MONTGOMERY COUNTY
PUBLIC SERVICE AUTHORITY
(A Component Unit of Montgomery County, Virginia)

FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2023

BROWN EDWARDS
certified public accountants

MONTGOMERY COUNTY
PUBLIC SERVICE AUTHORITY

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INTRODUCTORY SECTION

MONTGOMERY COUNTY
PUBLIC SERVICE AUTHORITY

DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2023

DIRECTORS

M. Todd King – Chair
Sherri M. Blevins – Vice Chair
Mary W. Biggs – Secretary/Treasurer

Sara R. Bohn	Steve R. Fijalkowski
April N. DeMotts	Darrell O. Sheppard

OFFICIALS

Charles E. Campbell	Director
Martin M. McMahon	Attorney

INDEPENDENT AUDITORS

Brown, Edwards & Company, L.L.P.

FINANCIAL SECTION

Financial Section contains the Basic Financial Statements.

INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the Board of Directors
Montgomery County Public Service Authority
Christiansburg, Virginia

Report on the Audit of the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the Montgomery County Public Service Authority (the "Authority"), a component unit of Montgomery County, Virginia, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Authority, as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Report on the Audit of the Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

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

Report on Summarized Comparative Information

We have previously audited the Authority's 2022 financial statements, and our report dated December 22, 2022, expressed an unmodified opinion on those financial statements. The 2022 financial information is provided for comparative purposes only. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on the Audit of the Financial Statements (Continued)

Required Supplementary Information

Management has omitted management's discussion and analysis, the defined benefit pension plan schedules required by GASB 68, and the other postemployment benefit schedules required by GASB 75 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 modified with respect to this matter.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Brown, Edwards & Company, L. L. P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 17, 2023

BASIC FINANCIAL STATEMENTS

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY
BUSINESS-TYPE ACTIVITIES

STATEMENT OF NET POSITION
June 30, 2023

	2023	(For Comparative Purposes Only) 2022
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 2,380,832	$ 2,460,985
Accounts receivable, net (Note 3)	840,500	832,086
Accounts receivable, other	-	20,000
Due from County (Note 11)	16,316	17,163
Inventories	127,215	103,886
Total current assets	3,364,863	3,434,120
Noncurrent assets:		
Cash and cash equivalents, restricted (Note 2)	97,410	98,260
Capital assets: (Note 4)		
Nondepreciable	8,244,104	2,801,384
Depreciable, net	12,745,923	12,436,917
Total noncurrent assets	21,087,437	15,336,561
Total assets	24,452,300	18,770,681
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions (Note 6)	198,302	276,004
Deferred outflows related to other postemployment benefits (Notes 7 and 8)	46,981	49,137
	245,283	325,141
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	1,258,677	641,335
Accrued payroll and related liabilities	65,727	62,191
Accrued interest payable	27,764	3,762
Due to County (Note 11)	6,184	5,650
Current portion of noncurrent liabilities (Note 5)	492,969	471,202
Total current liabilities	1,851,321	1,184,140
Noncurrent liabilities:		
Net pension liabililty (Note 6)	534,610	285,892
Net other postemployment benefit liability (Notes 7 and 8)	333,468	314,146
Customer deposits	97,410	98,260
Due in more than one year (Note 5)	7,148,457	4,488,643
Total noncurrent liabilities	8,113,945	5,186,941
Total liabilities	9,965,266	6,371,081
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions (Note 6)	181,432	564,846
Deferred inflows related to other postemployment benefits (Notes 7 and 8)	48,831	64,371
	230,263	629,217
NET POSITION		
Net investment in capital assets	14,617,106	11,553,509
Unrestricted	(115,052)	542,015
Total net position	$ 14,502,054	$ 12,095,524

The Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY
BUSINESS-TYPE ACTIVITIES

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended June 30, 2023

	2023	(For Comparative Purposes Only) 2022
OPERATING REVENUES		
Charges for services:		
Water revenues	$ 2,693,141	$ 2,566,636
Wastewater revenues	1,610,136	1,679,162
Penalty and reconnection charges	87,119	84,204
Fees	464,026	438,761
Miscellaneous	36,859	70,057
Total operating revenues	4,891,281	4,838,820
OPERATING EXPENSES		
Salaries and wages	1,175,106	1,123,009
Employee benefits	419,313	464,842
Utilities and telephone	177,931	118,900
Water and wastewater services	1,618,409	1,456,818
Operating supplies, fees, and permits	60,559	54,590
Professional services (Note 11)	254,906	289,626
Repairs and maintenance	204,577	257,653
Insurance	35,374	37,188
Vehicle supplies and maintenance	75,518	59,219
Bad debts	35,833	59,000
Office supplies and miscellaneous	52,249	44,952
Depreciation	888,751	893,855
Total operating expenses	4,998,526	4,859,652
Operating loss	(107,245)	(20,832)
NONOPERATING REVENUES (EXPENSES)		
Federal grants	1,124,368	-
State grants	15,000	-
Investment earnings	50,160	2,429
Facility fees	450,250	350,135
Gain on sale of capital assets	9,957	2,000
Interest expense	(132,548)	(117,363)
Total nonoperating revenues (expenses)	1,517,187	237,201
Income before contributions	1,409,942	216,369
CAPITAL CONTRIBUTIONS		
VRA loan forgiveness	572,211	-
Federal	410,879	-
Montgomery County	13,498	-
Total contributed capital	996,588	-
Change in net position	2,406,530	216,369
NET POSITION BEGINNING AT JULY 1	12,095,524	11,879,155
NET POSITION ENDING AT JUNE 30	$ 14,502,054	$ 12,095,524

The Notes to Financial Statements are an integral part of this statement.

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

STATEMENT OF NET POSITION – PROPRIETARY FUNDS
June 30, 2023

	Water	Wastewater	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 1,437,810	$ 943,022	$ 2,380,832
Accounts receivable, net	513,259	327,241	840,500
Due from County	8,597	7,719	16,316
Inventories	122,581	4,634	127,215
Total current assets	2,082,247	1,282,616	3,364,863
Noncurrent assets:			
Cash and cash equivalents, restricted	56,610	40,800	97,410
Capital assets:			
Nondepreciable	8,244,104	-	8,244,104
Depreciable, net	7,478,757	5,267,166	12,745,923
Total noncurrent assets	15,779,471	5,307,966	21,087,437
Total assets	17,861,718	6,590,582	24,452,300
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	106,079	92,223	198,302
Deferred outflows related to other postemployment benefits	22,037	24,944	46,981
Total deferred outflows	128,116	117,167	245,283
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	1,127,975	130,702	1,258,677
Accrued payroll and related liabilities	35,442	30,285	65,727
Accrued interest payable	26,422	1,342	27,764
Due to County	6,184	-	6,184
Current portion of noncurrent liabilities	286,995	179,738	466,733
Total current liabilities	1,483,018	342,067	1,825,085
Noncurrent liabilities:			
Net pension liabililty	285,981	248,629	534,610
Net other postemployment benefit liability	171,523	161,945	333,468
Customer deposits	56,610	40,800	97,410
Due in more than one year	4,899,131	1,211,227	6,110,358
Total noncurrent liabilities	5,413,245	1,662,601	7,075,846
Total liabilities	6,896,263	2,004,668	8,900,931
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	97,054	84,378	181,432
Deferred inflows related to other postemployment benefits	25,402	23,429	48,831
	122,456	107,807	230,263
NET POSITION			
Net investment in capital assets	10,664,667	3,952,439	14,617,106
Unrestricted	306,448	642,835	949,283
Total net position	$ 10,971,115	$ 4,595,274	15,566,389
Reconciliation with business-type activities in the statement of net position:			
Long-term membership fee payable to New River Valley Regional Water Authority legally paid by the County but financed ultimately by enterprise funds revenues.			(1,064,335)
			$ 14,502,054

The Notes to Financial Statements are an integral part of this statement.

EXHIBIT 4

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – PROPRIETARY FUNDS
For the Year Ended June 30, 2023

	Water	Wastewater	Total
OPERATING REVENUES			
Charges for services:			
Water revenues	$ 2,693,141	$ -	$ 2,693,141
Wastewater revenues	-	1,610,136	1,610,136
Penalty and reconnection charges	63,113	24,006	87,119
Fees	322,629	141,397	464,026
Miscellaneous	28,226	8,633	36,859
Total operating revenues	3,107,109	1,784,172	4,891,281
OPERATING EXPENSES			
Salaries and wages	634,898	540,208	1,175,106
Employee benefits	216,582	202,731	419,313
Utilities and telephone	65,852	112,079	177,931
Water and wastewater services	1,041,179	577,230	1,618,409
Operating supplies, fees, and permits	18,285	42,274	60,559
Professional services	201,580	53,326	254,906
Repairs and maintenance	113,171	91,406	204,577
Insurance	20,717	14,657	35,374
Vehicle supplies and maintenance	53,742	21,776	75,518
Bad debts	40,833	(5,000)	35,833
Office supplies and miscellaneous	44,027	8,222	52,249
Membership fees	47,522	-	47,522
Depreciation	433,643	455,108	888,751
Total operating expenses	2,932,031	2,114,017	5,046,048
Operating income (loss)	175,078	(329,845)	(154,767)
NONOPERATING REVENUES (EXPENSES)			
Federal grants	1,124,368	-	1,124,368
State grants	15,000	-	15,000
Investment earnings	50,160	-	50,160
Facility fees	201,250	249,000	450,250
Gain on dispoal of capital assets	9,957	-	9,957
Interest expense	(77,019)	(33,728)	(110,747)
Total nonoperating revenues (expenses)	1,323,716	215,272	1,538,988
Loss before contributions	1,498,794	(114,573)	1,384,221
CAPITAL CONTRIBUTIONS			
VRA loan forgiveness	572,211	-	572,211
Federal	410,879	-	410,879
Montgomery County	-	13,498	13,498
Total contributed capital	983,090	13,498	996,588
Change in net position	2,481,884	(101,075)	2,380,809
Total net position – beginning	8,489,231	4,696,349	13,185,580
Total net position – ending	$ 10,971,115	$ 4,595,274	$ 15,566,389

Reconciliation with business-type activities in the statement of activities:	
Change in net position	$ 2,380,809
Principal repayment on initial membership fee to New River Valley Regional Water Authority legally due from County but financed ultimately by enterprise fund revenues.	25,721
Change in net position of business-type activities	$ 2,406,530

The Notes to Financial Statements are an integral part of this statement.

EXHIBIT 5

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
For the Year Ended June 30, 2023

	Water	Wastewater	Total
OPERATING ACTIVITIES			
Receipts from customers	$ 3,070,053	$ 1,776,131	$ 4,846,184
Payments to suppliers	(953,212)	(897,313)	(1,850,525)
Payments to employees	(870,866)	(751,897)	(1,622,763)
Payments to County for financial services	(81,126)	-	(81,126)
Net cash provided by operating activities	1,164,849	126,921	1,291,770
CAPITAL AND RELATED FINANCING ACTIVITIES			
Receipts from federal grants	1,124,368	-	1,124,368
Receipts from state grants	15,000	-	15,000
Acquisition and construction of capital assets	(6,216,100)	-	(6,216,100)
Facility fee payments from customers	201,250	249,000	450,250
Proceeds from issuance of long term debt	3,576,321	-	3,576,321
Proceeds from the sale of capital assets	9,957	20,000	29,957
Principal payments on long-term debt	(192,668)	(123,316)	(315,984)
Interest payments on debt	(52,892)	(33,853)	(86,745)
Net cash provided by (used in) capital and related financing activities	(1,534,764)	111,831	(1,422,933)
INVESTING ACTIVITIES			
Interest received	50,160	-	50,160
Net increase (decrease) in cash and cash equivalents	(319,755)	238,752	(81,003)
CASH AND CASH EQUIVALENTS			
Beginning at July 1	1,814,175	745,070	2,559,245
Ending at June 30	$ 1,494,420	$ 983,822	$ 2,478,242
RECONCILIATION TO EXHIBIT 3			
Cash and cash equivalents	$ 1,437,810	$ 943,022	$ 2,380,832
Cash and cash equivalents, restricted	56,610	40,800	97,410
	$ 1,494,420	$ 983,822	$ 2,478,242
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	$ 175,078	$ (329,845)	$ (154,767)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	433,643	455,108	888,751
Pension (income) expense net of employer contributions	(38,102)	(18,892)	(56,994)
Other postemployment benefit expense net of employer contributions	3,005	2,933	5,938
Increase in accounts receivable	4,057	(12,471)	(8,414)
(Increase)/decrease in due from County	275	572	847
Increase in inventories	(20,249)	(3,080)	(23,329)
Increase in accounts payable and accrued expenses	591,177	26,165	617,342
Decrease in due to County	534	-	534
Increase in accrued payroll and related liabilities and compensated absences	15,711	7,001	22,712
Increase in customer deposits	(280)	(570)	(850)
Net cash provided by operating activities	$ 1,164,849	$ 126,921	$ 1,291,770
SCHEDULE OF NON-CASH ACTIVITIES			
Contributions of capital assets	$ 410,879	$ 13,498	$ 424,377
Loan forgiveness	$ 572,211	$ -	$ 572,211

The Notes to Financial Statements are an integral part of this statement.

Note 1. Summary of Significant Accounting Policies

Reporting entity

The Montgomery County Public Service Authority (the "Authority") provides water and wastewater services for County of Montgomery, Virginia (the "County") residents and is treated as a discretely presented component unit of the County. The Authority is so classified because its members are appointed by the Board of Supervisors and the Authority does not provide financial benefit to or impose a financial burden on the County.

Measurement focus and basis of accounting

The Authority's financial statements are reported using 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.

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

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

The Authority reports the following major proprietary funds:

Water Fund – This fund accounts for the activities of the water department.
Wastewater Fund – This fund accounts for the activities of the wastewater department.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Cash and cash equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Account receivable, other

Accounts receivable, other consists of amount due from sale of land.

Unbilled accounts receivable

Unbilled accounts receivable consists of amounts earned as of year end, but not yet billed because billing dates do not coincide with year end.

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Allowance for uncollectible accounts

The Authority calculates its allowance for uncollectible accounts using historical collection data.

Inventories

Inventories generally are recorded at cost using the first-in/first-out (FIFO) method.

Capital assets

Capital assets which include property, plant, and equipment are defined as 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 date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are expensed.

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

Buildings	30-50 years
Mobile equipment	3-10 years
Other equipment	3-10 years
Wastewater systems	30-40 years
Water systems	30-40 years

Compensated absences

The Authority has a policy which allows for the accumulation and vesting of limited amounts of leave until termination or retirement.

Pensions and Other Postemployment Benefits (OPEB)

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

Net position

Net position is the difference between assets, deferred outflow of resources, liabilities, and deferred inflows of resources. Net investment in capital assets represent capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction, or improvement of those assets. At June 30, the Authority had a deficit in unrestricted net position of $115,052. This deficit is anticipated to be recovered through future revenues.

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Deferred outflows/inflows of resources

In addition to assets, the statements that present net position report a separate section for deferred outflows of resources. These items represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statements that present financial position report a separate section for deferred inflows of resources. These items represent an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

Estimates

Management uses estimates and assumptions in preparing its financial statements. Actual results could differ from those estimates.

Comparative data

The government-wide financial statements include certain prior year summarized comparative information in total but not presented at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Authority's financial statements for the prior year from which the summarized information was derived.

Note 2. Cash 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 2.2-440 *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 amount from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Restricted assets

Restricted cash and cash equivalents consist of customer deposits.

(Continued)

Note 3. Accounts Receivable, Net

Accounts receivable consists of the following:

	Water	Wastewater	Total
Billed	$ 232,550	$ 165,166	$ 397,716
Unbilled	337,709	203,075	540,784
Allowance for uncollectible accounts	(57,000)	(41,000)	(98,000)
	$ 513,259	$ 327,241	$ 840,500

Note 4. Capital Assets

Capital asset activity for the year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land, improvements, and rights	$ 322,389	$ -	$ -	$ 322,389
Construction in progress	1,601,995	6,585,138	1,142,418	7,044,715
Intangible asset (Note 9)	877,000	-	-	877,000
Total capital assets, not depreciated	2,801,384	6,585,138	1,142,418	8,244,104
Capital assets, being depreciated:				
Buildings	267,622	1,142,418	-	1,410,040
Mobile equipment	636,663	55,339	19,750	672,252
Other equipment	1,207,982	-	44,966	1,163,016
Wastewater systems	17,421,620	-	-	17,421,620
Water systems	15,216,222	-	-	15,216,222
Total capital assets, being depreciated	34,750,109	1,197,757	64,716	35,883,150
Less accumulated depreciation:				
Buildings	192,675	21,018	-	213,693
Mobile equipment	496,658	48,299	19,750	525,207
Other equipment	600,040	55,843	44,966	610,917
Wastewater systems	12,029,449	390,736	-	12,420,185
Water systems	8,994,370	372,855	-	9,367,225
Total accumulated depreciation	22,313,192	888,751	64,716	23,137,227
Total capital assets being depreciated, net	12,436,917	309,006	-	12,745,923
Total capital assets, net	$ 15,238,301	$ 6,894,144	$ 1,142,418	$ 20,990,027

(Continued)

Note 5. Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year:

	Beginning Balance	Issuances	Retirements	Ending Balance	Due within One Year
Revenue bonds	$ 3,684,792	$ 3,004,110	$ 315,984	$ 6,372,918	$ 323,813
Membership fee payable (Note 9)	1,090,056	-	25,721	1,064,335	26,236
Compensated absences	184,997	148,672	129,496	204,173	142,920
	$ 4,959,845	$ 3,152,782	$ 471,201	$ 7,641,426	$ 492,969

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

	Revenue Bonds		Membership Fee Payable	
Fiscal Year	Principal	Interest	Principal	Interest
2024	$ 323,813	$ 78,916	$ 26,236	$ 21,287
2025	331,836	191,515	26,760	20,762
2026	599,546	111,761	27,296	20,227
2027	612,324	98,983	27,842	19,681
2028	625,382	85,925	28,398	19,124
2029 – 2033	3,077,830	226,937	150,742	86,870
2034 – 2038	802,187	21,497	166,432	71,181
2039 – 2043	-	-	183,754	53,858
2044 – 2048	-	-	202,879	34,733
2049 – 2053	-	-	223,996	13,616
	$ 6,372,918	$ 815,534	$ 1,064,335	$ 361,339

Details of long-term indebtedness are as follows:

	Issue Date	Maturity Date	Authorized and Issued	Interest Rate	Amount Outstanding
Revenue Bonds:					
Water and Sewer Refunding Bond, 2013	03/28/2013	2032	$ 6,275,000	2.45%	$ 3,368,808
Virginia Resource Authority, 2022	07/14/2022	2054	3,004,110	1.67%	3,004,110
			$ 9,279,110		$ 6,372,918

On July 14, 2022, the Authority closed on a loan with the Virginia Resources Authority through the Virginia Water Supply Revolving Fund of $7,164,626 and loan forgiveness of $1,400,000 with an interest rate of 1.67%. The proceeds will be used by the Authority to complete capital upgrades as agreed upon with the Water Authority (Note 9) and other capital upgrades necessary as part of taking over non-compliant water systems (Note 13). As of June 30, 2023, $3,576,321 has been drawn down from the loan ($3,004,110 in debt and $572,211 in loan forgiveness). Loan forgiveness is earned on a prorated basis as funds are expended.

The Virginia Resources Authority debt requires the Authority to pledge its revenue to secure the payment of the principal and interest. The Authority covenants and agrees that it will fix and collect rates, fees and other charges each fiscal year so that the net revenues available for debt service will equal at least 115% of the amount required each fiscal year to pay principal and interest on all debt service. The pledged revenue coverage ratio for the year ended June 30, 2023 was 5.25. Schedule 1 presents the pledged revenue coverage ratio.

Note 6. Defined Benefit Pension Plan

Plan Description

All full-time, salaried permanent employees of the Montgomery County Public Service Authority, (the "Political Subdivision") are automatically covered by the VRS Retirement Plan upon employment. This multi-employer agent 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 pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are available at

- https://www.varetire.org/members/benefits/defined-benefit/plan1.asp,
- https://www.varetire.org/members/benefits/defined-benefit/plan2.asp,
- https://www.varetirement.org/hybrid.html.

Employees Covered by Benefit Terms

The employees of the Authority are also employees of the County, as such, they are included in the employee information included in the County's ACFR.

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 political subdivision's contractually required contribution rate for the year ended June 30, 2023 was 13.70% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were $141,430 and $115,526 for the years ended June 30, 2023 and June 30, 2022, respectively.

Net Pension Liability

The net pension liability 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, 2022. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2021 rolled forward to the measurement date of June 30, 2022.

(Continued)

Note 6. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2021, 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, 2022.

Inflation	2.50%
General Employees – Salary increases, including inflation	3.50 – 5.35%
Public Safety Employees with hazardous duty benefits – Salary increases, including inflation	3.50 – 4.75%
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Mortality rates: General employees – 15 to 20% of deaths are assumed to be service related. Public Safety Employees – 45% to 70% of deaths are assumed to be service related. Mortality is projected using the applicable Pub-2010 Mortality Table with various set backs or set forwards for both males and females.

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study are as follows:

General Employees – Largest 10 – Non-Hazardous Duty and All Others (Non 10 Largest): Updated mortality table; adjusted retirement rates; adjusted withdrawal rates to better fit experience at each year age and service through 9 years of service; no change to disability rates; no change to salary scale; no change to line of duty disability; and no change to discount rate.

(Continued)

Note 6. Defined Benefit Pension Plan (Continued)

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	34.00 %	5.71 %	1.94 %
Fixed Income	15.00	2.04	0.31
Credit Strategies	14.00	4.78	0.67
Real Assets	14.00	4.47	0.63
Private Equity	14.00	9.73	1.36
MAPS – Multi-Asset Public Strategies	6.00	3.73	0.22
PIP – Private Investment Partnership	3.00	6.55	0.20
Total	100.00 %		5.33 %
	Inflation		2.50 %
	*Expected arithmetic nominal return		7.83 %

* The above allocation provides for a one-year return of 7.83%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of 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 6.72%, including expected inflation of 2.50%. On October 10, 2019, the VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

Note 6. Defined Benefit Pension Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions, political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2023, the alternate rate was the employer contribution rate used in the FY 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2021 actuarial valuations, whichever was greater. From July 1, 2022 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2021	$ 5,122,913	$ 4,837,021	$ 285,892
Changes for the year:			
Service cost	103,214	-	103,214
Interest	331,024	-	331,024
Differences between expected and actual experience	(37,588)	-	(37,588)
Contributions – employer	-	110,829	(110,829)
Contributions – employee	-	44,298	(44,298)
Net investment income	-	(4,400)	4,400
Benefit payments, including refunds of employee contributions	(245,224)	(245,224)	-
Administrative expenses	-	(2,902)	2,902
Other changes	-	107	(107)
Net changes	151,426	(97,292)	248,718
Balances at June 30, 2022	$ 5,274,339	$ 4,739,729	$ 534,610

(Continued)

Note 6. Defined Benefit Pension Plan (Continued)

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

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

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
Political subdivision's net pension liability	$ 1,236,347	$ 534,610	$ (37,606)

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

For the year ended June 30, 2023, the political subdivision recognized pension expense of $95,494. At June 30, 2023, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 44,565
Change in assumptions	56,872	-
Net difference between projected and actual earnings on pension plan investments	-	136,867
Employer contributions subsequent to the measurement date	141,430	-
Total	$ 198,302	$ 181,432

(Continued)

Note 6. Defined Benefit Pension Plan (Continued)

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

The $141,430 reported as deferred outflows of resources related to pensions resulting from the Political Subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the Fiscal Year ending June 30, 2024. 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,	Addition (Reduction) to Pension Expense
2024	$ (30,083)
2025	(66,877)
2026	(92,012)
2027	64,412
2028	-
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2022 Annual Comprehensive Financial Report (Annual Report). A copy of the 2022 VRS Annual Report may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2022-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 7. Other Postemployment Benefits Liability – Local Plan

Plan Description and Benefits Provided

The Authority provides postemployment medical and dental benefits to its retirees and their eligible dependents who elect to stay in the plans. At retirement, retirees may stay in one of three health plans with an additional choice of staying in one of two dental plans and can continue coverage under all the benefits until becoming eligible for Medicare or death, whichever comes first, under a single-employer plan. The retiree pays the premium for these benefits. The Authority may change, add, or delete benefits (including contributions required of retired employees) as deemed appropriate.

Participants are eligible for the plan at age 50 if they have completed ten years of service, or at age 55 if they have completed five years of service. Retiring employees must have been permanent active employees and have coverage in effect when they retire.

(Continued)

Note 7. Other Postemployment Benefits Liability – Local Plan (Continued)

Employees Covered by Benefit Terms

The employees of the Authority are also employees of the County, as such, they are included in the employee information included in the County's AFCR.

Total OPEB Liability

The Authority's total OPEB liability of $280,603 was measured as of June 30, 2023 and was determined based on an actuarial valuation performed as of June 30, 2021.

Actuarial Assumptions and Other Inputs

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

Inflation	2.50 %
Salary increases, including inflation	3.50 % - 5.35 %
Healthcare cost trend rates	3.90 % - 6.70 %
Retirees' share of benefit-related costs	100 %
Mortality rates	.016 % - .970 %

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of VRS experience studies for the period from July 1, 2012 through June 30, 2016.

There were no changes in benefit terms in the current year.

Changes in assumptions and other inputs since the July 1, 2021 valuation include:

- The healthcare trend assumption was updated. These rates are consistent with information from the Getzen Trend Mode, Milliman's Health Cost Guidelines, and actuarial judgement.

(Continued)

Note 7. Other Postemployment Benefits Liability – Local Plan (Continued)

Changes in the Total OPEB Liability

Balance at June 30, 2022	$ 262,162
Changes for the year:	
Service cost	10,667
Interest	9,489
Assumption or other input changes	7,936
Benefit payments	(9,651)
Net changes	18,441
Balance at June 30, 2023	$ 280,603

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

The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.65%) or one percentage point higher (4.65%) than the current discount rate:

	1.00% Decrease (2.65%)	Current Discount Rate (3.65%)	1.00% Increase (4.65%)
Total OPEB liability	$ 310,868	$ 280,603	$ 254,222

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

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

	1.00% Decrease	Current Healthcare Cost Trend Rates	1.00% Increase
Total OPEB liability	$ 243,721	$ 280,603	$ 325,268

(Continued)

Note 7. Other Postemployment Benefits Liability – Local Plan (Continued)

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

For the year ended June 30, 2023, the Authority recognized OPEB expense of $21,112. At June 30, 2023, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	$ 8,873	$ 36,775
Differences between expected and actual experience	24,760	-
Total	$ 33,633	$ 36,775

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

Year Ending June 30,	Addition (Reduction) to OPEB Expense
2024	$ 885
2025	719
2026	719
2027	719
2028	(498)
Thereafter	(5,686)

Note 8. Other Postemployment Benefits Liability – Virginia Retirement System Plans

In addition to their participation in the pension plans offered through the Virginia Retirement System (VRS), the Authority also participates in a cost-sharing and agent multi-employer other postemployment benefit plan, described as follows.

Plan Description

Group Life Insurance Program

All employees of political subdivisions are automatically covered by the VRS Group Life Insurance (GLI) Program upon employment.

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 GLI Program OPEB.

Specific information for the GLI is available at https://www.varetire.org/members/benefits/life-insurance/basic-group-life-insurance.asp

Contributions

Contributions to the VRS OPEB program were based on actuarially determined rates from actuarial valuations as of June 30, 2021. The actuarially determined rates were expected to finance the cost of benefits earned by employees during the year, with an additional amount to fund any unfunded accrued liability. Specific details related to the contributions for the VRS OPEB program is as follows:

Group Life Insurance Program

Governed by:	*Code of Virginia* 51.1-506 and 51.1-508 and may be impacted as a result of funding provided to school divisions and governmental agencies by the Virginia General Assembly.
Total rate:	1.34% of covered employee compensation. Rate allocated 60/40; 0.80% employee and 0.54% employer. Employers may elect to pay all or part of the employee contribution.
June 30, 2023 Contribution	$ 5,824
June 30, 2022 Contribution	$ 5,150

Note 8. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

OPEB Liability, OPEB Expense and Deferred Inflows and Outflows of Resources Related to OPEB

The net OPEB liability was measured as of June 30, 2022 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation performed as of June 30, 2021 and rolled forward to the measurement date of June 30, 2022. The covered employer's proportion of the net OPEB liability was based on the covered employer's actuarially determined employer contributions for the year ended June 30, 2022 relative to the total of the actuarially determined employer contributions for all participating employers.

Group Life Insurance Program

June 30, 2023 proportionate share of liability	$ 52,865
June 30, 2022 proportion	.09607 %
June 30, 2021 proportion	.09770 %
June 30, 2023 expense	$ 1,637

Since there was a change in proportionate share between measurement dates, a portion of the OPEB expense above was related to deferred amount from changes in proportion.

At June 30, 2023, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources.

Group Life Insurance Program

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 4,186	$ 2,129
Change in assumptions	1,972	5,146
Net difference between projected and actual earnings on OPEB plan investments	-	3,303
Changes in proportion	1,366	1,478
Employer contributions subsequent to the measurement date	5,824	-
Total	$ 13,348	$ 12,056

(Continued)

Note 8. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

OPEB Liability, OPEB Expense and Deferred Inflows and Outflows of Resources Related to OPEB (Continued)

The deferred outflows of resources related to OPEB resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the Net OPEB Liability in the Fiscal Year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense in future reporting periods as follows:

Group Life Insurance Program

Year Ended June 30,	Addition (Reduction) to OPEB Expense
2024	$ (876)
2025	(688)
2026	(2,698)
2027	303
2028	(573)
Thereafter	-

(Continued)

Note 8. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2021, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022:

Inflation	2.5%
Salary increases, including inflation:	
• Locality – general employees	3.50 – 5.35%
Healthcare cost trend rates:	
• Under age 65	7.00 – 4.75%
• Ages 65 and older	5.25 – 4.75%
Investment rate of return, net of expenses, including inflation	GLI: 6.75%

Mortality rates used for the various VRS OPEB plans are the same as those used for the actuarial valuations of the VRS pension plans. The mortality rates are discussed in detail at Note 6.

Note 8. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Net OPEB Liabilities

The net OPEB liability represent 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, 2022, net OPEB liability amount for the VRS OPEB program is as follows (amounts expressed in thousands):

	Group Life Insurance Program
Total OPEB Liability	$ 3,672,085
Plan fiduciary net position	$ 2,467,989
Employers' net OPEB liability (asset)	$ 1,204,096
Plan fiduciary net position as a percentage of total OPEB liability	67.21%

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

Note 8. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Long-Term Expected Rate of Return

Group Life Insurance

The long-term expected rate of return on VRS 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 OPEB 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	34.00 %	5.71 %	1.94 %
Fixed Income	15.00	2.04	0.31
Credit Strategies	14.00	4.78	0.67
Real Assets	14.00	4.47	0.63
Private Equity	14.00	9.73	1.36
MAPS – Multi-Asset Public Strategies	6.00	3.73	0.22
PIP – Private Investment Partnership	3.00	6.55	0.20
Total	100.00 %		5.33 %
	Inflation	2.50 %	
	*Expected arithmetic nominal return	7.83 %	

* The above allocation provides for a one-year return of 7.83%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of 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 6.72%, including expected inflation of 2.50%. On October 10, 2019, the VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including inflation of 2.50%.

Note 8. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Discount Rate

The discount rate used to measure the GLI OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS 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, 2022, the rate contributed by the employer for the OPEB liabilities will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2020 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the OPEB plans' 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 OPEB liability.

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

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

	1.00% Decrease (5.75%)	Current Discount Rate (6.75%)	1.00% Increase (7.75%)
GLI Net OPEB liability	$ 76,924	$ 52,865	$ 33,421

OPEB Plan Fiduciary Net Position

Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2022 Annual Comprehensive Financial Report (Annual Report). A copy of the 2022 VRS Annual Report may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2022-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 9. Service Contracts

The Authority maintains contracts for water purchase and sewer treatment services with the following organizations:

New River Valley Regional Water Authority
Blacksburg VPI Sanitation Authority
Pepper's Ferry Regional Wastewater Treatment Authority

(Continued)

Note 9. Service Contracts (Continued)

During June 2013, Montgomery County joined the New River Valley Regional Water Authority (the "Water Authority"). While Montgomery County is the legal member of the Water Authority, all benefits or costs associated with the membership will be enjoyed by or paid with revenues of the Authority. The Authority paid a one-time $1,300,000 membership fee which was financed over forty years (Note 5). As part of the water agreement, and in exchange for the rights to acquire water from the Water Authority, the Authority transferred a section of pipe with an estimated value of $877,000 to the Water Authority (Note 4). This exchange created an intangible asset of equal value with an indefinite useful life that will be evaluated annually for impairment. The transfer of the pipe occurred in 2014.

During 2014, in accordance with joining the Water Authority, the Authority agreed to pay for a transitional meter setting with a cost of $9,358. This was completed in fiscal year 2020 and paid in July 2020. The Authority is responsible for capital upgrades with an estimated cost of $9,200,000. The initial design work of the capital upgrades was completed in fiscal year 2019 and additional design work was required in fiscal years 2020, 2021 and 2022. Construction began in fiscal year 2023. $3,690,828 in capital upgrades were included in Construction in Progress at June 30, 2023. Funding for the construction of this project has been obtained through a loan with the Virginia Resources Authority through the Virginia Water Supply Revolving Fund (Note 5).

Note 10. Risk Management

General liability and other

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority participates with other localities in the Virginia Association of Counties Liability Pool for its coverage of general liability, auto insurance, and workers' compensation. Each member of this public risk pool jointly and severally agrees to assume, pay, and discharge any liability. The Authority pays the contributions and assessments based upon classification and rates into a designated cash reserve fund out of which expenses of the pool, claims and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the pool may assess all members in the proportion in which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. The Authority carries commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the last three years and there have not been any significant reductions in insurance coverage from the previous year.

Health benefits

The County of Montgomery is self-insured. The Authority pays a fixed per employee monthly premium to the County for health coverage. The claims incurred, claims paid, and incurred but not reported information can be found in the annual comprehensive financial report of the County.

(Continued)

Note 11. Related Party Transactions

The County serves as paymaster and performs other financial services for the Authority including billing customers, processing payments, paying invoices, reconciling bank statements, and maintaining and reconciling the general ledger. The County bills the Authority for these services based on the actual time incurred. The cost of these services for the year, $81,660, is included in professional services.

The County provides office space to the Authority at no charge. At year end, the Authority has a balance of $6,184 due to the County for financial services provided. At year end, the Authority has a balance of $16,316 due from the County for monthly insurance premiums paid in advance.

Note 12. Concentrations

One customer provides approximately seven percent of operating revenue.

Note 13. Commitments and Contingencies

In August 2021, the Office of Drinking Water (ODW) and VA Department of Health (VDH) notified the Authority of 5 publicly regulated, privately owned water systems in the County that were non-compliant. VDH requested the Authority take over the systems as the operator of last resort. The ODW offered to provide the Authority $4 million in grant funding and a loan of $750,000 from the Virginia Water Supply Revolving Fund (Note 5) in exchange for the PSA agreeing to take over the systems. On February 28, 2022, the Authority Board passed a resolution to complete the receivership process for operation of the systems. The Authority has taken over the operation of the systems and is in the process of bringing the systems into compliance pursuant to a court order dated May 2, 2022 that was initiated by the state attorney general's office.

Special purpose grants are subject to audit to determine compliance with their requirements. Authority officials believe that if any refunds are required they will be immaterial.

Note 14. Subsequent Events

The Authority has evaluated events and transactions for potential recognition or disclosure through November 17, 2023, the date the financial statements were available to be issued. Management is not aware of any subsequent events that occurred or other matters that should be disclosed.

(Continued)

Note 15. New Accounting Standards

In April 2022, the GASB issued **Statement No. 99**, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

In June 2022, the GASB issued **Statement No. 100**, *Accounting Changes and Error Corrections*. This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

In June 2022, the GASB issued **Statement No. 101**, *Compensated Absences*. This statement updates the recognition and measurement guidance for compensated absences and amends certain previously required disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2023.

Management has not determined the effects these new GASB Statements may have on prospective financial statements.

MONTGOMERY COUNTY PUBLIC SERVICE AUTHORITY

PLEDGED REVENUE COVERAGE
Last Ten Fiscal Years

Fiscal Year	Gross Revenue	Less: Operating Expenses	Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage
2023	$ 6,541,016	$ 4,998,526	$ 1,542,490	$ 315,984	$ 86,745	3.83