# NELSON COUNTY SERVICE AUTHORITY FINANCIAL REPORT YEAR ENDED JUNE 30, 2018

(A governmental organization under the Water and Sewer Authorities Act, Chapter 51, Title 15.2 of the <u>Code of Virginia</u>, as amended)

# **MEMBERS**

Russell B. Otis, Chairman

David S. Hight, Vice-Chairman

Thomas D. Harvey

Robert McSwain

Gary L. Sherwood

# **OFFICIAL**

George T. Miller, Jr., Executive Director

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# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABLITY COMPANY

# **Independent Auditors' Report**

BOARD OF DIRECTORS NELSON COUNTY SERVICE AUTHORITY LOVINGSTON, VIRGINIA

# Report on the Financial Statements

We have audited the accompanying financial statements of the Nelson County Service Authority as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

# Management's Responsibility for the Financial Statements

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

# Auditors' Responsibility

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

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

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

# Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Nelson County Service Authority, as of June 30, 2018, and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

# Change in Accounting Principles

As described in Note 10 to the financial statements, in 2018, the Authority adopted new accounting guidance, GASB Statement Nos. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and 85 *Omnibus 2017.* Our opinion is not modified with respect to this matter.

# Restatement of Beginning Balances

As described in Note 10 to the financial statements, in 2018, the Authority restated beginning balances to reflect the requirements of GASB Statement No. 75. Our opinion is not modified with respect to this matter.

### Other Matters

# Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules related to pension and OPEB funding on pages 4-8 and on pages 43-51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Supplementary Information

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

The supporting schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supporting schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

# Report on Summarized Comparative Information

We have previously audited the Nelson County Service Authority's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 27, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

# Other Reporting Required by Government Auditing Standards

winson, tarmer, Cox associates

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2018, on our consideration of the Nelson 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 Nelson 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 Nelson County Service Authority's internal control over financial reporting and compliance.

Charlottesville, Virginia

November 30, 2018

# Management's Discussion and Analysis

This section presents Management's Discussion and Analysis of Nelson County Service Authority's (Authority) financial condition and activities for the year ended June 30, 2018. This information should be read in conjunction with the financial statements.

# Financial Highlights

Management believes the Authority's financial position is good. The following are key financial highlights:

- The Authority treated 120 million gallons of raw water representing a 15% decrease from fiscal year 2017. In fiscal year 2017, had a 10% increase from 2016.
- The Authority treated 114 million gallons of wastewater representing a 1% increase from fiscal year 2017. Fiscal year 2017 the Authority treated 113 million gallons, a 15% decrease from 2016.
- Total assets at year-end were \$16.4 million. Total assets and deferred outflows of resources exceeded liabilities and deferred inflows in the amount of \$8.6 million (i.e. net position) versus \$8.5 million at June 30, 2017. Total assets decreased from fiscal year end 2017 to 2018 in the amount of \$219,364. Total net position increased from fiscal year-end 2017 to 2018 in the amount of \$178,538.
- Water and sewage charges of \$3,575,687 increased over fiscal year 2018 by approximately \$18,000. Water and Sewage disposal charges for fiscal year 2018 were less than budget projections by 5.5%.
- Payments from Nelson County of \$318,812 represented their contribution toward the fire protection costs incurred by the Authority. The payments were the same as fiscal year 2017 and 2016.
- Operating revenues excluding the County's payment for the year were \$3,750,213, compared to \$3,677,548 for fiscal year 2017, a 1.98% increase.
- Operating expenses before depreciation were \$2,825,926, compared to \$2,644,482 for fiscal year 2017 and \$2,612,224 for fiscal year 2016.

### **Required Financial Statements**

The financial statements of the Authority report information about the Authority's use of accounting methods which are similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities.

The statement of net position includes all of the Authority's assets, liabilities, and deferred inflows/outflows of resources and provides information about the nature and amount of investments in resources (assets) and obligations to Authority creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Authority 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 success 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 water and sewage disposal rates and other fees. The Authority's rates are based on projected operating costs and are adjusted as needed to meet operating expenses and the required debt ratio.

The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and the change in cash during the reporting period.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

### **Summary of Organization and Business**

The Nelson County Service Authority is a public body organized and created under the Virginia Water and Waste Authorities Act of the <u>Code of Virginia</u> (1950), as amended. The Nelson County Board of Supervisors created the Authority in 1986. The purpose of the Authority is to "acquire, construct, improve, extend, operate and maintain a water and sewage disposal system."

The Authority is governed by five citizen members appointed by the Nelson County Board of Supervisors to fouryear staggered terms.

The Authority's infrastructure assets consist of four water treatment plants, four wastewater treatment plants, approximately 85 miles of water lines, 65 miles of interceptor sewers, 31 pump stations, and a raw water reservoir. The collection system, consisting of mains and laterals, is owned and maintained by the Authority.

The Authority has no taxing power. The revenues of the Authority are derived from water and sewage disposal charges based on metered and unmetered water consumption of the Authority users of the system.

# Financial Analysis

The following comparative condensed financial statements and other selected information provide key financial data and indicators for managing, monitoring and planning.

				Net Position		
		2018		2017	_	2016
Assets: Current and other assets Capital assets	\$_	2,843,527 13,585,902	\$	2,542,201 14,106,592	\$	2,670,606 14,435,191
Total assets	\$_	16,429,429	\$_	16,648,793	\$_	17,105,797
Deferred outflows of resources	\$_	84,128	\$_	167,859	\$_	183,942
Liabilities: Current liabilities Noncurrent liabilities	\$_	536,956 7,155,467	\$_	901,006 7,349,646	\$_	1,173,106 8,007,919
Total liabilities	\$_	7,692,423	\$_	8,250,652	\$_	9,181,025
Deferred inflows of resources	\$_	172,126	\$_	59,245	\$_	129,357
Net position: Net investment in capital assets Restricted Unrestricted	\$	6,358,658 333,380 1,956,970	\$	6,242,649 307,409 1,956,697	\$_	5,930,026 288,499 1,760,832
Total net position	\$_	8,649,008	\$_	8,506,755	\$_	7,979,357
		С	han	ae in Net Posi	tior	1
	_	2018	han	ge in Net Posi 2017	tior	2016
Revenues: Operating revenues Fire protection-Nelson County Other revenue	\$		<u>+an</u> - \$	-	tior - \$	
Operating revenues Fire protection-Nelson County	\$ \$ \$_	3,750,213 318,812	_	2017 3,677,548 318,812	_	3,719,644 318,812
Operating revenues Fire protection-Nelson County Other revenue	\$ \$ -	3,750,213 318,812 5,663	\$	2017 3,677,548 318,812 5,356	\$	3,719,644 318,812 4,968
Operating revenues Fire protection-Nelson County Other revenue  Total revenues  Expenses: Operating expenses Depreciation expenses	\$_	2018 3,750,213 318,812 5,663 4,074,688 2,825,956 818,972	\$ - \$_	2017 3,677,548 318,812 5,356 4,001,716 2,644,482 794,758	\$ _	2016 3,719,644 318,812 4,968 4,043,424 2,612,224 770,751
Operating revenues Fire protection-Nelson County Other revenue  Total revenues  Expenses: Operating expenses Depreciation expenses Interest expense	\$_ \$_	2018 3,750,213 318,812 5,663 4,074,688 2,825,956 818,972 314,708	\$ \$ \$_	2017 3,677,548 318,812 5,356 4,001,716 2,644,482 794,758 343,914	\$ \$ \$_	2016 3,719,644 318,812 4,968 4,043,424 2,612,224 770,751 364,322
Operating revenues Fire protection-Nelson County Other revenue  Total revenues  Expenses: Operating expenses Depreciation expenses Interest expense  Total expenses Increase in net position before capital contributions	\$_ \$_ \$_	2018 3,750,213 318,812 5,663 4,074,688 2,825,956 818,972 314,708 3,959,636 115,052	\$ \$_ \$_	2017  3,677,548 318,812 5,356  4,001,716  2,644,482 794,758 343,914  3,783,154  218,562	\$ \$ \$ \$	2016 3,719,644 318,812 4,968 4,043,424 2,612,224 770,751 364,322 3,747,297 296,127

# **General Trends and Significant Events**

# Other Selected Information

	 2018	_	2017	 2016
Employees at year-end	20		21	21
Raw water treated (millions of gallons)	119.98		141.29	156.57
Average daily water consumption (millions of gallons)	0.33		0.39	0.43
Wastewater treated (millions of gallons)	114.05		113.26	133.70
Average daily sewage flow (millions of gallons)	0.31		0.31	0.37
Number water connections	2,932		2,927	2,923
Number sewer connections	2,545		2,540	2,537
Rates for normal water customers:  Minimum charges for 0-4,000 gallons:				
Lovingston, Schuyler Gladstone	\$ 38.20	\$	38.20	\$ 38.20
Wintergreen	\$ 41.85	\$	41.85	\$ 41.85
Each additional 1,000 gallons	\$ 10.50	\$	10.50	\$ 10.50
Rates for normal sewer customers:				
Lovingston, Schuyler Gladstone	\$ 47.05	\$	47.05	\$ 47.05
Wintergreen	\$ 47.05	\$	47.05	\$ 47.05
Each additional 1,000 gallons	\$ 9.90	\$	9.90	\$ 9.90

The Authority's service area in Nelson County has the potential for growth. The County is over two hundred years old and has available land that continues to be developed. Growth from the new development is not expected to significantly increase the Authority's water and sewage disposal revenues in any given year.

The number of the Authority's combined water and sewer connections increased by 10 in fiscal year 2018 versus 7 in fiscal year 2017. The current number of combined connections is 5,477 versus 5,467 at June 30, 2017.

It is anticipated that the Authority's growth in the near future will be limited by the current state of the economy.

# **Financial Condition**

The Authority's financial condition remained good at year-end with adequate liquid assets and a reasonable level of unrestricted net position. The current financial condition, staff capabilities, operating plans and upgrade plans to meet future water quality requirements are well balanced and under control.

Total assets decreased \$219,364, and net position increased by \$178,538 from FY2017.

# Capital Asset and Debt Administration

<u>Capital Assets</u> - The Authority's investment in capital assets as of June 30, 2018 amounts to \$13,585,902 (net of accumulated depreciation). Investment in Capital Assets decreased 3.69% during the year. Below is a comparison of the items that make up Capital Assets as of June 30, 2018 with that of June 30, 2017 and 2016.

		2018	 2017	2016
Land and improvements	\$	279,551	\$ 279,551	\$ 279,551
Utility system and equipment		13,099,515	13,762,100	13,554,866
Construction in Progress	_	206,836	64,941	600,774
Total Capital Assets	\$	13,585,902	\$ 14,106,592	\$ 14,435,191

At year-end the Authority had \$7.23 million in long-term debt with \$277,225 coming due in 2019. More detailed information about the Authority's long-term debt is presented in Note 5 to the financial statements.

# **Results of Operations**

The Authority's revenues from operations fall into three main categories: 1) Water and Sewage disposal charges to customers in Nelson County which are based upon metered and unmetered water consumption which is billed monthly. 2) Miscellaneous revenue including penalties, Nelson County shared expense reimbursements, and other revenue. 3) Nonoperating revenues including interest, gain on sale of assets and other revenue. Revenues from the three main categories total \$4,074,688 for fiscal year 2018. Fiscal year 2017 totaled \$4,001,716.

Operating expenses before depreciation were \$2.83 million, compared to \$2.64 and \$2.61 million for fiscal years 2017 and 2016.

# <u>Future</u>

Fiscal year 2018 continued the trend of improved financial performance by the Authority. This improvement is needed in order for the Authority to maintain flexibility in future borrowing decisions, ensuring that there is an appropriate reserve for operating expenses, expansion, and that resources are available to provide for the effects of time and usage on the significant investment in equipment.

# Contacting the Authority's Financial Manager

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Nelson County Service Authority's Executive Director, P. O. Box 249, Lovingston, VA 22949.



Statement of Net Position At June 30, 2018

(With Comparative Totals for the Prior Year)

			At	June 30, 2018			At June 30,
	_	Water		Sewer	Total		2017
ASSETS							
Current Assets:	•			4 F74 F00 ¢	4 574 500	Φ.	1 571 000
Cash and cash equivalents Accounts receivable (net of allowance for	\$	-	\$	1,571,522 \$	1,571,522	\$	1,571,239
uncollectibles)		252,368		250,287	502,655		446,014
Internal balances Inventory of materials and supplies, at cost		(174,895) 29,286		174,895 105,807	135,093		138,833
Prepaid expenses		5,768		5,768	11,536		130,033
Total current assets	\$	112,527	- \$	2,108,279 \$	2,220,806	\$	2,156,086
Noncurrent Assets:	_	•	_			_	
Restricted Assets:							
Cash and cash equivalents	\$_	236,497	\$_	96,883 \$	333,380	\$_	307,409
Other Assets:			_			_	
Net pension asset	\$_	144,670	- \$ _	144,671 \$	289,341	\$_	78,706
Capital Assets: Land and improvements	\$	276,431	\$	3,120 \$	279,551	\$	279,551
Water and sewer systems	Ψ	16,093,335	Ψ	10,205,529	26,298,864	Ψ	26,298,864
Equipment		790,528		1,557,274	2,347,802		2,191,415
Accumulated depreciation	_	(7,861,182)		(7,685,969)	(15,547,151)		(14,728,179)
Sub-total	\$	9,299,112	\$	4,079,954 \$	13,379,066	\$	14,041,651
Construction work in progress	_	53,042		153,794	206,836		64,941
Total net capital assets	\$_	9,352,154	\$_	4,233,748 \$	13,585,902	\$_	14,106,592
Total noncurrent assets	\$_	9,733,321	\$_	4,475,302 \$	14,208,623	\$_	14,492,707
Total assets	\$_	9,845,848	\$_	6,583,581 \$	16,429,429	\$_	16,648,793
DEFERRED OUTFLOWS OF RESOURCES							
Deferred charge on refunding	\$	_	\$	- \$	_	\$	65,330
OPEB related items	Ψ	14,359	Ψ	14,357	28,716	Ψ	-
Pension related items		27,706		27,706	55,412		102,529
Total deferred outflows of resources	\$	42,065	\$	42,063 \$	84,128	\$	167,859
LIABILITIES						_	
Current Liabilities:							
Accounts payable	\$	100,017	\$	39,511 \$	139,528	\$	50,426
Compensated absences		28,637		31,157	59,794		61,992
Accrued expenses		22,566		16,875	39,441		41,841
Accrued interest payable		3,464		1,504	4,968		6,055
Unearned revenue		5,500		10,500	16,000		38,699
Revenue bonds-current portion	_	197,374		79,851	277,225	-	701,993
Total current liabilities	\$_	357,558	- \$ _	179,398 \$	536,956	\$_	901,006
Noncurrent Liabilities:	_		_	+		_	
Revenue bonds-net of current portion  Net OPEB liabilities	\$	5,362,711 102,724	\$	1,587,308 \$ 102,724	6,950,019	\$	7,227,280
Total noncurrent liabilities	\$			1,690,032 \$	205,448		7,349,646
Total liabilities	*_ \$	5,465,435			7,155,467		
	Φ_	5,822,993	- <sup>-</sup> –	1,869,430 \$	7,692,423	. Ф_	8,250,652
DEFERRED INFLOWS OF RESOURCES Pension related items	\$	82,063	¢	82,063 \$	164,126	¢	59,245
OPEB related items	Φ	4,000	Ф	4,000	8,000	Φ	59,245
Total deferred inflows of resources	\$	86,063	\$_	86,063 \$		\$	59,245
NET POSITION							
Net investment in capital assets	\$	3,792,069	\$	2,566,589 \$	6,358,658	\$	6,242,649
Restricted for debt service		236,497		96,883	333,380		307,409
Unrestricted	_	(49,709)		2,006,679	1,956,970		1,956,697
Total net position	\$	3,978,857	\$	4,670,151 \$	8,649,008	\$	8,506,755
	_					-	

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

Statement of Revenues, Expenses and Changes in Net Position Year Ended June 30, 2018 (With Comparative Totals for the Prior Year)

		Yea		Year Ended			
	_	Water		Sewer	Total	_	June 30, 2017
Operating Revenues: Water and sewer charges Availability fees Fire protection fees-Nelson County Connection fees Other fees	\$	1,731,064 15,257 318,812 28,000 17,960	\$	1,844,623 \$ 21,675 - 28,000 63,634	3,575,687 36,932 318,812 56,000 81,594	\$	3,557,780 37,383 318,812 8,000 74,385
Total operating revenues	\$	2,111,093	\$	1,957,932 \$	4,069,025	\$	3,996,360
Operating Expenses: Personnel Depreciation Maintenance Fringe benefits Operations Power pumping Raw water General and administrative Insurance Contractual services Grinder pump parts Uniforms Small tools Total operating expenses	\$	607,140 472,212 161,587 139,664 152,689 64,652 350,802 69,048 20,371 102,812 - 2,050 811	\$	403,722 \$ 346,760 121,778 113,757 175,796 86,637 - 50,308 20,372 37,042 142,307 1,709 902	1,010,862 818,972 283,365 253,421 328,485 151,289 350,802 119,356 40,743 139,854 142,307 3,759 1,713	\$	1,014,752 794,758 237,577 280,769 314,716 137,339 335,796 120,362 40,248 55,326 102,704 3,920 973
Operating income (loss)	\$_	(32,745)	\$_	456,842 \$	424,097	\$_	557,120
Nonoperating Revenues (Expenses): Interest income Gain (loss) on sale of assets Interest expense	\$	4,865 277 (225,529)	\$	244 \$ 277 (89,179)	5,109 554 (314,708)	\$	3,656 1,700 (343,914)
Total nonoperating revenues (expenses)	\$_	(220,387)	\$_	(88,658)	(309,045)	\$_	(338,558)
Income (loss) before contributions and grants	\$	(253,132)	\$	368,184 \$	115,052	\$	218,562
Capital contributions and construction grants	_	7,850	_	55,636	63,486		308,836
Change in net position Net position, beginning of year, as restated (Note 10)	\$	(245,282) 4,224,139	\$	423,820 \$ 4,246,331	178,538 8,470,470	\$	527,398 7,979,357
Net position, end of year	\$_	3,978,857	\$	4,670,151	8,649,008	\$	8,506,755

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

Statement of Cash Flows Year Ended June 30, 2018 (With Comparative Totals for the Prior Year)

	Year Ended June 30, 2018						Year Ended	
	_	Water		Sewer	_	Total		June 30, 2017
Cash flows from operating activities:								
Receipts from customers and users	\$	2,072,643	\$	1,939,741	\$	4,012,384	\$	3,986,347
Payments to suppliers		(887,697)		(654,054)		(1,541,751)		(1,621,533)
Payments to employees	_	(746,040)	_	(516,712)	_	(1,262,752)	-	(1,236,363)
Net cash provided by (used for) operating activities	\$_	438,906	\$_	768,975	\$_	1,207,881	\$	1,128,451
Noncapital financing activities:								
(Increase) decrease in internal balances	\$_	174,895	\$_	(174,895)	\$_	-	\$	
Cash flows from capital and related financing activities:								
Additions to utility plant	\$	(122,001)	\$	(176,282)	\$	(298,283)	\$	(466,159)
Proceeds from the sale of assets		277		277		554		1,700
Principal payments on bonds		(407,808)		(294,218)		(702,026)		(906,133)
Contributions in aid of construction		7,850		55,636		63,486		308,836
Proceeds from indebtedness		- (100.000)		- (57.4(5)		(050 4/7)		186,517
Interest payments	_	(193,302)	-	(57,165)	-	(250,467)	-	(274,363)
Net cash provided by (used for) capital and related								
financing activities	\$_	(714,984)	\$_	(471,752)	\$_	(1,186,736)	\$_	(1,149,602)
Cash flows from investing activities:								
Interest income	\$_	4,865	\$_	244	\$	5,109	\$	3,656
	_	(0 ( 040)	_	100 570	_	0/.054	_	(47, 405)
Increase (decrease) in cash and cash equivalents	\$	(96,318)	\$	122,572	\$	26,254	\$	(17,495)
Cash and cash equivalents at beginning of year (including \$212,213								
and \$95,196, respectively reported in restricted accounts)	_	332,815	_	1,545,833	_	1,878,648	_	1,896,143
Cash and cash equivalents at end of year (including \$236,497 and								
\$96,883, respectively reported in restricted accounts)	\$	236,497	\$	1,668,405	\$	1,904,902	\$	1.878.648
	-		-	, ,	-	, , , , , ,	=	,
Reconciliation of operating income (loss) to net cash provided by								
(used for) operating activities: Operating income (loss)	\$	(32,745)	¢	456,842	¢	424.097	¢	557,120
Adjustments to reconcile operating income (loss) to net cash	φ	(32,743)	Ф	450,042	φ	424,077	Φ	557,120
provided by (used for) operating activities:								
Depreciation		472,212		346,760		818,972		794,758
Changes in operating assets, liabilities, and deferred outflows/in	flow							
(Increase) decrease in accounts receivable		(38,450)		(18,191)		(56,641)		(10,013)
(Increase) decrease in inventories		(784)		4,524		3,740		(3,251)
(Increase) decrease in prepaid expenses		(5,768)		(5,768)		(11,536)		10,170
(Increase) decrease in net pension asset		(105,317)		(105,318)		(210,635)		114,004
(Increase) decrease in pension deferred outflows of resources		23,558		23,559		47,117		(62,311)
(Increase) decrease in OPEB deferred outflows of resources		(14,359)		(14,357)		(28,716)		-
Increase (decrease) in accounts payable		73,032		16,070		89,102		(203,641)
Increase (decrease) in accrued expenses		(863)		(1,537)		(2,400)		6,524
Increase (decrease) in compensated absences		(1,099)		(1,099)		(2,198)		8,594
Increase (decrease) in unearned revenue		(10,350)		(12,349)		(22,699)		(20,063)
Increase (decrease) in pension deferred inflows of resources		52,440		52,441		104,881		(70,112)
Increase (decrease) in OPEB deferred inflows of resources		4,000		4,000		8,000		-
Increase (decrease) in net OPEB liabilities	_	23,399	-	23,398	-	46,797	-	6,672
Net cash provided by (used for) operating activities	\$_	438,906	\$_	768,975	\$_	1,207,881	\$	1,128,451

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

Notes to Financial Statements At June 30, 2018

### NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Nelson County Service Authority was established by Nelson County under the Water and Sewer Authorities Act of 1950 of the Commonwealth of Virginia. The Authority provides water and sewer services to the Lovingston, Schuyler, Gladstone and Wintergreen Communities in Nelson County.

<u>Financial Reporting Entity</u> - The Nelson County Service Authority is a related organization to the County of Nelson. The Authority is a legally separate entity from the County. The County appoints the Authority's board of directors; however, the Authority is essentially fiscally independent.

<u>Basic Financial Statements</u> - The Authority's financial statements are presented in accordance with the Governmental Accounting Standards Board's (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis-For State and Local Governments.* Since the Authority is only engaged in business-type activities, it is required to present only the financial statements required for enterprise funds. For the Authority, the basic financial statements and required supplementary information consist of:

- Management's discussion and analysis
- Enterprise fund financial statements
  - Statement of Net Position
  - Statement of Revenues, Expenses, and Changes in Net Position
  - Statement of Cash Flows
  - Notes to Financial Statements
- Required Supplementary Information
  - Schedule of Changes in Net Pension Asset and Related Ratios
  - Schedule of Employer Contributions-Pension Plan
  - Notes to Required Supplementary Information-Pension Plan
  - Notes to Required Supplementary Information Authority OPEB
  - Schedule of Nelson County Service Authority's Share of Net OPEB Liability-Group Life Insurance Program
  - Schedule of Employer Contributions-Group Life Insurance Program
  - Notes to Required Supplementary Information-Group Life Insurance Program
  - Schedule of Changes in Total OPEB Liability (Asset) and Related Ratios

<u>Basis of Accounting</u> - The Nelson County Service Authority operates as an enterprise fund and its accounts are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned, and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash. The Authority accrues revenue for services rendered but not yet billed at the end of the fiscal year. The Authority follows all applicable GASB pronouncements.

Notes to Financial Statements At June 30, 2018 (Continued)

# NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

# Basis of Accounting: (Continued)

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

<u>Restricted Assets</u> - Certain proceeds of the Authority's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The amount reported as "restricted for debt service" represents resources set aside to make up potential future deficiencies in the revenue bond payment account.

<u>Revenue</u> - The Authority records water and sewer revenue as billed to its customers principally on a quarterly cycle basis. At year end the Authority accrues a pro-rata portion of the unbilled cycle. The Authority has established an allowance for uncollectible accounts equal to \$81,959 at June 30, 2018.

<u>Cash and Cash Equivalents</u> - The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

<u>Inventory</u> - Inventory consists of grinder pumps, parts, and supplies on hand at year-end and is reported at actual cost determined on first-in, first-out basis. Inventory is generally used for construction and for operation and maintenance work, and is not held for resale. Components are charged to construction or operations as they are removed from inventory.

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the year ended June 30, 2018.

Notes to Financial Statements At June 30, 2018 (Continued)

# NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

# Capital Assets: (Continued)

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

Assets	Years
General equipment	3-5
Wells	10
Water pumping and treatment equipment	35
Water distribution equipment, meters and hydrants	35-40
Sewage collection and treatment	35

<u>Compensated Absences</u> - The vacation policy of the Authority provides for the accumulation of up to 66 hours per year of earned vacation leave, depending on years of service. Employees may carry over a maximum of 40 hours vacation leave to the succeeding year. Vacation leave is payable upon termination of employment, limited to the current year accumulation plus leave carried over from the prior year. At June 30, 2018, the accrued liability for accumulated vacation leave amounted to \$59,794.

The Authority's sick leave policy provides for a maximum accumulation of 160 sick days earned, at the rate of one day per month of service; however, sick leave does not vest. Since the Authority has no obligation for unvested accumulated sick leave until it is actually taken no accrual for such leave has been made.

<u>Use of Estimates</u> - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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

<u>Net Position Flow Assumption</u> - Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position, 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.

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

Notes to Financial Statements At June 30, 2018 (Continued)

### NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Other Postemployment Benefits (OPEB)-Group Life Insurance - The Virginia Retirement System (VRS) Group Life Insurance (GLI) Program provides coverage to state employees, teachers, and employees of participating political subdivisions. The GLI Program was established pursuant to §51.1-500 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. The GLI Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. For purposes of measuring the net GLI Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the GLI OPEB, and GLI OPEB expense, information about the fiduciary net position of the VRS GLI Program OPEB and the additions to/deductions from the VRS GLI OPEB's net fiduciary 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.

Other Postemployment Benefits-Health Insurance - The Authority allows retiring employees to continue in the group health insurance plan; however, except for an Authority supplement of up to \$75 per month, the retiring employee must pay 100% of the premium for such coverage.

<u>Deferred Outflows/Inflows of Resources</u> - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority has several items that qualify for reporting in this category. These items are comprised of certain items related to the measurement of the net pension asset and the net OPEB liabilities and contributions to the pension and OPEB plans made during the current year and subsequent to the net pension asset and net OPEB liability measurement date. For more detailed information on these items, reference the related notes.

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

<u>Restatement</u> - Certain amounts in previously issued financial statements have been restated to conform to current year classifications.

<u>Budgets</u> - The Authority adopts an annual budget for informative and fiscal planning purposes only. The budget is not intended to be a legal control on expenses. Budgets are adopted on the accrual basis of accounting with the exception that contributed capital, depreciation, and amortization are not budgeted.

Notes to Financial Statements At June 30, 2018 (Continued)

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

<u>Long-Term Obligations</u> - Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as an expense in the period incurred.

<u>Prepaid Expenses</u> - Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

### NOTE 2-DEPOSITS:

### **Deposits**

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

The Authority has no formal deposit and investment policy.

### **NOTE 3—CAPITAL ASSETS:**

A summary of changes in capital assets for the year ended June 30, 2018 follows:

		Beginning Balance	Increases		Decreases	Ending Balance
Water:	-			•		
Capital assets not being depreciated:						
Land and improvements	\$	276,431 \$	-	\$	- \$	276,431
Construction work in progress		-	53,042		-	53,042
Total capital assets not being depreciated	\$	276,431 \$	53,042	\$	- \$	329,473
Other Capital Assets:						
Water and sewer systems	\$	16,093,335 \$	-	\$	- \$	16,093,335
Accumulated depreciation		(6,884,142)	(424,446)		-	(7,308,588)
Equipment		721,569	68,959		-	790,528
Accumulated depreciation		(504,828)	(47,766)		-	(552,594)
Other capital assets, net	\$	9,425,934 \$	(403,253)	\$	- \$	9,022,681
Total Water	\$_	9,702,365 \$	(350,211)	\$	\$	9,352,154

Notes to Financial Statements At June 30, 2018 (Continued)

# NOTE 3—CAPITAL ASSETS: (CONTINUED)

	_	Beginning Balance	Increases		Decreases	_	Ending Balance
Sewer:							
Capital assets not being depreciated:							
Land and improvements	\$	3,120 \$	-	\$	-	\$	3,120
Construction work in progress		64,941	102,403	_	13,550		153,794
Total capital assets not being depreciated	\$	68,061 \$	102,403	\$	13,550	\$	156,914
Other Capital Assets:							
Water and sewer systems	\$	10,205,529 \$	-	\$	-	\$	10,205,529
Accumulated depreciation		(6,409,153)	(270,149)	)	-		(6,679,302)
Equipment		1,469,846	87,428		-		1,557,274
Accumulated depreciation		(930,056)	(76,611)	)	-		(1,006,667)
Other capital assets, net	\$	4,336,166 \$	(259,332)	\$	-	\$	4,076,834
Total Sewer	\$_	4,404,227 \$	(156,929)	\$	13,550	\$_	4,233,748
Grand Totals	\$_	14,106,592 \$	(507,140)	\$	13,550	\$	13,585,902

# **Construction Work in Progress**

The Authority has several uncompleted construction projects shown as an asset, Construction Work in Progress, at June 30, 2018. Presented below is a list of the major projects showing the expenditures, transfers of completed projects to asset accounts and the ending balances of each project during the last year:

# Water Projects:

Description	Balance July 1, 2017		Expenditures	Transfers	_	Balance June 30, 2018
Wintergreen Chlorine Changeout	\$ -	\$	53,042	\$ -	\$	53,042
Sewer Projects:					_	
	Balance					Balance
Description	July 1, 2017		Expenditures	Transfers		June 30, 2018
Description Wintergreen Wastewater	 July 1, 2017		Expenditures	 Transfers	_	June 30, 2018
·	\$ July 1, 2017 51,391	<b>-</b> .	Expenditures 102,403	 Transfers -	\$	June 30, 2018 153,794
Wintergreen Wastewater	\$ 	\$	<u> </u>	\$ 	\$	<u> </u>

Notes to Financial Statements At June 30, 2018 (Continued)

### NOTE 4-PENSION PLAN:

# Plan Description

All full-time, salaried permanent employees of the 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.

The System administers three different benefit structures for covered employees - Plan 1, Plan 2, and Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each as described below.

VRS Plan 1 and Plan 2 are defined benefit plans and the retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. VRS Plan 1 and Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

VRS members are eligible for an unreduced retirement benefit at age 65 for Plan 1 members and at normal social security retirement age for Plan 2 members with 5 years of service payable monthly for life in an amount equal to 1.7 percent (Plan 1 members) and 1.65% (Plan 2 members) of their average final compensation ("AFC") for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living increases limited to 5 percent (Plan 1 members) and 3% (Plan 2 members) per year beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months for Plan 1 members and 60 months for Plan 2 members, of reported annual compensation. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during the special election window. The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. The benefit from the defined contribution plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. In addition to the monthly benefit payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees. Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Notes to Financial Statements At June 30, 2018 (Continued)

# NOTE 4-PENSION PLAN: (CONTINUED)

# Plan Description: (Continued)

Hybrid members are eligible for an unreduced retirement benefit at normal social security retirement age with 5 years of service or when their age and service equal 90. The defined benefit component has a 1.0 percent multiplier to produce approximately a 30% salary replacement rate after 30 years of service. Hybrid member's average final compensation is the highest consecutive 60 months of reported annual compensation. Retirees qualify for annual cost-of-living increases limited to 3% per year beginning in their second year of retirement.

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

# Funding Policy

VRS Plan 1 and 2 members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5 percent of their annual salary to the VRS. Hybrid Plan members have a 4 percent mandatory defined benefit contribution and a 1 percent mandatory contribution to the defined contribution plan and up to an additional 4 percent voluntary contribution to the defined contribution plan. The Authority has a mandatory 1 percent match to the defined contribution plan, plus a 100 percent match on the first 1 percent elected by the employee, plus a 50 percent matching contribution on the next 3 percent elected by the employee. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund.

### Employees Covered by Benefit Terms

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

	Number
Inactive members or their beneficiaries currently receiving benefits	6
Inactive members: Vested inactive members	3
Non-vested inactive members	6
Inactive members active elsewhere in VRS	5
Total inactive members	14
Active members	20
Total covered employees	40

Notes to Financial Statements At June 30, 2018 (Continued)

# NOTE 4-PENSION PLAN: (CONTINUED)

### **Contributions**

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

The Authority's contractually required employer contribution rate for the year ended June 30, 2018 was 3.08% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were \$25,524 and \$26,460 for the years ended June 30, 2018 and June 30, 2017, respectively.

### Net Pension Asset

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

### Actuarial Assumptions - General Employees

The total pension liability for General Employees in the Authority's Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation 2.5%

Salary increases, including inflation 3.5% - 5.35%

Investment rate of return 7.0%, net of pension plan investment

expense, including inflation\*

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

Notes to Financial Statements At June 30, 2018 (Continued)

# NOTE 4-PENSION PLAN: (CONTINUED)

# Actuarial Assumptions - General Employees: (Continued)

Mortality rates were based on the RP-2014 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA to 2020. The mortality tables are adjusted forward and/or back depending on the plan and the group covered.

# Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
*E	7.30%		

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

Notes to Financial Statements At June 30, 2018 (Continued)

# NOTE 4-PENSION PLAN: (CONTINUED)

### Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the Authority Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

# Changes in Net Pension Asset

	Increase (Decrease)						
		Total Pension Liability (a)		Plan Fiduciary Net Position (b)		Net Pension Liability (Asset) (a) - (b)	
Balances at June 30, 2016	\$	2,851,830	\$_	2,930,537	\$_	(78,707)	
Changes for the year:							
Service cost	\$	75,984	\$	-	\$	75,984	
Interest		197,968		-		197,968	
Changes of assumptions		(94,164)		-		(94,164)	
Differences between expected							
and actual experience		39,406		-		39,406	
Contributions - employer		-		26,373		(26,373)	
Contributions - employee		-		44,575		(44,575)	
Net investment income		-		361,227		(361,227)	
Benefit payments, including refunds							
of employee contributions		(47,432)		(47,432)		-	
Administrative expenses		-		(2,023)		2,023	
Other changes		-		(324)		324	
Net changes	\$	171,762	\$	382,396	\$	(210,634)	
Balances at June 30, 2017	\$	3,023,592	\$	3,312,933	\$	(289,341)	

Notes to Financial Statements At June 30, 2018 (Continued)

# NOTE 4-PENSION PLAN: (CONTINUED)

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

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

		Current								
		1% Decrease	Discount Rate	1% Increase						
		(6.00%)	(7.00%)	(8.00%)						
Authority										
Net Pension Asset	\$	198,201 \$	(289,341) \$	(684,479)						
NCC I CHISTOTI / 133CC	Ψ	170,201 ψ	(207,341) Ψ	(004,477)						

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

For the year ended June 30, 2018, the Authority recognized pension expense of (\$33,199). At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		Deferred Outflows of Resources	Deferred Inflows of Resources
	-	or Resources	 or Resources
Differences between expected and actual experience	\$	29,888	\$ 42,656
Change in assumptions		-	71,419
Net difference between projected and actual earnings on pension plan investments		-	50,051
Employer contributions subsequent to the measurement date	_	25,524	 <u>-</u>
Total	\$	55,412	\$ 164,126

Notes to Financial Statements At June 30, 2018 (Continued)

# NOTE 4-PENSION PLAN: (CONTINUED)

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

\$25,524 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a component of the Net Pension Asset in the fiscal year ending June 30, 2019. 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	
2019	\$ (59,044)
2020	(18,297)
2021	(23,144)
2022	(33,753)
2023	_

### NOTE 5-LONG-TERM OBLIGATIONS:

# <u>Changes in Long-Term Obligations:</u>

		Balance July 1, 2017, As restated		Issuances/ Additions		etirements/ Reductions	,	Balance June 30, 2018
<u>Water:</u>	-		-		_			
Revenue Bonds	\$	5,967,679	\$	-	\$	407,594	\$	5,560,085
Net OPEB liabilities		61,183		41,541		-		102,724
Compensated Absences		29,736	_	-	_	1,099		28,637
Totals	\$	6,058,598	\$	41,541	\$	408,693	\$	5,691,446
		Balance July 1, 2017, As restated		Issuances/ Additions	Retirement Reductions		,	Balance June 30, 2018
Sewer:								
Revenue Bonds	\$	1,961,594	\$	-	\$	294,435	\$	1,667,159
Net OPEB liabilities		61,183		41,541		-		102,724
Compensated Absences		32,256	_	-	_	1,099		31,157
Totals	\$	2,055,033	\$	41,541	\$_	295,534	\$	1,801,040

Notes to Financial Statements At June 30, 2018 (Continued)

# NOTE 5-LONG-TERM OBLIGATIONS: (CONTINUED)

Details of long-term liabilities:

		Total Amount		Amount Due Within One Year
Revenue Bonds-Water:	_		_	
\$397,300 Water Revenue Bond for the Schuyler Water Treatment Plant dated July 13, 1995, payable in monthly installments of \$1,788 including interest at the rate of 4.5% through June 30, 2035.	\$	96,894	\$	17,453
\$125,000 Water and Sewer Revenue Bonds for Gladstone Water Project, dated October 2, 2009, payable in monthly installments of \$419 beginning November 2, 2011 including interest at 2.5% through September 2050. Interest only through October 2010.		108,934		2,319
\$1,500,000 Water Revenue Bond for the Route 29 Corridor Sewer dated February 18, 2000, payable in semi-annual installments of \$25,000 through March 2030. No interest.		600,000		50,000
\$2,370,679 Water and Sewer Revenue Bonds for Water Treatment Plant Project, dated March 31, 2010, payable in monthly installments of \$10,364 beginning April 30, 2011 including interest at 4% through March 2051.		2,184,698		37,648
\$600,000 Water Revenue Bonds for Administration Building (48% payable from Water Fund) dated February 26, 2008, payable in monthly installments of \$1,299 including interest at 4.375% through February 2048.		258,159		4,590
\$378,777 Water Revenue Bonds for Water Tank dated April 14, 2004, payable in semi-annual installments of \$12,613 including interest at 2.75% through October 2024.		134,192		19,992
\$325,000 Water Revenue Bonds for Water Impoundment dated February 25, 2005, payable in monthly installments of \$1,492 inlcuding interest at 4.25% through February 2045.		276,533		5,574

Notes to Financial Statements At June 30, 2018 (Continued)

# NOTE 5-LONG-TERM OBLIGATIONS: (CONTINUED)

Details of long-term liabilities: (continued)

		Total Amount		Amount Due Within One Year
Revenue Bonds-Water: (Continued)	_		-	
\$412,000 Water Revenue Bonds for Black Creek dated April 25, 2012 payable in monthly installments of \$1,269, including interest at 2% through April 2050.	\$	227,034	\$	10,786
\$1,356,000 Water Revenue Bonds for Water Impoundment dated September 28, 2004, payable in monthly installments of \$6,008 including interest at 4.25% through September 2044.		1,135,878		24,309
\$572,000 Water Revenue Bond (Schuyler Water Plant Project) Series 2016, dated January 5, 2016, payable in monthly installments of \$3,158 including interest at 2.50% through January 5, 2036.	_	537,763	_	24,703
Total Revenue Bonds - Water	\$	5,560,085	\$	197,374
Net OPEB liabilities		102,724		-
Compensated absences	_	28,637		28,637
Total Long-Term Obligations - Water	\$_	5,691,446	\$_	226,011
Revenue Bonds-Sewer:				
\$1,850,000 Water Revenue Bond for the Route 29 Corridor Sewer dated February 18, 2000, payable in monthly installments of \$6,901 including interest at the rate of 3.25% through February 18, 2040.	\$	1,281,971	\$	41,767
\$600,000 Water Revenue Bonds for Administration Building (52% payable from Sewer Fund) dated February 26, 2008, payable in monthly installments of \$1,407 including interest at 4.375% through February 2048.		279,251		4,550

Notes to Financial Statements At June 30, 2018 (Continued)

# NOTE 5-LONG-TERM OBLIGATIONS: (CONTINUED)

Details of long-term liabilities: (continued)

		Total Amount	_	Amount Due Within One Year
Revenue Bonds-Sewer: (Continued)	_		_	
\$74,736 Water and Sewer Revenue Bond for Gladstone Sewer Project, dated March 17, 2011, payable in semi-annual installments of \$1,868 beginning November 1, 2011 through May 1, 2031. No interest.	\$	45,937	\$	3,534
\$600,000 Water Revenue Bond for the Route 29 Corridor Sewer dated February 18, 2000, payable in semi-annual installments of \$15,000 through March 2020. No interest.		(0.000		20,000
No interest.	_	60,000	_	30,000
Total Revenue Bonds - Sewer	\$	1,667,159	\$	79,851
Net OPEB liabilities		102,724		-
Compensated absences	_	31,157	_	31,157
Total Long-Term Obligations - Sewer	\$_	1,801,040	\$_	111,008
Total Long-Term Obligations	\$_	7,492,486	\$	337,019

Annual requirements to amortize the revenue bonds and the related interest are as follows:

Year Ending		Water Rev	enu	ue Bonds			Sewer Rev	/enu	ue Bonds
June 30	_	Principal		Interest			Principal		Interest
2019	\$	197,374	\$	186,183		\$	79,851	\$	53,231
2020		202,472		180,894			81,645		51,643
2021		207,974		175,403			53,290		50,000
2022		213,687		169,702			54,992		48,300
2023		219,619		163,782			56,752		46,541
2024-2028		984,302		738,377			312,379		204,120
2029-2033		943,347		599,237			359,431		150,061
2034-2038		879,748		435,507			413,019		85,941
2039-2043		916,152		261,883			187,172		26,072
2044-2048		742,043		80,785			68,628		7,659
2049-2050	-	53,367	_	565		_	-	_	-
Total	\$	5,560,085	\$	2,992,318	;	\$_	1,667,159	\$_	723,568

Notes to Financial Statements At June 30, 2018 (Continued)

# NOTE 5-LONG-TERM OBLIGATIONS: (CONTINUED)

All of the aforementioned bonds are collateralized by a pledge of revenues from the Authority's water and sewer systems. In addition, the 2000 bonds are guaranteed by a moral obligation pledge from Nelson County in the form of a Support Agreement. In fiscal year 2017, the County paid additional fire protection fees (for debt service) to the authority in the amount of \$318,812.

The bonds are governed by a number of general covenants relating to debt service requirements and other restrictions on assets including a revenue covenant. The rate covenant requires the Authority to have net revenues available for debt service in an amount at least equal to 115% of required debt service. The Authority satisfied the rate covenant in FY2018.

### NOTE 6-OTHER POSTEMPLOYMENT BENEFITS (OPEB):

# Medical and Dental Insurance - Pay-as-you Go

The Authority implemented GASB Statement Number 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions for the fiscal year ending June 30, 2018. This Statement replaces the requirements of Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.

### Plan Description

In addition to the pension benefits described in Note 4, the Authority administers a single-employer defined benefit healthcare plan. The plan provides post-employment health care benefits to all eligible permanent employees who meet the requirements under the Authority's pension plans. The plan does not issue a publicly available financial report.

# Benefits Provided

The Authority administers a single-employer healthcare plan ("the Retiree Plan"). The plan provides for participation by eligible retirees of the Authority and their dependents in the health insurance programs available to Authority employees. The Retiree Health Plan will provide retiring employees the option to continue health insurance offered by the Authority. An eligible Authority retiree may receive this benefit until the retiree is eligible to receive Medicare. Participants in the Nelson County Service Authority (Authority) must meet the eligibility requirements based on service earned with the Authority to be eligible to receive benefits upon retirement. Participants must also retire directly from active employment and meet one of the following VRS retirement eligibility requirements to be eligible for benefits:

Notes to Financial Statements At June 30, 2018 (Continued)

# NOTE 6-OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

# Medical and Dental Insurance - Pay-as-you Go: (Continued)

Benefits Provided: (Continued)

# General Employees Plan 1

Plan 1 includes all members vested as of January 1, 2013.

- Attain age 50 with at least 10 years of service with VRS for a reduced pension benefit, or
- Attain age 55 with at least 5 years of service with VRS for a reduced pension benefit, or
- Attain age 65 with at least 5 years of service with VRS for an unreduced pension benefit, or
- Attain age 50 with at least 30 years of service with VRS for an unreduced pension benefit.

# General Employees Plan 2 and Hybrid Plan

Plan 2 includes all members not vested as of January 1, 2013, and members hired on or after July 1, 2010. The Hybrid Plan includes members hired on or after January 1, 2014 or by member election.

- Attain age 60 with at least 5 years of service with VRS for a reduced pension benefit, or
- Attain 90 points (age plus service) with VRS for an unreduced pension benefit, or
- Attain Social Security Normal Retirement Age with at least 5 years of service with VRS for an unreduced pension benefit.

Health benefits are for medical, dental, and vision. Non-Medicare eligible retirees may elect one of the following medical options, with either comprehensive or preventative dental coverage.

- Anthem Local Choice 250 (PPO)
- Anthem Local Choice Expanded (PPO)

Medicare eligible retirees may only elect the following medical option:

Anthem Advantage 65

A retiree may elect to also cover their spouse. Retiree health benefits are provided for the lifetime of the retiree and spouse. If the retiree predeceases the spouse, the spouse may elect to continue coverage.

In general, retirees are responsible for 100% of the premium cost.

Effective July 1, 2018, the Authority implemented the Retiree Health Insurance Assistance Program. Retirees with 15 or more years of service (5 or more years of service if retiring due to a disability) with the Authority or any of its predecessors receive a subsidy equal to \$2.50 per year of service (up to a maximum of 30 years) toward post-65 health insurance costs.

Notes to Financial Statements At June 30, 2018 (Continued)

# NOTE 6-OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

# Medical and Dental Insurance - Pay-as-you Go: (Continued)

Benefits Provided: (Continued)

General Employees Plan 2 and Hybrid Plan: (Continued)

There are no age or service requirements for disabled retirees. Disabled retirees are eligible for the same employer contributions as healthy retirees.

The benefits, employee contributions and the employer contributions are governed by the Board of Directors of the Nelson Country Service Authority and can be amended through Board action. The Retiree Health Plan does not issue a publicly available financial report.

# Plan Membership

At June 30, 2018 (measurement date), the following employees were covered by the benefit terms:

Total active employees with coverage	\$ 20
Total retirees with coverage	 -
Total	\$ 20

### 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 Board. The amount paid by the Authority for OPEB as the benefits came due during the year ended June 30, 2018 was \$530.

### Total OPEB Liability

The Authority's Total OPEB liability was measured as of June 30, 2018. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2017.

Notes to Financial Statements At June 30, 2018 (Continued)

# NOTE 6-OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

# Medical and Dental Insurance - Pay-as-you Go: (Continued)

# Actuarial Assumptions

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

Inflation 2.50% per year as of July 1, 2017

Salary Increases The salary increase rate starts at 5.35% salary increase for 1 year of

service and gradually declines to 3.50% salary increase for 20 or more

years of service.

Discount Rate 3.50% for accounting and funding disclosures as of June 30, 2017

3.87% for accounting and funding disclosures as of June 30, 2018

Investment Rate of Return N/A

# Pre-Retirement Mortality Rates

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with Scale BB to 2020; males setback 1 year, 85% of rates; females setback 1 year. 25% of deaths are assumed to be service related.

# Post-Retirement Mortality Rates

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females setback 1 year with 1.5% increase compounded from ages 70 to 85.

The date of the most recent actuarial experience study for which significant assumptions were based is June 30, 2016.

# Discount Rate

The discount rate used when OPEB plan investments are insufficient to pay for future benefit payments is selected from a range of 20-Year Municipal Bond Indices and include the Bond Buyer 11-Bond GO Index, the S&P Municipal Bond 20-Year High Grade Rate Index, and the Fidelity 20-Year GO Municipal Bond Index. The final equivalent single discount rate used for this year's valuation is 3.87% as of the end of the fiscal year.

Notes to Financial Statements At June 30, 2018 (Continued)

# NOTE 6-OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

# Medical and Dental Insurance - Pay-as-you Go: (Continued)

# Changes in Total OPEB Liability

Balances at June 30, 2017	\$ 75,651
Changes for the year:	
Service cost	6,317
Interest	2,860
Effect of plan changes	18,304
Changes in assumptions	26,846
Benefit payments	 (530)
Net changes	53,797
Balances at June 30, 2018	\$ 129,448

# 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 (2.87%) or one percentage point higher (4.87%) than the current discount rate:

_		Rate	
	1% Decrease	Current Discount	1% Increase
	(2.87%)	Rate (3.87%)	(4.87%)
\$	145,345	\$ 129,448	\$ 115,247

# 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 (4.70% decreasing annually to an ultimate rate of 3.2%) or one percentage point higher (6.70% decreasing to an ultimate rate of 5.20%) than the current healthcare cost trend rates:

			Rates		
1% Decrease			Healthcare Cost Trend		1% Increase
_	(4.70% decreasing to 3.20%)		(5.70% decreasing to 4.20%)		(6.70% decreasing to 5.20%)
\$	112,653	\$	129,448	\$	149,776

Notes to Financial Statements At June 30, 2018 (Continued)

#### NOTE 6-OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

## Medical and Dental Insurance - Pay-as-you Go: (Continued)

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

For the year ended June 30, 2018, the Authority recognized OPEB expense in the amount of \$30,038. At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

		<b>Deferred Outflows</b>		Deferred Inflows
	_	of Resouces	_	of Resources
			-	
Changes in assumptions	\$	24,289	\$	-
Total	\$	24,289	\$	-

Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense in future reporting periods as follows:

Year Ended June 30	
2019	\$ 2,557
2020	2,557
2021	2,557
2022	2,557
2023	2,557
Thereafter	11 504

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

Notes to Financial Statements At June 30, 2018 (Continued)

#### NOTE 6-OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

#### Group Life Insurance (GLI) Program

#### Plan Description

All full-time, salaried permanent employees of the state agencies, teachers, and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program upon employment. This 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 Group Life Insurance benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the Group Life Insurance Program OPEB.

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

#### Eligible Employees

The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, and electing employers that do not participate in VRS for retirement.

Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.

#### **Benefit Amounts**

The benefits payable under the Group Life Insurance Program have several components.

- Natural Death Benefit The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled.
- Accidental Death Benefit The accidental death benefit is double the natural death benefit.
- Other Benefit Provisions In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:
  - Accidental dismemberment benefit
  - Safety belt benefit
  - Repatriation benefit
  - Felonious assault benefit
  - Accelerated death benefit option

Notes to Financial Statements At June 30, 2018 (Continued)

#### NOTE 6-OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Group Life Insurance (GLI) Program: (Continued)

Plan Description: (Continued)

#### Reduction in Benefit Amounts

The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.

#### Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)

For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute. The amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently \$8,111.

#### Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the <u>Code of Virginia</u>, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% x 60%) and the employer component was 0.52% (1.31% x 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the Group Life Insurance Program from the Authority were \$4,427 and \$4,820 for the years ended June 30, 2018 and June 30, 2017, respectively.

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

At June 30, 2018, the Authority reported a liability of \$76,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the participating employer's proportion was .00502% as compared to .00505% at June 30, 2016.

Notes to Financial Statements At June 30, 2018 (Continued)

#### NOTE 6-OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Group Life Insurance (GLI) Program: (Continued)

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

For the year ended June 30, 2018, the participating employer recognized GLI OPEB expense of \$0. 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, 2018, 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	\$	-	\$ 1,000
Net difference between projected and actual earnings on GLI OPEB program investments		-	3,000
Change in assumptions		-	4,000
Employer contributions subsequent to the measurement date	-	4,427	 <u>-</u>
Total	\$	4,427	\$ 8,000

\$4,427 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year Ended June 30	
2019	\$ (2,000)
2020	(2,000)
2021	(2,000)
2022	(2,000)
2023	-
Thereafter	-

Notes to Financial Statements At June 30, 2018 (Continued)

#### NOTE 6-OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Group Life Insurance (GLI) Program: (Continued)

## Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation 2.5%

Salary increases, including inflation:

General state employees 3.5% - 5.35% Teachers 3.5%-5.95% SPORS employees 3.5%-4.75% VaLORS employees 3.5%-4.75% JRS employees 4.5% Locality - General employees 3.5%-5.35% Locality - Hazardous Duty employees 3.5%-4.75%

Investment rate of return 7.0%, net of investment expenses,

including inflation\*

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

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

#### Pre-Retirement:

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

## Post-Retirement:

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

#### Post-Disablement:

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

Notes to Financial Statements At June 30, 2018 (Continued)

## NOTE 6-OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Group Life Insurance (GLI) Program: (Continued)

Actuarial Assumptions: (Continued)

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

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

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

Mortality rates for different classes of employees utilize difference actuarial assumptions that are available on the VRS website.

#### Net GLI OPEB Liability

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

	_	Group Life Insurance OPEB Program
Total GLI OPEB Liability Plan Fiduciary Net Position	\$	2,942,426 1,437,586
Employers' Net GLI OPEB Liability (Asset)	\$	1,504,840
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	_	48.86%

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.

Notes to Financial Statements At June 30, 2018 (Continued)

## NOTE 6-OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Group Life Insurance (GLI) Program: (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)	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
*	Expected arithme	tic nominal return	7.30%

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

#### Discount Rate

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

Notes to Financial Statements At June 30, 2018 (Continued)

#### NOTE 6-OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Group Life Insurance (GLI) Program: (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 7.00%, as well as what the employer's proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

				Rate	
	19	6 Decrease	Cur	rent Discount	1% Increase
		(6.00%)		(7.00%)	(8.00%)
Authority's proportionate					
share of the Group Life					
Insurance Program					
Net OPEB Liability	\$	98,000	\$	76,000	\$ 58,000

#### **NOTE 7—RISK MANAGEMENT:**

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority joined together with other local governments in the State to form the Virginia Association of Counties Self Insurance Association, a public entity risk pool currently operating as a common risk management and insurance program for member governments. The Authority pays an annual premium to the pool for its workers' compensation and other insurance coverages. The Agreement for Formation of the association provides that the association will be self-sustaining through member premiums. Settled claims have not exceeded pool coverage in any of the past three fiscal years.

#### NOTE 8—COMMITMENTS AND CONTINGENCIES:

By agreement dated October 5, 2012, the Authority amended its Raw Water Supply Agreement (Agreement) with Wintergreen Partners, Inc. The Amended Agreement provides an additional 5 million gallons of raw water storage capacity to the Authority in providing redundancy to the system and to allocate the use of all stored and raw water to the Authority during a water emergency. Under the terms of the Agreement, the Authority will pay a monthly surcharge of \$12.70363 per thousand gallons of raw water provided each month (maximum \$12,703.63 per month).

Notes to Financial Statements At June 30, 2018 (Continued)

#### NOTE 9—UPCOMING PRONOUNCEMENTS:

Statement No. 83, Certain Asset Retirement Obligations, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

Statement No. 84, Fiduciary Activities, establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 87, Leases, increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15.

Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements, clarifies which liabilities governments should include when disclosing information related to debt. It defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, it requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

Notes to Financial Statements At June 30, 2018 (Continued)

#### NOTE 9—UPCOMING PRONOUNCEMENTS: (CONTINUED)

Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period, enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

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

#### NOTE 10-ADOPTION OF ACCOUNTING PRINCIPLES:

The Authority implemented the financial reporting provisions of Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions during the fiscal year ended June 30, 2018. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to postemployment benefits other than pensions (other postemployment benefits or OPEB). Note disclosure and required supplementary information requirements about OPEB are also addressed. The requirements of this Statement will improve accounting and financial reporting by state and local governments for OPEB. In addition, the Authority implemented Governmental Accounting Standards Board Statement No. 85, Omnibus 2017 during the fiscal year ended June 30, 2018. This Statement addresses practice issues identified during implementation and application of certain GASB statements for a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). The implementation of these Statements resulted in the following restatement of net position:

	_	Water	_	Sewer		Total
Net Position, July 1, 2017, as previously reported OPEB liabilities in accordance with GASB Statement No. 75		4,242,281 (18,142)		4,264,474 S (18,143)	\$ -	8,506,755 (36,285)
Net Position, July 1, 2017, as restated	\$_	4,224,139	\$	4,246,331	\$_	8,470,470



Schedule of Changes in Net Pension Liability (Asset) and Related Ratios Years Ended June 30, 2015 through June 30, 2018

	2017	2016	2015	2014
Total pension liability				
Service cost	\$ 75,984 \$	86,559 \$	92,489 \$	94,627
Interest	197,968	183,830	173,319	158,516
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	39,406	(17,550)	(71,530)	-
Changes in assumptions	(94,164)	-	-	-
Benefit payments, including refunds of employee				
contributions	(47,432)	(54,300)	(33,953)	(49,393)
Net change in total pension liability	\$ 171,762 \$	198,539 \$	160,325 \$	203,750
Total pension liability - beginning	2,851,830	2,653,291	2,492,966	2,289,216
Total pension liability - ending (a)	\$ 3,023,592 \$	2,851,830 \$	2,653,291 \$	2,492,966
Plan fiduciary net position				
Contributions - employer	\$ 26,373 \$	45,009 \$	45,587 \$	48,305
Contributions - employee	44,575	44,193	44,779	47,081
Net investment income	361,227	51,396	124,624	363,411
Benefit payments, including refunds of employee				
contributions	(47,432)	(54,300)	(33,953)	(49,393)
Administrative expense	(2,023)	(1,741)	(1,626)	(1,901)
Other	(324)	(21)	(26)	20
Net change in plan fiduciary net position	\$ 382,396 \$	84,536 \$	179,385 \$	407,523
Plan fiduciary net position - beginning	2,930,537	2,846,001	2,666,616	2,259,093
Plan fiduciary net position - ending (b)	\$ 3,312,933 \$	2,930,537 \$	2,846,001 \$	2,666,616
Authority's net pension				
asset - ending (a) - (b)	\$ (289,341) \$	(78,707) \$	(192,710) \$	(173,650)
Plan fiduciary net position as a percentage				
of the total pension liability	109.57%	102.76%	107.26%	106.97%
Covered payroll	\$ 926,850 \$	907,286 \$	902,864 \$	937,128
Authority's net pension asset as a percentage of covered payroll	-31.22%	-8.67%	-21.34%	-18.53%

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.

Schedule of Employer Contributions - Pension Plan For the Years Ended June 30, 2009 through June 30, 2018

Date	 Contractually Required Contribution (1)	 Contributions ir Relation to Contractually Required Contribution (2)	-	Contribution Deficiency (Excess) (3)	_	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2018	\$ 25,524	\$ 25,524	\$	-		\$ 930,093	2.74%
2017	26,460	26,460		-		926,850	2.85%
2016	45,010	45,010		-		907,286	4.96%
2015	45,520	45,520		-		902,864	5.04%
2014	48,075	48,075		-		937,128	5.13%
2013	48,430	48,430		-		944,049	5.13%
2012	29,908	29,908		-		911,844	3.28%
2011	28,415	28,415		-		866,313	3.28%
2010	27,898	27,898		-		933,059	2.99%
2009	27,461	27,461		-		918,412	2.99%

Notes to Pension Required Supplementary Information Year Ended June 30, 2018

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 is not material.

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

#### Largest 10 - Non-Hazardous Duty:

,	
Mortality Rates (pre-retirement, post-retirement	Updated to a more current mortality table - RP-2014
healthy, and disabled)	projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

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

Updated to a more current mortality table - RP-2014
projected to 2020
Lowered rates at older ages and changed final retirement from 70 to 75
Adjusted rates to better fit experience at each year age and service through 9 years of service
Lowered rates
No change
Increased rate from 14% to 15%

Schedule of Nelson County Service Authority's Share of Net OPEB Liability Group Life Insurance Program Year Ended June 30, 2018

					Employer's Proportionate Share	
	Employer's	Employer's			of the Net GLI OPEB	Plan Fiduciary
	Proportion of	Proportionate			Liability as a	Net Position as a
	the Net	Share of the		Employer's	Percentage of	Percentage of
	GLI OPEB	Net GLI OPEB		Covered	Covered Payroll	Total GLI
Date	Liability	Liability		Payroll	(3)/(4)	<b>OPEB Liability</b>
(1)	(2)	(3)	_	(4)	(5)	(6)
2017	0.00502% \$	76,000	\$	926,850	8.20%	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.

Schedule of Employer Contributions Group Life Insurance Program Years Ended June 30, 2009 through June 30, 2018

_	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)
	2018	\$ 4,427	\$ 4,427	\$ -	\$ 930,093	0.52%
	2017	4,820	4,820	-	926,850	0.52%
	2016	4,355	4,355	-	907,286	0.48%
	2015	4,334	4,334	-	902,864	0.48%
	2014	4,498	4,498	-	937,128	0.48%
	2013	4,531	4,531	-	944,049	0.48%
	2012	2,542	2,542	-	907,857	0.28%
	2011	2,426	2,426	-	866,313	0.28%
	2010	1,900	1,900	-	933,059	0.27%
	2009	2,480	2,480	-	918,412	0.27%

Notes to Required Supplementary Information Group Life Insurance Program Year Ended June 30, 2018

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

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

## **General State Employees**

Mortality Rates (pre-retirement, post-	Updated to a more current mortality table - RP-2014 projected		
retirement healthy, and disabled)	to 2020		
Retirement Rates	Lowered rates at older ages and changed final retirement from		
	70 to 75		
Withdrawal Rates	Adjusted rates to better fit experience at each year age and		
	service through 9 years of service		
Disability Rates	Adjusted rates to better match experience		
Salary Scale	No change		
Line of Duty Disability	Increased rate from 14% to 25%		

#### **Teachers**

Mortality Rates (pre-retirement, post-	Updated to a more current mortality table - RP-2014 projected
retirement healthy, and disabled)	to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from
	70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and
	service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

## **SPORS Employees**

Mortality Rates (pre-retirement, post-	Updated to a more current mortality table - RP-2014 projected
retirement healthy, and disabled)	to 2020 and reduced margin for future improvement in
	accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

## **VaLORS Employees**

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

Notes to Required Supplementary Information Group Life Insurance Program Year Ended June 30, 2018 (Continued)

## **JRS Employees**

Mortality Rates (pre-retirement, post-	Updated to a more current mortality table - RP-2014 projected
retirement healthy, and disabled)	to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

## Largest Ten Locality Employers - General Employees

3 1 3	, ,
Mortality Rates (pre-retirement, post-	Updated to a more current mortality table - RP-2014 projected
retirement healthy, and disabled)	to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final
	retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age
	and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

## Non-Largest Ten Locality Employers - General Employees

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

## Largest Ten Locality Employers - Hazardous Duty Employees

3 . 3	· · ·
Mortality Rates (pre-retirement, post-	Updated to a more current mortality table - RP-2014 projected
retirement healthy, and disabled)	to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age
	and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

## Non-Largest Ten Locality Employers - Hazardous Duty Employees

3 1 3	, , ,
Mortality Rates (pre-retirement, post-	Updated to a more current mortality table - RP-2014 projected
retirement healthy, and disabled)	to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age
	and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

Schedule of Changes in Total OPEB Liability (Asset) and Related Ratios - Health Insurance

Year Ended June 30, 2018

	 2018	
Total OPEB liability		
Service cost	\$ 6,317	
Interest	2,860	
Effect of plan changes	18,304	
Changes in assumptions	26,846	
Benefit payments	(530)	
Net change in total OPEB liability	\$ 53,797	
Total OPEB liability - beginning	75,651	
Total OPEB liability - ending	\$ 129,448	
Covered payroll	\$ N/A	
Authority's total OPEB liability as a percentage of		
covered payroll	N/A	

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

Notes to Required Supplementary Information - Health Insurance Year Ended June  $30,\ 2018$ 

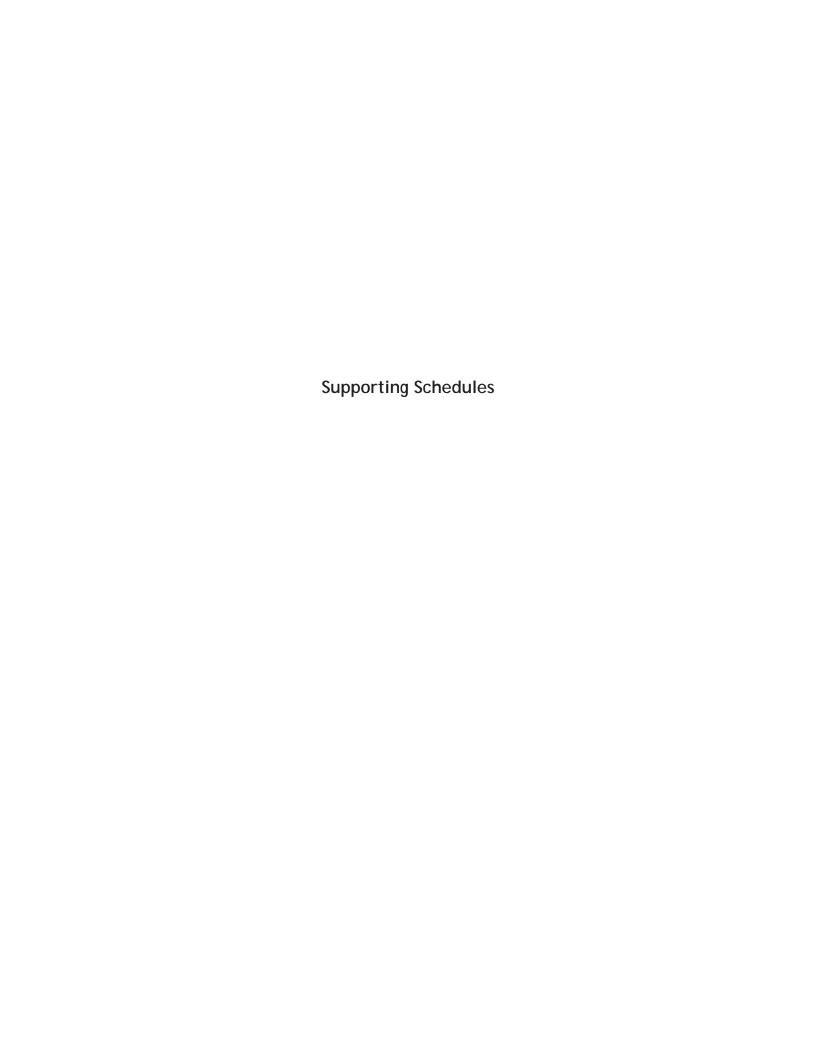
Valuation Date: 7/1/2017 Measurement Date: 6/30/2018

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 level % of pay
Discount Rate	3.50% as of June 30, 2017; 3.87% as of June 30, 2018
Inflation	2.50% per year as of June 30, 2017; 2.50% per year as of June 30, 2018
Healthcare Trend Rate	The healthcare trend rate assumption starts at 5.70% in 2017, increases to 6.10% in 2019 and gradually declines to 4.20% by the year 2087
Salary Increase Rates	The salary increase rate starts at 5.35% salary increase for 1 year of service and gradually declines to 3.50% salary increase for 20 or more years of service
Retirement Age	The average age at retirement is 62
Mortality Rates	The mortality rates for active and healthy retirees was calculated using the RP-2014 Total Dataset Mortality Table fully generational using scale MP-2014. The mortality rates for disabled retirees was calculated using the RP-2014 Disabled Mortality Table projected with Scale BB to 2020.





# Schedule of Revenues and Expenses - Budget and Actual Year Ended June 30, 2018

	_	Final Budget	Actual		Variance Favorable (Unfavorable)
Operating Revenue: Water and sewer charges Availability fees Fire protection Connection fees	\$	38,000 318,812 28,000	3,575,687 36,932 318,812 56,000	\$	(207,813) (1,068) - 28,000
Other  Total Operating Revenue	- \$ _	125,000 4,293,312 \$	4,069,025	_	(43,406)
Operating Expenses: Personnel Depreciation Maintenance Fringe benefits Operations Power pumping Raw water General and administrative Insurance Contractual services Grinder pump expenses Uniforms Small tools	\$	1,153,500 \$ 789,097 270,600 339,000 271,600 155,500 372,444 143,050 53,000 80,000 161,000 6,200 1,500	1,010,862 818,972 283,365 253,421 328,485 151,289 350,802 119,356 40,743 139,854 142,307 3,759 1,713	\$	142,638 (29,875) (12,765) 85,579 (56,885) 4,211 21,642 23,694 12,257 (59,854) 18,693 2,441 (213)
Total Operating Expenses	\$_	3,796,491 \$	3,644,928		151,563
Income (loss) from Operations  Nonoperating Revenues (Expenses): Interest earned Gain (loss) on disposal of assets Interest expense	\$ _ \$	496,821 \$ 350 \$ - (347,049)		\$	(72,724) 4,759 554 32,341
Total nonoperating revenues (expenses)	\$_	(346,699)	(309,045)	\$	37,654
Income (loss)	\$_	150,122	115,052	\$	(35,070)

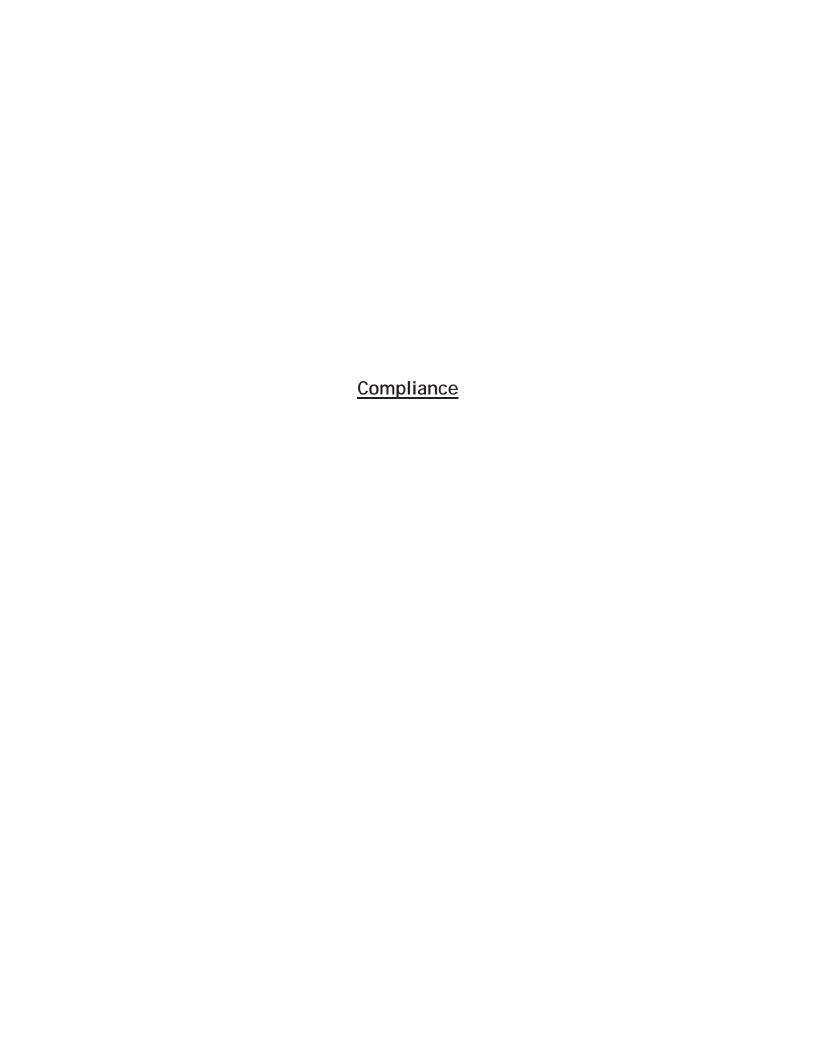
Schedule of Funding and Expenditures - Capital Budget Year Ended June 30, 2018

	_	Final Budget		Actual		Variance Favorable (Unfavorable)
Funding:						
Income (loss) before contributed capital	\$	150,122	\$	115,052	\$	(35,070)
Depreciation		789,097		818,972		29,875
Amortization of deferred costs-advance refunding		78,394		78,394		-
Contributed capital	_	-		63,486		63,486
Total Funding	\$_	1,017,613	\$_	1,075,904	\$.	58,291
Expenditures:						
Principal payments on debt	\$	305,962	\$	702,026	\$	(396,064)
Capital expenditures	_	340,000		250,467		89,533
	_					
Total Expenditures	\$	645,962	\$	952,493	\$	(306,531)
	-					
Funding Over (Under) Expenditures	\$	371,651	\$	123,411	\$	(248,240)

Debt Service Coverage Last Ten Fiscal Years

Fiscal Year	 Gross Revenue	Direct Operating Expenses	Net Revenue Available For Debt Service	Principal	Interest	Total	Coverage
2009	\$ 3,429,738 \$	2,303,795 \$	1,125,943 \$	541,702 \$	403,142 \$	944,844	1.19
2010	3,334,336	2,346,478	987,858	559,230	383,177	942,407	1.05
2011	3,543,000	2,236,383	1,306,617	594,421	395,151	989,572	1.32
2012	4,080,814	2,245,397	1,835,417	663,588	426,382	1,089,970	1.68
2013	4,143,361	2,473,024	1,670,337	675,065	396,959	1,072,024	1.56
2014	4,070,513	2,584,422	1,486,091	697,209	386,442	1,083,651	1.37
2015	4,096,369	2,629,907	1,466,462	710,823	295,513	1,006,336	1.46
2016	4,038,777	2,612,224	1,426,553	727,389	277,964	1,005,353	1.42
2017	4,000,016	2,644,482	1,355,534	906,131	274,363	1,180,494	1.15
2018	4,074,134	2,825,956	1,248,178	702,026	250,467	952,493	1.31

Note: Gross revenue includes operating revenues and nonoperating interest income. Contributed capital is excluded from gross revenue. Direct operating expenses do not include interest, depreciation or amortization expenses.



## ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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* 

BOARD OF DIRECTORS
NELSON COUNTY SERVICE AUTHORITY
LOVINGSTON, 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 Nelson County Service Authority as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Nelson County Service Authority's financial statements and have issued our report thereon dated November 30, 2018.

## Internal Control over Financial Reporting

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

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

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

## **Compliance and Other Matters**

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

## Purpose of this Report

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

Charlottesville, Virginia

winson, Farmer, Cox associates

November 30, 2018