WASHINGTON COUNTY SERVICE AUTHORITY

Financial Statements

For the Year Ended June 30, 2022

Washington County Service Authority
Financial Statements
For the Year Ended June 30, 2022
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Independent Auditors' Report

To the Board of Directors
Washington County Service Authority
Abingdon, Virginia

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of Washington County Service Authority, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Washington County Service Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Washington County Service Authority, as of June 30, 2022, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Washington County Service Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Washington County Service Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the *Specifications for Audits of Authorities, Boards, and Commissions* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the *Specifications for Audits of Authorities, Boards, and Commissions*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Washington County Service Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Washington County Service Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules related to pension and OPEB funding as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Washington County Service Authority's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 schedule of expenditures of federal awards is 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 March 7, 2023, on our consideration of Washington County Service Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Washington County 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 Washington County Service Authority's internal control over financial reporting and compliance.

Robinson, Farmer, Cox, Associates

Blacksburg, Virginia
March 7, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

Washington County Service Authority's ("WCSA") discussion and analysis of the financial statements is designed to (a) assist the reader in understanding the significant financial issues, (b) provide an overview of the Authority's financial activity, (c) identify changes in the financial position and its ability to address subsequent year issues, (d) point out material deviations from the approved budget, and (e) identify individual fund issues or concerns.

Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities and facts and must be read in conjunction with the financial statements so that this report may be understood in its entirety.

Financial Highlights

The following comparisons relate WCSA's current position at June 30, 2022 to its position at June 30, 2021. WCSA's total assets increased by $16,549,895 (10.02%). Current and other assets increased by $626,933 (2.03%). Capitalized assets (net of accumulated depreciation) increased by $15,922,962 (11.86%).

Total liabilities increased by $11,013,840 (11.03%).

The Authority's operating revenues increased $2,100,919 (11.11%), while operating expenses increased by $495,180 (4.58%). Operating net income increased by $909,029 (5.45%). Activities increased net position for the year by $3,699,056.

A discussion of significant department operating expense differences from the 2022-2021 budget follows:

Operating revenue for the water fund was over budget in the amount of $680,008. Total operating expenses for the Water Fund were over budget by $160,464. Operating revenue for the sewer fund was over budget in the amount of $97,313. Total operating expenses for the Sewer Fund were over budget by $131,689.

Interest expenses were over budget by $209,643, as well as, interest income was under budget by $13,393. While WCSA is aggressive in seeking the best return on its investment, it has no control over market rates.

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Required Financial Statements

The financial statements of the Authority report information of the Authority using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Position includes all of the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). It also provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the Authority.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the successes of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and noncapital and capital financing activities and provides answers to such as where did the cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

NET POSITION

	FY 2022	FY 2021	Dollar Change	Total Percent Change
ASSETS				
Current and other assets	$ 31,496,717	$ 30,869,784	$ 626,933	2.03%
Capital Assets	150,171,415	134,248,453	15,922,962	11.86%
TOTAL ASSETS	**$ 181,668,132**	**$ 165,118,237**	**$ 16,549,895**	10.02%
DEFERRED OUTFLOWS OF RESOURCES	**$ 830,656**	**$ 879,269**	**$ (48,613)**	-5.53%
LIABILITIES				
Long-term debt outstanding	$ 104,763,615	$ 92,518,048	$ 12,245,567	13.24%
Other liabilities	6,060,474	7,292,201	(1,231,727)	-16.89%
TOTAL LIABILITIES	**$ 110,824,089**	**$ 99,810,249**	**$ 11,013,840**	11.03%
DEFERRED INFLOWS OF RESOURCES	**$ 2,222,888**	**$ 434,502**	**$ 1,788,386**	411.59%
NET POSITION				
Invested in capital assets net of related debt	$ 43,836,250	$ 45,021,727	$ (1,185,477)	-2.63%
Restricted	3,553,150	3,125,356	427,794	13.69%
Unrestricted	22,062,411	17,605,672	4,456,739	25.31%
TOTAL NET POSITION	**$ 69,451,811**	**$ 65,752,755**	**$ 3,699,056**	5.63%

As can be seen from the table above, net position increased $3,699,056 to $69,451,811 in 2022 up from $65,752,755 in 2021. The increase in net position was primarily due to a decrease in other liabilities. The increase in current, other, and capital assets is largely due to an increase in reserves.

		FY 2022		FY 2021		Dollar Change	Total Percent Change
REVENUES							
Operating revenues	$	21,013,318	$	18,912,399	$	2,100,919	11.11%
Non-operating revenues		252,401		946,105		(693,704)	-73.32%
TOTAL REVENUES	**$**	**21,265,719**	**$**	**19,858,504**	**$**	**1,407,215**	7.09%
EXPENSES							
Depreciation expense	$	4,064,459	$	4,047,091	$	17,368	0.43%
Other operating expenses		11,307,738		10,812,558		495,180	4.58%
Non-operating expenses		2,194,466		1,797,985		396,481	22.05%
TOTAL EXPENSES	**$**	**17,566,663**	**$**	**16,657,634**	**$**	**909,029**	5.46%
Net Income	$	3,699,056	$	3,200,870	$	498,186	15.56%
Beginning net position	$	65,752,755	$	62,551,885			
Ending net position	$	69,451,811	$	65,752,755			

While the Statement of Net Position shows the change in financial position of the net position, the Statement of Revenue, Expenses, and Changes in Net Position provides answers as to the nature and source of these changes. As can be seen in the schedule above, the current year's net income of $3,699,056 was the source of the increase in net position for 2022.

The Authority's net income increased by $498,186 to $3,699,056 in 2022 from $3,200,870 in 2021 with operating expenses being under budget and an increase in operating revenues.

Capital & Operating Highlights

The Authority has continued with its Capital Improvements Plan that includes planned departmental expenditures to update and add infrastructure, computer information systems, machinery and equipment, furniture and fixtures and automobiles.

WCSA has continued to focus on replacing failing and inadequate sized infrastructure and extending service to unserved residents in Washington County.

WCSA has continued to focus labor and financial resources towards continuous improvement efforts in all areas of its operations. The Authority has invested time and money in assessing the vulnerability of our operations and implementing procedures and devices that increase the safety and reliability of our system. WCSA is in the ninth year of replacing substandard waterlines. WCSA also continues to focus on training in an effort to ensure that in all areas of service to our customers.

Basic Financial Statements

Exhibit 1

Washington County Service Authority
Statement of Net Position
Proprietary Funds
June 30, 2022

	Business-type Activities Enterprise Funds		
	Water	Sewer	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	$ 16,630,284	$ 6,369,636	$ 22,999,920
Accounts Receivable (net of allowance for doubtful accounts)	2,198,793	376,589	2,575,382
Inventories	609,005	1,309	610,314
Prepaid Items	243,311	9,289	252,600
Total Current Assets	$ 19,681,393	$ 6,756,823	$ 26,438,216
Noncurrent Assets:			
Net Pension Asset	$ 1,531,054	$ 153,267	$ 1,684,321
Restricted:			
Cash and Cash Equivalents	3,189,230	184,950	3,374,180
Capital Assets:			
Land	965,126	272,865	1,237,991
Construction in Process	43,977,374	1,568,850	45,546,224
Water Tanks	9,365,035	-	9,365,035
Lines	84,732,549	23,049,648	107,782,197
Buildings	32,050,331	6,137,251	38,187,582
Improvements	4,106,159	501,273	4,607,432
Automobiles	1,734,958	432,514	2,167,472
Equipment	7,896,576	580,482	8,477,058
Furniture and Fixtures	140,355	28,259	168,614
Computers and Telemetry	1,414,547	94,005	1,508,552
Accumulated Depreciation	(56,319,195)	(12,557,547)	(68,876,742)
Total Capital Assets, Net of Accumulated Depreciation	$ 130,063,815	$ 20,107,600	$ 150,171,415
Total Noncurrent Assets	$ 134,784,099	$ 20,445,817	$ 155,229,916
Total Assets	$ 154,465,492	$ 27,202,640	$ 181,668,132
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related Items	$ 697,510	$ 73,736	$ 771,246
OPEB Related Items	53,647	5,763	59,410
Total Deferred Outflows of Resources	$ 751,157	$ 79,499	$ 830,656
LIABILITIES			
Current Liabilities:			
Accounts Payable	$ 994,588	$ 71,808	$ 1,066,396
Retainage Payable	995,656	-	995,656
Accrued Liabilities	81,984	20,130	102,114
Accrued Interest Payable	296,164	10,820	306,984
Compensated Absences (current portion)	163,677	7,711	171,388
Bonds Payable (current portion)	2,961,287	456,649	3,417,936
Total Current Liabilities	$ 5,493,356	$ 567,118	$ 6,060,474
Noncurrent Liabilities:			
Compensated Absences (net of current portion)	$ 654,708	$ 30,842	$ 685,550
Net OPEB Liabilities	1,971,989	233,661	2,205,650
Loan Payable	7,904,358	-	7,904,358
Bonds Payable (net of current portion)	86,230,725	7,737,332	93,968,057
Total Noncurrent Liabilities	$ 96,761,780	$ 8,001,835	$ 104,763,615
Total Liabilities	$ 102,255,136	$ 8,568,953	$ 110,824,089
DEFERRED INFLOWS OF RESOURCES			
Pension Related Items	$ 1,931,813	$ 196,212	$ 2,128,025
OPEB Related Items	86,231	8,632	94,863
Total Deferred Inflows of Resources	$ 2,018,044	$ 204,844	$ 2,222,888
NET POSITION			
Net Investment in Capital Assets	$ 31,922,631	$ 11,913,619	$ 43,836,250
Restricted:			
RD Debt Service Reserves	2,500,110	184,950	2,685,060
Health Insurance Premiums	868,090	-	868,090
Unrestricted	15,652,638	6,409,773	22,062,411
Total Net Position	$ 50,943,469	$ 18,508,342	$ 69,451,811

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

Exhibit 2

Washington County Service Authority
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2022

	Business-type Activities Enterprise Funds		
	Water	Sewer	Total
Operating Revenues	$ 17,935,500	$ 3,077,818	$ 21,013,318
Operating Expenses			
Commissioners	$ 30,909	$ -	$ 30,909
Administration and Overhead	2,250,831	18,940	2,269,771
Customer Service	834,923	-	834,923
Maintenance	3,290,401	248,938	3,539,339
Production	2,096,132	1,130,528	3,226,660
Water Distribution	533,029	-	533,029
Meter Department	460,645	-	460,645
Chilhowie Regional Treatment Plant	252,808	-	252,808
Damascus	-	159,654	159,654
Depreciation	3,268,994	795,465	4,064,459
Total Operating Expenses	$ 13,018,672	$ 2,353,525	$ 15,372,197
Operating Income (Loss)	$ 4,916,828	$ 724,293	$ 5,641,121
Nonoperating Revenues (Expenses)			
Interest Income	$ 53,171	$ 449	$ 53,620
Interest Expense	(2,013,600)	(180,866)	(2,194,466)
Gain (Loss) on Disposal of Assets	30,838	-	30,838
Total Nonoperating Revenues (Expenses)	$ (1,929,591)	$ (180,417)	$ (2,110,008)
Income (Loss) Before Capital Contributions and Transfers	$ 2,987,237	$ 543,876	$ 3,531,113
Capital Contributions and Transfers			
Transfers In (Out)	$ 38,975	$ (38,975)	$ -
Capital Contributions - Local and State Grants	167,943	-	167,943
Total Capital Contributions and Transfers	$ 206,918	$ (38,975)	$ 167,943
Increase (Decrease) in Net Position	$ 3,194,155	$ 504,901	$ 3,699,056
Net Position - Beginning	47,749,314	18,003,441	65,752,755
Net Position - Ending	$ 50,943,469	$ 18,508,342	$ 69,451,811

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

Exhibit 3

Washington County Service Authority
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2022

	Business-type Activities Enterprise Funds		
	Water	Sewer	Total
Cash Flows from Operating Activities:			
Receipts from Customers	$ 17,738,702	$ 2,995,277	$ 20,733,979
Payments to Suppliers	(4,551,346)	(953,656)	(5,505,002)
Payments to Employees	(6,193,124)	(778,941)	(6,972,065)
Net Cash Provided by (Used for) Operating Activities	$ 6,994,232	$ 1,262,680	$ 8,256,912
Cash Flows from Noncapital Financing Activities:			
Transfers from (to) other funds	$ 38,975	$ (38,975)	$ -
Cash Flows from Capital and Related Financing Activities:			
Purchase of Property, Plant and Equipment	$ (20,452,919)	$ (693,554)	$ (21,146,473)
Capital Contributions From Other Governments	205,198	-	205,198
Proceeds from Sale of Assets	33,188	-	33,188
Principal Paid on Bonds	(2,576,855)	(446,853)	(3,023,708)
Proceeds from Bonds	24,606,094	-	24,606,094
Proceeds from Loan Payable	16,411,843	-	16,411,843
Principal Paid on Loan Payable	(24,580,000)	-	(24,580,000)
Interest Paid on Bonds	(2,241,860)	(180,993)	(2,422,853)
Net Cash Provided by (Used for) Capital and Related Financing Activities	$ (8,595,311)	$ (1,321,400)	$ (9,916,711)
Cash Flows from Investing Activities:			
Interest Income	$ 53,171	$ 449	$ 53,620
Net Increase (Decrease) in Cash and Cash Equivalents	$ (1,508,933)	$ (97,246)	$ (1,606,179)
Cash and Cash Equivalents at Beginning of Year (includes restricted amounts of $7,985,232 and $166,812 for the water and sewer fund, respectively)	21,328,447	6,651,832	27,980,279
Cash and Cash Equivalents at End of Year (includes restricted amounts of $3,189,230 and $184,950 for the water and sewer fund, respectively)	$ 19,819,514	$ 6,554,586	$ 26,374,100
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:			
Operating Income (Loss)	$ 4,916,828	$ 724,293	$ 5,641,121
Adjustments to reconcile operating income (loss) to net cash provided (used) for operating activities:			
Depreciation Expense	$ 3,268,994	$ 795,465	$ 4,064,459
(Increase) Decrease in Assets and Deferred Outflows of Resources:			
Accounts Receivable	(196,798)	(82,541)	(279,339)
Inventory	(83,306)	(1,309)	(84,615)
Prepaid Items	(216,519)	(5,573)	(222,092)
Deferred Outflows of Resources	56,622	(8,009)	48,613
Increase (Decrease) in Liabilities and Deferred Inflows of Resources:			
Accounts Payable	(386,938)	(206,430)	(593,368)
Net OPEB Liabilities	130,489	53,682	184,171
Net Pension Liability	(2,047,394)	(197,024)	(2,244,418)
Accrued Liabilities	28,826	13,406	42,232
Compensated Absences	(92,489)	4,251	(88,238)
Deferred Inflows of Resources	1,615,917	172,469	1,788,386
Total Adjustments	$ 2,077,404	$ 538,387	$ 2,615,791
Net Cash Provided by (Used for) Operating Activities	$ 6,994,232	$ 1,262,680	$ 8,256,912
Schedule of non-cash capital and related financing activities:			
Purchase of property, plant and equipment included in accounts and retainage payable	$ 1,733,934	$ -	$ 1,733,934

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

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.

Financial Reporting Entity

The Washington County Service Authority, (the "Authority") was created pursuant to the Water and Sewer Authorities Act, Chapter 28, Title 15.1, Code of Virginia of 1950, as amended by the action of the Board of Supervisors of Washington County. The State Corporation Commission chartered the Authority on March 25, 1953, as the Goodson-Kinderhook Water Authority. Its name was changed to Washington County Service Authority in 1976. As presently chartered, the Authority is authorized to acquire, finance, construct, operate, and maintain one or more water systems; one or more sewer systems; one or more sewage disposal systems, or any combination thereof; and provide garbage and refuse collection and disposal systems in Washington County and counties adjacent thereto. The Authority does not currently provide garbage refuse collection and disposal services.

The Authority currently provides a full range of water services to the more densely populated areas of Washington County and to the Towns of Abingdon, Damascus and Glade Spring, Virginia. The Authority also provides water services to sections of the Town of Saltville, Virginia; the City of Bristol, Tennessee; Sullivan County, Tennessee; and Smyth County, Virginia. A seven-member board of commissioners appointed by the Board of Supervisors of Washington County governs the Authority.

The Authority currently provides sewer services to customers in the Emory-Meadowview, Glade Spring, Oak Park, Westwood, West Central, Virginia, Sinking Creek and Damascus sections and other small portions of Washington County, Virginia.

The accounting policies of the Authority relating to the funds included in the accompanying financial statements conform to generally accepted accounting principles applicable to governmental units. The Authority complies with generally accepted accounting principles and applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The basic criterion for determining whether a legally separate organization should be included in the governmental unit's reporting entity is financial accountability and whether the nature and significance of the organization's relationship with the governmental unit are such that exclusion would cause the reporting entity financial statements to be misleading or incomplete. The Authority considered all potential component units in determining what organizations should be included in the financial statements. Based on these criteria, there are no component units to include in the Authority's financial statements.

Basic Financial Statements

The financial statements include a Management's Discussion and Analysis (MD&A) section, providing an analysis of the Authority's overall financial position and results of operations.

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basic Financial Statements (Continued)

- Required supplementary information
  - Schedules related to OPEB funding progress
  - Schedules related to pension funding progress
  - Notes to Required Supplementary Information

Basis of Presentation

The Authority's funds are enterprise funds. Enterprise funds are proprietary funds used to account for business like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus applied.

The proprietary funds utilize an *economic resources* measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's enterprise funds are charges to customers for sales and service. The Authority also recognizes as operating revenue the portion of tap fees intended to recover a portion of growth related expenses of connecting new customers to the system. 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 nonoperating revenues and expenses.

Proprietary Fund Revenue and Expense Classifications

Operating revenues include activities that have the characteristics of exchange transactions, such as charges to customers for water service and 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 by GASB.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net assets 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 pension and OPEB. For more detailed information on these items, reference the related notes.

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

Net Position

For reporting, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.

- Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds, notes, and other debt that are attributable 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 included in this component of net position.

- Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.

- Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories.

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.

Inventory

The Authority maintains inventories of maintenance materials and supplies, including pipe and meters, for use in day-to-day operations. Inventories of materials and supplies are stated at the lower of cost (first-in, first-out) or market.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant and Equipment

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

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

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

Waterlines and sewer systems	40 years
Buildings and improvements	10 - 40 years
Machinery and equipment	5 - 7 years
Office equipment	5 - 10 years

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from these amounts.

Compensated Absences

The Authority's employees earn vacation and sick pay based on their length of service. Vacation and sick pay may either be taken or accumulated and paid upon retirement or termination. Accumulation of vacation pay is limited to 30 days, or days accumulated. Sick pay, based on 25% of sick days accumulated, is paid upon retirement or termination or 50% is paid at 20 years of service. There is no limit on the number of sick days that may be accumulated for employees hired before January 1, 2014. Employees hired after January 1, 2014 may not accrue more than 480 hours of sick leave and none will be paid out upon retirement or termination.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity date within three months of the date acquired by the government. For purposes of the statement of cash flows, the Authority considers their demand deposits and all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Restricted cash consists of reserve accounts established as required by Rural Development bond covenants and unspent bond proceeds.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments with a maturity of less than one year when purchased, non-negotiable certificates of deposit, and other nonparticipating investments, and external investment pools are stated at cost or amortized cost. Investments with a maturity greater than one year when purchased are stated at fair value. Fair value is the price that would be received to sell an investment in an orderly transaction at year end.

Allowance for Uncollectible Accounts

The Authority calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately $259,975 and $48,149 at June 30, 2022 for the water and sewer fund, respectively.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the statement of net position.

Reclassifications

Certain reclassifications have been made in the current year's financial statements. There was no effect on prior year combined net position or combined net position as a result of reclassifications.

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 fiduciary net 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.

Other Postemployment Benefits (OPEB)

For purposes of measuring the net VRS GLI OPEB liability, deferred outflows of resources and deferred inflows of resources related to the OPEB, and OPEB expense, information about the fiduciary net position of the VRS GLI OPEB Plan and the additions to/deductions from the VRS GLI OPEB Plan fiduciary net position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Long-term Obligations

Long-term obligations are reported as liabilities in the Authority's statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount.

NOTE 2 DEPOSITS AND INVESTMENTS

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.

Statutes authorize the Authority to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper that has received at least two of the following ratings: P-1 by Moody’s Investors Service, Inc.; A-1 by Standard & Poor’s; or F1 by Fitch Ratings, Inc. (Section 2.2-4502), banker’s acceptances, repurchase agreements and the State Treasurer’s Local Government Investment Pool (LGIP).

Credit Risk of Debt Securities

The Authority’s rated debt investments as of June 30, 2022 were rated by Standard & Poor’s and the ratings are presented below using the Standard & Poor’s rating scale.

Authority's Rated Debt Investments' Values

Rated Debt Investments	Fair Quality Ratings
	AAAm
LGIP	$ 451,254
VML/VACO Investment Pool	868,090
SNAP	3,821,206
Total	$ 5,140,550

Interest Rate Risk

The Authority invests funds in low-risk investments backed by U.S. government agencies.

Rated Debt Investments	Investment Maturities	
	Fair Value	< 1 year
LGIP	$ 451,254	$ 451,254
VML/VACO Investment Pool	868,090	868,090
SNAP	3,821,206	3,821,206
Total	$ 5,140,550	$ 5,140,550

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. While the Authority does not have a policy regarding custodial credit risk, the Authority’s investments at June 30, 2022 were held in the Authority’s name by the custodial banks.

NOTE 2 DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk

At June 30, 2022 the Authority did not have any investments that exceeded 5% of total investments requiring concentration of credit risk disclosures.

External Investment Pools

The value of the positions in the external investment pool (Local Government Investment Pool and State Non-Arbitrage Pool) is the same as the value of the pool shares. As LGIP and SNAP are not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury. LGIP and SNAP are amortized cost basis portfolios. There are no withdrawal limitations or restrictions imposed on participants.

Fair Value Measurements and Redemption Restrictions

Fair value of the position in the VML/VACO Investment Pool is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Authority has measured fair value of the VML/VACO investment pool at the net asset value (NAV). The Authority is limited to two withdrawals per month.

NOTE 3 CAPITAL ASSETS

Water fund:	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not being depreciated:				
Land	$ 963,426	$ 1,700	$ -	$ 965,126
Construction in Progress	28,488,247	18,707,628	3,218,501	43,977,374
Total capital assets, not being depreciated	$ 29,451,673	$ 18,709,328	$ 3,218,501	$ 44,942,500
Capital assets being depreciated:				
Buildings, Improvements, Lines	$ 126,576,733	$ 3,677,341	$ -	$ 130,254,074
Machinery and Equipment	11,109,362	128,049	50,975	11,186,436
Total capital assets, being depreciated	$ 137,686,095	$ 3,805,390	$ 50,975	$ 141,440,510
Accumulated depreciation:				
Buildings, Improvements, Lines	$ 43,274,708	$ 2,972,950	$ -	$ 46,247,658
Machinery and Equipment	9,824,118	296,044	48,625	10,071,537
Total accumulated depreciation	$ 53,098,826	$ 3,268,994	$ 48,625	$ 56,319,195
Total capital assets being depreciated, net	$ 84,587,269	$ 536,396	$ 2,350	$ 85,121,315
Total water fund	$ 114,038,942	$ 19,245,724	$ 3,220,851	$ 130,063,815

NOTE 3 CAPITAL ASSETS (Continued)

Sewer fund:	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not being depreciated:				
Land	$ 272,865	$ -	$ -	$ 272,865
Construction in Progress	918,002	651,774	926	1,568,850
Total capital assets, not being depreciated	$ 1,190,867	$ 651,774	$ 926	$ 1,841,715
Capital assets being depreciated:				
Buildings, Improvements, Lines	$ 29,688,172	$ -	$ -	$ 29,688,172
Machinery and Equipment	1,092,554	42,706	-	1,135,260
Total capital assets, being depreciated	$ 30,780,726	$ 42,706	$ -	$ 30,823,432
Accumulated depreciation:				
Buildings, Improvements, Lines	$ 10,772,352	$ 750,773	$ -	$ 11,523,125
Machinery and Equipment	989,730	44,692	-	1,034,422
Total accumulated depreciation	$ 11,762,082	$ 795,465	$ -	$ 12,557,547
Total capital assets being depreciated, net	$ 19,018,644	$ (752,759)	$ -	$ 18,265,885
Total sewer fund	$ 20,209,511	$ (100,985)	$ 926	$ 20,107,600

NOTE 3 CAPITAL ASSETS (Continued)

A list of projects completed during the year and still in progress at June 30, 2022 follows:

Water Fund Construction in Progress	Beginning Balance	Additions	Transfers	Ending Balance
Abingdon Water Storage Tank	$ 2,201,914	$ 222,596	$ 2,424,510	$ -
Galvanized Line Phase III	17,333,412	14,958,051	-	32,291,463
Mill Creek	891,857	732	-	892,589
Small projects	-	433,502	-	433,502
Green Spring Road Project	230	89,910	-	90,140
Southfork Intake - non-reimbursable	-	12,085	-	12,085
Mill Creek Plant Upgrade	60,248	-	-	60,248
Hidden Valley II	617,884	159,102	776,986	-
Mendota-Archery Range-Mary's Ch	27,695	106,187	-	133,882
Mill Creek #2	337	-	-	337
Meter Replacement Project	6,096,398	2,155,011	-	8,251,409
Fleenors Mem Road South	75	-	75	-
Monroe Road WL Ext Project	95	-	95	-
Hobbs Road WL Ext Project	75	-	75	-
Taylors Valley Rd WL Ext Project	80	-	80	-
Prices Bridge WL Ext Project	150	-	150	-
Abrams Falls Rd WL Ext Project	3,067	546,640	-	549,707
Emergency Water Projects	-	16,530	16,530	-
Route 58 Storage Tank Demolition	-	7,282	-	7,282
Town of Chilhowie	1,254,730	-	-	1,254,730
Total water fund	$ 28,488,247	$ 18,707,628	$ 3,218,501	$ 43,977,374

Sewer Fund Construction in Progress	Beginning Balance	Additions	Transfers	Ending Balance
Exit 13 Force Main	$ 926	$ -	$ 926	$ -
Lee Hwy Sewer Study	153,794	-	-	153,794
Lee Hwy Corridor	733,103	651,774	-	1,384,877
Damascus WWTP	30,179	-	-	30,179
Total sewer fund	$ 918,002	$ 651,774	$ 926	$ 1,568,850

NOTE 4 LONG-TERM OBLIGATIONS

The following is a summary of long-term obligation transactions for the year ended June 30, 2022:

	Beginning Balances	Increases/ Issuances	Decreases/ Retirements	Ending Balances
Water fund:				
Bonds payable	$ 16,970,756	$ 26,094	$ 1,116,449	$ 15,880,401
Bonds payable premium	1,297,603	-	190,204	1,107,399
Bonds payable from direct borrowings	49,084,618	24,580,000	1,460,406	72,204,212
Loan payable	16,072,515	16,411,843	24,580,000	7,904,358
Compensated absences	910,874	135,230	227,719	818,385
Net pension liability (A)	516,340	1,823,062	2,339,402	-
Net OPEB liabilities	1,841,500	794,256	663,767	1,971,989
Total water fund	$ 86,694,206	$ 43,770,485	$ 30,577,947	$ 99,886,744

	Beginning Balances	Increases/ Issuances	Decreases/ Retirements	Ending Balances
Sewer fund:				
Bonds payable	$ 5,130,365	$ -	$ 359,101	$ 4,771,264
Bonds payable from direct borrowings	3,510,469	-	87,752	3,422,717
Compensated absences	34,302	12,827	8,576	38,553
Net pension liability (A)	43,757	189,706	233,463	-
Net OPEB liabilities	179,979	126,751	73,069	233,661
Total sewer fund	$ 8,898,872	$ 329,284	$ 761,961	$ 8,466,195

(A) The balance results in a net pension asset as of June 30, 2022; therefore, the ending balance is not reported above.

The following is a summary of principal and interest payment requirements to amortize long-term debt:

Fiscal	Water Fund		Water Fund		Sewer Fund		Sewer Fund	
	Bonds Payable		Bonds Payable - Direct Borrowings		Bonds Payable		Bonds Payable - Direct Borrowings	
Year	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2023	$ 1,104,558	$ 520,338	$ 1,680,215	$ 1,395,867	$ 366,379	$ 94,675	$ 90,270	$ 91,109
2024	1,140,418	483,724	1,697,459	1,348,844	373,920	87,133	92,869	88,511
2025	1,176,696	445,675	1,764,269	1,342,572	381,735	79,317	95,551	85,827
2026	1,193,844	406,012	1,783,818	1,292,496	389,835	71,219	98,322	83,058
2027	1,203,806	365,645	1,819,852	1,256,535	398,229	62,824	101,183	80,197
2028-2032	5,147,039	1,231,817	9,666,058	5,718,362	2,128,210	177,059	552,233	354,668
2033-2037	2,975,777	439,650	10,691,798	4,694,033	732,956	3,088	639,395	267,505
2038-2042	936,730	199,968	11,832,770	3,575,288	-	-	674,223	166,315
2043-2047	734,239	79,300	13,103,248	2,287,229	-	-	547,211	91,669
2048-2052	267,294	10,624	10,302,570	984,181	-	-	531,460	27,077
2053-2057	-	-	4,815,934	364,742	-	-	-	-
2058-2062	-	-	3,360,204	91,113	-	-	-	-
Total	$ 15,880,401	$ 4,182,753	$ 72,518,195	$ 24,351,262	$ 4,771,264	$ 575,315	$ 3,422,717	$ 1,335,936
Less amounts not yet drawn down	-	-	(313,983)	-	-	-	-	-
Add premium	1,107,399	-	-	-	-	-	-	-
Payable Within One Year (including premium)	(1,281,072)	(520,338)	(1,680,215)	(1,395,867)	(366,379)	(94,675)	(90,270)	(91,109)
Long-Term Amounts Due After One Year	$ 15,706,728	$ 3,662,415	$ 70,523,997	$ 22,955,395	$ 4,404,885	$ 480,640	$ 3,332,447	$ 1,244,827

NOTE 4 LONG-TERM OBLIGATIONS (Continued)

Details of the Authority's long-term obligations at June 30, 2022 are as follows:

	Interest Rates	Issue Date	Maturity Date	Original Amount	Balance at 6/30/2022	Due Within One Year
Water Fund:						
RD WTP 91-19	2.500%	5/27/2010	2050	$ 9,000,000	$ 7,402,952	$ 188,525
RD Route 58 Loan No. 20	2.380%	7/29/2010	2050	5,360,000	4,349,025	112,770
RD Whites Mill Loan No. 21	2.250%	12/1/2010	2050	3,000,000	2,287,152	66,945
RD WTP 91-20	2.250%	12/1/2010	2050	9,000,000	7,367,523	185,159
RD WTP 91-18	2.250%	12/1/2010	2050	8,580,000	6,846,067	184,526
RD Galvanized Line 1-1	2.250%	12/15/2010	2050	4,000,000	3,291,312	83,763
RD Galvanized Line 1-2	2.250%	12/15/2010	2050	6,000,000	4,858,494	127,422
RD Galvanized Line 2-1	2.380%	12/15/2010	2050	6,000,000	5,372,659	114,112
RD Galvanized Line 2-2	2.380%	12/15/2010	2050	4,000,000	3,596,651	75,717
RD Loan #30a (2017C)	2.000%	9/26/2017	2057	1,327,455	1,735,285	35,762
RD Loan Number 34	2.000%	9/26/2017	2057	341,000	2,026	6,425
RD Loan Town of Chilhowie	2.375%	10/14/2018	2059	814,880	792,277	13,978
RD Loan Number 32	1.250%	10/27/2021	2062	7,000,000	6,909,042	136,968
RD Loan Number 32	1.250%	10/27/2021	2062	8,450,000	8,340,197	165,346
RD Loan Number 38	1.125%	1/19/2022	2062	9,130,000	9,053,550	182,797
Total Bonds Payable from Direct Borrowings					$72,204,212	$ 1,680,215
EPA DW RLF Loan #WSL-18-98	2.000%	9/22/2000	2026	$ 231,900	$ 40,434	$ 11,266
EPA DW RLF Loan #WSL-11-99	0.000%	8/31/2001	2032	83,388	27,790	2,778
EPA DW RLF Loan #WSL-17-99	0.000%	9/25/2001	2032	2,248,791	781,197	74,399
DWSRF Hanger Line	0.000%	9/1/2002	2022	395,215	144,950	13,174
DWSRF Providence Road	0.000%	6/30/2003	2033	153,114	58,590	5,094
DWSRF Goldenview Drive	0.000%	10/15/2003	2034	382,195	146,508	12,740
Blackhollow Road 15-04	3.000%	6/30/2005	2025	545,503	122,575	33,727
DWSRF Logan Creek	3.000%	11/26/2005	2026	193,021	54,945	11,584
EPA DW RLF Loan #WSL-03-06	3.000%	1/18/2007	2027	891,158	279,875	52,691
EPA DW RLF Loan #WSL-24-06	3.000%	3/1/2007	2027	156,290	53,603	9,104
Mendota Road Phase 1	3.000%	12/2/2008	2029	231,380	98,820	12,888
Walker Mtn Road/Lime Hill	3.050%	12/2/2008	2029	690,012	289,758	38,622
VRA Loan WSL #07-09	2.450%	2/9/2010	2031	647,003	319,971	34,303
Tumbling Creek	3.000%	2/11/2010	2031	62,563	27,541	3,525
VRA Loan WSL #19-08	3.050%	12/9/2010	2050	802,670	429,356	42,137
Reedy Creek WSL 23-10	2.250%	12/9/2010	2050	3,259,531	1,569,459	209,652
VRA Loan WSL #22-06	3.000%	12/28/2010	2031	304,774	162,665	15,997
Nordyke WSL #03-11	3.000%	12/4/2013	2044	387,829	296,288	11,040
VRA Rich Valley Whites Mill WSL #05-11	3.000%	12/4/2013	2044	1,394,102	1,182,523	36,341
Tumbling Creek South WSL #04-11	3.000%	5/21/2014	2044	72,911	60,902	1,929
Hidden Valley Rd WSL 003-14	2.000%	5/28/2015	2046	296,475	245,790	8,453
Childress Hollow	2.500%	12/31/2015	2046	220,172	161,873	6,589
Haskell Station	2.000%	4/20/2017	2047	114,009	96,490	2,934
WSL-006-18	2.500%	4/11/2019	2049	164,780	98,017	5,514
WSL-002-18	2.500%	4/11/2019	2049	1,663,900	1,585,496	40,687
VPFP 2019C	2.250%	11/20/2019	2034	2,310,000	2,095,000	115,000
VPFP 2019C	4.000%	11/20/2019	2034	5,470,000	4,955,000	280,000
WSL-004-18 - Sugar Cove Road	2.500%	3/5/2020	2050	326,840	310,990	8,004
WSL-005-18	1.000%	8/26/2020	2051	186,212	183,995	4,386
Subtotal Bonds Payable					$15,880,401	$ 1,104,558
Bond premium - VPFP 2019C	N/A	N/A	N/A	N/A	1,107,399	176,514
Total Bonds Payable with Premiums					$16,987,800	$ 1,281,072
Line of Credit	Prime + 0.5	12/3/2020	2023	$34,200,000	$ 7,904,358	$ -
Compensated Absences	N/A	N/A	N/A	N/A	818,385	163,677
Net OPEB Liabilities	N/A	N/A	N/A	N/A	1,971,989	-
Total Water Fund					$99,886,744	$ 3,124,964

NOTE 4 LONG-TERM OBLIGATIONS (Continued)

Details of the Authority's long-term obligations at June 30, 2022 are as follows:

	Interest Rates	Issue Date	Maturity Date	Original Amount	Balance at 6/30/2022	Due Within One Year
ver Fund:						
: 13 P1 - Loan 1 91-14	2.250%	12/15/2011	2052	$ 1,579,000	$ 1,331,487	$ 32,341
: 13 P1 - Loan 1 91-28	2.250%	12/15/2011	2052	1,677,000	1,412,917	34,369
nascus	4.500%	8/15/2012	2042	973,000	678,313	23,560
Total Bonds Payable from Direct Borrowings					$ 3,422,717	$ 90,270
8 Series Refunding Bond	3.900%	5/6/2008	2033	$ 4,100,000	$ 2,224,248	$ 175,364
: 13 P1 Force Main	1.000%	8/30/2012	2033	1,383,334	810,353	70,045
. 2017B	0.000%	8/16/2017	2038	1,171,550	853,179	58,578
: Phase IIA	0.000%	10/11/2016	2038	1,247,843	883,484	62,392
Total Bonds Payable					$ 4,771,264	$ 366,379
npensated Absences	N/A	N/A	N/A	N/A	$ 38,553	$ 7,711
OPEB Liabilities	N/A	N/A	N/A	N/A	233,661	-
Total Sewer Fund					$ 8,466,195	$ 464,360

In the event of default, the lender may declare the entire unpaid principal and interest on the bonds payable as due and payable. The bonds payable also have requirements that net revenues available for debt service will equal at least 115% of the amount required during the current fiscal year to pay the principal and interest of all parity bonds. The Authority is considered to be in compliance with the aforementioned covenant.

Bonds payable from direct borrowings have reserve requirements whereby 10% of the monthly payment(s) must be accumulated until a year's payments has been established for each individual borrowing. The Authority is considered to be in compliance with the aforementioned covenant.

All bonds payable issuances are revenues bonds and are collateralized by the underlying revenue stream.

During the prior year, the Authority issued a $34,200,000 line of credit (LOC), of which $7,904,358 was outstanding as of June 30, 2022 leaving $26,295,642 available for use at year end. The LOC is to fund projects until long-term funding is in place from Rural Development. The LOC has interest at the prime rate plus 0.5 but will not fall below 3.75%. The LOC matures on December 3, 2022 and is collateralized by the underlying project.

NOTE 5 PENSION PLAN

Plan Description

All full-time, salaried permanent employees of the Washington County Service Authority are automatically covered by a VRS Retirement Plan upon employment. 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. 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 with a membership date 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 service credit or age 50 with at least 30 years of service credit. Non-hazardous duty employees may retire with a reduced benefit as early as age 55 with at least 5 years of service credit or age 50 with at least 10 years of service credit.

b. Employees with a membership date from July 1, 2010 to December 31, 2013, that have not taken a refund or employees with a membership date prior to July 1, 2010 and not vested before 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 service credit or when the sum of their age plus service credit equals 90. Non-hazardous duty employees may retire with a reduced benefit as early as age 60 with at least 5 years of service credit.

c. Non-hazardous duty employees with a membership date 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 service credit, or when the sum of their age plus service credit equals 90. Employees may retire with a reduced benefit as early as age 60 with at least 5 years of service credit. For the defined contribution component, members are eligible to receive distributions upon leaving employment, subject to restrictions.

NOTE 5 PENSION PLAN (Continued)

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 service credit. Under Plan 1, average final compensation is the average of the employee's 36 consecutive months of highest compensation and the multiplier is 1.70% for non-hazardous duty employees. 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. 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 service credit 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 service credit 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.

Employees Covered by Benefit Terms

As of the June 30, 2020 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	35
Inactive members:	
Vested inactive members	9
Non-vested inactive members	7
Inactive members active elsewhere in VRS	11
Total inactive members	27
Active members	72
Total covered employees	134

NOTE 5 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 Washington County Service Authority's contractually required employer contribution rate for the year ended June 30, 2022 was 3.88% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019.

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 Washington County Service Authority were $129,842 and $127,814 for the years ended June 30, 2022 and June 30, 2021, respectively.

Net Pension Liability

The net pension liability (NPL) is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For Washington County Service Authority, the net pension liability was measured as of June 30, 2021. The total pension asset used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2020, rolled forward to the measurement date of June 30, 2021.

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Washington County Service Authority's Retirement Plan was based on an actuarial valuation as of June 30, 2020, 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, 2021.

Inflation	2.50%
Salary increases, including inflation	3.50% – 5.35%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation

NOTE 5 PENSION PLAN (Continued)

Actuarial Assumptions – General Employees (Continued)

Mortality rates:

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

Pre-Retirement:
Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:
Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years

Post-Disablement:
Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

Beneficiaries and Survivors:
Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years

Mortality Improvement:
Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

NOTE 5 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)	Long-Term Target Asset Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return*
Public Equity	34.00%	5.00%	1.70%
Fixed Income	15.00%	0.57%	0.09%
Credit Strategies	14.00%	4.49%	0.63%
Real Assets	14.00%	4.76%	0.67%
Private Equity	14.00%	9.94%	1.39%
MAPS - Multi-Asset Public Strategies	6.00%	3.29%	0.20%
PIP - Private Investment Partnership	3.00%	6.84%	0.21%
Total	100.00%		4.89%
		Inflation	2.50%
		Expected arithmetic nominal return*	7.39%

*The above allocation provides a one-year expected return of 7.39%. 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. These results provide a range of returns over various time periods that ultimately provide a median return of 6.94%, including expected inflation of 2.50%.

*On October 10, 2019, the VRS Board elected a long-term rate of return of 6.75%, which was roughly at the 40th percentile long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. 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, 2021, the alternate rate was the employer contribution rate used in FY 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2017 actuarial valuations, whichever was greater. From July 1, 2021 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.

NOTE 5 PENSION PLAN (Continued)

Changes in Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2020	$ 15,016,345	$ 14,456,248	$ 560,097
Changes for the year:			
Service cost	$ 346,144	$ -	$ 346,144
Interest	990,759	-	990,759
Differences between expected and actual experience	130,253	-	130,253
Changes in assumptions	528,479	-	528,479
Contributions - employer	-	127,670	(127,670)
Contributions - employee	-	177,268	(177,268)
Net investment income	-	3,944,669	(3,944,669)
Benefit payments, including refunds of employees contributions	(676,882)	(676,882)	-
Administrative expenses	-	(9,925)	9,925
Other changes	-	371	(371)
Net changes	$ 1,318,753	$ 3,563,171	$ (2,244,418)
Balances at June 30, 2021	$ 16,335,098	$ 18,019,419	$ (1,684,321)

NOTE 5 PENSION PLAN (Continued)

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

The following presents the net pension liability (asset) of the Washington County Service Authority using the discount rate of 6.75%, as well as what the Washington County Service Authority's net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

		Rate	
	1% Decrease	Current Discount	1% Increase
	(5.75%)	(6.75%)	(7.75%)
Washington County Service Authority's			
Net Pension Liability (Asset)	$ 553,142	$ (1,684,321)	$ (3,531,951)

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

For the year ended June 30, 2022, the Washington County Service Authority recognized pension expense of $(359,392). At June 30, 2022, the Washington County Service Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 95,704	$ 155,876
Change in proportionate share	4,502	4,502
Change in assumptions	541,198	-
Net difference between projected and actual earnings on pension plan investments	-	1,967,647
Employer contributions subsequent to the measurement date	129,842	-
Total	$ 771,246	$ 2,128,025

NOTE 5 PENSION PLAN (Continued)

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

$129,842 reported as deferred outflows of resources related to pensions resulting from the Washington County Service 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, 2023. 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		
2023	$	(265,124)
2024		(275,814)
2025		(349,335)
2026		(596,348)

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2021 Annual Comprehensive Financial Report (Annual Report). A copy of the 2021 VRS Annual Report may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2021-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

NOTE 6 OTHER POSTEMPLOYMENT BENEFITS – HEALTH INSURANCE

In addition to the pension benefits described in Note 5, the Authority administers a single-employer defined benefit healthcare plan. The plan provides postemployment health care benefits to all eligible permanent employees who meet the requirements under the Authority's pension plan. The plan does not issue a publicly available financial report.

Benefits Provided

A retiree, eligible for post-retirement medical coverage, is defined as a full-time employee who retires directly from the Authority and is eligible to receive an early or regular retirement benefit from VRS. Employees applying for early or regular retirement are eligible to continue participation in the Retiree Health Plan sponsored by the Authority. Employees at the Authority are allowed to stay on the plan until they reach the age of 65. The employee pays 100% of the required premium.

Plan Membership

At June 30, 2022 (measurement date), the following employees were covered by the benefit terms:

Total active employees with coverage	68
Total retirees with coverage	4
Total	72

Contributions

The Authority does not pre-fund benefits; therefore, no assets are accumulated in a trust fund. The current funding policy is to pay benefits directly from general assets on a pay-as-you-go basis. The funding requirements are established and may be amended by the Authority. For fiscal year 2022, the Authority did not make contributions for premiums or prefunding amounts.

Total OPEB Liability

The Authority's total OPEB liability was measured as of June 30, 2022. The total OPEB liability used to calculate the net OPEB liability was determined by using the alternative measurement method as of that date.

Actuarial Assumptions

The total OPEB liability in the June 30, 2022 valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Healthcare Cost Trend Rates	The medical trend rate starts at 4.7% in 2022 and gradually declines to 4.2% by year 8.
Salary Increases	8.50%
Discount Rate	3.69%

Pub-2010 Public Retirement Plans Mortality Tables, with mortality improvement projected for 10 years.

NOTE 6 OTHER POSTEMPLOYMENT BENEFITS - HEALTH INSURANCE (Continued)

Discount Rate

The discount rate used when OPEB plan investments are insufficient to pay for future benefit payments is based on the 20-year tax exempt municipal bond yield. The final equivalent single discount rate used for this year's valuation is 3.69% as of the end of the fiscal year with the expectation that the Authority will continue contributing the Actuarially Determined Contribution and paying the pay-go cost.

Changes in Total OPEB Liability

		Total OPEB Liability
Balances at June 30, 2021	$	1,713,245
Changes for the year:		
Service cost	$	77,678
Interest		34,744
Effect of Economic/Demographic Gains or Losses		711,842
Effect of Assumption Changes or Inputs		(542,243)
Net changes	$	282,021
Balances at June 30, 2022	$	1,995,266

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

The following amounts present the total OPEB liability of the Authority, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.69%) or one percentage point higher (4.69%) than the current discount rate:

Rates		
1% Decrease (2.69%)	Current Discount Rate (3.69%)	1% Increase (4.69%)
$ 2,279,127	$ 1,995,266	$ 1,764,778

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the Authority, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

Rates		
1% Decrease	Healthcare Cost Trend	1% Increase
$ 1,719,916	$ 1,995,266	$ 2,334,274

NOTE 6 OTHER POSTEMPLOYMENT BENEFITS – HEALTH INSURANCE (Continued)

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

For the year ended June 30, 2022, the Authority recognized OPEB expense in the amount of $282,021. At June 30, 2022, the Authority reported no deferred outflows of resources and deferred inflows of resources related to OPEB.

Additional disclosures on changes in total OPEB liability, related ratios, and employer contributions can be found in the required supplementary information following the notes to the financial statements.

NOTE 7 GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN)

Plan Description

The Group Life Insurance (GLI) Plan was established pursuant to §51.1-500 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. All full-time, salaried permanent employees of the state agencies, teachers, and employees of participating political subdivisions are automatically covered by the VRS GLI Plan upon employment. This is a cost-sharing multiple-employer plan administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

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

The specific information for GLI OPEB, including eligibility, coverage and benefits is described below:

Eligible Employees

The GLI Plan was established July 1, 1960, for state employees, teachers, and employees of political subdivisions that elect the plan. Basic GLI coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their accumulated retirement member contributions and accrued interest.

Benefit Amounts

The GLI Plan is a defined benefit plan with several components. The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. The accidental death benefit is double the natural death benefit. In addition to basic natural and accidental death benefits, the plan provides additional benefits provided under specific circumstances that include the following: accidental dismemberment benefit, seatbelt benefit, repatriation benefit, felonious assault benefit, and accelerated death benefit option. The benefit amounts are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value. For covered members with at least 30 years of service credit, the minimum benefit payable was set at $8,000 by statute in 2015. This will be increased annually based on the VRS Plan 2 cost-of-living adjustment calculation. The minimum benefit adjusted for the COLA was $8,722 as of June 30, 2022.

NOTE 7 GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN) (Continued)

Contributions

The contribution requirements for the GLI Plan are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI Plan was 1.34% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.80% (1.34% x 60%) and the employer component was 0.54% (1.34% x 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2022 was 0.54% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the GLI Plan from the entity were $21,650 and $20,147 for the years ended June 30, 2022 and June 30, 2021, respectively.

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Plan OPEB

At June 30, 2022, the entity reported a liability of $210,384 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2021 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation performed as of June 30, 2020, and rolled forward to the measurement date of June 30, 2021. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the GLI Plan for the year ended June 30, 2021, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2021, the participating employer's proportion was 0.01810% as compared to 0.01850% at June 30, 2020.

For the year ended June 30, 2022, the participating employer recognized GLI OPEB expense of $5,526. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2022, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 23,995	$ 1,603
Net difference between projected and actual earnings on GLI OPEB plan investments	-	50,214
Change in assumptions	11,598	28,785
Changes in proportionate share	2,167	14,261
Employer contributions subsequent to the measurement date	21,650	-
Total	$ 59,410	$ 94,863

NOTE 7 GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN) (Continued)

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Plan OPEB (Continued)

$21,650 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year Ended June 30		
2023	$	(13,457)
2024		(10,752)
2025		(10,344)
2026		(18,206)
2027		(4,344)

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2020, 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, 2021. The assumptions include several employer groups. Salary increases and mortality rates included herein are for relevant employer groups. Information for other groups can be reference in the VRS Annual Report.

Inflation	2.50%
Salary increases, including inflation:	
Locality - General employees	3.50%-5.35%
Investment rate of return	6.75%, net of investment expenses, including inflation

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

Pre-Retirement:
Pub-2010 Amount Weighted Safety Employee Rates projected generationally; males set forward 2 years; 105% of rates for females set forward 3 years

Post-Retirement:
Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 95% of rates for males set forward 2 years; 95% of rates for females set forward 1 year

Post-Disablement:
Pub-2010 Amount Weighted General Disabled Rates projected generationally; 110% of rates for males set forward 3 years; 110% of rates for females set forward 2 years

Beneficiaries and Survivors:
Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally

Mortality Improvement Scale:
Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

NOTE 7 GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN) (Continued)

Actuarial Assumptions (Continued)

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

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

NET GLI OPEB Liability

The net OPEB liability (NOL) for the GLI Plan represents the plan’s total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As the measurement date of June 30, 2021, NOL amounts for the GLI Plan are as follows (amounts expressed in thousands):

		GLI OPEB Plan
Total GLI OPEB Liability	$	3,577,346
Plan Fiduciary Net Position		2,413,074
Employers' Net GLI OPEB Liability (Asset)	$	1,164,272
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability		67.45%

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

NOTE 7 GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN) (Continued)

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Long-Term Target Asset Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return*
Public Equity	34.00%	5.00%	1.70%
Fixed Income	15.00%	0.57%	0.09%
Credit Strategies	14.00%	4.49%	0.63%
Real Assets	14.00%	4.76%	0.67%
Private Equity	14.00%	9.94%	1.39%
MAPS - Multi-Asset Public Strategies	6.00%	3.29%	0.20%
PIP - Private Investment Partnership	3.00%	6.84%	0.21%
Total	100.00%		4.89%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.39%

*The above allocation provides a one-year return of 7.39%. 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. These results provide a range of returns over various time periods that ultimately provide a median return of 6.94%, including expected inflation of 2.50%.

*On October 10, 2019, the VRS Board elected a long-term rate of return of 6.75%, which was roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ended June 30, 2021, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2021 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

NOTE 7 GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN) (Continued)

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

The following presents the employer's proportionate share of the net GLI OPEB liability using the discount rate of 6.75%, as well as what the employer's proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

		Rate	
	1% Decrease	Current Discount	1% Increase
	(5.75%)	(6.75%)	(7.75%)
Washington County Service Authority's proportionate share of the GLI Plan Net OPEB Liability	$ 307,379	$ 210,384	$ 132,057

GLI Plan Fiduciary Net Position

Detailed information about the GLI Plan's Fiduciary Net Position is available in the separately issued VRS 2021 Annual Comprehensive Financial Report (Annual Report). A copy of the 2021 VRS Annual Report may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2021-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

NOTE 8 SUMMARY OF OPEB BALANCES

	Water Fund				Sewer Fund			
	Deferred Outflows	Deferred Inflows	Net OPEB Liability	OPEB Expense	Deferred Outflows	Deferred Inflows	Net OPEB Liability	OPEB Expense
Authority Health Insurance Plan (Note 6)	$ -	$ -	$ 1,780,749	$ 251,700	$ -	$ -	$ 214,517	$ 30,321
Group Life Insurance Plan (Note 7)	53,647	86,231	191,240	5,023	5,763	8,632	19,144	503
Totals	$ 53,647	$ 86,231	$ 1,971,989	$ 256,723	$ 5,763	$ 8,632	$ 233,661	$ 30,824

NOTE 9 RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omission; injuries to employees; and natural disasters. The Authority joined together with other local governments in the Commonwealth to form the Virginia Municipal League Self Insurance Risk Pool, a public entity risk pool currently operating as a common risk management and insurance program for member governments. The Authority pays an annual premium to the pool for its workers compensation insurance. The Agreement for Formation of the pool provides that the pool will be self-sustaining through member premiums. Settled claims have not exceeded pool coverage in any of the past three years. The Authority has purchased its general liability and public employees' liability insurance through other commercial insurance providers.

NOTE 10 COMMITMENTS AND CONTINGENCIES

At June 30, 2022, the Authority had several major projects underway, which are presented in the financial statements as construction in progress. Presented below is a list of major projects, contract amounts, expenditures to date, and balances of contracts remaining:

Project	Contract Amount	Expenditures to Date	Balance of Contract	Retainage Payable
Galv Phase III - Div 1A - Boring Contractors	$ 5,476,567	$ 5,476,567	$ -	$ 506,817
Galv Phase III - Div 3A - Boring Contractors	6,530,977	6,529,977	1,000	1,000
Galv Phase III - Div 3 - Thomas Construction	5,034,368	5,034,368	-	251,718
Galv Phase III - Div 2B - Central Builders	4,253,278	3,955,317	297,961	208,175
Abrams Falls, Fleenors Memorial, Hobbs Road	701,735	498,146	203,589	26,218
Green Spring	n/a	n/a	n/a	1,728

NOTE 11 INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2022 consisted of the following:

Fund	Transfers In	Transfers Out
Water Fund	$ 38,975	$ -
Sewer Fund	-	38,975

Transfers are used to (1) move revenues from the fund that statue or budget requires to collect them to the fund that statute or budget requires to expend them or (2) to adjust for payroll related expenditures and balances.

NOTE 12 UPCOMING PRONOUNCEMENTS

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, 2021.

Statement No. 94, *Public-Private and Public-Public Partnerships and Availability of Payment Arrangements*, addresses issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022.

Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022.

Statement No. 99, *Omnibus 2022*, enhances the comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The effective dates differ based on the requirements of the Statement, ranging from April 2022 to reporting periods beginning after June 15, 2023.

NOTE 12 UPCOMING PRONOUNCEMENTS (Continued)

Statement No. 100, *Accounting Changes and Error Corrections* – an amendment of GASB Statement No. 62, enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement are effective for reporting periods beginning after June 15, 2023.

Statement No. 101, *Compensated Absences*, updates the recognition and measurement guidance for compensated absences. It aligns the recognition and measurement guidance under a unified model and amends certain previously required disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2023.

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

Required Supplementary Information

Exhibit 4

Washington County Service Authority
Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
Pension Plan
For the Measurement Dates of June 30, 2014 through June 30, 2021

	2021	2020	2019	2018	2017	2016	2015	2014
Total Pension Liability (Asset)								
Service cost	$ 346,144	$ 357,790	$ 334,451	$ 322,487	$ 345,698	$ 348,934	$ 344,820	$ 303,720
Interest	990,759	960,352	913,738	865,463	864,854	817,665	770,771	726,494
Changes of assumptions	528,479	-	439,587	-	(221,000)	-	-	-
Difference between expected and actual experience	130,253	(236,891)	(29,684)	(119,256)	(607,671)	(135,635)	(102,805)	-
Benefit payments	(676,882)	(584,691)	(383,423)	(374,661)	(371,704)	(341,979)	(343,770)	(451,577)
Net change in pension liability	$ 1,318,753	$ 496,560	$ 1,274,669	$ 694,033	$ 10,177	$ 688,985	$ 669,016	$ 578,637
Total pension liability (asset) - beginning	15,016,345	14,519,785	13,245,116	12,551,083	12,540,906	11,851,921	11,182,905	10,604,268
Total pension liability (asset) - ending (a)	$ 16,335,098	$ 15,016,345	$ 14,519,785	$ 13,245,116	$ 12,551,083	$ 12,540,906	$ 11,851,921	$ 11,182,905
Plan Fiduciary Net Position								
Contributions - employer	$ 127,670	$ 137,738	$ 143,339	$ 227,139	$ 214,674	$ 258,598	$ 260,877	$ 239,588
Contributions - employee	177,268	183,210	184,191	177,412	170,627	170,269	172,019	164,990
Net investment income	3,944,669	277,055	913,224	938,581	1,381,932	197,137	481,447	1,419,775
Benefit payments	(676,882)	(584,691)	(383,423)	(374,661)	(371,704)	(341,979)	(343,770)	(451,577)
Administrator charges	(9,925)	(9,382)	(8,840)	(7,918)	(7,811)	(6,717)	(6,403)	(7,647)
Other	371	(326)	(577)	(844)	(1,236)	(82)	(103)	75
Net change in plan fiduciary net position	$ 3,563,171	$ 3,604	$ 847,914	$ 959,709	$ 1,386,482	$ 277,226	$ 564,067	$ 1,365,204
Plan Fiduciary Net Position - beginning	14,456,248	14,452,644	13,604,730	12,645,021	11,258,539	10,981,313	10,417,246	9,052,042
Plan Fiduciary Net Position - ending (b)	$ 18,019,419	$ 14,456,248	$ 14,452,644	$ 13,604,730	$ 12,645,021	$ 11,258,539	$ 10,981,313	$ 10,417,246
Authority's net pension liability (asset) - ending (a) - (b)	$ (1,684,321)	$ 560,097	$ 67,141	$ (359,614)	$ (93,938)	$ 1,282,367	$ 870,608	$ 765,659
Plan fiduciary net position as a percentage of the total pension liability	110.31%	96.27%	99.54%	102.72%	100.75%	89.77%	92.65%	93.15%
Covered payroll	$ 3,730,931	$ 3,804,567	$ 3,794,010	$ 3,617,228	$ 3,462,831	$ 3,428,140	$ 3,446,371	$ 3,300,771
Authority's net pension liability (asset) as a percentage of covered-employee payroll	-45.14%	14.72%	1.77%	-9.94%	-2.71%	37.41%	25.26%	23.20%

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

Washington County Service Authority
Schedule of Employer Contributions
Pension Plan
For the Years Ended June 30, 2013 through June 30, 2022

Date	Contractually Required Contribution (1)*	Contributions in Relation to Contractually Required Contribution (2)*	Contribution Deficiency (Excess) (1) - (2) (3)	Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (2)/(4) (5)
2022	$ 129,842	$ 129,842	$ -	$ 4,007,748	3.24%
2021	127,814	127,814	-	3,730,931	3.43%
2020	137,738	137,738	-	3,804,567	3.62%
2019	143,910	143,910	-	3,794,010	3.79%
2018	223,064	223,064	-	3,617,228	6.17%
2017	214,905	214,905	-	3,462,831	6.21%
2016	258,598	258,598	-	3,428,140	7.54%
2015	260,877	260,877	-	3,446,371	7.57%
2014	239,579	239,579	-	3,300,771	7.26%
2013	232,703	232,703	-	3,205,279	7.26%

Contributions are from the Authority's records.

* Excludes contributions (mandatory and match on voluntary) to the defined contribution portion of the Hybrid plan.

Washington County Service Authority
Notes to Required Supplementary Information
Pension Plan
For the Year Ended June 30, 2022

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 actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Exhibit 7

Washington County Service Authority
Schedule of Changes in Total OPEB Liability (Asset) and Related Ratios - Health Insurance
For the Measurement Dates of June 30, 2018 through June 30, 2022

	2022	2021	2020	2019	2018
Total OPEB liability					
Service cost	$ 77,678	$ 71,528	$ 47,476	$ 47,476	$ 47,476
Interest	34,744	39,060	51,054	37,582	14,674
Effect of Economic/Demographic Gains or Losses	711,842	(10,316)	(139,909)	22,109	-
Effect of Assumptions Changes or Inputs	(542,243)	88,274	154,854	(151,731)	(94,280)
Other adjustments	-	-	-	-	57,233
Net change in total OPEB liability	$ 282,021	$ 188,546	$ 113,475	$ (44,564)	$ 25,103
Total OPEB liability - beginning	1,713,245	1,524,699	1,411,224	1,455,788	1,430,685
Total OPEB liability - ending	$ 1,995,266	$ 1,713,245	$ 1,524,699	$ 1,411,224	$ 1,455,788
Covered-employee payroll	N/A	N/A	N/A	N/A	N/A
Authority's total OPEB liability (asset) as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A	N/A

Schedule is intended to show information for 10 years. Additional years will be included as they become available.

Washington County Service Authority
Notes to Required Supplementary Information - Health Insurance
For the Year Ended June 30, 2022

Valuation Date:	6/30/2022
Measurement Date:	6/30/2022

No assets are accumulated in a trust that meets the criteria in GASB 75 to pay related benefits.

Methods and assumptions used to determine OPEB liability:

Actuarial Cost Method	Entry age normal
Discount Rate	3.69%
Inflation	2.30%
Healthcare Trend Rate	The medical trend rate starts at 4.7% in 2022 and gradually declines to 4.2% by year 8.
Salary Increase Rates	8.50%
Retirement Age	The average age at retirement is 62
Mortality Rates	Pub-2010 Public Retirement Plans Mortality Tables, with mortality improvement projected for 10 years.

Exhibit 9

Washington County Service Authority
Schedule of Authority's Share of Net OPEB Liability
Group Life Insurance (GLI) Plan
For the Measurement Dates of June 30, 2017 through June 30, 2021

Date (1)	Employer's Proportion of the Net GLI OPEB Liability (Asset) (2)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability (6)
2021	0.01810%	$ 210,384	$ 3,730,931	5.64%	67.45%
2020	0.01850%	308,234	3,800,998	8.11%	52.64%
2019	0.01928%	313,737	3,794,010	8.27%	52.00%
2018	0.01902%	289,000	3,617,228	7.99%	51.22%
2017	0.01880%	283,000	3,468,537	8.16%	48.86%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

Washington County Service Authority
Schedule of Employer Contributions
Group Life Insurance (GLI) Plan
For the Years Ended June 30, 2013 through June 30, 2022

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 % of Covered Payroll (5)
2022	$ 21,650	$ 21,650	$ -	$ 4,009,292	0.54%
2021	20,147	20,147	-	3,730,931	0.54%
2020	19,766	19,766	-	3,800,998	0.52%
2019	19,729	19,729	-	3,794,010	0.52%
2018	18,808	18,808	-	3,617,228	0.52%
2017	18,036	18,036	-	3,468,537	0.52%
2016	16,442	16,442	-	3,425,434	0.48%
2015	16,543	16,543	-	3,446,371	0.48%
2014	15,844	15,844	-	3,300,771	0.48%
2013	15,385	15,385	-	3,205,280	0.48%

Washington County Service Authority
Notes to Required Supplementary Information
Group Life Insurance (GLI) Plan
For the Year Ended June 30, 2022

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 actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Non-Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

COMPLIANCE SECTION

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

To the Board of Directors
Washington County Service Authority
Abingdon, 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 Washington County Service Authority, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Washington County Service Authority's basic financial statements and have issued our report thereon dated March 7, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Washington County Service Authority's internal control over financial reporting (internal control) as a basis for designing 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 Washington County Service Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Washington County Service Authority's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2022-001 and 2022-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2022-003 to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Washington County Service Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

Washington County Service Authority's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Washington County Service Authority's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Washington County Service Authority's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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
March 7, 2023

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Directors
Washington County Service Authority
Abingdon, Virginia

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Washington County Service Authority's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Washington County Service Authority's major federal programs for the year ended June 30, 2022. Washington County Service Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Washington County Service Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance 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 audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Washington County Service Authority and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Washington County Service Authority's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Washington County Service Authority's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Washington County Service Authority's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Washington County Service Authority's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Washington County Service Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Washington County Service Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Washington County Service Authority's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Robinson, Farmer, Cox, Associates

Blacksburg, Virginia
March 7, 2023

Washington County Service Authority
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number		Federal Expenditures
DEPARTMENT OF AGRICULTURE:				
Direct Payments:				
Water and Waste Disposal Systems for Rural Communities	10.760	N/A	$	16,411,843
Total Expenditures of Federal Awards			$	16,411,843

Notes to the Schedule of Expenditures of Federal Awards

NOTE A--BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Washington County Service Authority under programs of the federal government for the year ended June 30, 2022. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) The Authority did not elect the 10% de minimus indirect cost rate because they only request direct costs for reimbursement.

(3) Pass-through entity identifying numbers are presented where available.

NOTE C--SUBRECIPIENTS

The Authority did not have any subrecipients for the year ended June 30, 2022.

NOTE D--RELATIONSHIP TO THE FINANCIAL STATEMENTS

Federal expenditures, revenues, and capital contributions are reported in the Washington County Service Authority's basic financial statements as follows:

Intergovernmental state and federal revenues per the basic financial statements:		
Statement of Revenues, Expenses and Changes in Net Position:	$	167,943
Reconciling items:		
State and local revenues	$	(167,943)
Line of credit proceeds		16,411,843
Total reconciling items	$	16,243,900
Total federal expenditures per basic financial statements	$	16,411,843
Total federal expenditures per the Schedule of Expenditures of Federal Awards	$	16,411,843

Washington County Service Authority
Schedule of Findings and Questioned Costs
For The Year Ended June 30, 2022

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiency(ies) identified?	No
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)	No

Identification of major programs:

ALN	Name of Federal Program or Cluster
10.760	Water and Waste Disposal System for Rural Communities

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
Auditee qualified as low-risk auditee?	No

Washington County Service Authority
Schedule of Findings and Questioned Costs
For The Year Ended June 30, 2022

Section II - Financial Statement Findings

2022-001 Material Weakness

Criteria: An auditee should have controls in place to prepare financial statements in accordance with current reporting standards. Identification of a material adjustment to the financial statements that was not detected by the entity's internal controls indicates that a significant deficiency exists.

Condition: The Authority's financial statements as provided required significant proposed adjustments to ensure such statements complied with Generally Accepted Accounting Principles.

Cause: The Authority failed to identify all year end accounting adjustments necessary for the books to be prepared in accordance with current reporting standards.

Effect: There is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented or detected by the Authority's internal controls over financial reporting.

Recommendation: The Authority should review the proposed audit adjustments and incorporate same in the trial balance provided for audit in the future. Management should also implement a monthtly close process to ensure balances are appropriately reported throughout the year for internal reporting purposes.

Management's Response: Management agrees and will work to implement a monthly close process and will also review other proposed adjustments to be incorporated in the Authority's trial balance.

2022-002 Material Weakness

Criteria: Bank reconciliations should be prepared in a timely manner each month and reviewed by someone outside of the collecting or disbursing functions. The bank reconciliations should be reconciled to the ledger and any discrepancies should be investigated.

Condition: Bank reconciliations were prepared each month; however, the reconciled total was not compared to the general ledger balance for same.

Cause: The Authority does not have proper controls in place to ensure that monthly bank reconciliations are prepared and reviewed in a timely manner.

Effect: There is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal controls over bank

Recommendation: A process should be put in place to ensure that reconciliations are prepared monthly and compared to the general ledger. Completed reconciliations should be reviewed in a timely manner. Evidence of the reconciliation process should be maintained for audit purposes.

Management's Response: Management will implement a formal review process to ensure that the reconciled total is agreed to the ledger and that the preparer and reviewer intials and date of same are included in documentation for audit purposes.

Washington County Service Authority
Schedule of Findings and Questioned Costs
For The Year Ended June 30, 2022

Section II - Financial Statement Findings (Continued)

2022-003	**Significant Deficiency**
Criteria:	Totals for inventory should be reconciled routinely between the general ledger and the inventory control system.
Condition:	A new inventory system was purchased during the year and meters were added to the inventory system to help track when they used in a water system. However, on the ledger, amounts were included as CIP. Routine reconciliations were not performed during the year to ensure that the inventory system and the ledger agreed.
Cause:	Ending balances reported on the ledger for inventory did not agree to inventory per the separate inventory tracking system due to the lack of controls related to the inventory process and new software implementation.
Effect:	There is a reasonable possibility that a misstatement of the financial statements will not be prevented or detected by the Authority's internal controls over inventory.
Recommendation:	A process should be put in place to ensure that inventory is counted routinely and same is updated in the inventory tracking system and reconciled to the ledger to ensure appropriate reporting. Documentation of the count and reconciliation should be maintained for audit.
Management's Response:	Management is working to implement a monthly invenotry count and reconciliation process.

Section III - Federal Award Findings

There are no federal award findings or questioned costs to report.

Washington County Service Authority
Summary Schedule of Prior Audit Findings
For The Year Ended June 30, 2022

Section I - Summary of Auditors' Results

2021-001

Condition:	The Authority's financial statements as provided required significant proposed adjustments to ensure such statements complied with Generally Accepted Accounting Principles.
Recommendation:	The Authority should review the proposed audit adjustments and incorporate same in the trial balance provided for audit in the future. Management should also implement a monthtly close process to ensure balances are appropriately reported throughout the year for internal reporting purposes.
Current Status:	Finding 2021-001 was repeated in the current year as 2022-001.

2021-002

Condition:	Bank reconciliations were prepared each month; however, when variances were noted by the preparer, no review was performed to assist with determining what was creating reconciling differences and posting adjustments for same.
Recommendation:	A process should be put in place to ensure that reconciliations are reviewed monthly. In the event that reconciling differences are noted, there should be a process to review and adjust the reconciliation or ledger as needed in a timely manner. Documentation should be maintained for audit purposes.
Current Status:	Finding 2021-002 was repeated in the current year as 2022-002.