NEW RIVER REGIONAL WATER AUTHORITY

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2019

New River Regional Water Authority

Financial Report

For the Year Ended June 30, 2019

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Financial Report
For the Year Ended June 30, 2019

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FINANCIAL SECTION

Independent Auditors' Report

To the Honorable Members of
New River Regional Water Authority
Wytheville, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of New River Regional Water Authority, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the New River Regional Water 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 New River Regional Water 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 10 to the financial statements, in 2019, the New River Regional Water 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2019, on our consideration of New River Regional Water 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 New River Regional Water 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 New River Regional Water Authority's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
November 18, 2019

Basic Financial Statements

Exhibit 1

New River Regional Water Authority
Statement of Net Position
June 30, 2019

ASSETS	
Current assets:	
Cash and cash equivalents	$ 1,481,219
Accounts receivable	125,718
Total current assets	$ 1,606,937
Noncurrent assets:	
Capital assets (net of accumulated depreciation):	
Land	$ 271,609
Infrastructure	16,659,843
Equipment	27,024
Total capital assets (net of accumulated depreciation)	$ 16,958,476
Total noncurrent assets	$ 16,958,476
Total assets	$ 18,565,413
DEFERRED OUTFLOWS OF RESOURCES	
Pension related items	$ 24,728
Deferred amount on refunding	185,535
Total deferred outflows of resources	$ 210,263
LIABILITIES	
Current liabilities:	
Accounts payable	$ 53,608
Accrued interest payable	129,139
Due to Wythe County - current portion	179,926
Bonds payable - current portion	517,024
Compensated absences - current portion	8,486
Total current liabilities	$ 888,183
Noncurrent liabilities:	
Due to Wythe County - net of current portion	$ 1,130,187
Due to Wythe County - Raper Ridge	1,248,266
Bonds payable - net of current portion	11,799,577
Net pension liability	50,857
Compensated absences - net of current portion	2,828
Total noncurrent liabilities	$ 14,231,715
Total liabilities	$ 15,119,898
DEFERRED INFLOWS OF RESOURCES	
Pension related items	$ 9,791
NET POSITION	
Net investment in capital assets	$ 2,269,031
Unrestricted	1,376,956
Total net position	$ 3,645,987

The accompanying notes to the financial statements are an integral part of this statemen

Exhibit 2

New River Regional Water Authority
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2019

OPERATING REVENUES	
Charges for services:	
Water revenues	$ 868,082
Miscellaneous	8,328
Total operating revenues	$ 876,410
OPERATING EXPENSES	
Salaries and fringes	$ 278,341
Professional services	27,218
Utilities	155,967
Repair and maintenance	144,059
Supplies	168,945
Insurance	16,314
Telecommunications	8,740
Travel	901
Advertising	411
Miscellaneous	2,639
Depreciation	592,308
Total operating expenses	$ 1,395,843
Net operating income (loss)	$ (519,433)
NONOPERATING REVENUES (EXPENSES)	
Intergovernmental revenue:	
Local government	$ 1,162,099
Investment income	27,767
Interest expense	(468,231)
Total nonoperating revenues (expenses)	$ 721,635
Change in net position	$ 202,202
Net position at beginning of year	3,443,785
Net position at end of year	$ 3,645,987

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

Exhibit 3

New River Regional Water Authority
Statement of Cash Flows
For the Year Ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts for water sales	$	860,775
Other receipts		8,328
Payments to employees		(288,194)
Payments to suppliers		(506,195)
Net cash provided by (used for) operating activities	$	74,714
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Participating locality contributions	$	1,162,099
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	$	(15,064)
Principal payments on debt		(600,713)
Interest payments		(537,502)
Net cash provided by (used for) capital and related financing activities	$	(1,153,279)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	$	27,767
Net increase (decrease) in cash and cash equivalents	$	111,301
Cash and cash equivalents at beginning of year		1,369,918
Cash and cash equivalents at end of year	$	1,481,219
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Net operating income (loss)	$	(519,433)
Adjustments to reconcile net operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	$	592,308
(Increase) decrease in accounts receivable		(7,307)
(Increase) decrease in prepaid items		16,314
(Increase) decrease in deferred outflows of resources		(6,518)
Increase (decrease) in accounts payable		2,685
Increase (decrease) in compensated absences		(2,926)
Increase (decrease) in net pension liability		7,772
Increase (decrease) in deferred inflows of resources		(8,181)
Total adjustments	$	594,147
Net cash provided by (used for) operating activities	$	74,714
Schedule of non-cash capital and related financing activities:		
Borrowings through Wythe County	$	(1,248,266)
Purchase of Raper Ridge Water Tank		1,248,266

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

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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 policies:

A. Financial Reporting Entity

The Authority was created in March of 2007 pursuant to the Code of Virginia (1950), as amended, Chapter 51, Title 15.2. New River Regional Water Authority was created by concurrent resolutions of County of Carroll, Virginia, County of Wythe, Virginia and Town of Wytheville, Virginia. The governing body of the Authority is appointed by the respective governing bodies of the participating jurisdictions. Town of Wytheville, Virginia, is the fiscal manager for the Authority. In accordance with the Code of Virginia (1950), as amended, the Authority may acquire, purchase, lease, construct, reconstruct, improve, extend, operate and maintain any storm water control system or water or waste system or any combination of such systems within, outside, or partly within and partly outside one or more of the localities which created the Authority.

The Governmental Accounting Standards Board (GASB) has determined that, under certain circumstances, related organizations should be considered component units of a primary entity and, as such, reported as part of the primary entity. In so doing, GASB established criteria for determining whether a related entity should be reported as a component unit and, under different circumstances, how component units must be presented. In defining the Authority as a primary reporting entity, related organizations were evaluated for possible inclusion, using the criteria established by the GASB. The criteria would require the reporting entity to include entities that hold resources entirely or almost entirely for the direct benefit of the Authority where the Authority has the ability to access a majority of those resources and those resources are significant to the Authority. Based on these criteria, the Authority does not have any component units, nor is the Authority considered a component unit of any of the participating jurisdictions. Therefore, these financial statements are for the Authority only.

B. Basis of Presentation

The Authority follows business-type activities requirements, which provides that the following sections be included in the annual financial report:

1. Management's discussion and analysis - management has elected to omit this item
2. Basic financial statements including a statement of net position, statement of revenues, expenses and changes in net position, and a statement of cash flows
3. Notes to the financial statements
4. Required supplementary information including schedules related to pension funding

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

C. Basis of Accounting

For financial reporting purposes, New River Regional Water Authority is considered a special-purpose government, engaged only in business-type activities. Accordingly, the Authority's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

D. Proprietary Fund Revenue and Expense Classifications

Operating revenues include activities that have the characteristics of exchange transactions, such as (1) charges to customers for sales and services, (2) federal, state, and nongovernmental grants and contracts, and (3) other revenue generated from operations.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, including gifts, and other revenue sources that are defined as nonoperating revenues.

Nonoperating expenses include interest on debt related to the purchase of capital assets and losses on the disposal of capital assets. All other expenses are classified as operating expenses.

E. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority has several items that qualify for reporting in this category. One item is the deferred charge on refunding reported in the statement of net position. A deferred charge on refunding results from the different in carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The other item is comprised of certain items related to the measurement of 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 related note.

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

E. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has one 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 related note.

F. Net Position

The Statement of Net Position reports the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources as net position.

Net position is divided into three components:

Net Investment in Capital Assets - This category represents the net value of capital assets (property, plant, and equipment less accumulated depreciation) reduced by the debt incurred to acquire or construct the asset. 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.

Restricted - This category includes resources for which the Authority is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted - Unrestricted net position represents resources derived from charges to customers for goods received, services rendered or privileges provided, operating grants and contributions, and capital grants and contributions. These resources are used for transactions relating to the operations of the Authority and may be used at the Authority's discretion to meet current expenses for any lawful purposes.

G. Net Position Flow Assumption

Sometimes the Authority will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted—net position and unrestricted—net position in the 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.

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

H. Capital Assets

Capital Assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than $5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at 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. No interest was capitalized during fiscal year 2019.

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

Asset	Years
Water System and Plant (Infrastructure)	5-50
Equipment	3-10

I. Allowance for Uncollectible Accounts

The Authority calculates its allowance for uncollectible accounts using historical collection data. At June 30, 2019, there is no allowance for uncollectible accounts.

J. Cash and Cash Equivalents

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

K. 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 expense when consumed rather than when purchased.

L. Use of Estimates

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

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

M. 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.

N. 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 New River Regional Water Authority's Retirement Plan and the additions to/deductions from the New River Regional Water 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.

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 saving institutions holding public deposits in excess of the amount insured by FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

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

The Authority had no investments for the year ended June 30, 2019.

NOTE 3 - CAPITAL ASSETS:

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

	Beginning Balance July 1, 2018	Increases	Decreases	Ending Balance June 30, 2019
Business-type Activities:				
Capital assets, not being depreciated:				
Land	$ 271,609	$ -	$ -	$ 271,609
Capital assets, being depreciated:				
Raper Ridge Water Tank	$ -	$ 1,248,266	$ -	$ 1,248,266
Infrastructure	21,511,719	-	-	21,511,719
Equipment	91,569	15,064	-	106,633
Total capital assets being depreciated	$ 21,603,288	$ 1,263,330	$ -	$ 22,866,618
Accumulated depreciation:				
Infrastructure	$ (5,514,222)	$ (585,920)	$ -	$ (6,100,142)
Equipment	(73,221)	(6,388)	-	(79,609)
Total accumulated depreciation	$ (5,587,443)	$ (592,308)	$ -	$ (6,179,751)
Total capital assets being depreciated, net	$ 16,015,845	$ 671,022	$ -	$ 16,686,867
Capital assets, net	$ 16,287,454	$ 671,022	$ -	$ 16,958,476

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NOTE 4 - 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	$ 12,050,000	$ -	$ (425,000)	$ 11,625,000
Unamortized premium	766,324	-	(74,723)	691,601
Due to Wythe Co.	1,485,826	-	(175,713)	1,310,113
Due to Wythe Co. Raper Ridge	-	1,248,266	-	1,248,266
Total direct borrowings and placements	$ 14,302,150	$ 1,248,266	$ (675,436)	$ 14,874,980
Compensated absences	14,240	7,754	(10,680)	11,314
Net pension liability	43,085	89,516	(81,744)	50,857
Total	$ 14,359,475	$ 1,345,536	$ (767,860)	$ 14,937,151

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

	Direct Borrowings and Placements			
Year Ending June 30,	Water and Sewer Revenue Bonds Principal	Water and Sewer Revenue Bonds Interest	Wythe County Obligation Principal	Wythe County Obligation Interest
2020	$ 445,000	$ 485,174	$ 179,926	$ 28,146
2021	465,000	466,149	183,882	24,054
2022	490,000	445,946	187,508	19,876
2023	515,000	421,945	190,834	15,619
2024	540,000	396,695	196,276	11,264
2025-2029	3,100,000	1,561,299	371,687	9,109
2030-2034	3,840,000	827,594	-	-
2035-2039	2,230,000	131,213	-	-
Totals	$ 11,625,000	$ 4,736,015	$ 1,310,113	$ 108,068

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NOTE 4 - LONG-TERM OBLIGATIONS: (CONTINUED)

Details of Long-term Obligations:

Type/ Project	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Business-type Activities	Amount Due Within One Year
Direct Borrowings and Placements						
VRA Revenue Bond	4.63%	6/19/2008	2034	$ 2,090,000	$ 1,555,000	$ 75,000
VRA Revenue Bond	4.13%	10/1/2015	2037	10,940,000	10,070,000	370,000
Unamortized premium					691,601	72,024
Due to Wythe Co.	n/a	n/a	n/a	n/a	1,310,113	179,926
Due to Wythe Co. Raper Ridge	n/a	n/a	n/a	n/a	1,248,266	-
Total Direct Borrowings and Placements					$ 14,874,980	$ 696,950
Other Obligations:						
Compensated absences	n/a	n/a	n/a	n/a	$ 11,314	$ 8,486
Net pension liability	n/a	n/a	n/a	n/a	50,857	-
Total Other Obligations					$ 62,171	$ 8,486
Total Long-term Obligations					$ 14,937,151	$ 705,436

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.

NOTE 5 - RISK MANAGEMENT:

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority participates with other entities in a public entity risk pool for its coverage of general liability with the Virginia Association of Counties Risk Pool. Each member of this risk pool jointly and severally agrees to assume, pay and discharge any liability. The Authority pays the pool contributions and assessments based upon classifications and rates into a designated cash reserve fund out of which expenses of the pool, claims and awards are to be paid. In the event of the loss deficit or depletion of all available excess insurance, 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 since inception.

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NOTE 6 - AMOUNTS DUE TO WYTHE COUNTY:

The County of Wythe financed the construction of infrastructure assets for the Authority through the issuance of USDA revenue bonds in the amount of $6,180,000 in January 2006. The Authority was given 47.6226% of the assets and related debt. The Authority reports assets in the amount of $3,007,034 with net book value being $1,962,925 as of June 30, 2019. As of the same date, the Authority owed the County of Wythe $1,310,113 not including interest.

Total principal payments ranging from $377,816 to $427,440 will be paid by Wythe County until the full balance is zero. The Authority's portion of 47.6226% will range from $179,926 to $203,558. Principal payments are paid annually with interest payments due semiannually. The final payment is scheduled to be made November 1, 2025.

Raper Ridge

Wythe County financed the construction of a second water storage tank on Raper Ridge for the use and benefit of the Authority until the end date of the use term of July 1, 2057. Wythe County obtained project funding in the amount of $1,252,000. The total constructed value of the water tank is $1,248,266. The Authority shall pay all payments on the loan for construction to Wythe County prior to the due dates of the regular payments until the loan is repaid in full. A payment schedule will be established between the Authority and Wythe County once Wythe County closed on the loan, which did not occur prior to June 30, 2019.

NOTE 7 - PENSION PLAN:

Plan Description

All full-time, salaried permanent employees of the New River Regional Water Authority are automatically covered by a VRS Retirement Plan upon employment, through the County of Wythe, 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 Wythe, 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.

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NOTE 7 - PENSION PLAN: (CONTINUED)

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.

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.

NOTE 7 - PENSION PLAN: (CONTINUED)

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.

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 Authority's contractually required employer contribution rate for the year ended June 30, 2019 was 8.28% 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 Authority were $14,250 and $14,863 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 $50,857 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 2.5294% and 2.2500%, respectively.

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NOTE 7 - PENSION PLAN: (CONTINUED)

Actuarial Assumptions - General Employees

The total pension liability for General Employees in the Authority's Retirement Plan was based on an actuarial valuation as of June 30, 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*

* 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.

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NOTE 7 - PENSION PLAN: (CONTINUED)

Actuarial Assumptions - General Employees (Continued)

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.

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%

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NOTE 7 - PENSION PLAN: (CONTINUED)

Actuarial Assumptions - General Employees (Continued)

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%

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	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

NOTE 7 - PENSION PLAN: (CONTINUED)

Long-Term Expected Rate of Return (Continued)

* 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. 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:

		Rate	
	1% Decrease	Current Discount	1% Increase
	(6.00%)	(7.00%)	(8.00%)
New River Regional Water Authority's proportionate share of the County of Wythe's net pension liability(asset)	$ 163,688	$ 50,857	$ (43,227)

NOTE 7 - 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 $6,685.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ -	$ 7,113
Differences between actual and expected experience	4,460	2,061
Change in proportionate share	6,018	-
Change in assumptions	-	617
Contributions subsequent to measurement date	14,250	-
Total	$ 24,728	$ 9,791

$14,250 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year 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:

Year ended June 30	
2020	$ 4,500
2021	3,110
2022	(6,202)
2023	(721)
Thereafter	-

NOTE 7 - PENSION PLAN: (CONTINUED)

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.

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB):

Through County of Wythe, Virginia, the Authority contributes to the Other Postemployment Benefits Plan. Actuarial information, trend information and funding status and progress of the plan are included in the annual financial report for County of Wythe, Virginia. After an evaluation of the OPEB benefits for the current year, it was determined that the liabilities were immaterial to the financial statements of the New River Regional Water Authority and therefore, were not included in the financials for June 30, 2019.

NOTE 9 - 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 any court decisions on pending matters not be favorable.

NOTE 10-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 11 - 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.

NOTE 11 - UPCOMING PRONOUNCEMENTS: (CONTINUED)

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.

Required Supplementary Information

Exhibit 4

New River Regional Water Authority
Schedule of Authority's Proportionate Share of the Net Pension Liability
For the Measurement Dates of June 30, 2014 through June 30, 2018

Wythe County, Virginia's Pension Plan (a Cost-sharing Multiple Employer Plan Administered by the VRS)

Date (1)	Proportion of the Net Pension Liability (NPL) (2)	Proportionate Share of the NPL (3)	Covered Payroll (4)	Proportionate Share of the NPL as a Percentage of Covered Payroll (3)/(4) (5)	Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (6)
2018	2.5294%	$ 50,857	$ 176,904	28.75%	94.30%
2017	2.2500%	43,085	152,624	28.23%	94.37%
2016	2.1800%	82,729	140,094	59.05%	91.85%
2015	2.0572%	53,621	128,872	41.61%	91.85%
2014	2.0572%	52,981	128,666	41.18%	91.69%

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.

Exhibit 5

New River Regional Water Authority
Schedule of Employer Contributions
For the Years Ended June 30, 2015 through June 30, 2019

Wythe County, Virginia's Pension Plan (a Cost-sharing Multiple Employer Plan Administered by the VRS)

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a Percentage of Covered Payroll (5)
2019	$ 14,250	$ 14,250	$ -	$ 173,802	8.20%
2018	14,863	14,863	-	176,904	8.40%
2017	12,967	12,967	-	152,624	8.50%
2016	16,051	16,051	-	140,094	11.46%
2015	14,899	14,899	-	128,872	11.56%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, only five years of data are available. However, additional years will be included as they become available.

New River Regional Water Authority
Notes to Required Supplementary Information
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, 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%

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Compliance

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Honorable Members of
New River Regional Water Authority
Wytheville, 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 the New River Regional Water Authority as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the New River Regional Water Authority's basic financial statements and have issued our report thereon dated November 18, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the New River Regional Water 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 New River Regional Water Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the New River Regional Water 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 the New River Regional Water Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
November 18, 2019