



BVU AUTHORITY
FINANCIAL STATEMENTS
2018

BVU AUTHORITY

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

For the Year Ended June 30, 2018

BVU AUTHORITY
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INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
BVU Authority
Bristol, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of BVU Authority (the Authority), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Joint Sewerage System, which represents 3.6% of the assets of the Authority. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Joint Sewerage System, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion

We were unable to obtain sufficient appropriate audit evidence about CPC OptiNet's net capital assets of \$6,323,468, which represents 4.7% and 3.1% of the net capital assets and total assets of the Authority, respectively.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the "Basis for Qualified Opinion" paragraph, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority as of June 30, 2018, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2018, the Authority adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

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 the net pension asset and net OPEB liabilities, as listed in the table of contents, on pages 4-16 and 65-71 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information and other supplementary information section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2018, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Blackburn Childers & Steagall, PLLC

BLACKBURN, CHILDERS & STEAGALL, PLLC
Johnson City, Tennessee

October 4, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

BVU AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

1. Purpose

The Management's Discussion and Analysis report focuses on activities in BVU Authority's fiscal year ending June 30, 2018, resulting changes, and current, known facts. This discussion and analysis section is designed to assist the reader in focusing on BVU Authority's (a) significant financial issues, (b) provide an overview of financial activity, (c) identify major changes in financial position, and (d) identify any financial concerns. It should be read in conjunction with the basic audited financial statements.

2. Background

BVU Authority (BVU) is comprised of the following divisions: Electric, Water, Wastewater, and a fiber-optic broadband system called "OptiNet". OptiNet is comprised of data (internet), phone (telecommunications), and cable television services. BVU provides services to over 66,200 accounts throughout Southwest Virginia. BVU is governed by a seven member Board of Directors. A brief summary of BVU utility services are listed below:

2.1. Electric

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

2.2. Water

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

2.3. Wastewater

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

2.4. Fiber-Optic Broadband (OptiNet)

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

**BVU AUTHORITY
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3. System Highlights

3.1. Total Accounts

As of June 30, 2018, BVU served 66,219 accounts across all four divisions. A total of 389 accounts were lost during fiscal year 2018. This represented a decline of 0.58% in total accounts.

3.2. Electric

The Electric system services 17,423 accounts. This is an increase of 62 accounts or 0.36% from the prior year. The Electric System sold 495,988,858 kilowatt hours (kWh) of electricity. This represents a reduction of 1,141,497 kWh or 0.23% from fiscal year 2017. Increases in the residential, commercial, and industrial rate classes were offset by decreases in the large industrial, street, and outdoor lighting rate classes. Residential was up 12,530,595 kWh or 6.66%. Commercial and industrial consumption increased by 1,390,685 kWh or 4.08%. Large commercial had a decrease of 14,997,274 or 5.57%. Street and outdoor lighting was down by 65,503 kWh or 1.14%. Electric usage is dependent on local weather conditions and customer usage patterns.

3.3. Water

The Water system services 7,894 accounts. This is a decrease of 9 accounts or 0.11% from the prior year. The Water System sold 582,325,500 gallons of water. This represents an increase of 3,896,000 gallons or 0.67% from the previous year. The increase occurred in the commercial and industrial rate class which increased by 5,433,300 gallons or 1.80%. This increase was offset by a reduction in the sales to the residential rate class. Residential consumption dropped by 1,537,300 gallons or 0.56% from the prior year.

3.4. Wastewater

The Wastewater system services 7,670 accounts. This is a decrease of 8 or 0.10% from the prior year. Wastewater volumes billed were 687,367,774 gallons. This represents a reduction of 8,203,326 gallons or 1.18% from the previous year. There was a decrease in both the residential rate class and the Industrial Park. Residential volumes decreased by 983,890 gallons or 0.34%. Volumes at the Industrial Park decreased 8,369,326 gallons or 14.29%. This decrease was partially offset by an increase in commercial and industrial sales. Commercial and industrial volumes grew by 1,149,890 gallons or 0.33% from the prior year.

3.5. Fiber-Optic Broadband (OptiNet)

The OptiNet system services 33,232 accounts. This represents a decrease of 434 accounts or 1.29% from the previous year. The OptiNet system provides three different services: Telephone, Internet, and Cable. The Telephone system services 13,869 accounts. This is an increase of 108 accounts or 0.78% from the previous year. The Internet system services 11,256 accounts. This is a decrease of 112 accounts or 0.99% from fiscal year 2017. The Cable Television system services 8,107 accounts. This is a decrease of 430 accounts or 5.04% from the prior year.

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4. Overview of the Financial Statements

4.1. Financial Statements

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

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

4.2. Accounting Standards

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

4.3. Statement of Net Position

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

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

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

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

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

4.5. Statement of Cash Flows

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

- Operating activities
- Investing activities
- Capital and related financing activities

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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

4.6. Other Information

4.6.1. Required Supplementary Information

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

4.6.2. Notes to Financial Statements

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

5. Condensed Financial Statements

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

5.1. Statement of Net Position

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

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

	2018	2017
Assets		
Current Assets	\$ 36,410	\$ 37,581
Non-Current Assets	33,086	17,769
Net Plant	134,139	146,640
Total Assets	203,635	201,990
Deferred Outflows of Resources	5,069	5,285
Liabilities		
Current Liabilities	11,875	14,238
Non-Current Liabilities	43,781	42,102
Total Liabilities	55,656	56,340
Deferred Inflows of Resources	597	122
Net Position		
Net Investment in Capital Assets	99,828	110,940
Restricted - Net Pension Asset	2,167	1,615
Unrestricted	50,456	38,258
Total Net Position	\$ 152,451	\$ 150,813

**BVU AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

5.1.1. Current and Other Assets

Current and other assets decreased \$1.17 million or 3.12%. Cash and cash equivalents increased \$0.62 million or 2.51%. This increase is due to an increase in the cash position of OptiNet. This increase was partially offset by the Electric system's early payment of the TVA reintegration fee of \$2.91 million. Due from other governmental units decreased by \$1.98 million or 86.98%. This is due to a change in how the Joint Sewer System is being recorded. This is now part of the Non-Current Asset "Investment in Joint Sewer System."

5.1.2. Restricted Cash – Reserves

Restricted cash – reserves increased by \$7.64 million. This is due to the entire amount of the repair and replacement budget for each department being segregated from operating cash in FY2018. In FY2017, only the minimum amount of repair and replacement funds required by the 2010 VRA Bond were reserved. Reserved cash consists of operating cash reserves and repair and replacement reserves as required by the 2010 VRA Bond. Also included is a reserve for economic development costs as allowed by the TVA Power Contract and required by the Transition Agreement with the City of Bristol, VA.

5.1.3. Investment in Joint Sewer System

BVU's interest in the Joint Sewer System is now being recorded as an Investment in Joint Sewer System. This aligns more closely with GASB requirements for recording joint ventures. As a result of this change, an investment in the Joint Sewer System of \$7.25 is now being shown on the Statement of Net Position.

5.1.4. Net Pension Asset

The Net Pension Asset increased by \$0.55 million or 34.18%. This is due to a better than expected return on the assets in the plan.

5.1.5. Capital Assets, Net

Net capital assets decreased \$12.50 million or 8.52% during the 2018 fiscal year. \$2.35 million is due to a change in how the Joint Sewer System is being recorded. This is now part of the Non-Current Asset "Investment in Joint Sewer System." Current year additions did not offset the current year's provision for depreciation. Several expansion and upgrade projects within OptiNet were completed so there is no current need for the higher capital expenditures.

BVU AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

5.1.6. Current Liabilities

Current and other liabilities decreased by \$2.36 million or 16.60% in the current fiscal year. This reduction was due to the one-time TVA reintegration fee of \$2.91 million in the preceding fiscal year.

5.1.7. Non-current Liabilities

Non-current liabilities increased by \$1.68 million or 3.99%. During the fiscal year \$1.52 million of bond debt and \$0.12 million of Water system debt was paid. This was offset by an increase in OPEB Liability of \$3.49 million. This increase resulted from the implementation of GASB Statement Number 75. This standard changed the way the health insurance OPEB is recorded along with requiring the recognition of the Group Life Insurance OPEB that is offered through the Virginia Retirement System (VRS).

During the fiscal year, there was no new long term debt added.

5.1.8. Change in Net Position

Net position increased by \$1.64 million in the fiscal year with an ending net position of \$152.45 million compared to the fiscal year 2017 net position of \$150.81 million. This increase is a result of current fiscal year operations.

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

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

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June 30, 2018

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

	2018	2017
Operating Revenues		
Total Sales Revenue	\$ 82,580,342	\$ 84,021,323
Management and Consulting Fees	173,502	167,873
Rent from Property	366,219	365,037
Forfeited Discounts and Penalties	557,976	556,020
Connections and Transfers	241,541	268,764
Other	347,972	344,704
Total Operating Revenues	84,267,552	85,723,721
Operating Expenses		
Purchase Power	37,848,680	41,410,889
Power and Pumping	1,738,854	1,624,118
Purification and Collection System	706,056	702,955
Telecommunications COGS	11,479,223	10,185,055
Transmission and Distribution	2,185,113	2,061,893
Billing and Collection	4,758,234	5,180,156
Administrative and General	7,678,109	8,364,721
Depreciation	12,507,809	13,150,430
Distribution of CPC Operations	482,470	445,630
Total Operating Expenses	79,384,548	83,125,847
Operating Income	4,883,004	2,597,874
Non-operating Expenses		
Other Deductions	(589,642)	(319,649)
Interest Expense	(1,431,411)	(1,485,679)
Total Non-operating Expenses	(2,021,053)	(1,805,328)
Capital Contributions	-	-
Change in Net Position	2,861,951	792,546
Net Position at July 1	150,813,434	150,020,888
Prior Period Adjustment	(1,224,646)	-
Net Position at July 1, as Restated	149,588,788	150,020,888
Net Position at June 30	\$ 152,450,739	\$ 150,813,434

**BVU AUTHORITY
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5.2.1. Operating Revenue

BVU's operating revenue decreased \$1.46 million or 1.70%. This is mainly due to a combination of lower consumption and a rate reduction in the Electric department. Total revenues for the Electric department declined by \$1,294,668 or 2.44%. See section 6.4 for discussion of Electric division rate cuts.

5.2.2. Operating Expenses

BVU's operating expenses decreased \$3.74 million or 4.50%. Purchased power expense decreased by \$3.56 million or 8.60% as a result of the early payment of the \$2.91 million TVA reintegration fee discussed in section 5.1.6 above. This decrease was augmented by a decrease in kWh sold that is discussed in section 3.2 above. There was an increase in telecommunications cost of goods sold of \$1.29 million or 12.71%. This was primarily due to the cost of TV programming. This increase was offset by expense reductions in nearly all other areas of operations. Without the early payment of the TVA reintegration fee in FY17, operating expenses would have decreased by \$0.83 million or 1.04%.

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

Under the terms of a November 2009 Transition Agreement between the City of Bristol, VA, and Bristol Virginia Utilities Board, BVU Authority is required to budget \$0.50 million from the Electric department each fiscal year for economic development projects located in the City of Bristol, VA. The September 29, 2006, TVA Power Contract authorizes the use of electric funds for this purpose. The projects are generally developed by City management and BVU jointly. The BVU Board of Directors reviews the proposed project(s) and either approves, modifies, or rejects the project(s) funding requests. The project(s) are subject to various rules and regulations from both TVA and BVU. There were no expenditures for this account in FY2018. One business applied for a project during the year, but the application was placed on hold pending approval of changes to the policy. In the fiscal year, BVU rewrote the existing policy. The City staff endorsed the proposed changes to the policy. The changes are now under regulatory review by TVA. Once the new policy is approved by TVA, with any amendments, BVU will begin reviewing applications for new grants.

5.2.4. Operating Income

BVU's operating income increased by \$2.29 million or 87.96%. This was driven by the one-time charge in prior fiscal year of \$2.91 million for the TVA reintegration fee. If this expense did not occur in FY2017, the decrease in operating income would have been \$0.63 or 11.35%.

**BVU AUTHORITY
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5.2.5. Prior Period Adjustment

For the year ended June 30, 2018, BVU reclassified \$0.27 million of grant proceeds from the Virginia Tobacco Region Revitalization Commission (VTRRC) to an amount due to the VTRRC. The grant proceeds were for the construction of broadband middle mile. The initial projects related to this have been completed and the OptiNet department is being sold to Sunset Digital (see section 6.3). Once this sale is complete, BVU will no longer be in a position to meet the requirements of this grant. This amount was returned to the VTRRC in FY2018.

For the year ended June 30, 2018, BVU reclassified \$0.49 million of grant proceeds from the Department of Mines, Minerals, and Energy (DMME) to an amount due to the DMME. The grant proceeds were for the creation of a revolving loan fund. TVA has taken over the management and operations of this loan fund. As a result, when the amounts loaned under this fund are repaid to BVU, the funds will be returned to the DMME.

For the year ended June 30, 2018, BVU reclassified assets related to the Joint Sewer System into the Investment in Joint Sewer System. This resulted in an overall increase in Net Position of \$2.95 million.

The implementation of GASB Statement Number 75 (Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions) resulted in an overall reduction to Net Position of \$3.41 million. The first adjustment was \$2.69 related to retiree health insurance. Management anticipates a reduction in FY2019 due to the sale of OptiNet. The second adjustment was \$0.72 related to VRS group life insurance. BVU's retired employees keep a portion of their group life insurance through VRS after retirement.

There were no prior period adjustments for FY2017.

5.2.6. Change in Net Position

BVU's net position increased by \$1.64 million for the year ended June 30, 2018. This includes reductions of net position due prior period adjustments of \$1.22 million. Absent these changes, the change in net position would be \$2.86 million.

5.3. Statement of Cash Flows

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

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

	2018	2017
Cash Flows from Operating Activities		
Receipts from Customers and Users	\$ 84,033,616	\$ 86,104,210
Receipt (Payment) of Customer Deposits	(11,430)	(67,706)
Payments to Suppliers	(61,124,223)	(57,246,513)
Payments to Employees	(8,794,840)	(9,027,921)
Net Cash Provided by Operating Activities	14,103,123	19,762,070
 Cash Flows From Capital & Related Financing Activities		
Proceeds from Sale of Equipment	36,537	963,779
Acquisition and Construction of Capital Assets	(2,539,789)	(5,408,092)
Principal Paid on Capital Debt	(1,632,747)	(1,559,067)
Interest Paid on Capital Debt	(1,452,358)	(1,502,827)
Net Cash Used for Capital & Related Financing Activities	(5,588,357)	(7,506,207)
 Cash Flows from Investing Activities		
Capital Contribution to Joint Sewer System	(249,000)	-
Interest Received	34,061	46,587
Net Cash Provided by (Used for) Investing Activities	(214,939)	46,587
 Net Increase in Cash and Cash Equivalents	8,299,827	12,302,450
Cash and Cash Equivalents, Beginning of the Year	40,692,108	28,389,658
Cash and Cash Equivalents, End of the Year	\$ 48,991,935	\$ 40,692,108

5.3.1 Cash Flows

BVU's cash flow increased by \$8.30 million in fiscal year 2018 compared to \$12.30 million in fiscal year 2017. Part of this reduction is the result of the electric rate cut that went into effect in October 2017. Another large part of this decrease is the TVA reintegration fee of \$2.91 million paid in July 2017. Absent this payment, Cash and Cash Equivalents would have increased by \$11.21 million.

Cash receipts from customers dropped by \$2.07 million or 2.40%. This is due to a combination of the rate decrease in the Electric division and a drop in customers in the OptiNet division. There was also an increase in cash payments to suppliers of \$3.88 million or 6.77%. The largest component of this increase is the \$2.91 million payment to TVA for the reintegration fee.

Capital expenditures declined by \$2.87 million or 53.04% in FY2018. Several expansion and upgrade projects within OptiNet have been completed, so there is no current need for the higher capital expenditures.

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

6.1. Federal and State Criminal Investigation

In October 2013, the Commonwealth's Attorney opened an investigation concerning some of the financial transactions of BVU. A variety of information has been subpoenaed by the Commonwealth's Attorney. This information has been supplied to the Commonwealth's Attorney and the Washington County Sheriff's office. On January 24, 2018, the Commonwealth's Attorney for Washington County, VA, announced the case would be closed and no charges filed.

In March 2014, U.S. Attorney for the Western District of Virginia began issuing subpoenas for a variety of financial and operational data. All of the requested information has been provided to the U.S. Attorney. To date, a total of nine individuals have been found guilty of various charges related to the investigation. Five of the individuals were former BVU employees, two were former BVU Board Members, and two were independent contractors working for BVU. BVU did not receive any request for information in FY2018. No new charges were filed in FY2018 and no additional subpoenas have been issued since August 2018. BVU has fully cooperated in the federal investigation. If any additional action is taken, BVU intends to continue to fully cooperate with the federal investigation.

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

In March 2016, the Virginia Legislature amended the BVU Authority Act. This Act was passed during the ongoing criminal investigations. Some of the changes that resulted from the passage of this amendment include a limitation on the OptiNet service territory, limitations on certain types of spending, and a reorganization of the BVU Board of Directors. The act also instructed Virginia's Auditor of Public Accounts to perform an independent audit of BVU. There were no changes to the Act in FY2018.

6.2.1. Auditor of Public Accounts Report

In October 2016, the APA issued an audit report on BVU. This audit was performed as a result of the "BVU Reform Act". This audit examined all areas of BVU and contained 56 recommendations. Both BVU management and the Board take these recommendations seriously, and are working to implement these recommendations. A copy of this report can be found at <http://www.apa.virginia.gov/reports/BVUA2016-web.pdf>. The Authority has implemented 31 of these recommendations. Management anticipates all of the findings will be fully addressed by June 30, 2019. Many of the open findings dealt with the OptiNet division, which was sold in August 2018.

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June 30, 2018**

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

One of the findings of the APA was an inter-department loan from the Electric system to the OptiNet system was improperly written off in 2007. This was written off by then managements' understanding of legislation that allowed cross-subsidization. The audit by the APA determined that this legislation permitted cross-subsidization for internet services, but not for cable and telephone. As a result, the portion of this debt related to cable and telephone services has been reinstated. The loan has a principal balance of \$13.74 million and outstanding interest of \$0.76 million for a combined total of \$14.50 million. This inter-department loan has been consolidated on the basic financial statements.

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

One of the findings of the APA was the Electric department had not properly charged the OptiNet department for pole attachments fees. The note has a principal balance of \$1.35 million and outstanding interest of \$0.07 million for a combined total of \$1.42 million. This inter-department note has been consolidated on the basic financial statements.

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

One of the findings of the APA was the Cable division of OptiNet was being cross subsidized. In order to prevent this from happening, the Cable division entered into a loan with the Data division. This loan has been amended to allow up to \$7,500,000 to be borrowed. As of June 30, 2018, \$4.51 million of this debt instrument has been used. This inter-divisional note has been eliminated on the basic financial statements. With the sale of the OptiNet division, this loan will be eliminated in FY2019.

6.3. Proposed Sales Transaction with Sunset Digital

In February 2016, BVU entered into an Asset Purchase Agreement with Sunset Digital to sell the OptiNet system. This includes both BVU OptiNet and BVU's interest in CPC OptiNet. The transaction closed in August 2018. The results of the sale will be reported in FY2019 report.

6.4. Electric Division Rate Cuts

Effective October 1, 2017, TVA approved an electric rate cut for most electric rate classes. BVU anticipates the financial impact of this cut to be approximately \$1.7 million per year depending on weather and customer usage. As part of the TVA Electric Power Contract, BVU must evaluate rates to determine if there are sufficient funds to maintain system reliability and cover anticipate operating expenses and adequate reserves. TVA's review validates that BVU has sufficient financial strength to adjust rates lower. BVU anticipates further rate reduction reviews in FY2019.

**BVU AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

6.5. Pending Consent Order on the Sewer Division

BVU's sewer collection system must comply with Virginia's Department of Environmental Quality (DEQ) rules and regulations. BVU has reported to DEQ several sanitary sewer overflow events along a portion of one sewer zone. DEQ has indicated that they will require BVU to enter into a corrective action plan, also known as a consent decree to correct these issues. Preliminary estimates are that the actions will take approximately 10 years to complete at an estimated cost of \$20 to \$30 million dollars. BVU is seeking low interest loans to fund this project. At this time, BVU has not taken on any new debt and the consent decree has not been finalized. A more detailed report will be provided in FY2019's audit. At this time, BVU believes the consent decree and engineering plans will be finalized in FY2019. BVU intends to use its existing cash reserves, annual free cash flow, and loans to complete the projects within time frames established by DEQ.

6.6. Virginia Resource Authority 2010 Bond Defeasance

In conjunction with the sale of the OptiNet division in August 2018, BVU defeased the 2010 Bond in full. The OptiNet portion of the debt was paid off with a portion of the sale proceeds. The Electric division portion of the debt was paid off with electric division funds. The water division portion of the debt was paid off with sewer division funds. The sewer division will be repaid the funds under the terms of an intercompany loan. The results of the bond defeasance will be reported in detail in the FY2019 report.

6.7. OptiNet Sale Proceeds (Unallocated Funds)

In conjunction with the sale of the OptiNet division, BVU anticipates a significant amount of excess funds which will be allocated in the future by the BVU board. A more detailed report of the OptiNet sale proceeds will be provided in the FY2019 report.

BASIC FINANCIAL STATEMENTS

BVU AUTHORITY
STATEMENT OF NET POSITION
June 30, 2018

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 25,553,255
Accounts Receivable, Net of Allowance	7,227,281
Notes Receivable	154,730
Other Receivables	143,088
Due from Other Governmental Units	296,490
Prepays	542,108
Inventories, Net of Allowance	2,457,267
Other Current Assets	35,716
Total Current Assets	<u>36,409,935</u>

Noncurrent Assets

Restricted Cash - Customer Deposits	1,521,537
Restricted Cash - Reserves	21,917,143
Notes Receivable	129,024
Prepays	100,000
Investment in Joint Sewer System	7,250,929
Net Pension Asset	2,167,000
Capital Assets, Net	134,139,295
Total Noncurrent Assets	<u>167,224,928</u>

TOTAL ASSETS

203,634,863

DEFERRED OUTFLOWS OF RESOURCES

Deferred Loss on Refunding, Net	4,357,594
Deferred Outflows Related to OPEB	213,854
Deferred Outflows Related to Pension	497,753

TOTAL DEFERRED OUTFLOWS OF RESOURCES

5,069,201

(Continued)

BVU AUTHORITY
STATEMENT OF NET POSITION
June 30, 2018

LIABILITIES	
Current Liabilities	
Accounts Payable and Accrued Liabilities	6,037,652
Accrued Interest Payable	376,512
Accrued Payroll and Related Liabilities	284,274
Customer Security Deposits	1,523,537
Due to City of Bristol, Virginia	420,303
Unearned Revenue	815,175
Bonds Payable	1,595,000
Notes Payable	121,545
Compensated Absences	701,266
Total Current Liabilities	<u>11,875,264</u>
Noncurrent Liabilities	
Bonds Payable	35,499,258
Notes Payable	1,453,348
Compensated Absences	863,353
Unearned Revenue	513,102
Net OPEB Liabilities	5,452,000
Total Noncurrent Liabilities	<u>43,781,061</u>
TOTAL LIABILITIES	<u><u>55,656,325</u></u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to OPEB	108,000
Deferred Inflows Related to Pension	489,000
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>597,000</u>
NET POSITION	
Net Investment in Capital Assets	99,827,738
Restricted - Net Pension Asset	2,167,000
Unrestricted	50,456,001
TOTAL NET POSITION	<u><u>\$ 152,450,739</u></u>

See accompanying notes to the financial statements.

BVU AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended June 30, 2018

OPERATING REVENUES	
Charges for Services	\$ 82,580,342
OptiNet Backhaul Fees	173,502
Rent from Property	366,219
Forfeited Discounts and Penalties	557,976
Connections and Transfers	241,541
Other	<u>347,972</u>
TOTAL OPERATING REVENUES	<u>84,267,552</u>
OPERATING EXPENSES	
Power and Pumping	1,738,854
Purification and Collection System	706,056
Transmission and Distribution	2,185,113
Telephone, Broadband and CATV	11,479,223
Billing and Collection	4,758,234
Purchase of Electricity	37,848,680
Administrative and General	7,678,109
Depreciation	12,507,809
Distribution of CPC Operations	<u>482,470</u>
TOTAL OPERATING EXPENSES	<u>79,384,548</u>
OPERATING INCOME	<u>4,883,004</u>

(Continued)

BVU AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended June 30, 2018

NONOPERATING REVENUES (EXPENSES)	
Amortization	(245,127)
Interest Income	34,062
Interest Expense	(1,431,411)
Loss on Investment in Joint Sewer System	(228,311)
Loss on Disposal of Assets	<u>(150,266)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(2,021,053)</u>
Change in Net Position	2,861,951
NET POSITION, JULY 1, 2017	150,813,434
Prior Period Adjustments	<u>(1,224,646)</u>
NET POSITION, JULY 1, 2017, RESTATED	<u>149,588,788</u>
NET POSITION, JUNE 30, 2018	<u><u>\$ 152,450,739</u></u>

See accompanying notes to the financial statements.

BVU AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers and Users	\$ 84,033,616
Payment of Customer Deposits	(11,430)
Payments to Suppliers	(61,124,223)
Payments to Employees	(8,794,840)
	<u>14,103,123</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Sale of Equipment	36,537
Acquisition and Construction of Capital Assets	(2,539,789)
Principal Paid on Capital Debt	(1,632,747)
Interest Paid on Capital Debt	(1,452,358)
	<u>(5,588,357)</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	
CASH FLOWS FROM INVESTING ACTIVITIES	
Capital Contribution to Joint Sewer System	(249,000)
Interest Received	34,061
	<u>(214,939)</u>
NET CASH USED FOR INVESTING ACTIVITIES	
Net Increase in Cash and Cash Equivalents	8,299,827
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>40,692,108</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 48,991,935</u>
RECONCILIATION TO THE STATEMENT OF NET POSITION	
Cash and Cash Equivalents	\$ 25,553,255
Restricted Cash - Customer Deposits	1,521,537
Restricted Cash - Reserves	21,917,143
	<u>\$ 48,991,935</u>

(Continued)

BVU AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2018

RECONCILIATION OF OPERATING INCOME TO NET	
CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	\$ 4,883,004
Adjustments to Reconcile Operating Income	
to Net Cash Provided by Operating Activities:	
Depreciation Expense	12,507,809
(Increase) Decrease in Assets	
Net Accounts Receivable	(376,393)
Notes Receivable	148,991
Other Receivables	(39,038)
Due from Other Governmental Units	50,224
Prepays	70,232
Net Inventories	165,093
Other Current Assets	24,448
Net Pension Asset	(551,999)
(Increase) Decrease in Deferred Outflows of Resources	-
Increase (Decrease) in Liabilities	
Accounts Payable and Accrued Liabilities	(3,131,525)
Accrued Payroll and Related Liabilities	(19,290)
Customer Security Deposits	(11,430)
Due to City of Bristol, Virginia	(68,812)
Unearned Revenue	(42,168)
Net OPEB Liabilities	83,301
Compensated Absences	82,771
Increase (Decrease) in Deferred Inflows of Resources	<u>475,000</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 14,250,218</u></u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES	
Amortization of Bond Premium and Deferred Refunding	<u><u>\$ 245,127</u></u>
Capitalized Interest	<u><u>\$ 98,519</u></u>

See accompanying notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

Joint Venture

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

Audited information as of June 30, 2018 is presented on the accrual basis.

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

Joint Venture (Continued)

Revenues	\$ 3,809,574
Expenses	<u>(3,516,195)</u>
Net Income	293,379
Net Position - Beginning	14,896,479
Net Position - Ending	<u>\$ 15,189,858</u>
Assets	\$ 16,338,768
Liabilities	<u>(1,148,910)</u>
Net Position	<u>\$ 15,189,858</u>

B. Measurement Focus and Basis of Accounting

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

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

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

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Joint Administration

The Authority utilizes a joint administrative department for the Electric, Water, Wastewater and OptiNet operations, which includes accounting, administration, billings, and collections. The shared administration, customer service, and other general expenses are allocated monthly based on the number of customers serviced by each division, operating revenues of each division, and plant in service of each division. For the year ended June 30, 2018, the expenses of this department were allocated 40.84% to the electric system, 10.91% to the water system, 11.07% to the wastewater system, and 37.18% to the OptiNet system.

D. Cash and Cash Equivalents and Investments

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

E. Accounts Receivable

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

F. Allowance for Uncollectible Accounts

The Authority provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The estimate is based on historical collection data and specific account analysis. It is reasonably possible that the estimate of the allowance for doubtful accounts will change. Accounts receivable are presented net of an allowance for doubtful accounts of \$472,925 at June 30, 2018.

G. Inventories

Inventories, consisting of materials and supplies, are valued at the lower of average unit acquisition price or market. Inventory is presented net of an allowance for obsolete inventory of \$1,333,470 at June 30, 2018.

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Capital Assets

Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years except for certain Electric division assets where capitalization is determined by TVA. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

I. Capitalization of Interest

The Authority capitalizes interest costs incurred on funds used to construct property, plant, and equipment. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Interest cost capitalized was \$98,519 in the year ended June 30, 2018.

J. Unearned Revenue

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

K. Compensated Absences

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

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority has items that qualify for reporting in this category. One of these items is deferred bond refunding costs that result from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The other items are pension and OPEB changes in experience as well as contributions to the pension and OPEB plans subsequent to the respective measurement date.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Authority has items which are required to be reported as deferred inflows for the year ended June 30, 2018 which include the pension and OPEB changes in experience, assumptions, proportion, and investment earnings.

M. Pension

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

N. OPEB - Group Life Insurance

The VRS Group Life Insurance Program is a multiple-employer, cost-sharing plan. It provides coverage to state employees, teachers, and employees of participating political subdivisions. The Group Life Insurance Program was established pursuant to §51.1-500 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The Group Life Insurance Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. For purposes of measuring the net Group Life Insurance Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Group Life Insurance Program OPEB, and Group Life Insurance Program OPEB expense, information about the fiduciary net position of the VRS Group Life Insurance program OPEB and the additions to/deductions from the VRS Group Life Insurance Program OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS.

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. OPEB - Group Life Insurance (Continued)

In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

O. Estimates

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

P. Accounting Changes

Provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was implemented for the year ended June 30, 2018. This standard establishes methods for measuring and recognizing other post-employment benefits (OPEB) liabilities, deferred outflows of resources, deferred inflows of resources and expenses. The net position has been restated to reflect the change in accounting principle. The impact of this restatement is a decrease to beginning net position of \$3,407,900 for the net effect of recording the beginning total OPEB liability and removing the prior Net OPEB Obligation. GASB Statement No. 85, *Omnibus 2017*, was also implemented for the year ended June 30, 2018 which modified the definition of covered payroll.

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits

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

Investments

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

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

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

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

NOTE 3 - NOTES RECEIVABLE

The Authority had a program whereby qualifying homeowners could obtain interest-bearing loans to pay for energy conservation measures in their homes. The customer repays the loan over a period of up to ten years at a stated interest rate of 9.25%. Payments are made with the customers' regular monthly bills. Loans are secured by the related real property. The balance of the energy conservation loans as of June 30, 2018 was \$283,754. Beginning in September 2015, TVA began administering all new loans. The Authority continues to administer the loans that were in place as of this date.

NOTE 4 - PAYMENTS TO CITY OF BRISTOL, VIRGINIA

The Authority has accrued tax equivalent payments to the City of Bristol, Virginia based on an agreement between the two entities. The in-lieu of tax payment related to non-electric division property of \$100,000 per year for ten years was paid in its entirety in fiscal year 2011; therefore, \$100,000 was recognized in the current year and the remaining \$200,000 is considered prepaid as of June 30, 2018. The amount of tax equivalent payments recognized for the year ended June 30, 2018 was \$381,636.

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
Capital Assets, Not Depreciated					
Land	\$ 1,542,387	9,620	-	(55,003)	1,497,004
Construction in Progress	1,756,874	4,057,547	(3,960,980)	-	1,853,441
Total Capital Assets, Not Depreciated	3,299,261	4,067,167	(3,960,980)	(55,003)	3,350,445
Capital Assets, Being Depreciated					
Distribution System	52,839,699	1,393,025	(519,959)	26,809	53,739,574
General Plant	53,616,233	195,948	(25,402)	(9,534,635)	44,252,144
Fiber	133,994,231	1,291,589	(1,023,033)	(23,553)	134,239,234
Buildings	15,710,892	38,506	(30,070)	-	15,719,328
Equipment, Furniture and Fixtures	8,477,445	219,795	(22,041)	(17,033)	8,658,166
Transportation Equipment	5,574,482	55,554	(126,853)	(74,938)	5,428,245
CPC Buildings, Equipment, and Fiber	10,447,110	-	(14,575)	-	10,432,535
Total Capital Assets, Being Depreciated	280,660,092	3,194,417	(1,761,933)	(9,623,350)	272,469,226
Less Accumulated Depreciation For					
Distribution System	(27,092,602)	(1,713,638)	381,656	-	(28,424,584)
General Plant	(32,314,808)	(1,152,905)	25,402	7,249,551	(26,192,760)
Fiber	(59,730,832)	(7,660,383)	274,651	-	(67,116,564)
Buildings	(4,621,662)	(470,933)	3,141	-	(5,089,454)
Equipment, Furniture and Fixtures	(6,721,530)	(443,264)	17,942	-	(7,146,852)
Transportation Equipment	(3,211,851)	(571,770)	107,588	74,938	(3,601,095)
CPC Buildings, Equipment, and Fiber	(3,626,297)	(494,916)	12,146	-	(4,109,067)
Total Accumulated Depreciation	(137,319,582)	(12,507,809)	822,526	7,324,489	(141,680,376)
Total Capital Assets Being Depreciated, Net	143,340,510	(9,313,392)	(939,407)	(2,298,861)	130,788,850
Capital Assets, Net	\$ 146,639,771	(5,246,225)	(4,900,387)	(2,353,864)	134,139,295

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

The Authority received contributions in aid of construction of \$509,001 for fiscal year 2018. This amount is reported as a reduction in costs of the related assets. Idle property in the amount of \$24,175 was held at June 30, 2018.

Depreciation expense for the year ended June 30, 2018 was \$12,507,809.

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 6 - LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended June 30, 2018 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Series 2010 Revenue and Refunding Bonds	\$ 36,790,000	-	(1,515,000)	35,275,000	1,595,000
Bond Premiums	1,937,263	-	(118,006)	1,819,257	-
VRA Loans:					
Bristol View Connector	885,084	-	(61,570)	823,514	63,556
Hassan Heights Water Tank	807,556	-	(56,177)	751,379	57,989
Compensated Absences	1,481,848	748,361	(665,589)	1,564,620	701,266
Totals	\$ 41,901,751	748,361	(2,416,342)	40,233,770	2,417,811

Series 2010 Revenue and Refunding Bonds

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

Virginia Resources Authority Loans Payable

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

The Bristol View Connector RLF loan was issued in the amount of \$1,289,511, of which \$823,514 was outstanding as of June 30, 2018. The Hassan Heights Water Tank RLF loan was issued in the amount of \$1,176,557, of which \$751,379 was outstanding as of June 30, 2018. Each note has a 20-year term and a 3.20% interest rate with principal and interest payments through April 2029.

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NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

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

Year Ended June 30	Revenue and Refunding Bonds		VRA - Bristol View		VRA - Hassan Heights	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 1,595,000	1,895,166	63,556	25,848	57,989	23,584
2020	1,685,000	1,813,166	65,606	23,798	59,859	21,713
2021	1,775,000	1,726,666	67,722	21,682	61,790	19,783
2022	1,845,000	1,640,409	69,906	19,497	63,783	17,789
2023	1,910,000	1,553,165	72,161	17,242	65,840	15,732
2024-2028	10,625,000	6,200,432	397,259	49,759	362,462	45,401
2029-2033	12,925,000	2,835,422	87,304	2,101	79,656	1,917
2034	2,915,000	86,563	-	-	-	-
	<u>\$ 35,275,000</u>	<u>17,750,989</u>	<u>823,514</u>	<u>159,927</u>	<u>751,379</u>	<u>145,919</u>

Details of long-term indebtedness are as follows:

	Interest Rates	Issue Date	Final Maturity Date	Original Issue	Amount Outstanding
Series 2010 Revenue and Refunding Bonds	2.35 - 6.14%	10-10	10-33	\$ 44,545,000	\$ 35,275,000
VRA RLF Loan - Bristol View Connector	3.20	09-08	04-29	1,289,511	823,514
VRA LRF Loan - Hassan Heights Water Tank	3.20	09-08	04-29	1,176,557	751,379
					<u>\$ 36,849,893</u>

Changes in the deferred loss on refunding for the year ended June 30, 2018 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Deferred Loss on Refunding	\$ 4,720,728	-	(363,134)	<u>4,357,594</u>

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NOTES TO FINANCIAL STATEMENTS
June 30, 2018**

NOTE 7 - PENSION PLAN

Plan Description

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

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

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula.</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.</p>	<p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.</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.

**BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018**

NOTE 7 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

		<ul style="list-style-type: none"> • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
<p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p>	<p>Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 7 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

<p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.</p>	<p>Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer.</p>

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 7 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

		<p>Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>
<p>Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p>Creditable Service Same as Plan 1.</p>	<p>Creditable Service <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> <p><u>Defined Contribution Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>

**BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018**

NOTE 7 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting Same as Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contribution Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p>
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**BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018**

NOTE 7 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

		<p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>
<p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member’s average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p>Calculating the Benefit See definition under Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1.</p> <p><u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>

**BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018**

NOTE 7 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

<p>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p>Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p>	<p>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 Defined Benefit Component: VRS: The retirement multiplier for the defined benefit component is 1.00%.</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>Defined Contribution Component: Not applicable.</p>
<p>Normal Retirement Age VRS: Age 65.</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age.</p>	<p>Normal Retirement Age Defined Benefit Component: VRS: Same as Plan 2.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

**BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018**

NOTE 7 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

<p>Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p>	<p>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>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><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>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Age 60 with at least five years (60 months) of creditable service.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

**BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018**

NOTE 7 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p>Eligibility: For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p>Exceptions to COLA Effective Dates: The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p>Eligibility: Same as Plan 1.</p> <p>Exceptions to COLA Effective Dates: Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement Defined Benefit Component: Same as Plan 2.</p> <p>Defined Contribution Component: Not applicable.</p> <p>Eligibility: Same as Plan 1 and Plan 2.</p> <p>Exceptions to COLA Effective Dates: Same as Plan 1 and Plan 2.</p>
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NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 7 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

<ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 		
<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p>	<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p>	<p>Disability Coverage Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p>

**BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018**

NOTE 7 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

		<p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>
<p>Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p>Purchase of Prior Service Same as Plan 1.</p>	<p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions: <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. <u>Defined Contribution Component:</u> Not applicable.</p>

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NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 7 - PENSION PLAN (CONTINUED)

Employees Covered by Benefit Terms

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	23
Inactive members:	
Vested inactive members	9
Non-vested inactive members	24
Inactive members active elsewhere in VRS	6
Total inactive members	39
Active members	149
Total Covered Employees	211

Contributions

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

The Authority's contractually required employer contribution rate for the year ended June 30, 2018 was 4.91% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were \$334,000 and \$353,512 for the years ended June 30, 2018 and June 30, 2017, respectively.

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NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 7 - PENSION PLAN (CONTINUED)

Net Pension Asset

The Authority's net pension asset was measured as of June 30, 2017. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

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, 2016, 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, 2017.

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

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

Mortality rates:

All Others (Non 10 Largest) – Non-Hazardous Duty: 15% of deaths are assumed to be service related:

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.00% increase compounded from ages 70 to 90.

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NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 7 - PENSION PLAN (CONTINUED)

Actuarial Assumptions – General Employees (Continued)

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

All Others (Non 10 Largest) – Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered Rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 15%

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:

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NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 7 - PENSION PLAN (CONTINUED)

Long-Term Expected Rate of Return (Continued)

<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>
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	<u><u>100.00%</u></u>		<u><u>4.80%</u></u>
		Inflation	<u>2.50%</u>
		*Expected arithmetic nominal return	<u><u>7.30%</u></u>

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

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, 2019, the rate contributed by the employer for the Authority's Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 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.

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NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 7 - PENSION PLAN (CONTINUED)

Changes in Net Pension Asset

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a) - (b)
Balance at June 30, 2016	\$ 5,900,742	7,515,742	(1,615,000)
Changes for the Year:			
Service Cost	822,504	-	822,504
Interest	403,565	-	403,565
Changes of Assumptions	(286,779)	-	(286,779)
Differences Between Expected and Actual Experience	191,654	-	191,654
Contributions - Employer	-	353,523	(353,523)
Contributions - Employees	-	378,856	(378,856)
Net Investment Income	-	956,184	(956,184)
Benefit Payments, Including Refunds of Employee Contributions	(271,049)	(271,049)	-
Administrative Expense	-	(4,985)	4,985
Other Changes	-	(634)	634
Net Changes	859,895	1,411,895	(552,000)
Balance at June 30, 2017	\$ 6,760,637	8,927,637	(2,167,000)

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 7 - PENSION PLAN (CONTINUED)

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

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

	<u>1.00% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1.00% Increase (8.00%)</u>
Authority's Net Pension Asset	\$ (991,082)	(2,167,000)	(3,116,371)

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

For the year ended June 30, 2018, the Authority recognized pension expense of \$216,000. At June 30, 2018, 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	\$ 163,753	105,004
Changes of assumptions	-	244,040
Net difference between projected and actual earnings on pension plan investments	-	139,956
Employer contributions subsequent to the measurement date	334,000	-
Total	<u>\$ 497,753</u>	<u>489,000</u>

\$334,000 reported as deferred outflows of resources related to pension resulting from the Authority's contributions subsequent to the measurement date will be recognized as an addition to the net pension asset in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense in future reporting periods as follows:

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NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 7 - PENSION PLAN (CONTINUED)

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

<u>Year ended June 30</u>		
2019	\$	(95,350)
2020		(14,224)
2021		(42,767)
2022		(114,563)
2023		(31,690)
Thereafter		(26,653)

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

NOTE 8 - OTHER POST-EMPLOYMENT BENEFITS

Single-Employer Plan

Plan Description

The Authority has adopted a plan that provides post-employment medical and dental benefits for retirees and their dependents. Upon retirement, individuals are eligible to continue to receive coverage under the employer's group medical and dental plans. The OPEB plan is a single-employer defined benefit OPEB plan administered by the Authority who has the authority to amend the plan. The plan is funded on a pay-as-you-go basis. No assets are accumulated in a trust that meets all of the criteria in GASB Statement No. 75, paragraph 4.

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

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NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 8 - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Single-Employer Plan (Continued)

Employees Covered by Benefit Terms

As of the July 1, 2016 actuarial valuation, the following employees were covered by benefit terms:

Inactive employees or beneficiaries currently receiving benefits	20
Inactive employees entitled to but not yet receiving benefits	-
Active employees	149
	169
	169

Net OPEB Liability

The Authority's net OPEB liability of \$4,837,000 was measured based on an actuarial valuation performed as of July 1, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of July 1, 2017.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following key actuarial assumptions, applied to all periods included in the measurement:

Discount Rate	3.56% (represents the Municipal GO AA 20-year yield curve rate as of June 30, 2017)
Salary Scale	2.50%
Healthcare Cost Trend Rates	11.40% for fiscal year end 2017 (to reflect actual experience), 6.50% for fiscal year end 2018, decreasing 0.50% per year to an ultimate rate of 5.00%
Mortality	RP-2014 Mortality Table, fully generational with base year 2006, projected using two-dimensional mortality improvement scale MP-2017
Actuarial Cost Method	Entry Age Actuarial Cost Method

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NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 8 - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Single-Employer Plan (Continued)

Changes in the Net OPEB Liability

Changes in the net OPEB Liability were as follows:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a-b)
Balance at 6/30/2017	\$ 4,645,700	-	4,645,700
Changes for the year:			
Service Cost	164,300	-	164,300
Interest	168,700	-	168,700
Contributions - Employer	-	141,700	(141,700)
Benefit Payments	(141,700)	(141,700)	-
Net Changes	<u>191,300</u>	<u>0</u>	<u>191,300</u>
Balance at 6/30/2018*	<u>\$ 4,837,000</u>	<u>0</u>	<u>4,837,000</u>

* Measurement date is July 1, 2017

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

The following presents the net OPEB liability of the Authority as of the measurement date calculated using the discount rate, as well as what the Authority's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1.00% Decrease	Current Discount Rate	1.00% Increase
Net OPEB Liability	\$ 5,346,400	4,837,000	4,381,200

**BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018**

NOTE 8 - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Single-Employer Plan (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Trend Rate

The following presents the net OPEB liability of the Authority as of the measurement date calculated using the trend rate, as well as what the Authority's net OPEB liability would be if it were calculated using a trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1.00% Decrease	Current Trend Rate	1.00% Increase
Net OPEB Liability	\$ 4,248,000	4,837,000	5,538,900

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, under GASB 75 the Authority's OPEB expense is \$333,000. At June 30, 2018, the only deferred outflow of resources was \$118,738 for employer contributions after the measurement date but prior to fiscal year end.

Cost-Sharing Employer Plan – Group Life Insurance Plan

Plan Description

All full-time, salaried permanent employees of the state agencies, teachers and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program upon employment. This plan is administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic Group Life Insurance benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the Group Life Insurance Program OPEB.

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NOTES TO FINANCIAL STATEMENTS
June 30, 2018**

NOTE 8 - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Cost-Sharing Employer Plan – Group Life Insurance Plan (Continued)

Plan Description (Continued)

The specific information for Group Life Insurance Program OPEB, including eligibility, coverage and benefits is set out in the table below:

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS
<p>Eligible Employees The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program.</p> <p>Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.</p>
<p>Benefit Amounts The benefits payable under the Group Life Insurance Program have several components.</p> <ul style="list-style-type: none"> • Natural Death Benefit – The natural death benefit is equal to the employee’s covered compensation rounded to the next highest thousand and then doubled. • Accidental Death Benefit – The accidental death benefit is double the natural death benefit. • Other Benefit Provisions – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include: <ul style="list-style-type: none"> ○ Accidental dismemberment benefit ○ Safety belt benefit ○ Repatriation benefit ○ Felonious assault benefit ○ Accelerated death benefit option
<p>Reduction in Benefit Amounts The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.</p>
<p>Minimum Benefit Amount and Cost-of-Living Adjustment (COLA) For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently \$8,111.</p>

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NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 8 - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Cost-Sharing Employer Plan – Group Life Insurance Plan (Continued)

Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% X 60%) and the employer component was 0.52% (1.31% X 40%). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the Group Life Insurance Program from the entity were \$95,116 and \$39,223 for the years ended June 30, 2018 and June 30, 2017, respectively.

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program (GLI) OPEB

At June 30, 2018, the entity reported a liability of \$615,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the participating employer's proportion was 0.04089% as compared to 0.04356% at June 30, 2016.

For the year ended June 30, 2018, the participating employer recognized GLI OPEB expense of \$0.

At June 30, 2018, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

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NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 8 - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Cost-Sharing Employer Plan – Group Life Insurance Plan (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ -	13,000
Net Difference Between Projected and Actual Earnings on GLI OPEB		
Program Investments	-	23,000
Change in Assumptions	-	32,000
Change in Proportion	-	40,000
Employer Contributions Subsequent to the Measurement Date	95,116	-
Total	\$ 95,116	108,000

\$95,116 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year Ended June 30:		
2019	\$	(21,000)
2020		(21,000)
2021		(21,000)
2022		(21,000)
2023		(15,000)
Thereafter		(9,000)

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NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 8 - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Cost-Sharing Employer Plan – Group Life Insurance Plan (Continued)

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2016, 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, 2017.

Inflation	2.5 percent
Salary increases, including inflation - Locality - General employees	3.5 percent - 5.35 percent
Investment rate of return	7.0 Percent, net of investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. 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 the OPEB liabilities.

Mortality Rates - Non-Largest Ten Locality Employers - General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

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NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 8 - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Cost-Sharing Employer Plan – Group Life Insurance Plan (Continued)

Mortality Rates - Non-Largest Ten Locality Employers - General Employees (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP- 2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Net GLI OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

Total GLI OPEB Liability	\$ 2,942,426
Plan Fiduciary Net Position	1,437,586
Employers' Net GLI OPEB Liability	<u><u>\$ 1,504,840</u></u>
 Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	 48.860%

The total GLI OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net GLI OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

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NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 8 - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Cost-Sharing Employer Plan – Group Life Insurance Plan (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on the System's 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 System's 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>
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	<u>100.00%</u>		<u>4.80%</u>
		Inflation	<u>2.50%</u>
		*Expected arithmetic nominal return	<u>7.30%</u>

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

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NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 8 - OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Cost-Sharing Employer Plan – Group Life Insurance Plan (Continued)

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance 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, 2019, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly.

From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

Sensitivity of the Employer's Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate

The following presents the employer's proportionate share of the net GLI OPEB liability using the discount rate of 7.00%, as well as what the employer's proportionate share of the net GLI OPEB 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:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Employer's Proportionate Share of the GLI Program Net OPEB Liability	\$ 796,000	615,000	469,000

Group Life Insurance Program Fiduciary Net Position

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

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NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 9 - SERVICE CONTRACTS

In September 2006, the Authority entered into an agreement with the Tennessee Valley Authority (TVA) for the purchase of wholesale power for distribution. The contract period is January 1, 2008 through December 31, 2027. For the year ended June 30, 2018, \$37,848,680 was expensed under this contract

NOTE 10 - RISK MANAGEMENT

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

Workmens' Compensation Insurance

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

General Liability and Other

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

Healthcare

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

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

NOTE 11 - INTERDIVISION TRANSACTIONS

Interdivision Receivables and Payables

During the course of operations, transactions occur between the individual divisions that may result in amounts owed between divisions. For the purpose of the statement of net position, these amounts have been eliminated. The amounts due between the individual divisions as of June 30, 2018 are as follows:

**BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018**

NOTE 11 - INTERDIVISION TRANSACTIONS (CONTINUED)

Interdivision Receivables and Payables (Continued)

The amounts due between the individual divisions as of June 30, 2018 are as follows:

<u>Receivable Division</u>	<u>Payable Division</u>	<u>Amount</u>
Electric	OptiNet	\$ 719,459
Electric	CPC OptiNet	777
Electric	Sewer	166,286
Water	Electric	259
OptiNet	Electric	309,519
OptiNet	CPC OptiNet	429,289
CPC OptiNet	OptiNet	9,168

During the year ended June 30, 2018, charges for services revenue of \$289,912, \$1,460, \$1,809,118, and \$887,311 were received by the Electric, Water, OptiNet and CPC OptiNet divisions, respectively. These revenues were paid by the following divisions: Electric - \$1,711,192, Water - \$179,033, Wastewater - \$34,280, and OptiNet - \$1,063,296.

The Electric division received rent from property of \$390,443 from: Water - \$73,712, Wastewater - \$73,920, and OptiNet - \$242,811 for the year ended June 30, 2018. The Electric division also received \$308,244 for the year ended June 30, 2018 from OptiNet for pole rental for a total rent received of \$698,687.

The Authority and CPC have an agreement to provide telecommunications infrastructure in areas of Southwest Virginia. The management agreement resulted in distributions from CPC OptiNet to OptiNet and CPC for the year ended June 30, 2018 of \$2,291,087 and \$482,470, respectively.

Interdivision Notes Payable

During the year ended June 30, 2016, a note payable from OptiNet to Electric was re-established in the amount of \$13,741,288, which included \$4,643,549 of accrued interest, through a prior period adjustment. This note was written off in fiscal year 2007 by management based on their understanding at the time of new legislation related to the allowance of cross-subsidization. However, based on the audit by the APA (see note 1), cross-subsidization is allowed for internet services but not telephone and cable television, therefore the interdivision borrowing related to telephone and cable television was not allowed to be written off and therefore was re-established. Accrued interest of \$385,909 was added to the note receivable in the current fiscal year, resulting in a balance as of June 30, 2018 of \$14,502,838.

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 11 - INTERDIVISION TRANSACTIONS (CONTINUED)

Interdivision Notes Payable (Continued)

Also, another note was established during the year ended June 30, 2017, through a prior period adjustment, in the amount of \$1,346,153 for the cumulative difference in the actual number of pole attachments and rates paid for those attachments by OptiNet to Electric. Accrued interest of \$37,805 was added to this note during the fiscal year and the balance at June 30, 2018 is \$1,420,758. These amounts are eliminated in the basic financial statements.

An intercompany loan agreement with an interest rate of 2.70% and balloon payment in three years was entered into in August 2016 between the Cable and Data divisions within OptiNet. The loan agreement was modified in March 2018 and allows up to \$7,500,000 be borrowed by the Cable division from the Data division. A total of \$4,506,000 has been borrowed as of June 30, 2018. These amounts are eliminated within OptiNet.

NOTE 12 - LEASES

OptiNet leases network fiber optic cable to others. The leases are non-cancelable operating leases with terms of ten to thirty years. The lease terms required the entire lease amount to be paid on acceptance of the fiber. The total lease amount received is approximately \$1,639,530 as of June 30, 2018 and \$594,435 is considered deferred. On the statement of net position, \$81,333 is considered current and \$513,102 is noncurrent.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

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

NOTE 14 - PRIOR PERIOD ADJUSTMENTS

During the year ended June 30, 2018, the Authority implemented GASB Statement No. 75 which recognized the initial establishment of a net OPEB liability at July 1, 2016. Accordingly, the Authority restated its financial statements for the year ended June 30, 2017. The effect of the restatement was to decrease the Authority's net position by \$2,684,900 for the single-employer plan and \$723,000 for the GLI OPEB plan.

BVU AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 14 - PRIOR PERIOD ADJUSTMENTS (CONTINUED)

Also, during the year ended June 30, 2018, the transactions related to the Joint Sewerage System were changed to be recorded as an equity investment which increased the Authority's beginning net position by \$2,949,442.

A prior period adjustment was recorded related to the return of grant funds that were improperly recognized as revenue in prior years. This decreased beginning net position by \$766,188.

NOTE 15 - SUBSEQUENT EVENTS

On August 2, 2018, the sale of OptiNet division, including both BVU and CPC OptiNet, to Sunset Digital was completed. Additionally, on August 2, 2018, the 2010 Revenue and Refunding Bonds were fully defeased.

REQUIRED SUPPLEMENTARY INFORMATION

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REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE AUTHORITY'S NET PENSION ASSET
AND RELATED RATIOS
For the Years Ended June 30

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability				
Service Cost	\$ 822,504	871,916	934,815	944,947
Interest	403,565	349,213	280,294	206,470
Differences between Expected and Actual Experience	191,654	(138,688)	(873)	-
Changes in Assumptions	(286,779)	-	-	-
Benefit Payments, including Refunds of Employee Contributions	(271,049)	(340,915)	(118,449)	(75,133)
Net Change in Total Pension Liability	<u>859,895</u>	<u>741,526</u>	<u>1,095,787</u>	<u>1,076,284</u>
Total Pension Liability - Beginning	<u>5,900,742</u>	<u>5,159,216</u>	<u>4,063,429</u>	<u>2,987,145</u>
Total Pension Liability - Ending (a)	<u>\$ 6,760,637</u>	<u>5,900,742</u>	<u>5,159,216</u>	<u>4,063,429</u>
Plan Fiduciary Net Position				
Contributions - Employer	\$ 353,523	439,461	443,009	762,024
Contributions - Employees	378,856	391,387	387,783	399,374
Net Investment Income	956,184	140,294	294,159	728,746
Benefit Payments, including Refunds of Employee Contributions	(271,049)	(340,915)	(118,449)	(75,133)
Administrative Expense	(4,985)	(4,070)	(3,651)	(2,960)
Other Changes	(634)	369	(64)	(32)
Net Change in Plan Fiduciary Net Position	<u>1,411,895</u>	<u>626,526</u>	<u>1,002,787</u>	<u>1,812,019</u>
Plan Fiduciary Net Position - Beginning	<u>7,515,742</u>	<u>6,889,216</u>	<u>5,886,429</u>	<u>4,074,410</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 8,927,637</u>	<u>7,515,742</u>	<u>6,889,216</u>	<u>5,886,429</u>
Authority's Net Pension Asset - Ending (a) - (b)	<u>\$ (2,167,000)</u>	<u>(1,615,000)</u>	<u>(1,730,000)</u>	<u>(1,823,000)</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	132.05%	127.37%	133.53%	144.86%
Covered Payroll	\$ 7,542,969	7,814,346	7,740,429	7,873,956
Authority's Net Pension Asset as a Percentage of Covered Payroll	-28.73%	-20.67%	-22.35%	-23.15%

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

See Independent Auditors' Report.

BVU AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
For the Years Ended June 30

Fiscal Year	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	\$ 334,000	\$ 334,000	\$ -	\$ 7,260,790	4.91%
2017	353,512	353,512	-	7,542,969	4.91%
2016	497,444	497,444	-	7,814,346	5.76%
2015	565,450	565,450	-	7,740,429	5.76%

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

See Independent Auditors' Report.

BVU AUTHORITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2018

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, 2017 are not material.

Changes of Assumptions

The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

All Others – Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered Rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 15%

See Independent Auditors' Report.

BVU AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE EMPLOYER'S NET OPEB LIABILITY
AND RELATED RATIOS
For the Year Ended June 30

	2017
Total OPEB Liability	
Service Cost	\$ 164,300
Interest	168,700
Benefit Payments, Including Refunds of Employee Contributions	(141,700)
Net Change in Total OPEB Liability	191,300
Total OPEB Liability - Beginning	4,645,700
Total OPEB Liability - Ending	\$ 4,837,000
 Plan Fiduciary Net Position	
Contributions - Employer	\$ 141,700
Benefit Payments, Including Refunds of Employee Contributions	(141,700)
Net Change in Plan Fiduciary Net Position	0
Plan Fiduciary Net Position - Beginning	-
Plan Fiduciary Net Position - Ending	0
 Employer's Net OPEB Liability	\$ 4,837,000
 Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	0.00%
 Covered Payroll	\$ 7,548,200
 Authority's Net OPEB Liability as a Percentage of Covered Payroll	64.08%

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

See Independent Auditors' Report.

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

Fiscal Year	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	\$ 141,700	\$ 141,700	-	\$ 7,548,200	1.88%

* The amounts presented have a measurement date of the previous fiscal year end.

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

Notes to Schedule

The employer has elected to make an annual contribution equal to the benefit payments. The employer share of net benefits is the difference between the expected benefit payments and the retiree contributions. It is sometimes referred to as "pay-as-you-go."

The expected benefit payments are actuarially determined to reflect the age difference between the overall covered group and the retiree group.

Actuarially determined contributions, which are based on the expected "pay-as-you-go" cost, and actual contributions are from the measurement periods ending June 30 of the year prior to the year-end of the reporting periods shown. This is the first valuation under GASB 75 for the reported Plan.

See Independent Auditors' Report.

BVU AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
GROUP LIFE INSURANCE PROGRAM
For the Year Ended June 30, 2018*

	2018
Authority's Proportion of the Net GLI OPEB Liability	0.04089%
Authority's Proportionate Share of the Net GLI OPEB Liability	\$ 615,000
Authority's Covered Payroll	\$ 7,548,200
Authority's Proportionate Share of the Net GLI OPEB Liability as a Percentage of its Covered Payroll	8.15%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	48.86%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.

* The amounts presented have a measurement date of the previous fiscal year end.

See Independent Auditors' Report.

BVU AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
GROUP LIFE INSURANCE PROGRAM
For the Year Ended June 30, 2018*

Fiscal Year	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	\$ 39,223	\$ 39,223	\$ -	\$ 7,548,200	0.52%

* The amounts presented have a measurement date of the previous fiscal year end.

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

Notes to Schedule

Changes of Benefit Terms

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of Assumptions

The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Non-Largest Ten Locality Employers – General Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered Disability Rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 15%

See Independent Auditors' Report.

SUPPLEMENTARY INFORMATION

BVU AUTHORITY
COMBINING STATEMENT OF NET POSITION
June 30, 2018

	Electric	Water	Wastewater	BVU OptiNet	CPC OptiNet	Totals	Eliminating Entries	Combined Total
ASSETS								
Current Assets								
Cash and Cash Equivalents	\$ 10,676,128	914,313	2,605,391	11,115,393	242,030	25,553,255	-	25,553,255
Accounts Receivable, Net of Allowance	5,349,348	207,668	300,155	982,283	387,827	7,227,281	-	7,227,281
Notes Receivable	154,730	-	-	-	-	154,730	-	154,730
Other Receivables	151,752	(26,874)	(4,848)	23,058	-	143,088	-	143,088
Due from Other Governmental Units	-	-	296,490	-	-	296,490	-	296,490
Internal Balances	886,264	-	-	738,808	9,168	1,634,240	(1,634,240)	-
Prepays	76,114	15,748	100,000	349,609	637	542,108	-	542,108
Inventories, Net of Allowance	1,184,802	248,181	43,550	980,917	(183)	2,457,267	-	2,457,267
Other Current Assets	(10,734)	4,082	3,702	38,666	-	35,716	-	35,716
Total Current Assets	18,468,404	1,363,118	3,344,440	14,228,734	639,479	38,044,175	(1,634,240)	36,409,935
Noncurrent Assets								
Restricted Cash - Customer Deposits	1,453,137	-	-	68,400	-	1,521,537	-	1,521,537
Restricted Cash - Reserves	11,522,713	2,482,377	3,638,744	4,273,309	-	21,917,143	-	21,917,143
Notes Receivable	16,052,620	-	-	-	-	16,052,620	(15,923,596)	129,024
Prepays	-	-	100,000	-	-	100,000	-	100,000
Investment in Joint Sewer System	-	-	7,250,929	-	-	7,250,929	-	7,250,929
Net Pension Asset	896,672	235,618	240,848	793,862	-	2,167,000	-	2,167,000
Capital Assets, Net	36,309,174	13,493,783	6,149,649	71,863,221	6,323,468	134,139,295	-	134,139,295
Total Noncurrent Assets	66,234,316	16,211,778	17,380,170	76,998,792	6,323,468	183,148,524	(15,923,596)	167,224,928
TOTAL ASSETS	84,702,720	17,574,896	20,724,610	91,227,526	6,962,947	221,192,699	(17,557,836)	203,634,863
DEFERRED OUTFLOWS OF RESOURCES								
Deferred Loss on Refunding, Net	1,877,925	380,954	-	2,098,715	-	4,357,594	-	4,357,594
Deferred Outflows Related to OPEB	158,781	10,387	10,434	34,252	-	213,854	-	213,854
Deferred Outflows Related to Pension	203,282	54,305	55,102	185,064	-	497,753	-	497,753
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,239,988	445,646	65,536	2,318,031	0	5,069,201	0	5,069,201

(Continued)

BVU AUTHORITY
COMBINING STATEMENT OF NET POSITION
June 30, 2018

	Electric	Water	Wastewater	BVU OptiNet	CPC OptiNet	Totals	Eliminating Entries	Combined Total
LIABILITIES								
Current Liabilities								
Accounts Payable and Accrued Liabilities	4,425,833	16,053	16,223	1,223,023	356,520	6,037,652	-	6,037,652
Accrued Interest Payable	133,769	36,556	-	206,187	-	376,512	-	376,512
Accrued Payroll and Related Liabilities	106,285	29,862	20,407	127,720	-	284,274	-	284,274
Customer Security Deposits	1,453,137	-	-	68,400	2,000	1,523,537	-	1,523,537
Internal Balances	309,519	(259)	166,286	728,628	430,066	1,634,240	(1,634,240)	-
Due to City of Bristol, Virginia	420,303	-	-	-	-	420,303	-	420,303
Unearned Revenue	-	-	-	815,175	-	815,175	-	815,175
Bonds Payable	585,000	105,000	-	905,000	-	1,595,000	-	1,595,000
Notes Payable	-	121,545	-	-	-	121,545	-	121,545
Compensated Absences	290,318	75,531	77,313	258,104	-	701,266	-	701,266
Total Current Liabilities	7,724,164	384,288	280,229	4,332,237	788,586	13,509,504	(1,634,240)	11,875,264
Noncurrent Liabilities								
Bonds Payable	13,059,326	2,336,482	-	20,103,450	-	35,499,258	-	35,499,258
Notes Payable	-	1,453,348	-	15,923,596	-	17,376,944	(15,923,596)	1,453,348
Compensated Absences	292,171	108,793	53,974	408,415	-	863,353	-	863,353
Unearned Revenue	-	-	-	513,102	-	513,102	-	513,102
Net OPEB Liabilities	2,226,597	594,813	603,536	2,027,054	-	5,452,000	-	5,452,000
Total Noncurrent Liabilities	15,578,094	4,493,436	657,510	38,975,617	0	59,704,657	(15,923,596)	43,781,061
TOTAL LIABILITIES	23,302,258	4,877,724	937,739	43,307,854	788,586	73,214,161	(17,557,836)	55,656,325

(Continued)

BVU AUTHORITY
COMBINING STATEMENT OF NET POSITION
June 30, 2018

	Electric	Water	Wastewater	BVU OptiNet	CPC OptiNet	Totals	Eliminating Entries	Combined Total
DEFERRED INFLOWS OF RESOURCES								
Deferred Inflows Related to OPEB	44,107	11,783	11,956	40,154	-	108,000	-	108,000
Deferred Inflows Related to Pension	199,707	53,350	54,133	181,810	-	489,000	-	489,000
TOTAL DEFERRED INFLOWS OF RESOURCES	243,814	65,133	66,089	221,964	0	597,000	0	597,000
NET POSITION								
Net Investment in Capital Assets	24,542,773	9,858,362	6,149,649	52,953,486	6,323,468	99,827,738	-	99,827,738
Restricted - Net Pension Asset	896,672	235,618	240,848	793,862	-	2,167,000	-	2,167,000
Unrestricted	37,957,191	2,983,705	13,395,821	(3,731,609)	(149,107)	50,456,001	-	50,456,001
TOTAL NET POSITION	\$ 63,396,636	13,077,685	19,786,318	50,015,739	6,174,361	152,450,739	0	152,450,739

See Independent Auditors' Report.

BVU AUTHORITY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended June 30, 2018

	Electric	Water	Wastewater	BVU OptiNet	CPC OptiNet	Totals	Eliminating Entries	Combined Total
OPERATING REVENUES								
Charges for Services	\$ 50,118,804	3,467,692	4,602,892	21,757,656	5,621,099	85,568,143	(2,987,801)	82,580,342
OptiNet Backhaul Fees	-	-	-	173,502	-	173,502	-	173,502
Rent from Property	969,588	95,318	-	-	-	1,064,906	(698,687)	366,219
Forfeited Discounts and Penalties	368,960	26,879	34,972	114,721	12,444	557,976	-	557,976
Connections and Transfers	182,175	56,660	2,706	-	-	241,541	-	241,541
Income from CPC Operations	-	-	-	2,291,087	-	2,291,087	(2,291,087)	-
Other	168,243	-	-	144,298	35,431	347,972	-	347,972
TOTAL OPERATING REVENUES	51,807,770	3,646,549	4,640,570	24,481,264	5,668,974	90,245,127	(5,977,575)	84,267,552
OPERATING EXPENSES								
Power and Pumping	-	277,778	1,462,050	-	-	1,739,828	(974)	1,738,854
Purification and Collection System	-	537,709	200,904	-	-	738,613	(32,557)	706,056
Transmission and Distribution	2,709,451	301,780	-	-	-	3,011,231	(826,118)	2,185,113
Telephone, Broadband and CATV	-	-	-	10,238,667	2,436,111	12,674,778	(1,195,555)	11,479,223
Billing and Collection	1,856,114	395,375	542,979	2,477,510	386,793	5,658,771	(900,537)	4,758,234
Purchase of Electricity	37,848,680	-	-	-	-	37,848,680	-	37,848,680
Administrative and General	3,080,913	809,098	878,924	3,566,614	73,307	8,408,856	(730,747)	7,678,109
Depreciation	2,531,507	799,507	513,756	8,168,123	494,916	12,507,809	-	12,507,809
Distribution of CPC Operations	-	-	-	-	2,773,557	2,773,557	(2,291,087)	482,470
TOTAL OPERATING EXPENSES	48,026,665	3,121,247	3,598,613	24,450,914	6,164,684	85,362,123	(5,977,575)	79,384,548
Operating Income (Loss)	3,781,105	525,302	1,041,957	30,350	(495,710)	4,883,004	0	4,883,004

(Continued)

BVU AUTHORITY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended June 30, 2018

	Electric	Water	Wastewater	BVU OptiNet	CPC OptiNet	Totals	Eliminating Entries	Combined Total
NONOPERATING REVENUES (EXPENSES)								
Amortization	(112,755)	(23,865)	-	(108,507)	-	(245,127)	-	(245,127)
Interest Income	451,977	814	-	4,985	-	457,776	(423,714)	34,062
Interest Expense	(489,734)	(144,439)	-	(1,220,952)	-	(1,855,125)	423,714	(1,431,411)
Loss on Investment in JSS	-	-	(228,311)	-	-	(228,311)	-	(228,311)
Gain (Loss) on Disposal of Assets	(143,934)	-	-	(7,128)	796	(150,266)	-	(150,266)
TOTAL NONOPERATING REVENUES (EXPENSES)	(294,446)	(167,490)	(228,311)	(1,331,602)	796	(2,021,053)	0	(2,021,053)
Change in Net Position	3,486,659	357,812	813,646	(1,301,252)	(494,914)	2,861,951	0	2,861,951
NET POSITION, JULY 1, 2017	62,210,713	13,152,088	16,487,207	52,294,151	6,669,275	150,813,434	-	150,813,434
Prior Period Adjustments	(2,300,736)	(432,215)	2,485,465	(977,160)	-	(1,224,646)	-	(1,224,646)
NET POSITION, JULY 1, 2017, RESTATED	59,909,977	12,719,873	18,972,672	51,316,991	6,669,275	149,588,788	0	149,588,788
NET POSITION, JUNE 30, 2018	<u>\$ 63,396,636</u>	<u>13,077,685</u>	<u>19,786,318</u>	<u>50,015,739</u>	<u>6,174,361</u>	<u>152,450,739</u>	<u>0</u>	<u>152,450,739</u>

See Independent Auditors' Report.

BVU AUTHORITY
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2018

	Electric	Water	Wastewater	BVU OptiNet	CPC OptiNet	Totals	Eliminating Entries	Combined Total
CASH FLOWS FROM OPERATING ACTIVITIES								
Receipts from Customers and Users	\$ 51,020,957	3,574,269	4,787,061	25,283,159	5,345,745	90,011,191	(5,977,575)	84,033,616
Receipt (Payment) of Customer Deposits	8,712	-	-	(20,642)	500	(11,430)	-	(11,430)
Payments to Suppliers	(44,964,344)	(1,427,019)	(2,339,752)	(12,726,624)	(5,644,059)	(67,101,798)	5,977,575	(61,124,223)
Payments to Employees	(3,505,440)	(892,041)	(659,455)	(3,737,904)	-	(8,794,840)	-	(8,794,840)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	2,559,885	1,255,209	1,787,854	8,797,989	(297,814)	14,103,123	0	14,103,123
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES								
Proceeds from Sale of Equipment	29,087	-	-	4,225	3,225	36,537	-	36,537
Acquisition and Construction of Capital Assets	(1,520,903)	(117,927)	(484,211)	(416,748)	-	(2,539,789)	-	(2,539,789)
Notes Receivable Issued	(423,715)	-	-	-	-	(423,715)	423,715	-
Proceeds from Debt	-	-	-	423,715	-	423,715	(423,715)	-
Principal Paid on Capital Debt	(560,000)	(217,747)	-	(855,000)	-	(1,632,747)	-	(1,632,747)
Interest Paid on Capital Debt	(497,128)	(146,702)	-	(1,232,243)	-	(1,876,073)	423,715	(1,452,358)
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(2,972,659)	(482,376)	(484,211)	(2,076,051)	3,225	(6,012,072)	423,715	(5,588,357)
CASH FLOWS FROM INVESTING ACTIVITIES								
Capital Contribution to Joint Sewer System	-	-	(249,000)	-	-	(249,000)	-	(249,000)
Interest Received	451,977	814	-	4,985	-	457,776	(423,715)	34,061
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	451,977	814	(249,000)	4,985	0	208,776	(423,715)	(214,939)

(Continued)

BVU AUTHORITY
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2018

	Electric	Water	Wastewater	BVU OptiNet	CPC OptiNet	Totals	Eliminating Entries	Combined Total
Net Increase (Decrease) in Cash and Cash Equivalents	39,203	773,647	1,054,643	6,726,923	(294,589)	8,299,827	0	8,299,827
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	23,612,775	2,623,043	5,189,492	8,730,179	536,619	40,692,108	-	40,692,108
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 23,651,978</u>	<u>3,396,690</u>	<u>6,244,135</u>	<u>15,457,102</u>	<u>242,030</u>	<u>48,991,935</u>	<u>0</u>	<u>48,991,935</u>
RECONCILIATION TO THE STATEMENT OF NET POSITION								
Cash and Cash Equivalents	\$ 10,676,128	914,313	2,605,391	11,115,393	242,030	25,553,255	-	25,553,255
Restricted Cash - Customer Deposits	1,453,137	-	-	68,400	-	1,521,537	-	1,521,537
Restricted Cash - Reserves	11,522,713	2,482,377	3,638,744	4,273,309	-	21,917,143	-	21,917,143
	<u>\$ 23,651,978</u>	<u>3,396,690</u>	<u>6,244,135</u>	<u>15,457,102</u>	<u>242,030</u>	<u>48,991,935</u>	<u>0</u>	<u>48,991,935</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES								
Operating Income (Loss)	\$ 3,781,105	525,302	1,041,957	30,350	(495,710)	4,883,004	-	4,883,004
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:								
Depreciation Expense	2,531,507	799,507	513,756	8,168,123	494,916	12,507,809	-	12,507,809
(Increase) Decrease in Assets								
Net Accounts Receivable	(426,252)	(8,046)	7,930	93,328	(43,353)	(376,393)	-	(376,393)
Notes Receivable	148,991	-	-	-	-	148,991	-	148,991
Other Receivables	(46,848)	(408)	-	8,218	-	(39,038)	-	(39,038)
Due from Other Governmental Units	-	-	50,224	-	-	50,224	-	50,224
Internal Balances	(302,404)	-	-	585,829	5,803	289,228	(289,228)	-
Prepays	7,000	829	101,111	(38,157)	(551)	70,232	-	70,232
Net Inventories	(23,644)	6,148	(8,766)	191,172	183	165,093	-	165,093
Other Current Assets	11,250	(1,675)	8,881	5,992	-	24,448	-	24,448
Net Pension Asset	(227,491)	(60,019)	(60,706)	(203,783)	-	(551,999)	-	(551,999)

(Continued)

BVU AUTHORITY
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2018

	Electric	Water	Wastewater	BVU OptiNet	CPC OptiNet	Totals	Eliminating Entries	Combined Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH								
PROVIDED BY (USED FOR) OPERATING ACTIVITIES (CONTINUED)								
(Increase) Decrease in Deferred Outflows of Resources								
Related to OPEB and Pension	(118,476)	(4,403)	(5,584)	(18,632)	-	(147,095)	-	(147,095)
Increase (Decrease) in Liabilities								
Accounts Payable and Accrued Liabilities	(2,804,534)	(11,312)	(1,537)	(340,219)	26,077	(3,131,525)	-	(3,131,525)
Accrued Payroll and Related Liabilities	(445)	937	(7,322)	(12,460)	-	(19,290)	-	(19,290)
Customer Security Deposits	8,712	-	-	(20,642)	500	(11,430)	-	(11,430)
Internal Balances	(171,550)	(62,151)	79,456	150,696	(285,679)	(289,228)	289,228	-
Due to City of Bristol, Virginia	(68,812)	-	-	-	-	(68,812)	-	(68,812)
Unearned Revenue	-	-	-	(42,168)	-	(42,168)	-	(42,168)
Net OPEB Liabilities	34,020	9,088	9,221	30,972	-	83,301	-	83,301
Compensated Absences	36,585	9,308	6,101	30,777	-	82,771	-	82,771
Increase (Decrease) in Deferred Inflows of Resources	191,171	52,104	53,132	178,593	-	475,000	-	475,000
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ 2,559,885	1,255,209	1,787,854	8,797,989	(297,814)	14,103,123	0	14,103,123
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES								
Amortization of Bond Premium and Deferred Refunding	\$ 112,755	23,865	-	108,507	-	245,127	-	245,127
Capitalized Interest	\$ 54,478	5,033	-	39,008	-	98,519	-	98,519

See Independent Auditors' Report.

OTHER SUPPLEMENTARY INFORMATION SECTION
(UNAUDITED)

BVU AUTHORITY
WATER SYSTEM REVENUE STATISTICS (UNAUDITED)
June 30, 2018 and 2017

	2018			
	Average Number of Customers Per Month	Revenue Per Customer	Gallons (000's) Sold	Revenue Per 1,000 Gallons
Residential	6,851	\$ 291.59	275,081	\$ 7.26
Commercial and Industrial	1,043	1,401.67	307,244	4.76
Totals	<u>7,894</u>	436.70	<u>582,325</u>	5.92

	2017			
	Average Number of Customers Per Month	Revenue Per Customer	Gallons (000's) Sold	Revenue Per 1,000 Gallons
Residential	6,849	\$ 292.44	276,619	\$ 7.24
Commercial and Industrial	1,054	1,370.37	301,811	4.79
Totals	<u>7,903</u>	431.85	<u>578,430</u>	5.90

	2018 (000's)	2017 (000's)
Total Gallons Pumped	875,671	850,545
Gallons Used in Operations	<u>7,851</u>	<u>8,248</u>
Gallons Available for Sale	867,820	842,297
Total Gallons Sold	<u>582,326</u>	<u>578,430</u>
Gallons Lost	285,494	263,867
Loss as a Percentage of Gallons Pumped	32.60%	31.02%

See Independent Auditors' Report.

BVU AUTHORITY
WASTEWATER SYSTEM REVENUE STATISTICS (UNAUDITED)
June 30, 2018 and 2017

	2018			
	Average Number of Customers Per Month	Revenue Per Customer	Gallons (000's) Used	Revenue Per 1,000 Gallons
Residential	6,714	\$ 331.17	298,172	\$ 7.46
Commercial and Industrial	<u>956</u>	2,324.18	<u>411,638</u>	5.40
Totals	<u><u>7,670</u></u>	572.74	<u><u>709,810</u></u>	6.19
	2017			
	Average Number of Customers Per Month	Revenue Per Customer	Gallons (000's) Used	Revenue Per 1,000 Gallons
Residential	6,708	\$ 326.36	291,908	\$ 7.50
Commercial and Industrial	<u>970</u>	2,271.81	<u>403,663</u>	5.46
Totals	<u><u>7,678</u></u>	583.88	<u><u>695,571</u></u>	6.32

See Independent Auditors' Report.

BVU AUTHORITY
ELECTRIC SYSTEM REVENUE AND PURCHASED POWER STATISTICS (UNAUDITED)
June 30, 2018 and 2017

REVENUES								
	\$	%	Average Number of Customers per Month	%	Revenue per Customer	Kilowatt Hours Sold	Revenue per Kilowatt Hour	
<u>Residential</u>								
2018	\$ 22,051,542	43.90%	13,655	78.38%	\$ 1,614.91	200,775,221	\$ 0.1098	
2017	21,666,403	41.80%	13,609	78.38%	1,592.06	188,244,626	0.1151	
<u>Commercial</u>								
2018	4,464,848	8.89%	2,248	12.90%	1,986.14	35,451,776	0.1259	
2017	4,454,314	8.59%	2,231	12.85%	1,996.55	34,061,091	0.1308	
<u>Large Commercial & Industrial</u>								
2018	22,453,704	44.70%	298	1.71%	75,348.00	254,088,620	0.0884	
2017	24,445,979	47.16%	317	1.83%	77,116.65	269,085,894	0.0908	
<u>Street and Outdoor Lighting</u>								
2018	1,258,937	2.51%	1,222	7.01%	1,030.23	5,673,241	0.2219	
2017	1,268,898	2.45%	1,204	6.94%	1,053.90	5,738,744	0.2211	
<u>Total</u>								
2018	50,229,031	100.00%	17,423	100.00%	2,882.92	495,988,858	0.1013	
2017	51,835,594	100.00%	17,361	100.00%	2,985.75	497,130,355	0.1043	

PURCHASED POWER

	Cost	Kilowatt Hours Purchased	Cost per Kilowatt Hour
2018	\$ 38,599,783	519,494,701	\$ 0.0743
2017	38,663,569	514,938,200	0.0751

See Independent Auditors' Report.

INTERNAL CONTROL AND COMPLIANCE SECTION

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

To the Board of Directors
BVU Authority
Bristol, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of BVU Authority (the Authority), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 4, 2018. Our report on the Authority's basic financial statements was qualified because we were not able to obtain sufficient appropriate audit evidence about CPC OptiNet's net capital assets. Our report includes a reference to other auditors who audited the financial statements of the Joint Sewerage System, as described in our report on the Authority's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness: 2018-001.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency: 2018-002.

Compliance and Other Matters

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

The Authority's Response to Findings

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

Purpose of this Report

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


BLACKBURN, CHILDERS & STEAGALL, PLC
Johnson City, Tennessee

October 4, 2018

BVU AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2018

SECTION I - FINANCIAL STATEMENT AUDIT FINDINGS

2018-001 Material Weakness – CPC OptiNet Capital Assets (original finding number 2016-001)

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

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

Effect: Capital assets, net of accumulated depreciation, of \$6,323,468, are recorded in the Authority's financial statements as of June 30, 2018 that have not been audited.

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

Management's Response: Management was working with the Cumberland Plateau Company, Inc. to obtain supporting documentation to allow these assets to be audited in the future. However, these assets were removed from BVU Authority with the completion of the sale of the OptiNet division to Sunset Digital on August 2, 2018.

2018-002 Significant Deficiency – Auditor of Public Accounts Audit Findings (original finding number 2016-002)

Condition: The APA issued an audit report with 56 recommendations related to financial operations and governance of the Authority in October 2016. The Authority is in the process of making those suggested changes, having already implemented more than half of the recommendations.

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

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

**BVU AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2018**

SECTION I - FINANCIAL STATEMENT AUDIT FINDINGS (CONTINUED)

2018-002 Significant Deficiency – Auditor of Public Accounts Audit Findings (original finding number 2016-002) (Continued)

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

Management's Response: To date, 31 of the Auditor of Public Accounts recommendations have been implemented. The Authority's Board and management are working diligently towards addressing the remaining recommendations. Management believes that all open items will be resolved by June 30, 2019.

SECTION II - PRIOR YEAR FINDINGS IMPLEMENTED

<u>Type</u>	<u>Number</u>	<u>Page</u>	<u>Subject</u>
Significant Deficiency	2016-003	71	Conflict of Interest Forms