

**PUBLIC SERVICE AUTHORITY
OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)**

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2019

FINANCIAL SECTION



Independent Auditors' Report

To the Board Members of
Carroll County Public Service Authority
Hillsville, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Carroll County Public Service Authority, a component unit of Carroll County, Virginia, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Carroll County Public Service Authority, as of June 30, 2019, and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 13 to the financial statements, in 2019, the Carroll County Public Service Authority adopted new accounting guidance, GASB Statement No. 88 *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. 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 schedules related to pension funding on pages 24-26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Carroll County Public Service Authority's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining financial statements are the responsibility of management and were derived from and relate 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. In our opinion, the combining financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2019, on our consideration of Carroll County Public Service Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 Carroll County Public Service 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 Carroll County Public Service Authority's internal control over financial reporting and compliance.

Polina, Fane, Cox Associates

Blacksburg, Virginia
November 16, 2019

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Basic Financial Statements

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
Statement of Net Position
As of June 30, 2019

ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 441,612
Receivables (net of allowance for uncollectibles):	
Water and sewer billings	434,436
Note receivable	347,852
Grants receivable	1,231
Prepaid items	37,824
Restricted Current Assets:	
Cash and cash equivalents - debt service	\$ 775,894
Cash held for others - customer deposits	117,162
Total restricted current assets	<u>\$ 893,056</u>
Total current assets	<u>\$ 2,156,011</u>
Noncurrent Assets:	
Capital Assets:	
Land	\$ 264,837
Construction in progress	107,626
Machinery and equipment	1,126,698
Plant and lines	55,519,560
Accumulated depreciation	(17,232,701)
Total capital assets	<u>\$ 39,786,020</u>
Total noncurrent assets	<u>\$ 39,786,020</u>
Total assets	<u>\$ 41,942,031</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension related items	<u>\$ 78,955</u>
LIABILITIES	
Current liabilities:	
Accounts payable - operations	\$ 131,696
Accrued interest payable	41,574
Amounts held for others	117,162
Due to County of Carroll, Virginia	111,173
Compensated absences - current portion	61,956
Bonds and notes payable - current portion	696,177
Total current liabilities	<u>\$ 1,159,738</u>
Noncurrent liabilities:	
Compensated absences - net of current portion	\$ 20,652
Net pension liability	398,515
Bonds and notes payable - net of current portion	23,415,982
Total noncurrent liabilities	<u>\$ 23,835,149</u>
Total liabilities	<u>\$ 24,994,887</u>
DEFERRED INFLOWS OF RESOURCES	
Pension related items	<u>\$ 106,440</u>
NET POSITION	
Net investment in capital assets	\$ 16,021,713
Restricted	775,894
Unrestricted	<u>122,052</u>
Total net position	<u>\$ 16,919,659</u>

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

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
Statement of Revenues, Expenses, and Change in Net Position
For the Year Ended June 30, 2019

Operating Revenues:	
Water and sewer charges	\$ 2,816,985
Penalties and interest	139,344
State fees	11,177
Fire service	23,145
Miscellaneous	<u>117,052</u>
Total operating revenues	\$ <u>3,107,703</u>
Operating Expenses:	
Salaries and fringes	\$ 881,672
Professional services	26,102
Repairs and maintenance	188,916
Operating materials and supplies	69,437
Vehicle supplies and fuel	65,852
Utilities	198,642
Office and insurance expenses	233,698
Miscellaneous	10,417
Water and sewage treatment purchases	835,225
Depreciation expense	<u>1,452,215</u>
Total operating expenses	\$ <u>3,962,176</u>
Operating income (loss)	\$ <u>(854,473)</u>
Nonoperating Revenues (Expenses):	
Connection fees	\$ 68,420
Interest income	28,881
Interest expense	(674,782)
Contribution to New River Regional Water Authority	(283,553)
Contributions from Primary Government	<u>1,020,405</u>
Total nonoperating revenues (expenses)	\$ <u>159,371</u>
Income (loss) before capital contributions	\$ <u>(695,102)</u>
Capital contributions:	
Construction grants	\$ <u>28,911</u>
Change in net position	\$ (666,191)
Net position, beginning of year	<u>17,585,850</u>
Net position, end of year	\$ <u><u>16,919,659</u></u>

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

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
Statement of Cash Flows
For the Year Ended June 30, 2019

	Total
Cash flows from operating activities:	
Receipts from customers	\$ 3,118,380
Payments to employees for services	(880,595)
Payments to suppliers for goods and services	(1,612,545)
Net cash provided by (used for) operating activities	\$ 625,240
Cash flows from noncapital financing activities:	
Contribution from Carroll County	\$ 1,020,405
Net cash provided by (used for) noncapital financing activities	\$ 1,020,405
Cash flows from capital and related financing activities:	
Connection charges	\$ 68,420
Purchase of capital assets	(28,911)
Contribution to NRRWA	(283,553)
Contributions in aid of construction	27,680
Payments from Wythe County on note receivable	7,521
Principal payments on indebtedness	(683,567)
Interest payments on indebtedness	(675,941)
Net cash provided by (used for) capital and related financing activities	\$ (1,568,351)
Cash flows from investing activities:	
Interest income	\$ 28,881
Increase (decrease) in cash and cash equivalents	\$ 106,175
Cash and cash equivalents at beginning of year (including restricted cash equivalents of \$807,622)	1,228,493
Cash and cash equivalents at end of year (including restricted cash equivalents of \$893,056)	\$ 1,334,668
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	\$ (854,473)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	1,452,215
Projects previously capitalized as CIP	11,552
Changes in operating assets and liabilities and deferred outflows/inflows:	
(Increase) decrease in accounts receivable	5,227
(Increase) decrease in prepaid items	(425)
(Increase) decrease in deferred outflows of resources	15,551
Increase (decrease) in deferred inflows of resources	34,897
Increase (decrease) in operating payables	4,617
Increase (decrease) in amount due to Carroll County for payroll	42,511
Increase (decrease) in amounts held for others	5,450
Increase (decrease) in compensated absences	(3,335)
Increase (decrease) in net pension liability	(88,547)
Net cash provided by (used for) operating activities	\$ 625,240

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

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PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Authority conform to generally accepted accounting principles (GAAP) applicable to governmental units promulgated by the Governmental Accounting Standards Board (GASB).

The following is a summary of the more significant accounting policies:

A. The Financial Reporting Entity:

The Authority is a discretely presented component unit of County of Carroll, Virginia and is presented as such in the County's financial report for the fiscal year ended June 30, 2019.

B. Basis of Accounting:

Proprietary Funds - The accrual basis of accounting is used for the Authority. Under the accrual method, revenues are recognized when earned and expenses are recognized when incurred. Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds 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.

C. Capital Assets:

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. There was no capitalized interest during fiscal year 2019.

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

<u>Assets</u>	<u>Years</u>
Machinery and Equipment	3-10
Plant and Lines	5-50

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

D. Allowance for Uncollectible Accounts:

The Authority calculates its allowance for uncollectible accounts using historical collection data. At June 30, 2019, the allowance amounted to approximately \$271,088.

E. Cash and Cash Equivalents:

For the purposes of the Statement of Cash Flows, cash and cash equivalents are defined as short-term highly liquid investments that are both readily convertible to known amounts of cash and investments with original maturities of 90 days or less. Certificates of deposits are reported in the accompanying financial statements as cash and cash equivalents.

F. Use of 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.

G. Restricted Net Position:

Included in restricted cash and cash equivalents are amounts held in debt service reserve accounts in the amount of \$775,894. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

H. Compensated Absences:

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expense and a liability of the Authority. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as "terminal leave" prior to retirement. The Authority accrues salary-related payments associated with the payment of compensated absences. All vacation pay is accrued when incurred on the financial statements.

I. Prepaid Items:

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. The cost of prepaid items is recorded as an expense when consumed rather than when purchased.

J. Pensions:

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Authority'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 Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

K. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority has one item that qualifies for reporting in this category. It is comprised of certain items related to the measurement of the net pension liability, and contributions to the pension plan made during the current year and subsequent to the net pension liability measurement date. For more detailed information on these items, reference the pension note.

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

L. Net Position:

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

M. Net Position Flow Assumption:

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

NOTE 2 - DEPOSITS AND INVESTMENTS:

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

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2019

NOTE 2 - DEPOSITS AND INVESTMENTS: (CONTINUED)

Investments: Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). Carroll County Public Service Authority does not have any investments at June 30, 2019.

NOTE 3 - DUE TO PRIMARY GOVERNMENT:

All full-time employees of the Public Service Authority are paid through County of Carroll, Virginia. Part-time employees are paid by the Authority along with any overtime pay that the Public Service Authority Board approves. As of June 30, 2019, the Authority owes County of Carroll, Virginia \$111,173 for prior payroll services.

NOTE 4 - PENSION PLAN:

Plan Description

All full-time, salaried permanent employees of the Carroll County Public Service Authority are automatically covered by a VRS Retirement Plan upon employment, through the County of Carroll, Virginia. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. However, several entities participate in the VRS plan through the County of Carroll, Virginia and the participating entities report their proportionate information on the basis of a cost-sharing plan. 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.

Benefit Structures

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, as detailed below.

- a. Employees hired before July 1, 2010, vested as of January 1, 2013, and have not taken a refund, are covered under Plan 1, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced retirement benefit beginning at age 65 with at least 5 years of creditable service or age 50 with at least 30 years of creditable service. Non-hazardous duty employees may retire with a reduced benefit as early as age 55 with at least 5 years of creditable service or age 50 with at least 10 years of creditable service.

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2019

NOTE 4 - PENSION PLAN: (CONTINUED)

Benefit Structures (Continued)

- b. Employees hired 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 are covered under Plan 2, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of creditable service or when the sum of their age and service equals 90. Non-hazardous duty employees may retire with a reduced benefit as early as age 60 with at least 5 years of creditable service.

- c. Non-hazardous duty employees hired on or after January 1, 2014 are covered by the Hybrid Plan combining the features of a defined benefit plan and a defined contribution plan. Plan 1 and Plan 2 members also had the option of opting into this plan during the election window held January 1 - April 30, 2014 with an effective date of July 1, 2014. Employees covered by this plan are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of creditable service, or when the sum of their age and service equal 90. Employees may retire with a reduced benefit as early as age 60 with at least 5 years of creditable service. For the defined contribution component, members are eligible to receive distributions upon leaving employment, subject to restrictions.

Average Final Compensation and Service Retirement Multiplier

The VRS defined benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the employee's average final compensation multiplied by the employee's total creditable service. Under Plan 1, average final compensation is the average of the employee's 36 consecutive months of highest compensation and the multiplier is 1.7% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents. Under Plan 2, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the retirement multiplier is 1.65% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents. Under the Hybrid Plan, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the multiplier is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

Cost-of-Living Adjustment (COLA) in Retirement and Death and Disability Benefits

Retirees with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service are eligible for an annual COLA beginning July 1 after one full calendar year from the retirement date. Retirees with a reduced benefit and who have less than 20 years of creditable service are eligible for an annual COLA beginning on July 1 after one calendar year following the unreduced retirement eligibility date. Under Plan 1, the COLA cannot exceed 5.00%. Under Plan 2 and the Hybrid Plan, the COLA cannot exceed 3.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia, as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2019

NOTE 4 - PENSION PLAN: (CONTINUED)

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement.

The Carroll County Public Service Authority's contractually required employer contribution rate for the year ended June 30, 2019 was 10.08% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

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 Carroll County Public Service Authority were \$57,630 and \$65,117 for the years ended June 30, 2019 and June 30, 2018, respectively.

Net Pension Liability

At June 30, 2019, the Authority reported a liability of \$398,515 for its proportionate share of the net pension liability. The Authority's net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2017, and rolled forward to the measurement date of June 30, 2018. The Authority's proportionate share of the same was calculated using creditable compensation as of June 30, 2018 and 2017 as a basis for allocation. At June 30, 2018 and 2017 the Authority's proportion was 7.56% and 8.26%, respectively.

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, 2017, 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, 2018.

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

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2019

NOTE 4 - PENSION PLAN: (CONTINUED)

Actuarial Assumptions - General Employees (Continued)

* 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 pension liabilities.

Mortality Rates:

Largest 10 - Non-Hazardous Duty: 20% 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 1.0% increase compounded from ages 70 to 90.

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.

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 1.0% increase compounded from ages 70 to 90.

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.

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2019

NOTE 4 - PENSION PLAN: (CONTINUED)

Actuarial Assumptions - General Employees (Continued)

The actuarial assumptions used in the June 30, 2017 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:

Largest 10 - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated 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	Increased rate from 14% to 20%

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

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated 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	Increased rate from 14% to 15%

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2019

NOTE 4 - PENSION PLAN: (CONTINUED)

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return
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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PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2019

NOTE 4 - PENSION PLAN: (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; the Authority was also provided with an opportunity to use an alternative employer contribution rate. For the year ended June 30, 2018, the alternate rate was the employer contribution rate used in FY2012 or 90% of the actuarially determined employer contribution rate from the June 30, 2015 actuarial valuations, whichever was greater. From July 1, 2018 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

Authority's proportionate share of the net pension liability	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
Water Fund	\$ 636,240	\$ 338,066	\$ 90,297
Sewer Fund	114,146	60,449	16,200
Total	<u>\$ 750,386</u>	<u>\$ 398,515</u>	<u>\$ 106,497</u>

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PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2019

NOTE 4 - PENSION PLAN: (CONTINUED)

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

For the year ended June 30, 2019, the Authority recognized pension expense of \$19,526. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Water Fund		Sewer Fund		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 8,856	\$ 30,567	\$ 2,958	\$ 7,406	\$ 11,814	\$ 37,973
Net difference between projected and actual earnings on pension plan investments	-	16,216	-	4,412	-	20,628
Changes in proportion and differences between employer contributions and proportionate share of contributions	9,511	-	-	40,873	9,511	40,873
Change in assumptions	-	5,221	-	1,745	-	6,966
Employer contributions subsequent to the measurement date	48,534	-	9,096	-	57,630	-
Total	\$ 66,901	\$ 52,004	\$ 12,054	\$ 54,436	\$ 78,955	\$ 106,440

\$57,630 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2019

NOTE 4 - PENSION PLAN: (CONTINUED)

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

<u>Year ended June 30</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
2020	\$ 645	\$ (13,206)	\$ (12,561)
2021	(12,048)	(17,438)	(29,486)
2022	(20,602)	(20,542)	(41,144)
2023	<u>(1,632)</u>	<u>(292)</u>	<u>(1,924)</u>
Total	<u>\$ (33,637)</u>	<u>\$ (51,478)</u>	<u>\$ (85,115)</u>

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-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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PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2019

NOTE 5 - CAPITAL ASSETS AND DEPRECIATION:

A summary of changes in capital assets for the year follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 264,837	\$ -	\$ -	\$ 264,837
Construction in progress	90,267	28,911	(11,552)	107,626
Total capital assets not being depreciated	<u>\$ 355,104</u>	<u>\$ 28,911</u>	<u>\$ (11,552)</u>	<u>\$ 372,463</u>
Capital asset, being depreciated				
Machinery and equipment	\$ 1,126,698	\$ -	\$ -	\$ 1,126,698
Plant and lines	55,519,560	-	-	55,519,560
Total capital assets being depreciated	<u>\$ 56,646,258</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 56,646,258</u>
Accumulated depreciation:				
Machinery and equipment	\$ (682,585)	\$ (76,105)	\$ -	\$ (758,690)
Plant and lines	(15,097,901)	(1,376,110)	-	(16,474,011)
Total accumulated depreciation	<u>\$ (15,780,486)</u>	<u>\$ (1,452,215)</u>	<u>\$ -</u>	<u>\$ (17,232,701)</u>
Total capital assets being depreciated, net	<u>\$ 40,865,772</u>	<u>\$ (1,452,215)</u>	<u>\$ -</u>	<u>\$ 39,413,557</u>
Capital assets, net	<u>\$ 41,220,876</u>	<u>\$ (1,423,304)</u>	<u>\$ (11,552)</u>	<u>\$ 39,786,020</u>

NOTE 6 - LONG-TERM OBLIGATIONS:

Changes in Long-Term Obligations:

The following is a summary of changes in long-term obligations of the Authority for the fiscal year ended June 30, 2019:

	Balance July 1, 2018	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2019
Direct Borrowings and Placements				
Revenue Bonds	\$ 20,832,250	\$ -	\$ (478,110)	\$ 20,354,140
Virginia Resource Authority Loans	3,853,215	-	(187,856)	3,665,359
Promissory Notes	110,261	-	(17,601)	92,660
Total Direct Borrowings and Placements	<u>\$ 24,795,726</u>	<u>\$ -</u>	<u>\$ (683,567)</u>	<u>\$ 24,112,159</u>
Net Pension Liability	487,062	239,587	(328,134)	398,515
Compensated Absences	85,943	61,122	(64,457)	82,608
Total	<u>\$ 25,368,731</u>	<u>\$ 300,709</u>	<u>\$ (1,076,158)</u>	<u>\$ 24,593,282</u>

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2019

NOTE 6 - LONG-TERM OBLIGATIONS: (CONTINUED)

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

Year Ending June 30,	Direct Borrowings and Placements					
	Water/Sewer Revenue Bonds		VRA Loans		Promissory Notes	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 486,918	\$ 589,149	\$ 190,727	\$ 111,489	\$ 18,532	\$ 3,551
2021	505,526	577,114	193,648	108,819	19,329	2,754
2022	521,589	561,051	196,642	106,084	20,159	1,923
2023	538,225	544,415	199,712	103,281	20,693	1,055
2024	555,456	527,184	202,859	100,410	13,947	250
2025-2029	3,058,272	2,354,927	1,017,795	412,617	-	-
2030-2034	3,559,329	1,820,396	998,455	226,839	-	-
2035-2039	3,218,133	1,280,263	665,521	35,788	-	-
2040-2044	3,135,108	841,272	-	-	-	-
2045-2049	3,360,528	379,702	-	-	-	-
2050-2054	1,320,804	93,033	-	-	-	-
2055-2056	94,252	1,296	-	-	-	-
Totals	\$ 20,354,140	\$ 9,569,802	\$ 3,665,359	\$ 1,205,327	\$ 92,660	\$ 9,533

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PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2019

NOTE 6 - LONG-TERM OBLIGATIONS: (CONTINUED)

Details of Long-Term Obligations:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Payment Installments*	Balance Business-Type Activities	Amount Due Within One Year
Direct Borrowings and Placements							
<u>Rural Development Bonds</u>							
Sewer Revenue Bond	4.50%	7/10/1998	8/10/2040	\$ 977,000	\$4,485/m	\$ 672,762	\$ 24,038
Sewer Revenue Bond	3.25%	12/2/1999	6/2/2039	389,300	1,492/m	263,256	9,489
Sewer Revenue Bond	4.50%	12/17/2008	9/17/2048	3,261,000	14,968/m	2,921,173	49,158
Sewer Revenue Bond	2.38%	3/25/2010	3/25/2052	1,436,974	6,346/m	1,577,046	39,121
Sewer Revenue Bond	2.25%	12/13/2011	7/13/2039	2,000,000	6,540/m	1,804,083	38,281
Water Revenue Bond	4.50%	8/25/1994	4/25/2034	500,300	3,297/m	298,964	14,406
Water Revenue Bond	4.50%	4/28/1994	12/5/2037	1,345,400	5,738/m	791,265	39,311
Water Revenue Bond	4.50%	10/20/1994	8/20/2034	650,000	3,223/m	423,332	20,037
Water Revenue Bond	4.50%	10/20/1994	8/20/2034	168,700	536/m	70,275	3,338
Water Revenue Bond	4.50%	8/5/1998	12/31/2033	1,250,000	6,176/m	865,261	30,545
Water Revenue Bond	2.38%	3/31/2010	3/31/2052	5,000,000	16,700/m	4,354,831	98,036
Water Revenue Bond	2.38%	8/3/2010	5/3/2050	183,000	612/m	160,779	3,564
Water Revenue Bond	2.25%	11/16/2011	9/16/2051	1,000,000	3,270/m	900,420	19,175
Water Revenue Bond	2.50%	5/28/2014	5/28/2054	1,256,000	4,271/m	1,192,427	21,689
Water Revenue Bond	2.00%	8/29/2013	8/28/2053	2,227,000	6,993/m	2,070,208	42,903
Water Revenue Bond	2.25%	9/1/2015	9/1/2047	2,054,000	6,573/m	1,988,058	33,827
Total Rural Development Bonds						\$ 20,354,140	\$ 486,918
<u>Virginia Resource Authority (VRA) Bonds</u>							
Water Revenue Bond	0.00%	1/1/2002	1/1/2032	\$ 1,173,928	\$19,545/sa	\$ 488,630	\$ 39,090
Water Revenue Bond	0.00%	6/30/2004	6/1/2035	1,129,000	17,509/sa	542,788	35,019
Water Revenue Bond	3.00%	6/30/2004	12/1/2024	153,200	4,869/sa	49,034	8,329
Water Revenue Bond	2.45%	2/28/2017	3/1/2038	2,793,127	85,469/sa	2,584,907	108,289
Total VRA Bonds						\$ 3,665,359	\$ 190,727
<u>Promissory Notes</u>							
Skyline Bank Note - Sewe	4.21%	4/28/2004	2/16/2024	\$ 250,000	\$1,543/m	\$ 79,849	\$ 15,452
SERCAP Note - Water	4.25%	4/1/2013	4/15/2023	29,000	297/m	12,811	3,080
Total Notes Payable						\$ 92,660	\$ 18,532
Total Direct Borrowings and Placements						\$ 24,112,159	\$ 696,177
<u>Other Long-Term Obligations</u>							
Net pension liability						\$ 398,515	\$ -
Compensated absences						82,608	61,956
Total Other Long-Term Obligations						\$ 481,123	\$ 61,956
Total Long-Term Obligations						\$ 24,593,282	\$ 758,133

* m = monthly, sa = semiannually

If an event of default occurs with VRA, the principal of the bond(s) may be declared immediately due and payable to the registered owner of the bond(s) by written notice to the Authority. If an event of default occurs with SERCAP, the interest rate increases to 12% per annum.

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2019

NOTE 7 - COMMITMENTS AND CONTINGENCIES:

Purchase Agreement:

The Authority has an agreement with the Town of Hillsville which provides for the Authority to obtain water and sewage treatment at current cost plus twenty percent (20%).

NOTE 8 - RISK MANAGEMENT:

The Authority participates with entities in a public entity risk pool for its coverage of general liability, auto, property, equipment and machinery, and crime insurance with the Virginia Association of Counties. Each member of the risk pool jointly and severally agrees to assume, pay and discharge any liability. The Authority pays the Virginia Association of Counties contributions and assessments into a designated cash reserve fund out of which expenses of the pool, claims and awards are to be paid. In the event of a loss, deficit, or depletion of all available resources, the pool may assess all members in the proportion to which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. The Authority continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 9 - NOTE RECEIVABLE:

On February 26, 2009, County of Wythe, Virginia and the Authority agreed to a cost sharing agreement related to the Pump Station and Water Transmission Main (Long Range) project. Carroll County Public Service Authority financed the project and provided oversight for the construction. The agreement states that County of Wythe, Virginia will pay twenty two percent of the debt service and annual operation and maintenance costs of the Pump Station and Water Transmission Main. Each entity has agreed to own the corresponding percentage of the infrastructure. Thus, County of Wythe, Virginia received an asset in the amount of \$580,453. Of this amount, \$398,663 represents a receivable from Wythe County and a grant in the amount of \$181,790. As of June 30, 2019, Wythe County owed the Authority \$347,852.

NOTE 10 - OPERATING LEASE:

Beginning in 2007, the Authority entered into an operating lease with City of Galax for sewer treatment capacity. The Authority is required to make semi-annual payments in the amount of \$12,395 until 2031.

NOTE 11 - LITIGATION:

As of June 30, 2019, there were no matters of litigation involving the Authority which would materially affect the Authority's financial position should a court decision on pending matters not be favorable.

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AS OF JUNE 30, 2019

NOTE 12 - NON-EXCHANGE FINANCIAL GUARANTEE:

Carroll County has provided a moral obligation to back all debt of the Authority and, accordingly, makes annual contributions to the Authority for debt service. Carroll County does not have a set contribution plan nor is there an amount agreed to in writing. The County annually appropriates a contribution to aid the Authority in repayment of debt service. In fiscal year 2019, the County contributed \$1,020,405 to help the Authority pay its debt service.

NOTE 13-ADOPTION OF ACCOUNTING PRINCIPLES:

The Authority implemented the financial reporting provisions of Governmental Accounting Standards Board Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* during the fiscal year ended June 30, 2019. This Statement clarifies which liabilities governments should include when disclosing information related to debt. It also requires that additional essential information related to debt be disclosed in notes to financial statements. No restatement was required as a result of this implementation.

NOTE 14 - UPCOMING PRONOUNCEMENTS:

Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 87, *Leases*, requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, provides guidance for reporting capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and No. 61*, provides guidance for reporting a government's majority equity interest in a legally separate organization and for reporting financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.

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Required Supplementary Information

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
 (A COMPONENT UNIT OF CARROLL COUNTY)
 Schedule of the Authority's Proportionate Share of the Net Pension Liability
 For the Measurement Dates Ended June 30, 2014 through June 30, 2018

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

Date	Proportion of the Net Pension Liability (NPL)	Proportionate Share of the NPL	Covered Payroll	Proportionate Share of the NPL as a Percentage of Covered Payroll (3)/(4)	Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability
(1)	(2)	(3)	(4)	(5)	(6)
2018	7.5591%	\$ 398,515	\$ 598,505	66.59%	85.46%
2017	8.2637%	487,062	654,293	74.44%	83.27%
2016	8.2637%	641,774	630,530	101.78%	77.51%
2015	8.2813%	505,758	621,183	81.42%	81.30%
2014	8.2813%	417,602	598,577	69.77%	83.61%

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

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
 (A COMPONENT UNIT OF CARROLL COUNTY)
 Schedule of Employer Contributions
 For the Years Ended June 30, 2015 through June 30, 2019

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

Date (1)	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (1) - (2) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (2)/(4) (5)
2019	\$ 57,630	\$ 57,630	-	593,273	9.71%
2018	65,117	65,117	-	598,505	10.88%
2017	71,110	71,110	-	654,293	10.87%
2016	76,159	76,159	-	630,530	12.08%
2015	82,633	82,633	-	621,183	13.30%

Schedule is intended to show information for 10 years. Prior to 2015, the PSA's information was consolidated in the County's totals and presented in the County report. Therefore, sufficient information to allocate the prior year balances is not available. Additional years will be included as they become available.

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
 (A COMPONENT UNIT OF CARROLL COUNTY)
 Notes to Required Supplementary Information
 For the Year Ended June 30, 2019

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:

Largest 10 - Non-Hazardous Duty:

Mortality Rates (pre-retirement healthy, and disabled)	Updated 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	Increased rate from 14% to 20%

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

Mortality Rates (pre-retirement healthy, and disabled)	Updated 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	Increased rate from 14% to 15%

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Other Supplementary Information

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
Combining Statement of Net Position
As of June 30, 2019

ASSETS	Water Fund	Sewer Fund	Total
Current Assets:			
Cash and cash equivalents	\$ 639,886	\$ -	\$ 639,886
Receivables (net of allowance for uncollectibles):			
Water and sewer billings	287,661	146,775	434,436
Note receivable	347,852	-	347,852
Grants receivable	1,231	-	1,231
Prepaid items	37,653	171	37,824
Restricted Current Assets:			
Cash and cash equivalents - debt service	\$ 451,625	\$ 324,269	\$ 775,894
Cash held for others - customer deposits	77,855	39,307	117,162
Total restricted current assets	<u>\$ 529,480</u>	<u>\$ 363,576</u>	<u>\$ 893,056</u>
Total current assets	<u>\$ 1,843,763</u>	<u>\$ 510,522</u>	<u>\$ 2,354,285</u>
Noncurrent Assets:			
Capital Assets:			
Land	\$ 254,837	\$ 10,000	\$ 264,837
Construction in progress	107,626	-	107,626
Machinery and equipment	736,922	389,776	1,126,698
Plant and lines	36,950,889	18,568,671	55,519,560
Accumulated depreciation	<u>(11,498,983)</u>	<u>(5,733,718)</u>	<u>(17,232,701)</u>
Total capital assets	<u>\$ 26,551,291</u>	<u>\$ 13,234,729</u>	<u>\$ 39,786,020</u>
Total assets	<u>\$ 28,395,054</u>	<u>\$ 13,745,251</u>	<u>\$ 42,140,305</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension related items	\$ 66,901	\$ 12,054	\$ 78,955
LIABILITIES			
Current liabilities:			
Accounts payable - operations	\$ 40,929	\$ 90,767	\$ 131,696
Reconciled overdraft	-	198,274	198,274
Accrued interest payable	31,165	10,409	41,574
Amounts held for others	77,855	39,307	117,162
Due to County of Carroll, Virginia	98,764	12,409	111,173
Compensated absences - current portion	48,431	13,525	61,956
Bonds and notes payable - current portion	<u>508,709</u>	<u>187,468</u>	<u>696,177</u>
Total current liabilities	<u>\$ 805,853</u>	<u>\$ 552,159</u>	<u>\$ 1,358,012</u>
Noncurrent liabilities:			
Compensated absences - net of current portion	\$ 16,144	\$ 4,508	\$ 20,652
Net pension liability	338,066	60,449	398,515
Bonds and notes payable - net of current portion	<u>15,629,444</u>	<u>7,786,538</u>	<u>23,415,982</u>
Total noncurrent liabilities	<u>\$ 15,983,654</u>	<u>\$ 7,851,495</u>	<u>\$ 23,835,149</u>
Total liabilities	<u>\$ 16,789,507</u>	<u>\$ 8,403,654</u>	<u>\$ 25,193,161</u>
DEFERRED INFLOWS OF RESOURCES			
Pensions related items	\$ 52,004	\$ 54,436	\$ 106,440
NET POSITION			
Net investment in capital assets	\$ 10,760,990	\$ 5,260,723	\$ 16,021,713
Restricted	451,625	324,269	775,894
Unrestricted	<u>407,829</u>	<u>(285,777)</u>	<u>122,052</u>
Total net position	<u>\$ 11,620,444</u>	<u>\$ 5,299,215</u>	<u>\$ 16,919,659</u>

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
Combining Statement of Revenues, Expenses, and Change in Net Position
For the Year Ended June 30, 2019

	Water Fund	Sewer Fund	Total
Operating Revenues:			
Water and sewer charges	\$ 1,916,480	\$ 900,505	\$ 2,816,985
Penalties and interest	139,344	-	139,344
State fees	11,177	-	11,177
Fire service	23,145	-	23,145
Miscellaneous	115,667	1,385	117,052
Total operating revenues	\$ 2,205,813	\$ 901,890	\$ 3,107,703
Operating Expenses:			
Salaries and fringes	\$ 783,348	\$ 98,324	\$ 881,672
Professional services	22,002	4,100	26,102
Repairs and maintenance	161,865	27,051	188,916
Operating materials and supplies	56,675	12,762	69,437
Vehicle supplies and fuel	45,734	20,118	65,852
Utilities	139,666	58,976	198,642
Office and insurance expenses	185,360	48,338	233,698
Miscellaneous	8,417	2,000	10,417
Water and sewage treatment purchases	301,455	533,770	835,225
Depreciation expense	961,022	491,193	1,452,215
Total operating expenses	\$ 2,665,544	\$ 1,296,632	\$ 3,962,176
Operating income (loss)	\$ (459,731)	\$ (394,742)	\$ (854,473)
Nonoperating Revenues (Expenses):			
Connection fees	\$ 59,217	\$ 9,203	\$ 68,420
Interest income	15,989	12,892	28,881
Interest expense	(402,854)	(271,928)	(674,782)
Contribution to New River Regional Water Authority	(283,553)	-	(283,553)
Contributions from Carroll County, Virginia	816,073	204,332	1,020,405
Total nonoperating revenues (expenses)	\$ 204,872	\$ (45,501)	\$ 159,371
Income (loss) before capital contributions and transfers	\$ (254,859)	\$ (440,243)	\$ (695,102)
Capital contributions:			
Construction grants	\$ 28,911	\$ -	\$ 28,911
Transfers in/(out)	\$ 48	\$ (48)	\$ -
Change in net position	\$ (225,900)	\$ (440,291)	\$ (666,191)
Net position, beginning of year	11,846,344	5,739,506	17,585,850
Net position, end of year	\$ 11,620,444	\$ 5,299,215	\$ 16,919,659

PUBLIC SERVICE AUTHORITY OF CARROLL COUNTY, VIRGINIA
(A COMPONENT UNIT OF CARROLL COUNTY)
Combining Statement of Cash Flows
For the Year Ended June 30, 2019

	Water Fund	Sewer Fund	Total
Cash flows from operating activities:			
Receipts from customers	\$ 2,209,963	\$ 908,417	\$ 3,118,380
Payments to employees for services	(766,533)	(114,062)	(880,595)
Payments to suppliers for goods and services	(916,079)	(696,466)	(1,612,545)
Net cash provided by (used for) operating activities	<u>\$ 527,351</u>	<u>\$ 97,889</u>	<u>\$ 625,240</u>
Cash flows from noncapital financing activities:			
Interfund borrowings	\$ 48	\$ (48)	-
Contribution from Carroll County	816,073	204,332	1,020,405
Net cash provided by (used for) noncapital financing activities	<u>\$ 816,121</u>	<u>\$ 204,284</u>	<u>\$ 1,020,405</u>
Cash flows from capital and related financing activities:			
Connection charges	\$ 59,217	\$ 9,203	\$ 68,420
Purchase of capital assets	(28,911)	-	(28,911)
Contribution to NRRWA	(283,553)	-	(283,553)
Contributions in aid of construction	27,680	-	27,680
Payments from Wythe County on note receivable	7,521	-	7,521
Principal payments on indebtedness	(502,271)	(181,296)	(683,567)
Interest expense	(404,559)	(271,382)	(675,941)
Net cash provided by (used for) capital and related financing activities	<u>\$ (1,124,876)</u>	<u>\$ (443,475)</u>	<u>\$ (1,568,351)</u>
Cash flows from investing activities:			
Interest income	\$ 15,989	\$ 12,892	\$ 28,881
Increase (decrease) in cash and cash equivalents	\$ 234,585	\$ (128,410)	\$ 106,175
Cash and cash equivalents at beginning of year (including restricted cash equivalents of \$807,622)	<u>934,781</u>	<u>293,712</u>	<u>1,228,493</u>
Cash and cash equivalents at end of year (including restricted cash equivalents of \$893,056)	<u>\$ 1,169,366</u>	<u>\$ 165,302</u>	<u>\$ 1,334,668</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	\$ (459,731)	\$ (394,742)	\$ (854,473)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation expense	961,022	491,193	1,452,215
Projects previously capitalized as CIP	11,552	-	11,552
Changes in operating assets and liabilities and deferred outflows/inflows:			
(Increase) decrease in accounts receivable	25	5,202	5,227
(Increase) decrease in prepaid items	(1,099)	674	(425)
(Increase) decrease in deferred outflows of resources	10,375	5,176	15,551
Increase (decrease) in deferred inflows of resources	(1,624)	36,521	34,897
Increase (decrease) in operating payables	(5,358)	9,975	4,617
Increase (decrease) in amount due to Carroll County for payroll	40,374	2,137	42,511
Increase (decrease) in amounts held for others	4,125	1,325	5,450
Increase (decrease) in compensated absences	(5,319)	1,984	(3,335)
Increase (decrease) in net pension liability	(26,991)	(61,556)	(88,547)
Net cash provided by (used for) operating activities	<u>\$ 527,351</u>	<u>\$ 97,889</u>	<u>\$ 625,240</u>

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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 Members of
Carroll County Public Service Authority
Hillsville, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of Carroll County Public Service Authority a component unit of Carroll County, Virginia, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Carroll County Public Service Authority's basic financial statements and have issued our report thereon dated November 16, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Holman, Fawcett, & Associates

Blacksburg, Virginia

November 16, 2019