LEE COUNTY
PUBLIC SERVICE AUTHORITY

Financial Statements and Supplementary Information

Year Ended June 30, 2020

LEE COUNTY PUBLIC SERVICE AUTHORITY
Financial Statements and Supplementary Information
Year Ended June 30, 2020

Table of Contents

	Page
INTRODUCTORY SECTION:	
ROSTER OF OFFICIALS	1
FINANCIAL SECTION:	
INDEPENDENT AUDITORS' REPORT	2
BASIC FINANCIAL STATEMENTS:	
STATEMENT OF NET POSITION	5
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION	6
STATEMENT OF CASH FLOWS	7
NOTES TO FINANCIAL STATEMENTS	8
REQUIRED SUPPLEMENTARY INFORMATION:	
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS	41
SCHEDULE OF PENSION CONTRIBUTIONS	42
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY	43
SCHEDULE OF OPEB CONTRIBUTIONS	44
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION	45
OTHER SUPPLEMENTARY INFORMATION:	
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION BY DEPARTMENT	46
COMPLIANCE SECTION:	
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITIN STANDARDS	47
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	49
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	51
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	52

LEE COUNTY PUBLIC SERVICE AUTHORITY
Roster of Officials
June 30, 2020

Directors

Bill Carter, Chairman
Richard Shuler, Vice-Chairman
Robert Horton
Roger Gates
Aaron Stacy

Officials

Tracy Puckett, Executive Director

• Certified Public Accountants
• Business Advisors

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Rodefer Moss & Co, PLLC

Independent Auditors' Report

The Board of Directors
The Lee County Public Service Authority
Jonesville, Virginia

Report on the Financial Statements

We have audited the accompanying statement of net position of the Lee County Public Service Authority (the "Authority"), a component unit of the County of Lee, Virginia as of June 30, 2020, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2020, and the respective changes in financial position and its cash flows thereof for the year then ended in accordance with 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 Schedules of Required Supplementary Information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the 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 Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The roster of officials, other supplemental information as listed in the table of contents, and compliance section information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulation* Part 200, *Uniform Administrative Requirements, Cost principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of federal awards and other supplemental information, as listed in the table of contents, are the responsibility of management and were 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 State of America. In our opinion, the schedule of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The roster of officials, and compliance section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated August 23, 2021, on our consideration of the Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts, 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 effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Authority's internal control over financial reporting and compliance.

Rodefer Moss & Co, PLLC

Norton, Virginia
August 23, 2021

LEE COUNTY PUBLIC SERVICE AUTHORITY
Statement of Net Position
June 30, 2020

ASSETS	
Current Assets	
Cash and cash equivalents	$ 431,051
Accounts receivable, net	434,862
Restricted cash and cash equivalents	770,125
Total current assets	1,636,038
Noncurrent Assets	
Net pension asset	199,092
Capital Assets, net	47,032,424
Total noncurrent assets	47,231,516
Total assets	48,867,554
DEFERRED OUTFLOW OF RESOURCES	
Pension-related outflows	43,833
OPEB related outflows	15,525
Total Deferred Outflows of Resources	59,358
LIABILITIES AND NET POSITION	
Current Liabilities	
Current maturities of bonds payable	$ 772,860
Accounts payable	202,519
Accrued payroll	258
Customer deposits	174,671
Accrued interest payable	31,317
Compensated absences	34,635
Total current liabilities	1,216,260
Noncurrent Liabilities	
Compensated absences, net of current portion	80,818
Other post employment benefits liability	55,327
Note payable long term	32,500
Bonds payable, after one year	16,598,331
Total noncurrent liabilities	16,766,976
Total liabilities	17,983,236
DEFERRED INFLOWS OF RESOURCES	
Pension-related inflows	38,239
OPEB-related inflows	3,522
Total Deferred Inflows of Resources	41,761
NET POSITION	
Net investment in capital assets	29,661,233
Restricted	621,159
Unrestricted	619,523
Total net position	$ 30,901,915

See notes to financial statements.

LEE COUNTY PUBLIC SERVICE AUTHORITY
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2020

Operating revenues	
Charges for services	$ 3,976,330
Other revenue	2,935
Total operating expenses	3,979,265
Operating expenses	
Wages and benefits	1,030,598
Sewer Processing and Disposal	176,775
Water purchased	436,972
Utilities	264,070
Equipment repair and replacement	146,636
Professional Fees	24,125
Insurance	54,521
Certifications and training	2,505
Transportation	69,525
Telecommunication	15,480
Chemical supplies	43,981
Office supplies	22,447
Other supplies	70,289
Management services	3,325
Testing	40,052
Licenses and permits	20,386
Miscellaneous	97,111
Advertising	1,212
Depreciation	3,164,894
Total operating expenses	5,684,904
Operating income (loss)	(1,705,639)
Nonoperating Income (Expenses)	
Investment earnings	8,064
Insurance proceeds	4,003
Interest expense	(392,930)
Total nonoperating expenses	(380,863)
Capital contributions and construction grants	1,410,751
Change in net position	(675,751)
Net position, beginning of year	31,577,666
Net position, end of year	$ 30,901,915

See notes to financial statements.

LEE COUNTY PUBLIC SERVICE AUTHORITY
Statement of Cash Flows
For the Year Ended June 30, 2020

Cash Flows From Operating Activities	
Receipts from customers	$ 4,185,020
Payments to suppliers for goods and services	(1,603,813)
Payments to employees for services	(1,046,997)
Net cash flows from operating activities	1,534,210
Cash Flows From Capital and Related Financing Activities	
Acquisition and construction of capital assets	(1,820,405)
Principal payments on debt	(752,227)
Bond proceeds	77,368
Contributed capital and grant revenue	1,450,505
Insurance proceeds	4,003
Interest payments	(399,174)
Net cash flows from capital and related financing activities	(1,439,930)
Cash Flows From Investing Activities	
Interest and dividend revenue	8,064
Net increase in cash and cash equivalents	102,344
Cash and cash equivalents, beginning of year	1,098,832
Cash and cash equivalents, end of year	$ 1,201,176
Displayed as: Cash and Cash Equivalents at June 30, 2020	
Unrestricted	$ 431,051
Restricted	770,125
	$ 1,201,176
Reconciliation of operating income to net cash flows from operating activities	
Operating loss	$ (1,705,639)
Adjustments to reconcile operating income to net cash flows from operating activities:	
Depreciation	3,164,894
Net pension obligation	(17,125)
Provision for compensated absences	19,556
Other post employment benefit obligation	(2,181)
Change in Assets and Liabilities:	
(Increase) decrease in accounts receivable	189,929
Increase (decrease) in customer deposits	15,826
Increase (decrease) in accounts payable	(114,401)
Increase (decrease) in accrued payroll liabilities	(16,649)
Net cash flows from operating activities	$ 1,534,210

See notes to financial statements.

Note 1 - Summary of Significant Accounting Policies

The financial statements of the Authority conform to generally accepted accounting principles (GAAP) applicable to government units promulgated by the Government Accounting Standards Board (GASB).

The following is a summary of the more significant policies:

A. The Financial Reporting Entity

The Authority is a discretely presented component unit of the County of Lee, Virginia. The Authority provides water and sewer service to citizens of Lee County, Virginia. The Authority's systems were largely purchased with grant and loan proceeds from the Federal Government.

B. Basis of Accounting

Proprietary Funds - The accrual basis of accounting is used for the Authority. Under the accrual method, revenues are recognized when earned and expenses are recognized when incurred. The Proprietary Funds apply all applicable Governmental Accounting Standards Board (GASB) pronouncements and all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's enterprise fund are charges to customers for sales and services. The Authority also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

C. Capital Assets

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

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

Note 1 - Summary of Significant Accounting Policies (Continued)

C. Capital assets (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. The Authority has adopted early implementation of GASB 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. No construction-related interest was capitalized during the current or prior fiscal year.

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

Assets	Years
Water & Sewer System	20-40
Equipment	3-10
Buildings	10-30

D. Allowance for Uncollectible Accounts

The Authority calculates its allowance for uncollectible accounts using historical collection data. At June 30, 2020, there was an allowance of $324,545 recorded.

E. Cash, Cash Equivalents and Investments

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 maturities of 90 days or less. Certificates of deposits are reported in the accompanying financial statements as cash and cash equivalents.

F. Estimates

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

G. Restricted Assets

Included in restricted cash and cash equivalents are amounts held in debt service reserve accounts in the amount of $422,067 and $199,092 related to the Net Pension Asset for a total restricted amount of $621,159.

H. Net Position

Net position is the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets.

Note 1 - Summary of Significant Accounting Policies (Continued)

I. 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 Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

J. Other Postemployment Benefits (OPEB)

Group Life Insurance - The VRS Group Life Insurance Program is a multiple employer, cost sharing plan. It provided coverage to state employees, teachers, and employees of participating political subdivisions. The Group Life Insurance 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 Group Life Insurance Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers.

K. Deferred Outflows/Inflows of Resources
The Authority reports deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and is not recognized as an outflow of resources (expense) until the applicable period. Deferred inflows of resources represent 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 a future period.

Employer pension and other postemployment benefit (OPEB) contributions made after the net pension liability measurement date of June 30, 2019 and prior to the reporting date of June 30, 2020, have been reported as deferred outflows of resources in the Statement of Net Position as of June 30, 2020. This will be applied to the net pension and OPEB liabilities in the next fiscal year.

Differences between the projected and actual pension and OPEB earnings as of the actuarial measurement date of June 30, 2019 have been reported as a deferred inflow of resources. This difference will be recognized in pension and OPEB expense over a closed five-year period.

L. Date of Management Review
Management has evaluated events and transactions occurring subsequent to the statement of net position date for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date of the report, which is the date these financial statements were available to be issued.

Note 2 - Cash and Investments

A. Deposits
All cash of the Authority is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance.

B. Investments
Statutes authorize the Authority to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes; banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). The Authority did not have any investments at June 30, 2020 or for the year then ended.

Note 2 - Cash and Investments (Continued):

C. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Authority has measured fair value of the investments at the Net Asset Value (NAV).

D. Credit Risk

As required by state statute, the Authority requires that commercial paper have a short-term debt rating of no less than "A-1" (or equivalent) from a nationally recognized statistical rating organization.

E. Concentration of Credit Risk

Deposits and investments held by any single issuer that exceeded 5% are as follows:

Powell Valley National Bank	39%
Lee Bank & Trust	61%

Note 3 - Capital Assets and Depreciation

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

	Beginning balance July 1, 2020	Additions	Deletions	Ending balance June 30, 2020
Capital assets, non-depreciable				
Construction in Progress	$ 1,193,368	$ 1,774,628	$ (139,426)	$ 2,828,570
Land and land improvements	76,843	-	-	76,843
Capital assets, non-depreciable	$ 1,270,211	$ 1,774,628	$ -	$ 2,905,413
Capital assets, depreciable				
Water and sewer systems	$ 86,760,521	$ 139,426	$ -	$ 86,899,947
Machinery and Equipment	828,571	24,025	-	852,596
Automobiles	201,040	11,750	-	212,790
Capital assets, depreciable	$ 87,790,132	$ 175,201	$ -	$ 87,965,333
Less: accumulated depreciation	(40,673,428)	(3,164,894)	-	(43,838,322)
Capital assets, depreciable, net	$ 47,116,704	$ (2,989,693)	$ -	$ 44,127,011
Capital assets, net	$ 48,386,915	$ (1,215,065)	$ -	$ 47,032,424

Note 4 - Proprietary Debt

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

Year Ending June 30,	Water and Sewer Revenue Bonds Principal	Water and Sewer Revenue Bonds Interest
2021	$ 772,860	$ 379,427
2022	658,190	369,354
2023	667,823	359,722
2024	677,823	349,721
2025	688,203	339,341
2026-2030	3,603,604	1,526,702
2031-2035	3,493,863	1,207,272
2036-2040	2,833,739	852,616
2041-2045	2,403,290	452,483
2046-2050	1,459,675	124,518
2051-2055	112,121	1,474
Totals	$ 17,371,191	$ 5,962,630

Changes in Long-Term Debt:

The following is a summary of changes in long-term obligations of the Authority for the fiscal year ended June 30, 2020:

	Balance July 1, 2019	Issuances	Retirements	Balance June 30, 2020
Revenue bonds	$ 18,056,052	$ 77,368	$ (762,229)	$ 17,371,191
Notes payable	32,500	-	-	32,500
Compensated absences	95,897	19,556	-	115,453
OPEB liability	47,000	8,327	-	55,327
Total	$ 18,231,449	$ 105,251	$ (762,229)	$ 17,574,471

Note 4 - Proprietary Debt (Continued):

Details of Long-term Indebtedness:

	Total Amount	Amount Due Within One Year
Rural Development revenue bond issued October 17, 1991, bearing interest at 5%, maturing monthly with interest and principal payments of $293 through 2029 (original issuance $59,600).	$ 22,175	$ 2,353
Rural Development revenue bond issued September 29, 1993, bearing interest at 5%, maturing monthly with interest and principal payments of $1,276 through 2033 (original issuance $261,900).	144,571	8,295
Rural Development revenue bond issued November 27, 1992, bearing interest at 4.5%, maturing monthly with interest and principal payments of $1,265 through 2033 (original issuance $275,000).	149,801	8,616
Rural Development revenue bond issued May 23, 2002, bearing interest at 4.5%, maturing monthly with interest and principal payments of $929 through 2042 (original issuance $202,300).	154,192	4,298
Rural Development revenue bond issued November 15, 2001. This loan bears interest at 3.25%, maturing monthly with interest and principal payments of $989 through 2042 (original issuance $258,000).	181,563	6,057

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NOTE 4 - PROPRIETARY DEBT: (Continued)

Details of Long-term Indebtedness: (Continued)

	Total Amount	Amount Due Within One Year
Virginia Resource Authority loan up to $1,061,000 at 2.5% interest for 30 year term. Monthly principal payments of principal and interest in the amount of $4,364 continue through 2047.	984,276	26,045
Rural Development revenue bond issued December 12, 2002. This bond bears interest at 4.5%, with interest and principal payments in the amount of $1.612 through 2043 (original issuance $351.000).	271,615	7,271
Rural Development revenue bond issued April 23, 2003. Interest accrues on this bond at 4.5%. Principal and interest payments of $2.640 are due monthly and continue through 2042 (original issuance $575.100).	449,295	11,702
Rural Development revenue bond issued September 25, 2003. Interest accrues on this bond at 4.25%. Principal and interest payments of $3,522 continue monthly through 2038 (original issuance $795.000).	607,619	16,765
$1.450,000 bond issued August 26. 2005, with interest only payments due on August 26, 2006 and 2007. Interest accrues on this bond at 4.125%. Monthly principal and interest payments of $6,308 begin September 26, 2007 and continue through 2045.	1,181,824	27,458
$1.853,950 bond issued December 10, 1999. This loan bears interest at 3%. Principal and interest payments of $63.136 began January 1, 2002. and continue semi-annually thereafter until the obligation is paid in full.	123,486	123,486
Rural Development revenue bond issued May 2. 2008. This loan bears interest at 4.125%. Interest only payments are due on May 2. 2009 and May 2. 2010. Principal and interest payments of $2.393 begin June 2. 2010 and continue monthly through 2041.	474,809	9,499

NOTE 4 - PROPRIETARY DEBT: (Continued)

Details of Long-term Indebtedness: (Continued)

Revenue bonds (Continued)	Total Amount	Amount Due Within One Year
Virginia Resource Authority loan up to $1,100,000 at 0% interest for 20 year term. Monthly principal payments of $4,583 continue through 2036	907,014	55,000
$762,203 bond issued April 23, 2003, at 0% interest with semi-annual payments of $12,703, due August 1st and February 1st through 2034.	368,418	25,368
$1,020,000 bond issued December 12, 2002, at 0% interest with semi-annual payments of $17,000, due May 1st and November 1st through 2033.	459,000	34,000
$861,891 bond issued July 13, 2000, at 0% interest with semi-annual payments of $14,355, due May 1st and November 1st through 2031.	315,818	28,711
$1,073,793 bond issued May 23, 2002, at 0% interest with semiannual payments of $17,897 due July 1st and January 1st through 2033.	465,310	35,793
$56,807 bond issued November 15, 2001, at 0% interest with semi-annual payments of $947 due May 1st and November 1st through 2032	22,741	1,895
$57,821 bond issued November 15, 2001, at 0% interest with semi-annual payments of $964 due April 1st and October 1st through 2032.	24,092	1,927

NOTE 4 - PROPRIETARY DEBT: (Continued)
Details of Long-term Indebtedness: (Continued)

Revenue bonds (Continued)	Total Amount	Amount Due Within One Year
$87,500 bond issued February 5, 2004, at 0% interest with semi-annual payments of $1,458 due June 1st and December 1st through 2033.	39,375	2,917
$426,517 bond issued May 27, 2005, at 0% interest with semi-annual payments of $7,109, due December 1st and June 1st through 2036.	220,669	13,792
$413,889 bond issued April 29, 2005, at 0% interest with semi-annual payments of $6,898, due May 1st and November 1st through 2035.	200,450	12,932
$474,083 bond issued June 29, 2006, at 0% interest with semi-annual payments of $7,902, due December 1st and June 1st through December 1, 2036.	258,336	15,803
$91,450 bond issued May 28, 2009, at 0% interest with semiannual payments of $1,524 due November 1st and May 1st through 2039.	47,311	2,490
$989,200 Rural Development revenue bond issued January 7, 2010. This bond bears interest at 4%, with interest and principal payments in the amount of $4,224 through 2050.	877,881	15,950
$1,308,000 Rural Development revenue bond issued October 7, 2009. This bond bears interest at 4.25% with interest and principal payments in the amount of $5,795 through 2049.	1,162,059	20,458
Virginia Resource Authority loan up to $75,000 at 2.5% interest For 30 year term. Monthly payments of $3,639 of principal and interest through 2047.	68,592	1,875
Virginia Resource Authority loan up to $837,845 at 2.5% interest for 30 year term. Monthly payments of $303 for principal and interest continue through 2047.	776,517	20,869

NOTE 4 - PROPRIETARY DEBT: (Continued)

Details of Long-term Indebtedness: (Continued)

Revenue bonds (Continued)	Total Amount	Amount Due Within One Year
$743,466 bond issued October 14, 2009, at 0% interest with semi annual payments of $24,776 due March 1st and September 1st through 2041.	1,039,738	49,551
Rural Development bond issued December 16, 2010, at 3.75% interest with interest only payments for December 2011 and 2012. Monthly payments of $5,958 due January 2013 through 2027.	1,296,489	23,300
$450,000 bond issued November 4, 2010, at 2.25% interest with interest only payments for November 2011 and 2012. Monthly payments of $1,472 due December 2012 through 2049.	387,698	9,033
$779,752 bond issued October 27, 2011, at 0% interest with semi annual payments of $13,527 due February 1st and August 1st.	576,841	27,055
$719,433 bond issued December 21, 2010, at 0% interest with semi annual payments of $11,997 due March 1st and September 1st.	527,877	23,994
$1,007,925 bond issued September 6, 2012, at 0% interest with semi-annual payments of $26,171 due April 1 and October 1 starting in 2014.	693,880	52,341
Rural Development revenue bond issued May 2, 2012. This bond bears interest at 2%, with interest only payments through May 2014, and interest and principal payments in the amount of $4,396 from June 2013 through 2036.	1,231,233	28,387
Virginia Resource Authority loan up to $655,248 at 2.0% interest for 30 year term. Semi-annual payments of principal and interest due on June 1 and December 1. Loan payments begin six months after project completion.	600,937	15,468
Virginia Resource Authority loan up to $128,700 at 2.5% interest for 30 year term. Semi-annual payments of principal and interest due on March 1 and September 1. Loan payments begin six months after project completion.	57,689	2,106
Total Revenue Bonds	$ 17,371,191	$ 772,860

NOTE 5 – NOTES PAYABLE

The Authority has been approved for a line of credit with Powell Valley National Bank in the amount of $450,000. The line of credit was approved on June 15, 2009 for two water projects, the Ingle Chapel and Old Woodway Road Phase II. The Authority did not use the line of credit as of June 30, 2020.

The Authority entered into a loan agreement with the County of Lee for the total issuance amount of $65,000 with a provision for forgiveness of half the issued debt upon completion of the Stone Mountain Health Services connection. The loan was issued June 23, 2016 with 0% interest and five equal annual payments of principal to begin on the sixth anniversary of the agreement. As of June 30, 2020 the Authority has an outstanding balance on the loan of $32,500.

NOTE 6– COMPENSATED ABSENCES:

In accordance with GASB Statement 16 "Accounting and Financial Reporting Principals for Claims and Judgments and Compensated Absences", the Lee County Public Service Authority has accrued the liability arising from outstanding claims and judgments and compensated absences.

Lee County Public Service Authority employees earn 10 days or two weeks of vacation after they have been employed with the Authority for one year. After 5 years of service employees receive 15 days and after 10 years of service 18 days annually are earned. Vacation time accrues monthly up to a maximum amount equal to twice the annual leave employees are eligible to receive. Maximum accrual would then be 20, 30 or 40 days, based on length of service.

Employees receive 10 days of sick leave each year. Sick leave accrues at one twelfth of the annual amount (.83 days) each month starting at the end of the first full month of employment.

Employees who work overtime hours will receive compensatory time (Comp time) at the convenience of the department at the rate of one and one-half hours for each hour of overtime worked. Certain categories of exemptions for overtime compensation have been established for employees considered exempt and not normally entitled to overtime compensation.

At June 30, 2020, the Lee County Public Service Authority had outstanding accrued vacation, sick and comp time leave of $107,248 and related outstanding accrued payroll taxes of $8,205.

NOTE 7 – DEFINED BENEFIT PENSION PLAN

Plan Description

All full-time, salaried permanent employees of the Lee County Public Service Authority, the "Authority", 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 as follows:

NOTE 7 - DEFINED BENEFIT PENSION PLAN (Continued):

RETIREMENT PLAN PROVISIONS		
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.	**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.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. • 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.
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. **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. The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window,	**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. **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. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window,	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • 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 member was July 1, 2014 ***Non-Eligible Members** Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees Those employees eligible for an optional retirement plan (ORP) must

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued):

they were also eligible to opt into the Hybrid Retirement Plan. 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.	they were also eligible to opt into the Hybrid Retirement Plan. 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.	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.
Retirement Contributions Members contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. 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** Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.	**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** **Defined Benefit Component:** 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.

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued):

		Defined Contributions Component: Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
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. Members are always 100% vested in the contributions that they make.	**Vesting** Same as Plan 1.	**Vesting** **Defined Benefit Component:** 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. **Defined Contributions Component:** 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. Members are always 100% vested in the contributions that they make. 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. • 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.

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued):

		Distribution is not required by law until age 70½.
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. 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.	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** **Defined Benefit Component:** See definition under Plan 1 **Defined Contribution Component:** 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.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the 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%. **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.	**Service Retirement Multiplier** **VRS:** Same as Plan1 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. **Political subdivision hazardous duty employees:** Same as Plan 1.	**Service Retirement Multiplier** **Defined Benefit Component:** **VRS:** The retirement multiplier for the defined benefit component is 1.00%. For members that 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. **Political subdivision hazardous duty employees:** Not applicable.

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued):

Normal Retirement Age VRS: Age 65. **Political subdivisions hazardous duty employees:** Age 60.	**Normal Retirement Age VRS:** Normal Social Security retirement age. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Normal Retirement Age <u>Defined Benefit Component:</u>** Same as Plan 2. **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 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. **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.	**Earliest Unreduced Retirement Eligibility VRS:** 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:** Same as Plan 1.	**Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u>** **VRS:** 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 employee:** 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. **Political subdivisions hazardous duty employees:** 50 with at least five years of creditable service.	**Earliest Reduced Retirement Eligibility** **VRS:** Age 60 with at least five years (60 months) of creditable service. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Earliest Unreduced Retirement Eligibility** **<u>Defined Benefit Component:</u>** **VRS:** Age 60 with at least five years (60 months) of creditable service. **Political subdivisions hazardous duty employees:** Not applicable. **<u>Defined Contribution Component:</u>**

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued):

		Members are eligible to receive distributions upon leaving employment, subject to restrictions.
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%.	**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%.	**Cost-of-Living Adjustment (COLA) in Retirement** **Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Not applicable.
Eligibility: 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. 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.	**Eligibility:** Same as Plan 1	**Eligibility:** Same as Plan 1 and Plan 2.
Exceptions to COLA Effective Dates: The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • 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). • The member Is involuntarily separated from employment for causes other than job performance	**Exceptions to COLA Effective Dates:** Same as Plan 1	**Exceptions to COLA Effective Dates:** Same as Plan 1 and Plan 2.

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued):

or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • 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.		
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.	**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.	**Disability Coverage** Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. 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.
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 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** **Defined Benefit Component:** Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. **Defined Contribution Component:** Not applicable.

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued):

Employees Covered by Benefit Terms

As of the June 30, 2018 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	1
Inactive members:	
Vested inactive members	2
Non-vested Inactive members	8
Inactive members active elsewhere in VRS	9
Total inactive members	19
Active members	19
Total covered employees	39

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, 2020 was 1.77% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were $12,625 and $7,791 for the years ended June 30, 2020 and June 30, 2019, 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, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2018 rolled forward to the measurement date of June 30, 2019.

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Authority's Retirement Plan was based on an actuarial valuation as of June 30, 2018, 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, 2019.

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent – 5.35 percent

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued):

Investment rate of return	6.75 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 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of pension liabilities.

Mortality rates:

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

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

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

Post-Disablement:
RP-2014 Disability Mortality Rates projects 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 Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

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

Actuarial Assumptions – General Employees (continued)

Post-Disablement:
RP-2014 Disability Mortality Rates projects 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, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued):

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)		Update to more current mortality table--RP 2014 projected to 2020
Retirement Rates		Lowered rates at older ages and changed final retirement 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		Increase rate from 14% to 15%
Discount Rate		Decrease rate from 7.00% to 6.75%

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%	5.61%	1.91%
Fixed Income	15.00%	0.88%	0.13%
Credit Strategies	14.00%	5.13%	0.72%
Real Assets	14.00%	5.27%	0.74%
Private Equity	14.00%	8.77%	1.23%
MAPS - Multi - Asset Public Strategies	6.00%	3.52%	0.21%
PIP - Private Investment Partnership	3.00%	6.29%	0.19%
	100.00%		5.13%
Inflation			2.50%
* Expected arithmetic nominal return			7.63%

* The above allocation provides a one-year return of 7.63%. 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 7.11%, including expected inflation of 2.50%. 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.

NOTE 7 – 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, 2019, the alternate rate was the employer contribution rate used in FY 2012 or 100% of the actuarially determined employer contribution rate from June 30, 2017, actuarial valuations, whichever was greater. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability (Asset)

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at June 30, 2018	$ 662,165	$ 897,467	$ (235,302)
Changes for the year:			
Service cost	50,672	-	50,672
Interest	45,980	-	45,980
Changes in benefit terms	-	-	-
Changes of assumptions	29,493	-	29,493
Difference between expected and actual experience	8,789	-	8,789
Contributions - employer	-	7,349	(7,349)
Contributions - employee	-	30,211	(30,211)
Net investment income	-	61,768	(61,768)
Benefit payments, including refunds of employee contributions	(10,625)	(10,625)	-
Administrative expense	-	(565)	565
Other changes	-	(39)	39
Net changes	124,309	88,099	36,210
Balances at June 30, 2019	$ 786,474	$ 985,566	$ (199,092)

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued):

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

The following presents the net pension liability of the Authority using the discount rate of 6.75%, 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 (5.75%) or one percentage point higher (7.75%) than the current rate:

	1.00% Decrease 5.75%	Current Discount 6.75%	1.00% Increase 7.75%
Net Pension Liability	$ (72,241)	$ (199,092)	$ (298,570)

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

For the year ended June 30, 2020, the Authority recognized pension expense (benefit) of $(4,941). At June 30, 2020, 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	$ 8,464	$ 22,428
Change in assumptions	22,744	7,309
Net difference between projected and actual earnings on pension plan investments	-	8,502
Employer contributions subsequent to the measurement date	12,625	-
Total	$ 43,833	$ 38,239

$12,625 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued):

Year ended June 30	
2021	(5,097)
2022	(11,132)
2023	5,559
2024	3,639
2025	-
Thereafter	-
	$ (7,031)

Pension Plan Data
Information about the VRS Political Subdivision Retirement Plan's is also available in the separately issued VRS 2019 Comprehensive Annual Financial Report (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2019-annual-report.pdf , or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Payables to the Pension Plan
At June 30, 2020, the Authority reported no payables for pension plan required for the year ended June 30, 2020.

NOTE 8 - GROUP LIFE INSURANCE - OTHER POST EMPLOYMENT BENEFITS

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 plan is administered by the Virginia Retirement System (the System), along with pensions and other OBEB plans, for public employer groups in the Commonwealth of Virginia.

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

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

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS

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 end for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.

Benefit Amounts

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

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

NOTE 8 - GROUP LIFE INSURANCE - OTHER POST EMPLOYMENT BENEFITS (Continued)

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

Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)
For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at $8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently $8,279 effective July 1, 2018.

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, 2020 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. Contribution to the Group Life Insurance Program from the entity were $3,549 and $3,495 for the years ended June 30, 2020 and June 30, 2019, respectively.

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NOTE 8 - GROUP LIFE INSURANCE - OTHER POST EMPLOYMENT BENEFITS

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, 2020, the entity reported a liability of $55,327 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2019 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation performed as of June 30, 2018 and rolled forward to the measurement date of June 30, 2019. 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, 2019 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019, the participating employer's proportion was .00340% as compared to .00304% at June 30, 2018.

For the year ended June 30, 2020, the Lee County Public Service Authority recognized GLI OPEB expense of $2,182. 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, 2020, 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	$ 3,680	$ 718
Net difference between projected and actual earnings on GLI OPEB program investments	-	1,136
Change in assumptions	3,493	1,668
Changes in proportion	4,803	-
Employer contributions subsequent to the measurement date	3,549	
Total	$ 15,525	$ 3,522

$3,549 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, 2021. 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:

NOTE 8 - GROUP LIFE INSURANCE - OTHER POST EMPLOYMENT BENEFITS (Continued)

Year Ending June 30		Increase (Reduction) to OPEB Expense
2021	$	1,099
2022		1,099
2023		1,581
2024		2,020
2025		2,039
Thereafter		616
	$	8,454

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2018, 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, 2019.

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	6.75 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 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of the OPEB liabilities.

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.

NOTE 8 - GROUP LIFE INSURANCE - OTHER POST EMPLOYMENT BENEFITS

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, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, 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:

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 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%
Discount rate	Decrease rate from 7.00% to 6.75%

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, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, 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:

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 through 9 years of service
Disability Rates	Adjusted rates to better match experience

NOTE 8 - GROUP LIFE INSURANCE - OTHER POST EMPLOYMENT BENEFITS

Salary Scale	No change
Line of Duty Disability	Increased rate from 14 to 15%
Discount rate	Decrease rate from 7.00% to 6.75%

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, 2019, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

	Group Life Insurance OPEB Program
Total GLI OPEB Liability	$ 3,390,238
Plan Fiduciary Net Position	1,762,972
Employers' Net GLI OPEB Liability (Asset)	$ 1,627,266
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	52.00%

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.

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	34.00%	5.61%	1.91%
Fixed Income	15.00%	0.88%	0.13%
Credit Strategies	14.00%	5.13%	0.72%
Real Assets	14.00%	5.27%	0.74%
Private Equity	14.00%	8.77%	1.23%
MAPS - Multi - Asset Public Strategies	6.00%	3.52%	0.21%
PIP - Private Investment Partnership	3.00%	6.29%	0.19%
	100.00%		5.13%
Inflation			2.50%
* Expected arithmetic nominal return			7.63%

NOTE 8 - GROUP LIFE INSURANCE - OTHER POST EMPLOYMENT BENEFITS (Continued)

* The above allocation provides a one-year return of 7.63%. 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 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40^{th} percentile of expected long-term results of the VRS fund asset allocation.

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

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

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

	1.00% Decrease 5.75%	Current Discount 6.75%	1.00% Increase 7.75%
Proportionate share of GLI Net OPEB Liability	$ 72,684	$ 55,327	$ 41,251

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 2019 Comprehensive Annual Financial Report (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2019-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the VRS Group Life Insurance OPEB Plan

At June 30, 2020, the Authority reported no payables to the group life insurance plan required for the year ended June 30, 2020.

NOTE 9 - CONTINGENT LIABILITIES:

During the current fiscal year Federal programs in which the organization participates were not all audited in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal* Awards (Uniform Guidance). The Federal Government may subject grant programs to additional compliance tests which may result in disallowed expenditures. In the opinion of management, any future disallowance of current grant program expenditures, if any, would be immaterial.

Litigation

The Lee County Public Service Authority is involved in a negotiation of a contract dispute with the Town of Pennington Gap concerning the services with the Dryden Sewer System. As of this date, no litigation has been filed concerning the Dryden Sewer System and the parties appear to be negotiating towards a resolution. The parties have been in protracted negotiations and a likelihood exists for a past due amount to be paid by the Lee Co PSA, however, that amount, although not fully determined, is expected to be immaterial to the financials as a whole.

NOTE 10 – RISK MANAGEMENT:

The Authority is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority participates with other entities in a public entity risk pool for their coverage of property insurance and workers compensation with VACO. The Authority pays an annual premium to the pool for coverage. The agreement for the formation of the pool provides that the pool will be self-sustaining through member premiums. Each member of this risk pool jointly and severally agrees to assume, pay and discharge any liability. The Authority remits contributions and assessments based upon classifications and rates into a designated cash reserve fund out of which expenses of the pool, claims and awards are to be paid. In the event of a loss, deficit or 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 continues to carry commercial insurance for other risks of loss. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

NOTE 11 – RISKS AND UNCERTAINTIES:

On January 30, 2020, the World Health Organization ("WHO) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHP classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Authority's financial condition, liquidity, and future results of operations Management is actively monitoring the impact of the global situation on its financial condition, liquidity, operations, supplier, industry, and workforce. Given the daily evolution of the COVID-10 outbreak and the global responses to curb its spread, the Authority is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2020.

The Authority's operations are heavily dependent on the ability to collect customer user fees. Additionally, access to grants and contracts from federal, state and other local governments may decrease or may not be available depending on appropriations. The outbreak may have a continued material adverse impact on economic and market conditions, triggering a period of global economic slowdown. This situation may depress the customer bases and other areas in which the Authority received revenue during 2020. As such, this may hinder the Authority's ability to meet the needs of its customers.

Although the Authority cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, if the pandemic continues, it may have an adverse effect on the Authority's results for future operations, financial position and liquidity in fiscal year 2021.

NOTE 12 – FUTURE ACCOUNTING STANDARDS:

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective. The effective dates below are updated based on Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* due to the COVID-19 pandemic.

The GASB issued Statement No. 84, *Fiduciary Activities* in January 2017. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement are effective for periods beginning after December 15, 2019.

In June 2017, The GASB issued Statement No. 87, Leases. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for fiscal years beginning after June 15, 2021.

Statement No. 90, *Majority Equity Interests–(An Amendment of GASB Statements No. 14 and No. 61)* , defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

The GASB issued Statement No. 91, *Conduit Debt Obligations* in May 2019. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.

In January 2020, the GASB issued Statement No. 92, Omnibus. This Statement enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that that have been identified during implementation and application of certain GASB Statements. Certain requirements of this Statement are effective immediately and others for reporting periods beginning after June 15, 2021.

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

LEE COUNTY PUBLIC SERVICE AUTHORITY
Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios (Unaudited)
June 30, 2020

	Plan Year					
	2019	2018	2017	2016	2015	2014
Total Pension Liability						
Service cost	$ 50,672	$ 44,998	$ 48,624	$ 47,597	$ 48,824	$ 43,949
Interest on total pension liability	45,980	42,328	40,047	34,913	32,136	27,583
Changes in benefit terms			-	-	-	-
Difference between expected and actual experience	8,789	(27,233)	(19,811)	7,298	(34,325)	-
Changes in assumptions	29,493	-	(19,765)	-	-	-
Benefit payments, including refunds of employee contributions	(10,625)	(5,220)	(27,798)	(5,148)	(8,769)	(4,221)
Net change in total pension liability	124,309	54,873	21,297	84,660	37,866	67,311
Total pension liability - beginning	662,165	607,292	585,995	501,335	463,469	396,158
Total pension liability - ending	786,474	662,165	607,292	585,995	501,335	463,469
Plan Fiduciary Net Position						
Contributions - employer	7,349	11,340	12,754	20,628	19,415	30,788
Contributions - employee	30,211	26,332	27,490	25,236	23,653	20,077
Net investment income	61,768	60,584	87,601	12,550	28,166	77,866
Benefit payments, including refunds of employee contributions	(10,625)	(5,220)	(27,798)	(5,148)	(8,769)	(4,221)
Administrative expenses	(565)	(486)	(483)	(377)	(345)	(375)
Other	(39)	(56)	(79)	(5)	(6)	4
Net change in plan fiduciary net position	88,099	92,494	99,485	52,884	62,114	124,139
Plan fiduciary net position - beginning	897,467	804,973	705,488	652,604	590,490	466,351
Plan fiduciary net position - ending	985,566	897,467	804,973	705,488	652,604	590,490
Net pension liability (asset) - ending	$ (199,092)	$ (235,302)	$ (197,681)	$ (119,493)	$ (151,269)	$ (127,021)
Plan fiduciary net position as a percentage of total pension liability	125.31%	135.54% #	132.55% #	120.39% #	130.17%	127.41%
Covered payroll	$ 662,460	$ 576,718	$ 564,749	$ 540,962	$ 532,642	$ 469,533
Net pension liability as a percentage of covered payroll	-30.05%	-40.80% #	-35.00% #	-22.09% #	-28.40%	-27.05%

The plan years above are reported in the entity's financial statements in the fiscal year following the plan year - i.e., plan year 2014 information was presented in the entity's fiscal year 2015 financial report.

This schedule is intended to show information for 10 years. Since fiscal year 2015 (plan year 2014) was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

LEE COUNTY PUBLIC SERVICE AUTHORITY
Required Supplementary Information
Schedule of Pension Contributions (unaudited)
June 30, 2020

Entity Fiscal Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percentage of Covered Payroll
2020	$ 12,625	$ 12,625	$ -	$ 713,299	1.77%
2019	7,791	7,791	-	662,460	1.18%
2018	11,670	11,670	-	576,718	2.02%
2017	12,754	12,754	-	564,749	2.26%
2016	20,756	20,756	-	540,962	3.84%
2015	20,873	20,873	-	532,642	3.92%
2014	21,847	21,847	-	469,533	4.65%
2013	32,738	32,738	-	419,260	7.81%
2012	21,847	21,847	-	452,226	4.83%
2011	20,891	20,891	-	441,195	4.74%

The covered payroll amounts above are for the Authority's fiscal year - i.e. the covered payroll on which required contributions were based for the same year.

LEE COUNTY PUBLIC SERVICE AUTHORITY
Required Supplementary Information
Schedul of Employer's Share of Net OPB Liability
June 30, 2020

Entity Fiscal Year Ended June 30 *	Employer's Proportion of the Net OPEB Liability (Asset)	Employer's Proportionate Share of the Net OPEB Liability (Asset)	Employer's Covered Payroll	Employer's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
Virginia Retirement System - Group Life Insurance - General Employees					
2020	0.003%	$ 55,327	$ 666,887	8.30%	52.00%
2019	0.003%	47,000	577,406	8.14%	51.22%
2018	0.003%	48,000	564,749	8.50%	48.86%

* The amounts presented have a measurement date of the previous fiscal year end

This schedule is intended to show information for 10 years. Since 2018 was the first year for this presentation, no earlier data is available. However, additional years will be included as they become available.

LEE COUNTY PUBLIC SERVICE AUTHORITY
Required Supplementary Information
Schedule of OPEB Contributions (unaudited)
June 30, 2020

Entity Fiscal Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percentage of Covered Payroll
Virginia Retirement System - Group Life Insurance - General Employees					
2020	$ 3,599	$ 3,599	$ -	$ 713,299	0.50%
2019	3,495	3,495	-	666,887	0.52%
2018	2,998	2,998	-	577,406	0.52%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, no earlier data is available. However, additional years will be included as they become available.

The covered payroll amounts above are for the entity's fiscal year - i.e. the covered payroll on which required contributions were based for the same year.

See notes to financial statements.

Note 1 - Change of benefit terms

Pension

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

Other Postemployment Benefits (OPEB)

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

Note 2 - Changes of assumptions - The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the period July 1, 2012, through June 30, 2016, except the change in discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumpts as a result of the experience study and VRS Board action are as follows:

Largest 10 - Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled		Update to more current mortality table--RP 2014 projected to 2020
Retirement Rates		Lowered rates at older ages and changed final retirement 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		Increase rate from 14% to 20%
Discount Rate		Decrease rate from 7.00% to 6.75%
Applicable to:		Pension, GLI OPEB

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled		Update to more current mortality table--RP 2014 projected to 2020
Retirement Rates		Lowered rates at older ages and changed final retirement 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		Increase rate from 14% to 15%
Discount Rate		Decrease rate from 7.00% to 6.75%
Applicable to:		Pension, GLI OPEB

Largest 10 - Hazardous Duty/Public Safety Employees:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled		Update to more current mortality table--RP 2014 projected to 2020
Retirement Rates		Lowered rates at older ages
Withdrawal Rates		Adjusted rates to better fit experience
Disability Rates		Increased rates
Salary Scale		No change
Line of Duty Disability		Increase rate from 60% to 70%
Discount Rate		Decrease rate from 7.00% to 6.75%
Applicable to:		Pension, GLI OPEB

All Others (Non 10 Largest) - Hazardous Duty/Public Safety Employees:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled		Update to more current mortality table--RP 2014 projected to 2020
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 fit experience
Salary Scale		No change
Line of Duty Disability		Decrease rate from 60% to 45%
Discount Rate		Decrease rate from 7.00% to 6.75%
Applicable to:		Pension, GLI OPEB

LEE COUNTY PUBLIC SERVICE AUTHORITY
Statement of Revenues, Expenditures, and Changes in Net Position by Department
For the Year Ended June 30, 2020

	Water	Sewer	Total
Operating Revenue			
Charges for services	$ 2,435,175	$ 1,541,155	$ 3,976,330
Other revenue	1,797	1,138	2,935
Total operating revenue	2,436,972	1,542,293	3,979,265
Operating Expenses			
Wages and benefits	631,138	399,460	1,030,598
Sewer Processing and Disposal	-	176,775	176,775
Water purchased	267,602	169,370	436,972
Utilities	161,716	102,354	264,070
Equipment repair and replacement	89,800	56,836	146,636
Professional Fees	14,774	9,351	24,125
Insurance	33,389	21,132	54,521
Certifications and training	1,534	971	2,505
Transportation	42,577	26,948	69,525
Telecommunication	9,480	6,000	15,480
Chemical supplies	26,934	17,047	43,981
Office supplies	13,747	8,700	22,447
Other supplies	43,045	27,244	70,289
Management services	2,036	1,289	3,325
Testing	24,528	15,524	40,052
Licenses and permits	12,484	7,902	20,386
Miscellaneous	59,471	37,640	97,111
Advertising	742	470	1,212
Depreciation	1,938,181	1,226,713	3,164,894
Total operating expenses	3,373,178	2,311,726	5,684,904
Operating income (loss)	(936,206)	(769,433)	(1,705,639)
Nonoperating Revenues (Expenses)			
Investment earnings	4,938	3,126	8,064
Insurance proceeds	2,451	1,552	4,003
Interest expense	(365,968)	(26,962)	(392,930)
Total nonoperating revenues (expenses)	(358,579)	(22,284)	(380,863)
Capital contribution and construction grants	1,377,001	33,750	1,410,751
Change in net position	$ 82,216	$ (757,967)	$ (675,751)

See notes to financial statements.

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RODEFER MOSS & CO, PLLC

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

The Board of Directors
The Lee County Public Service Authority
Jonesville, Virginia

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, and the *Specifications for Audits of Boards, Commissions and Authorities*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of the Lee County Public Service Authority (the "Authority"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated August 23, 2021.

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 opinions on the Authority's 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 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 the internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated August 23, 2021.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide and opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit 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.

Rodefer Moss & Co, PLLC

Norton, Virginia
August 23, 2021

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

The Board of Directors
The Lee County Public Service Authority
Jonesville, Virginia

Report on Compliance for Each Major Federal Program

We have audited the Lee County Public Service Authority's (the "Authority"), compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2020. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on the compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

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

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

Robinson, Farmer, Cox Associates — signature: Rodefer Moss & Co, PLLC

Norton, Virginia
August 23, 2021

LEE COUNTY PUBLIC SERVICE AUTHORITY
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

Federal Grantor / Pass-Through Grantor/ Program Title	Federal CFDA Number	Federal Expenditures
Department of Housing and Urban Development		
Pass Thru Payments:		
CDBG-State- Administered CDBG Cluster		
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	$ 523,214
Appalachian Regional Commission		
Appalachian Area Development	23.002	$ 358,003
TOTAL EXPENDITURES OF FEDERAL AWARDS		**$ 881,217**

The accompanying notes are an integral part of this schedule.

LEE COUNTY PUBLIC SERVICE AUTHORITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2020

NOTE A--BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) included the federal award activity of the Lee County Public Service Authorityunder programs of the federal government of the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the Lee County Public Service Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Lee County Service Authority.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and/or OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* , wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C--INDIRECT COST RATE

The Lee County Public Service Authority has elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

LEE COUNTY PUBLIC SERVICE AUTHORITY
Schedule of Findings and Questioned Costs
June 30, 2020

A) SUMMARY OF AUDIT RESULTS

1) The auditor's report expresses an unmodified opinion on whether the financial statements of the Lee County Public Service Authority, Virginia were prepared in accordance with GAAP.

2) No significant deficiencies relating to the audit of the financial statements of the Lee County Public Service Authority, Virginia, are reported in the 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. No material weaknesses are reported.

3) No instances of non-compliance material to the financial statements of the Lee County Public Service Authority, Virginia, which would be required to be reported in accordance with Governement Auditing Standards, were disclosed during the audit.

4) No significant deficiencies in internal control over major federal award programs are disclosed in the Independent Auditor's Report on Compliance for each Major Program and on Internal Control over Compliance required by the Uniform Guidance. No material weaknesses are reported.

5) The Auditor's report on Compliance for the Major Federal Award Programs for the Lee County Public Service Authority, Virginia, expresses an unmodified opinion on all major federal programs.

6) Audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) are reported in this Schedule.

7) The programs tested as major programs were:
Community Development Block Grants/State's Program Cluster--CFDA No. 14.228

Appalachian Regional Area Development--CFDA No. 23.002

8) The threshold for distinguishing types A & B programs was $750,000.

9) The Lee County Public Service Authority, Virginia, was determined not to be a low-risk auditee.

B) FINDINGS - FINANCIAL STATEMENTS AUDIT

NONE

C) FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

NONE