

**THE RUSSELL COUNTY
PUBLIC SERVICE AUTHORITY**

**OF RUSSELL COUNTY, VIRGINIA
(A Component Unit of Russell County, Virginia)**

ANNUAL FINANCIAL REPORT
June 30, 2019

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Russell County Public Service Authority
Lebanon, Virginia

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditor's 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of June 30, 2019, and the changes in financial position and its cash flows for the year then ended in accordance accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Changes in Net Pension Liability and Related Ratios, Schedule of Employer Contributions, and Schedule of Funding Progress on pages 29-30 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 (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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 financial information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

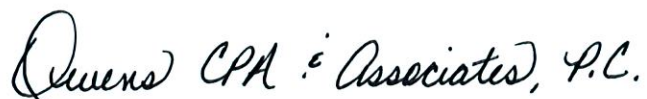
Supplemental and Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2019 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Owens CPA & Associates, P.C.
November 15, 2019

BASIC FINANCIAL STATEMENTS

THE RUSSELL COUNTY PUBLIC SERVICE AUTHORITY
BUSINESS-TYPE ACTIVITY
STATEMENT OF NET POSITION
June 30, 2019

Assets

Current

Cash and cash equivalents	
Unrestricted	\$ 243,266
Restricted	53,694
Accounts receivable	495,651
Grants & loans receivable	84,977
Inventory	34,287
Prepaid expenses	10,054
Total current assets	<u>921,929</u>

Noncurrent Assets

Restricted cash and cash equivalents	290,298
Net pension asset	166,863
Capital assets, not being depreciated	1,506,179
Capital assets, net of accumulated depreciation	<u>28,510,021</u>
Total noncurrent assets	<u>30,473,361</u>
Total assets	<u>31,395,290</u>

Deferred Outflows of Resources

Deferred pensions	81,114
OPEB related items	<u>8,897</u>
Total deferred outflows of resources	<u>90,011</u>

Liabilities

Current Liabilities

Accounts payable	258,992
Customer deposits	99,686
Accrued interest	14,511
Accrued liabilities	96,951
Current portion of long term debt	<u>873,693</u>
Total current liabilities	<u>1,343,833</u>

Noncurrent Liabilities

Long term debt	11,783,966
Net pension liability	-
Net OPEB liability	<u>57,000</u>
Total noncurrent liabilities	<u>11,840,966</u>
Total liabilities	<u>13,184,799</u>

Deferred Inflows of Resources

Deferred pensions	212,597
OPEB related items	<u>13,000</u>
Total deferred inflows of resources	<u>225,597</u>

Net Position

Net investment in capital assets	17,344,291
Restricted	
Debt service	124,566
Environmental waste	215,556
Equipment replacement	3,642
Construction projects	228
Unrestricted	<u>386,622</u>
Total net position	<u>\$ 18,074,905</u>

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

THE RUSSELL COUNTY PUBLIC SERVICE AUTHORITY
BUSINESS-TYPE ACTIVITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2019

Operating revenues

Water and sewer charges	\$ 2,699,830
Hook-up fees	18,315
Trash commissions	77,144
Late charges	23,362
Fees & services	349,545
Miscellaneous	126,777
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Total operating revenues	3,294,973
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Operating Expenses

Depreciation & amortization	972,068
Water and sewer purchases	417,590
Cost of construction services	258,075
Salaries & wages	643,256
Repairs & maintenance	487,284
Insurance	246,255
Administrative expense	23,467
Utilities	139,865
Materials & supplies	30,794
Shop & equipment rent	260
Vehicle expense	64,976
Telephone and internet	28,603
Retirement	6,404
Professional fees	82,930
Director fees	18,300
Payroll taxes	34,266
Office supplies	13,893
Postage and delivery	22,094
Monitoring, chemicals & sewage treatment	55,420
Water works operation	7,712
Uniforms	9,619
Dues & subscriptions	1,550
Advertising	1,138
Training & travel	4,164
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Total operating expenses	3,569,983
	<hr/>
Operating income (loss)	\$ (275,010)
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The notes to the financial statements are an integral part of this statement.

THE RUSSELL COUNTY PUBLIC SERVICE AUTHORITY
BUSINESS-TYPE ACTIVITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2019

Nonoperating Revenue (Expenses)

Interest income	\$ 2,205
Interest expense	(261,255)
Intergovernmental revenue	
Federal	240,257
State	190,666
Local	191,433
Primary government contribution	1,875
Primary government (for debt service)	463,487
Intergovernmental expense	
Primary government (for debt service)	(281,953)
Gain on sale assets	1,665
	<u>548,380</u>
Total nonoperating revenue (expenses)	
	<u>548,380</u>
Change in net position	273,370
Total Net Position - Beginning	<u>17,797,893</u>
Total Net Position - Ending	<u><u>\$ 18,071,263</u></u>

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

THE RUSSELL COUNTY PUBLIC SERVICE AUTHORITY
BUSINESS-TYPE ACTIVITY
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2019

Cash flows from operating activities:	
Cash received from customers	\$ 3,490,704
Cash paid for goods and services	(2,172,539)
Wages and benefits paid	(702,226)
Net cash provided by operating activities	<u>615,939</u>
Cash flows from non-capital financing activities:	
Intergovernmental revenue, net of expenses	<u>274,161</u>
Net cash provided by non-capital financing activities	<u>274,161</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(445,013)
Proceeds from sale of assets	1,665
Proceeds from borrowings	378,974
Principal payment on borrowings	(559,205)
Interest paid	(184,206)
Net cash used in capital and related financing activities	<u>(807,785)</u>
Cash flows from investing activities:	
Interest received	<u>2,205</u>
Net cash provided by investing activities	<u>2,205</u>
Net increase in cash and cash equivalents	84,520
Cash and cash equivalents, beginning of year (including \$390,713 in restricted accounts)	<u>502,738</u>
Cash and cash equivalents, end of year (including \$343,992 in restricted accounts)	<u><u>\$ 587,258</u></u>
Reconciliation of operating income to net cash cash provided (used) by operating activities:	
Operating income (loss)	\$ (275,010)
Adjustments to reconcile operating income to net cash provided operating activities:	
Depreciation	972,068
Gain on sale of assets	1,665
Changes in assets, deferred inflows of resources, liabilities, and deferred outflows of resources:	
Accounts and other receivables	194,066
Inventories & prepaids	3,698
Net pension assets & liabilities	(131,774)
Deferred outflows & inflows	130,670
Accounts payable	(274,923)
Accrued liabilities	(4,521)
Net cash provided by operating activities	<u><u>\$ 615,939</u></u>

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

NOTES TO FINANCIAL STATEMENTS

THE RUSSELL COUNTY PUBLIC SERVICE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The following is a summary of significant accounting policies:

A. Reporting Entity

The Authority is a discretely presented component unit of the County of Russell, Virginia (the County). On June 24, 2019, the Russell County Public Service Authority and the Castlewood Water and Sewage Authority were joined under the name The Russell County Public Service Authority. The Authority is made up of two divisions (Lebanon and Castlewood) to provide water & sewer services for the County. The Authority is a legally separate organization for which elected officials of the primary government are financially accountable and is a discretely presented component unit of the County.

B. Fund Financial Statements

The financial statements (i.e., the statement of net position and the statement of revenues, expenses and changes in net position) report information on all of the activities of the government. Business-type activities rely to a significant extent on fees and charges for support.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Authority is charges to customers for services. Operating expenses include the cost for services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position

1. Deposits and Investments

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

Investments: Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, bankers acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). The Authority had no investments at June 30, 2019.

2. Cash and Cash Equivalents

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

THE RUSSELL COUNTY PUBLIC SERVICE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

3. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported as a component of noncurrent assets in the basic financial statements. Capital assets are generally defined by the Authority as being those assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Capital assets of the Authority are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Water System	40 - 50
Buildings	40
Equipment	5 - 10

4. Capitalized Interest on Indebtedness

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not reflected in the capitalized value of the asset constructed, net of interest earned on the investment proceeds during the same period.

5. Construction in Progress

Construction work in progress represents costs accumulated to the construction of sections of the Authority's distribution system, plant expansions and rehabilitations, and other projects that were not completed at year end.

6. Use of Estimates

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.

7. Receivables

Trade receivables for the Authority are shown at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectable. Trade account receivable allowances were calculated as follows:

Inactive accounts	100 percent
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The government periodically analyzes delinquent accounts and uses the direct write-off method. No accounts were written off during the year.

8. Inventory and Prepaid Items

The inventory of the Authority consists of materials and supplies to support maintenance work on the various distribution and collection systems used in operations. All inventories maintained by the Authority are valued at the lower of cost or market.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The cost of prepaid items is recorded as expenses when consumed rather than when purchased.

THE RUSSELL COUNTY PUBLIC SERVICE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

9. Restricted Assets

Some of the Authority's assets have certain constraints that have been placed on how they can be used. By definition, restricted assets are cash or other assets whose use in whole or in part is restricted for specific purposes bound by virtue of contractual agreements, legal requirements or enabling legislation.

The Authority maintains a certificate of deposit for the County as a cash reserve to cover one year of payments on two loans the County has with Rural Development. The amount of reserve required is \$49,824. The total amount on deposit is \$68,610.

The Authority maintains a cash account for environmental waste fees collected on behalf of the County. These funds are transmitted to the County when requested.

The Authority maintains a cash account for project hook-up fees from customers for new projects. These funds are used for debt service if and when needed.

Included in restricted assets are amounts held in debt service reserve accounts for the Authority in the amount of \$74,742.

10. Compensated Absences

It is the Authority's policy to permit its employees to accumulate earned but unused vacation and personal pay benefits. The Authority has accrued a liability for future vacation and personal leave. The unused vacation and personal leave is considered a vested employee benefit.

11. Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Authority's statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as "other non-current assets" and amortized over the term of the related debt.

12. Deferred Outflows/Inflows of Resources

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

13. Pensions

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

THE RUSSELL COUNTY PUBLIC SERVICE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

14. Net Position

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

15. Net Position Flow Assumption

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

16. Other Postemployment Benefits

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.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Authority prepares annual operating budgets for the managerial control of expenditures and for the monitoring of cash flows during the fiscal year. Project-length budgets, which generally encompass more than one fiscal year, are also prepared for major construction projects. Both the operating and project-length expenditure plans are prepared on the modified accrual basis of accounting, which significantly differs from the accrual basis of accounting that the Authority uses in the preparation of its financial statements.

These managerial budgets that are prepared for operations each year or at the inception of a major construction project are not adopted by the Board of Directors as legally imposed restrictions on expenditures. Basically, the operating budgets provide management with a tool for estimating and monitoring cash flows in each fiscal period. Accordingly, budgetary comparisons are not presented in the accompanying financial statements.

THE RUSSELL COUNTY PUBLIC SERVICE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

NOTE 3. DETAILED NOTES

A. Deposits and Investments of the Business-Type Activities

The following tabulation summarizes the Statement of Net Position classification of the Authority's cash and cash equivalents for the business-type activities at June 30, 2019. As indicated in the presentation by classification, approximately 59.0% of the deposits and investment balances represent restricted assets.

1. Analysis of Cash and Cash Equivalents

The carrying amount of the Authority's cash deposits and cash equivalents on June 30, 2019 is presented in the tabular information below. The table provides a breakdown of the balances between the cash and investment components, and is classified by general type.

Cash and cash equivalents			
Unrestricted		\$ 243,266	
Restricted		<u>343,992</u>	
Total cash and cash equivalents		<u>\$ 587,258</u>	
	Cash on Hand	Demand Deposits	Total
Unrestricted:			
Current	\$ 586	\$ 242,680	\$ 243,266
Restricted:			
Debt service	-	124,566	124,566
Environmental waste	-	215,556	215,556
Equipment replacement	-	3,642	3,642
Construction projects	-	<u>228</u>	<u>228</u>
	<u>\$ 586</u>	<u>\$ 586,672</u>	<u>\$ 587,258</u>

B. Receivables

The Accounts Receivable balance represents amounts due from customers for water, trash and other services that have been provided by the Authority. It includes amounts for services that have been billed prior to June 30, 2019 but not yet received.

Receivables at year end for the Authority, including applicable allowances for uncollectable accounts, are as follows:

Outstanding utility bills	\$ 1,011,631
Charges for other services	<u>77,139</u>
Total accounts receivable	1,088,770
Less: allowance for doubtful accounts - (Inactive accounts)	<u>(593,119)</u>
Net accounts receivable	<u>\$ 495,651</u>

Grants receivable represents amounts expended for water system construction/improvement projects.

THE RUSSELL COUNTY PUBLIC SERVICE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

C. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2019, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 240,411	\$ -	\$ -	\$ 240,411
Construction in progress	2,044,049	820,619	(1,598,900)	1,265,768
Total capital assets, not being depreciated	2,284,460	820,619	(1,598,900)	1,506,179
Capital assets, being depreciated:				
Land rights	14,250	-	-	14,250
Buildings	483,699	-	-	483,699
Water and sewer systems	38,560,398	1,536,306	-	40,096,704
Equipment	3,888,977	97,767	-	3,986,744
Less: Total accumulated depreciation	(15,099,308)	(972,068)	-	(16,071,376)
Total capital assets being depreciated	27,848,016	662,005	-	28,510,021
Total capital assets, net	\$ 30,132,476	\$ 1,482,624	\$ (1,598,900)	\$ 30,016,200

Construction in Progress

For business-type activities, the government has active construction projects to install new water lines and to replace water meters. As of June 30, 2019 total spent-to-date was \$1,265,768. These projects are funded by the Virginia Department of Health through the Virginia Resources Authority (VRA). It is anticipated that sufficient funds will be available for completion of the construction in process and other planned projects.

At year end the Authority had expended and submitted \$84,977 of draw down requests for grant and loan funding from the VRA for water system construction/improvements.

D. Long-Term Debt

Changes in Long-Term Debt

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

	Beginning Balance July 1, 2018	Increases	Decreases	Ending Balance June 30, 2019	Amounts Due Within One Year
Revenue bonds	\$ 12,440,262	\$ 327,530	\$ (516,527)	\$ 12,251,265	\$ 531,094
Lines of credit	341,401	21,374	(46,289)	316,486	316,486
Promissory notes	89,956	30,070	(30,118)	89,908	26,113
	<u>\$ 12,871,619</u>	<u>\$ 378,974</u>	<u>\$ (592,934)</u>	<u>\$ 12,657,659</u>	<u>\$ 873,693</u>

THE RUSSELL COUNTY PUBLIC SERVICE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

Details of Long-Term Debt

Type/Project	Interest Rate	Issue Date	Maturity Date	Installment Amount	Original Issue Amount	Balance Business-type Activities	Amount Due Within One Year
Revenue Bonds:							
Water/Sewer Projects	4.50%	09/26/2000	2040	\$19,068 a	\$ 350,000	\$ 260,033	\$ 7,437
Water/Sewer Projects	4.25%	04/13/2005	2045	\$49,272 a	937,300	769,811	19,216
Water/Sewer Projects	2.75%	11/26/2013	2043	\$93,456 a	2,200,000	2,075,882	36,448
Water/Sewer Projects	2.00%	05/17/2001	2031	\$28,862 a	640,000	317,418	22,590
Water/Sewer Projects	2.50%	03/28/2002	2027	\$35,819 a	653,250	272,757	29,181
Water/Sewer Projects	3.00%	09/05/2002	2022	\$9,691 a	142,288	31,970	8,797
Water/Sewer Projects	0.00%	08/31/2004	2035	\$22,101 a	661,019	353,620	22,101
Water/Sewer Projects	0.00%	06/26/2006	2036	\$9,980 a	299,409	174,655	9,980
Water/Sewer Projects	0.00%	12/05/2008	2038	\$11,994 a	359,813	233,879	11,994
Water/Sewer Projects	0.00%	12/05/2008	2038	\$6,063 a	183,375	118,812	6,093
Water/Sewer Projects	0.00%	06/17/2010	2040	\$5,567 a	167,012	116,908	5,567
Water/Sewer Projects	0.00%	07/23/2011	2041	\$3,333 a	96,591	71,591	3,333
Water/Sewer Projects	3.00%	04/26/2012	2042	\$16,703 a	312,331	264,512	8,834
Water/Sewer Projects	2.50%	01/22/2015	2045	\$7,877 a	106,867	87,536	5,724
Water/Sewer Projects	2.00%	03/24/2016	2047	\$14,300 a	317,151	288,460	8,458
Water/Sewer Projects	3.00%	03/31/2006	2026	\$6,796 a	99,775	42,620	5,558
Water/Sewer Projects	2.00%	06/20/2014	2034	\$219,942 a	3,537,000	2,838,099	163,996
Water/Sewer Projects	0.00%	08/13/2007	2039	\$51,160 a	1,534,800	997,612	51,160
Water/Sewer Projects	0.00%	12/02/2010	2041	\$10,841 a	325,227	204,110	10,841
Water/Sewer Projects	3.00%	07/28/2011	2042	\$5,326 a	103,783	87,680	2,716
Water/Sewer Projects	0.00%	06/15/2010	2040	\$35,326 a	1,059,765	777,161	35,326
Water/Sewer Projects	3.00%	12/21/2012	2044	\$35,967 a	700,843	627,334	17,276
Water/Sewer Projects	2.00%	07/10/2015	2046	\$4,192 a	93,071	67,518	2,462
Water/Sewer Projects	2.25%	08/25/2016	2047	\$20,778 a	445,925	427,139	11,261
Water/Sewer Projects	2.25%	08/25/2016	2047	\$13,709 a	234,387	221,149	7,444
Water/Sewer Projects	2.25%	08/22/2017	2048	\$16,040 a	512,053	370,900	12,532
Water/Sewer Projects	2.25%	08/22/2017	2048	\$2,448 a	197,027	152,099	4,769
Total Revenue Bonds						\$ 12,251,265	\$ 531,094
Other Debt:							
Line of credit	5.00%	06/25/2009	2020	n/a	450,000	\$ 316,486	\$ 316,486
Promissory note	5.75%	10/25/2018	2023	\$4,632 a	30,070	26,509	5,520
Promissory note	4.31%	12/29/2005	2026	\$6,168 a	75,000	25,586	5,166
Promissory note	2.00%	09/29/2013	2020	\$4,756 a	46,018	17,168	4,461
Promissory note	4.79%	10/28/2016	2019	\$11,129 a	31,043	4,582	4,582
Promissory note	5.04%	12/06/2016	2021	\$7,073 a	31,205	10,063	6,384
Total Other Debt						\$ 400,394	\$ 342,599
Total Long-Term Debt						\$ 12,651,659	\$ 873,693

At June 30, 2019 the Authority recognized accrued interest on the above debt in the amount of \$14,511.

THE RUSSELL COUNTY PUBLIC SERVICE AUTHORITY
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Annual requirements to amortize long-term obligations and related interest are as follow						
Year Ended	Revenue Bonds		Other Obligations		Total Debt	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 531,094	\$ 242,026	\$ 342,598	\$ 20,830	\$ 873,692	\$ 262,856
2021	540,085	232,906	22,538	2,397	562,623	235,303
2022	549,445	223,547	19,468	1,409	568,913	224,956
2023	554,202	213,945	15,621	652	569,823	214,597
2024	564,173	199,128	6,169	241	570,342	199,369
2025-2029	2,661,452	783,818	-	-	2,661,452	783,818
2030-2034	3,438,214	718,567	-	-	3,438,214	718,567
2035-2039	1,784,735	415,919	-	-	1,784,735	415,919
2040-2044	1,200,778	238,652	-	-	1,200,778	238,652
2045-2049	427,087	23,393	-	-	427,087	23,393
Totals	<u>\$ 12,251,265</u>	<u>\$ 3,291,901</u>	<u>\$ 406,394</u>	<u>\$ 25,529</u>	<u>\$ 12,657,659</u>	<u>\$ 3,317,430</u>

Bond Covenant Compliance

As of June 30, 2019, the Authority was in compliance with its rate covenant required by its Virginia Resource Authority revenue bonds as follows:

	<u>Lebanon</u>	<u>Castlewood</u>	<u>Total</u>
Operating income (loss)	\$ (258,794)	\$ (3,820)	\$ (12,396)
Adjustments:			
Depreciation	494,706	477,362	972,068
County funds to pay debt	<u>181,534</u>	<u>-</u>	<u>181,534</u>
Net water and sewer revenue	417,446	473,542	1,141,206
Debt retired in fiscal year 2019:			
Revenue bonds	(315,192)	(201,335)	(516,527)
Other debt	<u>(69,775)</u>	<u>(6,632)</u>	<u>(76,407)</u>
Total debt retired	<u>(384,967)</u>	<u>(207,967)</u>	<u>(592,934)</u>
Revenue over (under) debt	<u>\$ 32,479</u>	<u>\$ 265,575</u>	<u>\$ 548,272</u>

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THE RUSSELL COUNTY PUBLIC SERVICE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 4. OTHER INFORMATION

A. Operating Lease

On September 9, 2015, the Authority (Castlewood Division) entered into a rental agreement with the Town of St. Paul, Virginia and the Wise County Public Service Authority for the construction costs of a bridge crossing and sewage treatment to the Regional Wastewater Treatment Plant. The term of the agreement is for 40 years with monthly payments beginning in June 2016, and supplemental payments beginning September 2016. For fiscal year ended June 30, 2019, the Authority paid \$31,654. The Authority's annual lease payments are as follows:

Year Ending June 30,	Amount
2020	\$ 31,654
2021	31,654
2022	31,654
2023	31,654
2024	31,654
2025-2029	149,636
2030-2034	143,880
2035-2039	143,880
2040-2044	143,880
2025-2049	143,880
2050-2054	143,880
2055-2056	57,552
Totals	<u>\$ 1,084,858</u>

B. 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 continues to carry commercial insurance for most risks of loss, including worker's compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years and there have been no significant reductions in insurance coverage from coverage in the prior year.

Liabilities are reported when it is probable a loss has occurred and the amount of the loss can be reasonably estimated.

C. Litigation

It is the opinion of the Authority's management and legal counsel that there are not any outstanding or pending litigation, claims, or assessments against the Authority which could have a material effect on the Authority's financial statements.

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THE RUSSELL COUNTY PUBLIC SERVICE AUTHORITY
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D. Pension Plan

Plan Description

All full-time, salaried permanent employees of the Political Subdivision are automatically covered by VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer are pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria a 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 plan are set out in the table:

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</p>	<p>About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</p>	<p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.</p> <ul style="list-style-type: none"> • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

THE RUSSELL COUNTY PUBLIC SERVICE AUTHORITY
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VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014 <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees • Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.

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VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	Retirement Contributions Same as Plan 1.	Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	Creditable Service Same as Plan 1.	Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

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

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THE RUSSELL COUNTY PUBLIC SERVICE AUTHORITY
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VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
		<p><u>Defined Contributions Component (Continued):</u> Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>
<p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p>Calculating the Benefit See definition under Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1</p> <p><u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>
<p>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>

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	VRS PLAN 2	HYBRID RETIREMENT PLAN
Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.	Service Retirement Multiplier VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.	Service Retirement Multiplier VRS: <u>Defined Benefit Component:</u> The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.
Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.	Sheriffs and regional jail superintendents: Same as Plan 1.	Sheriffs and regional jail superintendents: Not applicable.
Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.	Political subdivision hazardous duty employees: Same as Plan 1.	Political subdivision hazardous duty employees: Not applicable.
Normal Retirement Age VRS: Age 65.	Normal Retirement Age VRS: Normal Social Security retirement age.	Normal Retirement Age VRS: <u>Defined Benefit Component:</u> Same as Plan 2.
Political subdivisions hazardous duty employees: Age 60.	Political subdivisions hazardous duty employees: Same as Plan 1.	Political subdivisions hazardous duty employees: Not applicable. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.

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VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.	Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.	Earliest Unreduced Retirement Eligibility VRS: <u>Defined Benefit Component:</u> Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.
Political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	Political subdivisions hazardous duty employees: Same as Plan 1.	Political subdivisions hazardous duty employees: Not applicable.
		<u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.	Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.	Earliest Reduced Retirement Eligibility VRS: <u>Defined Benefit Component:</u> Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.
Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.	Political subdivisions hazardous duty employees: Same as Plan 1.	Political subdivisions hazardous duty employees: Not applicable.
		<u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.

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VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). 	<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u>Eligibility:</u> Same as Plan 1</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

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VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates (Cont.):</u> The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.</p> <ul style="list-style-type: none"> • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 		
<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p>	<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p>	<p>Disability Coverage Employees of political subdivisions (including Plan 1 and Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one- year waiting period before becoming eligible for non-work- related disability benefits.</p>

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VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	Purchase of Prior Service Same as Plan 1.	Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions: <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. <u>Defined Contribution Component:</u> Not applicable.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf?Publications/2013-annual-report.pdf>, or by writing to the System's Chief Financial Officer at PO Box 2500, Richmond, VA 23218-2500.

Employees Covered by Benefit Terms

As of the June 30, 2017 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

Inactive members or their beneficiaries currently receiving benefits	4
Inactive members:	
Vested	3
Non-vested	2
Active elsewhere in VRS	<u>7</u>
Total inactive members	12
Active members	<u>24</u>
Total covered employees	<u><u>40</u></u>

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Contributions

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

The Authority's contractually required contribution rate for the year ended June 30, 2019 was 5.52% and 1.60% of covered employee compensation for Lebanon and Castlewood, respectively. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority for the year ended June 30, 2019 were \$28,344 and \$14,949 for Lebanon and Castlewood, respectively.

Net Pension Liability

The net pension liability (NPL) is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For political subdivisions, the net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2017, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

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THE RUSSELL COUNTY PUBLIC SERVICE AUTHORITY
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Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

Inflation	2.5 percent
Salary increases, including	
Inflation	3.5 percent – 5.35%
Investment rate of return	7.0 Percent, net of pension plan investment expense, including inflation*

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

Mortality rates: 14% of deaths are assumed to be service related

Largest 10 – Non-Hazardous Duty: 20% of deaths are assumed to be related

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-Hazardous Duty:

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

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

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

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Long-Term Expected Rate of Return

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

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

- * The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.5%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2018, the alternate was the employer contribution rate used in FY 2012 or 90% of the actuarially determined employer contribution rate from the June 30, 2015, actuarial valuations, whichever was greater. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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For the Fiscal Year Ended June 30, 2019

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2017	\$ 1,259,410	\$ 1,265,499	\$ (6,089)
Changes for the year:			
Service cost	69,595	-	69,595
Interest	86,469	-	86,469
Differences between expected and actual experience	(148,740)	-	(148,740)
Contributions - employer	-	43,293	(43,293)
Contributions - employee	-	31,381	(31,381)
Net investment income	-	94,285	(94,285)
Benefit payments, including refunds of employee contributions	(48,273)	(48,273)	-
Administrative expenses	-	(775)	775
Other changes	-	(86)	86
Net changes	(40,949)	119,825	(160,774)
Balances at June 30, 2018	<u>\$ 1,218,461</u>	<u>\$ 1,385,324</u>	<u>\$ (166,863)</u>

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

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Plan's Net Pension Liability	<u>\$ 31,804</u>	<u>\$ (166,863)</u>	<u>\$ (327,860)</u>

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

For the year ended June 30, 2019 the Authority recognized pension expense of \$19,532 and (\$30,170) for Lebanon and Castlewood, respectively. At June 30, 2019 the Authority reported deferred outflows and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 54,917	\$ 153,688
Change in assumptions	-	20,351
Net difference between projected and actual earnings on pension plan investments	-	12,361
Employer contributions subsequent to the measurement date	-	-
Total	<u>\$ 54,917</u>	<u>\$ 186,400</u>

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	Amount
2020	\$ (34,901)
2021	(38,946)
2022	(45,450)
2023	(1,684)
2024	(7,590)
Thereafter	<u>(2,912)</u>
	<u><u>\$ (131,483)</u></u>

E. Group Life Insurance (GLI) Program (OPEB Plan):

Plan Description

All full-time, salaried permanent employees of the state agencies, teachers, and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program upon employment. This 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.

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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, including the following employers that do not participate in VRS for retirement:

- City of Richmond
- City of Portsmouth
- City of Roanoke
- City of Norfolk
- Roanoke City Schools Board

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 accumulated retirement 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

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. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and was increased to \$8,279 effective July 1, 2018.

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Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% X 60%) and the employer component was 0.52% (1.31% X 40%). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2019 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the Group Life Insurance Program from the entity were \$3,897 and \$3,751 for the years ended June 30, 2019 and June 30, 2018, 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, 2019, the entities reported a liability of \$57,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2018 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, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the Participating employer's portion for Lebanon and Castlewood respectively was .00242% and .00137% as compared to .00222% and .00192% at June 30, 2017.

For the year ended June 30, 2019, the participating employer recognized GLI OPEB expense of \$3,000. 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, 2019, 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	\$ 3,000	\$ -
Net difference between projected and actual earnings on GLI OPEB program investments	-	2,000
Change in assumptions	-	3,000
Change in proportion	2,000	8,000
Employer contributions subsequent to the measurement date	3,897	-
Total	<u>\$ 8,897</u>	<u>\$ 13,000</u>

\$3,897 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, 2020.

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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,	Amount
2020	\$ (1,000)
2021	-
2022	(1,000)
2023	(1,000)
2024	(1,000)
Thereafter	(4,000)
	<u>\$ (8,000)</u>

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

Inflation	2.5 percent
Salary increases, including inflation –	
General state employees	3.5 percent – 5.35 percent
Teachers	3.5 percent – 5.95 percent
SPORS employees	3.5 percent – 4.75 percent
VaLORS employees	3.5 percent – 4.75 percent
JRS employees	4.5 percent
Locality – General employees	3.5 percent – 5.35 percent
Locality – Hazardous Duty employees	3.5 percent – 4.75 percent
Investment rate of return	7.0 Percent, net of investment expenses, including inflation*

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

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Mortality rates – General State Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

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 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

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Mortality rates – Teachers

Pre-Retirement:

RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:

RP-2014 White Collar Employee Rates to age 49, White Collar Health Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with Scale BB to 2020; 115% of rates for males and females.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the four-year 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 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

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Mortality rates – SPORS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

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 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

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Mortality rates – VaLORS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

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 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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 match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

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Mortality rates – JRS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

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 1 year; females set back 1 year with 1.5% compounding increase from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with Scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the four-year 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	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

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Mortality rates – Largest Ten Locality Employers - General Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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 20%

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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%

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Mortality rates – Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

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 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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
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%

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Mortality rates – Non-Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

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 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP- 2014 projected 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%

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 the Measurement Date of June 30, 2018, NOL amounts for the Group Life Insurance Program are as follows (amounts expressed in thousands):

	Group Life Insurance OPEB Program
Total GLI OPEB Liability	\$ 2,942,426
Plan Fiduciary Net Position	<u>1,437,586</u>
Employer's Net GLI OPEB Liability (Asset)	<u><u>\$ 4,380,012</u></u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	51.22%

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.

THE RUSSELL COUNTY PUBLIC SERVICE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

Long-Term Expected Rate of Return

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

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

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

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, 2018, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2018 on, employers are assumed to continue 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.

THE RUSSELL COUNTY PUBLIC SERVICE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2019

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:

	<u>1% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Authority's proportionate share of the Group Life Insurance Program Net OPEB Liability	<u>\$ 27,000</u>	<u>\$ 21,000</u>	<u>\$ 15,000</u>

Group Life Insurance Program Fiduciary Net Position

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

F. Contingencies

Grant Funds:

Federal programs in which the Authority participates were audited in accordance with the provisions of Uniform Guidance. Pursuant to the provisions of this guidance all major programs and certain other programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by audit, the Federal Government may subject grant programs to additional compliance tests, which may result in disallowed expenditures. In the opinion of management, any future disallowances of current grant program expenditures, if any, would be immaterial.

G. Subsequent Events

Management has evaluated events and transactions that occurred after the balance sheet date for potential recognition and disclosure through November 15, 2019, the date of which the financial statements were available to be issued. Management has determined there were no events or transactions that have transpired requiring disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

RUSSELL COUNTY PUBLIC SERVICE AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2015 through June 30, 2018

Schedule of Changes in Net Pension Liability and Related Ratios					
	2018	2017	2016	2015	2014
Total Pension Liability					
Service cost	\$ 69,595	\$ 77,398	\$ 78,281	\$ 80,035	\$ 85,444
Interest	86,469	82,071	76,140	63,181	57,744
Changes of benefit terms	-	-	-	-	-
Differences between expected and actual experience	(148,740)	(20,161)	(16,961)	94,065	-
Changes in assumptions	-	(33,947)	-	-	-
Benefit Payments, including refunds of employee contributions	(48,273)	(36,795)	(68,656)	(35,668)	(95,364)
Net change in total pension liability	(40,949)	68,566	68,804	201,613	47,824
Total pension liability - beginning	1,259,410	1,190,844	1,122,040	920,427	872,603
Total pension liability - ending (a)	<u>\$ 1,218,461</u>	<u>\$ 1,259,410</u>	<u>\$ 1,190,844</u>	<u>\$ 1,122,040</u>	<u>\$ 920,427</u>
Plan Fiduciary Net Position					
Contributions - employer	\$ 43,293	\$ 51,422	\$ 48,657	\$ 47,314	\$ 60,793
Contributions - employee	31,381	39,437	35,501	34,610	34,711
Net investment income	94,285	135,119	19,596	45,070	124,922
Benefit Payments, including refunds of employee contributions	(48,273)	(36,795)	(68,656)	(35,668)	(95,364)
Administrative expenses	(775)	(711)	(638)	(561)	(670)
Other	(86)	(124)	(8)	(10)	7
Net change in plan fiduciary net position	119,825	188,348	34,452	90,755	124,399
Plan fiduciary net position - beginning	1,265,499	1,077,151	1,042,699	951,944	827,545
Plan fiduciary net position - ending (b)	<u>\$ 1,385,324</u>	<u>\$ 1,265,499</u>	<u>\$ 1,077,151</u>	<u>\$ 1,042,699</u>	<u>\$ 951,944</u>
Russell County Public Service Authority net pension liability (asset) - ending (a) - (b)	<u>\$ (166,863)</u>	<u>\$ (6,089)</u>	<u>\$ 113,693</u>	<u>\$ 79,341</u>	<u>\$ (31,517)</u>
Plan fiduciary net position as a percentage of the total pension liability	113.69%	100.48%	90.45%	92.93%	103.42%
Covered-employee payroll	\$ 738,016	\$ 766,741	\$ 693,114	\$ 700,008	\$ 696,311
Russell County Public Service Authority net pension liability (asset) as a percentage of covered-employee payroll	-22.61%	-0.79%	16.40%	11.33%	-4.53%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

**RUSSELL COUNTY PUBLIC SERVICE AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2019**

Schedule of Employer Contributions - Pension

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2019	\$ 43,293	\$ 43,293	\$ -	\$ 604,622	7.16%
2018	\$ 46,042	\$ 46,042	\$ -	\$ 672,825	6.84%
2017	\$ 51,503	\$ 51,503	\$ -	\$ 764,450	6.74%
2016	\$ 48,657	\$ 48,657	\$ -	\$ 693,114	7.02%
2015	\$ 47,314	\$ 47,314	\$ -	\$ 700,008	6.76%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

**RUSSELL COUNTY PUBLIC SERVICE AUTHORITY
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
For the Fiscal Year Ended June 30, 2019**

NOTE 1. Change of Benefit Terms

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

NOTE. 2. 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:

- Update to a more current mortality table – RP-2014 projected to 2020
- Lowered retirement rates at older ages and changed final retirement from 70 to 75
- Adjust withdrawal rates to better fit experience at each year age and service through 9 years of service
- Lowered disability rates
- Increase line of duty disability rate from 14% to 20%

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

- Update to a more current mortality table – RP-2014 projected to 2020
- Lowered retirement rates at older ages and changed final retirement from 70 to 75
- Adjust withdrawal rates to better fit experience at each year age and service through 9 years of service
- Lowered disability rates
- Increase line of duty disability rate from 14% to 15%

**RUSSELL COUNTY PUBLIC SERVICE AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2015 through June 30, 2018**

**Schedule of Authority's Share of Net OPEB Liability
Group Life Insurance Program**

	2018	2017
Employer's Proportion of the NET GLI OPEB Liability (Asset)	0.00379%	0.00414%
Employer's Proportionate Share of the Net GLI OPEB Liability (Asset)	\$ 57,000	\$ 61,000
Employers Covered Payroll	\$ 749,262	\$ 839,284
Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of its Covered Payroll	7.61%	7.27%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	51.22%	48.86%

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

RUSSELL COUNTY PUBLIC SERVICE AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2019

Schedule of Employer Contributions
Group Life Insurance Program

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2019	\$ 3,897	\$ 3,897	\$ -	\$ 749,262	0.52%
2018	3,732	3,732	-	721,441	0.52%
2017	3,970	3,970	-	763,342	0.52%
2016	3,448	3,448	-	718,159	0.48%
2015	3,360	3,360	-	700,009	0.48%
2014	3,343	3,343	-	696,312	0.48%
2013	3,510	3,510	-	731,362	0.48%
2012	1,984	1,984	-	708,677	0.28%
2011	1,961	1,961	-	700,384	0.28%
2010	1,287	1,287	-	476,891	0.27%

RUSSELL COUNTY PUBLIC SERVICE AUTHORITY
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
Group Life Insurance Program
For the Fiscal Year Ended June 30, 2019

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

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

General State Employees

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

SPORS 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
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%

**RUSSELL COUNTY PUBLIC SERVICE AUTHORITY
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
Group Life Insurance Program
For the Fiscal Year Ended June 30, 2019**

JRS Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected 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

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 20%

Non-Largest Ten Locality Employers - General Employees

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%

Largest Ten Locality Employers - Hazardous Duty Employees

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
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%

**RUSSELL COUNTY PUBLIC SERVICE AUTHORITY
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
Group Life Insurance Program
For the Fiscal Year Ended June 30, 2019**

Non-Largest Ten Locality Employers - Hazardous Duty Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected 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%

OTHER SUPPLEMENTAL INFORMATION

THE RUSSELL COUNTY PUBLIC SERVICE AUTHORITY
BUSINESS-TYPE ACTIVITY
COMBINING STATEMENT OF NET POSITION
June 30, 2019

	Lebanon Water Fund	Castlewood		Total
		Water Fund	Sewer Fund	
Assets				
Current				
Cash and cash equivalents				
Unrestricted	\$ 140,781	\$ 97,270	\$ 5,215	\$ 243,266
Restricted	53,694	-	-	53,694
Accounts receivable	336,973	130,890	27,788	495,651
Grants & loans receivable	75,128	6,402	3,447	84,977
Inventory	34,287			34,287
Prepaid expenses	-	8,341	1,713	10,054
Total current assets	640,863	242,903	38,163	921,929
Noncurrent Assets				
Restricted cash and cash equivalents	234,601	42,214	13,483	290,298
Net pension asset	50,106	96,881	19,876	166,863
Capital assets, not being depreciated	768,660	240,881	496,638	1,506,179
Capital assets, net of accumulated depreciation	16,369,749	7,263,642	4,876,630	28,510,021
Total noncurrent assets	17,423,116	7,643,618	5,406,627	30,473,361
Total assets	18,063,979	7,886,521	5,444,790	31,395,290
Deferred Outflows of Resources				
Deferred pensions	57,905	19,258	3,951	81,114
OPEB related items	4,624	3,545	728	8,897
Total deferred outflows of resources	62,529	22,803	4,679	90,011
Liabilities				
Current Liabilities				
Accounts payable	205,252	43,644	10,096	258,992
Customer deposits	16,680	68,895	14,111	99,686
Accrued interest	6,318	6,800	1,393	14,511
Accrued liabilities	66,860	24,899	5,192	96,951
Current portion of long term debt	345,933	428,712	99,048	873,693
Total current liabilities	641,043	572,950	129,840	1,343,833
Noncurrent Liabilities				
Long term debt	6,530,884	3,190,474	2,062,608	11,783,966
Net pension liability	-	-	-	-
Net OPEB liability	36,000	17,425	3,575	57,000
Total noncurrent liabilities	6,566,884	3,207,899	2,066,183	11,840,966
Total liabilities	7,207,927	3,780,849	2,196,023	13,184,799
Deferred Inflows of Resources				
Deferred pensions	66,795	120,985	24,817	212,597
OPEB related items	3,000	8,296	1,704	13,000
Total deferred inflows of resources	69,795	129,281	26,521	225,597
Net Position				
Net investment in capital assets	10,261,592	3,873,513	3,209,186	17,344,291
Restricted				
Debt service	68,869	42,214	13,483	124,566
Environmental waste	215,556	-	-	215,556
Equipment replacement	3,642	-	-	3,642
Construction projects	228	-	-	228
Unrestricted	298,899	83,467	4,256	386,622
Total net position	\$ 10,848,786	\$ 3,999,194	\$ 3,226,925	\$ 18,074,905

THE RUSSELL COUNTY PUBLIC SERVICE AUTHORITY
BUSINESS-TYPE ACTIVITY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2019

	Lebanon	Castlewood		
	Water Fund	Water Fund	Sewer Fund	Total
Operating revenues				
Water and sewer charges	\$ 1,207,250	\$ 1,247,678	\$ 244,902	\$ 2,699,830
Hook-up fees	3,567	14,748	-	18,315
Trash commissions	77,144	-	-	77,144
Late charges	23,362	-	-	23,362
Fees & services	349,545	-	-	349,545
Miscellaneous	-	13,835	112,942	126,777
Total operating revenues	<u>1,660,868</u>	<u>1,276,261</u>	<u>357,844</u>	<u>3,294,973</u>
Operating Expenses				
Depreciation & amortization	494,706	322,866	154,496	972,068
Water and sewer purchases	327,608	89,982	-	417,590
Cost of construction services	258,075	-	-	258,075
Salaries & wages	358,863	224,673	59,720	643,256
Repairs & maintenance	108,620	292,879	85,785	487,284
Insurance	106,178	137,760	2,317	246,255
Administrative expense	12,582	5,393	5,492	23,467
Utilities	30,566	104,467	4,832	139,865
Materials & supplies	14,023	5,190	11,581	30,794
Shop & equipment rent	-	260	-	260
Vehicle expense	59,081	5,895	-	64,976
Telephone and internet	22,633	5,868	102	28,603
Retirement	10,061	(3,614)	(43)	6,404
Professional fees	41,553	41,377	-	82,930
Director fees	12,000	6,300	-	18,300
Payroll taxes	14,268	16,598	3,400	34,266
Office supplies	7,854	6,039	-	13,893
Postage and delivery	11,508	10,043	543	22,094
Monitoring, chemicals & sewage treatment	8,453	5,077	41,890	55,420
Water works operation	7,712	-	-	7,712
Uniforms	9,619	-	-	9,619
Dues & subscriptions	1,550	-	-	1,550
Advertising	968	170	-	1,138
Training & travel	1,181	2,858	125	4,164
Total operating expenses	<u>1,919,662</u>	<u>1,280,081</u>	<u>370,240</u>	<u>3,569,983</u>
Operating income (loss)	<u>\$ (258,794)</u>	<u>\$ (3,820)</u>	<u>\$ (12,396)</u>	<u>\$ (275,010)</u>

THE RUSSELL COUNTY PUBLIC SERVICE AUTHORITY
BUSINESS-TYPE ACTIVITY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2019

	Lebanon	Castlewood		
	Water Fund	Water Fund	Sewer Fund	Total
Nonoperating Revenue (Expenses)				
Interest income	\$ 2,018	\$ 187	\$ -	\$ 2,205
Interest expense	(110,640)	(86,684)	(63,931)	(261,255)
Intergovernmental revenue				
Federal			240,257	240,257
State	128,587	62,079	-	190,666
Local	191,433	-	-	191,433
Primary government contribution	-	1,875	-	1,875
Primary government (for debt service)	463,487	-	-	463,487
Intergovernmental expense				
Primary government (for debt service)	(281,953)	-	-	(281,953)
Gain on sale assets	1,665	-	-	1,665
Transfers from (to) accounts				-
Fund accounts	-	(186,184)	186,184	-
Total nonoperating revenue (expenses)	<u>394,597</u>	<u>(208,727)</u>	<u>362,510</u>	<u>548,380</u>
Change in net position	135,803	(212,547)	350,114	273,370
Total Net Position - Beginning	<u>10,709,341</u>	<u>4,211,741</u>	<u>2,876,811</u>	<u>17,797,893</u>
Total Net Position - Ending	<u><u>\$ 10,845,144</u></u>	<u><u>\$ 3,999,194</u></u>	<u><u>\$ 3,226,925</u></u>	<u><u>\$ 18,071,263</u></u>

THE RUSSELL COUNTY PUBLIC SERVICE AUTHORITY
BUSINESS-TYPE ACTIVITY
COMBINING STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2019

	Lebanon	Castlewood		
	Water Fund	Water Fund	Sewer Fund	Total
Cash flows from operating activities:		Water	Sewer	
Cash received from customers	\$ 1,617,146	\$ 1,269,474	\$ 604,084	\$ 3,490,704
Cash paid for goods and services	(977,424)	(826,011)	(369,104)	(2,172,539)
Wages and benefits paid	(395,192)	(243,957)	(63,077)	(702,226)
Net cash provided by operating activities	244,530	199,506	171,903	615,939
Cash flows from non-capital financing activities:				
Intergovernmental revenue, net of expenses	349,768	88,054	(163,661)	274,161
Net cash provided by (used in) non-capital financing activities	349,768	88,054	(163,661)	274,161
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(415,184)	(29,829)	-	(445,013)
Proceeds from sale of assets	1,665	-	-	1,665
Proceeds from borrowings	348,904	30,070	-	378,974
Principal payment on borrowings	(384,967)	(174,238)	-	(559,205)
Interest paid	(104,322)	(79,884)	-	(184,206)
Net cash used in capital and related financing activities	(553,904)	(253,881)	-	(807,785)
Cash flows from investing activities:				
Interest received	2,018	187	-	2,205
Net cash provided by investing activities	2,018	187	-	2,205
Net increase in cash and cash equivalents	42,412	33,866	8,242	84,520
Cash and cash equivalents, beginning of year (including \$390,713 in restricted accounts)	386,664	105,618	10,456	502,738
Cash and cash equivalents, end of year (including \$343,992 in restricted accounts)	<u>\$ 429,076</u>	<u>\$ 139,484</u>	<u>\$ 18,698</u>	<u>\$ 587,258</u>
Reconciliation of operating income to net cash cash provided (used) by operating activities:				
Operating income (loss)	\$ (258,794)	\$ (3,820)	\$ (12,396)	\$ (275,010)
Adjustments to reconcile operating income to net cash provided operating activities:				
Depreciation	494,706	322,866	154,496	972,068
Gain on sale of assets	1,665	-	-	1,665
Changes in assets, deferred inflows of resources, liabilities, and deferred outflows of resources:				
Accounts and other receivables	(45,387)	(6,787)	246,240	194,066
Inventories & prepaids	(9,500)	10,953	2,245	3,698
Net pension and OPEB assets & liabilities	35,677	(138,946)	(28,505)	(131,774)
Deferred outflows & inflows	(10,113)	116,819	23,964	130,670
Accounts payable	38,974	(100,993)	(212,904)	(274,923)
Accrued liabilities	(2,698)	(586)	(1,237)	(4,521)
Net cash provided by operating activities	<u>\$ 244,530</u>	<u>\$ 199,506</u>	<u>\$ 171,903</u>	<u>\$ 615,939</u>

COMPLIANCE SECTION

Certified Public Accountants and Consultants
Virginia Society of Certified Public Accountants
American Institute of Certified Public Accountants

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

To the Board of Directors
Russell County Public Service Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Russell County Public Service Authority (the Authority), a component unit of Russell County, Virginia, as of and for the year ended June 30, 2019, and the related notes to the financial statements and have issued our report thereon dated November 15, 2019.

Internal Control over Financial Reporting

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

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 we have not identified.

Compliance and Other Matters

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

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 result 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.

Owens CPA & Associates, P.C.

Owens CPA & Associates, P.C.
November 15, 2019

**RUSSELL COUNTY PUBLIC SERVICE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended JUNE 30, 2019**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	Yes
Significant deficiencies identified that is not considered to be a material weaknesses?	None Reported
Noncompliance material to financial statements noted?	No

Section II - Financial Statement Findings and Questioned Costs

2019-001

Criteria:	Proper internal control dictates responsibility for approving, executing and recording transactions should rest with different individuals. Custody of resulting assets should be assigned to individuals with no responsibilities in the above areas.
Condition:	It was noted that the responsibilities for approving, executing, and recording transactions and custody of the resulting assets arising from the transactions were not assigned to different individuals.
Cause:	The Authority lacks the funding to fully support a completely segregated finance department, resulting in inadequate internal controls.
Effect:	Internal control structure elements do not reduce to a relatively low level the risk that errors and irregularities, in amounts that would be material in relation to the financial statements, may occur and not be detected in a timely manner.
Recommendation:	The Authority should distribute among the accounting staff the duties of approving, executing and recording transactions to the extent as being economically practicable.
Management's Response:	Management acknowledges that internal controls lack proper segregation of duties. To alleviate these issues, the Authority would likely need to hire additional staff which isn't feasible at this time.

Section III - Status of Prior Audit Findings (Castlewood Division)

Finding 2018-001 was repeated in the current year as 2019-001.
Finding 2018-002 was removed in fiscal year 2019 due to an independent third party making the necessary adjustments to comply with Generally Accepted Accounting Principles (GAAP).
Finding 2018-003 was removed in fiscal year 2019 due to additional supervision put in place through merger of entities.
Finding 2018-004 was removed due to the fact required bond covenants were met.