of a government. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial Statement users to evaluate the nature and financial effects of those transactions. This Statement will be effective for the year ending June 30, 2015.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date; an amendment of GASB Statement No. 68* was issued to address an issue regarding application of the transition provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement amends GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and non-employer contributing entities. This Statement will be effective for the year ending June 30, 2015.

The Authority has not yet determined the effect these GASB Statements will have on its financial statements.

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.

ALBEMARLE COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

Note 2. Deposits and Investments (Continued):

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.

Interest rate risk: Interest rate risk is the risk that the market 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 market value of the investment due to a deterioration of an issuer’s credit rating.

ALBEMARLE COUNTY SERVICE AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

Note 2. Deposits and Investments (Continued):

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, 2014 is concentrated in securities issued by the Federal Home Loan Bank (FHLB)(50.5%) and the Federal National Mortgage Association (FNMA)(49.5%).

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, 2014:

Rated Debt Investment Value and Fair Quality Ratings			
	<u>AA+</u>	<u>AAAm</u>	<u>A-1+</u>
U. S. Agencies	\$ 3,887,610	\$ -	\$ -
Local Government Investment Pool	-	15,522,851	-
U.S. Treasury Money Market Reserves	-	-	604,991
	<u>\$ 3,887,610</u>	<u>\$ 15,522,851</u>	<u>\$ 604,991</u>

<u>Investment Type</u>	<u>Investment Maturities</u>		
	<u>Fair Value</u>	<u>1-5 Years</u>	<u>6-10 Years</u>
U.S. Agencies	<u>\$ 3,887,610</u>	<u>\$ 995,590</u>	<u>\$ 2,892,020</u>

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.

Note 3. Accounts Receivable

Accounts receivable consist of the following:

	<u>Billed</u>	<u>Unbilled</u>	<u>Total</u>
Receivables, current:			
Water	\$ 778,975	\$ 641,059	\$ 1,420,034
Sewer	633,040	514,319	1,147,359
Other	107,486	-	107,486
	<u>\$ 1,519,501</u>	<u>\$ 1,155,378</u>	<u>\$ 2,674,879</u>

ALBEMARLE COUNTY SERVICE AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

Note 4. Capital Assets

Changes in capital assets for the year are as follows:

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Reductions/ Reclassifications</u>	<u>Balance June 30, 2014</u>
Capital assets, not being depreciated				
Land and land rights	\$ 1,731,876	\$ -	\$ (2,000)	\$ 1,729,876
Construction in progress	19,677,628	4,065,781	(17,910,824)	5,832,585
Total capital assets, not being depreciated	<u>21,409,504</u>	<u>4,065,781</u>	<u>(17,912,824)</u>	<u>7,562,461</u>
Capital assets, being depreciated				
Land improvements	72,348	-	-	72,348
Structures and improvements	128,207,151	5,719,656	17,893,973	151,820,780
Equipment	3,660,874	377,561	(311,657)	3,726,778
Total capital assets, being depreciated	<u>131,940,373</u>	<u>6,097,217</u>	<u>17,582,316</u>	<u>155,619,905</u>
Less accumulated depreciation for:				
Land improvements	(72,348)	-	-	(72,348)
Structures and improvements	(33,896,493)	(2,561,206)	16,851	(36,440,848)
Equipment	(2,606,833)	(258,427)	311,657	(2,553,603)
Total accumulated depreciation	<u>(36,575,674)</u>	<u>(2,819,633)</u>	<u>328,508</u>	<u>(39,066,799)</u>
Total capital assets being depreciated, net	<u>95,364,699</u>	<u>3,277,584</u>	<u>17,910,824</u>	<u>116,553,107</u>
Total capital assets, net	<u>\$ 116,774,203</u>	<u>\$ 7,343,365</u>	<u>\$ (2,000)</u>	<u>\$ 124,115,568</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>Commitment</u>
Wastewater line rehabilitations or relinings	\$ 5,624,281	\$ 436,078
Water line replacements	1,139,271	63,712
Other	383,243	11,265
	<u>\$ 7,146,795</u>	<u>\$ 511,055</u>

ALBEMARLE COUNTY SERVICE AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

Note 5. Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2014 was as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Amounts Due Within One Year
Revenue bond	\$ 9,623,000	\$ -	\$ (411,000)	\$ 9,212,000	\$ 424,000
Compensated absences	334,679	236,840	(214,772)	356,747	49,981
Other post-employment benefits	349,117	94,000	(40,000)	403,117	-
Unearned connection fees	<u>1,205,725</u>	<u>848,238</u>	<u>(1,116,713)</u>	<u>937,250</u>	<u>848,238</u>
	<u>\$ 11,512,521</u>	<u>\$ 1,179,078</u>	<u>\$ (1,782,485)</u>	<u>\$ 10,909,114</u>	<u>\$ 1,322,219</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. 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	Total
2015	\$ 424,000	\$ 423,752	\$ (148,313)	\$ 275,439	\$ 699,439
2016	436,000	404,248	(141,487)	262,761	698,761
2017	449,000	384,192	(134,467)	249,725	698,725
2018	463,000	363,538	(127,238)	236,300	699,300
2019	477,000	342,240	(119,784)	222,456	699,456
2020-2024	2,606,000	1,368,730	(479,056)	889,674	3,495,674
2025-2029	3,019,000	732,504	(256,376)	476,128	3,495,128
2030-2031	<u>1,338,000</u>	<u>92,782</u>	<u>(32,474)</u>	<u>60,308</u>	<u>1,398,308</u>
	<u>\$ 9,212,000</u>	<u>\$ 4,111,986</u>	<u>\$ (1,439,195)</u>	<u>\$ 2,672,791</u>	<u>\$ 11,884,791</u>

ALBEMARLE COUNTY SERVICE AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

Note 5. Long-Term Liabilities (Continued)

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.

Note 6. Capital Contributions

Capital contributions for the year are summarized as follows:

Developer and customer contributions of capital assets	\$ 5,825,144
Crozet water and sewer – System/capacity fees	1,259,587
Urban water and sewer – System/capacity fees	<u>3,654,896</u>
	<u>\$ 10,739,627</u>

Note 7. Defined Benefit Pension Plan

Plan Description:

The Authority contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System (the “System”). All full-time, salaried permanent employees of participating employers are automatically covered by VRS upon employment. Members earn one month of service credit for each month they are employed and they and their employer are paying contributions to VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as service credit in their plan.

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

VRS PLAN 1

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

ALBEMARLE COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

Note 7. Defined Benefit Pension Plan (Continued)

Plan Description: (Continued)

VRS PLAN 1 (Continued)

Hybrid Opt-In Election – VRS non-hazardous duty covered plan 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 VRS Plan were not eligible to elect the Hybrid Retirement Plan and remain as plan members or ORP.

Retirement Contributions – Members contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. This could be phased in over a period of up to five years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid contribution. The Authority's Board approved full implementation beginning July 1, 2012. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.

Creditable Service – Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

Vesting – Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.

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.

ALBEMARLE COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

Note 7. Defined Benefit Pension Plan (Continued)

Plan Description: (Continued)

VRS PLAN 1 (Continued)

Service Retirement Multiplier – The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%.

Normal Retirement Age – Age 65.

Earliest Unreduced Retirement Eligibility – Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years of creditable service or at age 50 with at least 30 years of creditable service.

Earliest Reduced Retirement Eligibility – Members may retire with a reduced benefit as early as age 55 with at least five years of creditable service or age 50 with at least 10 years of creditable service.

Cost-of-Living Adjustment (COLA) in Retirement – The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.

For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.

Cost-of-Living Adjustment (COLA) in Retirement (Continued)

The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.
- The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
- The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.

ALBEMARLE COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

Note 7. Defined Benefit Pension Plan (Continued)

Plan Description: (Continued)

VRS PLAN 1 (Continued)

- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.
- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

Disability Coverage – Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

Purchase of Prior Service – Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

VRS PLAN 2

VRS Plan 2 is the same as VRS Plan 1 except for the following:

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

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 – For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.

Normal Retirement Age – Normal Social Security retirement age.

Earliest Unreduced Retirement Eligibility – Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years of creditable service or when their age and service equal 90.

ALBEMARLE COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

Note 7. Defined Benefit Pension Plan (Continued)

Plan Description: (Continued)

VRS PLAN 2 (Continued)

Earliest Reduced Retirement Eligibility – Members may retire with a reduced benefit as early as age 60 with at least five years of creditable service.

Cost-of-Living Adjustment (COLA) in Retirement – The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.

Disability Coverage – Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

HYBRID RETIREMENT PLAN

The Hybrid Retirement Plan is the same as VRS Plan 1 except for the following:

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

- 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.

ALBEMARLE COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 7. Defined Benefit Pension Plan (Continued)

Plan Description: (Continued)

HYBRID RETIREMENT PLAN (Continued)

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

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

*Non-Eligible Members

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

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

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

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.

ALBEMARLE COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 7. **Defined Benefit Pension Plan (Continued)**

Plan Description: (Continued)

HYBRID RETIREMENT PLAN (Continued)

Creditable Service

Defined Benefit Component: Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

Defined Contributions Component: Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

Vesting

Defined Benefit Component: Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Defined Contributions Component: Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. 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.

ALBEMARLE COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 7. **Defined Benefit Pension Plan (Continued)**

HYBRID RETIREMENT PLAN (Continued)

Calculating the Benefit

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

Service Retirement Multiplier – The retirement multiplier is 1.0%. For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

Normal Retirement Age

Defined Benefit Component: Same as VRS Plan 2.

Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Unreduced Retirement Eligibility

Defined Benefit Component: Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years of creditable service or when their age and service equal 90.

Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Reduced Retirement Eligibility

Defined Benefit Component: Members may retire with a reduced benefit as early as age 60 with at least five years of creditable service.

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 VRS Plan 2.

Defined Contribution Component: Not applicable.

ALBEMARLE COUNTY SERVICE AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

Note 7. Defined Benefit Pension Plan (Continued)

HYBRID RETIREMENT PLAN (Continued)

Disability Coverage – Eligible political subdivision and school division (including VRS Plan 1 and VRS Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. State employees (including VRS Plan 1 and VRS Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

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

Funding policy:

VRS 1, 2, and Hybrid Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period 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. These increases were approved in full by Board resolution beginning July 1, 2012. In addition, the Authority is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The Authority’s contribution rate for the fiscal year ended June 30, 2014 was 9.21 % of the annual covered payroll.

Annual pension cost:

For fiscal year ended June 30, 2014, the Authority’s annual pension cost of \$208,529 for VRS was equal to the required and actual contributions.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2014	\$ 208,529	100%	\$ -
June 30, 2013	\$ 200,795	100%	\$ -
June 30, 2012	\$ 236,451	100%	\$ -

ALBEMARLE COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 7. Defined Benefit Pension Plan (Continued)

Annual pension cost (Continued):

The FY 2014 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for local general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%.

The actuarial value of the Authority's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Authority's unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2013 for the Unfunded Actuarial Accrued liability (UAAL) was 30 years.

Funding status and funding progress:

For the Authority employees, as of June 30, 2013, the most recent actuarial valuation date, the plan was 72.78% funded. The actuarial accrued liability for benefits was \$12,946,201, and the actuarial value of assets was \$9,421,981, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,524,220. The covered payroll (annual payroll of active employees covered by the plan) was \$3,355,469, and the ratio of the UAAL to the covered payroll was 105.03%.

The schedule of funding progress, presented as required supplemental information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

Note 8. Other Post-Employment Benefits

Plan description:

The Authority offers other post-employment benefits (OPEB) 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 2014, the Authority's health and benefit contribution was \$650 per month. VERIP benefits are paid monthly for a period of five years after retirement or until age 65, whichever comes first.

ALBEMARLE COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

Note 8. Other Post-Employment Benefits (Continued)

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.

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	\$ 97,000
Interest on OPEB obligation	12,000
Adjustment to ARC	<u>(15,000)</u>
Annual OPEB cost	94,000
Estimated contributions made	<u>(40,000)</u>
Increase in net OPEB obligation	54,000
Net OPEB obligation at beginning of year	<u>349,117</u>
Net OPEB obligation at end of year	<u>\$ 403,117</u>

ALBEMARLE COUNTY SERVICE AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

Note 8. Other Post-Employment Benefits (Continued)

Annual OPEB cost and net OPEB obligation (Continued):

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 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, 2012	\$	151,069	24%	\$	289,117
June 30, 2013	\$	89,000	33%	\$	349,117
June 30, 2014	\$	94,000	43%	\$	403,117

Funded status and funding progress:

The actuarial accrued liability for benefits was \$945,000, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$945,000.

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.

ALBEMARLE COUNTY SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

Note 8. Other Post-Employment Benefits (Continued)

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, 2012 actuarial valuation used the projected unit credit method, with linear pro-ration to assumed benefit. The unfunded liability is amortized over 30 years (closed) as a level percentage of pay. The actuarial assumptions included continuation of the flat dollar VERIP subsidy of \$650 per month to increase with medical trend each year, an investment/discount rate of 3.5%, a payroll growth rate of 3%, and a rate of inflation of 2.5%. Other variables used in the actuarial assumptions included a 1.7% rate of growth in real income/GDP per capita, an income multiplier for health spending of 1.4, a 25% health share of GDP resistance point, and a year for limiting cost growth to GDP growth of 2075.

Note 9. Service Contracts

The Authority purchases all water and sewage treatment services from RWSA. These purchases amounted to \$6,975,927 for water and \$6,873,609 for sewage treatment services for the current year.

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 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 \$6,609,821.

ALBEMARLE COUNTY SERVICE AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

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 – \$9,797,233
- Boiler/Machinery – \$10,000,000
- 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.

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 \$17,000 per year, whichever is less. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

**REQUIRED SUPPLEMENTARY
INFORMATION**

ALBEMARLE COUNTY SERVICE AUTHORITY

SCHEDULE OF FUNDING PROGRESS FOR DEFINED BENEFIT PLANS

June 30, 2014

Defined Benefit Pension Plan – Virginia Retirement System:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Payroll ((b-a)/c)
June 30, 2011	\$ 8,829,607	\$ 11,702,167	\$ 2,872,560	75.45%	\$ 2,991,182	96.03%
June 30, 2012	8,911,450	12,365,576	3,454,126	72.07	3,100,065	111.42
June 30, 2013	9,421,981	12,946,201	3,524,220	72.78	3,355,469	105.03

Other Post-Employment Benefits:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Payroll ((b-a)/c)
June 30, 2010	\$ -	\$ 1,531,000	\$ 1,531,000	- %	\$ 1,133,000	135.00%
July 1, 2012	-	888,000	888,000	-	N/A	N/A
July 1, 2013	-	945,000	945,000	-	N/A	N/A

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.

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

	Fiscal Year			
	2005	2006	2007	2008
Business-type activities				
Net investment in capital assets	\$ 71,362,562	\$ 74,778,473	\$ 79,695,637	\$ 85,602,877
Restricted for debt service	157,601	157,601	157,601	157,601
Unrestricted	12,788,042	12,628,455	12,512,905	12,668,284
Total business-type activities net position	<u>\$ 84,308,205</u>	<u>\$ 87,564,529</u>	<u>\$ 92,366,143</u>	<u>\$ 98,428,762</u>

Table 1

Fiscal Year					
2009	2010	2011	2012	2013	2014
\$ 92,181,771	\$ 96,191,023	\$ 101,013,464	\$ 105,620,650	\$ 108,233,265	\$ 115,617,250
157,601	157,601	-	-	-	-
12,773,883	14,974,733	14,796,257	19,429,475	22,100,955	23,012,237
<u>\$ 105,113,255</u>	<u>\$ 111,323,357</u>	<u>\$ 115,809,721</u>	<u>\$ 125,050,125</u>	<u>\$ 130,334,220</u>	<u>\$ 138,629,487</u>

Table 2

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

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Operating expenses										
Operating expenses										
Water	\$ 7,197,252	\$ 7,941,477	\$ 8,353,895	\$ 8,499,109	\$ 8,786,314	\$ 9,391,666	\$ 9,592,501	\$ 9,981,754	\$ 10,686,931	\$ 10,262,354
Sewer	4,927,425	5,029,752	5,895,662	6,132,189	7,018,888	8,401,774	7,751,031	8,822,189	9,490,588	10,111,833
Other	1,600,238	1,861,723	1,983,604	2,153,004	2,275,108	2,382,631	2,469,557	2,501,718	2,556,232	2,819,633
Total operating expenses	\$ 13,724,915	\$ 14,832,952	\$ 16,233,161	\$ 16,784,302	\$ 18,080,310	\$ 20,176,071	\$ 19,813,089	\$ 21,305,661	\$ 22,733,751	\$ 23,193,820
Operating revenues										
Charges for services:										
Water	\$ 6,363,346	\$ 7,301,590	\$ 8,440,152	\$ 9,114,653	\$ 10,151,345	\$ 10,248,876	\$ 10,952,033	\$ 10,651,869	\$ 10,701,103	\$ 10,665,192
Sewer	4,501,376	4,782,364	5,583,776	6,788,262	8,645,944	8,839,336	9,251,466	9,280,346	9,611,718	9,588,948
Connection	185,829	178,510	235,339	184,056	167,218	91,726	69,869	94,442	550,967	296,724
Total operating revenues	\$ 11,050,551	\$ 12,262,464	\$ 14,259,267	\$ 16,086,971	\$ 18,964,507	\$ 19,179,938	\$ 20,273,368	\$ 20,026,657	\$ 20,863,788	\$ 20,550,864
Net (expense) revenue	\$ (2,674,364)	\$ (2,570,488)	\$ (1,973,894)	\$ (697,331)	\$ 884,197	\$ (996,133)	\$ 460,279	\$ (1,279,004)	\$ (1,869,963)	\$ (2,642,956)
Other revenues and changes in net assets										
Investment earnings	\$ 237,438	\$ 251,877	\$ 436,257	\$ 633,377	\$ 220,234	\$ 219,634	\$ 52,937	\$ 68,431	\$ 19,745	\$ 110,135
Miscellaneous revenues	504,357	538,202	479,473	523,143	476,447	421,664	545,294	565,472	218,389	310,340
Capital contributions	9,258,048	5,171,876	5,970,862	5,706,636	5,176,757	6,646,082	4,615,713	9,036,424	7,680,924	10,739,627
Other expenses	(276,907)	(135,144)	(111,081)	(103,208)	(73,141)	(81,145)	(1,187,859)	(310,417)	(765,000)	(221,879)
Total other revenues and changes in net position	\$ 9,722,936	\$ 5,826,811	\$ 6,775,511	\$ 6,759,948	\$ 5,800,297	\$ 7,206,235	\$ 4,026,085	\$ 9,359,910	\$ 7,154,058	\$ 10,938,223
Change in net position	\$ 7,048,572	\$ 3,256,323	\$ 4,801,616	\$ 6,062,617	\$ 6,684,494	\$ 6,210,102	\$ 4,486,364	\$ 8,080,906	\$ 5,284,095	\$ 8,295,267

Table 3

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

Type of Water Customer	Fiscal Year										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	
Single-family residential	721.60	796.60	809.10	720.70	725.80	705.40	740.60	710.70	709.20	704.40	
Multi-family residential	362.20	353.30	386.50	357.00	347.00	347.20	350.40	354.10	360.10	370.00	
Commercial (Offices)	42.90	48.50	48.20	41.60	48.30	44.80	52.90	51.10	49.10	47.40	
Commercial (Other)	248.60	263.30	284.70	257.10	259.80	253.20	270.00	245.40	246.40	238.10	
Industrial	28.30	30.50	30.80	24.80	20.90	20.50	20.10	17.50	18.30	20.30	
Institutional	138.70	147.10	151.80	142.50	143.90	143.80	152.60	179.90	164.80	154.40	
TOTAL WATER SOLD	1,542.30	1,639.30	1,711.10	1,543.70	1,545.70	1,514.90	1,586.60	1,558.70	1,547.90	1,534.60	
Residential & irrigation 0-3,000	\$3.06	\$3.06	\$3.37	\$3.62	\$3.86	\$3.32	\$3.31	\$3.31	\$3.44	\$3.33	
3,001-6,000	\$3.67	\$3.67	\$4.04	\$5.43	\$6.10	\$6.64	\$6.62	\$6.62	\$6.88	\$6.66	
Over 6,000	\$6.56	\$6.56	\$7.22	\$9.67	\$10.90	\$9.96	\$9.93	\$9.93	\$10.32	\$9.99	
Multi-family & non-residential	\$3.90	\$3.90	\$4.29	\$5.33	\$6.04	\$13.28	\$13.24	\$13.24	\$13.76	\$13.32	
						Residential & irrigation 0-3,000	\$3.32	\$3.31	\$3.31	\$3.44	\$3.33
						3,001-6,000	\$6.64	\$6.62	\$6.62	\$6.88	\$6.66
						6,001-9,000	\$9.96	\$9.93	\$9.93	\$10.32	\$9.99
						Over 9,000	\$13.28	\$13.24	\$13.24	\$13.76	\$13.32
						Multi-family & non-residential	\$6.19	\$6.19	\$6.19	\$6.43	\$6.43
Type of Sewer Customer	Fiscal Year										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	
Single-family residential	519.50	559.00	582.40	541.70	538.90	537.00	556.40	548.90	553.00	556.90	
Multi-family residential	317.90	339.60	363.20	328.30	315.00	314.20	322.50	324.60	332.90	339.80	
Commercial (Offices)	35.90	37.90	36.70	33.80	39.20	36.20	43.50	44.40	41.90	41.40	
Commercial (Other)	207.60	211.60	229.70	217.40	211.90	213.80	220.00	203.00	202.40	202.60	
Industrial	23.00	19.90	27.30	21.20	17.60	17.70	20.90	14.70	16.70	15.40	
Institutional	114.40	120.10	121.10	114.30	117.60	116.20	128.60	157.40	148.00	141.80	
TOTAL SEWER SOLD	1,218.30	1,288.10	1,360.40	1,256.70	1,240.20	1,235.10	1,291.90	1,293.00	1,294.90	1,297.90	
Rate per 1,000 gallons	\$3.74	\$3.74	\$4.11	\$5.41	\$7.00	\$7.21	\$7.21	\$7.21	\$7.49	\$7.49	

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
2005 and 2006	\$ 4.38	Single-family Residential and all Irrigation 0-3,000 3,001-6,000 Over 6,000 Multi-family and Non-Residential: All Metered Consumption	\$ 3.06 3.67 6.56 3.90	Metered Water Consumption	\$ 3.74
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

Table 5

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

Customer	Fiscal Year 2014			Fiscal Year 2005		
	Water Billed (in gallons)	Rank	Percent of Total Water Sales	Water Billed (in gallons)	Rank	Percent of Total Water Sales
Southwood Mobile Homes	23,284,000	1	1.52 %	29,198,000	1	1.89 %
Martha Jefferson Hospital	22,555,400	2	1.47			
County of Albemarle	21,664,200	3	1.41			
Trophy Chase Apartments	18,474,875	4	1.20			
University of Virginia	18,457,900	5	1.20			
Old Salem Apartments	18,134,800	6	1.18	19,451,400	3	1.26
Four Seasons Apartments	17,286,800	7	1.13	24,629,100	2	1.60
Joint Security Complex	16,042,000	8	1.05	18,295,000	5	1.19
Turtle Creek Apartments	15,066,600	9	0.98	15,478,200	6	1.00
Westminster Canterbury	13,910,000	10	0.91			
Abbingtion Crossing (Squire Hill)	-		-	18,891,500	4	1.22
Westgate Apartments	-		-	14,283,000	8	0.93
Boar's Head Inn	-		-	10,227,300	9	0.66
Hyosung (tire cord)	-		-	10,136,000	10	0.66
Marriott "The Colonnades"	-		-	14,747,300	7	0.96
	<u>184,876,575</u>		<u>12.05 %</u>	<u>175,336,800</u>		<u>11.37 %</u>
Total water consumption:	<u>1,534,141,325</u>			<u>1,542,245,486</u>		

Customer	Fiscal Year 2014			Fiscal Year 2005		
	Sewer Billed (in gallons)	Rank	Percent of Total Sewer Sales	Sewer Billed (in gallons)	Rank	Percent of Total Sewer Sales
Martha Jefferson Hospital	21,344,400	1	1.64 %	-	-	- %
Abbingtion Crossing (Squire Hill)	19,680,900	2	1.52	-	-	-
Trophy Chase Apartments	18,474,875	3	1.42	-	-	-
Old Salem Apartments	18,134,800	4	1.40	19,451,400	2	1.60
Four Seasons Apartments	17,286,800	5	1.33	24,586,200	1	2.02
County of Albemarle	16,769,400	6	1.29	-	-	-
Joint Security Complex	16,042,000	7	1.24	18,295,000	4	1.50
Turtle Creek Apartments	15,066,600	8	1.16	15,478,200	5	1.27
Westminster Canterbury	13,757,000	9	1.06	-	-	-
Southwood Mobile Homes	12,485,736	10	0.96	-	-	-
Westgate Apartments	-		-	14,075,100	6	1.16
Double Tree	-		-	9,181,000	9	0.75
Eldercare Gardens	-		-	8,925,000	10	0.73
Boar's Head Inn	-		-	9,947,600	8	0.82
Squire Hill Apts	-		-	19,098,600	3	1.57
Marriott "The Colonnades"	-		-	12,500,258	7	1.03
	<u>169,042,511</u>		<u>13.02 %</u>	<u>151,538,358</u>		<u>12.44 %</u>
Total sewer usage:	<u>1,298,238,063</u>			<u>1,218,237,039</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	Debt per Capita as a % Income per Capita (7) = (5)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	
2005	2,333,600	15,187	153.66	37,968	61.46	37,552	0.1637 %
2006	1,981,900	15,685	126.36	39,213	50.54	41,709	0.1212
2007	1,514,900	16,098	94.11	40,245	37.64	42,919	0.0877
2008	1,051,400	16,466	63.85	41,165	25.54	45,275	0.0564
2009	709,200	16,670	42.54	41,675	17.02	46,969	0.0362
2010	364,100	16,974	21.45	42,435	8.58	46,163	0.0186
2011	10,357,000	17,207	601.91	43,018	240.76	45,282	0.5317
2012	10,022,000	17,512	572.29	43,780	228.92	45,282	0.5055
2013	9,623,000	17,802	540.56	44,505	216.22	47,052	0.4595
2014	9,212,000	18,131	508.08	45,328	203.23	51,255	0.3965

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
2005	\$ 20,966,694	\$ 12,124,676	\$ 8,842,018	\$ 351,700	\$ 66,324	\$ 418,024	21.15
2006	18,154,020	12,971,229	5,182,791	467,000	53,517	520,517	9.96
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

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 Percent (%) of U.S. Average ²	School Enrollment ³	Unemployment Rate ⁴
2004	87,670	\$ 4,901,470,000	\$ 35,698	114 %	12,356	2.2
2005	88,726	5,231,947,000	37,552	115	12,378	2.3
2006	92,035	5,554,915,000	41,709	114	12,766	2.5
2007	93,117	5,337,131,100	42,919	111	12,803	2.2
2008	94,075	6,059,782,000	45,275	117	12,830	3.0
2009	96,247	6,383,281,000	46,969	111	13,035	5.1
2010	99,150	6,330,202,000	46,163	116	13,222	5.1
2011	98,970	6,463,200,000	45,282	113	13,222	5.1
2012	102,251	6,778,562,000	47,052	113	13,122	5.2
2013	103,000	7,493,869,000	51,255	117	13,263	5.4

¹ U.S. Census Bureau, Population Division,
Table 1. Intercensal Estimates of the Resident Population for Counties of Virginia:
April 1, 2000 to July 1, 2010 (CO-EST00INT-01-51)

² U.S. Bureau of Economic Analysis, Charlottesville-Albemarle Area, Per capita personal income
divided by total mid-year population <http://www.bea.gov/bea/regional/spi/action.cfm>

³ County of Albemarle, Department of Education

⁴ Virginia Employment Commission, Economic Information Services Division

Table 9

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

Employer	Estimated Product/Service	Estimated Employment in 2014	Rank in 2014	Estimated Employment in 2005	Rank in 2005
University of Virginia	Higher education	1,000 - over	1	1,000 - over	1
County of Albemarle	Local government	1,000 - over	2	1,000 - over	2
Martha Jefferson Hospital	Health care	1,000 - over	3	1,000 - over	
State Farm Mutual Automobile Insurance	Insurance services	1,000 - over	4	500 - 999	3
Northrop Grumman Corp.	Computer & electronic mfg.	500 - 999	5	500 - 999	5
U.S. Department of Defense	National security	500 - 999	6	500 - 999	6
GE Fanuc	Computer & electronic mfg.	500 - 999	7	500 - 999	7
Piedmont Virginia Community College	Higher education	250 - 499	8	250 - 499	9
WalMart	Department store	250 - 499	9	250 - 499	
Athena Innovative Solutions	Business Management Consultants	250 - 499	10	250 - 499	
Crutchfield Corporation	Electronics retailer	250 - 499		250 - 499	8
Americare Plus	Home health services	250 - 499		250 - 499	10
UVA Health Services Foundation	Health care	100 - 249		1,000 - over	4

Table 10

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

Department	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Administration	6	6	6	8	8	8	9	9	9	10
Finance	11	11	13	13	14	14	14	14	15	15
Engineering	13	13	15	15	15	15	15	15	16	16
Maintenance	23	23	25	28	30	30	30	30	28	29
Total	53	53	59	64	67	67	68	68	68	70

Table 11

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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
New connections	503	498	413	368	204	304	233	305	306	314
Water meters read ¹	187,757	192,974	195,020	202,192	204,587	210,320	212,916	217,029	219,483	223,195
Service orders processed ²	7,762	9,307	9,503	11,011	10,618	11,208	9,909	11,925	11,707	11,823
Water main breaks	13	7	18	20	8	13	15	8	14	14
Sewer overflows	1	4	10	6	6	4	10	3	-	11
Sewer blockages	n/a	n/a	6	35	11	5	5	5	5	7

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**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Number of water connections	15,187	15,685	16,098	16,466	16,670	16,974	17,207	17,512	17,818	18,132
Number of sewer connections	12,260	12,697	13,112	13,474	13,671	13,972	14,202	14,549	14,840	15,168
Miles of water lines	304.20	317.18	318.66	328.63	334.16	336.39	339.59	341.90	346.55	351.76
Miles of sewer lines	219.30	237.59	231.11	239.86	240.49	243.46	246.75	248.48	252.81	258.40
Fire hydrants	2,016	2,054	2,193	2,260	2,370	2,149	2,167	2,230	2,302	2,330
Water pumping stations	9	9	11	11	10	11	11	11	10	9
Sewer pumping stations	11	11	11	11	11	11	11	11	12	12
Water storage tanks	7	7	8	8	8	8	9	9	8	7

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
2005	\$ 10,864,722	\$ 185,829	\$ 48,590	\$ 237,438	\$ 372,125	\$ 11,708,704
2006	12,083,954	178,510	62,749	251,877	475,452	13,052,542
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

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
2005	\$ 8,176,468	\$ 3,948,208	\$ 66,324	\$ 1,600,238	\$ 126,884	\$ 13,918,122
2006	8,854,981	4,116,248	53,517	1,861,723	84,722	14,971,191
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

Table 15

**ALBEMARLE COUNTY SERVICE AUTHORITY
SCHEDULE OF INSURANCE IN FORCE
June 30, 2014**

Insurer	Type of Coverage	Policy Number	Policy Period From To	Annual Premium
Virginia Municipal Group Self Insurance Association	Local Government Liability Boiler & Machinery General Business Policy: Auto General Liability Property Fidelity & Crime Workers' Compensation	P-2013-2014-VML- 0107-1	7/1/2013 6/30/2014	\$69,159

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
2005	15,187	1.54	1.3	1.22	12,260
2006	15,685	1.64	1.3	1.29	12,697
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	18,131	1.53	1.2	1.30	15,168

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
2005	\$ 1,180,133	\$ 71,877,448	\$ 4,724,948
2006	1,266,241	73,909,843	8,260,750
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

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, as of and for the year ended June 30, 2014, 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 21, 2014.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 finding and response, we identified a certain deficiency in internal control 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*.**

The Authority's response to the finding identified in our audit is described in the accompanying schedule of finding and response. 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 21, 2014

ALBEMARLE COUNTY SERVICE AUTHORITY

**SUMMARY OF COMPLIANCE MATTERS
Year Ended June 30, 2014**

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 Agency'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

ALBEMARLE COUNTY SERVICE AUTHORITY

**SCHEDULE OF FINDING AND RESPONSE
Year Ended June 30, 2014**

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 2014, improvements were made to eliminate certain conflicting duties and safeguard inventory. 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. The Authority is currently implementing a modern Enterprise Resource Planning (ERP) system which will replace our current outdated financial reporting solution. The ERP system will allow the Authority to establish user permissions or rights within the system to both more effectively segregate duties and improve efficiency amongst the staff. The improved segregation of duties is one of many benefits the Authority anticipates on realizing upon the completion of 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.