



BVU AUTHORITY
FINANCIAL STATEMENTS
2017

BVU AUTHORITY

FINANCIAL STATEMENTS

AND SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2017

BVU AUTHORITY
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June 30, 2017

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INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
BVU Authority
Bristol, Virginia

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Joint Sewerage System, which represents 3.7% of the assets of the Authority. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Joint Sewerage System, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion

We were unable to obtain sufficient appropriate audit evidence about CPC OptiNet's net capital assets of \$6,820,814, which represents 4.7% and 3.4% of the net capital assets and total assets of the Authority, respectively.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the "Basis for Qualified Opinion" paragraph, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority as of June 30, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the Authority's net pension liability (asset) and related ratios, schedule of employer contributions, notes to required supplementary information, and analysis of funding progress for other post-employment benefits on pages 4-13 and 53-56 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 and the other auditors 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 supplementary information and other supplementary information section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and the other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The other supplementary information section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2017, 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.



BLACKBURN, CHILDERS & STEAGALL, PLC
Johnson City, Tennessee

October 2, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

BVU AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

1. Purpose

The Management's Discussion and Analysis report focuses on BVU Authority's fiscal year ending June 30, 2017 activities, resulting changes and current known facts. This discussion and analysis section is designed to assist the reader in focusing on BVU Authority's (a) significant financial issues, (b) provide an overview of financial activity, (c) identify major changes in financial position, and (d) identify any financial concerns. It should be read in conjunction with the basic audited financial statements.

2. Background

BVU Authority (BVU) is comprised of the following divisions: Electric, Water, Wastewater, and Fiber Optic Broadband system called "OptiNet". OptiNet is comprised of Data (Internet), Phone (Telecommunications), and Cable Television. BVU provides services to over 66,600 accounts throughout Southwest Virginia. BVU is governed by a seven member Board of Directors. A brief summary of BVU utility services are listed below:

2.1. Electric

BVU provides electric services to the City of Bristol, Virginia and portions of Washington and Scott Counties, VA and a portion of Sullivan County, TN. BVU purchases its electricity from the Tennessee Valley Authority (TVA).

2.2. Water

BVU provides water services to the City of Bristol, Virginia and a portion of Washington County, VA. The water is obtained from South Holston Lake and treated at BVU's water treatment plant located in Washington County, VA. Once the water is treated, it is then transported to the customers.

2.3. Wastewater

BVU provides wastewater services to the City of Bristol, Virginia and a portion of Washington County, VA. The wastewater is transported to Bluff City, TN where it is treated in a wastewater treatment plant. The plant is jointly owned with the City of Bristol, TN.

2.4. Fiber Optic Broadband (OptiNet)

BVU provides fiber optic broadband services to the City of Bristol, Virginia, and parts of Bland, Scott, Smyth, Washington, and Wythe Counties, Virginia. BVU works with the Cumberland Plateau Planning District Commission (CPPDC) and the Cumberland Plateau Company (CPC) to provide services to Buchanan, Dickenson, Russell, and Tazewell Counties, VA. BVU provides data and phone services in all of these areas. BVU provides cable television services only to the City of Bristol, Virginia and portions of Scott and Washington Counties, VA.

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June 30, 2017**

3. System Highlights

3.1. Total Accounts

As of June 30, 2017 BVU served 66,608 accounts. A total of 609 accounts were lost during fiscal year 2017. This represented a decline of 0.91% in total accounts.

3.2. Electric System

The Electric system services 17,361 accounts. This is an increase of 10 accounts or 0.06% from the prior year. The Electric System sold 497,130,355 kilowatt hours (kWh) of electricity. This represents a reduction of 24,575,848 kWh or 4.71% from fiscal year 2016. There were decreases in all rate classes. Residential was down 3,431,343 kWh or 1.79%. Commercial and industrial consumption was down 476,452 kWh or 1.38%. Large commercial had a decrease of 20,644,403 or 7.13%. Street and outdoor lighting was down by 23,650 kWh or 0.41%. Electric usage is dependent on local weather conditions and customer usage pattern.

3.3. Water System

The Water system services 7,903 accounts. This is the same number of accounts as in the prior year. The Water System sold 578,429,500 gallons of water. This represents an increase of 17,392,500 gallons or 3.10% from the previous year. The increase occurred in the commercial and industrial rate class. Water sales increased by 24,030,000 gallons or 8.65%. This increase was offset by a reduction in the sales to the residential rate class. Residential consumption dropped by 6,637,500 gallons or 2.34% from the prior year.

3.4. Wastewater

The Wastewater system services 7,678 accounts. This is a decrease of 5 or 0.07% from the prior year. Wastewater volumes billed were 695,571,100 gallons. This represents a reduction of 24,173,200 gallons or 3.36% from the previous year. There was a decrease in both the commercial and industrial rate class and at the Industrial Park. Commercial and industrial volumes decreased by 15,549,400 gallons or 4.31%. Volumes at the Industrial Park decreased 11,203,500 gallons or 16.06%. This decrease was partially offset by an increase in residential sales. Residential volumes grew by 2,579,700 gallons or 0.89% from the prior year.

3.5. Fiber Optic Broadband (OptiNet)

The OptiNet system services 33,666 accounts. This represents a decrease of 614 accounts or 1.79% from the previous year. The OptiNet system provides three different services: Telephone, Internet, and Cable. The Telephone system services 13,761 accounts. This is a decrease of 111 accounts or 0.80% from the previous year. The Internet system services 11,368 accounts. This is a decrease of 91 accounts or 0.79% from fiscal year 2016. The Cable Television system services 8,537 accounts. This is a decrease of 412 accounts or 4.60% from the prior year.

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4. Overview of the Financial Statements

4.1. Financial Statements

This discussion and analysis provides an overview to BVU's basic financial statements. BVU's financial performance is reported under three basic financial statements:

- Statement of Net Position
- Statement of Revenues, Expenses, and Changes in Net Position
- Statement of Cash Flows

4.2. Accounting Standards

The financial statements provide an overview of BVU's finances. BVU uses full accrual basis of accounting in accordance with generally accepted accounting principles (GAAP) and the Governmental Accounting Standards Board (GASB).

4.3. Statement of Net Position

BVU reports its assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position in the Statement of Net Position.

- Assets are classified as current, restricted, plant in service, or other assets.
- Liabilities are classified as current or long-term.
- Net position indicates the use of accumulated earnings and may serve as a useful indicator of BVU's financial position.

4.4. Statement of Revenues, Expenses and Changes in Net Position

BVU reports its revenues and expenses (both operating and non-operating) on the Statement of Revenues, Expenses and Changes in Net Position. In addition, any capital contributions or assets granted by state and federal programs are reported on this statement.

- Total revenues less total expenses equals the change in net position for the reporting period.
- Net position at the beginning of the period is increased or decreased, as applicable, by the change in net position for the reporting period.
- The change in net position for the reporting period is added to the net position segment of the Statement of Net Position.

4.5. Statement of Cash Flows

BVU reports the cash generated and used from both operating and non-operating sources on its Statement of Cash Flow. The cash flow statement organizes and reports the cash generated and used in the following categories:

- Operating activities
- Investing activities
- Financing activities

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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017**

4.6. Other Information

4.6.1. Required Supplementary Information

This report also contains other required supplementary information in addition to the basic financial statements themselves.

4.6.2. Notes to Financial Statements

The notes provide additional information that aids in the understanding of the basic financial statements.

5. Condensed Financial Statements

The following financial statements are presented in a condensed form. Full statements are provided in the audit report.

5.1. Statement of Net Position

The following table reflects the condensed Statement of Net Position for BVU compared to the prior fiscal year.

**Statements of Net Position
As of June 30
(In thousands of dollars)**

	2017	2016
Assets		
Current Assets	\$ 37,581	\$ 38,505
Non-Current Assets	17,769	5,533
Net Plant	146,640	155,467
Total Assets	201,990	199,505
Deferred Outflows of Resources	5,581	5,581
Liabilities		
Current Liabilities	14,238	11,189
Non-Current Liabilities	42,102	43,747
Total Liabilities	56,340	54,936
Deferred Inflows of Resources	122	129
Net Position		
Net Investment in Capital Assets	110,940	118,454
Restricted - Net Pension Asset	1,615	1,730
Unrestricted	38,258	29,837
Total Net Position	\$ 150,813	\$ 150,021

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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5.1.1. Current and Other Assets

Current and other assets decreased \$0.92 million or 2.40%. Cash and cash equivalents decreased \$0.26 million or 1.05%. This decrease is due to a portion of operating cash being reclassified to Restricted Cash-Reserves. This reclassification was done to show compliance with bond covenants. There was a reduction in receivables of \$0.47 million or 6.07% during the current fiscal year. This is due to increased collections from customers.

5.1.2. Restricted Cash – Reserves

Restricted cash – reserves increased by \$12.6 million. This is due to reserve cash being segregated from operating cash in FY2017. Reserved cash consists of operating cash reserves and repair and replacement reserves as required by the 2010 VRA Bond. Also included is a reserve economic development costs as required by TVA Power Contract and the Transition Agreement with the City of Bristol, VA.

5.1.3. Net Plant

Plant assets (net) decreased \$8.83 million or 5.68% during the 2017 fiscal year. Current year additions did not offset the current year's provision for depreciation. Several expansion and upgrade projects within OptiNet have been completed so there is not a need for the higher capital expenditures.

5.1.4. Current Liabilities

Current and other liabilities increased by \$3.05 million or 27.24% in the current fiscal year. An invoice was received from TVA for the early payment of a reintegration fee that was incurred when BVU signed the TVA Power Contract. This amount was to be repaid over 20 years. The BVU Board voted to prepay this amount in FY2017. This was included on the June invoice from TVA. The amount of the early payment is \$2.91 million. Without this early payment, current and other liabilities would have increased by \$0.14 million or 1.22%.

5.1.5. Non-current Liabilities

Non-current liabilities decreased by \$1.64 million. During the fiscal year \$1.63 million of bond debt and \$0.12 million of Water system debt was paid. During the fiscal year, there was no new long term debt added.

5.1.6. Change in Net Position

Net position increased by \$0.79 million in this fiscal year with an ending net position balance of \$150.81 million compared to fiscal year 2016 net position balance of \$150.02 million. This increase is a result of current fiscal year operations.

5.2. Statement of Revenues, Expenses and Changes in Net Position

The following table reflects the condensed statement of Revenues, Expenses and Changes in Net Position for BVU compared to the prior year.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

Statements of Revenues, Expenses and Changes in Net Position
As of June 30

	2017	2016
Operating Revenues		
Total Sales Revenue	\$ 84,021,323	\$ 84,275,758
Management and Consulting Fees	167,873	153,441
Rent from Property	365,037	363,302
Forfeited Discounts and Penalties	556,020	528,163
Connections and Transfers	268,764	244,972
Other	344,704	273,926
Total Operating Revenues	85,723,721	85,839,562
Operating Expenses		
Purchase Power	41,410,889	38,583,259
Power and Pumping	1,624,118	1,706,911
Purification and Collection System	702,955	676,057
Telecommunications COGS	10,185,055	11,639,364
Transmission and Distribution	2,061,893	2,139,208
Billing and Collection	5,180,156	5,985,459
City of Bristol, VA Economic Development	-	145,453
Administrative and General	8,364,721	9,126,869
Depreciation	13,150,430	13,096,513
Distribution of CPC Operations	445,630	438,580
Total Operating Expenses	83,125,847	83,537,673
Operating Income	2,597,874	2,301,889
Non-operating Expenses		
Other Deductions	(319,649)	(101,295)
Interest Expense	(1,485,679)	(1,412,327)
Total Non-operating Expenses	(1,805,328)	(1,513,622)
Capital Contributions	-	-
Change in Net Position	792,546	788,267
Net Position at July 1	150,020,888	141,573,514
Prior Period Adjustment	-	7,659,107
Net Position at July 1, as Restated	150,020,888	149,232,621
Net Position at June 30	\$ 150,813,434	\$ 150,020,888

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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5.2.1. Operating Revenue

BVU's operating revenue decreased \$0.12 million or 0.13%.

5.2.2. Operating Expenses

BVU's operating expenses decreased \$0.41 million or 0.49%. Purchased power expense increased by \$2.83 million or 7.33% as a result of the early payment of the TVA reintegration fee discussed in 5.1.4 above. This increase was offset by expense reductions in nearly all other areas of operations. Without the early payment of the reintegration fee, operating expenses would have decreased by \$3.32 million or 3.98%.

5.2.3. Economic Development Expenditures (City of Bristol, Virginia)

Under the terms of a November 2009 Transition Agreement between the City of Bristol, VA and Bristol Virginia Utilities Board, BVU Authority is required to budget \$0.50 million from the electric division each fiscal year for economic development projects located in the City of Bristol, VA. The September 29, 2006 TVA Power Contract authorizes the use of electric funds for this purpose. The projects are developed by city management and recommended to BVU by the City's Economic Development Committee. The BVU Board of Directors reviews the proposed project(s) and either approves, modifies, or rejects the project(s) funding requests. The project(s) are subject to various rules and regulations from both TVA and BVU. There were no expenditures for this account in FY2017. No businesses applied for any funding requests during the year.

5.2.4. Operating Income

BVU's operating income increased by \$0.30 million or 12.86%.

5.2.5. Prior Period Adjustment

For the year ended June 30, 2016, BVU included the activity of CPC OptiNet in the financial statements per the recommendation of the Auditor of Public Accounts (APA) (see section 6.2.2). This results in a prior period adjustment of \$7.66 million increase in the net position of CPC OptiNet for prior years' activity. There were no prior period adjustments for FY2017.

5.2.6. Change in Net Position

BVU's change in net position was \$0.79 million for the year ended June 30, 2017. This was the same increase as the prior year.

5.3. Statement of Cash Flows

The following table reflects the condensed Statement of Cash Flows for BVU compared to the prior year.

**BVU AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017**

**Statement of Cash Flows
As of June 30**

	2017	2016
Cash Flows from Operating Activities		
Receipts from Customers and Users	\$ 86,104,210	\$ 86,779,638
Receipt (Payment) of Customer Deposits	(67,706)	73,937
Payments to Suppliers	(57,246,513)	(59,909,086)
Payments to Employees	(9,027,921)	(10,201,951)
Net Cash Provided by Operating Activities	19,762,070	16,742,538
 Cash Flows From Capital & Related Financing Activities		
Proceeds from Sale of Equipment	963,779	173,758
Acquisition and Construction of Capital Assets	(5,408,092)	(8,939,042)
Principal Paid on Capital Debt	(1,559,067)	(1,700,329)
Interest Paid on Capital Debt	(1,502,827)	(1,430,799)
Net Cash Used for Capital & Related Financing Activities	(7,506,207)	(11,896,412)
 Cash Flows from Investing Activities		
Interest Received	46,587	56,193
Net Cash Provided by Investing Activities	46,587	56,193
 Net Increase in Cash and Cash Equivalents	12,302,450	4,902,319
Cash and Cash Equivalents, Beginning of the Year	28,389,658	23,487,339
Cash and Cash Equivalents, End of the Year	\$ 40,692,108	\$ 28,389,658

5.3.1 Cash Flows

BVU's cash flow increased by \$12.30 million in fiscal year 2017 compared to \$4.90 million in fiscal year 2016. This in comprised of decreases in several expenditures. Payments to suppliers dropped by \$2.66 million or 4.44%. This is due to a combination of closely monitoring spending, having well maintained equipment and facilities, and experiencing lower costs from several different vendors. Payments to employees decreased \$1.17 million or 11.51%. At the end of FY2017, BVU had 159 employees compared to 177 at the end of FY2016. This is a drop of 18 employees. Capital expenditures declined by \$3.53 million or 39.50% in FY2017. Several of the expansion and upgrade projects within OptiNet have been completed so there is not a need for the higher capital expenditures. The TVA reintegration fee of \$2.91 million was paid in July 2017. Had this been paid in June, ending Cash and Cash Equivalents would have been \$37,778,183.

**BVU AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
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6. Other Matters of Significance

6.1. Federal and State Criminal Investigation

In October 2013, the Commonwealth's Attorney for Washington County, VA opened an investigation concerning some of the financial transactions of BVU. A variety of information has been subpoenaed by the Commonwealth's Attorney for Washington County, VA. This information has been supplied to the Commonwealth's Attorney for Washington County, VA and the Washington County Sheriff's office. To date, no charges have been filed as a result of this investigation.

In March 2014, U.S. Attorney for the Western District of Virginia began issuing subpoenas for a variety of financial and operational data. All of the requested information has been provided to the U.S. Attorney. To date, a total of nine individuals have been found guilty of various charges related to the investigation. Five of the individuals were former BVU employees, two were former BVU Board Members, and two were independent contractors working for BVU.

As of the report date, both investigations remain open. BVU has and intends to continue to fully cooperate in both of these ongoing investigations.

6.2. Amendment of BVU Authority Act (Code of Virginia)

In March 2016, the Virginia Legislature amended the BVU Authority Act. This Act was passed during the ongoing criminal investigations. Some of the changes that resulted from the passage of this amendment include a limitation on the OptiNet service territory, limitations on certain types of spending, and a reorganization of the BVU Board of Directors. The act also instructed Virginia's Auditor of Public Accounts to perform an independent audit of BVU.

6.2.1. BVU Board Reorganization

One area amended by the BVU Authority Act was the reorganization of the BVU Board. Effective July 1, 2016, the entire nine member Board was dissolved and replaced by a seven member Board. The new Board consists of following:

- One member appointed by the Washington County Board of Supervisors
- One member appointed by the Bristol City Council (Council member)
- One member appointed by the Bristol City Council (City citizen)
- One member appointed by the Virginia Senate
- One member appointed by the Speaker of the House of Delegates (City citizen)
- One member appointed by the Speaker of the House of Delegates (Scott County citizen)
- One member appointed by the Abingdon Town Council

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6.2.2. Auditor of Public Accounts Report

In October 2016, the APA issued an audit report on BVU. This audit was performed as a result of the "BVU Reform Act". This audit examined all areas of BVU and contained 56 recommendations. Both BVU management and the Board take these recommendations seriously, and are working to implement these recommendations. A copy of this report can be found at <http://www.apa.virginia.gov/reports/BVUA2016-web.pdf>. The Authority has implemented 30 of these recommendations. Management anticipates the all of the findings will be fully addressed by June 30, 2018.

6.2.3. Reinstatement of inter-department debt between the Electric and OptiNet systems

One of the findings of the APA was that an inter-department loan from the Electric system to the OptiNet system was improperly written off in 2007. This was written off by then managements' understanding of legislation that allowed cross-subsidization. The audit by the APA determined that this legislation permitted cross-subsidization for internet services, but not for cable and telephone. As a result, the portion of this debt related to cable and telephone services has been reinstated. This inter-department loan of \$14.12 million has been eliminated on the basic financial statements.

6.2.4 Recording of inter-department debt between the Electric and OptiNet systems

One of the findings of the APA was that the Electric department had not properly charged the OptiNet department for pole attachments fees. This amount was calculated and an inter-department note for \$1.35 million was recorded. This inter-department note has been eliminated on the basic financial statements.

6.2.5 Recording of inter-divisional debt between the Cable and Data divisions of OptiNet

One of the findings of the APA was that the Cable division of OptiNet was being cross subsidized. In order to prevent this from happening, the Cable division entered into a \$2.50 million loan with the Data division. As of June 30, 2017, \$1.72 million of this debt instrument has been used. This inter-divisional note has been eliminated on the basic financial statements.

6.3. Proposed Sales Transaction with Sunset Digital

In February 2016, BVU entered into an Asset Purchase Agreement with Sunset Digital to sell the OptiNet system. This includes both the BVU OptiNet and BVU's interest in CPC OptiNet. The transaction is planned to close in October 2017.

BASIC FINANCIAL STATEMENTS

BVU AUTHORITY
STATEMENT OF NET POSITION
June 30, 2017

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 24,928,361
Accounts Receivable, Net of Allowance	6,850,889
Notes Receivable	242,178
Other Receivables	108,898
Due from Other Governmental Units	2,277,018
Prepays	491,416
Inventories, Net of Allowance	2,622,360
Other Current Assets	60,165
Total Current Assets	<u>37,581,285</u>

Noncurrent Assets

Restricted Cash - Customer Deposits	1,533,467
Restricted Cash - Reserves	14,230,280
Notes Receivable	190,567
Prepays	200,000
Net Pension Asset	1,615,000
Capital Assets, Net	146,639,771
Total Noncurrent Assets	<u>164,409,085</u>

TOTAL ASSETS 201,990,370

DEFERRED OUTFLOWS OF RESOURCES

Deferred Loss on Refunding, Net	4,720,728
Deferred Outflows Related to Pensions	564,512

TOTAL DEFERRED OUTFLOWS OF RESOURCES 5,285,240

(Continued)

BVU AUTHORITY
STATEMENT OF NET POSITION
June 30, 2017

LIABILITIES

Current Liabilities

Accounts Payable and Accrued Liabilities	8,403,001
Accrued Interest Payable	397,460
Accrued Payroll and Related Liabilities	303,564
Customer Security Deposits	1,534,967
Due to City of Bristol, Virginia	489,115
Unearned Revenue	756,412
Bonds Payable	1,515,000
Notes Payable	117,747
Compensated Absences	720,563
Total Current Liabilities	<u>14,237,829</u>

Noncurrent Liabilities

Bonds Payable	37,212,263
Notes Payable	1,574,893
Compensated Absences	761,285
Unearned Revenue	593,106
OPEB Liability	1,960,800
Total Noncurrent Liabilities	<u>42,102,347</u>

TOTAL LIABILITIES

56,340,176

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Related to Pensions	<u>122,000</u>
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NET POSITION

Net Investment in Capital Assets	110,940,595
Restricted - Net Pension Asset	1,615,000
Unrestricted	<u>38,257,839</u>

TOTAL NET POSITION

\$ 150,813,434

See accompanying notes to the financial statements.

BVU AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended June 30, 2017

OPERATING REVENUES	
Charges for Services	\$ 84,021,323
Management and Consulting Fees	167,873
Rent from Property	365,037
Forfeited Discounts and Penalties	556,020
Connections and Transfers	268,764
Other	<u>344,704</u>
TOTAL OPERATING REVENUES	<u>85,723,721</u>
OPERATING EXPENSES	
Power and Pumping	1,624,118
Purification and Collection System	702,955
Transmission and Distribution	2,061,893
Telephone, Broadband and CATV	10,185,055
Billing and Collection	5,180,156
Purchase of Electricity	41,410,889
Administrative and General	8,364,721
Depreciation	13,150,430
Distribution of CPC Operations	<u>445,630</u>
TOTAL OPERATING EXPENSES	<u>83,125,847</u>
OPERATING INCOME	<u>2,597,874</u>

(Continued)

BVU AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended June 30, 2017

NONOPERATING REVENUES (EXPENSES)	
Amortization	(245,127)
Interest Income	46,587
Interest Expense	(1,485,679)
Loss on Disposal of Assets	<u>(121,109)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(1,805,328)</u>
Change in Net Position	792,546
NET POSITION, JULY 1, 2016	<u>150,020,888</u>
NET POSITION, JUNE 30, 2017	<u><u>\$ 150,813,434</u></u>

See accompanying notes to the financial statements.

BVU AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers and Users	\$ 86,104,210
Payment of Customer Deposits	(67,706)
Payments to Suppliers	(57,246,513)
Payments to Employees	<u>(9,027,921)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>19,762,070</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Sale of Equipment	963,779
Acquisition and Construction of Capital Assets	(5,408,092)
Principal Paid on Capital Debt	(1,559,067)
Interest Paid on Capital Debt	<u>(1,502,827)</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(7,506,207)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Received	<u>46,587</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>46,587</u>
Net Increase in Cash and Cash Equivalents	12,302,450
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>28,389,658</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 40,692,108</u>
RECONCILIATION TO THE STATEMENT OF NET POSITION	
Cash and Cash Equivalents	\$ 24,928,361
Restricted Cash - Customer Deposits	1,533,467
Restricted Cash - Reserves	<u>14,230,280</u>
	<u>\$ 40,692,108</u>

(Continued)

BVU AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2017

RECONCILIATION OF OPERATING INCOME TO NET	
CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	\$ 2,597,874
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	13,150,430
(Increase) Decrease in Assets	
Net Accounts Receivable	200,181
Notes Receivable	190,760
Other Receivables	189,325
Due from Other Governmental Units	(102,736)
Prepays	247,206
Net Inventories	166,055
Other Current Assets	(15,841)
Net Pension Asset	115,000
(Increase) Decrease in Deferred Outflows of Resources	(67,068)
Increase (Decrease) in Liabilities	
Accounts Payable and Accrued Liabilities	2,806,864
Accrued Payroll and Related Liabilities	21,799
Customer Security Deposits	(67,706)
Due to City of Bristol, Virginia	251,906
Unearned Revenue	(81,200)
OPEB Liability	177,600
Compensated Absences	(11,379)
Increase (Decrease) in Deferred Inflows of Resources	<u>(7,000)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 19,762,070</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES	
Amortization of Bond Premium and Deferred Refunding	<u>\$ 245,127</u>
Capitalized Interest	<u>\$ 124,098</u>

See accompanying notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

As of July 1, 2010, BVU Authority (the Authority) was created from the separately managed and financed division of the City of Bristol, Virginia, formerly known as Bristol Virginia Utilities, by an act of the General Assembly of the Commonwealth of Virginia. The Authority is governed by a Board of Directors consisting of seven members. The Board of Directors consists of a chairman, vice chairman, and five other Board members.

The Authority has four divisions consisting of Electric, Water, Wastewater and OptiNet. The Authority also has an agreement with Cumberland Plateau Company, Inc. (CPC) and Cumberland Plateau Planning District Commission (CPPDC) that formed CPC OptiNet to construct, maintain and operate the fiber optic system in the CPC/CPPDC four county area. The activity, including the capital assets and related accumulated depreciation, is included in the Authority's financial statements. The Virginia Auditor of Public Accounts (APA), as required by legislation of the Virginia General Assembly, conducted an audit of the Authority and issued their report in October 2016. In accordance with the APA's audit recommendation, the CPC OptiNet activity is included as another division of the Authority.

The basic financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Joint Venture

The Authority, along with the City of Bristol, Tennessee, established a jointly-owned wastewater facility located in Bristol, Tennessee. The two are joint equitable owners of the facility. A six member Sewer Oversight Committee has advisory authority with respect to the facility. Each equitable owner appoints three members to the Oversight Committee. Separate financial statements of the Joint Sewerage System are available and may be obtained by writing to BVU Authority at 15022 Lee Highway, Bristol, Virginia 24202.

B. Measurement Focus and Basis of Accounting

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

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus and Basis of Accounting (Continued)

The Authority distinguishes *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. The Authority also recognizes as operating revenue the portion of available charges intended to recover the cost of connecting new customers to the system. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Joint Administration

The Authority utilizes a joint administrative department for the Electric, Water, Wastewater and OptiNet operations, which includes accounting, administration, billings, and collections. The shared administration, customer service, and other general expenses are allocated monthly based on the number of customers serviced by each division, operating revenues of each division, and plant in service of each division. For the year ended June 30, 2017, the expenses of this department were allocated 43.15% to the electric system, 10.68% to the water system, 10.62% to the wastewater system, and 35.55% to the OptiNet system.

D. Cash and Cash Equivalents and Investments

The Authority considers all highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

E. Accounts Receivable

Billings for services rendered by the electric, water and wastewater systems are handled by Central Service Association (CSA). CSA provides separate revenue billings for each system, but is unable to render separate detailing of accounts receivable. As a result, the electric division "purchases" the accounts receivable from the water and wastewater divisions monthly. Accounts deemed uncollectible attributable to the water or wastewater systems are charged back against those systems as bad debt expense. Billings for the OptiNet system are maintained by the Authority.

F. Allowance for Uncollectible Accounts

The Authority provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The estimate is based on historical collection data and specific account analysis. It is reasonably possible that the estimate of the allowance for doubtful accounts will change. Accounts receivable are presented net of an allowance for doubtful accounts of \$267,199 at June 30, 2017.

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Inventories

Inventories, consisting of materials and supplies, are valued at the lower of average unit acquisition price or market. Inventory is presented net of an allowance for obsolete inventory of \$1,262,770 at June 30, 2017.

H. Capital Assets

Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are depreciated using the straight-line method either by individual asset or the composite method for assets such as electric poles over the following estimated useful lives:

Utility Systems	25 – 50 years
Buildings	8 – 50 years
Equipment, Machinery and Vehicles	3 – 20 years
Fiber	25 years

I. Capitalization of Interest

The Authority capitalizes interest costs incurred on funds used to construct property, plant, and equipment. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Interest cost capitalized was \$124,098 in the year ended June 30, 2017.

J. Unearned Revenue

The Authority recognizes revenue on leases ratably over the term of the lease. Amounts billed and collected before the applicable lease periods are deferred.

K. Compensated Absences

The Authority has policies which allow for the accumulation and vesting of limited amounts of vacation and sick leave until termination or retirement. Amounts of such absences are accrued when incurred.

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Advertising Cost

Advertising and marketing costs are expensed as incurred. Advertising expense totaled approximately \$233,202 for the year ended June 30, 2017.

M. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority has items that qualify for reporting in this category. Deferred bond refunding costs result from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Contributions subsequent to the pension measurement date are equivalent to the Authority's pension contributions made to VRS during the year ended June 30, 2017, and will be recognized as an addition/reduction to the net pension asset in the following measurement period. The net difference between projected and actual earnings on plan investments of the Authority's agent multiple-employer defined pension plan is recognized as deferred outflows of resources and is amortized over a fixed five-year period.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Authority has items which are required to be reported as deferred inflows for the year ended June 30, 2017. The difference between expected and actual experience of the Authority's agent multiple-employer defined pension plan is recognized as deferred inflows of resources.

N. Estimates

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

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Pensions

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

P. Reclassifications

Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation.

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits

All cash and certificates of deposit of the Authority are maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. Seq. of the *Code of Virginia* or covered by federal depository insurance.

Investments

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

There was no investment activity during the year other than certificates of deposit.

Restricted assets consist primarily of customer deposits and reserve accounts related to revenue and refunding bonds. The Authority does not have any formally adopted deposit and investment policies that limit allowable deposits or investments.

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 3 - NOTES RECEIVABLE

The Authority had a program whereby qualifying homeowners could obtain interest-bearing loans to pay for energy conservation measures in their homes. The customer repays the loan over a period of up to ten years at a stated interest rate of 9.25%. Payments are made with the customers' regular monthly bills. Loans are secured by the related real property. The balance of the energy conservation loans as of June 30, 2017 was \$432,745. Beginning in September 2015, TVA began administering all new loans. The Authority continues to administer the loans that were in place as of this date.

NOTE 4 - PAYMENTS TO CITY OF BRISTOL, VIRGINIA

The Authority has accrued tax equivalent payments to the City of Bristol, Virginia based on an agreement between the two entities. The in-lieu of tax payment related to non-electric division property of \$100,000 per year for ten years was paid in its entirety in fiscal year 2011; therefore, \$100,000 was recognized in the current year and the remaining \$300,000 is considered prepaid as of June 30, 2017. The amount of tax equivalent payments recognized in the current year totaled \$450,000.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
Capital Assets, Not Depreciated					
Land	\$ 1,542,387	-	-	-	1,542,387
Construction in Progress	2,518,955	4,787,829	(5,549,910)	-	1,756,874
Total Capital Assets, Not Depreciated	<u>4,061,342</u>	<u>4,787,829</u>	<u>(5,549,910)</u>	<u>0</u>	<u>3,299,261</u>
Capital Assets, Being Depreciated					
Distribution System	52,592,886	1,052,407	(805,594)	-	52,839,699
General Plant	52,622,253	858,686	(24,887)	160,181	53,616,233
Fiber	132,110,632	2,783,785	(903,310)	3,124	133,994,231
Buildings	15,335,809	495,083	(120,000)	-	15,710,892
Equipment, Furniture and Fixtures	8,100,553	368,218	(2,506)	11,180	8,477,445
Transportation Equipment	5,726,744	425,240	(577,502)	-	5,574,482
CPC Buildings, Equipment, and Fiber	10,519,716	-	(72,606)	-	10,447,110
Total Capital Assets, Being Depreciated	<u>277,008,593</u>	<u>5,983,419</u>	<u>(2,506,405)</u>	<u>174,485</u>	<u>280,660,092</u>
Less Accumulated Depreciation For					
Distribution System	(26,082,982)	(1,594,368)	584,748	-	(27,092,602)
General Plant	(31,026,027)	(1,304,275)	15,494	-	(32,314,808)
Fiber	(51,902,683)	(8,080,472)	232,208	20,115	(59,730,832)
Buildings	(4,202,922)	(458,710)	39,970	-	(4,621,662)
Equipment, Furniture and Fixtures	(6,180,146)	(536,276)	2,506	(7,614)	(6,721,530)
Transportation Equipment	(3,004,189)	(681,414)	473,985	(233)	(3,211,851)
CPC Buildings, Equipment, and Fiber	(3,203,988)	(494,915)	72,606	-	(3,626,297)
Total Accumulated Depreciation	<u>(125,602,937)</u>	<u>(13,150,430)</u>	<u>1,421,517</u>	<u>12,268</u>	<u>(137,319,582)</u>
Total Capital Assets Being Depreciated, Net	<u>151,405,656</u>	<u>(7,167,011)</u>	<u>(1,084,888)</u>	<u>186,753</u>	<u>143,340,510</u>
Capital Assets, Net	<u>\$ 155,466,998</u>	<u>(2,379,182)</u>	<u>(6,634,798)</u>	<u>186,753</u>	<u>146,639,771</u>

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 5 - CAPITAL ASSETS (CONTINUED)

The CPPDC has an ownership interest in the grant funded assets that relate to the CPC OptiNet operations.

The Authority received contributions in aid of construction of \$443,992 for fiscal year 2017. This amount is reported as a reduction in costs of the related assets. Idle property in the amount of \$24,175 was held at June 30, 2017.

Depreciation expense for the year ended June 30, 2017 was \$13,150,430.

NOTE 6 - LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended June 30, 2017 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Series 2010 Revenue and Refunding Bonds	\$ 38,235,000	-	(1,445,000)	36,790,000	1,515,000
Bond Premiums	2,055,269	-	(118,006)	1,937,263	-
VRA Loans:					
Bristol View Connector	944,730	-	(59,646)	885,084	61,570
Hassan Heights Water Tank	861,977	-	(54,421)	807,556	56,177
Compensated Absences	1,493,227	721,025	(732,404)	1,481,848	720,563
Totals	<u>\$ 43,590,203</u>	<u>721,025</u>	<u>(2,409,477)</u>	<u>41,901,751</u>	<u>2,353,310</u>

Series 2010 Revenue and Refunding Bonds

Revenue and refunding bonds of \$44,545,000 were issued by the Authority in 2010. Proceeds from the Series 2010 bonds issued were used to refund prior utility system bonds of the City. The bonds were issued in the form of fixed rate revenue bonds to mature on October 1, 2033. The fixed interest rate on the bonds ranges between 2.35% and 6.14% depending on the bond maturity date. The revenue of the Authority is pledged as security for the bonds.

Virginia Resources Authority Loans Payable

In September 2008, the Authority entered into two separate agreements with the Virginia Resources Authority (VRA). Money for these agreements is provided by the Drinking Water State Revolving Funds.

The Bristol View Connector RLF loan was issued in the amount of \$1,289,511, of which \$885,084 was outstanding as of June 30, 2017. The Hassan Heights Water Tank RLF loan was issued in the amount of \$1,176,557, of which \$807,556 was outstanding as of June 30, 2017. Each note has a 20-year term and a 3.20% interest rate with principal and interest payments through April 2029.

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

The debt service requirements for the Authority's bonds and notes are as follows:

Year Ended June 30	Revenue and Refunding Bonds		VRA - Hassan Heights		VRA - Bristol View	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 1,515,000	1,972,916	56,177	25,396	61,570	27,834
2019	1,595,000	1,895,166	57,989	23,584	63,556	25,848
2020	1,685,000	1,813,166	59,859	21,713	65,606	23,798
2021	1,775,000	1,726,666	61,790	19,783	67,722	21,682
2022	1,845,000	1,640,410	63,783	17,789	69,906	19,497
2023-2027	10,245,000	6,753,300	351,136	56,727	384,846	62,173
2028-2032	12,415,000	3,579,442	156,822	6,323	171,878	6,930
2033-2034	5,715,000	342,839	-	-	-	-
	<u>\$ 36,790,000</u>	<u>19,723,905</u>	<u>807,556</u>	<u>171,315</u>	<u>885,084</u>	<u>187,762</u>

Details of long-term indebtedness are as follows:

	Interest Rates	Issue Date	Final Maturity Date	Original Issue	Amount Outstanding
Series 2010 Revenue and Refunding Bonds	2.35 - 6.14%	10-10	10-33	\$ 44,545,000	\$ 36,790,000
VRA RLF Loan - Bristol View Connector	3.20	09-08	04-29	1,289,511	885,084
VRA LRF Loan - Hassan Heights Water Tank	3.20	09-08	04-29	1,176,557	807,556
					<u>\$ 38,482,640</u>

Changes in the deferred loss on refunding for the year ended June 30, 2017 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Deferred Loss on Refunding	\$ 5,083,861	-	(363,133)	<u>4,720,728</u>

**BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

NOTE 7 - PENSION PLAN

Plan Description

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

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

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

**BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

NOTE 7 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

		<ul style="list-style-type: none"> • 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.
<p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p>	<p>Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.

**BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

NOTE 7 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

<p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund.</p>	<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.</p>	<p>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.</p>

**BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

NOTE 7 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

<p>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.</p>		<p>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.</p>
<p>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.</p>	<p>Creditable Service Same as Plan 1.</p>	<p>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.</p> <p>Defined Contribution Component: Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>

**BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

NOTE 7 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

<p>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.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting Same as Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contribution Component:</u> 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.</p> <p>Members are always 100% vested in the contributions that they make.</p>
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**BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

NOTE 7 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

		<p>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.</p> <ul style="list-style-type: none"> • 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. <p>Distribution is not required by law until age 70½.</p>
<p>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.</p> <p>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.</p>	<p>Calculating the Benefit See definition under Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1.</p> <p><u>Defined Contribution Component:</u> 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.</p>

**BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

NOTE 7 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

<p>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p>Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p> <p>Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.</p>	<p>Service Retirement Multiplier VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p> <p>Political subdivision hazardous duty employees: Same as Plan 1.</p>	<p>Service Retirement Multiplier Defined Benefit Component: VRS: The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: Not applicable.</p>
<p>Normal Retirement Age VRS: Age 65.</p> <p>Political subdivisions hazardous duty employees: Age 60.</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Normal Retirement Age Defined Benefit Component: VRS: Same as Plan 2.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 7 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

<p>Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility Defined Benefit Component: VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Reduced Retirement Eligibility Defined Benefit Component: VRS: Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

**BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

NOTE 7 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

<p>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%.</p> <p>Eligibility: For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>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.</p> <p>Exceptions to COLA Effective Dates: The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p>	<p>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%.</p> <p>Eligibility: Same as Plan 1.</p> <p>Exceptions to COLA Effective Dates: Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement Defined Benefit Component: Same as Plan 2.</p> <p>Defined Contribution Component: Not applicable.</p> <p>Eligibility: Same as Plan 1 and Plan 2.</p> <p>Exceptions to COLA Effective Dates: Same as Plan 1 and Plan 2.</p>
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BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 7 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

<ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 		
<p>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.</p>	<p>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.</p>	<p>Disability Coverage Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p>

**BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

NOTE 7 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

<p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>
<p>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.</p>	<p>Purchase of Prior Service Same as Plan 1.</p>	<p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. <p><u>Defined Contribution Component:</u> Not applicable.</p>

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 7 - PENSION PLAN (CONTINUED)

Employees Covered by Benefit Terms

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

	Number
Inactive members or their beneficiaries currently receiving benefits	18
Inactive members:	
Vested inactive members	9
Non-vested inactive members	17
Inactive members active elsewhere in VRS	3
Total inactive members	29
Active members	147
Total Covered Employees	194

Contributions

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

The Authority's contractually required contribution rate for the year ended June 30, 2017 was 4.91% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were \$353,512 and \$497,444 for the years ended June 30, 2017 and June 30, 2016, respectively.

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 7 - PENSION PLAN (CONTINUED)

Net Pension Liability (Asset)

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

Actuarial Assumptions – General Employees

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

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

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.00%. However, since the difference was minimal, and a more conservative 7.00% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.00% to simplify preparation of pension liabilities.

Mortality rates: 14.00% of deaths are assumed to be service related.

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 7 - PENSION PLAN (CONTINUED)

Actuarial Assumptions – General Employees (Continued)

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Largest 10 – Non-LEOS:

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

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

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

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 7 - PENSION PLAN (CONTINUED)

Long-Term Expected Rate of Return

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

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

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

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 7 - PENSION PLAN (CONTINUED)

Discount Rate

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

Changes in Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balance at June 30, 2015	\$ 5,159,216	6,889,216	(1,730,000)
Changes for the Year:			
Service Cost	871,916	-	871,916
Interest	349,213	-	349,213
Differences Between Expected and Actual Experience	(138,688)	-	(138,688)
Contributions - Employer	-	439,461	(439,461)
Contributions - Employees	-	391,387	(391,387)
Net Investment Income	-	140,294	(140,294)
Benefit Payments, Including Refunds of Employee Contributions	(340,915)	(340,915)	-
Administrative Expense	-	(4,070)	4,070
Other Changes	-	369	(369)
Net Changes	<u>741,526</u>	<u>626,526</u>	<u>115,000</u>
Balance at June 30, 2016	<u>\$ 5,900,742</u>	<u>7,515,742</u>	<u>(1,615,000)</u>

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 7 - PENSION PLAN (CONTINUED)

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Authority's Net Pension Liability (Asset)	\$ (515,948)	(1,615,000)	(2,500,571)

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

For the year ended June 30, 2017, the Authority recognized pension expense of \$336,000. At June 30, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	122,000
Net difference between projected and actual earnings on pension plan investments	211,000	-
Employer contributions subsequent to the measurement date	353,512	-
Total	\$ 564,512	122,000

\$353,512 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of (addition to) the net pension liability (asset) in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 7 - PENSION PLAN (CONTINUED)

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

<u>Year ended June 30</u>	
2018	\$ 1,655
2019	1,655
2020	82,781
2021	54,238
2022	(17,560)
Thereafter	(33,769)

Pension Plan Data

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

NOTE 8 - OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The Authority administers a single-employer defined benefit healthcare plan. The plan provides healthcare insurance for eligible retirees and their spouses through the Authority's group health insurance plan, which covers both active and retired members. The Authority allows retirees to continue on health and dental insurance until they reach the age of 65. If the retiree has their spouse covered on the insurance plan, the insurance continues until the spouse reaches the age of 65. The policy rates go from employee/spouse rates to a single member rate once one of the individuals reaches the age of 65. If the retiree has completed 30 years of service, the Authority pays the entire health insurance premium. If the retiree has less than 20 years of service, they must pay the entire health insurance premium. If years of service are between 20 and 30 years, the Authority pays a portion of insurance based on years of service. The amount paid by the Authority is 3.00% per year of service.

Funding Policy

The funding policy of the Authority is to contribute to the plan the premiums assessed during the year.

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 8 - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation

The Authority's other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined. 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.

The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Authority's OPEB obligation.

Annual Required Contribution (ARC)	\$	320,200	
Interest on Net OPEB Obligation		75,800	
Adjustment to the ARC		(76,700)	
Annual OPEB Cost		319,300	
Annual Employer Contribution		(141,700)	
Change in Net OPEB Obligation		177,600	
Net OPEB Obligation - Beginning of the Year		1,783,200	
Net OPEB Obligation - End of Year	\$	1,960,800	

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current year and each of the two preceding years are as follows:

Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2017	\$ 319,300	44.4%	\$ 1,960,800
June 30, 2016	342,300	25.9%	1,783,200
June 30, 2015	329,000	32.1%	1,529,700

Funded Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$4,181,500. The covered payroll was \$7,548,200, and the ratio of the UAAL to the covered payroll was 55.40%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend.

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 8 - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Funded Status and Funding Progress (Continued)

Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents 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.

Actuarial Methods and Assumptions

The Entry Age Normal cost method is used to determine the plan's funding liabilities and costs. Under this cost method, the actuarial present value of projected benefits of every active participant as if the plan's provisions on the valuation date had always been in effect, is determined as a level percentage of expected annual earnings for each future year of expected service. A normal cost for each year from the assumed entry date is determined by applying this level percentage of pay to the assumed earnings for that year.

Under these methods, inactive participants have no normal cost, and their actuarial liability is the present value of the plan benefits to which they and their beneficiaries are entitled. The plan's total annual normal cost and actuarial liability are the sum of the individual participant amounts.

An experience gain or loss is a decrease or increase in the unfunded actuarial liability attributable to actual experience that differed from that expected by the actuarial assumptions. Such gains or losses are explicitly recognized under this method. Liabilities and costs shown are net of any retiree contributions.

In the July 1, 2016 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 4.25% investment rate of return and an annual healthcare cost trend rate of 7.00%, decreasing at a rate of 0.50% per year until an ultimate rate of 5.00% is reached. The UAAL is being amortized as a level percentage over 30 years.

NOTE 9 - SERVICE CONTRACTS

In September 2006, the Authority entered into an agreement with the Tennessee Valley Authority (TVA) for the purchase of wholesale power for distribution. The contract period is January 1, 2008 through December 31, 2027. For the year ended June 30, 2017, \$38,500,473 was expensed under this contract. This agreement also requires the payment of a \$5,500,000 fee to TVA for the reintegration of the Authority into the TVA power system in equal monthly installments over the contract period. The remaining balance of \$2,910,416 was billed and in accounts payable as of June 30, 2017.

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 10 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; injuries to employees and natural disasters. The risk management programs utilized by the Authority are as follows:

Workmens' Compensation Insurance

Insurance is provided through VACORP, which is a Commonwealth of Virginia pooled plan. Benefits are those afforded through the Commonwealth of Virginia, as outlined in the *Code of Virginia* Section 65.2-100; premiums are based upon covered payroll, job rates and claims experience.

General Liability and Other

The Authority maintains general liability and other insurance coverage through VACORP, which is a Commonwealth of Virginia pooled plan.

Healthcare

Healthcare insurance coverage is provided to the Authority's employees through a policy with Local Choice/Anthem, which is a Commonwealth of Virginia pooled plan. Partial premiums are withheld from the employee's earnings and remaining premiums are paid by the Authority. Retired employees and dependents of employees are also covered by the program provided they pay the applicable premium.

There were no significant reductions in insurance coverage from the prior year and no settlements that exceeded the amount of insurance coverage during the last three years.

NOTE 11 - INTERDIVISION TRANSACTIONS

Interdivision Receivables and Payables

During the course of operations, transactions occur between the individual divisions that may result in amounts owed between divisions. For the purpose of the statement of net position, these amounts have been eliminated. The amounts due between the individual divisions as of June 30, 2017 are as follows:

<u>Receivable Division</u>	<u>Payable Division</u>	<u>Amount</u>
Electric	OptiNet	\$ 562,961
Electric	CPC OptiNet	20,899
OptiNet	Electric	72,485
OptiNet	CPC OptiNet	694,846
CPC OptiNet	OptiNet	14,971

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 11 - INTERDIVISION TRANSACTIONS (CONTINUED)

During the year ended June 30, 2017, charges for services revenue of \$310,533, \$2,314, \$1,773,862, and \$845,952 were received by the Electric, Water, OptiNet and CPC OptiNet divisions, respectively. These revenues were paid by the following divisions: Electric - \$1,608,378, Water - \$311,339, Wastewater - \$26,833, and OptiNet - \$986,111.

The Electric division received rent from property of \$696,911 from: Water - \$73,032, Wastewater - \$73,195, and OptiNet - \$550,684 for the year ended June 30, 2017.

The Authority and CPC have an agreement to provide telecommunications infrastructure in areas of Southwest Virginia. The management agreement resulted in distributions from CPC OptiNet to OptiNet and CPC for the year ended June 30, 2017 of \$2,163,634 and \$445,630, respectively.

Interdivision Notes Payable

During the year ended June 30, 2016, a note payable from OptiNet to Electric was re-established in the amount of \$13,741,288, which included \$4,643,549 of accrued interest, through a prior period adjustment. This note was written off in fiscal year 2007 by management based on their understanding at the time of new legislation related to the allowance of cross-subsidization. However, based on the audit by the APA (see note 1), cross-subsidization is allowed for internet services but not telephone and cable television, therefore the interdivision borrowing related to telephone and cable television was not allowed to be written off and therefore was re-established. Accrued interest of \$375,641 was added to the note receivable in the current fiscal year, resulting in a balance as of June 30, 2017 of \$14,116,929. Also, another note was established during the year ended June 30, 2017, through a prior period adjustment, in the amount of \$1,346,153 for the cumulative difference in the actual number of pole attachments and rates paid for those attachments by OptiNet to Electric. Accrued interest of \$36,799 was added to this note during the fiscal year and the balance at June 30, 2017 is \$1,382,952. These amounts are eliminated in the basic financial statements.

An intercompany loan agreement with an interest rate of 2.70% and balloon payment in three years was entered into in August 2016 between the Cable and Data divisions within OptiNet. The loan agreement allows for up to \$2,500,000 be borrowed by the Cable division from the Data division. A total of \$1,721,000 has been borrowed as of June 30, 2017. These amounts are eliminated within OptiNet.

NOTE 12 - JOINT SEWERAGE SYSTEM

In 1979, the City of Bristol, Virginia and the City of Bristol, Tennessee entered into a contract for operation of a jointly-owned wastewater facility. The City of Bristol, Virginia's ownership interest in the facility moved to the Authority upon its creation. The two are joint equitable owners in the facility, with ownership percentages determined by usage. Usage is determined by a cost-sharing formula included in the contract. The share of future principal payments is determined yearly to reflect usage of the facility by each of the two cities during the year. The Authority's share of debt applicable to the facility at June 30, 2017 was approximately 45.00%.

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 12 - JOINT SEWERAGE SYSTEM (CONTINUED)

The plant's operating expenses are allocated between the two cities based on usage.

Audits of the facility are performed each year. At that time, amounts due to or from each are determined based on the yearly expenses allocated to each and the contributions made by each.

The Authority's portion of the Joint Sewerage System is included in the Wastewater division on the statement of net position as follows:

Due from other governmental units:

Contributions in Excess of Allocated Capital Outlays	\$ 1,935,152
Due from Joint Sewerage System	340,304
	\$ 2,275,456

Due from Joint Sewerage System consisted of the following:

Contributions to Joint Wastewater	\$ 1,618,213
Other Income	8,797
Total Contributions and Other Income	1,627,010
Expenditures - The Authority's Portion	(1,286,706)
	\$ 340,304

Capital assets of the Joint Sewerage System reported in the Wastewater division are as follows:

Land	\$ 181,015
Construction in Progress	237,667
Equipment, Treatment, and Composting Plant	15,395,077
Less: Accumulated Depreciation	(10,536,217)
Net Capital Assets	\$ 5,277,542

NOTE 13 - LEASES

OptiNet leases network fiber optic cable to others. The leases are non-cancelable operating leases with terms of ten to thirty years. The lease terms required the entire lease amount to be paid on acceptance of the fiber. The total lease amount received is approximately \$1,639,530 as of June 30, 2017 and \$674,439 is considered deferred. On the statement of net position, \$81,333 is considered current and \$593,106 is noncurrent.

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 14 - COMMITMENTS AND CONTINGENCIES

The Authority is subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition or results of operations of the Authority.

NOTE 15 - INVESTIGATIONS AND INQUIRIES

The Authority's main campus is located in Washington County, Virginia. In October 2013, the Commonwealth's Attorney for Washington County, Virginia opened an investigation into certain Authority financial transactions with an emphasis on Authority employee credit card expenditures. Various financial and operational data were subpoenaed. The data was examined by investigators from the Washington County Sheriff's Department. The Authority's management team has supplied all requested information. The Authority has cooperated and intends to cooperate in the future with this investigation. As of the date the financial statements are available to be issued, no charges have been filed by the Commonwealth's Attorney for Washington County.

In March 2014, the U.S. Attorney for the Western District of Virginia, Abingdon Division located in Washington County, issued various subpoenas to the Authority related to financial and operational data. The Authority's management team has supplied all requested information. The Authority has cooperated and intends to cooperate in the future with the inquiry.

As of the date the financial statements are available to be issued, a total of nine individuals have been found guilty of various charges resulting from the U.S. Attorney's investigation. Five of the individuals were former BVU employees, two individuals were former BVU Board Members and two individuals were former BVU independent contractors.

Part of the U.S. Attorney's investigation included items related to the Internal Revenue Service (IRS). The IRS may perform their own separate examination of the Authority's records; however, as of the date the financial statements are available to be issued, it is unknown when, or if, this will occur.

Potential adverse financial results from such allegations include the legal costs of defense, fines, and criminal charges. Management concludes that the outcome remains uncertain at this time.

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 16 - SUBSEQUENT EVENTS

As of the date these financial statements are available to be issued, there is an Asset Purchase Agreement pending for the sale of OptiNet division, including both BVU and CPC OptiNet. Federal grant funding was used to construct part of the capital assets held by BVU and CPC OptiNet; therefore, approval has to be obtained from the federal agencies involved, as well as from CPC, Inc. In December 2016, the Authority received letters of approval from the United States Department of Commerce Economic Development Administration (EDA) and the Acquisition and Grants Office of the National Oceanic and Atmospheric Administration of the United States Department of Commerce (NOAA) (on behalf of the National Telecommunications and Information Administration (NTIA)). In May 2017, approval was received from CPC, Inc. The sale is expected to be completed during the 4th quarter of 2017.

REQUIRED SUPPLEMENTARY INFORMATION

BVU AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE AUTHORITY'S NET PENSION LIABILITY (ASSET)
AND RELATED RATIOS

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability			
Service Cost	\$ 871,916	934,815	944,947
Interest	349,213	280,294	206,470
Differences between Expected and Actual Experience	(138,688)	(873)	-
Benefit Payments, including Refunds of Employee Contributions	(340,915)	(118,449)	(75,133)
Net Change in Total Pension Liability	<u>741,526</u>	<u>1,095,787</u>	<u>1,076,284</u>
Total Pension Liability - Beginning	<u>5,159,216</u>	<u>4,063,429</u>	<u>2,987,145</u>
Total Pension Liability - Ending (a)	<u><u>\$ 5,900,742</u></u>	<u><u>5,159,216</u></u>	<u><u>4,063,429</u></u>
Plan Fiduciary Net Position			
Contributions - Employer	\$ 439,461	443,009	762,024
Contributions - Employees	391,387	387,783	399,374
Net Investment Income	140,294	294,159	728,746
Benefit Payments, including Refunds of Employee Contributions	(340,915)	(118,449)	(75,133)
Administrative Expense	(4,070)	(3,651)	(2,960)
Other Changes	369	(64)	(32)
Net Change in Plan Fiduciary Net Position	<u>626,526</u>	<u>1,002,787</u>	<u>1,812,019</u>
Plan Fiduciary Net Position - Beginning	<u>6,889,216</u>	<u>5,886,429</u>	<u>4,074,410</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 7,515,742</u></u>	<u><u>6,889,216</u></u>	<u><u>5,886,429</u></u>
Authority's Net Pension Liability (Asset) - Ending (a) - (b)	<u><u>\$ (1,615,000)</u></u>	<u><u>(1,730,000)</u></u>	<u><u>(1,823,000)</u></u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	127.37%	133.53%	144.86%
Covered Payroll	\$ 7,814,346	7,740,429	7,873,956
Authority's Net Pension Liability (Asset) as a Percentage of Covered Payroll	-20.67%	-22.35%	-23.15%

This is a 10-Year Schedule; however, the information in this Schedule is not required to be presented retroactively. Years will be added to this Schedule in future years until 10 years of information is available.

See Independent Auditors' Report.

BVU AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
For the Year Ended June 30, 2017

Year	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2017	\$ 353,512	\$ 353,512	-	\$ 7,542,969	4.91%
2016	497,444	497,444	-	7,814,346	5.76%
2015	565,450	565,450	-	7,740,429	5.76%

This is a 10-Year Schedule; however, the information in this Schedule is not required to be presented retroactively. Years will be added to this Schedule in future years until 10 years of information is available.

See Independent Auditors' Report.

BVU AUTHORITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2017

Changes of Benefit Terms

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

Changes of Assumptions

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

Largest 10 – Non-LEOS:

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

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

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

See Independent Auditors' Report.

BVU AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS
For the Year Ended June 30, 2017

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b) - (a) Unfunded Actuarial Accrued Liability (UAAL)	(a) / (b) Funded Ratio	(c) Annual Covered Payroll	((b) - (a)) / (c) UAAL as a Percentage of Covered Payroll
July 1, 2016	\$ -	\$ 4,181,500	\$ 4,181,500	0.00%	\$ 7,548,200	55.40%
July 1, 2014	-	4,141,100	4,141,100	0.00%	7,453,700	55.56%
July 1, 2012	-	3,701,100	3,701,100	0.00%	8,290,100	44.64%

See Independent Auditors' Report.

SUPPLEMENTARY INFORMATION

BVU AUTHORITY
COMBINING STATEMENT OF NET POSITION
June 30, 2017

	Electric	Water	Wastewater	BVU OptiNet	CPC OptiNet	Totals	Eliminating Entries	Combined Total
ASSETS								
Current Assets								
Cash and Cash Equivalents	\$ 12,345,331	2,069,615	4,699,557	5,277,239	536,619	24,928,361	-	24,928,361
Accounts Receivable, Net of Allowance	4,923,096	199,622	308,085	1,075,612	344,474	6,850,889	-	6,850,889
Notes Receivable	242,178	-	-	-	-	242,178	-	242,178
Other Receivables	104,904	(27,282)	-	31,276	-	108,898	-	108,898
Due from Other Governmental Units	-	-	2,277,018	-	-	2,277,018	-	2,277,018
Internal Balances	583,860	-	-	767,331	14,971	1,366,162	(1,366,162)	-
Prepays	83,115	16,577	101,111	311,452	86	512,341	(20,925)	491,416
Inventories, Net of Allowance	1,161,158	254,329	34,784	1,172,089	-	2,622,360	-	2,622,360
Other Current Assets	516	2,407	12,583	44,659	-	60,165	-	60,165
Total Current Assets	19,444,158	2,515,268	7,433,138	8,679,658	896,150	38,968,372	(1,387,087)	37,581,285
Noncurrent Assets								
Restricted Cash - Customer Deposits	1,444,425	-	-	89,042	-	1,533,467	-	1,533,467
Restricted Cash - Reserves	9,823,019	553,428	489,935	3,363,898	-	14,230,280	-	14,230,280
Notes Receivable	15,690,448	-	-	-	-	15,690,448	(15,499,881)	190,567
Prepays	-	-	200,000	-	-	200,000	-	200,000
Net Pension Asset	669,180	175,599	180,142	590,079	-	1,615,000	-	1,615,000
Capital Assets, Net	37,492,799	14,175,363	8,524,840	79,625,955	6,820,814	146,639,771	-	146,639,771
Total Noncurrent Assets	65,119,871	14,904,390	9,394,917	83,668,974	6,820,814	179,908,966	(15,499,881)	164,409,085
TOTAL ASSETS	84,564,029	17,419,658	16,828,055	92,348,632	7,716,964	218,877,338	(16,886,968)	201,990,370
DEFERRED OUTFLOWS OF RESOURCES								
Deferred Loss on Refunding, Net	2,034,420	412,700	-	2,273,608	-	4,720,728	-	4,720,728
Deferred Outflows Related to Pensions	243,587	60,289	59,952	200,684	-	564,512	-	564,512
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,278,007	472,989	59,952	2,474,292	0	5,285,240	0	5,285,240

(Continued)

BVU AUTHORITY
COMBINING STATEMENT OF NET POSITION
June 30, 2017

	Electric	Water	Wastewater	BVU OptiNet	CPC OptiNet	Totals	Eliminating Entries	Combined Total
LIABILITIES								
Current Liabilities								
Accounts Payable and Accrued Liabilities	6,737,884	27,365	17,760	1,289,548	330,444	8,403,001	-	8,403,001
Accrued Interest Payable	141,163	38,819	-	217,478	-	397,460	-	397,460
Accrued Payroll and Related Liabilities	106,730	28,925	27,729	140,180	-	303,564	-	303,564
Customer Security Deposits	1,444,425	-	-	89,042	1,500	1,534,967	-	1,534,967
Internal Balances	72,485	-	-	577,932	715,745	1,366,162	(1,366,162)	-
Due to City of Bristol, Virginia	489,115	-	-	-	-	489,115	-	489,115
Unearned Revenue	-	-	-	756,412	-	756,412	-	756,412
Bonds Payable	560,000	100,000	-	855,000	-	1,515,000	-	1,515,000
Notes Payable	-	117,747	-	-	-	117,747	-	117,747
Compensated Absences	274,390	85,433	60,651	300,089	-	720,563	-	720,563
Total Current Liabilities	9,826,192	398,289	106,140	4,225,681	1,047,689	15,603,991	(1,366,162)	14,237,829
Noncurrent Liabilities								
Bonds Payable	13,688,065	2,449,362	-	21,074,836	-	37,212,263	-	37,212,263
Notes Payable	-	1,574,893	-	15,499,881	-	17,074,774	(15,499,881)	1,574,893
Compensated Absences	271,514	89,583	64,535	335,653	-	761,285	-	761,285
Unearned Revenue	-	-	-	614,031	-	614,031	(20,925)	593,106
OPEB Liability	792,909	215,403	217,168	735,320	-	1,960,800	-	1,960,800
Total Noncurrent Liabilities	14,752,488	4,329,241	281,703	38,259,721	0	57,623,153	(15,520,806)	42,102,347
TOTAL LIABILITIES	24,578,680	4,727,530	387,843	42,485,402	1,047,689	73,227,144	(16,886,968)	56,340,176

(Continued)

BVU AUTHORITY
COMBINING STATEMENT OF NET POSITION
June 30, 2017

	Electric	Water	Wastewater	BVU OptiNet	CPC OptiNet	Totals	Eliminating Entries	Combined Total
DEFERRED INFLOWS OF RESOURCES								
Deferred Inflows Related to Pensions	52,643	13,029	12,957	43,371	-	122,000	-	122,000
NET POSITION								
Net Investment in Capital Assets	25,279,153	10,346,061	8,524,840	59,969,727	6,820,814	110,940,595	-	110,940,595
Restricted - Net Pension Asset	669,180	175,599	180,142	590,079	-	1,615,000	-	1,615,000
Unrestricted	36,262,380	2,630,428	7,782,225	(8,265,655)	(151,539)	38,257,839	-	38,257,839
TOTAL NET POSITION	<u>\$ 62,210,713</u>	<u>13,152,088</u>	<u>16,487,207</u>	<u>52,294,151</u>	<u>6,669,275</u>	<u>150,813,434</u>	<u>0</u>	<u>150,813,434</u>

See Independent Auditors' Report.

BVU AUTHORITY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended June 30, 2017

	Electric	Water	Wastewater	BVU OptiNet	CPC OptiNet	Totals	Eliminating Entries	Combined Total
OPERATING REVENUES								
Charges for Services	\$ 51,412,796	3,435,304	4,612,744	22,216,671	5,276,469	86,953,984	(2,932,661)	84,021,323
Management and Consulting Fees	-	-	-	167,873	-	167,873	-	167,873
Rent from Property	968,907	93,041	-	-	-	1,061,948	(696,911)	365,037
Forfeited Discounts and Penalties	364,163	27,666	35,979	116,812	11,400	556,020	-	556,020
Connections and Transfers	174,945	82,264	11,555	-	-	268,764	-	268,764
Income from CPC Operations	-	-	-	2,163,634	-	2,163,634	(2,163,634)	-
Other	181,629	-	-	102,549	60,526	344,704	-	344,704
TOTAL OPERATING REVENUES	53,102,440	3,638,275	4,660,278	24,767,539	5,348,395	91,516,927	(5,793,206)	85,723,721
OPERATING EXPENSES								
Power and Pumping	-	254,760	1,370,490	-	-	1,625,250	(1,132)	1,624,118
Purification and Collection System	-	497,444	236,654	-	-	734,098	(31,143)	702,955
Transmission and Distribution	2,635,130	245,768	-	-	-	2,880,898	(819,005)	2,061,893
Telephone, Broadband and CATV	-	-	-	9,088,345	2,247,777	11,336,122	(1,151,067)	10,185,055
Billing and Collection	1,775,288	586,835	332,460	2,933,112	403,419	6,031,114	(850,958)	5,180,156
Purchase of Electricity	41,410,889	-	-	-	-	41,410,889	-	41,410,889
Administrative and General	3,450,195	849,839	857,529	3,892,291	91,134	9,140,988	(776,267)	8,364,721
Depreciation	2,563,939	773,754	687,597	8,630,224	494,916	13,150,430	-	13,150,430
Distribution of CPC Operations	-	-	-	-	2,609,264	2,609,264	(2,163,634)	445,630
TOTAL OPERATING EXPENSES	51,835,441	3,208,400	3,484,730	24,543,972	5,846,510	88,919,053	(5,793,206)	83,125,847
Operating Income (Loss)	1,266,999	429,875	1,175,548	223,567	(498,115)	2,597,874	0	2,597,874

(Continued)

BVU AUTHORITY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended June 30, 2017

	Electric	Water	Wastewater	BVU OptiNet	CPC OptiNet	Totals	Eliminating Entries	Combined Total
NONOPERATING REVENUES (EXPENSES)								
Amortization	(112,754)	(23,866)	-	(108,507)	-	(245,127)	-	(245,127)
Interest Income	449,756	215	7,715	1,341	-	459,027	(412,440)	46,587
Interest Expense	(534,415)	(139,660)	-	(1,224,043)	(1)	(1,898,119)	412,440	(1,485,679)
Gain (Loss) on Disposal of Assets	(122,075)	721	3,030	(5,985)	3,200	(121,109)	-	(121,109)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(319,488)</u>	<u>(162,590)</u>	<u>10,745</u>	<u>(1,337,194)</u>	<u>3,199</u>	<u>(1,805,328)</u>	<u>0</u>	<u>(1,805,328)</u>
Change in Net Position	947,511	267,285	1,186,293	(1,113,627)	(494,916)	792,546	0	792,546
NET POSITION, JULY 1, 2016	59,917,049	12,884,803	15,300,914	54,753,931	7,164,191	150,020,888	-	150,020,888
Prior Period Adjustment	1,346,153	-	-	(1,346,153)	-	-	-	-
NET POSITION, JULY 1, 2016, RESTATED	<u>61,263,202</u>	<u>12,884,803</u>	<u>15,300,914</u>	<u>53,407,778</u>	<u>7,164,191</u>	<u>150,020,888</u>	<u>0</u>	<u>150,020,888</u>
NET POSITION, JUNE 30, 2017	<u>\$ 62,210,713</u>	<u>13,152,088</u>	<u>16,487,207</u>	<u>52,294,151</u>	<u>6,669,275</u>	<u>150,813,434</u>	<u>0</u>	<u>150,813,434</u>

See Independent Auditors' Report.

BVU AUTHORITY
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2017

	Electric	Water	Wastewater	BVU OptiNet	CPC OptiNet	Totals	Eliminating Entries	Combined Total
CASH FLOWS FROM OPERATING ACTIVITIES								
Receipts from Customers and Users	\$ 54,050,812	3,684,612	4,526,448	24,421,747	5,213,797	91,897,416	(5,793,206)	86,104,210
Receipt (Payment) of Customer Deposits	(68,878)	-	-	172	1,000	(67,706)	-	(67,706)
Payments to Suppliers	(42,222,984)	(1,528,759)	(2,122,483)	(11,842,981)	(5,322,512)	(63,039,719)	5,793,206	(57,246,513)
Payments to Employees	(3,570,584)	(937,925)	(667,270)	(3,852,142)	-	(9,027,921)	-	(9,027,921)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	8,188,366	1,217,928	1,736,695	8,726,796	(107,715)	19,762,070	0	19,762,070
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES								
Proceeds from Sale of Equipment	205,691	10,112	3,030	741,746	3,200	963,779	-	963,779
Acquisition and Construction of Capital Assets	(1,949,539)	(487,886)	(466,946)	(2,503,721)	-	(5,408,092)	-	(5,408,092)
Notes Receivable Issued	(412,440)	-	-	-	-	(412,440)	412,440	-
Proceeds from Debt	-	-	-	412,440	-	412,440	(412,440)	-
Principal Paid on Capital Debt	(530,000)	(209,067)	-	(820,000)	-	(1,559,067)	-	(1,559,067)
Interest Paid on Capital Debt	(540,364)	(141,641)	-	(1,233,262)	-	(1,915,267)	412,440	(1,502,827)
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(3,226,652)	(828,482)	(463,916)	(3,402,797)	3,200	(7,918,647)	412,440	(7,506,207)
CASH FLOWS FROM INVESTING ACTIVITIES								
Interest Received	449,756	215	7,715	1,341	-	459,027	(412,440)	46,587
NET CASH PROVIDED BY INVESTING ACTIVITIES	449,756	215	7,715	1,341	0	459,027	(412,440)	46,587

(Continued)

BVU AUTHORITY
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2017

	Electric	Water	Wastewater	BVU OptiNet	CPC OptiNet	Totals	Eliminating Entries	Combined Total
Net Increase in Cash and Cash Equivalents	5,411,470	389,661	1,280,494	5,325,340	(104,515)	12,302,450	0	12,302,450
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	18,201,305	2,233,382	3,908,998	3,404,839	641,134	28,389,658	-	28,389,658
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 23,612,775</u>	<u>2,623,043</u>	<u>5,189,492</u>	<u>8,730,179</u>	<u>536,619</u>	<u>40,692,108</u>	<u>0</u>	<u>40,692,108</u>
RECONCILIATION TO THE STATEMENT OF NET POSITION								
Cash and Cash Equivalents	\$ 12,345,331	2,069,615	4,699,557	5,277,239	536,619	24,928,361	-	24,928,361
Restricted Cash - Customer Deposits	1,444,425	-	-	89,042	-	1,533,467	-	1,533,467
Restricted Cash - Reserves	9,823,019	553,428	489,935	3,363,898	-	14,230,280	-	14,230,280
	<u>\$ 23,612,775</u>	<u>2,623,043</u>	<u>5,189,492</u>	<u>8,730,179</u>	<u>536,619</u>	<u>40,692,108</u>	<u>0</u>	<u>40,692,108</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES								
Operating Income (Loss)	\$ 1,266,999	429,875	1,175,548	223,567	(498,115)	2,597,874	-	2,597,874
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:								
Depreciation Expense	2,563,939	773,754	687,597	8,630,224	494,916	13,150,430	-	13,150,430
(Increase) Decrease in Assets								
Net Accounts Receivable	333,072	12,009	(21,671)	(47,549)	(75,680)	200,181	-	200,181
Notes Receivable	190,760	-	-	-	-	190,760	-	190,760
Other Receivables	119,472	29,363	-	40,490	-	189,325	-	189,325
Due from Other Governmental Units	-	-	(102,736)	-	-	(102,736)	-	(102,736)
Internal Balances	288,136	-	-	50,646	(773)	338,009	(338,009)	-
Prepays	32,470	(125)	101,537	107,243	6,081	247,206	-	247,206
Net Inventories	53,480	(2,374)	(1,378)	116,327	-	166,055	-	166,055
Other Current Assets	(9,274)	5,268	(9,115)	(2,720)	-	(15,841)	-	(15,841)
Net Pension Asset	48,913	12,244	12,509	41,334	-	115,000	-	115,000

(Continued)

BVU AUTHORITY
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2017

	Electric	Water	Wastewater	BVU OptiNet	CPC OptiNet	Totals	Eliminating Entries	Combined Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH								
PROVIDED BY (USED FOR) OPERATING ACTIVITIES (CONTINUED)								
(Increase) Decrease in Deferred Outflows of Resources	(33,157)	(6,941)	(5,469)	(21,501)	-	(67,068)	-	(67,068)
Increase (Decrease) in Liabilities								
Accounts Payable and Accrued Liabilities	2,993,148	(17,977)	(13,787)	(177,521)	23,001	2,806,864	-	2,806,864
Accrued Payroll and Related Liabilities	4,718	(3,411)	9,177	11,315	-	21,799	-	21,799
Customer Security Deposits	(68,878)	-	-	172	1,000	(67,706)	-	(67,706)
Internal Balances	27,301	(303)	(308)	(306,554)	(58,145)	(338,009)	338,009	-
Due to City of Bristol, Virginia	369,469	(43,412)	(74,151)	-	-	251,906	-	251,906
Unearned Revenue	(1,095)	-	-	(80,105)	-	(81,200)	-	(81,200)
OPEB Liability	70,356	19,608	19,946	67,690	-	177,600	-	177,600
Compensated Absences	(59,152)	11,060	(39,965)	76,678	-	(11,379)	-	(11,379)
Increase (Decrease) in Deferred Inflows of Resources	(2,311)	(710)	(1,039)	(2,940)	-	(7,000)	-	(7,000)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ 8,188,366	1,217,928	1,736,695	8,726,796	(107,715)	19,762,070	0	19,762,070
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES								
Amortization of Bond Premium and Deferred Refunding	\$ 112,754	23,866	-	108,507	-	245,127	-	245,127
Capitalized Interest	\$ 37,810	18,552	-	67,736	-	124,098	-	124,098

See Independent Auditors' Report.

OTHER SUPPLEMENTARY INFORMATION SECTION
(UNAUDITED)

BVU AUTHORITY
WATER SYSTEM REVENUE STATISTICS (UNAUDITED)
June 30, 2017 and 2016

	2017			
	Average Number of Customers Per Month	Revenue Per Customer	Gallons (000's) Sold	Revenue Per 1,000 Gallons
Residential	6,849	\$ 292.44	276,619	\$ 7.24
Commercial and Industrial	<u>1,054</u>	1,370.37	<u>301,811</u>	4.79
Totals	<u><u>7,903</u></u>	436.20	<u><u>578,430</u></u>	5.96

	2016			
	Average Number of Customers Per Month	Revenue Per Customer	Gallons (000's) Sold	Revenue Per 1,000 Gallons
Residential	6,842	\$ 296.11	283,256	\$ 7.15
Commercial and Industrial	<u>1,061</u>	1,307.15	<u>277,781</u>	4.99
Totals	<u><u>7,903</u></u>	431.85	<u><u>561,037</u></u>	6.08

	2017 (000's)	2016 (000's)
Total Gallons Pumped	850,545	805,108
Gallons Used in Operations	<u>8,248</u>	<u>8,161</u>
Gallons Available for Sale	842,297	796,947
Total Gallons Sold	<u><u>578,430</u></u>	<u><u>561,037</u></u>
Gallons Lost	263,867	235,910
Loss as a Percentage of Gallons Pumped	31.02%	29.30%

See Independent Auditors' Report.

BVU AUTHORITY
WASTEWATER SYSTEM REVENUE STATISTICS (UNAUDITED)
June 30, 2017 and 2016

	2017			
	Average Number of Customers Per Month	Revenue Per Customer	Gallons (000's) Used	Revenue Per 1,000 Gallons
Residential	6,708	\$ 326.36	291,908	\$ 7.50
Commercial and Industrial	<u>970</u>	2,271.81	<u>403,663</u>	5.46
Totals	<u><u>7,678</u></u>	572.14	<u><u>695,571</u></u>	6.32

	2016			
	Average Number of Customers Per Month	Revenue Per Customer	Gallons (000's) Used	Revenue Per 1,000 Gallons
Residential	6,699	\$ 318.83	289,329	\$ 7.38
Commercial and Industrial	<u>985</u>	2,382.90	<u>430,416</u>	5.45
Totals	<u><u>7,684</u></u>	583.42	<u><u>719,745</u></u>	6.23

See Independent Auditors' Report.

BVU AUTHORITY
ELECTRIC SYSTEM REVENUE AND PURCHASED POWER STATISTICS (UNAUDITED)
June 30, 2017 and 2016

<u>REVENUES</u>								
	<u>\$</u>	<u>%</u>	<u>Average Number of Customers per Month</u>	<u>%</u>	<u>Revenue per Customer</u>	<u>Kilowatt Hours Sold</u>	<u>Revenue per Kilowatt Hour</u>	
<u>Residential</u>								
2017	\$ 21,666,403	41.80%	13,609	78.38%	\$ 1,592.06	188,244,626	\$ 0.1151	
2016	21,070,184	40.30%	13,616	78.48%	1,547.46	191,675,969	0.1099	
<u>Commercial</u>								
2017	4,454,314	8.59%	2,231	12.85%	1,996.55	34,061,091	0.1308	
2016	4,329,226	8.28%	2,225	12.82%	1,945.72	34,537,543	0.1253	
<u>Large Commercial & Industrial</u>								
2017	24,445,979	47.16%	317	1.83%	77,116.65	269,085,894	0.0908	
2016	25,658,704	49.08%	326	1.88%	78,707.68	289,730,297	0.0886	
<u>Street and Outdoor Lighting</u>								
2017	1,268,898	2.45%	1,204	6.94%	1,053.90	5,738,744	0.2211	
2016	1,225,725	2.34%	1,184	6.82%	1,035.24	5,762,394	0.2127	
<u>Total</u>								
2017	51,835,594	100.00%	17,361	100.00%	2,985.75	497,130,355	0.1043	
2016	52,283,839	100.00%	17,351	100.00%	3,013.30	521,706,203	0.1002	

<u>PURCHASED POWER</u>			
	<u>Cost</u>	<u>Kilowatt Hours Purchased</u>	<u>Cost per Kilowatt Hour</u>
2017	\$ 38,663,569	514,938,200	\$ 0.0751
2016	39,016,858	539,512,638	0.0723

See Independent Auditors' Report.

INTERNAL CONTROL AND COMPLIANCE SECTION

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

To the Board of Directors
BVU Authority
Bristol, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of BVU Authority (the Authority), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 2, 2017. Our report on the Authority's basic financial statements was qualified because we were not able to obtain sufficient appropriate audit evidence about CPC OptiNet's net capital assets. Our report includes a reference to other auditors who audited the financial statements of the Joint Sewerage System, as described in our report on the Authority's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

BVU Authority
Report on Internal Control over Financial Reporting
and on Compliance and Other Matters

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: 2016-001 and 2016-002.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency: 2016-003.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2016-003.

The Authority's Response to Findings

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

Purpose of this Report

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


BLACKBURN, CHILDERS & STEAGALL, PLC
Johnson City, Tennessee

October 2, 2017

BVU AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2017

SECTION I - FINANCIAL STATEMENT AUDIT FINDINGS

2016-001 Material Weakness – CPC OptiNet Capital Assets

Condition: Detailed supporting documentation was not available to our audit team to allow for the proper testing of these capital assets and related accumulated depreciation. Further, we were unable to review the workpapers of the Cumberland Plateau Company, Inc.'s audit firm with regard to these capital assets and related accumulated depreciation. As a result, the capital assets and related accumulated depreciation could not be tested resulting in a qualified opinion.

Criteria: As a result of the Virginia Auditor of Public Accounts' (APA) audit issued in October 2016 in accordance with the Virginia General Assembly, CPC OptiNet activity, including the net capital assets, are required to be included in the Authority's audited financial statements.

Effect: Capital assets, net of accumulated depreciation, of \$6,820,814, are recorded in the Authority's financial statements as of June 30, 2017 that have not been audited.

Recommendation: The capital assets and related accumulated depreciation should be subjected to audit procedures so that a qualified opinion does not have to be issued.

Management's Response: Management will work with the Cumberland Plateau Company, Inc. to obtain supporting documentation to allow these assets to be audited in the future.

2016-002 Material Weakness – Auditor of Public Accounts Audit Findings

Condition: The APA issued an audit report with 56 recommendations related to financial operations and governance of the Authority in October 2016.

Criteria: In accordance with legislation by the Virginia General Assembly, the APA conducted an audit of the Authority for the audit period from July 1, 2010 through June 30, 2015, and also included limited activity before and after this period that was of particular interest or concern.

Effect: Material adjustments were necessary to the financial statements, including the reinstatement of interdivision debt between Electric and OptiNet divisions and the inclusion of CPC OptiNet activity in the audited financial statements. There is potential for additional impact to the financial statements as a result of continuing to implement various APA audit recommendations.

Recommendation: The Board and management should continue to work through the findings and recommendations to make appropriate changes to internal controls and governance of the Authority.

Management's Response: To date, 30 of the Auditor of Public Accounts recommendations have been implemented. The Authority's Board and management are working diligently towards addressing the remaining recommendations.

**BVU AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2017**

SECTION I - FINANCIAL STATEMENT AUDIT FINDINGS (CONTINUED)

2016-003 Significant Deficiency – Conflict of Interest Forms

Condition: Three annual conflict of interest disclosure forms for Board members were not timely filed.

Criteria: Section 2.2-3115 of the *Code of Virginia* requires “members of the governing body of any authority established in any county or city, or part or combination thereof, and having the power to issue bonds or expend funds in excess of \$10,000 in any fiscal year, shall file, as a condition to assuming office, a disclosure statement of their personal interests and other information...and thereafter shall file such a statement annually on or before January 15.” In accordance with §15.2-7206 of the BVU Authority Act, Board members are required to file the form set forth in §2.2-3117.

Effect: The Authority was not in compliance with the *Code of Virginia*.

Recommendation: All Board members upon assuming office should file the Long Form Statement of Economic Interest (§2.2-3117) and then file annually on or before the deadline imposed by the state statute at §2.2-3115. A review of filings should occur prior to the due date to ensure all forms have been completed and filed timely.

Management Response: Management is working closely with the Board to ensure that the proper forms are filed in a timely manner in the future.

SECTION II - PRIOR YEAR FINDINGS IMPLEMENTED

None.