

King George County Service Authority

**(A Component of King George County, Virginia)
King George, Virginia**

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**FISCAL YEARS ENDED
JUNE 30, 2017 AND 2016**



KING GEORGE COUNTY SERVICE AUTHORITY

(A Component Unit of King George County, Virginia)

KING GEORGE, VIRGINIA

Comprehensive Annual Financial Report
Years Ended June 30, 2017 and 2016

Prepared by:

Wilma Ward
Director of Finance

KING GEORGE COUNTY SERVICE AUTHORITY

Comprehensive Annual Financial Report Years Ended June 30, 2017 and 2016

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KING GEORGE COUNTY SERVICE AUTHORITY

Comprehensive Annual Financial Report Years Ended June 30, 2017 and 2016

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**KING GEORGE COUNTY SERVICE AUTHORITY
JUNE 30, 2017**

(A Component Unit of King George County, Virginia)

(A Governmental organization established in 1992
under the Water and Sewer Authorities Act of 1950
of the Commonwealth of Virginia)

DIRECTORS

Christopher P. Werle, Chairman

Richard R. Granger, Vice-Chairman

Cedell Brooks, Jr.

James B. Howard

Ruby A. Brabo

OFFICIALS

General Manager
Superintendent of Operations
Treatment Plant Manager
Water Plant Manager
Secretary/Treasurer

Christopher F. Thomas, P.E.
Scott Sweeney
Daniel Powell
Pat Raynor
Neiman C. Young, Phd.



KING GEORGE COUNTY
SERVICE AUTHORITY
"Quality on Tap"

10459 Courthouse Drive, Suite 201
King George, Virginia 22485
Telephone (540) 775-2746
Fax (540) 775-5560

November 29, 2017

Board of Directors
King George County Service Authority
And Interest Parties

The Comprehensive Annual Financial Report (CAFR) of the King George County Service Authority (Authority) is submitted herewith for the fiscal year ending June 30, 2017. The information in this report is believed by Authority management to be sufficient to fully represent the financial results of the Authority's operations for the year ended June 30, 2017 and to provide an accurate and useful picture of the Authority's status as of that date. All information included is the responsibility of the management of the Authority with respect to accuracy, completeness and fairness.

ORGANIZATION AND SERVICES PROVIDED

The King George County Service Authority was established under the *Virginia Water and Sewer Authorities Act* (1950, as amended), to supply drinking water and to provide wastewater collection and treatment in certain areas of King George County. The Authority is governed by a five-member board comprised of the government's elected supervisors or their appointees and is therefore considered a blended component unit of the County. Blended component units, although legally separate entities, are in substance, part of the government's operations. The Board appoints a General Manager, who manages Authority operations under their direction.

The Authority operates and maintains nine (9) water systems and five (5) wastewater treatment plants and the associated water storage facilities, pumping stations, transmission mains and interceptor sewers. The Authority has 250 miles of water mains which service approximately 4,072 customers and has 200 miles of sanitary sewer lines which service approximately 2,263 customers.

LOCAL ECONOMY

King George County has a diversified economy with strong military, services, manufacturing, retail trade and agricultural sectors. NSF Dahlgren, a military installation, is the major economic driver and provides employment for 5,000 civilian and military personnel, and an additional 4,000 contract employees. NSF Dahlgren infuses over 1 billion dollars into the regional economy annually. During the latest BRAC (Base Realignment Committee) recommendation, the NSF Dahlgren had a net gain of ten (10%) percent in personnel. NSF Dahlgren is home to the Aegis Ballistic Missile Defense, Naval Surface Warfare Center Dahlgren Division, Center for Surface Combat Systems, Aegis Training and Readiness Center, Joint Warfare Analysis Center, and 20th Space Control Squadron-Detachment One. NSF Dahlgren has been instrumental in attracting a variety of high technology software engineering firms to the County. In addition to NSF Dahlgren, other industries and institutions include: light manufacturing, high technology, computer programming, retail, food service, education, and government. Agriculture also remains important in the County's economy. King George County is currently seeing a significant amount of retail growth near Dahlgren as well. As of June 30th, 2017 King George County had an estimated population of 25,984, an increase of 8.% since 2010.

MAJOR INITIATIVES / PROSPECTS FOR THE FUTURE

The projects and their status in the CIP are listed below:

- King George Industrial Park Pump Station Upgrade Project (under construction)
- Purkins Corner and Oakland Park WWTP Decommissioning Project
- Presidential Lakes and Arnolds Corner Water System Interconnection Project
- Construction of a new sludge dewatering facility. (Postponed due to development decline)
- Bayberry well and well house (Project on hold)

LONG TERM FINANCIAL PLANNING

The Authority prepares a Capital Improvement Plan (CIP) annually. The CIP serves as a planning tool to analyze initiatives, formulate service levels and phase-in funding needed for facilities. Long-term financing is primarily achieved with long term revenue bonds.

ACCOUNTING AND BUDGETARY CONTROLS

The Authority's accounting records are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recorded when incurred, without regard to receipt or payment of cash. Current controls provide reasonable assurance that the Authority's assets are properly recorded and protected and that the financial data may be used with confidence in the preparation of historical reports and projections. Accounting control is maintained by segregation of duties and data security systems in all areas of record keeping, disbursements, and purchasing authority.

All of these control systems are reviewed regularly by staff and are evaluated as part of the annual financial audit (see Annual Audit section below). Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management. In this regard, we believe that the Authority's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

ACCOUNTING AND BUDGETARY CONTROLS (CONTINUED)

A proposed budget for each fiscal year is prepared by the General Manager and Director of Finance and submitted to the Board of Directors, usually in March, with a public hearing held on the proposed rates in April or May. Budgetary compliance is monitored and reported to the Board by the Director of Finance and General Manager. Projections of both revenues and expenses are understood to reflect anticipated service levels and to incorporate a variety of economic, climatic, and demographic forecasts.

OTHER INFORMATION

Management's Discussion and Analysis: Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Authority's MD&A can be found immediately following the report of the independent auditors.

Independent Audit: The Commonwealth of Virginia requires an annual audit of the financial records and transactions of the Authority by independent certified public accountants selected by the Board. The annual audit was conducted in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Specifications for Audits of Authorities, Boards and Commissions, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. The Independent auditor's report is presented in the Financial Section of this report.

Awards: The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting Program to the King George County Service Authority, Virginia for its comprehensive annual financial report for the fiscal year ended June 30, 2016. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Acknowledgments: The preparation of this report could not have been accomplished without the dedicated services of the entire Department of Finance. We would like to express our appreciation to all the members of the staff who assisted and contributed to its preparation. We would also like to thank the Board for their continued interest and support in planning and conducting the financial operation of the Authority in a responsible, timely and progressive manner.

Respectfully submitted,



Christopher F. Thomas, P.E.
KGCSA General Manager



Wilma H Ward
Finance Director

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Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**King George County
Service Authority (a component unit
of King George County), Virginia**

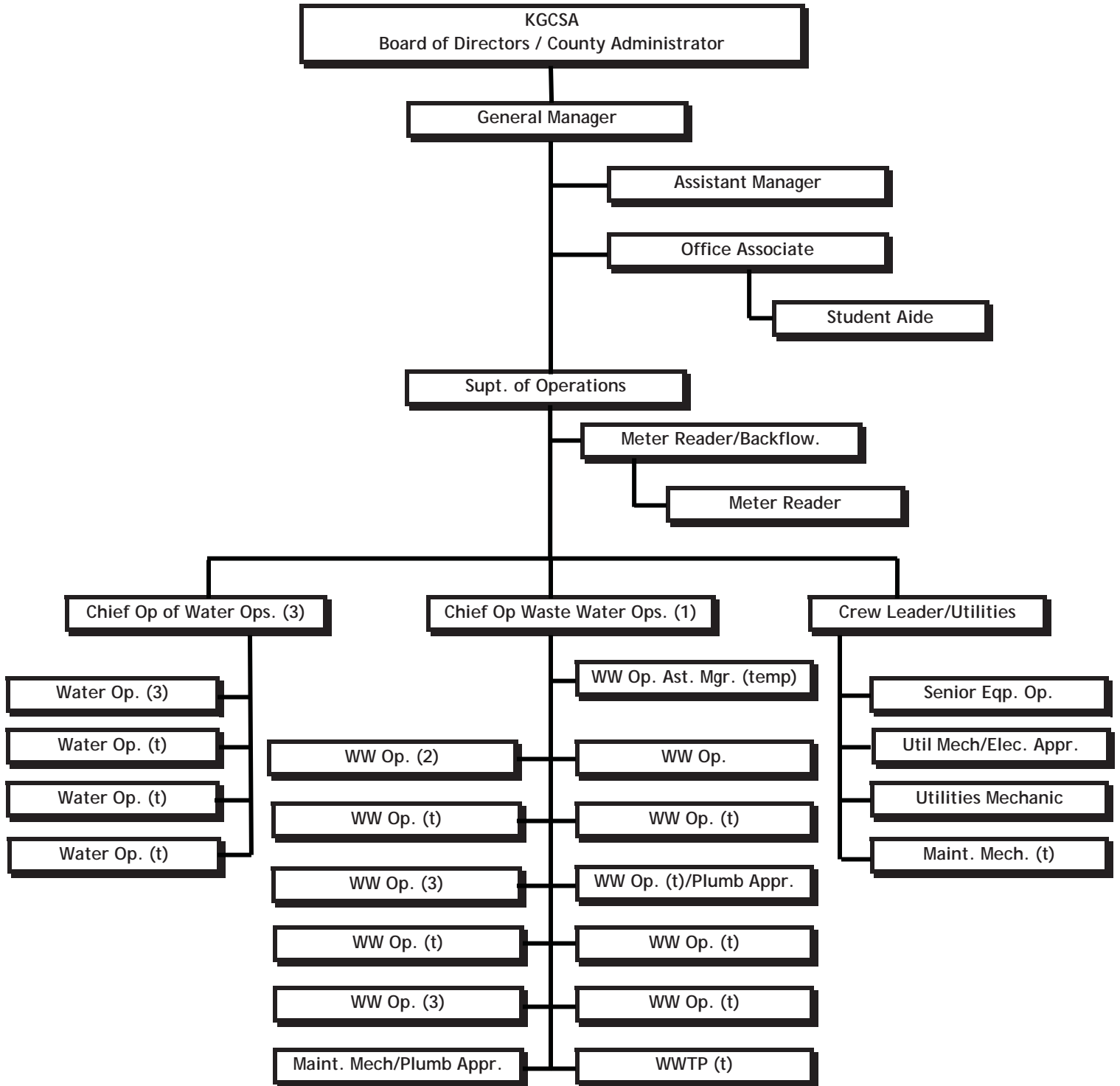
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

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KING GEORGE COUNTY
SERVICE AUTHORITY



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Independent Auditors' Report

**To the Honorable Members of Board of Directors
King George County Service Authority
King George, Virginia**

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of King George County Service Authority, as of and for the year ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of King George County Service Authority, as of June 30, 2017 and 2016, and the 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 and schedules related to pension funding on pages 3-6 and 51-53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise King George County Service Authority's basic financial statements. The introductory section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2017, on our consideration of King George County Service Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering King George County Service Authority's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Fredericksburg, Virginia
November 29, 2017

Management's Discussion and Analysis

As management of the King George County Service Authority (the Authority), we offer readers of our financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the introduction section of this report.

Overview of the Financial Statements

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

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

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

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

The basic enterprise fund financial statements can be found on Exhibits 1 through 3 of this report.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Highlights

- The assets and deferred outflows of resources of the Authority decreased its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$20 million (net position).
- The Authority's total net position decreased by \$694,664 for Fiscal Year 2017. Operating income in FY17 was \$470,705; the decrease in net position is mainly attributable to lower capital contributions in comparison to the previous year.
- The Authority's operating revenues increased by \$55,944 compared to prior year. This is mainly due to an increase water and sewer sales revenue which was partially offset by decreases in availability fee and debt fee revenue.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of an Authority's financial position. In the case of the Authority, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$20 million at the close of the most recent fiscal year. The same period ended last fiscal year was \$20.7 million.

\$16.7 million of the Authority's net position reflects its net investment in capital assets used to acquire those assets that are still outstanding. The Authority uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to pay these liabilities. The Authority's unrestricted net position was \$3.2 million for the year ended June 30, 2017 which was a decrease of \$417,036 compared to the same period ended June 30, 2016.

	Net Position		
	2017	2016	2015
Current and other assets	\$ 4,537,524	\$ 4,884,912	\$ 5,177,316
Capital assets	<u>42,648,443</u>	<u>44,093,638</u>	<u>44,789,110</u>
Total assets	<u>\$ 47,185,967</u>	<u>\$ 48,978,550</u>	<u>\$ 49,966,426</u>
Deferred outflows of resources	<u>2,123,820</u>	<u>2,189,622</u>	<u>2,333,550</u>
Long-term liabilities outstanding	\$ 26,840,482	\$ 28,092,458	\$ 29,367,717
Other liabilities	<u>2,445,791</u>	<u>2,313,301</u>	<u>1,677,684</u>
Total liabilities	<u>\$ 29,286,273</u>	<u>\$ 30,405,759</u>	<u>\$ 31,045,401</u>
Deferred inflows of resources	<u>\$ 34,030</u>	<u>\$ 78,265</u>	<u>\$ 152,597</u>
Net position:			
Net investment in capital assets	\$ 16,747,965	\$ 17,025,593	\$ 16,923,176
Unrestricted	<u>3,241,519</u>	<u>3,658,555</u>	<u>4,178,802</u>
Total net position	<u>\$ 19,989,484</u>	<u>\$ 20,684,148</u>	<u>\$ 21,101,978</u>

Financial Analysis: (Continued)

The Authority's net position decreased \$694,664 during the current year. Operating revenues increased \$55,944 while operating expenses decreased \$238,958 from FY 2016 to FY 2017 levels. Operating revenues decreased by \$52,409 and operating expenses increased \$551,979 from FY 2015 to FY 2016.

	Change in Net Position		
	2017	2016	2015
Revenues:			
Operating revenues:			
Water sales	\$ 1,248,037	\$ 1,179,985	\$ 1,094,391
Sewer revenues	1,837,453	1,758,645	1,615,370
Availability fees	338,997	393,703	559,780
Debt fees	1,328,844	1,407,144	1,430,948
Other revenue	240,090	198,000	289,397
Total operating revenues	<u>\$ 4,993,421</u>	<u>\$ 4,937,477</u>	<u>\$ 4,989,886</u>
Expenses:			
Operating expenses:			
Personnel (including fringe benefits)	\$ 1,547,893	\$ 1,443,017	\$ 1,304,879
Contractual services	387,062	588,167	435,516
Other	1,077,167	1,221,226	1,103,812
Depreciation expense	1,510,594	1,509,264	1,365,488
Total operating expenses	<u>\$ 4,522,716</u>	<u>\$ 4,761,674</u>	<u>\$ 4,209,695</u>
Operating income (loss)	<u>\$ 470,705</u>	<u>\$ 175,803</u>	<u>\$ 780,191</u>
Nonoperating income and (expenses):			
Interest earned	\$ 67,768	\$ -	\$ 323
Interest expense	(1,080,466)	(1,120,689)	(1,335,992)
Total nonoperating income (expenses)	<u>\$ (1,012,698)</u>	<u>\$ (1,120,689)</u>	<u>\$ (1,335,669)</u>
Income before capital contributions	\$ (541,993)	\$ (944,886)	\$ (555,478)
Capital contributions (net)	(152,671)	527,056	2,347,210
Increase in net position	<u>\$ (694,664)</u>	<u>\$ (417,830)</u>	<u>\$ 1,791,732</u>
Net position—July 1	<u>20,684,148</u>	<u>21,101,978</u>	<u>19,310,246</u>
Net position—June 30	<u><u>\$ 19,989,484</u></u>	<u><u>\$ 20,684,148</u></u>	<u><u>\$ 21,101,978</u></u>

Financial Analysis: (Continued)

Major reasons are as follows:

- Operational revenues increased slightly overall with the main increase being in water and sewer sales revenue which was partially offset by decreases in availability fee and debt fee revenue.
- There was a decrease in operational expenses in FY2017 in comparison to FY2016 in the amount of \$238,958. This was mainly due to a decrease in operational expenses related to contractual services. Operational expenses increased by \$551,979 from FY2015 to FY2016 due to higher operational costs of the Authority.
- In FY2016 the Authority received one-time revenue in the amount of \$372,000 in the form of developer contributions, by comparison there were no developer contributions received in FY2017.

Capital Asset and Debt Administration

Capital Assets - The Authority's investment in capital assets as of June 30, 2017 totals \$42.6 million (net of accumulated depreciation) and \$44.1 million as of June 30, 2016. Investment in capital assets decreased \$1,445,195 in FY2017 compared to a decrease of \$695,472 in FY2016. Details supporting changes in capital asset activity including construction in progress can be found in Note 4 to the financial statements.

Long-Term Debt - At the end of the current fiscal year, the Authority has \$28,192,716 in bonds, notes, and other long term obligations outstanding which is a decrease of \$1,206,952 in comparison to the prior year. Fiscal Year ended 2016 debt was \$29,399,668 or a decrease of \$905,755 compared to Fiscal Year ended 2015. The decrease in long-term obligations in FY2017 was mainly attributed to repayment of principal thru debt service payments, details supporting each individual long-term debt retirement can be found in Note 5 to the financial statements.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, at 10459 Courthouse Drive, King George, Virginia, 22485.

Basic Financial Statements

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KING GEORGE COUNTY SERVICE AUTHORITY

Exhibit 1

(A Component Unit of King George County, Virginia)
 Statement of Net Position
 At June 30, 2017 and 2016

	At June 30,	
	2017	2016
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 3,767,934	\$ 4,140,793
Accounts receivable (net of allowance for uncollectibles)	77,727	37,500
Unbilled accounts receivable	691,863	706,619
Total current assets	\$ 4,537,524	\$ 4,884,912
Noncurrent Assets:		
Capital Assets:		
Land and construction in progress	\$ 2,370,916	\$ 2,323,974
Other capital assets, net of accumulated depreciation	40,277,527	41,769,664
Capital assets, net	\$ 42,648,443	\$ 44,093,638
Total noncurrent assets	\$ 42,648,443	\$ 44,093,638
Total assets	\$ 47,185,967	\$ 48,978,550
DEFERRED OUTFLOWS OF RESOURCES		
Pension contributions subsequent to the measurement date	\$ 69,906	\$ 79,480
Items related to the measurement of the net pension liability	72,410	-
Deferred charge on refunding	1,981,504	2,110,142
Total deferred outflows of resources	\$ 2,123,820	\$ 2,189,622
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 169,741	\$ 74,740
Accrued interest payable	248,642	256,513
Customer deposits	250,090	204,955
Unearned revenue	425,084	469,883
Long-term obligations - current portion	1,352,234	1,307,210
Total current liabilities	\$ 2,445,791	\$ 2,313,301
Noncurrent liabilities:		
Long-term obligations - noncurrent portion	\$ 26,840,482	\$ 28,092,458
Total liabilities	\$ 29,286,273	\$ 30,405,759
DEFERRED INFLOWS OF RESOURCES		
Items related to the measurement of the net pension liability	\$ 34,030	\$ 78,265
Net Position:		
Net investment in capital assets	\$ 16,747,965	\$ 17,025,593
Unrestricted	3,241,519	3,658,555
Total net position	\$ 19,989,484	\$ 20,684,148

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

KING GEORGE COUNTY SERVICE AUTHORITY
Exhibit 2

(A Component Unit of King George County, Virginia)
 Statement of Revenues, Expenses and Changes in Net Position
 Years ended June 30, 2017 and 2016

	Year Ended June 30,	
	2017	2016
Operating Revenues:		
Water revenues	\$ 1,248,037	\$ 1,179,985
Sewer revenues	1,837,453	1,758,645
Availability fees	338,997	393,703
Debt fees	1,328,844	1,407,144
Other revenues	<u>240,090</u>	<u>198,000</u>
 Total operating revenues	 <u>\$ 4,993,421</u>	 <u>\$ 4,937,477</u>
Operating Expenses:		
Personnel services	\$ 1,134,344	\$ 1,059,881
Fringe benefits	413,549	383,136
Contractual services	387,062	588,167
Other operating expenses	1,077,167	1,221,226
Depreciation and amortization	<u>1,510,594</u>	<u>1,509,264</u>
 Total operating expenses	 <u>\$ 4,522,716</u>	 <u>\$ 4,761,674</u>
 Operating income (loss)	 <u>\$ 470,705</u>	 <u>\$ 175,803</u>
Nonoperating income and (expenses):		
Interest income	\$ 67,768	\$ -
Interest expense	<u>(1,080,466)</u>	<u>(1,120,689)</u>
 Total nonoperating income (expenses)	 <u>\$ (1,012,698)</u>	 <u>\$ (1,120,689)</u>
 Income (loss) before capital contributions	 <u>\$ (541,993)</u>	 <u>\$ (944,886)</u>
Capital contributions:		
Capital contributions - County of King George, Virginia (net)	\$ (152,671)	\$ 85,038
Capital contributions - developer	-	372,000
State and local grant funds	<u>-</u>	<u>70,018</u>
 Total capital contributions	 <u>\$ (152,671)</u>	 <u>\$ 527,056</u>
 Change in net position	 <u>\$ (694,664)</u>	 <u>\$ (417,830)</u>
 Net position, beginning of year	 <u>20,684,148</u>	 <u>21,101,978</u>
 Net position, end of year	 <u>\$ 19,989,484</u>	 <u>\$ 20,684,148</u>

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

KING GEORGE COUNTY SERVICE AUTHORITY

Exhibit 3

(A Component Unit of King George County, Virginia)
 Statement of Cash Flows
 Years ended June 30, 2017 and 2016

	Year Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Receipts from customers and users	\$ 4,968,286	\$ 5,353,781
Payments to employees (including fringe benefits)	(1,565,711)	(1,481,291)
Payments for operating activities	<u>(1,369,228)</u>	<u>(1,853,214)</u>
Net cash provided by (used for) operating activities	<u>\$ 2,033,347</u>	<u>\$ 2,019,276</u>
Cash flows from capital and related financing activities:		
Additions to utility plant	\$ (65,399)	\$ (540,792)
Proceeds from issuance of refunding debt	-	280,000
Proceeds from debt issued	-	117,797
Capital grants and contributions	(152,671)	326,541
Payment to refunded bonds escrow agent	-	(275,000)
Principal payments on indebtedness	(1,195,938)	(949,054)
Interest expense	<u>(1,059,966)</u>	<u>(1,089,216)</u>
Net cash provided by (used for) capital and related financing activities	<u>\$ (2,473,974)</u>	<u>\$ (2,129,724)</u>
Cash flows from investing activities:		
Interest income	\$ 67,768	\$ -
Net cash provided by (used for) investing activities	<u>\$ 67,768</u>	<u>\$ -</u>
Increase (decrease) in cash and cash equivalents	\$ (372,859)	\$ (110,448)
Cash and cash equivalents at beginning of year	<u>4,140,793</u>	<u>4,251,241</u>
Cash and cash equivalents at end of year	<u>\$ 3,767,934</u>	<u>\$ 4,140,793</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ 470,705	\$ 175,803
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation and amortization	1,510,594	1,509,264
Changes in operating activities:		
(Increase) decrease in accounts receivable	(25,471)	10,471
(Increase) deferred outflows - pension contributions subsequent to the measurement date	9,574	15,289
(Increase) decrease in deferred outflows - items related to measurement of net pension liability	(72,410)	-
Increase (decrease) in accounts payable	95,001	(43,821)
Increase (decrease) in unearned revenue	(44,799)	347,241
Increase (decrease) in customer deposits	45,135	58,592
Increase (decrease) in net pension liability	84,536	25,886
Increase (decrease) in deferred inflows - items related to measurement of net pension liability	(44,235)	(74,332)
Increase (decrease) in compensated absences	<u>4,717</u>	<u>(5,117)</u>
Net cash provided by (used for) operating activities	<u>\$ 2,033,347</u>	<u>\$ 2,019,276</u>
Noncash investing and financing activities:		
Noncash capital contributions	\$ -	\$ 372,000

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

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KING GEORGE COUNTY SERVICE AUTHORITY

Notes to Financial Statements
As of June 30, 2017 and 2016

NOTE 1–BASIS OF PRESENTATION:

A. Organization and Purpose

The King George County Service Authority was created by the King George County Board of Supervisors, pursuant to the provisions of the Virginia Water and Sewer Authorities Act, Section 15.1-1239 through Section 15.1-1270 of the Code of Virginia 1950, as amended.

The By-laws and rules for the transaction of the business of the King George County Service Authority are made pursuant to authority vested in this Authority by Section 15.1-1250(b), Code of Virginia, 1950, as amended and in accordance with the general provisions of the Virginia Water and Sewer Authorities Act.

B. Financial Reporting Entity

The King George County Service Authority is reported as a blended component unit of the County of King George. The Authority is governed by a board comprised of the government's elected supervisors. Blended component units, although legally separate entities, are in substance, part of the government's operations and so data from these units are combined with data of the primary government.

NOTE 2–SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Basic Financial Statements

Since the Authority is only engaged in business-type activities, it is required to present only the financial statements required for enterprise funds. For the Authority, the basic financial statements and required supplementary information consist of:

- Management's Discussion and Analysis
- Enterprise fund financial statements
 - Statement of Net Position
 - Statement of Revenues, Expenses, and Changes in Net Position
 - Statement of Cash Flows
 - Notes to Financial Statements

B. Basis of Accounting

The King George County Service Authority operates as an enterprise fund and its accounts are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned, and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash. The Authority accrues revenue for services rendered but not yet billed at the end of the fiscal year.

KING GEORGE COUNTY SERVICE AUTHORITY

Notes to Financial Statements
as of June 30, 2017 and 2016 (Continued)

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

B. Basis of Accounting: (Continued)

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. The Authority also recognizes as operating revenue the portion of availability 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.

C. Cash and Cash Equivalents

The Authority's cash and cash equivalents consist of cash on hand, demand deposits, certificates of deposit and short-term investments with original maturities of three months or less from the date of acquisition.

D. Restricted Assets

Certain proceeds of the Authority's revenue bonds, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts to be expended on various water and sewer capital projects.

E. Capital Assets

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the year ended June 30, 2017.

KING GEORGE COUNTY SERVICE AUTHORITY

Notes to Financial Statements
as of June 30, 2017 and 2016 (Continued)

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

E. Capital Assets: (Continued)

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Source of supply structures	40, 50
Vehicles	5
Office equipment	5
Meters, pumps	10, 40

F. Other Significant Accounting Policies

- All trade receivables are shown net of an allowance for uncollectibles. The Authority calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to \$197,560 and \$186,898 at June 30, 2017 and 2016 respectively.
- Investments are reported at fair value.
- Inventory of materials and supplies is stated at cost using the first-in, first-out method of valuation.

G. Use of Estimates

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

H. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority has two items that qualify for reporting in this category. The first item is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The other item is comprised of certain items related to the measurement of net pension liability. The Authority also reports contributions to the pension plan made during the current year and subsequent to the net pension asset or liability measurement date, which will be recognized as a reduction of the net pension asset or liability next fiscal year. For more detailed information on the pension item, reference the pension note.

KING GEORGE COUNTY SERVICE AUTHORITY

Notes to Financial Statements
as of June 30, 2017 and 2016 (Continued)

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

H. Deferred Outflows/Inflows of Resources: (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has one item that qualifies for reporting in this category. Certain items related to the measurement of the net pension liability are reported as deferred inflows of resources. These include differences between expected and actual experience, change in assumptions, and the net difference between projected and actual earnings on pension plan investments. For more detailed information on this item, reference the pension note.

I. Net Position

Net position is the difference between a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

J. Net Position Flow Assumption

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

K. Prepaid Connection Fees

Prepaid connection fees are non-refundable deposits received in advance for water and/or sewer connection fees. The amounts are recorded as revenue when the connection is made.

KING GEORGE COUNTY SERVICE AUTHORITY

Notes to Financial Statements
as of June 30, 2017 and 2016 (Continued)

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

L. Compensated Absences

The Authority accrues compensated absences (annual and sick leave benefits) when vested. The current and noncurrent portions of the compensated absences liabilities are recorded as accrued liabilities.

M. Pensions

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

NOTE 3—DEPOSITS AND INVESTMENTS:

Deposits

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

Investments

Statutes authorize 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).

Interest Rate Risk

The Authority does not have a policy related to interest rate risk.

KING GEORGE COUNTY SERVICE AUTHORITY

Notes to Financial Statements
as of June 30, 2017 and 2016 (Continued)

NOTE 4-CAPITAL ASSETS:

A summary of changes in capital assets for the year ended June 30, 2017 is as follows:

	Beginning Balance July 1, 2016	Additions	Deletions	Ending Balance June 30, 2017
Capital assets not being depreciated:				
Land	\$ 2,262,354	\$ -	\$ -	\$ 2,262,354
Construction in progress	<u>61,620</u>	<u>46,942</u>	<u>-</u>	<u>108,562</u>
Total capital assets not being depreciated	<u>\$ 2,323,974</u>	<u>\$ 46,942</u>	<u>\$ -</u>	<u>\$ 2,370,916</u>
Capital assets being depreciated:				
Infrastructure	\$ 58,793,002	\$ -	\$ -	\$ 58,793,002
Equipment	<u>900,862</u>	<u>18,457</u>	<u>-</u>	<u>919,319</u>
Total capital assets being depreciated	<u>\$ 59,693,864</u>	<u>\$ 18,457</u>	<u>\$ -</u>	<u>\$ 59,712,321</u>
Accumulated depreciation:				
Infrastructure	\$ 17,170,110	\$ 1,469,563	\$ -	\$ 18,639,673
Equipment	<u>754,090</u>	<u>41,031</u>	<u>-</u>	<u>795,121</u>
Total accumulated depreciation	<u>\$ 17,924,200</u>	<u>\$ 1,510,594</u>	<u>\$ -</u>	<u>\$ 19,434,794</u>
Total capital assets being depreciated, net	<u>\$ 41,769,664</u>	<u>\$ (1,492,137)</u>	<u>\$ -</u>	<u>\$ 40,277,527</u>
Business-type activities capital assets, net	<u>\$ 44,093,638</u>	<u>\$ (1,445,195)</u>	<u>\$ -</u>	<u>\$ 42,648,443</u>

Depreciation expense for the year ended June 30, 2017 totaled \$1,510,594.

KING GEORGE COUNTY SERVICE AUTHORITY

Notes to Financial Statements
as of June 30, 2017 and 2016 (Continued)

NOTE 4-CAPITAL ASSETS: (CONTINUED)

A summary of changes in capital assets for the year ended June 30, 2016 is as follows:

	Beginning Balance July 1, 2015	Additions	Deletions	Ending Balance June 30, 2016
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Capital assets not being depreciated:				
Land	\$ 2,262,354	\$ -	\$ -	\$ 2,262,354
Construction in progress	<u>4,912,422</u>	<u>421,183</u>	<u>5,271,985</u>	<u>61,620</u>
Total capital assets not being depreciated	<u>\$ 7,174,776</u>	<u>\$ 421,183</u>	<u>\$ 5,271,985</u>	<u>\$ 2,323,974</u>
Capital assets being depreciated:				
Infrastructure	\$ 53,149,017	\$ 5,643,985	\$ -	\$ 58,793,002
Equipment	<u>880,253</u>	<u>20,609</u>	<u>-</u>	<u>900,862</u>
Total capital assets being depreciated	<u>\$ 54,029,270</u>	<u>\$ 5,664,594</u>	<u>\$ -</u>	<u>\$ 59,693,864</u>
Accumulated depreciation:				
Infrastructure	\$ 15,698,464	\$ 1,471,646	\$ -	\$ 17,170,110
Equipment	<u>716,472</u>	<u>37,618</u>	<u>-</u>	<u>754,090</u>
Total accumulated depreciation	<u>\$ 16,414,936</u>	<u>\$ 1,509,264</u>	<u>\$ -</u>	<u>\$ 17,924,200</u>
Total capital assets being depreciated, net	<u>\$ 37,614,334</u>	<u>\$ 4,155,330</u>	<u>\$ -</u>	<u>\$ 41,769,664</u>
Business-type activities capital assets, net	<u>\$ 44,789,110</u>	<u>\$ 4,576,513</u>	<u>\$ 5,271,985</u>	<u>\$ 44,093,638</u>

Depreciation expense for the year ended June 30, 2016 totaled \$1,509,264.

KING GEORGE COUNTY SERVICE AUTHORITYNotes to Financial Statements
as of June 30, 2017 and 2016 (Continued)**NOTE 4-CAPITAL ASSETS: (CONTINUED)**

Details of construction in progress for the fiscal year ended June 30, 2017 are as follows:

<u>Project</u>	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2017</u>
Industrial Park	\$ 61,620	\$ 46,942	\$ -	\$ 108,562
Total construction in progress	<u>\$ 61,620</u>	<u>\$ 46,942</u>	<u>\$ -</u>	<u>\$ 108,562</u>

Details of construction in progress for the fiscal year ended June 30, 2016 are as follows:

<u>Project</u>	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>
Arnolds Corner	\$ 20,130	\$ -	\$ 20,130	\$ -
Industrial Park	43,241	18,379	-	61,620
Fairview Beach Water Tank	263,251	5,441	268,692	-
Dahlgren WWTP Nutrient Upgrade	2,225,214	137,600	2,362,814	-
Purkins/Oakland Project	-	259,763	259,763	-
Fairview Beach Well	<u>2,360,586</u>	<u>-</u>	<u>2,360,586</u>	<u>-</u>
Total construction in progress	<u>\$ 4,912,422</u>	<u>\$ 421,183</u>	<u>\$ 5,271,985</u>	<u>\$ 61,620</u>

KING GEORGE COUNTY SERVICE AUTHORITY

Notes to Financial Statements
as of June 30, 2017 and 2016 (Continued)

NOTE 5-LONG-TERM OBLIGATIONS:

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

Proprietary Funds	Balance July 1, 2016	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2017	Due Within One Year
Notes Payable	\$ 333,330	-	\$ 16,666	\$ 316,664	\$ 16,667
VRA Water and Sewer Revenue Bonds	3,643,525	-	154,272	3,489,253	158,588
VRA Infrastructure Revenue Bonds	4,705,000	-	235,000	4,470,000	240,000
Compensated absences	73,363	15,721	11,004	78,080	11,712
Virginia Revenue Refunding Bond	4,755,000	-	330,000	4,425,000	345,000
Water and Sewer Refunding Bond	14,045,000	-	460,000	13,585,000	480,000
Net pension liability	148,118	297,277	212,741	232,654	-
Premium on bonds payable	1,696,332	-	100,267	1,596,065	100,267
Total	\$ 29,399,668	\$ 312,998	\$ 1,519,950	\$ 28,192,716	\$ 1,352,234

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

Proprietary Funds	Balance June 30, 2015	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2016	Due Within One Year
Notes Payable	\$ 349,997	-	\$ 16,667	\$ 333,330	\$ 16,667
VRA Water and Sewer Revenue Bonds	3,649,115	117,797	123,387	3,643,525	154,272
VRA Water Revenue Bond	275,000	-	275,000	-	-
VRA Infrastructure Revenue Bonds	4,930,000	-	225,000	4,705,000	235,000
Compensated absences	78,480	6,655	11,772	73,363	11,004
Virginia Revenue Refunding Bond	4,755,000	-	-	4,755,000	330,000
Water and Sewer Refunding Bond	14,349,000	280,000	584,000	14,045,000	460,000
Net pension liability	122,232	291,426	265,540	148,118	-
Premium on bonds payable	1,796,599	-	100,267	1,696,332	100,267
Total	\$ 30,305,423	\$ 695,878	\$ 1,601,633	\$ 29,399,668	\$ 1,307,210

KING GEORGE COUNTY SERVICE AUTHORITY

Notes to Financial Statements
as of June 30, 2017 and 2016 (Continued)

NOTE 5-LONG-TERM OBLIGATIONS: (CONTINUED)

Annual requirements to amortize long-term obligations and the related interest are as follows:

Year Ending June 30,	VRA Water and Sewer Revenue Bonds		Virginia Revenue Refunding Bonds	
	Principal	Interest	Principal	Interest
2018	\$ 158,588	\$ 97,942	\$ 345,000	\$ 197,274
2019	163,026	93,505	360,000	179,994
2020	167,588	88,943	380,000	162,354
2021	172,280	84,250	395,000	145,610
2022	177,104	79,427	410,000	129,823
2023	182,064	74,467	425,000	111,573
2024	187,163	69,367	275,000	95,771
2025	192,406	64,124	285,000	83,572
2026	197,798	58,732	300,000	70,625
2027	203,343	53,188	230,000	58,495
2028	209,042	47,487	235,000	46,930
2029	214,905	41,626	250,000	34,320
2030	220,932	35,598	260,000	21,060
2031	227,130	29,401	275,000	7,150
2032	233,502	23,028	-	-
2033	240,056	16,475	-	-
2034	246,794	9,736	-	-
2035	95,532	2,807	-	-
Total	\$ <u>3,489,253</u>	\$ <u>970,103</u>	\$ <u>4,425,000</u>	\$ <u>1,344,551</u>

KING GEORGE COUNTY SERVICE AUTHORITY

Notes to Financial Statements
as of June 30, 2017 and 2016 (Continued)

NOTE 5-LONG-TERM OBLIGATIONS: (CONTINUED)

Year Ending June 30,	Notes Payable		Water and Sewer Refunding Bonds		VRA Infrastructure Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 16,667	\$ -	\$ 480,000	\$ 500,370	\$ 240,000	\$ 208,249
2019	16,667	-	549,000	479,635	250,000	196,788
2020	16,667	-	572,000	456,925	255,000	184,941
2021	16,667	-	587,000	431,394	255,000	172,772
2022	16,667	-	618,000	403,281	260,000	160,475
2023	16,667	-	650,000	373,605	265,000	147,022
2024	16,667	-	854,000	341,197	270,000	133,313
2025	16,667	-	887,000	308,809	275,000	119,347
2026	16,667	-	918,000	277,395	285,000	104,997
2027	16,667	-	1,032,000	243,486	285,000	90,816
2028	16,667	-	1,069,000	207,067	295,000	76,828
2029	16,667	-	1,108,000	169,146	300,000	62,481
2030	16,667	-	1,143,000	130,520	305,000	50,028
2031	16,667	-	1,183,000	91,181	305,000	37,447
2032	16,667	-	858,000	54,022	315,000	22,484
2033	16,667	-	671,000	25,140	150,000	11,294
2034	16,667	-	406,000	6,662	160,000	3,850
2035	16,667	-	-	-	-	-
2036	16,658	-	-	-	-	-
Total	\$ <u>316,664</u>	\$ <u>-</u>	\$ <u>13,585,000</u>	\$ <u>4,499,835</u>	\$ <u>4,470,000</u>	\$ <u>1,783,132</u>

KING GEORGE COUNTY SERVICE AUTHORITY

Notes to Financial Statements
as of June 30, 2017 and 2016 (Continued)

NOTE 5-LONG-TERM OBLIGATIONS: (CONTINUED)

Details of Long-term obligations as of June 30, are as follows:

	<u>Amount Outstanding</u>	<u>Due Within One Year</u>
Long-term Debt:		
\$500,000 note payable issued September 20, 2005 payable in annual installments of \$16,677 through July 1, 2035, interest at 0%	\$ 316,664	\$ 16,667
\$5,790,000, Water and Sewer Revenue Refunding Bond issued May 2, 2011, payable in various principal annual installments through October 1, 2033, interest payable semiannually at rates ranging from 2.125% to 5.125%	2,840,000	70,000
\$5,905,000, Water and Sewer Revenue Refunding bond issued October 23, 2010, payable in various principal annual installments through October 1, 2031, interest payable semiannually at rates ranging from 4.100% to 5.100%	5,135,000	240,000
\$280,000 Virginia Resources Authority Refunding bond issued May 11, 2016 payable in one principal installment on October 1, 2032 interest payable semiannually at 3.839%	280,000	-
\$6,915,000 Virginia Revenue Refunding bond issued June 16, 2010, payable in various principal annual installments through October 1, 2030, interest payable semiannually at rates ranging from 3.598% to 5.2%	4,425,000	345,000
\$3,966,800 VRA Revenue Refunding Bonds Series 2008, payable in various annual installments through October 1, 2031, interest payable semiannually at rates ranging from 3.125% to 5.375%	340,000	170,000
\$2,295,082 VRA Revenue Bonds Series 2008, payable in various annual installments through October 1, 2033, interest payable semiannually at rates ranging from 3.125% to 5.375%	150,000	70,000

KING GEORGE COUNTY SERVICE AUTHORITY

Notes to Financial Statements
as of June 30, 2017 and 2016 (Continued)

NOTE 5-LONG-TERM OBLIGATIONS: (CONTINUED)

Details of Long-term obligations as of June 30, are as follows: (Continued)

	<u>Amount Outstanding</u>	<u>Due Within One Year</u>
Long-term Debt: (Continued)		
\$3,980,000 VRA Revenue Bonds Series 2014C payable in various installments beginning October 1, 2015 through October 1, 2033, interest payable semiannually at rates ranging from 3.299% to 5.000%	\$ 3,980,000	\$ -
\$919,000, Water and Sewer Revenue Refunding bond payable in various principal annual installments through October 1, 2019, interest payable semiannually at 2.240%	510,000	165,000
\$4,830,000, Water and Sewer Revenue Refunding bond payable in various principal annual installments through October 1, 2033, interest payable semiannually at 2.240%	4,820,000	5,000
\$2,500,000 VRA Revenue Bonds Series 2014, payable in various annual installments through December 1, 2034, interest payable semiannually at 2.46%.	2,232,411	102,207
\$1,340,270 VRA Revenue Bonds Series 2014, payable in various annual installments through March 1, 2035, interest payable semiannually at 2.25%.	<u>1,256,842</u>	<u>56,381</u>
Total long-term debt	\$ <u>26,285,917</u>	\$ <u>1,240,255</u>
Compensated absences	\$ <u>78,080</u>	\$ <u>11,712</u>
Premium on bonds	\$ <u>1,596,065</u>	\$ <u>100,267</u>
Net Pension Liability	\$ <u>232,654</u>	\$ -
Total long-term obligations	\$ <u><u>28,192,716</u></u>	\$ <u><u>1,352,234</u></u>

The Authority has no Arbitrage rebate liability at June 30, 2017.

KING GEORGE COUNTY SERVICE AUTHORITY

Notes to Financial Statements
as of June 30, 2017 and 2016 (Continued)

NOTE 6–COMPENSATED ABSENCES:

In accordance with GASB statement 16 Accounting for Compensated Absences, the County has accrued the liability arising from outstanding claims and judgments and compensated absences.

The Authority accrues vacation and sick leave at various rates. No benefits or pay is received for unused sick leave upon termination. The Authority had outstanding accrued vacation pay at June 30, 2017 in the amount of \$78,080.

NOTE 7–UNEARNED REVENUE:

Unearned revenue represents amounts for which assets recognition criteria have been met, but for which revenue recognition criteria have not been met. Unearned revenue totaled \$425,084 at June 30, 2017 and consisted of prepaid connection fees.

NOTE 8–LITIGATION:

At June 30, 2017, there were no matters of litigation involving the Authority which would materially affect the Authority's financial position should any court decisions on pending matters not be favorable.

NOTE 9–PENSION PLAN:

Plan Description

All full-time, salaried permanent employees of the Authority are automatically covered by the County of King George, Virginia Pension Plan, a cost-sharing multiple employer plan. 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 a 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:

KING GEORGE COUNTY SERVICE AUTHORITY

Notes to Financial Statements
as of June 30, 2017 and 2016 (Continued)

NOTE 9-PENSION PLAN: (CONTINUED)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS		
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> <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.

KING GEORGE COUNTY SERVICE AUTHORITY

Notes to Financial Statements
as of June 30, 2017 and 2016 (Continued)

NOTE 9-PENSION PLAN: (CONTINUED)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1 (Cont.)</p>	<p>About Plan 2 (Cont.)</p>	<p>About the Hybrid Retirement Plan (Cont.)</p> <ul style="list-style-type: none"> • 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>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 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.

KING GEORGE COUNTY SERVICE AUTHORITY

Notes to Financial Statements
as of June 30, 2017 and 2016 (Continued)

NOTE 9-PENSION PLAN: (CONTINUED)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Eligible Members (Cont.)</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 had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>Eligible Members (Cont.)</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>Eligible Members (Con.)</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 are paying the full 5% as of July 1, 2016. Member contributions are tax-deferred</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 are paying the full 5% as of 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</p>

KING GEORGE COUNTY SERVICE AUTHORITY

Notes to Financial Statements
as of June 30, 2017 and 2016 (Continued)

NOTE 9-PENSION PLAN: (CONTINUED)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Retirement Contributions (Cont.) until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>Retirement Contributions (Cont.)</p>	<p>Retirement Contributions (Cont.) from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</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 <u>Defined Benefit Component:</u> 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>

KING GEORGE COUNTY SERVICE AUTHORITY

Notes to Financial Statements
as of June 30, 2017 and 2016 (Continued)

NOTE 9-PENSION PLAN: (CONTINUED)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Creditable Service (Cont.)	Creditable Service (Cont.)	Creditable Service (Cont.) <u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	Vesting Same as Plan 1.	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.

KING GEORGE COUNTY SERVICE AUTHORITY

Notes to Financial Statements
as of June 30, 2017 and 2016 (Continued)

NOTE 9-PENSION PLAN: (CONTINUED)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Vesting (Cont.)</p>	<p>Vesting (Cont.)</p>	<p>Vesting (Cont.) <u>Defined Contributions 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> <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>

KING GEORGE COUNTY SERVICE AUTHORITY

Notes to Financial Statements
as of June 30, 2017 and 2016 (Continued)

NOTE 9—PENSION PLAN: (CONTINUED)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<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>
<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>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>Service Retirement Multiplier <u>Defined Benefit Component:</u> VRS: The retirement multiplier for the defined benefit component is 1.00%.</p>

KING GEORGE COUNTY SERVICE AUTHORITY

Notes to Financial Statements
as of June 30, 2017 and 2016 (Continued)

NOTE 9—PENSION PLAN: (CONTINUED)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Service Retirement Multiplier (Cont.)</p> <p>Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</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 (Cont.)</p> <p>Sheriffs and regional jail superintendents: Same as Plan 1.</p> <p>Political subdivision hazardous duty employees: Same as Plan 1.</p>	<p>Service Retirement Multiplier <u>Defined Benefit Component:</u> (Cont.)</p> <p>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>Sheriffs and regional jail superintendents: Not applicable.</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 <u>Defined Benefit Component:</u> VRS: Same as Plan 2.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

KING GEORGE COUNTY SERVICE AUTHORITY

Notes to Financial Statements
as of June 30, 2017 and 2016 (Continued)

NOTE 9-PENSION PLAN: (CONTINUED)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<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 <u>Defined Benefit Component:</u> 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><u>Defined Contribution Component:</u> 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 <u>Defined Benefit Component:</u> VRS: 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>

KING GEORGE COUNTY SERVICE AUTHORITY

Notes to Financial Statements
as of June 30, 2017 and 2016 (Continued)

NOTE 9-PENSION PLAN: (CONTINUED)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Earliest Reduced Retirement Eligibility (Cont.)</p>	<p>Earliest Reduced Retirement Eligibility (Cont.)</p>	<p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<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><u>Eligibility:</u> 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>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><u>Eligibility:</u> Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p>

KING GEORGE COUNTY SERVICE AUTHORITY

Notes to Financial Statements
as of June 30, 2017 and 2016 (Continued)

NOTE 9-PENSION PLAN: (CONTINUED)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA</u> <u>Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <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. 	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA</u> <u>Effective Dates:</u> Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA</u> <u>Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

KING GEORGE COUNTY SERVICE AUTHORITY

Notes to Financial Statements
as of June 30, 2017 and 2016 (Continued)

NOTE 9-PENSION PLAN: (CONTINUED)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates: (Cont.)</u></p> <ul style="list-style-type: none"> 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>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates: (Cont.)</u></p>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates: (Cont.)</u></p>
<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>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</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>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</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> <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>

KING GEORGE COUNTY SERVICE AUTHORITY

Notes to Financial Statements
as of June 30, 2017 and 2016 (Continued)

NOTE 9-PENSION PLAN: (CONTINUED)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<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>

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.

KING GEORGE COUNTY SERVICE AUTHORITY

Notes to Financial Statements
as of June 30, 2017 and 2016 (Continued)

NOTE 9—PENSION PLAN: (CONTINUED)

Contributions

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

The Authority's contractually required contribution rate for the year ended June 30, 2017, was 7.39% 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 \$69,906 and \$79,480 for the years ended June 30, 2017 and June 30, 2016, respectively.

Net Pension Liability

At June 30, 2017, the Authority reported a liability of \$232,654 for its proportionate share of the net pension liability. The Authority's net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016. The Authority's proportionate share of the same was calculated using creditable compensation as a basis for allocation. At June 30, 2017 and 2016, the Authority's proportion was 9.17% and 9.43% respectively.

KING GEORGE COUNTY SERVICE AUTHORITY

Notes to Financial Statements
as of June 30, 2017 and 2016 (Continued)

NOTE 9—PENSION PLAN: (CONTINUED)

Actuarial Assumptions – General Employees

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

Inflation	2.5%
Salary increases, including inflation	3.5% – 5.35%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the fair value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates: 14% of deaths are assumed to be service related

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

KING GEORGE COUNTY SERVICE AUTHORITY

Notes to Financial Statements
as of June 30, 2017 and 2016 (Continued)

NOTE 9—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

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

Actuarial Assumptions – Public Safety Employees

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

Inflation	2.5%
Salary increases, including inflation	3.5% – 4.75%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the fair value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

KING GEORGE COUNTY SERVICE AUTHORITY

Notes to Financial Statements
as of June 30, 2017 and 2016 (Continued)

NOTE 9—PENSION PLAN: (CONTINUED)

Actuarial Assumptions – Public Safety Employees (Continued)

Mortality rates: 60% 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 back 2 years and females set back 2 years

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – LEOS:

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

KING GEORGE COUNTY SERVICE AUTHORITY

Notes to Financial Statements
as of June 30, 2017 and 2016 (Continued)

NOTE 9—PENSION PLAN: (CONTINUED)

Long-Term Expected Rate of Return

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

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

* 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%.

KING GEORGE COUNTY SERVICE AUTHORITY

Notes to Financial Statements
as of June 30, 2017 and 2016 (Continued)

NOTE 9—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 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.

Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

	<u>1% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Authority's net pension liability	\$ 650,628	\$ 232,654	\$ (112,010)

KING GEORGE COUNTY SERVICE AUTHORITY

Notes to Financial Statements
as of June 30, 2017 and 2016 (Continued)

NOTE 9—PENSION PLAN: (CONTINUED)

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 \$53,407. At June 30, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 34,030
Net Difference between projected and actual earnings on pension plan investments	72,410	-
Employer contributions subsequent to the measurement date	<u>69,906</u>	<u>-</u>
Total	<u>\$ 142,316</u>	<u>\$ 34,030</u>

\$69,906 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future accounting periods as follows:

<u>Year ended June 30</u>	
2018	\$ (10,467)
2019	(10,467)
2020	31,549
2021	27,765
Thereafter	-

KING GEORGE COUNTY SERVICE AUTHORITY

Notes to Financial Statements
as of June 30, 2017 and 2016 (Continued)

NOTE 10–RISK MANAGEMENT:

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority joined together with other local governments in the State to form the Virginia Municipal Group Self Insurance Association, a public entity risk pool currently operating as a common risk management and insurance program for member governments. The Authority pays an annual premium to the pool for its workers compensation coverage. The Agreement for Formation of the association provides that the association will be self-sustaining through member premiums.

The Authority continues to carry commercial insurance for all other risks of loss, including general liability and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

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Required Supplementary Information

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(A Component Unit of King George County, Virginia)
 Schedule of the Authority's Proportionate Share of the Net Pension Liability
 For the Years Ended June 30, 2015 through June 30, 2017

County of King George, Virginia's Pension Plan
(a cost-sharing multiple employer plan administered by the VRS)

<u>Date</u>	<u>Proportion of the Net Pension Liability (NPL)</u>	<u>Proportionate Share of the NPL</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the NPL as a Percentage of Covered Payroll (3)/(4)</u>	<u>Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (6)</u>
(1)	(2)	(3)	(4)	(5)	(6)
2016	9.17%	\$ 232,654	\$ 870,537	26.73%	98.69%
2015	9.43%	148,118	935,528	15.83%	98.69%
2014	9.24%	122,232	821,363	14.88%	97.60%

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

(A Component Unit of King George County, Virginia)
 Schedule of Employer Contributions
 For the Years Ended June 30, 2015 through June 30, 2017

County of King George, Virginia's Pension Plan
(a cost-sharing multiple employer plan administered by the VRS)

<u>Date</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to Contractually Required Contributions</u>	<u>Contribution Deficiency (Excess) (1) - (2)</u>	<u>Employer's Covered Payroll</u>	<u>Contributions as a % of Covered Payroll (2)/(4)</u>
(1)	(1)	(2)	(3)	(4)	(5)
2016	\$ 69,906	\$ 69,906	\$ -	\$ 945,954	7.39%
2016	79,480	79,480	-	870,537	9.13%
2015	94,769	94,769	-	935,528	10.13%

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

(A Component Unit of King George County, Virginia)
Notes to Required Supplementary Information
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 is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 is not material.

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

Largest 10 – Non-LEOS:

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

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All Others (Non 10 Largest) – LEOS:

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

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Statistical Section

Contents

Tables

Financial Trends

These tables contain trend information to help the reader understand how the the Authority's financial performance has changed over time.

1-2

Revenue, Rates and Useage Information

These tables contain information to help the reader assess the factors affecting the Authority's change in revenues and its ability to generate revenues.

3-6

Expenses

This table contains comparative information about the Authority's expenses.

7

Debt Capacity

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

8-9

Demographic and Economic Information

These tables offer demographic and economic indicators to help the reader understand the environment within which the Authority's financial activities take place and to help make comparisons over time.

10-11

Operating Information

These tables contain information about the Authority's operations and resources to help the reader understand how the Authority's financial information relate to the activities it performs.

12

Other Information

These tables contain miscellaneous data.

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Sources: Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial reports for the relevant year.

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Net Position by Component
Last Ten Fiscal Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Net investment in capital assets	\$ 16,747,965	\$ 17,025,593	\$ 16,923,176	\$ 17,323,889	\$ 17,936,970	\$ 18,858,535	\$ 18,425,062	\$ 20,397,371	\$ 22,511,998	\$ 22,943,726
Unrestricted	<u>3,241,519</u>	<u>3,658,555</u>	<u>4,178,802</u>	<u>2,225,648</u>	<u>1,963,895</u>	<u>1,684,339</u>	<u>2,839,009</u>	<u>2,084,383</u>	<u>835,327</u>	<u>809,229</u>
Total net position	<u>\$ 19,989,484</u>	<u>\$ 20,684,148</u>	<u>\$ 21,101,978</u>	<u>\$ 19,549,537</u>	<u>\$ 19,900,865</u>	<u>\$ 20,542,874</u>	<u>\$ 21,264,071</u>	<u>\$ 22,481,754</u>	<u>\$ 23,347,325</u>	<u>\$ 23,752,955</u>

Changes in Net Position
Last Ten Fiscal Years

	Fiscal Years Ended June 30,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Operating revenues:										
Water revenues	\$ 1,248,037	\$ 1,179,985	\$ 1,094,391	\$ 1,009,016	\$ 1,030,062	\$ 931,933	\$ 911,718	\$ 887,823	\$ 845,048	\$ 751,808
Sewer revenues	1,837,453	1,758,645	1,615,370	1,582,139	1,485,560	1,286,815	1,156,796	972,562	963,042	994,843
Service/debt fees	1,328,844	1,407,144	1,430,948	1,339,496	1,326,440	1,347,426	1,118,011	1,164,553	559,167	1,506,185
Other revenues	579,087	591,703	849,177	754,606	766,005	930,107	762,895	921,589	676,805	1,424,469
Total operating revenues	\$ 4,993,421	\$ 4,937,477	\$ 4,989,886	\$ 4,685,257	\$ 4,608,067	\$ 4,496,281	\$ 3,949,420	\$ 3,946,527	\$ 3,044,062	\$ 4,677,305
Operating expenses:										
Personnel services	\$ 1,134,344	\$ 1,059,881	\$ 903,908	\$ 972,877	\$ 975,012	\$ 1,021,911	\$ 984,738	\$ 1,023,173	\$ 1,048,504	\$ 1,073,158
Fringe benefits	413,549	383,136	400,971	431,612	442,686	437,216	423,065	419,284	430,852	450,567
Contractual services	387,062	588,167	435,516	521,973	332,964	460,927	397,762	392,439	395,210	315,417
Other operating expenses	1,077,167	1,221,226	1,103,812	1,121,602	1,114,482	943,023	868,955	1,001,799	967,307	1,199,898
Depreciation and amortization	1,510,594	1,509,264	1,365,488	1,313,767	1,313,835	1,320,074	1,305,701	1,340,802	1,239,979	1,240,819
Total operating expenses	\$ 4,522,716	\$ 4,761,674	\$ 4,209,695	\$ 4,361,831	\$ 4,178,979	\$ 4,183,151	\$ 3,980,221	\$ 4,177,497	\$ 4,081,852	\$ 4,279,859
Operating income (loss)	\$ 470,705	\$ 175,803	\$ 780,191	\$ 323,426	\$ 429,088	\$ 313,130	\$ (30,801)	\$ (230,970)	\$ (1,037,790)	\$ 397,446
Nonoperating revenues (expenses):										
Interest earned	\$ 67,768	\$ -	\$ 323	\$ 776	\$ 2,007	\$ 2,305	\$ 4,068	\$ 11,058	\$ 20,904	\$ 133,175
State, federal and local grant funds	-	70,018	467,172	557,972	-	-	-	-	1,340,934	10,650
Interest expense	(1,080,466)	(1,120,689)	(1,335,992)	(1,179,218)	(1,158,505)	(1,209,227)	(1,284,208)	(1,011,166)	(1,185,563)	(1,135,260)
Total nonoperating revenues (expenses)	\$ (1,012,698)	\$ (1,050,671)	\$ (868,497)	\$ (620,470)	\$ (1,156,498)	\$ (1,206,922)	\$ (1,280,140)	\$ (1,000,108)	\$ 176,275	\$ (991,435)
Income (loss) before capital contributions	\$ (541,993)	\$ (874,868)	\$ (88,306)	\$ (297,044)	\$ (727,410)	\$ (893,792)	\$ (1,310,941)	\$ (1,231,078)	\$ (861,515)	\$ (593,989)
Capital contributions (net)	(152,671)	457,038	1,880,038	(54,284)	85,401	172,595	478,214	365,507	455,885	569,857
Change in net position	\$ (694,664)	\$ (417,830)	\$ 1,791,732	\$ (351,328)	\$ (642,009)	\$ (721,197)	\$ (832,727)	\$ (865,571)	\$ (405,630)	\$ (24,132)

(A Component Unit of the County of King George, Virginia)
 Schedule of Operating Revenues
 Last Ten Fiscal Years

Fiscal Year	Charges for Services	Service/Debt Fees	Availability/Connection Fees	Miscellaneous	Total
2008	\$ 1,746,650	\$ 1,506,185	\$ 1,400,709	\$ 23,761	\$ 4,677,305
2009	1,808,090	559,167	647,230	29,575	3,044,062
2010	1,860,385	1,164,553	801,473	120,116	3,946,527
2011	2,068,514	1,118,011	583,125	179,770	3,949,420
2012	2,218,748	1,347,426	767,313	162,794	4,496,281
2013	2,515,622	1,326,440	642,406	123,599	4,608,067
2014	2,591,155	1,339,496	587,976	166,630	4,685,257
2015	2,709,761	1,430,948	690,033	159,144	4,989,886
2016	2,938,630	1,407,144	476,547	115,156	4,937,477
2017	3,085,490	1,328,844	409,950	169,137	4,993,421

KING GEORGE COUNTY SERVICE AUTHORITY

Table 4

(A Component Unit of the County of King George, Virginia)
 Schedule of Rates
 Last Ten Fiscal Years

Fiscal Year	Water Variable Rate	Water Fixed Rate (1)	Sewer Variable Rate	Sewer Fixed Rate (1)	Debt Sewer	Debt Water
2008	\$ 3.26	\$ 16.30	\$ 6.23	\$ 31.15	-	-
2009	3.34	16.71	6.39	31.93	20.00	15.00
2010	3.51	17.55	6.86	34.30	22.40	15.75
2011	3.68	18.40	7.69	38.45	25.09	16.54
2012	3.87	19.35	8.61	43.05	27.60	17.35
2013	4.06	20.30	9.47	47.35	27.60	17.35
2014	4.26	21.30	9.94	49.70	29.98	18.22
2015	4.26	21.30	9.94	49.70	29.98	18.22
2016	4.60	23.00	10.74	53.70	31.30	19.68
2017	4.92	24.60	11.49	57.45	31.30	19.68

(1) Fixed rate based on 5000 gal. of usage.

(A Component Unit of the County of King George, Virginia)
 Schedule of New Connections
 Last Ten Fiscal Years

Fiscal Year	Water Only Connections	Sewer Only Connections	Full Service Connections Water & Sewer	Total New Connections	Cumulative Connections	% Growth
2008	44	3	97	144	3,661	4.1%
2009	17	-	53	70	3,731	1.9%
2010	16	1	55	72	3,803	1.9%
2011	6	-	30	36	3,839	0.9%
2012	8	-	34	42	3,881	1.1%
2013	3	2	44	49	3,930	1.3%
2014	12	1	36	49	3,979	1.2%
2015	5	0	39	44	4,023	1.1%
2016	6	1	45	52	4,075	1.3%
2017	5	-	18	23	4,098	0.6%

Source: Authority connection records.

(A Component Unit of the County of King George, Virginia)
 Schedule of Water Processed and Wastewater Treated
 (in gallons)
 Last Ten Calendar Years

<u>Fiscal Year</u>	<u>Water Processed (1)</u>	<u>Wastewater Processed (1)</u>
2008	428,000,920	138,454,200
2009	392,772,670	203,491,270
2010	349,567,680	201,202,000
2011	279,729,000	154,185,800
2012	248,777,000	132,840,000
2013	273,847,000	132,392,000
2014	243,896,965	149,650,000
2015	245,716,965	166,853,900
2016	278,726,000	174,678,900
2017	284,300,520	178,172,478

(1) King George Service Authority

(A Component Unit of the County of King George, Virginia)
 Schedule of Operating Expenses
 Last Ten Fiscal Years

Fiscal Year	Personnel Services	Fringe Benefits	Contractual Services	Other Operating Expenses	Depreciation & Amortization	Total
2008	\$ 1,073,158	\$ 450,567	\$ 315,417	\$ 1,199,898	\$ 1,240,819	\$ 4,279,859
2009	1,048,504	430,852	395,210	967,307	1,239,979	4,081,852
2010	1,023,173	419,284	392,439	1,001,799	1,340,802	4,177,497
2011	984,738	423,065	397,762	868,955	1,305,701	3,980,221
2012	1,021,911	437,216	460,927	943,023	1,320,074	4,183,151
2013	975,012	442,686	332,964	1,114,482	1,313,835	4,178,979
2014	972,877	431,612	521,973	1,121,602	1,313,767	4,361,831
2015	903,908	400,971	435,516	1,103,812	1,365,488	4,209,695
2016	1,059,881	383,136	588,167	1,221,226	1,509,264	4,761,674
2017	1,134,344	413,549	387,062	1,077,167	1,510,594	4,522,716

Outstanding Debt by Type
Last Ten Fiscal Years

	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Notes Payable	\$ 316,664	\$ 333,330	\$ 349,997	\$ 366,664	\$ 411,481	\$ 456,298	\$ 501,115	\$ 545,932	\$ 590,749	\$ 635,564
Virginia Water Facility Loan	-	-	-	-	-	-	-	66,215	194,775	318,343
VRA Utility Revenue Bond	-	-	-	-	-	-	-	-	9,235,000	9,470,000
VRA Water Revenue Bond	-	-	275,000	275,000	275,000	275,000	275,000	6,255,000	7,235,000	7,410,000
VRA Infrastructure Revenue Bonds	4,470,000	4,705,000	4,930,000	5,191,530	5,254,176	5,144,385	5,193,814	5,195,233	6,009,732	-
IDA Lease Revenue Bond	-	-	-	-	-	-	-	-	-	3,868,800
Premium on bonds payable	1,596,065	1,696,332	1,796,599	1,614,934	1,703,910	1,792,886	1,881,862	736,338	91,521	-
Virginia Revenue Refunding Bond	4,425,000	4,755,000	4,755,000	6,915,000	6,915,000	6,665,811	6,652,696	6,639,580	-	-
Water and Sewer Refunding Bonds	13,585,000	14,045,000	14,349,000	11,575,000	11,650,000	10,584,117	10,531,194	5,604,200	-	-
Water and Sewer Revenue Bonds	<u>3,489,253</u>	<u>3,643,525</u>	<u>3,649,115</u>	<u>2,076,036</u>	-	-	-	-	<u>1,739,872</u>	<u>1,820,725</u>
Total outstanding debt	<u>\$ 27,881,982</u>	<u>\$ 29,178,187</u>	<u>\$ 30,104,711</u>	<u>\$ 28,014,164</u>	<u>\$ 26,209,567</u>	<u>\$ 24,918,497</u>	<u>\$ 25,035,681</u>	<u>\$ 25,042,498</u>	<u>\$ 25,096,649</u>	<u>\$ 23,523,432</u>
Customers (1)	6,335	6,294	6,294	6,208	6,045	5,952	5,732	5,666	5,549	5,479
Debt per customer	<u>\$ 4,401</u>	<u>\$ 4,636</u>	<u>\$ 4,783</u>	<u>\$ 4,513</u>	<u>\$ 4,336</u>	<u>\$ 4,187</u>	<u>\$ 4,368</u>	<u>\$ 4,420</u>	<u>\$ 4,523</u>	<u>\$ 4,293</u>

N/A - Not available

(1) Total combined water and sewer connections - Table 12

(A Component Unit of the County of King George, Virginia)
 Revenue Bond Coverage (Water and Sewer Bonds)
 Last Ten Fiscal Years

Fiscal Year	Gross Revenue (1)	Direct Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements (3)			Coverage
				Principal	Interest	Total	
2008	\$ 4,821,130	\$ 3,039,040	\$ 1,782,090	\$ 797,239	\$ 1,135,260	\$ 1,932,499	0.92
2009	4,254,480	2,841,873	1,412,607	743,001	1,167,279	1,910,280	0.74
2010	3,957,585	2,836,695	1,120,890	233,377	1,011,166	1,244,543	0.90
2011	3,953,488	2,674,520	1,278,968	120,985	1,164,087	1,285,072	1.00
2012	4,498,586	2,863,077	1,635,509	102,780	1,232,690	1,335,470	1.22
2013	4,610,074	2,865,144	1,744,930	150,707	1,158,505	1,309,212	1.33
2014	4,686,033	3,048,064	1,637,969	182,463	1,179,218	1,361,681	1.20
2015	4,990,209	2,844,207	2,146,002	555,855	1,335,992	1,891,847	1.13
2016	4,937,477	3,252,410	1,685,067	949,054	1,120,226	2,069,280	0.81
2017	4,993,421	3,012,122	1,981,299	1,195,938	1,052,704	2,248,642	0.88

- (1) Total revenues includes investment earnings and other nonoperating income excluding state and federal grant funds.
- (2) Total expenses exclusive of depreciation and bond interest.
- (3) Includes principal and interest on revenue bonds only. Does not include general obligation bond principal and interest reported in the water and sewer fund.

Demographic and Economic Statistics
Last Ten Fiscal Years

Fiscal Year	Population	Unemployment Rate	Per Capita Personal Income	Total Personal Income	Student Enrollment
2008	22,205	5.30 \$	33,778 \$	750,040,490	3,982
2009	23,170	7.90	33,778	782,636,260	4,066
2010	23,891	8.30	33,690	804,887,790	4,129
2011	23,584	7.30	33,690	794,544,960	4,228
2012	23,333	6.90	33,690	786,088,770	4,176
2013	23,945	6.30	33,690	806,707,050	4,258
2014	24,926	6.00	41,791	1,041,682,466	4,326
2015	25,371	5.30	47,244	1,198,627,524	4,384
2016	25,515	4.20	47,244	1,205,430,660	4,386
2017	25,515	3.80	47,244	1,205,430,660	4,366

Sources: www.fedstats.gov, Department of Education, Weldon Cooper Center for Public Service, VEC, US Census Bureau

Principal Employers
Current Year and Nine Years Prior

Employer	Fiscal Year 2017		Fiscal Year 2008	
	Employees (1)	Rank	Employees (1)	Rank
U.S. Department of Defense	1000 and over	1	1000 and over	1
King George County Public School Board	500 to 750	2	500 to 999	2
County of King George	250 to 499	3	250 to 499	5
Wal Mart	250 to 499	4	-	-
Northrop Grumman Corporation	249 and under	5	250 to 499	3
EG & G, Inc.	249 and under	6	250 to 499	4
Marconi Technology	249 and under	7	100 to 249	7
Integrated Microcomputer System, Lockheed Martin	249 and under	8	100 to 249	6
Lockheed Martin	249 and under	9	-	-
Solutions Development Corporation	249 and under	10	-	-
Chugach McKinley Inc.	-	-	100 to 249	8
Bowhead Information Tech Inc.	-	-	100 to 249	9
General Dynamics	-	-	100 to 249	10

Source: Virginia Employment Commission Quarterly Census of Employment and Wages 2nd Qtr 2017 and 2nd Qtr 2008

(1) The VEC is precluded from disclosing the actual number of employees per the Confidential Information Protection and Statistical Efficiency Act.

(A Component Unit of the County of King George, Virginia)
 Operating and Capital Indicators
 Last Ten Fiscal Years

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Water System:										
Number of water systems	12	12	12	12	12	12	12	9	9	9
Number of service connections	3,543	3,560	3,626	3,662	3,862	3,909	3,979	4,023	4,049	4,072
Miles of water mains	250 miles	250 miles	250 miles	250 miles	250 miles	250	250	250	250	250
Daily average consumption in gallons	1,172,605 gallons per day	1,076,089 gallons per day	957,919 gallons per day	766,380 gallons per day	681,580 gallons per day	750,000 gallons per day	730,230 gallons per day	755,200 gallons per day	763,633 per day	778,906 per day
Average amount of water distributed from Service Authority facilities	1,172,605 gallons per day	1,076,089 gallons per day	957,919 gallons per day	766,380 gallons per day	681,580 gallons per day	750,000 gallons per day	730,230 gallons per day	755,200 gallons per day	763,633 per day	778,906 per day
Storage capacity	1.8 million gallons	1.8 million gallons	2.2 million gallons	2.2 million gallons	2.2 million gallons	2.2 million gallons	2.2 million gallons	2.2 million gallons	2.2 million gallons	2.2 million gallons
Sewerage System:										
Number of treatment plants	5	5	5	5	5	5	5	5	5	5
Number of service connections	1,936	1,989	2,040	2,070	2,090	2,136	2,229	2,240	2,245	2,263
Miles of sanitary sewers	200 miles	200 miles	200 miles	200 miles	200 miles	200 miles	200 miles	200 miles	200 miles	200 miles
Daily average treatment in gallons	379,326 gallons per day	557,510 gallons per day	551,238 gallons per day	422,426 gallons per day	362,717 gallons per day	362,717 gallons per day	410,000 gallons per day	457,133 gallons per day	478,572 per day	488,144 per day
Design capacity of treatment plants	1,835,000 gallons per day	1,835,000 gallons per day	1,835,000 gallons per day	1,835,000 gallons per day	1,835,000 gallons per day	1,835,000 gallons per day	1,835,000 gallons per day	1,835,000 gallons per day	1,835,000 per day	1,835,000 per day
Number of full time employees	28	28	26	26	25	26	25	24	24	23

NA - Not available

(A Component Unit of the County of King George, Virginia)
 Principal Water and Sewer Customers
 Current Year and Nine Years Prior

<u>Principal Users of the Water System</u>	<u>Principal Business</u>	<u>Fiscal Year 2017</u>			<u>Fiscal Year 2008</u>		
		<u>in 000/gallons</u>	<u>% of System</u>	<u>Rank</u>	<u>in 000/gallons</u>	<u>% of System</u>	<u>Rank</u>
Monmouth Woods	Apartments	6,183,480	2.17%	1	6,685,700	1.56%	1
King George County School System	Public school system	4,223,310	1.49%	2	4,071,700	0.95%	2
Fairview B LLC	Campground, Retail, Apartments	2,578,690	0.91%	3	3,866,750	0.90%	3
WaWa	Retail	2,329,200	0.82%	4	-	-	-
Fresenius	Medical	1,900,640	0.67%	5	-	-	-
OMZ King George LLC	Mutiple retail	1,845,020	0.65%	6	-	-	-
Dahlgren Comfort Inn	Hotel	1,517,100	0.53%	7	3,348,510	0.78%	4
Waste Management	Landfill	1,285,680	0.45%	8	-	-	-
Wal-mart Stores	Retail	1,238,900	0.44%	9	-	-	-
Rappahannock Area YMCA	Fitness center with pool	1,141,040	0.40%	10	-	-	-
COPT Management	Office Building	-	-	-	1,898,630	0.44%	5
Hopyard HOA	Clubhouse/Irrigation	-	-	-	1,847,670	0.43%	6
Leroy McDaniel	Carwash	-	-	-	1,816,040	0.42%	7
Holiday Inn Express	Hotel	-	-	-	1,223,010	0.29%	8
GEM Management Inc.	Apartments	-	-	-	1,009,800	0.24%	9
Tim's II	Restaurant	-	-	-	834,400	0.19%	10
Total		<u>24,243,060</u>	<u>8.53%</u>		<u>26,602,210</u>	<u>6.20%</u>	
Total System Annual Consumption		<u>284,300,520</u>			<u>428,000,920</u>		
<u>Principal Users of the Sewer System</u>		<u>in 000/gallons</u>	<u>% of System</u>	<u>Rank</u>	<u>in 000/gallons</u>	<u>% of System</u>	<u>Rank</u>
Monmouth Woods	Apartments	6,026,500	3.38%	1	6,685,700	4.83%	1
King George County School System	Public school system	3,897,720	2.19%	2	5,747,080	4.15%	2
American Healthcare	Medical	3,264,400	1.83%	3	-	-	-
OMZ King George LLC	Mutiple retail	2,365,943	1.33%	4	-	-	-
Fresenius	Medical	2,093,600	1.18%	5	-	-	-
Comm. Housing Partners Corp.	Housing	1,878,900	1.05%	6	-	-	-
Fairview B LLC	Campground, Retail, Apartments	1,806,220	1.01%	7	3,866,750	2.79%	3
Dahlgren Comfort Inn	Hotel	1,517,100	0.85%	8	3,348,510	2.42%	5
Jarrell Properties		1,256,920	0.71%	9	-	-	-
Sheetz	Convenience Store/Gas Station	1,167,440	0.66%	10	-	-	-
Heritage Hall	Nursing Home	-	-	-	3,460,100	2.50%	4
COPT Management	Office Building	-	-	-	1,898,630	1.37%	6
Hopyard HOA	Clubhouse/Irrigation	-	-	-	1,847,670	1.33%	7
Leroy McDaniel	Carwash	-	-	-	1,816,040	1.31%	8
Holiday Inn Express	Hotel	-	-	-	1,223,010	0.88%	9
GEM Management Inc.	Apartments	-	-	-	1,009,800	0.73%	10
Total		<u>25,274,743</u>	<u>14.19%</u>		<u>30,903,290</u>	<u>22.31%</u>	
Total System Annual Flow		<u>178,172,478</u>			<u>138,454,200</u>		

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ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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 Honorable Members of the Board of Directors
King George County Service Authority
County of King George, Virginia**

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of King George County Service Authority, as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise King George County Service Authority's basic financial statements, and have issued our report thereon dated November 29, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Robinson, Farmer, Cox Associates
Fredericksburg, Virginia
November 29, 2017