Wise County
Public Service Authority
Norton, Virginia

AUDIT REPORT

Year Ended June 30, 2018

WISE COUNTY PUBLIC SERVICE AUTHORITY
FOR THE FISCAL YEAR ENDED
JUNE 30, 2018

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INTRODUCTORY SECTION

WISE COUNTY PUBLIC SERVICE AUTHORITY
P.O. Box 3388, Wise, VA 24293
5622 Industrial Park Rd., Norton, VA 24273
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Fax: (276) 679-1528

January 2, 2019

Board of Directors
Wise County Public Service Authority
Norton, VA 24273

LETTER OF TRANSMITTAL

I am pleased to present the Annual Financial Report of the Wise County Public Service Authority for the fiscal year ended June 30, 2018. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rest with the Authority. I believe the data, as presented, is accurate in all material respects: that it is presented in a manner designed to fairly set forth the financial position and results of operations of the Authority as measured by the financial activity of its proprietary fund: and that all disclosures necessary to enable the reader to gain the maximum understanding of the Authority's financial affairs have been included.

THE REPORTING ENTITY AND ITS SERVICES

The Authority was established on September 9, 1969 for the purpose of providing drinking water and wastewater utilities to the residents of Wise County. An eight member board governs the PSA, with the members being appointed by the Wise County Board of Supervisors. The staff consists of 25 full-time employees and 1 part-time employee who maintain the daily operations of water treatment, line maintenance, and clerical duties.

The Authority operates a widespread water distribution system throughout the County of Wise providing water for residents outside town and city limits. This system consists of over 150 miles of water line (ranging in size from 2" to 14"), 15 booster pump stations, and 19 water storage tanks. Water to the system is provided by a 2.0 MGD water treatment plant, which is currently at approximately 51% capacity, and interconnections to several nearby town and city water systems. At the end of June 30, 2018, the Authority had 4,558 active water customers.

Due to the need and demand for public sewer service in various areas of the County, the Authority has acquired and completed several new sewer system projects throughout the County over the past two years. At the end of June 30, 2018, the Authority had approximately 896 active sewer customers (see notes below on customer numbers).

For financial reporting purposes and in accordance with the Governmental Accounting Standards Board (GASB), Statement 14, "The Financial Reporting Entity," the Authority has been identified as a discretely presented component unit of the County of Wise, Virginia. The GASB statement established the criteria used in making this determination. Discretely presented component units are reported in a separate column in the combined financial statements of the County of Wise, Virginia to emphasize that they are legally separate from the primary government and to differentiate their financial position and results of its operations from those of the primary government.

INTERNAL CONTROL STRUCTURE AND BUDGETARY CONTROLS

The management of the Authority is responsible for establishing and maintaining an internal control structure to ensure the protection of the Authority. In developing and evaluating the Authority's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition: and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. I believe that the Authority's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions. The Authority has a small finance staff, as a result, there is always concern relating to segregation of duties. As part of the Authority's internal control procedures, the Executive Director signs off on payroll reports, accounts payable reports, and bank reconciliations. Given the small staff, duties are divided to the extent possible.

In addition to the internal accounting controls noted above, the Authority also maintains budgetary controls. These budgetary controls ensure compliance with provisions embodied in the annual appropriated budget approved by the Board. As a recipient of federal and state financial assistance, the Authority is also responsible for ensuring that adequate internal controls are in place to ensure and document compliance with applicable laws and regulations. The audit for the fiscal year ended June 30, 2015 has been completed and no material internal control weaknesses or material violations of laws and regulations have been found.

ECONOMIC CONDITIONS AND OUTLOOK

Overall, the Authority's customer base is primarily residential customers, representing more than 95% of the accounts billed. The Authority's customer base for water services showed a decrease of 4 customers in FY18.

The number of sewer accounts increased by 89 customers in FY17, mostly due to the addition of the Roda/Osaka & Stonega systems.

MAJOR INITIATIVES AND ACCOMPLISHMENTS

- Coal Severance – Coal severance revenues were in excess of the budget for FY18 by approximately $27,000. This was a direct result of our conservative budget with regards to coal severance. Starting with the FY19 budget, we are planning to continue the "stepdown" of revenue to zero by FY21 but allocating any severance dollars received to a capital offset account. This account is anticipated to be used to offset debt service on future projects by contributing cash toward projects. As the County is experiencing a leadership transition, staff will have to consult with the County for the FY20 budget to see what amount they anticipate.

- Water Customer Numbers & Usage – Customer numbers and per capita water usage have remained stable from FY17 to FY18. Residential water revenue was projected using 3000 gallons per month per customer. We will continue to monitor per capita water usage in FY19 and make further adjustments in FY20 and beyond as appropriate. The continued use of base rate increases over incremental rate increases should also help mitigate the impact of usage variances.

- Sewer Customer Usage – Overall sewer usage is somewhat tied to water usage, although the fact that much of our customer base is on other water systems and has different demographics (particularly the Appalachia service area) will affect our usages. We used a somewhat lower number for per capita sewer usage for the FY18 budget (2731 gallons per month, down from 2751 gallons per month) and an even lower projection for new connections in the Appalachia service area (2556 gallons per month, down from 2573 gallons per month). We will continue to monitor this and make adjustments as needed for the FY20 budget.

- Rates – Rates for FY19 were increased approximately 2.5% for water and 5.9% for sewer. The sharper sewer rate increase is expected to continue in the near future to achieve a proper ratio of sewer to water rates, to allow the sewer budget to have a proper surplus, and to hopefully allow for more PSA contribution to CNW charges. The need for rate increases in FY19 was driven by both operating and debt service cost increases. For FY19, the debt service increased to account for full payments on Roda, Stonega, Raw Water Intake, and some smaller projects. Although the Roda and Stonega projects are paid for by new customers, the Banner/Bull Run and Raw Intake projects are not. Combined with the projected decline in coal severance, customer rates are being relied upon more to fund debt service. We will continue to look closely at capital needs each year in light of revenue issues and rate impact.

- Upper Exeter WWTP – The improvements to the plant to enable it to meet VPDES permit limits for DO and ammonia were put on line in the late summer of 2014. The plant responded well to the changes and started meeting the limits. Since that time, we have seen an increase on TSS numbers and have had to increase the blower rate to maximum to keep up with oxygen needs. We believe this is due to steady buildup of solids in the treatment units as there is currently no way to waste solids on a regular basis. In addition, the existing generator is insufficiently sized to run the blower and there is no redundant blower capacity, which is required per state regulations. We engaged Lane Group to develop a PER and funding package for plant improvements to address these issues. The estimated cost for the plant upgrades were approximately $600,000. An analysis of anticipate future operations and debt service costs for a plant upgrade versus replacement with a $1.4M pump station and forcemain (sending wastewater through Appalachia to Big Stone Gap for treatment) revealed that the total annual cost for the station and forcemain were approximately the same as for the plant upgrade. Therefore, we are pursuing the station option. DEQ approved an application for funding and also provided us with $250,000 in principal forgiveness. The original design completion estimates were overly optimistic and we have encountered regulatory approval and easement acquisition delays. The project is expected to be advertised for bid in January or February 2019.

- Roda/Osaka and Stonega Sewer Projects – These projects are complete and all connections have been made.

- Master Plan/CIP Planning – We have completed the Master Plan with T&L. Staff is now updating this annually to use for CIP planning. A separate sewer Master Plan update was done by Lane, focusing on expansion of the existing system using/updating projects and data from the 2009 Wise County Sewer Study done through LENOWISCO. We are working with our engineers and LENOWISCO and other likely funding agencies to update our CIP annually. Given data errors, changes to service areas, and changes to service methodology, we anticipate requesting funds in the FY20 budget to rework the 2009 study into a full sewer Master Plan similar to the one done for water in 2014-2015

- Wells-Adams Sewer – This project will connect approximately 21 homes along Wells-Adams Road and Guest River Road near the intersection with Wells-Adams. This project will be using LENOWISCO and CDBG funds under the "construction-ready" process. Due to issues with changes to CDBG calculations on LMI percentages, we were unsure if this project would be viable. Design is complete and a CDBG application is due for approval. Approval is expected to come at any time.

- Banner Sewer – This project will provide at least 54 connections, possibly more. A funding application was submitted to DEQ in July 2018. An ARC application is due to be resubmitted in January 2019 with a CDBG application to be submitted in March 2019. Presuming all goes well with applications and approvals, design should begin no later than January 2020.

- Tacoma Sewer – This project will serve approximately 55 connections. The project is bid and construction is expected to begin in January 2019.

- Raw Water Intake Improvements – This project is now complete and online.

- Carriage Hill Waterline Improvements – This project is now complete and online.

- Arbor Rd Waterline Improvements – This project used additional available funds from VDH realized from cost savings on Carriage Hill Phase 2 and Hix Orchard. This project is now complete and online.

- Rock Switch Rd Waterline Improvements – This project is to replace a "bottleneck" in our system where the water feed from the eastern end of our service area to the western end is constricted by a size reduction from 8" to 6". This line will increase the pipe size to 8". This project is underway and should be completed by Spring 2019.

- Water Plant Flocculator Replacement – This project is to replace the three mechanical flocculators at the water plant, along with several slide gates and mud valves in the flocculation basin. It also will provide additional flow ports in the concrete wall between the floc basin and the sedimentation basin. The project has been bid and final documents are underway to prepare for loan closing. The project should start construction in January 2019 and be completed by June 2019.

- Hickory Gap PRV's, WTP Metering, & Site Fencing – This project is a combination of what was to be three separate projects being funded by VDH via grant funding. This is under the condition that we have the administrative closing on the grant done within 12 months of the offer letter (dated October 2018). At this point, we do not anticipate a problem meeting that deadline on our end provided that VDH is timely in their reviews and approvals.

OTHER INFORMATION
Management's Discussion and Analysis

Generally accepted accounting principles require management to provide narrative introductions, overview, and analysis to accompany the basis financial statements in the form of the Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

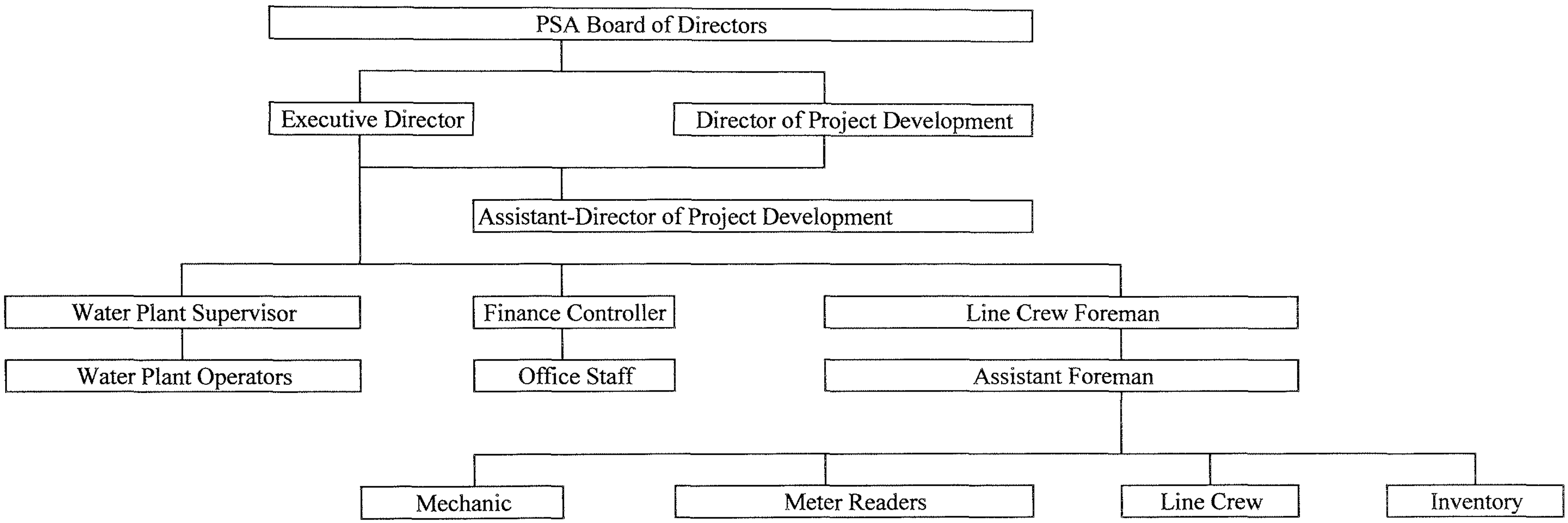
SUMMARY

The Wise County Public Service Authority is facing the challenge of needing to upgrade its water system and expand sewer service, while at the same time realizing reduced (or eliminated) coal severance funds, a more competitive grant climate, and a shrinking customer base. These challenges will require innovative thought to meet and may require deferral of certain projects due to the pressing needs of others. An economic turnaround may help with customer numbers but we must be conservative with our planning to ensure the economic viability of the Authority. To that end, we will continue to work with our engineering firms on efforts like the Master Plan to properly prioritize projects, and with funding agencies to obtain the best offers possible. We will also continue to pursue fiscal policies that support our efforts, particularly in the area of designation of reserve funds.

Sincerely,

L. Alan Harrison, P.E.
Executive Director

WISE COUNTY PUBLIC SERVICE AUTHORITY
ORGANIZATIONAL CHART



WISE COUNTY PUBLIC SERVICE AUTHORITY

BOARD MEMBERS

Ralph Gilley, Chairperson
Fred Luntsford, Vice-Chairperson
J.H. Rivers, Treasurer

Bob Adkins
Hibert Tackett
Worley Smith

Ruthie Rainey
Dana Kilgore

Executive Director	Alan Harrison
Finance Controller	Bella Phipps

FINANCIAL SECTION

LARRY D. STURGILL, P. C.

LARRY D. STURGILL

MEMBER
AMERICAN INSTITUE OF
CERTIFIED PUBLIC ACCOUNTANTS

CERTIFIED PUBLIC ACCOUNTANT

P. O. BOX 2080 WISE, VIRGINIA 24293-2080

TELEPHONE (276) 328-9593 FAX (276) 328-2131

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MEMBER
TENNESSEE & VIRGINIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Honorable Members of the Board
Wise County Public Service Authority
Wise, Virginia 24293

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Wise County Public Service Authority (a component unit of the County of Wise, Virginia), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the Wise County Public Service Authority, as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12-15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The Schedule of Changes in Net Pension Liability and Related Ratios on page 59 and the Schedule of Employer's Share of Net GLI OPEB Liability on page 63 are also required to be presented to supplement the basic financial statements. 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Wise County Public Service Authority's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are 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 Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have 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 our report dated November 23, 2018, on our consideration of the Wise County Public Service Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Wise County Public Service Authority's internal control over financial reporting and compliance.

Larry Sturgill P.C.

Larry D. Sturgill, P.C.
Wise, Virginia
November 23, 2018

WISE COUNTY PUBLIC SERVICE AUTHORITY

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Management's Discussion and Analysis

As management of the Wise County Public Service Authority, we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2018. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Authority's financial statements, which follow this narrative.

Financial Highlights

- The assets and deferred outflows of resources of the Authority exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by $44,394,046 (*net position*). Approximately 98 percent of this amount is either restricted or non-spendable.
- The government's total net position increased by $1,838,149, primarily due to increases to capital contributions for major sewer projects.
- The Authority's total debt increased by $530,696 during the current fiscal year. The key factor in this increase was due to new project loans for water and sewer projects, as well as entering leases for automobiles.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements consist of the following components: 1) Statement of Net Position, 2) Statement of Revenues, Expenses, and Changes in Net Position, 3) Statement of Cash Flows, and 4) Notes to the financial statements. In addition to the basic financial statements, this report contains other required supplementary information that will enhance the reader's understanding of the financial condition of the Wise County Public Service Authority.

Basic Financial Statements

The Authority's basic financial statements are designed to provide the reader with a broad overview of the Authority's finances, similar in format to a financial statement of a private-sector business. The statements provide short and long-term information about the Authority's financial status as a whole. The statements are designed to display the financial position of the Authority's business-type activities that reflect charges to customers for the water and sewer services offered by the Authority.

Both the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report the Authority's net position and how it has changed. Net position is the difference between the Authority's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the Authority's financial condition. These statements can be seen on pages 16 and 17 of this report.

For the purpose of the Statement of Cash Flows, cash and cash equivalents are defined as short-term highly liquid investments that are readily convertible to known amounts of cash and investments with maturities of 90 days or less. The Statement of Cash Flows is presented on pages 18 and 19 of this report.

The Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements begin on page 20 of this report.

In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Authority's progress in funding its obligation to provide retirement and group life insurance benefits to its employees.

Financial Analysis

Wise County Public Service Authority's Net Position

	2018	2017
Current Assets	$ 2,352,852	$ 1,711,548
Cash and Cash Equivalent, Restricted	1,500,875	1,701,899
Net Pension Assets	236,327	136,025
Capital Assets, net	49,228,902	46,875,047
Total Assets	53,318,956	50,424,519
Deferred Outflows of Resources	131,951	121,453
Current Liabilities	1,653,699	1,100,736
Noncurrent Liabilities	7,205,051	6,686,428
Total Liabilities	8,858,750	7,787,164
Deferred Inflows of Resources	198,112	119,911
Net Investment in Capital Assets	41,806,181	39,922,064
Restricted for Capital Improvements	1,500,875	1,701,899
Unrestricted	1,086,989	1,014,934
Prior Period Adjustment	-	(83,000)
Total Net Position	$ 44,394,045	$ 42,555,897

As noted earlier, net position may serve over time as one useful indicator of financial condition. The assets and deferred outflows of the Authority exceeded liabilities and deferred inflows by $44,394,046 as of June 30, 2018. The Authority's net position increased by $1,838,149 from the fiscal year ended June 30, 2017. However, the largest portion of the Authority's net position (94%) reflects its investment in capital assets (e.g. land, buildings, equipment, infrastructure), less any related debt used to acquire those assets. The Authority used these capital assets to provide water and sewer services to citizens, and consequently, these assets are not available for future spending. Although the Authority's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Authority's net position, $1,500,875, represents resources that are subject to external restrictions on how they may be used. The remaining balance of $1,086,989 is unrestricted.

Wise County Public Service Authority's Changes in Net Position

	2018	2017
Operating Revenues	$ 3,305,148	$ 2,982,019
Operating Expenses	(2,997,736)	(2,748,884)
Depreciation and Amortization	(1,324,066)	(1,230,484)
Operating Income (Loss)	(1,016,654)	(997,349)
Non-Operating Revenue (Expenses)	(69,575)	176,947
Net Income (Loss) Before Capital Contributions	(1,086,229)	(820,402)
Capital Contributions	2,924,378	4,533,206
Change in Net Position	1,838,149	(3,712,804)
Net Position, Beginning, (as Restated)	42,555,897	38,926,094
Net Position, Ending	$ 44,394,046	$ 42,638,898

The Authority recognized a positive change in net position of $1,838,149. Total contributions amounted to $2,924,378 for water line and sewer line construction, primarily from federal, coal road, state, and other miscellaneous funding sources.

Capital and Debt Administration

Capital assets. The Authority's investment in capital assets for its business-type activities as of June 30, 2018, totals $49,228,902 (net of accumulated depreciation). These assets include buildings, land, infrastructure, and equipment.

Major capital asset transactions during the year included $3,601,447 in additional water and sewer system construction.

Capital Assets (Net of Accumulated Depreciation & Amortization)

Land		$ 209,683
Plant/Building		686,488
Utility Plant and Lines		
-Water Plant/Lines	$ 28,087,792	
-Sewer Plant/Lines	16,476,307	
Total Utility Plant & Lines		44,564,099
Equipment		
-Water Equipment	286,754	
-Sewer Equipment	156,884	
Total Equipment		443,638
Construction in Progress		3,324,994
Total Net Capital Assets		$ 49,228,902

Additional information on the Authority's capital assets can be found in Note 5 of the Basic Financial Statements.

Long-Term Debt. As of June 30, 2018, the Authority had total bonds indebtedness of $7,030,723, representing bonds secured solely by specified revenue sources (e.g. revenue bonds). This was an increase of $426,261 from the prior year amount of $6,604,462. The key factor in this increase was from the Authority entering new construction loans during the fiscal year. Additional information related to outstanding debt is located in Note 6 of the Basic Financial Statements.

Economic Factors and Rates

The following key economic indicators affect the potential growth and prosperity of the Authority:

- **Decline in the Coal industry.** The fluctuations in the coal industry have a direct impact on the economy of Wise County and the surrounding regions. The decline in mining facilities not only affects the amount of coal road severance funding that is received by the Authority, but also the loss of jobs decreases the ability of customers to pay their utility bills. The coal road funding increased from $106,537 in 2017 to $109,836 in 2018, a difference of $3,299.

- **High Unemployment.** The June 2018 unemployment rate for the local area was 5.9% percent, which is a decrease from a rate of 7.3% percent a year ago. This is higher than the state's average unemployment rate of 3.3% percent by 2.6 percent and higher than the national average rate of 4.0% by 1.9 percent.

- **Water Rates.** The water rates for the Authority that are charged on a monthly basis for residential/commercial, and industrial customers for 2018 are $21.00 and $28.00 for the first 1,500 gallons, respectively; then $12.75 and $9.00 for every 1,000 gallons thereafter, respectively.

- **Sewer Rates.** The sewer rates for the Authority that are charged on a monthly basis for 2018 are $31.00 for the first 1,500 gallons, then $13.00 for every 1,000 gallons thereafter. The flat rate for unmetered customers due to well water is $49.00 per month.

Requests for Information

This report is designed to provide an overview of the Authority's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be addressed to the Director, Wise County Public Service Authority, Post Office Box 3388, Wise, VA 24293.

BASIC FINANCIAL STATEMENTS

WISE COUNTY PUBLIC SERVICE AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2018

EXHIBIT 1

ASSETS	Water	Sewer	Total
Current Assets:			
Cash, Cash Equivalents, and Investments	$ 755,514	$ 113,293	$ 868,807
Restricted Cash, Cash Equivalents, & Investments	431,614	13,870	445,484
Accounts Receivable-Net	373,952	79,146	453,098
Due from Sewer	205,420	-	205,420
Due from Other Governmental Units	103,156	198,089	301,245
Due from Others	61,428	17,370	78,798
Total Current Assets	1,931,084	421,768	2,352,852
Noncurrent Assets:			
Restricted Cash and Cash Equivalents	1,328,360	172,515	1,500,875
Net Pension Assets	203,241	33,086	236,327
Capital Assets:			
Land and Construction in Progress	1,402,009	2,132,666	3,534,675
Other Capital Assets, Net of Depreciation	29,061,034	16,633,193	45,694,227
Total Capital Assets	30,463,043	18,765,859	49,228,902
Total Noncurrent Assets	31,994,644	18,971,460	50,966,104
Total Assets	33,925,728	19,393,228	53,318,956
DEFERRED OUTFLOWS			
Pension Plan	106,598	17,353	123,951
Group Life Plan	6,640	1,360	8,000
Total Deferred Outflows	113,238	18,713	131,951
LIABILITIES			
Current Liabilities:			
Accounts Payable and Accrued Expenses	281,831	306,543	588,374
Accrued Wages Payable and Taxes	20,819	4,149	24,968
Compensated Absences	8,341	1,358	9,699
Accrued Interest Payable	9,681	4,801	14,482
Customer Deposits Payable	415,845	10,950	426,795
Due to Water Fund	-	205,420	205,420
Lease and Contractual Liabilities	51,498	16,625	68,123
Bonds and Notes Payable	236,302	79,536	315,838
Total Current Liabilities	1,024,317	629,382	1,653,699
Noncurrent Liabilities:			
Compensated Absences	75,070	12,221	87,291
Net GLI OPEB Liability	65,570	13,430	79,000
Lease and Contractual Liabilities	99,442	224,433	323,875
Bonds and Notes Payable	5,097,094	1,617,791	6,714,885
Total Noncurrent Liabilities	5,337,176	1,867,875	7,205,051
Total Liabilities	6,361,493	2,497,257	8,858,750
DEFERRED INFLOWS			
Pension Plan	162,636	26,476	189,112
Group Life Plan	7,470	1,530	9,000
Total Deferred Inflows	170,106	28,006	198,112
NET POSITION			
Net Investment in Capital Assets	24,978,707	16,827,474	41,806,181
Restricted for:			
Coal Road Funds	332,409	-	332,409
Debt Services Reserves	842,278	172,515	1,014,793
Dominion Replacement Funds	153,673	-	153,673
Unrestricted	1,200,300	(113,311)	1,086,989
Total Net Position	$ 27,507,367	$ 16,886,678	$ 44,394,045

The accompanying notes are an integral part of the financial statements.

WISE COUNTY PUBLIC SERVICE AUTHORITY

EXHIBIT 2

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

	Water	Sewer	Total
OPERATING REVENUES:			
Charges for Services	$ 2,495,136	$ 532,452	$ 3,027,588
Other Operating Revenues	245,972	31,588	277,560
Total Operating Revenues	2,741,108	564,040	3,305,148
OPERATING EXPENSES:			
Operation and Maintenance	1,583,561	418,981	2,002,542
Administration and General	835,425	154,175	989,600
Other Operating Expenses	-	5,594	5,594
Total Operating Expenses	2,418,986	578,750	2,997,736
DEPRECIATION AND AMORTIZATION	1,021,863	302,203	1,324,066
OPERATING INCOME (LOSS)	(699,741)	(316,913)	(1,016,654)
NON-OPERATING REVENUE (EXPENSES):			
Interest Income	22,806	4,174	26,980
Interest Expense	(112,672)	(14,991)	(127,663)
Gain/(Loss) on Asset Disposal	31,107	-	31,107
Total Non-Operating Revenue (Expenses)	(58,759)	(10,817)	(69,576)
NET INCOME (LOSS)- BEFORE CONTRIBUTIONS & TRANSFERS	(758,500)	(327,730)	(1,086,230)
CAPITAL CONTRIBUTIONS			
Federal Grants	404,376	1,978,419	2,382,795
County of Wise, Virginia	91,164	18,672	109,836
Other - Dominion	161,364	-	161,364
Other State Agencies	-	264,959	264,959
Other Agencies	5,424	-	5,424
Contributions Expense	-	-	-
Total Capital Contributions	662,328	2,262,050	2,924,378
TRANSFERS	-	-	-
CHANGE IN NET POSITION	(96,172)	1,934,320	1,838,148
NET POSITION- Beginning of Year, as Restated	27,603,539	14,952,358	42,555,897
NET POSITION- End of Year	$ 27,507,367	$ 16,886,678	$ 44,394,045

The accompanying notes are an integral part of the financial statements.

WISE COUNTY PUBLIC SERVICE AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

EXHIBIT 3
PAGE 1

	Water	Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers	2,469,010	526,033	$ 2,995,043
Cash Payments to Suppliers for Goods and Services	(1,173,396)	(241,678)	(1,415,074)
Cash Payments to Employees for Services	(1,088,534)	(222,948)	(1,311,482)
Other Operating Revenues	245,972	31,588	277,560
Net Cash Provided by (used in) Operating Activities	453,052	92,995	546,047
CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES:			
In(De)crease in Customer Deposits	9,810	6,750	16,560
Cash Provided from Litigation	-	-	-
Net Cash Provided by (used in) Non-Capital Financing Activities	9,810	6,750	16,560
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
(In)Decrease in Due from Other Governmental Units	(69,836)	(154,590)	(224,426)
(In)Decrease in Due from Others	(186,369)	186,369	-
Acquisition of Capital Assets	(23,225)	(14,370)	(37,595)
Proceeds from Issuance of Debt	(1,162,143)	(2,515,778)	(3,677,921)
Gain from Asset Disposal	709,179	93,008	802,187
Interfund Transfer	31,107	-	31,107
Principal Paid on Bonds and Notes Payable	-	-	-
Principal Paid on Contractual Liability	(249,376)	(83,073)	(332,449)
Interest Paid on Revenue Bonds and Equipment Contracts	(120,513)	(14,062)	(134,575)
Contributions and Grants	662,328	2,262,050	2,924,378
Net Cash Provided by (used in) Capital and Related Financing Activities	(408,848)	(240,446)	(649,294)
CASH FLOW FROM INVESTING ACTIVITIES:			
Interest on Investments	24,772	4,519	29,291
Net Cash Provided by (used in) Investing Activities	24,772	4,519	29,291
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	78,786	(136,182)	(57,396)
CASH AND CASH EQUIVALENTS - Beginning of Year	2,436,702	435,860	2,872,562
CASH AND CASH EQUIVALENTS - End of Year	$ 2,515,488	$ 299,678	$ 2,815,166

(Continued)

The accompanying notes are an integral part of the financial statements.

	Water	Sewer	Total
RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating Loss	$ (699,741)	$ (316,913)	$ (1,016,654)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation and Amortization	1,021,863	302,203	1,324,066
Non-Cash Change from Prior Period Adjustment	(68,890)	(14,110)	(83,000)
Changes in Asset, Liabilities, and Deferred Resources (Net):			
Provision for Uncollectible Accounts	(5,008)	6,457	1,449
Provision for Compensated Absences	7,236	1,178	8,414
(In)Decrease in Accounts Receivable	(21,118)	(12,876)	(33,994)
In(De)crease in Accounts Payable	179,845	117,543	297,388
In(De)crease in Wages/Taxes Payable	965	1,012	1,977
In(De)crease in Net Pension Liability	(85,865)	(14,437)	(100,302)
In(De)crease in Net GLI OPEB Liability	65,570	13,430	79,000
In(De)crease in Pension and OPEB Deferrals	58,195	9,508	67,703
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 453,052	$ 92,995	$ 546,047

(Concluded)

The accompanying notes are an integral part of the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Authority have been prepared in conformity with the specifications promulgated by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia and the accounting principles generally accepted in the United States as specified by the Governmental Accounting Standards Board.

The Wise County Public Service Authority was established on September 09, 1969 pursuant to Title 15.1, Chapter 28, Sections 15.1 – 1239 to 15.1 – 1270 of the Code of Virginia (1950) and as amended. The Authority's purpose is to provide drinking water and wastewater utilities to the residents of Wise County.

The Authority is governed by an eight member Board appointed by The County of Wise, Virginia Board of Supervisors. The Board is responsible for appointing the Director and Director of Project Development. The Authority provides water and sewer services for its customers throughout Wise County and is continuing to expand its customer base for sewer services.

Legally, the Authority is a separate governmental entity that has considerable legal, financial, and administrative autonomy. However, as the governing board is not elected but is entirely appointed by the county, the Authority cannot be a primary government. Instead, it qualifies as a discretely presented component unit of Wise County, Virginia (the primary government).

Basis of Accounting

The Authority recovers the costs of providing services, including capital costs, through user charges. Accordingly, the Authority uses enterprise funds and the accrual basis of accounting. Consequently, revenues are recognized when earned and expenses are recorded as incurred. The Authority defines operating revenues and expenses as those directly related to providing water and/or sewer services. Operating revenues consist of charges to Authority users. Operating expenses include personnel, materials and supplies, services purchased from other local jurisdictions, and depreciation and amortization of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses; these include, bond issue costs, gain (loss) on disposal of capital assets, and interest on outstanding debt.

Use of Estimates

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

Tax Status

The Authority, as part of a local government, is not subject to federal, state, or local income taxes, and accordingly, no provision for income taxes is made.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Service Charges

The major sources of revenue for the Authority are sales to existing customers for continuing water and sewer services. Customers are charged for service based on metered water usage in addition to a base charge. Water and sewer charges are designed to recover the costs of operation and maintenance of the system, as well as debt service and capital project costs attributable to supporting or improving water and wastewater treatment services to the Authority's customers. Water and sewer service charges are recorded as operating revenue.

Unbilled Service Charges

An estimated amount has been recorded for services rendered but not yet billed as of the close of the fiscal year. This estimated receivable is calculated by prorating water consumption and billings for certain prior months.

Investments

The Authority currently has investments through the Virginia Investment Pool (VIP). 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 their investments at the net asset value (NAV). Certificate of deposits and short-term repurchase agreements are reported in the accompanying financial statements as cash and cash equivalents.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Authority considers cash and cash equivalents (including restricted cash and cash equivalents) to be currency on hand, demand deposits with banks and liquid investments with a maturity of 90 days or less. Cash and cash equivalents are included in both unrestricted as well as restricted assets.

All cash of the Wise County Public Service 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.

Capital Assets

Capital assets that individually cost $5,000 or more with a useful life of more than one year are capitalized and recorded at cost. Contributed capital assets are recorded at their estimated acquisition value on the date of donation. Capital assets are depreciated/amortized over their estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Water/Sewer System Infrastructure	50 Years
Buildings & Improvements	30 Years
Equipment	3-25 Years
Automobiles	5 Years

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets (continued)

For constructed assets, all costs necessary to bring such assets to the condition and location necessary for the intended use, including interest on related debt, are initially treated as construction in progress and subsequently as buildings, equipment, or utility plant and lines once the assets are substantially complete. Depreciation and amortization on constructed assets begin when the assets are substantially ready for their intended use.

Compensated Absences

The Authority has accrued the liability arising from outstanding claims and judgments and compensated absences. The Wise County Public Service Authority employees earn vacation and sick leave at various rates. No pay is received for unused sick leave upon termination; however, total benefits are paid in the event of employee death. Vacation is earned on a calendar year and no employee is permitted to accumulate more than a total of six weeks of vacation time during their employment. All vacation time not taken prior to December 31st of the calendar year in which the vacation time was earned, with the exception of the carryover vacation time, shall be forfeited. At June 30, 2018, the Authority accrued $96,989 for such compensated absences.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. In addition to liabilities, the statement of financial position can also report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then.

Group Life Insurance

The Virginia Retirement System (VRS) Group Life Insurance Program is a multiple employer, cost-sharing plan. It provides coverage to state employees, teachers, and employees of participating political subdivisions. The Group Life Insurance Program was established pursuant to Section 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. For purposes of measuring the net Group Life Insurance Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Group Life Insurance Program OPEB, and Group Life Insurance Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Group Life Insurance program OPEB and the additions to/deductions from the VRS Group Life Insurance Program OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position

Net position is classified as net investment in capital assets, restricted, and unrestricted. Restricted net position represents constraints on resources that are either a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through State statute.

When an expense is incurred for purposes for which both restricted and unrestricted resources are available, the Authority uses restricted resources first, then unrestricted assets when needed.

2. CASH AND INVESTMENTS

Cash, cash equivalents, and investments for the Wise County Public Service Authority, including restricted and unrestricted balances, were comprised of the following at June 30, 2018:

	Amount
Cash and Equivalents	$ 1,128,750
Cash Investments (VIP)	1,686,415
Total Cash, Equivalents, and Investments	$ 2,815,165

Fair Value Measurement

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 above investments at the net asset value (NAV).

Rating

The above Cash Investments are maintained through the VaCo/VML Virginia Investment Pool. The Investments are within the Stable NAV Liquidity Pool, rated AAAm by Standard & Poor's (S&P).

Credit Risk

At year end, the Authority was not exposed to any custodial credit risk for deposits or investments. The Authority limits deposits to those banks fully collateralized under the Commonwealth's Security for Public Deposits Act. The Authority policy in regards to investments requires that all investments be held in the Authority's name.

At June 30, 2018, the Authority did not have any investments meeting the GASB 40 definition requiring concentration of credit risk disclosures that exceeded 5% of total investments.

3. ACCOUNTS RECEIVABLE

Customers are charged for water based on metered water usage. The majority of sewer customers are also charged based on their metered water usage, however, the non-public sewer customers are charged a flat rate monthly fee. An estimated amount has been recorded for services rendered but not yet billed as of the close of the fiscal year. This unbilled receivable is calculated from the meter usage from the last reading date in early June through the end of the month. Accounts receivable for water and collection fees amount to the following:

	Amount
Accounts Receivable	$ 467,700
Unbilled Water/Sewer Service	147,158
Less: Allowance for Doubtful Accounts	(161,760)
Net Accounts Receivable	$ 453,098

4. DUE FROM OTHER GOVERNMENT UNITS

Water Fund

	Amount
Treasurer of Wise County:	
Coal Road Improvement	$ 26,400
Commonwealth of Virginia:	
Virginia Department of Health – Carfax	34,833
Virginia Department of Health – Carriage Hill	41,923
Total Commonwealth of Virginia	76,756
Total Due	$ 103,156

Sewer Fund

	Amount
Treasurer of Wise County:	
Coal Road Improvement	$ 5,407
Total Treasurer of Wise County	
Federal Agencies:	
USDA – Rural Development	192,682
Total Commonwealth of Virginia	
Total Due to Sewer Fund	$ 198,089

5. RESTRICTED ASSETS

Customer deposits are restricted and refunded to customers upon termination of their respective water hookup. The Authority maintains various other restricted cash accounts, including the following: a Dominion replacement account, which is restricted to future replacement of equipment needed for the Dominion raw waterline system; a Capital Improvement account that is used for the purchase of capital and for construction projects and consists of local coal and gas road funds; and a certificate of deposit being held as a reserve which is also funded from local coal and gas road funds.

The Authority receives a portion of *Local coal and gas road improvement and Virginia Coalfield Economic Development Authority tax* as per Section 58.1-3713 of the Code of Virginia. This allocation of the Coal and Gas Road Improvement Fund may be used to fund the construction of new water and/or sewer systems and lines.

Rural Development requires that Debt Service Reserves be set aside per Letters of Conditions and bond documents for the Stephens Sewer Loan and the Banner to Bull Run Water Projects.

Total restricted cash held by the Wise County Public Service Authority at June 30, 2018 is as follows:

	Amount
Coal Road Improvement Funds	$ 332,409
Customer Deposit Account	445,484
Debt Service Reserves	1,014,793
Dominion Replacement Funds	153,673
Total Restricted Cash	$ 1,946,359

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 is as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Water Fund				
Capital Assets, Non-Depreciable:				
Land	$ 202,881	$ 6,802	$ -	$ 209,683
Construction in Progress	440,291	986,754	234,719	1,192,326
Capital Assets, Depreciable/Amortizable:				
Plant Building	949,281	-	-	949,281
Utility Plant	41,779,465	295,700	-	42,075,165
Equipment	591,224	11,151	5,363	597,012
Automobiles	402,160	97,384	103,001	396,543
Office Furniture/Equipment	135,877	-	3,233	132,644
Total Capital Assets	44,501,179	1,397,791	346,316	45,552,654
Accumulated Depreciation/Amortization for:				
Plant Building	(220,844)	(41,949)	-	(262,793)
Utility Plant	(13,099,376)	(887,997)	-	(13,987,373)
Equipment	(463,768)	(28,820)	(5,363)	(487,225)
Automobiles	(284,557)	(57,142)	(103,000)	(238,699)
Office Furniture/Equipment	(109,871)	(6,506)	(2,856)	(113,521)
Total Accumulated Depreciation/ Amortization	(14,178,416)	(1,022,414)	(111,219)	(15,089,611)
Total Capital Assets, Net	$ 30,322,763	$ 375,377	$ 235,097	$ 30,463,043
Sewer Fund				
Capital Assets, Non-Depreciable:				
Construction in Progress	$ 3,793,722	$ 2,614,693	$ 4,275,749	$ 2,132,666
Capital Assets, Depreciable/Amortizable:				
Utility Plant	13,629,220	4,109,009	-	17,738,229
Equipment	147,224	67,827	-	215,051
Automobiles	48,750	-	-	48,750
Total Capital Assets	17,618,916	6,791,529	4,275,749	20,134,696
Accumulated Depreciation/Amortization for:				
Utility Plant	(981,944)	(279,976)	-	(1,261,920)
Equipment	(43,251)	(14,915)	-	(58,166)
Automobiles	(41,438)	(7,313)	-	(48,751)
Total Accumulated Depreciation/ Amortization	(1,066,633)	(302,204)	-	(1,368,837)
Total Capital Assets, Net	$ 16,552,283	$ 6,489,325	$ 4,275,749	$ 18,765,859
TOTAL ALL FUNDS	$ 46,875,046	$ 6,864,702	$ 4,510,846	$ 49,228,902

7. BONDS AND NOTES OUTSTANDING

The following is a summary of changes in the Authority's long-term obligations for the fiscal year ended June 30, 2018:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018	Due Within One Year
Revenue Bonds-Water systems					
Series 2001, VRA	$ 51,251	$ -	$ 3,535	$ 47,716	$ 3,535
Series 2001, VRA	174,483	-	12,034	162,449	12,034
Series 2004, VRA	312,248	-	18,368	293,880	18,368
Series 2004, VRA	570,138	-	43,041	527,097	43,472
Series 2006, VRA	257,132	-	13,533	243,599	13,533
Series 2007, VRA	60,899	-	2,970	57,929	2,971
Series 2008, VRA	125,417	-	5,833	119,584	5,833
Series 2009-A, BBT	1,265,941	-	74,566	1,191,375	78,421
Series 2010-A, VRA	144,204	-	6,136	138,068	6,136
Series 2010-C, VRA	158,189	-	6,877	151,312	6,878
Series 2016, RD	1,760,000	4,442	24,590	1,739,852	34,807
Series 2017, VRA	52,291	2,638	610	54,319	1,297
Series 2017, VRA	1,500	39,526	-	41,026	1,230
Series 2017, VRA	-	565,190	-	565,190	7,787
Total Bonds-Water Systems	4,933,693	611,796	212,093	5,333,396	236,302
Revenue Bonds-Sewer systems					
Series 2010 B, VRA	636,731	-	47,166	589,565	47,165
Series 2014, RD	453,871	-	11,551	442,320	11,802
Series 2016, VRA	232,598	30,853	5,749	257,702	11,499
Series 2016, RD	276,000	-	-	276,000	4,887
Series 2017, VRA	22,569	62,155	1,984	82,740	3,966
Series 2017, RD	49,000	-	-	49,000	217
Total Bonds-Sewer Systems	1,670,769	93,008	66,450	1,697,327	79,536
TOTAL BONDS	$ 6,604,462	$ 704,804	$ 278,543	$ 7,030,723	$ 315,838

Details of Bonds & Notes Outstanding

$106,131 Mill Creek Water Project. Water and Sewer Revenue Bond, Series 2001,Virginia Resources Authority issued April 25, 2002, due in semi-annually installments of $1,767 through September 01, 2031, interest payable at 0%.	$47,716
$361,000 Bean Gap Water Project. Water and Sewer Revenue Bond, Series 2001,Virginia Resources Authority issued July 10, 2001, due in semi-annually installments of $6,017 through January 01, 2032, interest payable at 0%.	162,449

7. **BONDS AND NOTES OUTSTANDING (continued)**

$551,025 Bull Run Water Project. Water and Sewer Revenue Bond, Series 2001, Virginia Resources Authority issued January 22, 2004, due in semi-annually installments of $9,184 through May 01, 2034, interest payable at 0%.	293,880
$1,054,490 South Fork Water Project. Water and Sewer Revenue Bond, Virginia Resources Authority issued February 27, 2004, due in annual installments ending on December 1, 2029, interest payable semi-annually at 1.00%.	527,097
$417,379 North Fork Water Project. Water and Sewer Revenue Bond, Virginia Resources Authority issued June 30, 2006, due in semi-annual installments of $6,767 through July 1, 2036, interest payable at 0%.	243,599
$89,337 Banner/Sandy Ridge Interconnect. Water and Sewer Revenue Bond, Virginia Resources Authority issued June 15, 2007, due in semi-annual installments of $1,485 through August 1, 2037, interest payable at 0%.	57,929
$175,000 Dunbar Water Project. Water and Sewer Revenue Bond, Virginia Resources Authority issued August 29, 2008, due in semi-annual installments of $2,917 through September 1, 2038, interest payable at 0%.	119,584
$1,720,000 Dominion Project. Water Revenue Bond, BB&T Bank issued, 12/15/2009, due in monthly installments beginning on January 15, 2010 and ending on 12/15/2029, interest payable monthly at the nominal annual rate of 5.05%.	1,191,375
$184,090 Disinfection By-Product Abatement. ARRA, Virginia Resources Authority issued February 16, 2010, due in semi-annual installments of $3,068 ending on October 1, 2040, interest payable at 0%.	138,068
$206,333 Lower Birchfield/Rt. 72. Water and Sewer Revenue Bond, Virginia Resources Authority issued June 17, 2010, due in semi-annual installments of $3,439 through June 1, 2040, interest payable at 0%.	151,312
$943,655 Stephens/Guest River Sewer. Water and Sewer Revenue Bond, Virginia Resources Authority issued 06/04/2010, due in semi-annual $23,758 through December 1, 2030, interest payable at 0%.	589,565
$549,000 Stephens Extension Project. Sewer Revenue Bond, Rural Utilities Service (Rural Development) issued June 19, 2014, interest 2.125%. The payments due the first 24 months will consist of interest only And will be paid annually on the first and second anniversaries of the bond. Payments for the remaining 38 years will be due in equal amortized monthly installments.	442,320
$1,760,000 Banner/Bull Run/Emergency Generators. Water Revenue Bond, Series 2016, Rural Utilities Service (Rural Development) issued November 22, 2016, due in monthly installments of $4,876 ending on October 22, 2056, interest payable at 1.375%.	1,739,852

7. **BONDS AND NOTES OUTSTANDING (continued)**

\$54,929 Hix Orchard. Water and Sewer Revenue Bond, Series 2017, Virginia Resource Authority issued February 23, 2017, due in semi-annual installments of \$1,441.52 ending on July 1, 2014, interest payable at 2.75%.	54,319
\$55,000 Carriage Hill Phase 2. Water Revenue Bond, Virginia Resource Authority issued June 1, 2017, due in semi-annual installments of \$1,366.96 ending on December 1, 2047, interest payable at 0%.	41,026
\$344,964 Roda/Osaka/Stonega Phase 1. Water and Sewer Revenue Bond, Series 2016, Virginia Resource Authority issued July 28, 2016, due in semi-annual installments of \$5,749.40 ending on August 1, 2047, interest payable at 0%.	257,702
\$276,000 Roda/Osaka. Sewer Revenue Bond, Series 2016, Rural Utilities Service (Rural Development) issued July 19, 2016, due in monthly installments of \$815.00 ending on June 19, 2056, interest payable at 1.625%.	276,000
\$118,966 Stonega Sewer. Water and Sewer Revenue Bond, Series 2017, Virginia Resource Authority issued March 30, 2017, due in semi-annual installments of \$1,982.95 ending on March 1, 2047, interest payable at 0%.	82,740
\$690,000 Carfax Raw Water Intake Rehabilitation.. Water and Sewer Revenue Bond, Series 2017, Virginia Resource Authority issued September 17, 2017, due in semi-annual installments of \$16,929.29 ending on March 1, 2048, interest payable at 2.65%.	565,190
\$49,000 Stonega Sewer. Sewer Revenue Bond, Series 2017, Rural Utilities Service (Rural Development) issued March 23, 2017, due in monthly installments of \$154.00 ending on March 23, 2057, interest payable at 2.0%.	49,000
TOTAL BONDS AND NOTES INDEBTEDNESS	\$ 7,030,723

7. BONDS AND NOTES OUTSTANDING (continued)

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

PERIOD ENDED JUNE 30,	LONG-TERM BONDS & NOTES PRINCIPAL	INTEREST	TOTAL
2019	315,838	100,250	416,088
2020	330,418	105,772	436,190
2021	336,470	100,076	436,546
2022	342,774	94,523	437,297
2023	349,343	88,732	438,075
2024-2028	1,855,401	347,568	2,202,969
2029-2033	1,230,775	182,394	1,413,169
2034-2038	730,864	133,271	864,135
2039-2043	596,370	105,001	701,371
2044-2048	399,384	74,036	473,420
2049-2053	323,191	39,044	362,235
2054-2058	219,895	8,849	228,744
TOTALS	$ 7,030,723	$ 1,379,516	8,410,239

8. LEASE LIABILITY

Wise County Public Service Authority has entered into operating lease agreements for the right to use automobiles. Per GASB 87, the right to use the automobiles are being recognized as intangible assets. The balance of these intangible assets, net of amortization, the future minimum lease payments, and the present value of the minimum lease payments as of June 30, 2018 are as follows:

	Amount
Intangible Assets, at Cost	$ 200,592
Accumulated Amortization	54,640
Total Intangible Assets, Net	$ 145,952

Fiscal Year	Future Minimum Lease Payments
2019	$ 51,498
2020	51,498
2021	47,711
2022	32,745
2023	2,131
Total Minimum Lease Payments	185,583
Less: Portion Representing Interest	(9,911)
Present Value of Minimum Lease Payments	$ 175,672

9. CONTRACTUAL LIABILITY

The Town of Appalachia transferred ownership of four different sewer systems to the Wise County PSA in 2013, one of which, the Upper Exeter Sewer System, has an assigned loan through the Virginia Resources Authority (VRA) for the construction of the project. The agreement between the Town of Appalachia and the Authority states that all loans obtained through the Virginia Department of Environmental Quality for the Upper Exeter sewer project will be assigned to the Authority. The PSA is responsible for $332,492 of the VRA financed loan, payable in semi-annual installments of $8,312 at 0% interest, with a maturity date of August 1, 2032.

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018	Due Within One Year
Contractual Liability-					
VRA Loan #C-515446G-02	$ 257,681	$ -	$ 16,624	$ 241,057	$ 16,625
Total	$ 257,681	$ -	$ 16,624	$ 241,057	$ 16,625

10. CLAIMS AND JUDGMENTS

In regard to litigation involving the Wise County Public Service Authority at June 30, 2018, the Authority's legal counsel informed us that there are no unasserted claims or assessments against the Authority.

11. INTEREST PAID

Cash paid interest expense relating to debt for the period ending June 30, 2017 amounted to $136,028.

12. CAPITAL CONTRIBUTIONS

Contributions received from organizations or other governmental units which are used to defray a part of all of the cost of installing a portion of the utility plant are credited investments in capital assets. Contributions from governmental entities and others were received in the form of cash, property, sanitary sewer lines, pumping stations, manholes, and equipment. These amounts are reflected as income on the accompanying Statement of Revenues, Expenses, and Changes in Net Position.

The Board of Directors approved Amendment 1 to the Original Water Option Purchase Agreement with Virginia Electric and Power Company (Dominion Power Plant) in the 2012 fiscal year. This agreement requires the power plant to make monthly payments to reimburse the Wise County PSA for the debt payments, small fixed and variable operational costs, and equipment replacement reserve. Dominion Power Plant Income for the period ending June 30, 2018 was $161,364 and is also reflected as income on the accompanying Statement of Revenues, Expenses, and Changes in Net Position.

13. PENSION PLAN

Pensions
The Virginia Retirement System (VRS) Political Subdivision Retirement Plan is a multi-employer, agent plan. 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 Wise County Public Service Authority's (Authority) Retirement Plan and the additions to/deductions from the Authority'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.

Plan Description – All full-time, salaried permanent employees of the Authority are automatically covered by VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer are paying 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 different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

RETIREMENT PLAN PROVISIONS		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
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 Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, 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.	**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, 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.	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • Wise County Public Service Authority employees • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. ***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 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 Employees 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** **<u>Defined Benefit Component:</u>** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. **<u>Defined Contributions Component</u>:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

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. 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% **Sheriffs and regional jail superintendents:** Not Applicable **Political Subdivision hazardous duty employees:** Not Applicable	**Service Retirement Multiplier** **VRS:** The same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. **Sheriffs and regional jail superintendents:** Not Applicable **Political Subdivision hazardous duty employees:** Not Applicable	**Service Retirement Multiplier** **Defined Benefit Component:** **VRS:** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. **Sheriffs and regional jail superintendents:** Not Applicable **Political Subdivision hazardous duty employees:** Not Applicable

Normal Retirement Age **VRS**: Age 65 **Political subdivision hazardous duty employees:** Age 60 (Not applicable)	**Normal Retirement Age** **VRS:** Normal Social Security retirement age. **Political subdivisions hazardous duty employees:** Not applicable	**Normal Retirement Age** **<u>Defined Benefit Component</u>:** **VRS:** 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**: Not Applicable **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:** Not Applicable	**Earliest Unreduced Retirement Eligibility** **VRS:** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. **Political Subdivisions hazardous duty employees**: Not Applicable **Earliest Reduced Retirement Eligibility** **VRS:** Age 60 with at least five years (60 months) of creditable service. **Political subdivisions hazardous duty employees:** Not Applicable	**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 employees**: Not Applicable **<u>Defined Contribution Component</u>:** Members are eligible to receive distributions upon leaving employment, subject to restrictions. **Earliest Reduced 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>:** 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 or misconduct and is eligible	**Exceptions to COLA Effective Dates:** Same as Plan 1	**Exceptions to COLA Effective Dates:** Same as Plan 1 and Plan 2

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 VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as Plan 1	**Purchase of Prior Service** **<u>Defined Benefit Component</u>:** Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. **<u>Defined Contribution Component</u>:** Not applicable

13. PENSION PLAN (continued)

Employees Covered by Benefit Terms – As of June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	2
Inactive Members:	
Vested Inactive Members	2
Non-vested Inactive Members	2
Active Elsewhere in VRS	2
Total Inactive Members	6
Active Members	24
Total Covered Employees	32

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 the Authority by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The Authority's contractually required contribution rate for the year ended June 30, 2018 was 4.88% of covered employee compensation. This rate was based on a actuarially determined rate from an actuarial valuation as of June 30, 2015. This rate, when combined with the 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 $48,862 and $47,445 for the years ended June 30, 2018 and June 30, 2017, respectively.

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

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

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

*Administrative expenses as a percent of market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return

13. PENSION PLAN (continued)

assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

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 projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

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

Pre-Retirement:
RP-2014 Employee Rates to age 80, Healthy Annuitant 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 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, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-Hazardous Duty

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

13. PENSION PLAN (continued)

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

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

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

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

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

13. PENSION PLAN (continued)

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

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Fiduciary Plan Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2016	$ 1,308,837	$ 1,444,862	$ (136,025)
Changes for The Year:			
Service Cost	103,034	-	103,034
Interest	89,674	-	89,674
Changes of Assumptions	(46,952)	-	(46,952)
Differences Between Expected and Actual Experience	24,713		24,713
Contributions – Employer	-	46,075	(46,075)
Contributions – Employee	-	47,241	(47,241)
Net Investment Income	-	178,585	(178,585)
Benefit Payments, Including Refunds of Employee Contributions	(55,552)	(55,552)	-
Administrative Expenses		(968)	968
Other Changes	-	(162)	162
Net Changes	114,917	215,219	(100,302)
Balances at June 30, 2017	$ 1,423,754	$ 1,660,081	$ (236,327)

13. PENSION PLAN (continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the Authority using the discount rate of 7.00% as well as what the political subdivision's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Current Rate (7.00%)	1% Increase (8.00%)
Wise County Public Service Authority's Net Pension Liability	$ 21,158	$ (236,327)	$ (445,826)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – For the year ended June 30, 2018, the Authority recognized pension expense of $13,893. At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 21,046	$ 70,601
Changes in assumptions	0	39,986
Net differences between projected and actual earnings on plan investments	0	24,482
Employer contributions subsequent to the measurement date	48,862	0
Total	$ 69,908	$ 135,069

$48,862 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	Amount
2019	$ (30,281)
2020	(12,687)
2021	(18,537)
2022	(32,649)
2023	(15,750)
Thereafter	(4,119)
Total	$ (114,023)

13. PENSION PLAN (continued)

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-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

As of June 30, 2018, the Authority reported a payable of $8,354 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

14. GROUP LIFE INSURANCE OPEB PROGRAM

Plan Description

All full-time, salaried permanent employees of the state agencies, teachers and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program upon employment. This plan is administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

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

14. GROUP LIFE INSURANCE OPEB PROGRAM (continued)

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 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 ends for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interes.
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: o Accidental dismemberment benefit o Safety belt benefit o Repatriation benefit o Felonious assault benefit o Accelerated death benefit option
Reduction in benefit Amounts The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.
Minimum Benefit Amount and Cost-of-Living Adjustment (COLA) For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at $8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently $8,111.

14. GROUP LIFE INSURANCE OPEB PROGRAM (continued)

Contributions

The contribution requirements for the Group Life Insurance Program are governed by Section 51.1-506 and Section 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, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contribution to the Group Life Insurance Program from the entity were $5,000 and $6,000 for the years ended June 30, 2018 and June 30, 2017, respectively.

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

At June 30, 2018, the entities reported a liability of $79,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the participating employer's proportion was 0.00528% as compared to 0.00507% at June 30, 2016.

For the year ended June 30, 2018, the participating employer recognized GLI OPEB expense of $2,000. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

14. GROUP LIFE INSURANCE OPEB PROGRAM (continued)

At June 30, 2018, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ -	$ 2,000
Net Difference Between Projected and Actual Earnings on GLI OPEB Program Investments	-	3,000
Changes in Assumptions		4,000
Changes in Proportion	3,000	-
Employer Contributions Subsequent to the Measurement Date	5,000	-
Total	$ 8,000	$ 9,000

$5,000 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

	Amount
FY 2019	$ (1,000)
FY 2020	(1,000)
FY 2021	(1,000)
FY 2022	(1,000)
FY 2023	(1,000)
Thereafter	(1,000)
Total	$ (6,000)

Actuarial Assumptions

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

14. GROUP LIFE INSURANCE OPEB PROGRAM (continued)

Inflation	2.5 percent
Salary Increases, Including Inflation—	
General State Employees	3.5 percent - 5.35 percent
Teachers	3.5 percent – 5.95 percent
SPORS Employees	3.5 percent – 4.75 percent
VaLORS Employees	3.5 percent – 4.75 percent
JRS Employees	4.5 percent
Locality – General Employees	3.5 percent – 5.35 percent
Locality – Hazardous Duty Employees	3.5 percent – 4.75 percent
Investment Rate of Return	7.0 Percent, net of investment expenses, Including inflation*

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

Mortality rates – General State Employees

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

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

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

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

14. GROUP LIFE INSURANCE OPEB PROGRAM (continued)

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

Mortality rates – Teachers

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

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

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

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

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

14. GROUP LIFE INSURANCE OPEB PROGRAM (continued)

Mortality rates-- SPORS Employees

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

Post-Retirement:
RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

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

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

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

Mortality rates – VaLORS Employees

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

Post-Retirement:
RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

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

14. GROUP LIFE INSURANCE OPEB PROGRAM (continued)

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

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

Mortality rates- JRS Employees

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

Post-Retirement:
RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% compounding increase from ages 70 to 85.

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

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

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

14. GROUP LIFE INSURANCE OPEB PROGRAM (continued)

Mortality rates—Largest Ten Locality Employers-General Employees

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

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

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

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

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

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.

14. GROUP LIFE INSURANCE OPEB PROGRAM (continued)

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

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

Mortality rates—Largest Ten Locality Employers-Hazardous Duty Employees

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

Post-Retirement:
RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

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

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

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

14. GROUP LIFE INSURANCE OPEB PROGRAM (continued)

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

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

Post-Retirement:
RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

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

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

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

Net OPEB Liability

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

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

14. GROUP LIFE INSURANCE OPEB PROGRAM (continued)

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	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
	Inflation		2.50%
	*Expected Arithmetic Nominal Return		7.30%

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

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on

14. GROUP LIFE INSURANCE OPEB PROGRAM (continued)

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

	1% Decrease (6.00%)	Current Rate (7.00%)	1% Increase (8.00%)
Wise County Public Service Authority's Share of the Group Life Insurance Program Net OPEB Liability	$ 103,000	$ 79,000	$ 60,000

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 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-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

As of June 30, 2018, the Authority reported a payable of $443 for the outstanding amount of contributions to the group life insurance OPEB plan required for the year ended June 30, 2018.

15. SUBSEQUENT EVENTS

The Authority's management evaluated subsequent events through January 02, 2019, the date at which the report was available to be issued. No subsequent events were identified that would have a material effect on the financial statements.

16. OTHER INFORMATION

Accounting Change

In June 2015, GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The objective of this Statement is to improve accounting and financial reporting for postemployment benefits other than pensions and to improve information provided by state and local governmental employers about financial support for other postemployment benefits (OPEB) that is provided by

16. OTHER INFORMATION (continued)

other entities. This Statement replaces the requirements of Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

Prior Period Adjustment

The beginning balance of Net Position for the Wise County Public Service Authority was adjusted due to the requirements of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Net Position for the Water Fund decreased by $68,890 while the Net Position for the Sewer Fund decreased by $14,110, for a total decrease in net position of $83,000 as shown below:

	Amount
Net Position as of June 30, 2017	$ 42,648,897
Adjustment per GASB St. No. 75	(83,000)
Net Position as of June 30, 2017, as Restated	$ 42,555,897

WISE COUNTY PUBLIC SERVICE AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
VIRGINIA RETIREMENT SYSTEM
RETIREMENT PLAN
JUNE 30, 2018

Schedule of Changes in the Wise County Public Service Authority's Net Pension Liability and Related Ratios

	2017	2016	2015	2014
Total pension liability				
Service Cost	$ 103,034	$ 99,613	$ 101,437	$ 91,624
Interest	89,674	81,776	75,845	65,477
Changes of Benefit Terms	-	-	-	-
Differences Between Expected and Actual Experience	24,713	(31,760)	(76,900)	-
Changes in Assumptions	(46,952)	-	-	-
Benefit Payments, Including Refunds of Employee Contributions	(55,552)	(18,040)	(13,280)	(4,688)
Net Change in Total Pension Liability	114,917	131,589	87,102	152,413
Total Pension Liability-Beginning	1,308,837	1,177,248	1,090,146	937,733
Total Pension Liability-Ending (a)	$ 1,423,754	$ 1,308,837	$ 1,177,248	$ 1,090,146
Plan Fiduciary Net Position				
Contributions-Employer	$ 46,075	$ 53,506	$ 50,849	$ 62,966
Contributions-Employee	47,241	45,043	42,875	42,432
Net investment Income	178,585	25,962	57,662	157,575
Benefit Payments, Including Refunds of Employee Contributions	(55,552)	(18,040)	(13,280)	(4,688)
Administrative Expense	(968)	(776)	(696)	(754)
Other	(162)	(11)	(14)	8
Net Change in Plan Fiduciary Net Position	215,219	105,684	137,396	257,539
Plan Fiduciary Net Position-Beginning	1,444,862	1,339,178	1,201,782	944,243
Plan Fiduciary Net Position-Ending (b)	$ 1,660,081	$ 1,444,862	$ 1,339,178	$ 1,201,782
Wise County Public Service Authority's Net Pension Liability-Ending (a) - (b)	$ (236,327)	$ (136,025)	$ (161,930)	$ (111,636)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	116.6%	110.4%	113.8%	110.2%
Covered Payroll	$ 972,239	$ 910,027	$ 857,486	$ 1,025,323
Town of Wise, Virginia's Net Pension Liability As a Percentage of Covered Payroll	-24.3%	-14.9%	-18.9%	-10.9%

WISE COUNTY PUBLIC SERVICE AUTHORITY, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
VIRGINIA RETIREMENT SYSTEM
RETIREMENT PLAN
JUNE 30, 2018

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

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (5)
2018	48,862	48,862	0	1,001,274	4.88%
2017	47,445	47,445	0	972,239	4.88%
2016	53,965	53,965	0	910,027	5.93%
2015	50,849	50,849	0	1,040,652	4.80%
2014	62,966	62,966	0	1,025,323	6.10%
2013	59,422	59,422	0	803,004	7.40%
2012	43,768	43,768	0	740,578	5.91%
2011	41,118	41,118	0	695,742	5.91%
2010	34,929	34,929	0	717,225	4.87%
2009	33,923	33,923	0	696,572	4.87%

WISE COUNTY PUBLIC SERVICE AUTHORITY
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
VRS RETIREMENT PLAN
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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

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

Largest 10 – Non-Hazardous Duty

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

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

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

Largest 10 – Hazardous Duty

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled	Update to a 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%

WISE COUNTY PUBLIC SERVICE AUTHORITY
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
VRS RETIREMENT PLAN
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

All Others (Non 10 Largest) – Hazardous Duty

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Increase rate from 60% to 45%

WISE COUNTY PUBLIC SERVICE AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
VIRGINIA RETIREMENT SYSTEM
GROUP LIFE INSURANCE PROGRAM
JUNE 30, 2018

Schedule of Wise County Public Service Authority's Share of Net OPEB Liability Group Life Insurance Program For the Year Ended June 30, 2018*

	2018
Employer's Proportion of the Net GLI OPEB Liability (Asset)	0.00528%
Employer's Proportion Share of the Net GLI OPEB Liability (Asset)	$ 79,000
Employer's Covered Payroll	$ 1,001,274
Employer's Proportion Share of the Net GLI OPEB Liability (Asset) as a Percentage of its Covered Payroll	7.89%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	48.86%

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

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

For Reference Only: The Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability for the VRS Group Life Insurance Program for each year is presented on page 116 of the VRS 2017 Comprehensive Annual Financial Report (CAFR).

WISE COUNTY PUBLIC SERVICE AUTHORITY, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
VIRGINIA RETIREMENT SYSTEM
GROUP LIFE INSURANCE PROGRAM
JUNE 30, 2018

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

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (5)
2018	5,247	5,247	0	1,001,274	0.5%

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

WISE COUNTY PUBLIC SERVICE AUTHORITY
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
GROUP LIFE INSURANCE PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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

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

General State Employees

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

Teachers

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

SPORS Employees

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

WISE COUNTY PUBLIC SERVICE AUTHORITY
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
GROUP LIFE INSURANCE PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

VaLORS Employees

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

JRS Employees

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

Largest Ten Locality Employers-General Employees

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

Non-Largest Ten Locality Employers-General Employees

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

WISE COUNTY PUBLIC SERVICE AUTHORITY
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
GROUP LIFE INSURANCE PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Largest Ten Locality Employers—Hazardous Duty Employees

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

Non-Largest Ten Locality Employers—Hazardous Duty Employees

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

COMPLIANCE SECTION

LARRY D. STURGILL, P. C.

LARRY D. STURGILL

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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 Honorable Board Members of the
Wise County Public Service Authority
Wise, VA 24293

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 with the *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Wise County Public Service Authority (a component unit of the County of Wise, Virginia) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 23, 2018.

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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

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

The Honorable Members of the Board
Wise County Public Service Authority
Wise, Virginia 24293
Page 2

Compliance and Other Matters

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

Purpose of this Report

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

Larry D. Sturgill, P.C.

Larry D. Sturgill, P.C.
Wise, VA
November 23, 2018

LARRY D. STURGILL, P. C.

LARRY D. STURGILL

MEMBER
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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 Honorable Members of the Board
Wise County Public Service Authority
Wise, Virginia 24293

Report on Compliance for Each Major Federal Program

We have audited The Wise County Public Service Authority's (a component unit of the County of Wise, Virginia) 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 program for the year ended June 30, 2018. The Wise County Public Service 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 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 compliance for each of the Wise County Public Service 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 the 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 Wise County Public Service 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 of the Wise County Public Service Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, The Wise County Public Service Authority, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of The Wise County Public Service 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 Wise County Public Service Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each 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 Wise County Public Service 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.

This 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.

Larry D. Sturgill, P.C.

Larry D. Sturgill, P.C.
Wise, Virginia
November 23, 2018

WISE COUNTY PUBLIC SERVICE AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

FEDERAL GRANTING AGENCY/ RECIPIENT STATE AGENCY/ GRANT PROGRAM	FEDERAL CATALOG NUMBER	PROGRAM CLUSTERS	FEDERAL EXPENDITURES
ENVIRONMENTAL PROTECTION AGENCY *			
Passed Through the Commonwealth of Virginia:			
Department of Health			
Capitalization Grant for Drinking Water State Revolving Fund	66.468	N/A	$ 1,009,092
APPALACHIAN REGIONAL COMMISSION			
Passed Through the Commonwealth of Virginia:			
Department of Housing and Community Development			
Appalachian Area Development	23.002	N/A	112,828
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT *			
Passed Through the Commonwealth of Virginia:			
Department of Housing and Community Development			
Community Development Block Grant (CDBG)/	14.228	N/A	844,949
U.S. DEPARTMENT OF AGRICULTURE			
Direct Payments:			
Water & Waste Disposal Systems for Rural Communities	10.760	N/A	1,020,642
Total expenditures of federal awards			$ 2,987,511

*Major program

See accompanying notes to schedule of expenditures of federal awards.

See accompanying independent auditors' report.

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards (the Schedule of SEFA) includes all federal grant activity of the Wise County Public Service Authority. The Wise County Public Service Authority's reporting entity is defined in Note 1 of the Wise County Public Service Authority's basic financial statements. All federal financial assistance that passed through other government agencies or not-for-profit organizations is included on the Schedule.

2. BASIS OF ACCOUNTING

The Schedule is presented in the accrual basis of accounting for the proprietary funds, as described in Note 1 to the Wise County Public Service Authority's basic financial statements. 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). Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. For the year ended June 30, 2018, the Wise County Public Service Authority did not participate in any federal programs in which non-cash benefits were provided through the State to eligible participants.

3. RELATIONSHIP TO THE FINANCIAL STATEMENTS

Federal expenditures are reported in the reporting entity financial statements as follows:

Revenue from the Federal Government – Financial Statements	$	2,382,796
Loan Proceeds from the Federal Government – Financial Statements		604,715
Add (subtract) Federal Awards Revenue Recognized:		
In Prior Fiscal Years, Spent this Fiscal Year		-0-
In Current Fiscal Year, but Not Spent		-0-
Expenditures of Federal awards	$	2,987,511

4. SUB-RECIPIENT PAYMENTS

The Authority did not expend any funds to a subrecipient during the fiscal year ended June 30, 2018.

5. INDIRECT COST RATE

The Authority has not elected to use the 10% de minimus indirect cost rate discussed in UG Section 200.414.

WISE COUNTY PUBLIC SERVICE AUTHORITY
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2018

A. Summary of Auditor's Results

1. The type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles. **UNMODIFIED**

2. Interenal control deficiencies over financial reporting disclosed by the audit of the financial statements:

   - Material weaknesses: **NO**
   - Significant deficiencies: **NONE REPORTED**

3. Noncompliance, which is material to the financial statements: **NO**

4. Internal control deficiencies over major programs disclosed by the audit:
   - Material weaknesses: **NO**
   - Significant deficiencies: **NONE REPORTED**

5. The type of report issued on compliance for major programs: **UNMODIFIED**

6. Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **NO**

7. Major programs:
   - ENVIRONMENTAL PROTECTION AGENCY: Capitalization Grant for Drinking Water State Revolving Fund – CFDA No. 66.468
   - DEPARTMENT OF HOUSING & URBAN DEVELOPMENT: Community Development Block Grant—CFDA No. 14.228

8. Dollar threshold to distinguish between Type A and B Programs: **$750,000**

9. Auditee qualified as a low-risk auditee: **NO**

B. Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

NONE

C. Findings and Questioned Costs Relating to Federal Awards

NONE